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Vesta Industrial Real Estate

Second Quarter 2017 Results Conference Call

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PRESENTATION

Operator:

Good morning. My name is Matt and I'll be your conference Operator today. At this time, I would like to welcome everyone to Vesta's Second Quarter 2017 Earnings Conference Call. Vesta issued its quarterly report on Thursday, July 27, 2017. If you did not receive a copy via e-mail, please do not hesitate to contact the Company at +52 (55) 5950-0070.

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 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 Executive Officer, Juan Sottil, the Chief Financial Officer, and Christianne Ibañez, the Investor Relations Officer. Also present on our call and available for your questions is Lorenzo D. Berho, Vesta's Chief Operating Officer.

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

Lorenzo Manuel Berho Corona:

Good morning, everyone. Thank you for your interest in Vesta and for participating in today's conference call. Today, I am pleased to report that our second quarter results underscore Vesta's outstanding track record.

We achieved the third consecutive period of a record high occupancy rate at 91.0% with new leases totaling 1.1 million square feet, the highest in our history, confirming our confidence in the investment case for Mexico. During the quarter, we signed 16 new leases which further diversified our portfolio. New clients included Toyota Tsusho, Sonavox, CJ Logistics, Gates, SE Freight, and Duqueine, from countries such as Japan, Hong Kong, South Korea, France and Mexico. Of new tenants that signed leases, 60% came from the logistics industry, 30% from automotive and 4% from aerospace. Most leases were signed in the Bajio and Central regions, where we continue to see strong demand.

Our overall leasing activity was 1.4 million square feet in the second quarter, as Vesta signed new leases totaling 1.1 million square feet with existing tenants and new companies across industries, and renewed over 337,000 square feet of its portfolio. The record high in our leasing activity this quarter is due to our solid operational structure, where a strategic and opportunity-seeking approach enables us to maximize returns. Vesta will ride the momentum of this trend by increasing its development pace.

In terms of key financial metrics, revenues rose 20% while EBITDA was 21.4% higher for the period against the same quarter of last year. This dynamic is underpinned by robust demand, as evidence of our operations and global markets. A recent upgrade by Standard & Poor's of Mexico's credit rating to stable reflects an improvement of international confidence in the investment case for the country. In addition, there has been 17.4% rise in foreign investment in Mexico between December 2016 to July 2017, while the peso appreciated 14% during the same period.

In the international arena, the G-20 Summit indicated a shift in the existing global order. While the U.S. redefines its role, the rest of the 19 most economically developed countries continue to promote the development of free trade, and additionally, express their commitment to the Paris Agreement.

At Vesta, this is seen as an opportunity to continue attracting foreign investment and diversifying our world-class base of multinational clients that want to establish operations in Mexico.

In terms of global trends, a commitment to sustainability continues to be a priority for both governments and corporations, aligned with Vesta's philosophy of being a responsible corporate citizen. In this respect, our organization was recently named winner of the Best Performance Americas category in the EcoVadis Sustainability Leadership Awards. This is one of the most accredited CSR ratings platforms, and its recognition reinforces our efforts to maintain Vesta's industry leadership position in social and environmental responsibility.

It is with great enthusiasm that we celebrate the fifth anniversary of our initial public offering this month. Being a public company has allowed us to grow organically at an unparalleled speed, doubling our GLA over a 5-year period. Developing a strong operational structure with a disciplined, strategic focus has also enabled us to proactively respond to market demands and build a foundation for solid growth. Needless to say, the commitment, professionalism, and focus of our expanding team has been critical to reaching our goals.

Thank you, and I will now turn the call to Mr. Juan Sottil, our CFO.

Juan Felipe Sottil:

Good morning and thank you everyone for joining us. As Lorenzo commented, this quarter, Vesta has achieved record highs for both occupancy rate and new leasing activity, a testament to the strength of our business model, close relationship with our customers, sector expertise, and demand from a growing number of recognized global clients. Once again, we achieved double-digit growth in revenues and EBITDA, and our vacancy rate fell. The strong performance across these metrics underscores Vesta's position as a best-in-class provider of industrial real estate in Mexico, as we continue to focus on areas with robust economic growth such as the Central region and the Bajio.

For the second quarter, Vesta's portfolio grew to 24.6 million square feet, with strong occupancy results on Same-Store, Stabilized, and Total portfolio. The vacancy rate for the Total portfolio was 9%, down from 10.9% in the previous quarter and 12.2% a year earlier, reflecting a sequential trend.

