



Vesta Industrial Real Estate

Second Quarter 2022 Results Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Lucila Gomez, *Compass Group*

Francisco Suarez, *Scotiabank*

Vanessa Quiroga, *Credit Suisse*

Pablo Monsivais, *Barclays*

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P R E S E N T A T I O N

Operator

Greetings, ladies and gentlemen, and welcome to the Vesta Second Quarter 2022 Earnings Conference Call. At this all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Fernanda Bettinger, Investor Relations Officer. Please go ahead.

Maria Fernanda Bettinger

Thank you, Paul. Good morning everyone. I want to thank you for listening to our Prepared Remarks Second Quarter 2022 Earnings. Joining me today are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer.

Before I hand our call over, let me first touch on a few items. On our website you will find our press release that we posted yesterday after market close. Please note that today's remarks include forward-looking statements that are based on Management's current views and assumptions. The second slide in today's presentation reviews several factors that could cause our future results to differ from our expectations. While Management believes that these assumptions, expectations and projections are reasonable in the view of the current available information, you are cautioned not to place undue resilience on these forward-looking statements.

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

With that, I will turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho

Thanks, Fernanda, and thank you all for joining us on today's call.

As you saw in yesterday's second quarter results, Vesta achieved outstanding operating performance with exceptional leasing activity, record high portfolio occupancy and strong financial results. This illustrates the continued operational focus of our teams to capture opportunities in today's extraordinary demand environment. This enabled us to deliver \$43 million in revenues in second quarter 2022. NOI reached nearly \$41 million with a 94% margin, and second quarter EBITDA reached over \$36 million with an 84% margin.

A pandemic, a trade war and rising wages in China and elsewhere have forced many manufacturers to look for other options, Mexico in particular. This is resonating in the demand we are seeing with Vesta's new clients. We are experiencing unusually quick property absorption. The industrial sector's strong fundamentals continues to drive high occupancy rates and rental rate growth.

We are seeing unprecedented leasing activity on renewals, and Vesta signed just under 3.5 million square feet of GLA in the second quarter, which represented 1 million square feet in new contracts and more than 2 million square feet in lease renewals. This is the highest lease renewal rate in Vesta's history and a credit to our sales team's outstanding leasing success. All our new construction was leased before it was completed and delivered to the clients. We signed contracts with outstanding, high credit rating companies such as Foxconn, AB InBev, and Amazon, just to mention a few, during the second quarter, all of them in different industries such as electronics, semiconductors, food and beverage, ecommerce and home appliances. Vesta's contracts are also indexed to inflation which has favorably pegged on our results this quarter as Juan will review.

Sustained demand, the uniquely favorable effect of higher than expected inflation on Vesta's results, and outstanding leasing success during the first half of the year has led us to upwardly revise Vesta's full year 2022 guidance based on our strong pipelines and resilient portfolio in a climate where availability outweighs price for our clients.

Last month at our Investor Day, we increased Vesta's growth targets with an expected investment of up to \$1.1 billion within our five key regions, enabling us to reach a total portfolio target of 50 million square feet. This reflects today's positive industrial real estate market conditions with an ongoing theme of demand exceeding supply driven by regionalization, nearshoring and ecommerce demand.

We are also seeing robust appetite for industrial assets push up prices and further compress cap rates across markets and product types with increased interest from prospects overall. The logistics space remains in high demand and with new demand in the north of Mexico and the Bajío as non-portfolio occupancy continues to increase. Many logistics operators have taken on incremental inventories to mitigate the disruptions that were common previously. While in other countries there has been some signs of more moderate absorption, in Mexico we still see large requirements coming from the ecommerce sector.

The Fed tightening which began in March has been a component by increasing talk of a recession, and while it's certainly true that the U.S. economy faces several headwinds, none of these have been enough to stall U.S. recovery to date, particularly the positive momentum in our industry. It's also important to note that Vesta has demonstrated our flexibility to adapt to any environment. A deep but short recession would have little to no effect on Vesta, and Vesta is well positioned to manage our portfolios should we experience an extended global recession. We are protected in ways that many of our peers are not.

However, Mexico's relatively lower input costs and highly productive labor force, combined with its proximity to the U.S. should support the long-term development of the Mexican industrial property market. As we have highlighted in prior calls, Vesta is uniquely well positioned to capture additional demand and growth with our strategic land holdings and local presence. We have the strongest development growth pipeline in the industry and a balance sheet that is optimally positioned to take advantage of the current environment.

With that, let me now turn it over to Juan.

Juan Sottit

Thank you Lorenzo, and good day to everyone.

Let me begin with a summary of our second quarter results.

