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Vesta Industrial Real Estate

Fourth Quarter and Full Year 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

Lorenzo M. Berho, *Chairman and Chief Executive Officer*

Juan F. Sottil, *Chief Financial Officer*

Lorenzo D. Berho, *Chief Operating Officer*

Christanne Ibañez, *Director, Investor Relations*

CONFERENCE CALL PARTICIPANTS

Cecilia Jimenez, *Santander*

Eugenio Saldana, *GBM*

Vanessa Quiroga, *Credit Suisse*

Froylan Mendez, *JP Morgan*

Andre Mazini, *Bradesco*

Marimar Torreblanca, *UBS*

Armando Rodriguez, *Signum Research*

PRESENTATION

Operator:

Good morning. My name is Donna and I will be your conference Operator today. At this time, I would like to welcome everyone to Vesta's Fourth Quarter and Full Year 2017 Earnings Conference Call. Vesta issued its quarterly report yesterday, February 14, 2018. If you did not receive a copy via email, the release may also be found on the Company's website within the Investor Relations section.

I'd like to remind you that this conference includes forward-looking statements based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements. Statements made on this conference call should be considered together with cautionary statements and other information contained within the Company's earnings release dated February 14, 2018, and within the most recent regulatory filings for a discussion of those risks.

All figures based 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 Christanne Ibanez, the Investor Relations Officer. Also present on our call and available for your questions is Lorenzo D. Berho, Vesta's Chief Operating Officer.

I will now turn the call over to Mr. Berho. Sir, you may begin.

Lorenzo M. Berho:

Thank you very much, Donna, and welcome to our call today. 2017 was the strongest year in our Company's history. Vesta's record-high leasing activity and expansion of our stabilized portfolio, through both organic growth and through opportunistic acquisitions, have resulted in a year of truly extraordinary results. It is also important to note that we achieved this during this time of transformation and economic challenges.

Disciplined implementation of our strategic Vesta Vision 2020 plan translated into our best financial results to date, enabling us to beat the upper range of our revenue growth and NOI margin guidance by 290 basis points and 125 basis points, respectively. As Juan will discuss in more detail, 2017 revenues increased by 20.9% to US$109.4 million, compared to US$90.5 million in 2016, while full year NOI margin reached 96.2%. The increasing revenue base has driven EBITDA growth of 21.4% to US$92 million, compared to last year's US$75.7 million, which resulted in higher returns for our investors on a non-diluted basis. FFO per share grew 20.2% to $0.09 in 2017, compared to $0.074 in 2016. Vesta's dividend yield reached 5% in 2017, a 178-basis-point increase, compared to 3.2% in 2016, and we expect 2018 dividend yield to continue this growth trend, based on this year's results.

We also strengthened Vesta's balance sheet in 2017, securing long-term debt at exceptionally competitive cost of funds, which will provide firepower to continue seizing investment opportunities throughout 2018, while maintaining a healthy capital structure, with a 32% loan to value and a 7.2-year long-term average maturity. Today, Vesta has one of the most competitive debt profiles in the industry.

During the year, Vesta added approximately 4 million square feet to its total portfolio, surpassing our annual Vesta Vision 2020 plan of 3 million square feet per year. Sixty-four percent of Vesta's total portfolio increase resulted from organic growth at an 11% average cap rate, 36% of which was derived from opportunistic 9.1% average cap rate acquisitions in Tijuana, a strategically located, high-growth market known for its state-of-the-art properties with a shared client base. Vesta's robust development pipeline will continue to drive our growth plan, but we also expect to seize those investment opportunities with characteristics similar to our recent accretive acquisitions.

Our thriving client base is resounding affirmation that industry fundamentals remain solid, but it's also testament to our team's close client relationships, which continues to yield important opportunities with existing clients, such as new contracts signed with current clients, such as Smurfit Kappa and Safran, as well as to our ability to offer innovative solutions to existing new marquee clients, such as MMM Company, and German automotive parts manufacturer, Mahle. In 2017,

Vesta signed new leases totaling 2.8 million square feet, while we renewed 3.6 million square feet of our portfolio, reaching a record total leasing activity of 6.4 million square feet for the year, a 9% increase, compared to last year's 5.9 million square feet of total leasing activity. Vesta's stabilized portfolio full year occupancy rate rose to a record 95.3% in 2017, a 150-basis-point increase, compared to 93.8% in 2016. Our stabilized portfolio GLA increased to 25.5 million square feet, which represents a 20% increase, compared to 21.2 million square feet in 2016. Anticipated renewals helped Vesta achieve a leasing average maturity of 5.3 years, the best in the industry, with very few leases reaching maturity in the next two years. The above factors have accelerated the growth of Vesta's key financial metrics.