We signed leases totaling over 1.1 million square feet with existing tenants and new global companies across sectors. This further diversifies our portfolio and reinforces the strength of our brand quality promise.

In terms of key economic financial metrics, revenue grew 20% to over $26.5 million. As of the second quarter, Vesta has renewed over 79% of leases due to expire in 2016 with 1.64 million square feet in buildings under construction. We expect these projects to contribute around $7.5 million to revenue once they are stabilized, with a return on cost of about 10.8%.

Second quarter operating costs as a share of total rental income were 10 basis points lower, reflecting the efficiency in our operations. Net operating income was more than 19% higher to $25.5 million, with property demand outstripping costs. NOI margin was 60 basis points lower to 96.2%, due to higher costs in properties that generated rental income as a result of higher occupancy. EBITDA was 21.4% higher to nearly $23 million and EBITDA margin grew 110 basis points to 85.9% year-on-year.

Total comprehensive income was $18.2 million versus a loss in the prior-year period due to an income tax benefit change, higher income, and stable costs. Funds from operations were nearly $10 million from $11.3 million a year earlier. This was mainly due to the rise in current tax from an exchange-related effect, as the peso strengthened. On a pro-forma basis, FFO would have been $20.3 million, an 80% growth compared to a year ago.

Regarding our balance sheet, cash and cash equivalents were $20.3 million. Operating activities generated cash flow for $37.3 million. Investing activities were focused on payments for construction work in progress of our new buildings in Bajio, Ciudad Juarez, and Puebla. Total investments were over $21 million for the quarter.

Our cost of debt remains low, as our disciplined operating approach ensures Vesta to maintain a robust, efficient balance sheet to support our plans for sustainable, ambitious growth. At the end of the quarter, we had an overall debt balance of $376.4 million, all related to long-term liabilities. Our debt remains denominated in dollars as we can comfortably address any upcoming maturities.

Looking ahead, our disciplined operating approach has generated outstanding results to date, and we are confident of building on our strong track record. As Mexico's leading real estate Company, we maintain a robust balance sheet and a pipeline to support our Vesta Vision 20/20. We remain committed to generating sustainable long-term returns.

Thank you all for participating in this call. Operator?

Operator:

Great. Thank you. Now we'll be conducting a question-and-answer session. If you'd 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 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. One moment please while we poll for questions.

Our first question comes from Vanessa Quiroga from Credit Suisse. Please go ahead.

Vanessa Quiroga:

Hi. Good morning. Thank you and congratulations for the results. My first question is regarding the strong occupancy the Company achieved in the quarter despite having completed a number of new buildings. I wanted to get more color on how were the dynamics to get the leasing contracts so soon, and what would be your outlook in terms of the leasing activity as you are seeing the current quarter? Thank you.

Lorenzo Manuel Berho Corona:

Hello, Vanessa. This is Lorenzo Berho. Thank you very much for being today in the conference. Definitely this was a very good quarter and I would say that it has been a very good semester in terms of leasing activity. We're very happy with the dynamics of pretty much all of the markets where we're at. As you could see, we were able to sign 15—more than 16 leases for available buildings.

First of all, I would like to underpin that the strategy for inventory buildings for Vesta has—this is the result of having a very defined strategy for inventory buildings. The leasing activity has come from different industries. Sixty percent of the leases that were signed in the quarter were in the logistics sector, 28% automotive, and the rest between aerospace and other tenants. Additionally, we have been able to close some of the deals that we kind of—we were already telling you during last quarter that we had a strong pipeline, so all in all I believe that this is the result of having very dynamic markets and a very strong Operating Team, working hard on trying to close these leases.

I can tell you that the pipeline is still strong. We're going to keep on developing good inventory buildings because it's important to have available buildings in strong markets, and as well as having good clients, good tenants and trying to expand operations with them.

Vanessa Quiroga:

Okay, Loren. Could you provide the breakdown of the leasing activity by region? I saw that in your Total portfolio, Mexico City was—or center—was a market that increased occupancy the most, but I don't know if that's a good representation of the leasing activity that you saw by region.

