Vesta Industrial Real Estate

Fourth Quarter and Full Year 2016 Earnings Conference Call

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PRESENTATION

Operator:

Good morning. My name is Matt and I will be your conference operator today. At this time I'd like to welcome everyone to Vesta's Fourth Quarter and Full Year 2016 Earnings Conference Call. Vesta issued its quarterly report on Tuesday, February 14, 2017. If you did not receive a copy via email, please do not hesitate to contact the company at +52 55 5950 0070.

Before we begin the call today, I'd like to remind you that forward-looking statements made during today's conference call do not account for future economic circumstances, industry conditions, company performance, and financial results. These statements are subject to a number of risks and uncertainties. All figures included herein were prepared in accordance with the IFRS and are stated in nominal US dollars, unless otherwise noted.

Joining us today from Vesta in Mexico City is Lorenzo Berho, Chief Executive Officer; Juan Sottil, Chief Financial Officer, and Iga Wolska, the Investor Relations Officer.

I would now like to turn the call over to Mr. Berho. Sir, please begin.

Lorenzo Berho Corona:

Thank you, Matt. Good morning everyone and thank you for your interest in Vesta and for participating in today's conference call.

In 2016 Vesta reinforced its reputation as Mexico's leading industrial real estate developer, delivering strong financial performance and sustained growth. I am pleased to note that our Vesta Vision 20/20 strategic plan met all its goals in its second year of implementation. This is a testimony to our execution, discipline, and flexibility in adapting to a dynamic macroeconomic environment. Vesta's ongoing commitment to profitable, sustainable growth means we will never expand for its own sake and will maintain our close client relationships throughout business cycles to ensure we can always anticipate their needs.

During the year, we beat revenue guidance by growing 15.2%, to US$90.5 million, and achieved 2016 guidance for key metrics with an NOI margin of 96.3%, an EBIDTA margin of 83.7%, while FFO grew by nearly 22% to almost US$49 million. We expanded gross leasable area in our portfolio by 12.5%, to 22.5 million square feet.

Importantly, a high proportion of growth came from the more profitable build-to-suit facilities which comprised 40.6% of our delivered GLA during the year, and we added the largest number of facilities in Vesta's history for global companies and their first and second tier suppliers such as TPI, Snecma from Safran, Tachi-S, Thyssen, as well as Oxxo and Gestamp.

In the fourth quarter, we added 1.65 million square feet of inventory buildings in Querétaro, Aguascalientes and Ciudad Juarez as we filled existing facilities and responded to ongoing demand. This translated into a temporary increase in our total vacancy rate before these new facilities are rented, yet our same store vacancy is at an all-time low of 2.8%, underscoring very strong leasing activity of 2.1 million square feet for the quarter.

Operating conditions in our markets remain solid, driven by clients' demand for the most modern industrial facilities that are well located in a country with productive, highly-skilled labor. While the future trade situation with the US is uncertain, we are focused on innovating and offering the best solutions for our clients, underpinned by a core entrepreneurial philosophy: Stay optimistic, think long term and adapt to change.

Over the coming months we will focus on leasing our existing and upcoming available space. We continue to have a very strong pipeline of new tenants, and are confident that a strong leasing activity will prevail.

We will continue to diversify our portfolio by industry. I note that with the exception of Nestlé, no other tenant comprises more than 4.2% of our GLA, and our top five clients are indicative of this intention.

They are based in Switzerland, Canada, France, and Japan, and operate across the food, aerospace and auto sectors.

We remain confident on the long-term outlook. Global manufacturers will continue to be attracted to Mexico for its competitive costs, skilled labor force, and guarantee of the availability of infrastructure and accessibility to large markets. The domestic economy continues its recovery, along with domestic consumption, policy changes, and an institutional framework that will further encourage global companies to base manufacturing facilities here.

For 2017, Vesta expects higher revenue growth of 16% to 18% due to the confidence we have in the strength and quality of our new business pipeline. In line with 2016, we expect to achieve an NOI margin of 95% and an EBITDA margin of 83% in 2017.

We will face the future with optimism, based on our track record of disciplined and profitable growth, our dynamic and innovative team, a strong balance sheet and solid pipeline.

We highly appreciate your continued trust and support. Thank you and I will now turn the call to Mr. Juan Sottil, our CFO.

Juan Sottil Achutegui:

Good morning everyone, and thank you for joining us.

In the fourth quarter, we posted operating and financial results which underscore our execution discipline and the resilience of our business model. Industry fundamentals remain strong, and the ongoing expansion of our high quality industrial portfolio is testament to the strength of our pipeline and proactive client approach.

Once again, we achieved double-digit growth in revenues and EBITDA, with solid demand for our facilities as we focus on regions with significant economic growth throughout Mexico's key logistics, manufacturing and trade corridors.

We signed leases totaling 604,000 square feet during the quarter, with existing tenants and new clients from a broad range of industries. Importantly, almost half of our pipeline is comprised of build-to-suit properties, a dynamic that will continue to boost our future profitability, while we have renewed nearly 64 of leases due to expire in 2017.

Vesta's portfolio grew to 22.6 million square feet in the fourth quarter, with occupancy trends broadly stable on a same-store and a stabilized basis. The overall vacancy rate rose to 10.6% from 9.7% in the prior quarter as we added 1.7 million square feet of inventory buildings after filling existing facilities.