Regarding Vesta's excellence in the sustainability department, we have reinforced our commitment by adding 330,000 square feet to our LEED-certified portfolio and achieving gold level in the WELL Building Standard Certification for our headquarters in Mexico City. The Company's social responsibility programs have expanded to all the regions in which we operate. The Mexican Stock Exchange recognized Vesta through our inclusion within the Sustainability Index for the fourth consecutive year. Additionally, EcoVadis, a global leader in sustainability rankings, has ranked Vesta at first place in the Americas as part of the Sustainability Leadership Awards.

This has been a year of intense activity and I am very pleased to let you know that our efforts were also recognized by Institutional Investor Magazine, which ranked Vesta at first place in the CEO and CFO category within the overall and small cap Latin America rankings, and second place within Executive Team of real estate companies.

The fact that Vesta has successfully met our Vesta Vision 2020 plan goals for the third consecutive year has bolstered our confidence in the resilience of our strategy. We remain optimistic in the North American industrial system, in which Mexico has proven to be an important partner, having made considerable contributions to the region's competitive advantage. The strength and ability of our country's institutions, coupled with the smooth and successful political transitions that we have witnessed in the past, make us confident Mexico's democratic processes will continue to foster growth in the future ahead.

Finally, 2018 marks an important milestone, our 20th anniversary in July, a celebration of passion and innovation, of discipline and growth that characterizes Vesta, and recognition of our employees' unwavering dedication, teamwork, and partnership with some of the world's most successful and admired companies. Out of our entrepreneurial spirit, we will continue innovating the Mexican industrial platform, with a bullish stance in our country convinced of this industrial vocation.

As always, thank you very much for your continued support, and I will now turn the call to Mr. Juan Sottil, our CFO.

Juan F. Sottil:

Thank you, Lorenzo. Good morning and thank you everyone for joining us. As Lorenzo discussed, we had another strong quarter and an excellent year. Mexico's industrial economy remains robust and the consistent expansion of our highly qualified industrial portfolio speaks to the strength of our pipeline and to our client-focused approach.

On the development front, we had an extremely productive year, expanding our reach in some of Mexico's most prolific industrial centers, while creating significant value for our shareholders, with meaningful progress towards our Vesta Vision 2020 plan that has exceeded our milestones.

In the fourth quarter, we again achieved double-digit increases in revenue 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 new leases totaling 739,000 square feet during the quarter with existing tenants and new clients from a broad range of industries and countries. Existing clients represented 52% of new leases. Vesta also renewed more than 756,000 square feet of the Company's property portfolio.

In the fourth quarter, Vesta's portfolio grew to 36.7 million square feet and was comprised of 173 high-quality industrial assets. The vacancy rate for the total portfolio was 7.7% in the fourth quarter 2017, as compared to 10.8% a year earlier when we added 1.7 million square feet of inventory buildings. Vesta also acquired a portfolio of more than 1.3 million square feet at an 8.9 cap rate and with a 96% occupancy rate. We also purchased a 443,000 square foot building with a 10.3 cap rate, which we promptly leased to one of our existing clients, Smurfit Kappa, to a 10-year U.S.-denominated contract.

Both acquisitions are based in Tijuana, a strategically located, high-growth market known for its state-of-the-art properties and with a shared client base.

Turning to key financial metrics, fourth quarter revenues increased by more than 18% to $29 million in the fourth quarter of last year. Revenues increased by just under 21% on a year-on-year to $109.4 million for the full 2017. This comfortably exceeds the 18% upper range of the Company year end revenue guidance.

Fourth quarter operating costs as a share of rental income decreased 100 basis points year-on-year, due to a decrease in expense from property that generated rental income. Net operating income rose by just under 20% to $28.1 million, as demand for our high-quality industrial facilities remains strong. NOI margin increased 117 basis points to 96.5%, due to higher rental revenue, lower property tax, and other expenses in the fourth quarter of 2017.