Lorenzo Manuel Berho Corona:

Absolutely, Vanessa, yes. In the central region we were able to lease roughly 40% of the leases. This is the combination of the State of Mexico where we are pretty much, we're actually 100% leased in this market. Additionally, in our Puebla project and Tlaxcala project, which are very close to the Audi plant and Volkswagen, we were able to sign four leases, which is a result of the strong demand from the supply chain in the automotive industry in these particular regions. The rest is spread out between Queretaro and Luis Potosi, Juarez, and Aguas Calientes basically.

In San Luis Potosi, for example, we are all—this is another market where we are 100% leased, and as well as Tijuana. Therefore, we are developing new inventory buildings in these markets since we know that there is a good pipeline, there is a very good momentum. Additionally, I think that having vacancy rates in historic low in the markets—for example, Tijuana is at 1%, which we haven't seen before—this really reinforces our strategy to be disciplined in what we develop, but in the other hand, be kind of aggressive, taking advantage of the momentum.

Vanessa Quiroga:

That's great, Loren. Can you provide—I don't think I saw in your press release the retention rate that you achieved in the quarter. Thank you.

Lorenzo Manuel Berho Corona:

Until now, Vanessa, I think that it hasn't changed that much. I think we have last year a retention rate of roughly 90% and I think that we're close to 90% this quarter. As you may know, we have been able to re-lease or renew many of the leases for this year and even for the upcoming year, so the maturing leases for the next months is still very, very low.

Vanessa Quiroga:

That's so very useful. Thank you Loren and thank you Team. Congrats again.

Lorenzo Manuel Berho Corona:

Gracias, Vanessa. Thank you.

Operator:

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

Marimar Torreblanca:

Hi, guys. Good morning and thanks for the call. I just have one question. In some of these tighter markets, such as Tijuana, it's becoming more difficult to get land. I see you've done some land acquisitions during the past quarter, so maybe you can tell us how the pricing has changed for these lands, and then if the rents are catching up so that your yield and costs is still the same.

Lorenzo Manuel Berho Corona:

Hola, Marimar. This is Lorenzo Berho again. Thank you very much for being in the conference. Definitely Tijuana is one of the most dynamic markets. As you well know, Tijuana has the border on the north, it has the ocean to the east, and it's surrounded by mountains, so the scarcity of land in Tijuana is very high, so barriers of entry to that particular market are very high and complex. Therefore, we have defined a strategy to acquire good land in good locations in Tijuana, and we have been doing that in the last couple of years. Currently, we were able to find good land in the neighborhood of the submarket of El Florido, and this land was for roughly 12—the total land was 13—it was 12 hectares, $13.3 million, and we believe that the land is increasing in value and I think we were able to find good pricing on that land.

Additionally, since the market is so tight, we are going to start the construction of the first inventory building of 263,000 square feet, again, to take advantage of the strong demand that the market is showing. The other important thing is that we're going to try to raise rents as much as possible. Currently we have an estimated return on cost of 10.5%, which is very, very attractive, particularly for the increase in land values that the market is showing, the low vacancy and the strong demand.

Marimar Torreblanca:

Thank you. That's helpful.

Lorenzo Manuel Berho Corona:

Gracias.

Operator:

Our next question comes from Eugenio Saldaña from GBM. Please go ahead.

Eugenio Saldaña:

Hey, guys. Good morning. Congrats on your results and your anniversary. Two questions for you. The first one is: could you please provide more detail in terms of pricing and conditions for your leases, I mean, the 1 million-plus that you led on this quarter? Also, in the Tijuana market, I mean, the vacancy is very low. I mean, is this reflecting in higher prices, rental prices, in your portfolio and overall in the market? Thank you very much.

Lorenzo Manuel Berho Corona:

Hola, Eugenio. Thank you very much for participating. This is Lorenzo Berho again. Definitely, we were able to sign all of these leases at very attractive rents, and even with higher returns than what we expected. Many of these buildings were new inventory buildings where we have hurdle returns of 10.75% to 11%, so we were able, not only to close good quality tenants but also to have long-term leases and high rents and high returns. So, returns have been in the area of 11% or sometimes even higher. That's for the first question.

Secondly, regarding your second question on Tijuana, definitely we're seeing that rents will go up. As I mentioned earlier, land value is heading up pretty fast. Probably to comment additionally on the Tijuana market, we are also seeing that there is really very few developers that own good quality land in good locations and are starting construction of inventory buildings, and that's why we believe that Vesta is going to take an advantage on doing so. So, we will be trying to push up rents cautiously and we're going to keep on developing and trying to get attractive returns for this particular market.

