Vesta Industrial Real Estate

First Quarter 2017 Results Conference Call

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PRESENTATION

Operator:

Good morning. My name is Brenda and I will be your conference Operator today. At this time, I would like to welcome everyone to Vesta's First Quarter 2017 Earnings Conference Call. Vesta issued its quarterly report on Thursday, April 27, 2017. If you did not receive a copy via e-mail, please do not hesitate to contact the Company at +52 555-950-0070.

Before we begin the call today, I would 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 certain risks and uncertainties.

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

Joining us today from Vesta in Mexico City is Lorenzo Berho, the Chief Operating Officer, Juan Sottil, the CFO, and Fernanda Bettinger, Investor Relations Officer.

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

Lorenzo Berho:

Thank you, Operator, and good morning, everybody. Thank you for your interest in Vesta and for participating in today's conference call. Our CEO, Lorenzo Berho was forced to travel unexpectedly, so I very much appreciate the opportunity to review Vesta's operational results with you this quarter.

We are proud to report a strong start to the year with robust leasing activity, affirming global demand for high quality industrial space in Mexico. For the first quarter, we achieved excellent operating and financial performance, evidence of our ability to remain adaptable and innovative through the changing macroeconomic backdrop. Clients from Europe, Asia, U.S., and Mexico are establishing their manufacturing bases with an eye to the long-term, driving demand for Vesta's best-in-class industrial facilities.

We have been experiencing strong deal rhythm since last year. Our overall leasing activity was 2.5 million square feet for the first quarter, as Vesta signed new leases totaling over 540,000 square feet with existing tenants and new companies, and renewed 2 million square feet of its portfolio.

I would like to highlight that Nestlé, our largest client, has renewed their three leases for another seven years. This means that our 10 largest clients, or 34% of our GLA, will not mature before 2023. Our lower vacancy rate also reflects solid demand, a 200-basis point fall to 10.9% in first quarter 2017 from 12.5% a year ago. New tenants that signed leases during the quarter include Carcoustic, a German light manufacturing company that produces auto components; Unitech Foam, a South Korean packaging company; Toyota Tsusho, a world-class Japanese auto company, among others.

Requests for proposals are a strong proxy for demand and averaged 27 per month for 2016. Requests for proposals have shown an upward trend this year at 29 in January, 34 in February, 30 in March, and 32 so far in April. These factors mean we maintain a substantial and diverse pipeline, equivalent to one year's worth of development, which has reinforced our confidence to keep investing for profitable growth.

Vesta is developing 1.27 million square feet in build-to-suit and inventory buildings in key markets, and our Investment Committee has approved investments totaling $22.4 million. This includes $8.8 million for the construction of Pacifico inventory building in Tijuana, $7.3 million for an inventory building in Juarez, and $6.3 million for an inventory building in Puebla.

In terms of key financial metrics, revenues rose 22% while EBITDA was almost 23% higher for the period. Funds from operations totaled $9.5 million from $10.82 million in first quarter 2016. This was mainly due to the rising current tax from an exchange-related effect, as the peso strengthened during the first quarter. Adjusted FFO, without the tax impact, would have been $13.7 million.

While the future of NAFTA remains uncertain, on Wednesday, President Trump spoke with Mexico's President Enrique Peña Nieto and Prime Minister Justin Trudeau of Canada to discuss the North American Free Trade Agreement, and agreed to renegotiate NAFTA rather than terminate U.S. participation, as Mr. Trump described, to make all three countries stronger and better. It is also important to note that in the other sector, Mexico underpins North America's competitive position. As the number one supplier of auto parts to the U.S., Mexico offers parts produced by a highly skilled and efficient workforce. Since auto parts comprise two-thirds of vehicle's cost, this relationship is crucial in ensuring the U.S. auto industry remains globally competitive. More broadly, at least 5 million U.S. jobs depend on Mexican exports, while the country rose six positions in ranking in the 2016 to 2017 World Economic Forum Global Competitiveness Report.

As we look to the future, we remain cautiously optimistic that Mexico will continue to strengthen its position as a competitive global manufacturing hub. As the country's premier supplier of high quality industrial facilities, Vesta remains uniquely positioned to take advantage of a dynamic where demand continues to outstrip supply. In addition, the long-term nature of our global client relationships, our exposure to high growth markets, and deeper sector expertise means we remain committed to delivering profitable growth as we execute on our Vesta Vision 2020 strategy plan.