As Loren mentioned, we are very pleased with our strong financial results achieved in the quarter. Starting with our top line, total revenue increased 8.3% to \$43 million in the second quarter of 2022. This was due to a \$4.2 million increase from new revenue generating contracts, and \$2.2 million increase related to inflationary adjustments on rented property during the quarter, and was partially offset by a \$2.1 million decrease related to the property sold at the end of 2021. As a reminder, all of our leased contracts are indexed to inflation, therefore, we continue to benefit from the favorable effect of higher than expected inflation on our top line results.

In terms of currency mix, 83.1% of Vesta's second quarter revenue was denominated in U.S. dollars, remaining relatively stable when compared to the same period of the last year.

Turning our attention to our cost structure, total operating costs remain consistent \$2.6 million in the second quarter of 2022 as the increasing cost from occupied properties was offset by a decrease in costs from vacant properties.

Net operating income increased 8.3% to \$40.7 million year-over-year, driven by higher rental revenues, while the margin stood stable at 94.3% mainly due to higher costs from occupied properties. While administrative expenses were up 16.4%, this was mainly explained by an increase in employee benefits resulting from the creation of the pension fund retirement reserve as well as increase in the company long-term incentive plan.

In turn, EBITDA reached \$36.4 million in the second quarter of this year, a 8.7% increase compared to the prior year's quarter, while the margin contracted 21 basis points to 84.4% as compared to 84.7% for the same quarter of last year.

Moving down the P&L, total other income reached \$33.1 million compared to \$78.6 million in the second quarter of 2021. This increase was mainly due to a lower revaluation gain on investment properties. As a result, we closed the quarter with a pre-tax income of \$67.5 million compared to \$110.4 million in the second quarter of 2021, while the pre-tax FFO increased 21.9% to \$24.5 million and NAV per share increased 7.2% to \$2.65 per share from \$2.47 per share in the same quarter of last year.

Now turning to our Capex and portfolio composition, we invested \$27.5 million during the quarter, mainly in the construction of new buildings in the Northern and Bajío regions related to the strong demand that Loren had noted. At the end of the second quarter, the total value of the portfolio was \$2.44 billion, comprised of 193 high-quality industrial assets with a total GLA of 32.1 million square feet and with 83% of total income denominated in dollars.

Year-over-year our stabilized portfolio increased 2% to 31.9 million square feet, with occupancy increasing to 95.9%, from 92.7% in the second quarter of last year. We ended the quarter with a land bank of 42.3 million square feet, down 4% sequentially, mainly due to the sale of 1.3 million square feet of land in Ciudad Juárez.

Turning to our balance sheet, we closed the quarter with a total debt of \$933 million and our cash position stood at \$298 million. Net debt to EBITDA was 4.5 times and our loan to value ratio was 33%. In addition, we paid a cash dividend for the second quarter of July 15, 2022 subsequent to the quarter end, equivalent to 0.43 peso cents per ordinary shares.

Finally, as a result of our outstanding leasing activity and the successful execution of our Level 3 strategy supported by a continued strong demand environment, we decided to raise our full year 2022 guidance, as Loren commented. We now expect to achieve a 7.5% to 8% year-over-year revenue growth from our previous guidance of 5.5% to 6%. We are also raising EBITDA margins to 83.5% from our previous indication of 82.5%, while NOI margin guidance remains unchanged at 94%.

With that, we conclude our second quarter review. Operator, please open the floor to questions.

Operator

Thank you. We will now be conducting a question and answer session.

Our first question is from Juan Ponce with Bradesco BBI. Please proceed with your question.

Juan Ponce

Hi. Thank you for taking my questions and congrats on the results.

The first one is on the Bajío region, if you could comment on the recovery there a little bit. We saw occupancy 200 bps higher q-over-q. Are you seeing demand from Mexico City spill over to the region? What sectors are the new tenants in?

Lorenzo Dominique Berho

Hey Juan, thank you very much for being on today's call.

Definitely the strong trend on demand is overall in Mexico, coming mostly in the north part of Mexico where we are seeing vacancies at 0% almost and strong demand, but that has also impacted now in the Bajío region in several industries and several cities. We recently closed a couple of transactions in the home appliance sector as well as electronics and automotive sector. In San Luis Potosí, in Guanajuato and in Querétaro. Additionally, this week there's the International Farnborough Aerospace conference—I'm sorry, the international fair. Some representatives of Vesta together with some Mexican government authorities are taking place in that event and are announcing also new investments coming in Querétaro in the aerospace sector. I believe that on top of all the other sectors that we have just mentioned, it's good to hear that other sectors that were kind of cooler in the last couple of years are reacting quicker and are analyzing future expansions or new investments in the region which we believe has been competitive in many years, and now we believe that will continue to be so.