Eugenio Saldaña:

Thanks, Loren.

Lorenzo Manuel Berho Corona:

Gracias, Eugenio.

Operator:

Our next question comes from Francisco Suárez from Scotiabank. Please go ahead.

Francisco Suárez:

Hi. Good morning. Thanks for the call and congrats; great occupancy rates. If I may, I just want to get this number right. I mean, judging on your supplementary material, it seems that your rents declined by

2% on a quarter-over-quarter. I don't know if that actually was part of the explanation of why the overall occupancy rates improved so much this quarter.

My second question relates with—this is kind of interesting because on some of your buildings that you have in Guanajuato, namely the ones on Puerto Interior, they continue to see really, really low or zero occupancy rates, and, nevertheless, other buildings that you've put on the market very recently also in Guanajuato are showing nice occupancy rates at this stage. Can you tell us if there's something in particular on these buildings on the Puerto Interior 1 and 2 that might explain why these two buildings might be underperforming than the other buildings that you're putting in Guanajuato? Thank you.

Juan Felipe Sottil Achutegui:

Francisco, good morning and thank you for your question. I'm going to address the first one. Please bear in mind that this is an extraordinary quarter because we're listing 1 million square feet, more than 1 million square feet of empty space, and this is indeed extraordinary. However, please take into account that empty space needs to be adjusted (phon) to our new clients, and those take a month, let's say, to build a small office space or the TIs that the client requires, whatever, no. So as we lease, the occupied GLA comes down, but not necessarily rental revenue comes up immediately. It takes 45 days, 2 months for rental revenue to pop up.

In addition to that, there were a couple of new buildings that came that obviously augmented the base, no, so it's a combination of these two things, but in my mind you're just seeing the reflection of leasing empty space, new inventory buildings that were delivered to us and that we're leasing very fast, and we just have to have some month-and-a-half, 45 days, to adapt them to the new clients. That's what you're seeing.

Francisco Suárez:

It makes sense.

Juan Felipe Sottil Achutegui:

Yes. On the second question, I would like Loren again to answer this one. He's closer to the market.

Lorenzo Manuel Berho Corona:

Claro. Well, in Guanajuato I will remind you that we had developed four buildings in what we call the Vesta Park Puerto Interior. Puerto Interior is the inland port in Guanajuato. It's a fantastic industrial park because it combines all of the logistics modalities, which it's right next to the airport in Guanajuato, it's right next to the—it has a multimodal operation facility inside of the park. That's where Volkswagen has its engine manufacturing plant, Pirelli has a large plant, and (inaudible) Nivea. Additionally, there are many Japanese and German suppliers in the automotive industry. We acquired the land a couple of years ago and this was probably the last piece of land inside of this very complete industrial park.

In this project we did the Vesta Parque, Puerto Interior. We developed the two first buildings two years ago and then we developed the other two buildings last year. Normally, what we try to do is, depending on the type of tenants, we try to accommodate them in the best building where they suit the best. We try to lease the second—let's say the newest buildings before so that we can have available the other two buildings, so this is strategic because according to the accommodation, you can keep on growing with existing tenants and you can have the available buildings for potential prospects, and we're leaving pretty much the largest building so that we can find a tenant who is looking for a larger building. Therefore, we have a strategy to find that particular tenant, which sometimes takes longer to market than smaller spaces.

So, that's a little bit of the strategy. Actually, I can tell you already that some of the tenants that we have signed leases in this quarter are already asking for more space, so I think the strategy has had good results. Additionally, I would like to invite you to Puerto Interior because this is a fantastic project which it probably currently is one of the best in whole Mexico.

Francisco Suárez:

Look forward for that. Thank you for the explanation. Great. Congrats again.

Lorenzo Manuel Berho Corona:

Gracias.

Operator:

Our next question is from Gordon Lee from BTG. Please go ahead.

Gordon Lee:

Hi. Good morning. Thank you very much for the call. Two questions, I guess more sort of long-term in nature. The first is how worried are you about the fact that North American demand, particularly for smaller vehicles, seems like it's peaking, or at least softening? The second question is: looking sort of at the long-term automotive trends, how do you feel Mexico's positioned for the switch to electric? Thank you.