Before I pass the call to our CFO, Juan Sottil, for a more detailed discussion of our first quarter results, I wanted to comment that I look forward to meeting many of you in person at Vesta's Investor Day in New York on June 14 where we will be discussing our operations and strategy in a greater detail.

With that, Juan, please go ahead.

Juan Sottil Achutegui:

Thank you, Lorenzo. Good morning, everyone, and thank you for joining us. This quarter, our robust leasing activity and our low vacancy rate were evidence of sustained demand for our high quality industrial facilities. This was further reflected in Vesta's strong operational results where we achieved double digit growth in revenue, EBITDA, and 50 basis points increase in EBITDA margin. These factors, supported by a healthy pipeline, have given our Investment Committee the confidence to approve investments totaling $22.4 million in Tijuana, Juarez, and Puebla, to ensure that we can appropriately address expected demand in the period ahead.

For the first quarter, Vesta's portfolio grew 23.9 million square feet, while occupancy trends were broadly stable on a same-store and on a stabilized basis. The vacancy rate fell to 10.9% from 12.5% a year earlier, as we signed leases totaling more than 540,500 square feet for facilities for clients from Germany, Japan, and Korea. Regarding key financial metrics, revenue grew 22% to over $25 million. As for the first quarter, Vesta has already renewed 70% of the leases due to expire in 2017, and we have 1.3 million square feet in buildings under construction. We expect these projects to contribute around $5.8 million to revenue once they are stabilized.

First quarter operating cost as a share of rental income were flat on a year-over-year basis. Net operating rose 21.3% to $24.8 million as demand for our properties outstrip costs. NOI margin was 50 basis points lower to 96.4%. EBITDA was 22.8% higher to $22 million from $17.8 million, and EBITDA margins reached 85.5%.

Total comprehensive income for the first quarter of 2017 was $78.51 million versus $8.3 million increase in the first quarter of 2016. This was mainly due to a gain linked to the revelation of investment property. Funds from operations were lower at $9.5 million, a fall mainly attributable to higher taxes due to the effect of the exchange rate on the Debt portfolio from a fiscal point of view. As the peso strengthened, as mentioned, adjusted FFO, excluding this one-year one-time gain was $13.7 million.

Turning to our balance sheet, cash and cash equivalents were $25.4 million, operating activity generated net cash flow of $12.6 million. Investment activities were focused on construction, related payments associated with progress in buildings in Bajío, Ciudad Juárez, and Puebla. Total investments were $22.9 million for the quarter.

As the second quarter closed, we had an overall debt balance of $376 million, all of which is related to long-term facilities. Vesta's debt remains denominated in dollars as we can comfortably address any upcoming maturities. As I have commented, we have a robust pipeline to support our strategic Vesta Vision 2020 growth plan as Mexico's leading industrial real estate developers and we are confident that we will continue to deliver profitable growth for all the Stakeholders.

Thank you and I will now open the floor for your questions.

Operator:

Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two if you would 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. Once again, that is star, one to ask a question at this time.

Our first question comes from the line of Eugenio Saldana with GBM. Please go ahead with your questions.

Eugenio Saldana:

Hi, Lorenzo and Juan. Good morning. Congrats on your results. I have two questions. The first one is regarding earnings (phon). If you could comment further on the conditions that you renew the Nestlé leases in terms of pricing on the leasing spreads and other stuff, please. The second one is regarding if you can share with us, perhaps after closing, after the closing of the quarter, have you signed any build-to-suits, I mean, because, I mean, as I see in the pipeline, you have just one build-to-suit left, which is (inaudible), correct, but do you have any other building build-to-suits to develop? Thank you very much and congrats again.

Lorenzo Berho Corona:

Hola, Eugenio. Thank you very much for participating in the call. Yes. We anticipated the renewal for Nestlé. As you remember, Nestlé and CPW, which is a cereal joint venture between General Mills and Nestlé, they were both expiring in 2018 and 2019, respectively. What we needed was an earlier renewal, which extended the leases for seven years and eight years for the two buildings, which was, we believe, a very, very good bill for both of us. We still believe that having long-term leases is important for our portfolio and our maturity profile.