Hopefully in the next quarters we're going to see more news in this region, in these sectors. As you know, we started a couple of buildings in Querétaro just because in Querétaro we have really nothing available to lease up, and that's why we see that change in demand and change in pipeline as an opportunity and therefore we want to anticipate to capture those opportunities.

Juan Ponce

Okay, thank you. The second one, if I may, if you can comment a little bit on the rationale behind the higher EBITDA margin guidance. Is everybody still working from home? Where are the efficiencies coming from?

Juan Sottit

Regarding the EBITDA—sorry. Juan, thank you for the question.

Regarding the EBITDA, we revised ...

Lorenzo Dominique Berho

Juan, why don't you review first the top line?

Juan Sottit

Yes. I mean, the most important thing is our increase in revenue guidance. Revenue guidance, we're increasing revenue guidance because the continued effect of inflation on our revenues. We're one of the few Mexican companies—not the only one—that de-segregates changes from same quarter last year to this quarter this year in their risk components, and as you can see lately, over the last perhaps three or four quarter, and most notably on the first quarter of this year and in this quarter, the increases in inflation are matching if not a little bit over the increases from leasing activity of empty spaces. The effect of inflation is very convenient, from our point of view. Given the fact that inflation means keeping surprising us on the upside, well, we are revising guidance.

I also have to—I just want to make a parentheses. Also please note that our clients are paying on time, so the effects of inflation are not having a significant impact on our clients' ability to pay on time the invoices that we are submitting to them.

So, given that position, given that fact, we increased our guidance on revenue.

EBITDA, basically, our administrative expenses basically this year are going to be a little bit higher than previously due to the fact of the new pension fund provisions that we're making, and I think that over time the growth in revenues are going to absorb those provisions and we're going to get back to 84% EBITDA as is typically the case.

Juan Ponce

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Nikolaj Lippmann with Morgan Stanley. Please proceed with your question.

Nikolaj Lippmann

Thank you very much. Thanks for the call and for taking my questions. Just two questions. Can you talk a bit about the replacement costs, specifically to some of the key northern markets. I know you've released a lot of data around the Investor Day, but the marginal—range of marginal development costs for some of the markets like Monterrey, Tijuana and Juarez. Also, maybe just to press some of the issues around bottlenecks, like water, electricity and other things.

Then congrats on the momentum; it looks really extraordinary. I know it always takes a little while before it feeds true to all the numbers. Can you talk a bit about your leasing activity for the second half and into 2023 and how we should think about lease spreads for that period and for those assets?

Thank you very much and again congrats.

Lorenzo Dominique Berho

Sure. Let me try to clarify some of the questions. Thank you Nikolaj for being on the call.

Regarding replacement costs, I think it's important to note that we have all seen that construction costs have increased, pretty much everywhere. Mexico is not the exception. We have seen increasing costs particularly in steel, cement, and also in land values. However, we believe that many of these costs, which could be up as high as let's say 40%, in most of the markets we have seen an upset on the rental rate increase. With that, we still believe that there is an attractive yield to keep on developing. Attractive yields in the double digit range, and therefore we think that it's a great moment to keep developing. As you know, we develop a lot of spec buildings to anticipate to the potential demand. And now with 0% vacancy to many of the markets, we believe it's the way to go.

Part of the positive results that we have had is that all of the buildings that we have built and delivered are leased, and you can see that in part of our supplemental package. So, in that regard, our strategy towards development we believe has paid off well. Good yields in the right markets and with great companies, the ones that I mentioned before: Amazon recently, again in Guadalajara, now in Monterrey and with previously in Paluca. We recently also signed a new lease with Foxconn in Guadalajara, and

other ones in other industries such as home appliances and food and beverage. In the end I think that is pretty good and probably that takes me to one of your questions, which is leasing activity in the second quarter.

We have a very strong pipeline. We are having good momentum, and that's why we don't see that this is going to be—it's going to slow down any time soon.

Additionally, considering leasing spreads, we're just seeing rents increasing from—it's a result of little supply, good demand fundamentals, and also I think a bit on replacement costs.

In the end, we are in a great position. We're going to continue developing and we're going to continue investing to good spreads.

Bottlenecks, Nikolaj, I think that there's not necessarily major bottlenecks than the usual that we have always tried to figure out. This could be on the utility side, energy, water, infrastructure. We put a lot of investment, heavy investment in infrastructure and that includes also energy. So on that regard I think it's more on the timing effect on when we start and when we can lease up the available buildings, but don't necessarily we see that there are major bottlenecks for the moment.

Thank you, Nikolaj.

Nikolaj Lippmann

Thank you very much.

Operator

Thank you. Our next question is from Lucila Gomez with Compass Group. Please proceed with your question.