Total comprehensive income was $17 million, from $10.2 million for the fourth quarter of 2016. This was due to a higher revenue and a positive effect from the exchange differences on translator other functional currency operations, as well as a gain in the valuation of our derivative instruments that we have. Funds from operations increased 78.4% to just over $22 million, due to higher fourth quarter 2017 revenues and the tax benefit resulting from exchange rate effects on the Company's debt portfolio during the fourth quarter of last year.

Looking at our balance sheet, we ended the year with cash and cash equivalents of $91 million, as compared to just under $51 million at the end of 2016. Operating activities generated cash flow of just over $82 million, up from $68.3 million during the same period last year. Investing activities were primarily related to payments for work in progress in the construction of new buildings in Bajio, Ciudad Juarez, Tijuana, Matamoros, and Puebla, and acquisitions in Tijuana. Total investments for the quarter were $128.4 million. We also ended the quarter with an overall debt balance of just over $582 million, all related to long-term liabilities. Our debt is denominated in dollars and we can comfortably address any upcoming maturities. Interest expense increased to $6.6 million at the close of the fourth quarter, compared to $4.1 million in the same quarter of last year. This increase is related to the debt we issued during the fourth quarter of 2017.

Our track record of sustainable growth has demonstrated that Vesta can adapt to all macroeconomic conditions, achieving disciplined and profitable expansion. We will continue to deliver value by putting our strategically located land banks to work and by leveraging our unrivaled customer relationships. Our portfolio is uniquely positioned to deliver strong growth results well into the future, and we look forward to another year of executing our Vesta Vision 2020 plan, backed by our dedicated team, a strong pipeline, and enduring demand, factors which we believe will continue to support our success in the future ahead.

Thank you again for joining us today, and Operator, we are open for questions.

Operator:

Thank you. The floor is now open for questions. If you would like to ask a question, please press star one on your telephone keypad at this time. 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. Once again, that is star one to register questions at this time.

Our first question is coming from Cecilia Jimenez of Santander Bank. Please go ahead.

Cecilia Jimenez:

Thanks. Hey guys, good morning. Congrats on the results and thanks for taking my questions. I actually have two. First, on dividends, I wanted to ask you when are you planning to establish a specific dividend policy. The second question is regarding M&A. Should we think about the recent M&A as an opportunistic acquisition or rather a new stage of growth which you will be combining with development going forward? That's it, thanks.

Juan F. Sottil:

Thank you, Cecilia. Thank you for the question. Regarding the dividend, let me remind you that our dividend policy was approved last year, I believe, and was initially approved in 2012. Our dividend policy basically says that we will distribute up to 75% of available cash, available cash being adjusted FFO minus contingency reserve of about $2 million for upcoming property expenses. With this dividend policy, we will submit to the shareholders a suggested dividend payment for 2018, as per 2017 results of about $48 million plus, and if approved that's what we will distribute sometime in April.

Lorenzo D. Berho:

Hola Cecilia, this is Lorenzo Berho, Chief Operating Officer. Regarding your question on M&A, we're definitely going to be still looking at new opportunities regarding acquisitions. We did an accretive acquisition during the year. We will keep on analyzing projects, first of all, that could be below replacement cost at attractive returns, high-quality buildings in well-located buildings with good tenants, and definitely the most important thing is that it fits to our strategy regarding markets. We did an acquisition in Tijuana, which is a market with a very low supply in terms of availability, it's scarce in terms of land, and these are the type of markets we're going to keep on working and analyzing new acquisition projects. But, definitely, the most important thing is that we have accretive returns for our investors. We're going to focus still in our development pipeline, and in an opportunistic way, we will be analyzing more acquisitions.

Cecilia Jimenez:

Thanks, Lorenzo. Is it fair to say that going forward we could consider M&A as a continuous phase of growth, like should stay there every year, rather than every once in a while?

Lorenzo D. Berho:

Well, let me tell you, historically, Vesta has always been doing acquisitions. There were some years where we believed that the acquisitions that were—or the opportunities that were in the market were not meeting our strategy, either because they were high on cost or because they were not in the markets we wanted to be. We have been very disciplined, and as always, we're going to keep on analyzing these opportunities and if some of them match our strategy, we'll focus on that. So, definitely this is something that we're going to be analyzing in the upcoming future.

Cecilia Jimenez:

Okay, thank you very much to you both.

Lorenzo D. Berho:

Thank you.

Operator:

Thank you. In the interest of time, we are asking people to limit themselves to one question and one follow-up. Our next question is coming from Eugenio Saldana of GBM. Please go ahead.