Turning to key financial metrics, revenue rose 18% to $24.6 million. Vesta had over 2 million square feet in build-to-suit and inventory buildings under construction as of the end of the fourth quarter. We expect these to contribute $10.9 million to rental revenue once projects have been stabilized, ensuring our revenue stream remains robust.

Fourth quarter operating costs as a share of rental income rose 123 basis points year-on-year, reflecting higher maintenance costs and other expenses. Net operating income rose 16.3% to $23.4 million as demand for our high quality industrial facilities remains strong. NOI margin fell 140 basis points to 95.3%.

EBITDA grew 12.4% to over $20 million, and EBITDA margin was around four percent lower to 82.5%.

Total comprehensive income was $10.2 million from a loss in the prior year, reflecting a year-on-year impact of the foreign exchange rate variation. Funds from operations were 5.4% lower to $12.6 million.

Regarding our balance sheet, cash and cash equivalents were $51.3 million; operating activity generated cash flow of $68 million. Investment activities centered on payments for construction work on buildings in Bajio, Ciudad Juarez, Tijuana and Central Mexico. Total investments were $36.4 million for the quarter. Our operating discipline means we maintain an efficient balance sheet to realize our growth plans for sustainable, ambitious expansion.

At the quarter's end we had an overall debt balance of $340 million, all related to long-term liabilities. All debt is US dollar-denominated and we can comfortably meet any upcoming maturities.

As Lorenzo mentions, we expect higher revenue growth in the coming year of between 16% to 18%, an NOI margin of 95%, and an EBITDA margin of 83%. Our guidance is based on broadly stable exchange rates, interest rates, and inflation, supporting conditions in Mexican industrial real estate, and continued expansion of the US and Mexican economies.

With our track record of sustainable growth, we remain adaptable in all macroeconomic backdrops and committed to disciplined, profitable expansion. We look forward to another year of executing our Vesta Vision 20/20, backed by an experienced team, strong pipeline and solid demand, factors which we believe will continue to support our success in the future ahead. Thank you.

I would like to open the floor to any questions.

Operator:

Thank you. At this time we'll be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment, please, while we poll for questions.

Our first question comes from Alejandro Saldana from GBM. Please go ahead.

Eugenio Saldana:

Hi guys. Good morning. I have a couple of questions. The first one is regarding your guidance. I mean does this guidance imply that you are developing 3 million square meters—sorry, 3 million square feet for 2017, I mean as you have mentioned in previous years, and I also wanted to know, I mean the mix you are expecting in terms of rental revenues, in terms of peso and dollar. Thank you very much.

Lorenzo Berho Corona:

Hello Alejandro. Thank you for joining us today, and thank you for your question and your interest in Vesta. Yes, the guidance we gave is based on the projects of construction we have today, and based on that we have 2 million square feet under construction that will be—most of that will be over in January and February this year, and three of them are build-to-suits, adding 700,000 square feet already leased and a strong pipeline that we have, so our guidance is supported by a strong—the projects that we have today, most of them with tenants as build-to-suits. We have been, as you can see the last quarter, we have had very strong leasing activity, and a strong pipeline. We have seen demand in the markets in which we operate.

Juan Sottil Achutegui:

Alejandro, can you repeat me your second part of the question?

Alejandro Saldana:

Sure, Juan. Your mix on terms of rental revenues. I mean basically between peso and dollar.

Juan Sottil Achutegui:

Basically, we expect to have the same mix. All of the build-to-suits are coming online are dollar-denominated, and given the weight of the build-to-suit on our current development pipeline, the dollar revenue can hike a little bit, but I would like to just—we will be around 85% dollar to peso mix by the end of 2017, approximately, no? I don't expect significant change.

Alejandro Saldana:

Okay, thank you very much.

Lorenzo Berho Corona:

Thank you, Alejandro.

Operator:

Our next question comes from Cecilia Jimenez from Santander. Please go ahead.

Cecilia Jimenez:

Yes. Thanks. Good morning everyone, Juan, Lorenzo. Congrats on the results. I have a few questions. First, regarding the new leases, I would like to know what's the underlying industry behind the new clients, if you could share with us that. That's the first one. You want me to go ahead with the others?

Juan Sottil Achutegui:

Well, basically the new leases that we're signing continues to be part of the automotive story in Mexico, although we have signed several industrial logistics projects, logistics, but within industrial domain, basically, Cecilia. But what we are seeing in our pipeline is those clients that made up the decisions to come to Mexico, because they have signed supply contracts with anchor companies, let them be Nissan, Mercedes-Benz, what have you, have already made the corporate commitment some months ago, and they're just executing on that good business venture that they signed with the head of the supply chain and they are installing in Mexico. So that's why we have strong demand and that's why we believe that the current pipeline that we have will allow us to place expediently the buildings that are coming due in our development pipeline in the upcoming months.

Lorenzo Berho Corona:

Yes, I would like to add, Cecilia. As Juan was mentioning we have logistics, several companies related with logistics, and we have consumer goods, and we have packaging, and we have one that is aerospace, which is an industry that is growing nicely, and the rest of them are auto parts.