So, the net effect was to—as you know, Nestlé has been with us for over 15 years, so the leases were—had escalated according to inflation and they will still be inflating according to inflation. So, we did a rent reduction for this year so that they could reduce the rental market rents or to, yes, to market conditions, and from now on, they will keep on adjusting to inflation for every month because this is in—the conditions remain in UDI (phon) and you know that UDI is an inflated currency of the Mexican peso. In the end, I think that this really reinforces our strategy of keep on growing with our client and keep on extending their maturities with them and keep on renewing in advance when possible.

Secondly, regarding your question on build-to-suits, as you very well know, the build-to-suit negotiations take longer than inventory buildings. Normally, a negotiation for a build-to-suits takes between 6 months and 12 months, so, yes, let me tell you that we have a couple or several build-to-suits under negotiation right now, but, of course, as—even if we have letter of intents or even if we're in the negotiating process, we only report when we start construction of build-to-suits once we sign the lease agreements. So, hopefully in the next months we will be announcing more build-to-suit projects.

Demand is very strong still and clients—as I mentioned earlier, we have several clients who are interested in growing and the clients are new potential clients. Our pipeline is very, very strong, so in the end we believe we are very confident that the pace of growth we had last year will probably remain the same for this year and will get us to achieve our Vesta Vision 2020 strategy.

Eugenio Saldana:

Perfect. Thank you very much.

Lorenzo Berho Corona:

Gracias.

Operator:

Thank you. Our next question comes from the line of Froylan Mendez with JP Morgan. Please go ahead with your questions.

Froylan Mendez:

Hello, guys. Thank you for the call. Regarding the new inventory buildings that you started or that you were approved, when did you start construction on this, because I saw that the progress was 0% at the end of the quarter? Are you still being a little bit cautious on the pace of the additions to the development pipeline or are you all set and as confident as before Donald Trump's election?

Lorenzo Berho Corona:

Gracias. Thank you very much for being on the call, Froylan. Let me tell you how the process works. Normally, we go to the Investment Committee, we get approval, and from thereon we start construction of the buildings. We went—we had an Investment Committee early this month and that's where we analyzed the market trends. We went specifically for each of the markets where we are proposing new inventory buildings. We saw that the dynamic is very strong. There is very limited supply in these particular markets. We actually, we're very active in leasing for these markets, and that's when we decided to go ahead and start construction for these three buildings.

Construction will start this month, as we recently were approved, but the important thing is that we want to have the buildings as soon as possible being built because we know that the market dynamics are solid and we want to be able to anticipate to market demands and, therefore, construction is important to be started in the next, I would say, in the next weeks.

For example, let me just—let me just give you one example. In Tijuana, which is a market where we are, I could say, they're almost 100% leased, it's a market where vacancy rate totaling in the market in Tijuana is close to 2%, so there's pretty much no availability of Class A industrial space in the market. Therefore, it's very important to start construction soon so that we can really get clients the space they require for at least to have it for the end of the year, fourth quarter 2017.

Froylan Mendez:

Great. If I may have another question, could we expect, at some time, you to shift a little your geographical footprint and be more focused into the central part of the city, etc. to, let's say, reduce the seasonality on all the manufacturing trends or the volatility that we see in this current environment going forward?

Lorenzo Berho Corona:

That's a very good question. Part of our strategy is always to analyze market dynamics. We believe we have a strong market intelligence. Internally, we have a department who is dedicated towards that, and definitely, we analyze the trends in different industries, but we also analyze the strength of the lease agreements and the type of quality of tenants we want to achieve, even considering the type of currency that the leases are signed.

Let me tell you, there are certain markets in which we are still confident that demand is going to be strong. These are still in the Bajío market, still in the north part of Mexico, as I just mentioned Tijuana, and in central Mexico, we—let me tell you, for example, Toluca is a very, very strong market where we are tapping demand for logistics and for local consumption. In this market, we are almost also 100% leased, as you can see in our reports. Actually, let me tell you that there's only one available building in the market, over 200,000 square feet, and that's our building. So, there's very limited supply. We have a nice quality of product, nice quality building, and now we are to decide what type of clients we want to get in this type of building.