Eugenio Saldana:

Hi guys, congrats on your results. My question relates to strategic land for development. I mean, we have seen that regional development has shifted from Guanajuato and the central region towards northern markets, and Querétaro and Aguascalientes. Could you give us a little bit more color on your view on those markets, and are you planning to acquire more land in any of these markets towards the completion of the Vesta 2020 plan? Thank you very much.

Lorenzo D. Berho:

Hola Eugenio, this is Lorenzo Berho, Chief Operating Officer again. Definitely, we have—if you look at the portfolio, development portfolio that we show in this quarter, we have $110 million of projects under construction, $62 million in the northern part of Mexico and roughly $48 million in central Bajio region, and the Bajio region in different markets. We are very active in these regions. Actually, the Bajio region, particularly last year, showed a record leasing and absorption activity of over 1.8 million square meters throughout Corrado, Guanajuato, Aguascalientes, and San Luis Potosi. We are still going to be active in these markets. We see a very, very strong pipeline, similar to what we saw last year. So, as long as we are able to stabilize some of the projects that we developed in the last years, we're going to start construction of new projects. As you know, inventory building has been strategic for us. We have been able to close deals at over 11% return on cost, that's very attractive, with very good companies in long-term leases in U.S. dollars at very attractive rents, so we're going to focus and keep on doing—having the same strategy.

I'll take this opportunity to explain about an acquisition we did last year. We acquired the end of last year a piece of land right next to BMW in San Luis Potosi. This is 47 hectares, meters away from the BMW plant. As you know, BMW is our client in Toluca and they will start production in 2019. Therefore, it was for us strategic to acquire 47 hectares, which is going to give us enough development capacity for the next roughly five years. San Luis Potosi was an important market for us. We did not have enough land for future development in San Luis Potosi. Therefore, we found this opportunity inside of an industrial park that already has infrastructure in place. So, at some point this year we will start with some buildings in this particular project.

Eugenio Saldana:

Thank you very much, Lorenzo, Juan.

Lorenzo D. Berho:

Gracias.

Operator:

Thank you. Our next question is coming from Vanessa Quiroga of Credit Suisse. Please go ahead.

Vanessa Quiroga:

Thank you. Good morning and congrats on the results. My first question is about if you can provide any other update on the sentiment from your clients that you are hearing as we get closer to the last rounds of negotiation of NAFTA. The second question is a follow-up on the M&A criteria. Besides considering any potential M&A that fits your strategy, what do you think about valuation or pricing for those potential opportunities? Would you consider your cost of capital, current cost of capital to be mainly the cost of debt, or would you consider the market prices of assets or the valuation of your stock on the market? Thank you.

Lorenzo M. Berho:

Thank you very much, Vanessa, for your interest and for your questions. Okay, related with NAFTA, as we have constantly shared with all of you, I believe maybe 10 days or 12 days after President Trump's election, we have been analyzing as the worst scenario, the WTO tariffs that would be paid, and as well as most of our tenants have done. The impact is minimal. It's a little over 2%, and only if they need to use those. So, I would say that, according to the progress that we have seen and what we have heard from them, everybody has kind of discounted that Mexico is a place—is a very important component of the North American industrial system. You can call it NAFTA, you can call it NAFTA 2.0, you can call it maybe a new bilateral agreement that we have, or you can call it any—just going by the WTO tariffs and rules, Mexico will play a very dominant and important part in the competitiveness of North America. So, that explains why the same thing that happened at the end of 2016 and early in 2017, and every time there was a new round, one thing was the headlines we were exploring and the other thing is completely what's happening at the field level, and at the field level, what we have felt is not only consistent expansion of our tenant base, which represents a little over 52%, but also new clients and new nominations from OEMs, as well as other sectors in other regions. So, we believe that Mexico has a very strong industrial vocation, we are an important part of that, and we want to keep growing and developing that potential of Mexico.

Lorenzo D. Berho:

Regarding—hola Vanessa, this is Lorenzo Berho again. Regarding your question on valuation and the analysis that we do for acquisitions, definitely, we have a very competitive cost of debt, we have a very competitive cost of capital, but that's not the only consideration we have when we do the acquisitions. First of all, we analyze how it fits to our strategy, as I mentioned; we analyze also the return compared to our development returns on a stabilized basis; and thirdly, it's the replacement cost that we would have compared to construction cost on the development pipeline. So, as long as it is similar to our development yield, we think that it's accretive for our investors, regardless of the cost of debt that we might have.