Cecilia Jimenez:

Okay, perfect. Thank you, very clear. Then the second question and the third are quite related. Have you seen price pressures when renegotiating with renewals with current clients? Along with that, have you already started the negotiations with Nestle for 2018 lease contract? That's it.

Lorenzo Berho Corona:

Okay Cecilia, very good questions. Yes we have started talking to Nestlé. I think that we have an excellent relationship that has been in place for the last 40 years, and so we have an excellent relationship and yes we have started to talk to them. We don't see any problems involving over Nestlé. Remember that the most important part of the (inaudible) facility, we basically got a new client (inaudible) to take over that part of the building. So we do have a very strong relationship and we will roll over that lease. That's our expectation as of today.

Regarding the price pressures, please remember that the markets where we operate are, in financial terms, pretty well built. There is significant demand—they can look at the Tijuana market and take a look at the Toluca market. So we're not having significant price reductions in the rollovers, in fact we have no price reductions in the rollovers and we're placing our building at the ongoing market rate. We don't see significant new building pressure in the markets that we operate. So I believe that the prices, as of today, are holding quite steady. Again if you look at the fundamentals, strong demand, very few supply in the markets we operate, so I don't expect to see any price erosion.

The markets where we operate are basically dollar based markets because they are geared towards suppliers—so either people that export directly or suppliers of export business. So we are quite confident on holding our rental prices.

Cecilia Jimenez:

Thank you very much and congrats again on the results.

Lorenzo Berho Corona:

Thank you, Cecilia.

Operator:

Our next question comes from Ivan Enriquez from HSBC. Please go ahead.

Ivan Enriquez:

Hello Lorenzo, Juan, Iga. Congratulations on the results. Quickly, two questions. The first one would be talking about the implementation of US trade policies. What is the event that you are expecting the most regarding this situation? Probably the renegotiation of NAFTA, or what would it be the event that you're expecting most, and what would be the implications on your business?

The other quick question is we saw a squeeze in NOI margin related to other expenses. Could you please help us understand which are the concepts that are integrated into this account? Thank you, guys.

Lorenzo Berho Corona:

Thank you, Ivan. Thank you very much for being here today. Talking about the US implementation in your first question. Let me tell you, of course everybody has uncertainty today. Whoever tells you that you don't have uncertainty, I don't think is saying the truth. So are tracking, as everybody else, we are active, participating and trying to be close to the people that we have influence within the Mexican sector, from the private sector to some of the government officials which have been very close to us in the process. But of course, this is a process that we will all need to live with patience because whatever comes, we're not expecting that to be solved soon.

Now, as we have talked since the first time and in the special conference that we held regarding the uncertainty after the US election, of course we went to the extreme conditions and the extreme conditions could go from something sold pretty much in an upgrade of the NAFTA, which has a good opportunity, at least a 22-year old agreement, and unfortunately the TPP had a lot of these upgrades already solved within the nations that undersigned these at the beginning. Some of these could be a nice upgrade according to the trilateral agreement that we have. So, that's something that we will be expecting.

The other extreme is that Mexico pulls away from NAFTA because there is no way to deal with that, and Mexico is treated, according to the World Trade Organization, as the most favored nation ties (phon), and those ties will range probably in average a little lower than 2%. If that is the case, just with the competitiveness that our country has gained, plus the currency impact, I mean we will be completely within the market.

So, those are the range. Of course, whatever could be affecting now is that perception of uncertainly and what we have seen in the real markets where we operate, other companies have been going through their own plans in the nomination process or taking advantage, taking more in the long term than in the short term.

Juan Sottil Achutegui:

Regarding the pressure on NOI, look, I think that we have incredibly healthy NOI margins. Last year was 96.7% and this year is 96.3%. I guess that you're referring to on a year-to-year basis, a drop of 0.4%. I think that having margins of NOI above 96% is quite healthy. On a quarter-to-quarter basis, on this last quarter we made some adjustments to maintenance charges and then we made some adjustments to real estate taxes, and perhaps a couple of adjustments on reserve accounts, but nothing that really is out of proportion to a normal closing of the year. I believe that we will easily meet the 95% NOI. Perhaps I should be more aggressive on NOI margins and guidance, so not 95% but somewhat higher and that's food for thought that I take out of this question for next year's guidance. But I don't see any particular trend that I should worry either us or you at this point.

Ivan Enriquez:

Okay. Fantastic. Great guys. Talk to you soon. Bye.

Lorenzo Berho Corona:

Thank you very much, Ivan. Nice talking to you.

Operator:

Our next question comes from Pablo Monsivais from Barclays. Please go ahead.

Pablo Monsivais:

Hi Juan, Lorenzo, Iga. I have one question for you. What could be the impact on your construction costs from high inflation? I mean should we expect your development yield to compress a bit? How do you see this going?

Lorenzo Berho Corona:

Thank you, Pablo. Thank you for being here today. That's a very good question and let me tell you yes, inflation is starting to have some impact, and basically because of two or three elements. Cement is increasing, basically at the start of this year, and secondly, steel, which by the way was having an effect on the lower Chinese demand worldwide, has been having an increase since September last year. That is why I think that Vesta did great moves in terms of anchoring cost in pesos before all this happened, and the remaining project is 2 million probably so we have all the development are very well controlled and with a nice advance payment which we were able to mitigate whatever risk could be related within inflation, either worldwide or in pesos. So, I'm very happy to see that inflation is coming.