Lorenzo Manuel Berho Corona:

Qué?

Male Speaker:

Switch to electric vehicles.

Lorenzo Manuel Berho Corona:

Okay. Thank you, Gordon. Thank you for joining us today. Let me tell you, you know that overall Mexico represents 14% of U.S. imports and Mexico has been gaining percentage in general terms. I'm talking about our goods. Now, vehicles, if they get to the peak, I would say the most important thing is to maintain or increase your competitiveness, and I think that Mexico is playing a very good role in that. In general terms, if it gets to its peak and it's maintained like that, it's very good because that means that supply chains in Mexico can keep increasing because the more we produce here, the more integrated the supply chains are, the more benefits and more competitive, there's more competitive about the value chain. So, in other regard, we see that as a normal nature as part of our process.

Now, the other question in electric vehicles, Mexico, I would say, follows the developed countries, so the trends that comes in other countries will need to be followed. Now, at what speed? That's usually, it takes a little longer than other countries, so I would say that we will have more time to gain the benefits of both: taking advantage to reinforce the supply chain and maintaining the percentage of exports or increasing that and gaining part of the pie. Also as any new industry—I mean, 10 years ago we have nothing basically about the aerospace and look at the position that Mexico has gotten. So, Mexico is a fast learner and is able to fast adapt to the change. We are seeing that in the forward (phon) industrial revolution. Many of our clients are using today robots and artificial intelligence and sensors and 3D printers, and that's something that is basically happening new in other parts of the world. So, Mexico's flexibility is a good country to adapt rapidly to this.

The last part I wanted to tell you is the importance of having the integration in different segments—Tier 1, Tier 2, and Tier 3. That's important because the same suppliers can be supplying to the present cars and they can also be supplying to different industries that come to Mexico.

Gordon Lee:

That's very helpful. Thank you very much.

Lorenzo Manuel Berho Corona:

Thank you very much, Gordon, for you question.

Operator:

Our next question is from Adrian Huerta from JP Morgan. Please go ahead.

Adrian Huerta:

Thank you. Good morning everyone and thank you for taking my call. I have two questions. The first one is just looking at the very strong absorption rates that you had in the quarter around 100,000 square meters on average in the past two quarters. Should we continue, at least over the next two quarters, seeing similar absorption rates? That's my question number one.

Number two, considering that you have around 350,000 square meters of available space to lease, this includes obviously the greenfield that you have, and the strong absorption that it will take around three quarters, three to four quarters to absorb all this if you maintain the 100,000 square meters per quarter, considering that, will you start construction of new assets in the coming quarters, and how much do you expect then (phon) to start construction in the second half? Thanks.

Lorenzo Manuel Berho Corona:

Hola, Adrian. This is Lorenzo Berho again. Thank you very much for participating in the call. Well, definitely we had a very good semester, and this was something that we were estimating from the beginning since we have been very close to clients and very close to potential clients which translated into closing leases. We foresee a good upcoming quarter and a good upcoming semester. I believe that the momentum is still there. I cannot tell you exactly what will be the number of the space that we're going to be able to lease up, but I think that it's going to be positive.

Additionally, let me tell you, in the next coming quarter, we're not delivering any new space, which is going to help to the overall occupancy in the quarter, but we are identifying that there is good opportunity to keep on developing inventory buildings in certain markets. Again, as I mentioned, the markets are currently, they have very strong—they're very favorable for landlords and there's very few available Class A industrial space, and therefore, I think that Vesta will benefit and that's why we started new buildings or we are starting new buildings, and that's what we show in the development pipeline in the supplemental package.

We have currently started or we are under development of 1.6 million square feet, and this is divided in seven different buildings in different markets. In some of these markets, we don't have currently nothing available. That's why we want to keep on developing and inventory buildings.

What are we going to do in the future? Well, if we keep on seeing that the markets are tight, we are going to keep on developing inventory buildings in those markets where we believe there is still strong demand, but currently we have 1.6 million square feet and we believe that as long as we keep on leasing as we have been doing in the past, we will keep on developing as we are currently doing.

Adrian Huerta:

Thank you, Lorenzo. So, the 1.6 million square feet, was that after the quarter closed or is that...?