So, anyways, I think that we're always analyzing different markets and I believe we have a very strong presence towards domestic consumption still in certain markets.

Froylan Mendez:

Thank you. Lastly, could we say that we have for each price level of the stock for you feel more comfortable going forward with extensions or building inventories rather than having buybacks?

Lorenzo Berho Corona:

Well, I think these are two different things. I think that, first of all, we analyze the markets, the real estate markets, and wherever we see strong demand and limited supply, we're going to keep on doing deals, very accretive deals, like we have been doing in the past. Also, if the purchase price or the buyback program is at a fair price, we are going to keep on buying. So, we always do these comparisons. It's not that we do either one of the other. We analyze both and if we want to tap both, we will be doing so.

Froylan Mendez:

Have you canceled any of the shares that you already bought back?

Juan Sottil Achutegui:

Froylan, this is Juan Sottil, the CFO.

Froylan Mendez:

Hi.

Juan Sottil Achutegui:

Basically—hi—basically, we have purchased around 3.5% to the Company. No. We don't have any intention of canceling the shares. According to—I mean, public companies in Mexico have the latitude of keeping the shares indefinitely. Right now, we believe that it's better for us to have the optionality of the shares by keeping them alive. We believe that as we grow, it's in the best interest of our Shareholders, eventually in the years to come, that if we need more capital, we can sell back the shares.

We don't see the keeping of the shares as a short-term opportunity. We see the keeping of the shares as a way of buying back the Company. We make very judicious decisions in terms of the return that we could have on our shares, but in 2020, 2021 we need capital for the last push of growth in the Vesta Vision 2020 plan. Those shares give us an opportunity to continue that growth without diluting the shareholders more than what they approve on the last dilution.

Froylan Mendez:

Great. Very clear. Thank you very much and congrats again.

Lorenzo Berho Corona:

Thank you very much.

Operator:

Our next questions come from the line of Vanessa Quiroga with Credit Suisse. Please go ahead with your questions.

Vanessa Quiroga:

Hi. Thank you. Good morning, congratulations for the operating results. My question is about the FFO explanation that you provided on the press release. Can you explain probably with a little bit more detail what could be done to avoid this effect in taxes from FX? I mean, does it have to do with the type of lending that you have? Could it be different? Thank you.

Juan Sottil Achutegui:

Let me go first on the FFO and then you ask me—Vane, good morning and thank you for participating—you repeat me the second part of the question which I didn't quite get. But let's go first to the FFO.

Look, let's just start by saying that in Vesta we're very efficient vehicles (phon) on the tax front. Let me tell you what I mean by that because I think is important. If you look at our current taxes, over the last, let's say the last three years on my annual financials, you will see that current taxes as a percentage of FFO or as a percentage of sales, just to get rid of all of the non-cash items that are sitting on my income statement, they basically have averaged over the last three years was only, as a percent of sales, less than 5%, as a percent of earnings before taxes, clearing out the non-cash items was only around 6%, somewhere in that region. So, in this, Vesta is a vehicle that we pay all taxes, but because of our depreciation for tax purposes, we are a very tax-efficient vehicle.

Having said that, the tax accounting, the tax rules that the Mexican authorities dictate imply that my bookkeeping for tax purposes is in pesos, and for those purposes and those purposes only, I have a peso company that has a substantial dollar debt. Therefore, how does it work? At the end of the day, from a tax perspective, my end of the year foreign exchange rate—let's say it was around Ps20 per dollar and my end of the quarter foreign exchange rate let's say it was about Ps18 per dollar. So, actually, the peso revaluated to pesos. From a tax point of view, the rules are very simple: my debt shrink in peso terms. So, I have a sizable earnings because of the mark-to-market of my debt.

The tax authorities do not mind if that is a non-cash event. They say you have a gain; therefore, pay me the taxes. So how much was the gain? Let's say that the debt of Vesta is $350 million, just for easy number crunching over the envelope. So, Ps2 over $350 million, that's $700 million of taxable gains. Let's say that my statutory tax rate is 30%. Well, that's $700 million times 20%. That's $210 million of taxes, which in dollars at 18%, roughly speaking, at Ps20 is around $11 million. Then we apply our tax efficiency, tax loss carry forwards, what have you, and then we come out to the $9 million figure of taxes. This is very over the envelope, but I just wanted to give you the gist of the concept, okay?