Now the other part of the question is related with returns and the answer is no. The point is that we have been able to keep our returns, handling this situation according with market conditions and the control of costs.

Pablo Monsivais:

Okay. Thank you very much.

Lorenzo Berho Corona:

Thank you, Pablo.

Operator:

Our next question comes from Froylan Mendez from JP Morgan. Please go ahead.

Froylan Mendez:

Hi Lorenzo, Juan and Iga. Thank you very much for taking my call. I have several questions. Did you start construction of these new greenfields before or after the US election? That would be my first question.

Lorenzo Berho Corona:

That's also a very good question because this is a question that we raised internally. What happened is that we had some approvals that happened exactly before the election but after we had our quarterly report and those were the ones that we started, according to that time.

Froylan Mendez:

Okay. Have you already started construction of new GLA this quarter?

Lorenzo Berho Corona:

Of new what?

Froylan Mendez:

Of new GLA this quarter, in first '17?

Lorenzo Berho Corona:

No. No, what we have is the—that's why I mentioned at the beginning that of all the projects we have have that add up to 2 million square feet, which three large ones of them are build-to-suits; those will be over in February 2017. We have one, two, three, four—four projects that will be over in February '17, one of them in January, two of them in March and two of them in June. So that's the timing we have for those and all of them were started before this quarter.

Froylan Mendez:

Okay. Regarding the land purchase, I imagine that if you adding reserves, you will be starting construction of something new going forward? In specific, related to the land that you bought in St. Miguel, I remember that you said that Querétaro was specifically was a very competitive market. Have these changed in any way?

Lorenzo Berho Corona:

Okay. Well, thank you. Let me tell you, yes, we mentioned that last quarter we bought some land in Tijuana and the reason Tijuana is because we have nothing to offer in a market that is still having a very strong demand. That is $1.8 million acquisition that we did. That's the one we have. The other project, the one that you're referring in San Miguel de Allende, that is the last acquisition we did. This is the third acquisition we did from a project that has been very successfully moving ahead, and that was informed in the third quarter of last year.

Juan Sottil Achutegui:

I just want to add, please take into account that the Querétaro market, we have exhausted our land position in the Parque Industrial Querétaro. There's no more land there. Land prices in that park are a hundred bucks per square meter. In fact, we have one plot of land and somebody's bidding for it, and we're considering it. The acquisition cost of San Miguel de Allende which is a 50 minute drive from that park, it's way below $40 per square meter. It's just not profitable to have land reserves in the industrial park of Querétaro. If you look at the growth rate of the industrial park in San Miguel and the type of clients that we're attracting to that park, we basically feel it's a good way to expand our industrial presence in the Querétaro market, and that's why we did purchase some land on the third quarter.

Froylan Mendez:

Great. Just to get this clear, your guidance is based only on what you have under construction right now, and you are not planning to start construction on anything but you still are buying land?

Juan Sottil Achutegui:

Just to be clear, guidance growth in revenue is based on the existing portfolio plus what you see on the development pipeline and our expectation of expedient rental of those inventory builds. They only (inaudible) that you do not know in our report is when do we expect to lease the inventory buildings, which typically take six months to build, to lease after the delivery of the projects. That's what we have committed to in that (inaudible). Our actual performance is just a notch above six months. The strong pipeline that Lorenzo mentioned in the letter keeps us with optimism that we will be able to fulfill, to fill those buildings in time and inform during 2017.

Just to clarify further, as of after the election, we have not started any new buildings. Okay.

Froylan Mendez:

Okay. Just my last question, Juan, thank you very much. Regarding share buybacks, how many shares have you bought so far and what are your plans for these shares? Will you cancel them? Are you planning to buy more? And at what price do you think it will be less aggressive—you will be less aggressive on buying shares?

Juan Sottil Achutegui:

I'm very happy that you raised the question because we need to underline at each opportunity what's the philosophy of the Company regarding share buybacks.

As of the end of—as you can see on the financial statements of the Company, the share buyback balance of the authorization of the funds that was obtained in April last year is 10.2 million shares approximately. The balance as of today is 16.1 (phon) million shares, and of course you know that because every time we do a transaction it is reported to the system and so it's a matter of keeping track. My balance as of today 16.1 million shares. We believe that this is one way (inaudible) returning money to the shareholders at this time for more troubles regarding our growth expectation, so that's why we're doing it.

Regarding the price that we act upon making decisions for the share buyback fund, we are very careful not to be a significant factor on any given day. If you look at our track record, we both represent more than 25% of the market at any point in time. Basically the market price is set by investors. When we see an opportunity we just act on it cautiously. At the end of the day, Management believes that the portfolio, even on an established basis, is being severely mispriced at the current levels of the stock, and that's why we would like—and we will continue to create value by buying back shares at the current market price. At the current market price I believe there's significant value creation in using our cash and leverage capability to buy back shares.

As you also have noticed, we call on a new shareholders' meeting, we made the call yesterday. One of the items of the shareholders' meeting is to add to the buyback fund. We are planning to add $50 million to the program and we will be asking our shareholders to support that motion.