In the end, we believe that acquisitions are still going to be an opportunistic matter. Our strategy is still going to be towards development, since we still believe that there is a lot of demand for new, high-quality industrial buildings in high-growth markets, and that's going to still be our strategy. As long as we don't see any—as long as we see return for our shareholders, we're going to keep on doing those analyses and investments.

Vanessa Quiroga:

Thank you very much to both. Congrats.

Lorenzo M. Berho:

Gracias.

Lorenzo D. Berho:

Gracias Vanessa.

Operator:

Thank you. Our next question is coming from Froylan Mendez of JP Morgan. Please go ahead.

Froylan Mendez:

Hi guys, thank you very much, and congrats on the results. Regarding the SG&A spike we saw, I was actually a little bit surprised, since we'd already seen an increase last year. The question is how far are you from your optimal size and should we see this normalizing going forward? My second question is at what moment or at what point would you be willing to spin off your stabilized portfolio? That's it, thank you.

Juan F. Sottil:

Andreas, thank you for the question—

Lorenzo D. Berho:

Froylan.

Juan F. Sottil:

Froylan, I'm sorry. Thank you for the question. Look, we have been very careful to manage the expense base of the Company throughout the years, and we have grown our SG&A basically by hiring people and transforming the Company operations from a developing company to a more of an asset management company. If you see our development portfolio as a percentage of our total portfolio, you will correctly notice that as a percentage, we have almost halved this ratio from 2012 to today. That changing nature of our Company has to be accompanied by the people and the knowledge base that we need to take care of our tenants and our buildings, and that's basically—that explains in a significant way the increases in SG&A.

In the last quarter of last year, we had basically two effects. One effect was the correct calculation of the impact of the tax because of the appreciation of the peso. As we have talked in the past, in 2017, the peso appreciated from 20.2 pesos per dollar at the end of 2016 to around 19.2 pesos at the end of 2017. That gain on the peso valuation makes our debt, from a tax point of view, it's a dollar debt, to represent us a taxable profit of one peso over our average debt outstanding, and that generates a tax, and that tax—we estimate the tax throughout the year, but once we close the year, you can actually calculate the tax amount that you owe the authorities, and in that respect you see the spike on the fourth quarter. So, basically, that was what happened on the fourth quarter, but if you see the larger picture of the year expenses vis-à-vis the 2016 expenses, most of the explanation comes from the fact that the Company is changing its nature and we're carefully adapting ourselves to be a more an asset management company than anything else. Okay?

Lorenzo D. Berho:

Froylan, this is Lorenzo Berho. Regarding the question on the spinoff of the stabilized portfolio, we do not have any changes in strategy yet. We're going to still focus on the strategy that we have. We have the Vesta Vision 2020 plan, which we are currently in line to what we established some years ago. We are on track and at some points even ahead of it, and we think that we have a very well-defined strategy. We'll keep leasing up space, we'll keep developing good inventory buildings and build-to-suit projects, and we don't see any shift to our strategy yet.

Froylan Mendez:

Okay, thanks guys.

Operator:

Thank you. Our next question is coming from Andre Mazini of Bradesco. Please go ahead.

Andre Mazini:

Hello, Lorenzo and Juan. Thanks for the call and taking my question. My question is about your competitors. Vesta has been growing basically about 20% GLA year-over-year, while at the same time you've been decreasing vacancies, which is very good. My question is why don't competitors also increase their pace of development? Do they not have the necessary land or capital, or are they didn't think that demand would be as hot as it was and maybe they are changing their mind? So, maybe your take on the competitors and why aren't they maybe building so much as maybe they could within the market. Thank you.

Lorenzo D. Berho:

Thank you, Andre, this is Lorenzo Berho. We believe that we have a very strong market knowledge, since we have presence in many of the markets. We personally have presence different to our competitors, who have partners or have JV structures. So, we get information firsthand on how the market is performing. That's when we analyze if there's an opportunity to keep on developing inventory buildings particularly or build-to-suit projects. So, that has been an advantage for Vesta.

Secondly, we have been able to acquire strategic land reserves at, I would say, very competitive costs, very well-located pieces of land in different markets, as we have done in Tijuana, in the Bajio region, the one I mentioned currently in San Luis Potosi, Querétaro, and even Puebla. So, that is giving us a very strong advantage to many of our competitors who do not have the land reserves yet or do not have land reserves with the infrastructure in place. That's when we have been deciding to keep on investing and keep on developing, so that we can capture that demand that is still strong in many of the markets. As I mentioned before, leasing activity last year was, I would say, even surprisingly very high, and this year we see it also very high. So, as long as we have that information and we know that there is a strong pipeline, we're going to keep on developing.