Vanessa Quiroga:

Yes. Okay. Okay. No. That helps. That helps, Juan. So, you will have to pay these taxes by the end of the year. Correct?

Juan Sottil Achutegui:

If everything remains the same…

Vanessa Quiroga:

That's the main question.

Juan Sottil Achutegui:

Yes. If everything—I mean, if everything remains the same, at the end of the year, I will have a tax bill that because of the Vesta debt (phon), let's say, I will have to pay this bill. My best estimate right now of the end of the year tax rate is this amount. Now, bear in mind the following—and please, let's not forget that—the calculation I just made, very over the envelope—I just wanted to explain the concept—it's a point-to-point calculation. That is, if the exchange rates have moved to Ps18 in December 31, 2017, it would have been the same calculation. Because we're showing the books at the first quarter, the calculation for the tax related on the shrinking of the—on the increasing value of the debt was just for three months. However, my income expenses, everything, which is on a quarterly basis, have only had three months for—of time accumulation. So, I just wanted to make sure that nobody calculates and assumes that the effective tax rate of Vesta is whatever comes out of the valuing this quarter taxable current taxes over whatever statistic you want to do and say, ah, Vesta pays a lot of taxes, because that calculation is bias because of the accrual of only three months of revenues, cost, and what have you.

Vanessa Quiroga:

Great. Juan, when you provide the adjusted number FFO of $13.7 million, if I'm not mistaken, what adjustment are you making? Are you assuming that there was no increase in the value of the (inaudible) peso term?

Juan Sottil Achutegui:

Well, no, no. Well, and I guess that would have required better explanation, but in any case, the point that we want to make is, look, in Vesta we care—basically, we focus our management efforts in growth, to achieve consistent growth in FFO per share. Everything that we do has to be looked. We look at it. Management looks at it, our Investment Committee and our Board look at it as providing increases in FFO per share. That's the only metric that matters in our mind: FFO per share.

So, in that respect, what we wanted to say is in terms of FFO per share, except for the extraordinary items, we had an extraordinary quarter and we want to realize that. We want you to realize that. Now, taxes will be paid when you—in form. So, what we just wanted to underline is the strong growth in FFO per share, and I wanted to complement that as I—you gave me the opportunity to complement that concept by saying, look, if you look at the tax accounting of Vesta over the longer-term, three years' average, we pay a very low tax base. We have a very low tax base and that is very convenient for shareholders. So, don't be scared or don't be worried about the one point spike in taxes because the peso appreciated on this particular quarter. That was the only point of doing the pro forma analysis.

Vanessa Quiroga:

Okay. Okay. Very well. Thank you, Juan. Thank you, Lorenzo and Team.

Lorenzo Berho Corona:

Gracias.

Operator:

Thank you. Our next question comes from the line of Cecilia Jimenez with Santander. Please go ahead with your questions.

Cecilia Jimenez:

Hi. Good morning, everyone. Thanks for taking my question. It's actually a question on the development side. You currently have roughly $54 million undergoing in investments on the pipeline. But considering the strong activity we have seen this quarter on the previews and the fact that the vacancy you have today is very low, do you think it's possible we could see a potential, I don't know, $100 million investment this year, like we did in previous years? I mean, could it be just a normal year of investments in terms of yearly growth? Thanks.

Lorenzo Berho Corona:

Hola, Cecilia. This is Lorenzo again. Thank you very much for being on the call. Yes. Currently, as you described, our development pipeline is targeting $53 million of investments. As you know, this is somewhat dynamic because we are very close to the markets and we are very close to analyzing wherever we want to have starts of buildings. This depends also on how strong we are in terms of leasing activity, since we would like to maintain the same occupancy levels as we have in every single market. As long as we maintain the same level of occupancy, or in the occupancy area, we will keep on starting development of new projects.

We currently see strong demand, so we definitely see that our development pipeline will continue to be as strong as it was probably even last year. We actually have not seen any dip or any reduction in the momentum that we had even last year, and, currently, I think that it's—having an investment of $50 million on the first quarter of the year is a fantastic sign that the year might come pretty well. So, in the next quarters, I believe that we're going to have more starts. It could be other inventory buildings, it could be another build-to-suit project. It really depends on the markets and how the dynamics are, but we definitely see strong demand for—in looking into the future.