Froylan Mendez:

If I may, one last question, I promise. Regarding, again, on the NOI margins, I mean I have the understanding that your costs are mainly in peso terms but margins in this quarter at least, in this year have been decreasing sequentially. Can you explain to me how much lower is the NOI margin of the new properties are contributing to the overall portfolio, or how much is the ramp up time that we should expect?

Juan Sottil Achutegui:

I think that—look, my NOI will continue to be—I expect NOI to hold at above—the problem is that you're asking me to comment on my guidance and I don't feel comfortable doing that. I think that if you look at the trend of NOI on a year-to-year basis, we have been above 96% since 2014, and if you look on a quarterly basis, we have been above 96% since 2012. This particular quarter, for the reasons that I mentioned, my NOI on this particular quarter was 95.3. Again, I have to adjust certain real estate taxes that were not properly reported and that's perhaps one of the important things that made the NOI for the fourth quarter in particular drop between below 96%. I don't think that's a trend. I did have a couple of maintenance costs that I needed to incur on the last quarter of the year, and I did have some provisions to revenue that I also adjusted on the last quarter of the year.

My perception is that these three things are not trend-setting, happened on this quarter, but I don't think that you can expect NOI margins to drop below 96% for the next years, and that's going to be my only comment because I don't want to change my guidance, okay?

Froylan Mendez:

Okay. Thank you very much. Really appreciate it.

Juan Sottil Achutegui:

Thank you.

Lorenzo Berho Corona:

Thank you, Froylan.

Operator:

Our next question comes from Alejandro Lavin from Citigroup. Please go ahead.

Alejandro Lavin:

Hi. Good morning, Lorenzo, Juan, Iga. Thank you for the call and for taking our questions. I just have follow-up question on buybacks. Just to confirm, you will propose to shareholders to increase the buyback fund to $50 million. I mean that will be an additional $50 million that could be used for buybacks? That would be the first question.

Juan Sottil Achutegui:

That is correct.

Alejandro Lavin:

Okay.

Juan Sottil Achutegui:

Let me answer one by one because I tend to forget things. Twenty five million bucks is the share buyback program that was authorized in April last year. I would submit to the shareholders an increase of $50 million, so the total share buyback program, for we have a lot of flexibility on executing, will be $75 million and that's the one you keep an eye on.

I also have a much smaller program that was authorized a couple of years ago, so that has to do with executive compensation before we had the Vesta Vision 2020 Executive Compensation Plan. If we—if the shareholders allow us, the total fund would be $75 million and we believe that at these prices we are adding significant value to our shareholders by carefully executing these programs when we see a price in the market that we feel does not even value Vesta as an established company, and we believe that the best use of our cash and leverage capacity is to take advantage of that possibility.

Alejandro Lavin:

Okay. That's very clear, thanks. My second question would be how would you decided between buying back—I mean using this $75 million fund and developing let's say the 2018 or new incremental projects? How would you consider these tradeoffs?

Juan Sottil Achutegui:

Okay. Basically, you have to remember that Vesta is very disciplined in corporate governance. Even Lorenzo and myself do not have full authority to initiate any building. All of our investment decisions have to flow through the Investment Committee. The Investment Committee has instilled on us, even before we were a public company a lot of discipline in making decisions that are accretive to our private shareholders then and our public shareholders now. I think that what we do on the Investment Committee that we have held on December and on January, once a month at least, what we do is we provide Investment Committee with a Management perception of the opportunity of buying back shares and the return we can have on those, and then we present the new projects and the Investment Committee decides on the expansions that are worthwhile or the new buildings that are worthwhile.

We're very careful when we proposed and when we have advised the Investment Committee about opportunities to develop new inventory build. There's markets where we don't have problems that will require new inventory buildings. I mean just look at our stats and look at Tijuana. Tijuana is a market where we should have more buildings. The Investment Committee is cautious and has asked us to take a more closer look and we are doing our business, but the checks and balances in the Company is the Investment Committee, which is very disciplined, and they hear our valuation of the Company and they hear about our valuation of new problems (phon) and we would make decisions that will be accretive to you and that we will be on the upcoming months cautious about the environment. Okay? That's what I have to say about that.

Alejandro Lavin:

Yes, perfect. Understood. Thank you very much. Congrats on the results.

Lorenzo Berho Corona:

Thank you, Alejandro.

Operator:

Our next question comes from Alan Macias from Bank of America. Please go ahead.

Alan Macias:

Good morning and thank you for the call everyone. Just clarification: I guess your Investment Committee approves investments for $30.9 million and I guess you haven't begun construction of these. I guess you don't have a date to begin construction yet. These are all spec buildings and I guess are they all for manufacturing, is that correct? Thank you.

Juan Sottil Achutegui:

Alan, what's new on the development pipeline? What's new on the development pipeline is a couple of buildings that we decided to initiate just after the third quarter, so we initiated them at the beginning of October, a month and a half before the US elections, and one expansion in Juarez, no? That's my understanding. Those buildings are—we haven't started the construction process. Once you start, I mean once I sign the (inaudible) contract in pesos with the construction company, you just plough along, and that's what we have been doing. We also bought some land during the year and that we need to put some infrastructure and we're carefully moving right along.