Lorenzo Manuel Berho Corona:

The 1.6 million square feet includes some of the projects that we announced on the first quarter and additional projects that we will start construction soon. That's, for example, in Tijuana, we will start the 264,000 square foot building in the land that we recently acquired this quarter, so that's a new project. Also, in Queretaro, we will start two buildings for over 500,000 square feet that we're going to have available in May next year, and this is in the Vest Park Queretaro, which is a 100-hectare piece of land we acquired last year. We also started this quarter in San Luis Potosi a 170,000 square foot building because the only available building we had this quarter was fully leased and we have nothing available in that particular market. So, you can see the dynamic on each market.

As long as we keep on leasing up, we will keep on developing new space. Our market offices require space to lease and when the markets are strong and fundamentals are good, we're going to hit the gas pedal.

Adrian Huerta:

I don't have the presentation (phon) here in front of me, but I think you closed the quarter with something around 140,000, 150,000 square meters under construction. So, on top of that, of new stuff that you have, how much is the stuff you have added on top of that 140,000, 150,000 square meters?

Lorenzo Manuel Berho Corona:

Where did you get 150,000 square meters, sorry?

Adrian Huerta:

I think there was page showing the existing greenfields that you have right now under construction.

Lorenzo Manuel Berho Corona:

Right. I will rely on the Page 14 of the supplemental package, which is the development pipeline. That's where we announce all of the projects we have under construction and that's where I get to 1.6 million square feet of current buildings under construction.

Adrian Huerta:

Which is roughly the 1.5, no, which is the 150,000 square meters?

Lorenzo Manuel Berho Corona:

Yes, 150,000 square meters roughly. Yes. Those are the ones we have currently under construction.

Adrian Huerta:

How much do you think you could start construction on?

Lorenzo Manuel Berho Corona:

Well, we have started construction of three of those buildings. That's the Juarez building, Pacifico, and the Puebla building. The other ones we will start construction in the next upcoming months so that we can deliver the buildings in end of this year, three of the buildings, and then in the first two quarters of next year, the rest of the buildings.

Adrian Huerta:

Thanks, Loren. Thank you so much. I appreciate it, Lorenzo.

Lorenzo Manuel Berho Corona:

Gracias.

Operator:

Our next question comes from Andre Mazini from Bradesco. Please go ahead.

Andre Mazini:

Hello. Hi, Lorenzo and Juan. Thanks for the call. My question actually is keeping on, on Page 14 of the release. You guys mentioned that you have 34 million square feet in land reserves. I wanted to gauge how many square meters—or square feet of actual GLA that can be converted into. Of course, a very high-quality asset has to have room for (inaudible) etc., so the 34 million square feet would be how much in GLA if you were to develop it all? Thank you.

Lorenzo Manuel Berho Corona:

Sure. Gracias, Andre. Thank you for being on the call. This is Lorenzo Berho again. You're right; in the land bank that is shown in the supplement package on Page 13, you can see that we have currently 779 hectares of land reserves, and the buildable area for those land reserves is roughly 15—let's say, yes, 15 million square feet approximately. This is in the different markets, and you can see even on Page 13 that you have the buildable area for each particular market.

For example, in Tijuana, with the land that we recently acquired and additionally to what we have—the land that we acquired previously, we have the availability to build up to 1.2 million square feet and we have currently roughly 400,000 square feet under development. Then Queretaro, which is a larger project, the 100-hecatare project that I recently mentioned where we're starting two buildings, we have the capacity to build up to 5 million square feet. Of course, this is going to be not in the short-term but more like in the mid-term.

The importance on the land bank is that we believe that we have been able to acquire land at very attractive prices, very, very attractive prices. If you look at the market value on the land, honestly, it's very attractive, and the good thing is that we are controlling land in certain markets so that whenever there is growth needed, we already have the raw land to keep on developing the pipeline that we would like to have for the Vesta 20/20 plan, and, in some cases, that could go even a little bit further than that. So, I think the strategy on acquiring land has been very good for the last couple of years, and for us it's the raw material to have something available in those hot markets where we believe there is strong demand.

Andre Mazini:

Okay, Lorenzo. Thank you. Would it be fair to say that for a given land reserve, about half, a little bit less than half of that will be turned into GLA, that's kind of the conversion ratio for us to continue in terms of modeling?

Lorenzo Manuel Berho Corona:

Right. Well yes, let's say roughly it's 50% of (inaudible) ratio to the land.

Andre Mazini:

Great. Thank you.