Cecilia Jimenez:

Perfect. That's very clear. Thanks, Lorenzo. I have another question on the tax side a follow-up in Vanessa's question. Should we expect to see impact to continue under any scenario when the peso is straining through the year, the impact on the taxes, I meant?

Juan Sottil Achutegui:

Ceci, thank you for the question. Well, yes, as I explained, this is a matter of how taxes work in Mexico, no? The tax authorities are keen on collecting taxes on any taxable gain and they have defined that "mark-to-market" of your debt liabilities. So, because of peso appreciation, it's a taxable event, regardless of the fact that it is not a cash flow event. So, if the peso continues to strengthen, yes, we will see this impact.

Now, all Mexican companies that have dollar liabilities have this kind of impact. Again, I believe that Vesta, as a vehicle, has a very efficient tax structure. Our effective rate, as I pointed out, is substantially low. So, if the peso strengthens, yes, we have that exposure and then our taxes will go from the number that I told you, to numbers of around—I mean, even if the taxes go to, let's say, 10% of earnings before tax adjusted value and non-cash flow events, I still have—I still believe that we have a very efficient vehicle from a tax point of view. So, we're certainly not worried. This is a function of exchange rate, but so it is for most Mexican companies, and we'll take advantage of that.

Cecilia Jimenez:

Yes. Thanks for that, Juan. A final one, if I may; with the recent deliveries in GLA, what is your outstanding average age of the portfolio? I believe that has decreased since (inaudible).

Lorenzo Berho Corona:

I will give you the exact number. Give me just a couple of seconds. But let me tell you what we've been doing. Since we went public—this was 2012—we started with 11 million square feet. Currently we are, by 20, let's say, 25 million square feet considering what we are currently developing. So, as you can see, most of the projects or most of the buildings we have, have been built in the last five years, so this really puts our portfolio age in a great situation. This is clearly the most modern portfolio in Mexico because of the age of the brand-new buildings, which is Class A new-generation facilities with high quality standards.

Let me tell you, I think that it could be roughly seven years, which is fantastic on the whole portfolio, which is fantastic given the fact that cap ex for maintenance for this type of buildings, filled top walls with concrete floors and concrete instead of asphalt in many of the maneuvering yards and the access roads, this really maintains very lower our cap ex for maintenance of these type of buildings, which are long-lasting. Also, these are institutional class real estate so that any institutional-class Investor will be very comfortable at owning these types of buildings, as most of our Investors are right now. So, this is something we really care about and we would like to maintain is as, let's say, as modern as possible, our portfolio.

Cecilia Jimenez:

Thanks, Lorenzo.

Lorenzo Berho Corona:

Thank you.

Operator:

Thank you. Our next questions come from the line of Alan Macias with Bank of America. Please go ahead with your questions.

Alan Macias:

Hi. Good morning and thank you for the call. Just if you can provide us with an update on your dividend policy, or what we can expect for dividend payout for next year, thank you.

Lorenzo Berho Corona:

Alan, it's so nice to see you again. Thank you, the question. Look, dealing in policy is something that we care a lot. One of the important reasons that we did not become a FIBRA when we decided to make our Company public, was to have a flexible dividend policy. We believe that the value of retaining earnings for our Shareholder base is enormous. As long as we continue to grow accretively, and that's why I underlined the fact that we measure ourselves in our ability to create a growing trend of FFO per share, Investors, I believe, will feel very comfortable in also retaining a certain amount of earnings, and, therefore, dividends is not the priority for Vesta; that's why we're not a FIBRA. We're looking for Investors and we should attract Investors that consider a high value-added creation and growth as the key metric, no?

So, in that mind, in that line of thought, our dividend policy was defined as a percentage of the cash-generating capability of the Company, in a way, as a function of FFO. We think that flexibility, if we perceive that we should grow more slowly, we should hike dividend policy, and this is what we did on this year. Based on the turbulence of the markets, based on the lack of clarity for the future that we all had after the Trump election, we decided that it was proper for the Company to return money for the shareholders. We're just the stewards of your capital, so we hiked significantly the amount of dividends that we were paying to the market.