We have not submitted any new projects after the election, and because we're cautious. We're cautious about the future. We have been named an optimistic management. Well, given the pipeline that we have, yes, we are optimists that the buildings that we have we will be able to place as we have done in the past. But the buildings that are on my development pipeline is because all of them have started construction. If they had not been starting construction, they will not be on that list.

Operator:

Our next question comes from Marimar Torreblanca from UBS. Please go ahead.

Marimar Torreblanca:

Hi guys. Thanks for the call and congrats on the quarter. I just have a quick question, and I'm not sure if you have a lot of visibility on this, but looking at your tenants or at least at your most relevant tenants in the manufacturing regions, do you have any sense that they're changing their investment intentions for this year and next? So, how much do you think they're delaying some of their new projects, or are you not seeing any delays at all?

Lorenzo Berho Corona:

Thank you, Marimar. Thank you for your question. Let me tell you, of course, as I mentioned at the beginning, I am sure that everybody has some level of uncertainty. Before I talked to tenants, we talked to even government officials. We talk to see what is the (inaudible) for example, for the year, and the government from Mexico, people have their own expectations on that. We will track that.

On the niche we are and on the industries we operate, it's important to understand the trends of each industry. For example, the aerospace industry has recommended that instead of growing at 10% a year they will grow at 6% this year. Now, that doesn't mean that we will not try to capture our share of the pipe or increase it. So that is why if some of the new companies are uncertain what's happening and making their own decisions in that regard.

Now, on the other hand, there is a lot of compromises that have been taken in the past and companies, especially OEMs that have been here, some of them, for 100 years, for 50 years, that the need to have—in order to have the full competitiveness, they need to have the Tier 1 and Tier 2 as part of the supply chain, and those companies, the ones that we are close to, have kept on their nominating process. That's why we cannot walk away from …

There's many things that we can do as a company in times of uncertainty. One of the things, as Juan was saying, is a program of buyback shares. I mean we just need to be ready and act on it because we see that as an opportunity to create value. Other things are usually the process of acquiring land, getting the permits, getting (inaudible) and being ready for the next waves, it takes a lot of time. That's probably some times where you lose your participation in markets and that's what Vesta will not do. We will not lose our top position in the markets in the markets in which we operate because we are here to stay for the long term. We believe in Mexico. We understand this as a temporary uncertainty situation and we will carefully be submitting (inaudible) to be approved. As Juan was mentioning, our Investment Committee is extremely disciplined. Extremely disciplined. They are people that have been through ups and downs in different business cycles and they have taken advantage of the upcoming business cycles and also of the downside of the cycles, and that's what we will do. As we have done in the past, we will do very carefully in order to maintain the positioning, take advantage of the opportunities, not—mitigate risks and be very close to our clients. Remember that in the past, 50% of our growth has been from our tenants, so being close to our tenant base is crucial, especially within these times.

Marimar Torreblanca:

Thank you.

Lorenzo Berho Corona:

Thank you, Marimar.

Operator:

Our next question comes from Javier Gayol from GBM. Please go ahead.

Javier Gayol:

Hi. Good morning. Thank you for the call, Iga, Juan and Lorenzo. I have some questions. The first one would be sort of a follow-up question to the previous ones in terms of share buybacks and sort of the capital allocation that you guys are looking into. I just wanted to understand, for 2017 do you guys expect to buy—how do you guys expect to allocate the capital? Are you guys more focused on the share buybacks at the moment, or are you guys more focused on land acquisitions, or are you focused on build-to-suits? Just wanted to understand to what amount could we expect of capital deployment from Vesta, and what will be the sources of this.

Would we expect a reduction in the dividends or would we expect that the dividend be changed from a cash payment to share payment? Could we expect more debt? I just wanted to understand sort of like the uses and sources of the cash of Vesta for 2017.

Lorenzo Berho Corona:

Thank you, Javier. Thank you for being here. I'm going to just give you a comment before Juan comes to the final answer of your question.

Let me tell you, we don't see the buyback program as a competition to our capital allocation in development. We see the buyback program as a complement of opportunities to create value to the Company.

So, having said that, I'm going to turn to Juan for part of the question.

Juan Sottil Achutegui:

Javier, I would like you—I would like all of you take a look at our deployment over the last couple of years. Last year we had a particular high deployment year of around $150 million in capex. This year, with the development pipeline that you see there, as of the end of the fourth quarter we already have 100 million bucks in capex. Not all of it would be—some of it was for last year during the fourth quarter but you can expect, I mean capex for this year is significant. It's not going to be a small number. Since we have committed on contracts at Cosconsalvo (phon). We just have to finalize the execution of those contracts.

Regarding the use of the share buyback program, we are indeed opportunistic. There is no formula for me to tell you, "You can expect X amount of shares to be buyback in a given month." If we believe that the market is mispricing our assets, as we believe is the case today, then we will be active on the market. Again, the philosophy of our activity in the market is not to put a price, it's not to put a line on the sand. It's to maximize value to the shareholders that remain with us, and if that means buying more shares at ever lower prices, I will do that. I will not represent more than 25% of the volume unless something dramatic happens. The objective is to be very careful on how much I do on a day-to-day basis, but there's no schedule of how many shares do I need to buy in a given month.