Additionally, I believe that Vesta has a very strong balance sheet. We have a low loan to value in terms of debt, so we have the financial capacity, we don't need to dilute shareholders, and we know that as long as we have a strong balance and good financial capabilities, we can take opportunities that many other developers, either local smaller developers or larger, for example Fibra, with certain restrictions, financial restrictions, are not going to be able to tap. I think that was an advantage for us last year and that will keep on being an advantage for us this particular year.

Lorenzo M. Berho:

I would like to add, Andre, if you allow me. Juan explained a little bit about the quality and top-notch of our buildings and regions in which we operate, but this is completely linked to the transformation to the full industrial evolution that our clients and tenants are experimenting, and we are very close to that. Just to give you an example, next week, the Safran building in Querétaro, this is the fifth building we developed for them, will start operations, and if you could understand the blades that will be manufactured—that are already being manufactured at the plant, out of titanium and carbon fiber, just for the turbine that will be replace the largest fleet in the world, this is exactly the kind of client which Vesta has. We do understand and we are very much involved in the transformation of the full industrial evolution.

The next thing is how close we are to clients. I believe it's not only understanding about the market knowledge, it's also because we understand regions, and we are very close, and that explains why we keep our offices regionally, because that's the closest we can be not only to understand our tenants as they are today, but also their potential needs.

The strong balance sheet that we have built, all that has—and the strategy that we have set up, I think that the combination of these is something that—I can speak for ourselves, I cannot speak for our competitors, but that's what we have been believing and delivering with accretive and discipline.

Thank you very much, Andre.

Operator:

Thank you. Our next question is coming from Marimar Torreblanca of UBS. Please go ahead.

Marimar Torreblanca:

Hey guys, thanks for the call, and congratulations on the quarter. My question is on buybacks. I know that you still have a pretty decent amount of money in your buyback fund. So, given the valuation of the stock, are you being more active on the buyback side, and what are you planning to do with the stocks you already have in your treasury? Are there any considerations as to whether you may cancel these shares?

Juan F. Sottil:

Marimar, thank you for the question. Yes, we have been very active. In fact, the last quarter of last year, we purchased a significant amount of shares. We have around—we have invested around $40 million. Again, basically, what drives our decisions, as Lorenzo pointed out, we do consider the capital allocation question one of the most important questions that Management has to address, and it's certainly looked upon in that light by our Board. Capital allocation relates to how we take a look at our total cost of debt and capital in investments we do.

When we have been active in the buyback of shares, it's because we believe that the return of buying back our own shares adds significant value to our shareholders, given our WACC basically speaking. We believe that we have a significant discount to net asset value today, and in that regard, we're active looking for opportunities. Right now, it seems to me that the markets are positively reacting to the quality that we have—of the returns that we have delivered to them, and therefore we have been less inclined to participate over the last couple of weeks, but we will be there when we see opportunities. We still have another $30 million worth of repurchase capabilities to reach our $75 million to the shareholders, and I anticipate a possible increase in the share buyback fund, just to have enough resources to take advantage of any opportunity that may come about during the year or early next year, if any.

Now, regarding the policy of the Company of what do we do with the shares, look, I believe the cap ex of the Company that we will have, that I expect to have over the next two years, up until the end of the Vesta Vision 2020, is around $125 million to $130 million plus per year. We have a strong balance sheet and I expect leverage to grow from the 32% to the 40% that we have imposed on ourselves as a limit. Again, that's a limit that our Board reviews every quarter. I believe that we have substantial firepower to be able to execute our cap ex plan.

Having said that, I do want to keep the optionality on the share buyback portfolio that we have acquired; meaning, if at any point in time over the next two years I need the extra boost in equity to be able to finalize the Vesta Vision 2020, I'd rather do it with the stocks that we have bought back in previous years, rather than call the shareholders and dilute us all. In my mind, dilution, it's a bigger question, it's something that we would have to address very carefully, and I'd rather keep the optionality on my share buyback, so I'd rather keep them open. As you know, under Mexican law, I don't have to cancel the shares, I can keep them on the books for as long as I want, as the Company wants. There is a tax implication of that, which we manage very carefully, like any other tax implication of our activities. We pay all due taxes in time and form. So, that's basically what we would like to do, keep the optionality of the share buyback portfolio.