Now, let's assume that we take the Vesta Vision 2020 as we have done in this quarter. Then, what I care about is growing the Company as fast as possible, continuing to make the judicious decisions we have made in the past, and for that reason, with the objective of not diluting the shareholders in the future, I will adjust dividend policy. If that means going back to a 2% dividend yield as we were on the first couple of years of Vesta, we will do it. We will be flexible enough to do that.

So, this decision will be taken with what type of information? How fast are we going to profitably grow the portfolio, how many opportunities that are in the regions that we operate, and if those opportunities are accretive, if they actually increase FFO per share, then dividends will adjust accordingly and we will explain the adjustments as we have done in the past.

Alan Macias:

Thank you. Thank you.

Operator:

Thank you. Our next questions come from the line of Andre Mazini with Bradesco. Please go ahead with your questions.

Andre Mazini:

Hello, everyone. Thanks for the call and the opportunity. My question is on investments going forward. So, you mentioned previously a $53 million in the investment pipeline, right, and I was wondering if the recently approved $22.4 million is included in the $53 million or if that's on top of the $53 million? Thank you.

Lorenzo Berho Corona:

Hola, Andre. This is Lorenzo again. Yes. The $22 million are part of the $53 million, to answer straightforward your question, and this also includes land that actually we already own the land. So, the additional investment on the $22 million is somewhat lower since the land—in terms of cash, cash flow because the land is already part of our balance sheet.

Alejandro Lavin:

Perfect. Thank you.

Operator:

Okay. Thank you. Once again, as a reminder, you may press star, one to ask a question at this time. Our next question comes from the line of Pablo Ordóñez with Itaú. Please go ahead with your questions.

Pablo Ordóñez:

Hi, Lorenzo, Juan. Good morning. Thank you for taking my question. Regarding price economics, I was surprised to see that the Nestlé renewal implied lower revenues within the mark-to-market of the rentals when the Toluca market, as you mentioned, is almost 100% occupied. So, can you give us any color regarding what to expect from prices looking ahead given that in the past years, overall, rental prices in Mexico have been flat? What should we expect going forward?

Lorenzo Berho Corona:

Absolutely. Let me tell you, Pablo, I think that, in the end, the market has been responding very well in terms of conserving certain rents, maintaining certain rents. We have actually not seen strong reductions in the rents in the markets. Most of the markets, particularly the Bajío region and the north part of Mexico, they are holding in U.S. dollars, and let me tell you that even in certain markets, they have been increasing as supply is reduced. In the case of the renewals, normally the renewals have—sometimes they have different circumstances. Particularly in this situation, it was three buildings in two different markets, so in the end, it's a combination of both. This is a very typical negotiation that we have with Nestlé. It's a little bit different than any other project. But in the end, we believe that bringing back certain rents that have been inflated for too long, bringing them back to market is a fair adjustment for as long as we keep on extending the leases with strong tenants, and, most importantly, very credit worthy tenants, as Nestlé.

Let me tell you now, taking the opportunity of talking about Nestlé, let me tell you, I think Nestlé is a fantastic company and is the typical type of global company that Vesta is really trying to partner with. Definitely, they are one of our largest clients, but it's the type of strategy that we want to keep and maintain as a real estate partner. So, in the end, I think that these type of benefits are very good for our clients, but are definitely very, very good for our Investors.

Pablo Ordóñez:

Okay. Understood very clear. Thanks, Lorenzo.

Operator:

Thank you. This concludes today's question-and-answer session. I would like to turn the floor back to Lorenzo Berho for closing comments.

Lorenzo Berho Corona:

Thank you all. We really appreciate having a very successful and very good first quarter results. Definitely, we would like to have you in our Investor Day in June 14 in New York. We'd be very glad to have you there. We would like you also to invite you to visit our buildings and visit our industrial parks and to really have a sense of how the markets are moving. Our buildings, as mentioned, are very high quality buildings, and I think that as long as demand is going to be strong, we're going to keep on developing and hopefully you get the same sensitivity as we are, and we invite you to be close to our Investors Relation Team with Fernanda Bettinger, our CFO, Juan Sottil, or even with myself, so I can go deeper on the analysis and talk to you all of the markets.

So, thank you very much for participating and see you soon.

Operator:

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.