Lorenzo Manuel Berho Corona:

Thank you.

Operator:

Our next question is from Alejandro Lavín from Citigroup the please go ahead.

Alejandro Lavín:

Hello, everyone. Good morning. Thank you for the call. My question is on buybacks. Earlier in the year you were very bullish on buybacks and costs on development, and now this seems to have reverted and you seem to be very bullish again on development, right. So, my question is it fair to say or fair to assume that at current Vesta's share price, all else equal, buybacks are off the table and developments are the better investments? Thanks.

Juan Felipe Sottil Achutegui:

Thank you, Alejandro, for the question. This is Juan Sottil. At the beginning of the year, we believe that the market had severely underpriced the stock. There was no clarity in terms of demand in December; if you recall, everybody was so nervous. We were having a lot of—a very strong pipeline, but at the current share price, it didn't make sense for us to do inventory buildings, so the better return on our money was on buybacks.

I still believe that the share price is underpriced. I believe that we have a significant potential on share price. However, given the strong pipeline, given the very strong demand that Loren has portrayed to all of us, I believe that—and our investment community certainly is pushing us to be more proactive in developing buildings in those markets where there's very high occupancy and where the pipeline looks the most promising, and we will continue to do so.

Are we going to continue the buyback? It depends. It is an opportunistic approach. Right now, the best bang for the buck is for new buildings, inventory buildings, and for several build-to-suits that we are negotiating with some clients. So, we will continue to do that. We will continue to make this choosing of what's the best bang for the buck of the Company's focus (phon).

Alejandro Lavín:

That's very clear. Thank you. Congrats.

Operator:

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

Armando Rodríguez:

Good morning, everyone, and thank you for the call and congratulations on your results to achieve your long-term plan. Well, my question is regarding—considering your FFO decreases, my question is if you're still on the dividend policy considering these results. I know that you have a little bit complicated formula to determine that, but my question is if we could see distributions considering these FFO adjustments. Thank you.

Juan Felipe Sottil Achutegui:

Thank you, Armando. It's a very good question. Let me just first try to clarify the formula. I really don't believe it's so complex. Basically what we are trying to do—what we defined—we define dividends not in terms of dividend yield. It's a very common methodology. We didn't like dividend yields because it's kind of, as the share price goes up and we believe that Vesta's share price will go up, it really implies that you have to devote more resources for paying dividends. Vesta is a high-growing company. It's a high growth company as we have demonstrated since the IPO, so, therefore, it didn't make a lot of sense for us to distribute dividends so early on a Company that is still growing.

So, we define the dividend policy in terms of cash flow. Really, the dividend policy is just available cash, which is just modified FFO definition. We will distribute up to 75% of dividends, so you really should look at it as of FFO, Vesta will distribute up to 75% of dividends. How much is it up to? Well, first and foremost, we really believe that our shareholders like Vesta to do accretive growth, and in that respect, retaining earnings really makes the Vesta value proposition very profitable for our investors. Therefore, we're not playing the dividend yield game. We will pay as much dividends as makes sense so that we will not dilute Shareholders.

So, the plus in our growth plan is dividend, and the taxes from this year—look, I think it's a blip. I will encourage you to calculate our current tax over the last four years as a percentage of FFO and you will find out that it is around 6%. I think in 2013, if memory doesn't fail, there was a spike in taxes, in this year there is a spike. But, if you consider the long-term trends of current tax as a percentage of FFO, it's a rather low number, so I believe that the tax (inaudible) is a blip. If you look at FFO on a pro forma basis, taking the effect of the blip in taxes because of the exchange rates, you will see that our FFO grew a very healthy 80% against last year. I mean, adjusted FFO, just by the taxes, just by the exchange rate related taxes, taking into account on the operating current tax, it's $20 million, and so our capacity to pay dividends is not at all curtailed by the blip of this year.

Armando Rodríguez

Okay. Very helpful, Juan. Thank you very much.

Operator:

Thank you. This concludes the question-and-answer session. I'd like to turn the floor over to Mr. Berho for any closing comments.

Lorenzo Manuel Berho Corona:

Thank you very much for participating in Vesta's second quarter 2017 conference call. We look forward to speaking with you again when we release our third quarter 2017 results. If you have any questions in the meantime, please do not hesitate to contact our Investor Relations department. Thank you and have a very good day.

Operator:

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