We look at this very opportunistic. Every Investment Committee, the first topic of the day is what is our expectation of the value of the company? What's the perception of Management about the value of the

Company and then we begin to analyze the projects that we have to do. Some of them are expansions, some of them are clients that do not fit the buildings so they need to grow, and some of them are build-to-suit and occasionally now some of them are inventory buildings. The Investment Committee takes a look at them carefully.

Lorenzo Berho Corona:

Javier, we are convinced that we have the best portfolio of best industrial properties in Mexico with the best clients and we know the value of it. So, the buyback program is what reflects how much we believe in our own portfolio and the opportunity that it presents at its current price.

Javier Gayol:

Great. I understand and I actually agree with you guys on that terms, but I'm not concerned; I wanted to understand what's the outlook for the year for you guys in terms of (inaudible). If I have it correctly you have roughly like $70 million to spend in capital on either repurchasing, either dividends, either, you know, land acquisitions. If I have it correctly, as Juan told me, you have pending capex of around $40 million. You already purchased $5 million or $6 million, so I just wanted to understand what are you guys looking at? How are you guys going to get the additional money to continue to expand on those properties and those investments that you guys look at and see attractive?

Are you expecting higher leverage? Are you guys expecting to change the dividend policy, or how—maybe an asset sale? How are we going to get at the growth? I just want to understand that.

Juan Sottil Achutegui:

An excellent question and an excellent opportunity for us, so let me address it. The dividend policy has already been laid out to the market in 2012 and ratified with very few modifications in 2015. So, if you apply the formula, dividends should be around $38 million plus, somewhere around there, $37 million, somewhere around there. From memory, I'm sorry I don't have the paper in front of me. But you know that because you know how to apply formulae so there's no—it will be there, no? So that's one item.

Share buyback, well, I'm asking permission to do $50 million more. I still have to execute about 5, so that's another part of the cash flow.

And development, well, let's say that this year we're being in terms of capex close to 100 million bucks, somewhere around there.

So, where is the cash going to come from, Juan?

Well, the leverage is 23%, so we have a substantial amount of leverage that we can impose to the Company without significantly increased financial risk. I think that if there's one thing that was very tough in Investor Relations meetings over the last three years was the thing about (inaudible) not efficient on capital use. Well, we're fixing that. We're fixing that by means of returning money to the shareholders, which I think at certain times is what you ought to do as a company; second, to grow more cautiously, which is what we're proposing to do; and third, if we see a mispriced asset that you know like the back of your hand, well, you have to act on it. So, yes, we will increase the leverage of the Company.

Javier Gayol:

Okay. That's very helpful. Sorry, to extend but I had another question. Some of the concerns we've been hearing around investors is that with the depreciation of the peso against the dollar, there could be a potential increase of more spaces in some markets where there's less competition. Have you guys seen that or the uncertainty you get around US/Mexican trade being too large for you guys to come into and develop inventory buildings?

Juan Sottil Achutegui:

Well, let me tell you, the markets that we are strong in, Toluca, Tijuana, Bajio, as a general proposition we don't see availability of the space popping up. We see them well-built (phon) markets. There's differences. Tijuana is extremely well built. Maybe parts of the Bajio market are not so well built but they're still very comfortable. So, we don't see markets with a lot of available space in the industrial market. Therefore, we don't see prices dropping in the near future. We see our peers, private peers and public peers, cautiously developing, and that will maintain a healthy market. So, given the stats that we have, given the reports that we have from our field presence, we don't see significant empty spaces in the places where we operate, yet.

Now, could that happen if the peso continues to depreciate and those guys that are not export oriented, well, it's difficult to know, no, Javier? Right now we don't see evidence of a trend.

Also, take into account that what has happened is that peso-denominated rent has significantly gone up. It's not that the dollar rate has come down. Dollar rates have been stable and as of now peso-denominated rents have gone up. So, we feel confident. We feel that that's not an area of concern, let's put it that way. Okay? Our area of concern is just to keep the pipeline flowing. To gather the opportunities that happen, we have to be the first to act on them and to execute on good terms the opportunity that we're pricing right now. That's basically our area of focus as of today.

Javier Gayol:

Okay. Juan and Lorenzo, thank you. That makes sense; thank you for your answers.

Lorenzo Berho Corona:

Thank you very much, Javier, for being here and your questions.

Operator:

Our next question comes from Cesar Gomez from Intercap. Please go ahead.

Cesar Gomez:

Yes, hello. My question is regarding taxes. Given the level of some of debt from some (inaudible) governments, would you expect them to either increase the property tax or lower incentives for any companies? To what extent could this impact Vesta?

Lorenzo Berho Corona:

Property taxes.

Juan Sottil Achutegui:

You're talking about—okay, the headline is property tax, and property tax, well, we don't have much control on them. On our northern-based properties we tend to have triple-net agreements, so basically it's not an issue for us. On our center-based properties, we will pay the property tax. When we make the calculations for rent setting, we take into account our expectation about the growth rate of property taxes. And look, governments have been careful. I understand the pressure that your—the underline of your question. Governments in fiscal trouble will tend to look at revenue anywhere and one way to get good revenue is property taxes. I acknowledge that that could well happen, however, I also acknowledge, and I would like you to consider, that the only way that government can attract new investments, and if we believe that (inaudible) is going to be an issue—is by being very careful about the lowering of property tax rates for industrial sites. So, will there be significant drop off in property taxes? Well, could be but I don't expect it to be a significant factor in the places where we have our presence, industrial property taxes. That might be something different from city (phon) property taxes, okay?