Marimar Torreblanca:

Understood. Thank you, Juan.

Juan F. Sottil:

Thank you, Marimar.

Operator:

Once again, that is star, one to register any questions at this time. Our next question is coming from Armando Rodriguez of Signum Research. Please go ahead.

Armando Rodriguez:

Good morning, everyone. Thank you for the call, and congratulations on the results. My first question is regarding Juarez and Sureste regions that saw occupancy levels below your portfolio average. My question is what's the strategy we should expect to improve these metrics? My second question is related to, if you could explain to us a little bit more the relationship between your FFO, exchange rate and your debt portfolio. Thank you very much.

Lorenzo D. Berho:

Hola Armando, this is Lorenzo Berho again. Regarding the two markets that you mentioned, Juarez, we have been very active in Juarez and we closed several leases last year, even considering some expansion with some of our clients as we did with BRP, which we're currently under development of their first expansion of their site. Probably, the occupancy number, it's a little lower than the rest because our market share in that particular market is smaller, but in absolute terms, it is not necessarily high. We actually have only a couple buildings available and are the ones that we recently—the largest one is the one that we recently finished, and then we have another vacant building which we are currently marketing. But, we don't see any—there is no difference to any of the market. It's probably the number that you saw, the occupancy rate, it's because we have a lower—it's a smaller amount of buildings that we have.

It's the same with Sureste. Sureste is mostly Puebla. In Puebla, we developed a building last year, it's a brand-new building. Let me tell you that we signed a lease before finalizing the building, so it's partially leased. Now, the combination of that new building and another building that was vacated last year, it's probably throwing a little bit of a higher number. But, Puebla is a very strong market. We signed—during the year, we signed four leases during the year, so it was very active. As you know, Volkswagen has been investing in the new T1 project, and our competitors, by the way, they don't have a lot of space available right now. One of our main competitors is the FINSA market, where we have Macquarie—I think it's Macquarie and Fibra Uno on some assets, and they are fully leased, and that's why we were able to—-we decided to develop a new industrial park, develop new buildings, and we think we have been very successful in that project. So, hopefully, during the year, we're going to have more good news on this particular market.

Juan F. Sottil:

Armando, regarding the FFO, this is the way I look at the Company. We had, roughly speaking, sales of $109 million, EBITDA was around 84%, for argument's sake, so that's around $91.5 million of EBITDA produced by the Company, rough numbers. Eighty-five percent of the number is in dollars, because we have basically, roughly speaking, 85% dollar-denominated leases. So, we actually generated $77 million, $78 million, round number, real dollars. We're long, on a repetitive basis, that amount yearly from operations.

Our service of debt, it's around $90 million last year, if I'm not mistaken. So, we're actually long at, taking into consideration debt, $59 million. The Company has a very long dollar position. That's financially—that's the financial reality of the Company. Regretfully, from a tax point of view, that's not the way the Company is looked upon. From the tax point of view, the tax looks at our revenues, at peso revenues, and looks at our debt as dollar debt. Therefore, if the peso depreciates, if the peso goes from 18 to 19, then I have more revenues, but I have a tax loss in my debt, because now I owe more pesos to pay the same dollars. The opposite is also true. When the peso moves from 20 to 19, then I have less peso revenues, but my dollar debt represents more pesos and therefore—I have less pesos, I'm sorry, and therefore I have a taxable profit, and that's the effect that drives the taxable impact, which I guess that's what you wanted me to explain.

Armando Rodriguez:

Yes, very helpful Juan and Lorenzo. Thank you again. Congratulations on the results.

Lorenzo D. Berho:

Thank you, sir.

Juan F. Sottil:

Gracias.

Operator:

Thank you. At this time, I'd like to turn the floor back over to Management for closing comments.

Lorenzo M. Berho:

Okay, well, once again, thank you very much for your interest in Vesta, for your time today, and for your wise questions. I would tell you that with this, we will close this meeting, and I would like to again let you know that our IR Department, our CFO and ourselves will be permanently open for any additional questions or doubts that you may have. Again, we will have our shareholders meeting on March 21, which we expect to see you there, and also in April for our first quarter results. So, thank you very much and have a wonderful day. Bye-bye.

Operator:

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines at this time and have a wonderful day.