Cesar Gomez:

Okay. Thank you and congratulations on the results.

Juan Sottil Achutegui:

Thank you.

Operator:

Our next question comes from Armando Rodriguez from Signum Research. Please go ahead.

Armando Rodriguez:

Good morning everyone. Thank you for the call. Just a follow-up from previous questions about your debt program. Considering your previous answers about your share buybacks, plus maybe your loan-to-value levels you feel comfortable considering these scenarios where you can stretch your debt issuance on your following quarters? That's all, thank you.

Juan Sottil Achutegui:

Okay. Let me address the first one and then you may have to ask me again the second one. I was just making sure I have information in front of me.

On the first one, my debt to total assets today is 22.2. On a net basis, it's below 20%. My cash on-hand is $50 million. So, 20% with cash on-hand of $50 million is quite an effective—that's quite a low effective leverage. I mean, look, bankers take away a lot of my time because they see a lost opportunity lending to Vesta. I have been fielding them for the last end of the year and the last month. We have a significant capacity to lever both on a secured basis but also on a non-secured basis. Please remember that I do have an available $100 million line which is totally unused as of now, a revolver, and I will be looking this year to do a couple of debt transactions. We're not a huge company so our debt transactions will be measured and small.

The Board has authorized us to hike up our leverage to up to 40% under these measures, so we have—and 40% for a company like (inaudible) is very, very conservative. I mean we're not betting the rights in any way. So we have a substantial—I mean some of my Board tends to say that we have a fortress balance sheet and we will be careful to maintain it that way, okay?

Armando Rodriguez:

Okay. Thank you very much.

Operator:

Our next question comes from Christian Constandse from GBM. Please go ahead.

Christian Constandse:

Hi. Good morning. I just wanted to say that it's very nice to hear that you're looking to invest in the most profitable way possible, whether that's buybacks or inventory buildings or whatever it is, but I wanted to ask you about build-to-suits. Have you been approached by your current clients or new clients about building build-to-suits after the election?

Lorenzo Berho Corona:

Thank you, Christian. Yes, this is Lorenzo. Yes, we have been approached by them. Of course we cannot disclose on the details, on the pipeline at this point. I mean we will do that when—what we usually do is either in the quarterly report we inform everything that has been closed, or when it's a relevant transaction then we inform. But yes, the answer is yes and we have—remember that even in times of uncertainty, some people that maybe were thinking about acquiring land and building their own buildings, they love to have somebody on the other hand being able to understand the business and take the risk of development in the long-term run.

So, build-to-suits are—and we believe we are very good at build-to-suits and committing and finishing on time and with the quality, and we have built a very strong reputation on that. I think that this is a great product and service that we provide to our clients and the clients who understand; sometimes it's word-to-mouth that is spread this credibility which always helps us.

Christian Constandse:

Okay, thanks. Just a couple of more questions. You probably answered it before, but from the original $25 million fund for buybacks, how much you have left?

Juan Sottil Achutegui:

About $7 million. We have 60 million shares, so.

Christian Constandse:

Okay. If you feel comfortable giving—telling us what occupancy do you expect by the year end '17?

Lorenzo Berho Corona:

Well, look, let me tell you we changed the metric. We changed the way we report occupancy. We would like you to focus on same stores and (inaudible) portfolio rather than total occupancy, because total occupancy is just a consequence of good management of (inaudible). So, in same stores, I mean take a look at our special package, our supplemental package, and it happens to be that same stores were 97% occupied. I mean this is the best quarter in the last eight quarters, and we believe that that will continue to sustain about those levels. On an stabilized basis, I think that we will be above 90.

Now, given the fact that we're not starting any inventory building and we're at the beginning of the year, I think that the total occupancy—which is your specific question—will be very good by the end of the year. I think that we will be above 90. That depends, of course, if we start new buildings or not, but I think that we have a strong pipeline and I think that we will occupy the buildings as they are delivered to (inaudible).

Christian Constandse:

So on a same store sales basis, do you think we'll be around 97?

Lorenzo Berho Corona:

Around 96, 97, yes, sure. Sure thing.

Christian Constandse:

Okay, great. Thank you, guys.

Operator:

Thank you. This does conclude the question and answer session. I'd like to turn the floor back over to Management for any closing comments.

Lorenzo Berho Corona:

Thank you very much, Matt. Thank you, all of you, for participating in Vesta's Fourth Quarter 2016 Conference Call. We look forward to speaking with you again when we release our first quarter 2017 results, and of course if you have any questions in the mean time, please do not hesitate to contact our Investor Relations Department.

I just want to highlight that we will have our shareholders' meeting on March 2nd, which you are all welcome to participate, and in the meantime if there's any questions at all, we'll be happy to take the time to answer to you.

Thank you very much and have a good day. Bye bye.

Operator:

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.