Lucila Gomez

Hi. My question is about energy. I would like to know if the current dispute between AMLO and the countries in the U.S. is maybe a concern, that may have a possible impact for you since it could possibly the development of renewable energy in the country. Thank you.

Lorenzo Dominique Berho

Sure. We're well aware of the recent requirements from the U.S. as well as Canada on the energy front and on the USMCA, let's say panel, and I will call it arbitrage methodologies. We believe that like any other issue related with trade and related with third parties, we think that there can always be differences and there's always methods to take them to certain arbitrage. We think that this falls more on the political front rather than the supply front. We definitely believe in competitive markets. We would love to see more competitive markets in the energy front so that our client can have more competitive rates. But for the moment we believe that a CFE, which is a local utility company, has been an important ally for industrial developers for many years, since they have been for many years the sole supplier of energy and we think that they're going to be also an important player in the future years. They are probably not investing as much as we would like to, however, they're active and they are trying to find out solutions in order to address the demand on energy that the country has had.

One of the examples is when we started industrial park or re-lease of a building, there is a constant communication with CFE to see how much energy there is going to be, when they energy is going to be

available, and additionally, Vesta puts heavy investments in energy inside of our parks just in order to have our clients being able to connect to the CFE network.

We are taking a close eye on the evolution of the recent requirements on the USMCA, however, we believe that this is more on the political front and should not necessarily affect the operations of our clients.

Lucila Gomez

Perfect. Thank you.

Lorenzo Dominique Berho

Gracias.

Operator

Thank you. Our next question is from Francisco Suarez with Scotiabank. Please proceed with your question.

Francisco Suarez

Thank you. Good morning. Thanks for the call. Congrats on the results and on your 10-year anniversary as a listed company.

The question that I have relates a bit with the overall scarcity on water in the north. Just want to confirm that first I think that you are not exposed to water-intensive industries so that not be at a potential risk of disruption in any of your operations in the north, if you can confirm that. Secondly, on the flip side of this, it seems that the bottleneck of having land with access to electricity, which is a major constraint for many, perhaps to that we can actually add the constraints on having the right properties with access to water, and that may be proving some sort of a competitive advantage for you as well. In other words, how this lack of access to electricity that we are seeing in the market and the potential access to—lack of access to water may result in even higher rentals going forward. Thank you so much.

Lorenzo Dominique Berho

Gracias, Francisco, and thank you very much for your participation and your question.

Yes, I think that recently there has been a big debate on water issues, particularly on the north part of Mexico, and more specifically New Orleans and Monterrey. First of all, I think that it's important to note that most of the right manufacturing tenants, or even logistics tenants, they are not high consumers on water, and I think that creates—I think they are in a different position. They only use water mainly for services, sanitary services and so that's not a high—there's no high demand on that regard.

However, having said that, I think that Vesta, what we do well is first of all we have rights on wells on several projects. It's one of the things that we secure every time we buy land.

Thirdly, when we develop industrial parks, in many cases we invest also in water treatment plants, mostly also water coming from rainwater that falls inside of the park and that we can use it even for other purposes. So, in that regard I think that the sustainability approach from Vesta since many years ago has gone in the right direction. We have actually expressed part of our attributes on our parks to some of the local authorities, and I think that on that regard we are a bit ahead than other developers or sectors.

Having said that, I think that what is important is that I think the main industries facing challenges are the high consumers on water, like beers and water and so on. Most of the clients that we have on the beverage business is logistics, so there's a lot of storage of beer and water and other sectors in many of the warehouses of Vesta, but it's mainly logistics.

Francisco Suarez

Very clear. Thank you so much.

Lorenzo Dominique Berho

Thank you.

Operator

Thank you. Our next question comes from Vanessa Quiroga with Credit Suisse. Please proceed with your question.

Vanessa Quiroga

Hi. Hi for the rest of team and congrats on the anniversary, and for taking my question; it's regarding Bajio. What's your expectation for occupancy for the next 12 to 24 months? We saw the improvement this quarter, which is very welcome. Do you think this trend will continue on the same pace? Thank you.

Lorenzo Dominique Berho

Hola, Vanessa. Thank you very much for your question.

We see very positive trends in most of the markets, and the way we see it is that first of all—this will take me to renewals. We have been renewing a lot of leases, which is a strong signal that the companies are committed in the long term. Therefore, we are not experiencing any major expiring leases or companies that are vacating the buildings. That's pretty positive.

On top of that, we think that what we have seen in this quarter and probably last quarter is that definitely there is an upward trend in terms of new companies and new absorption in the Bajio.

There is no particular number in terms of occupancy and the way we are going to see it, but as I mentioned earlier, markets like Queretaro we are pretty much fully leased and that's why we started a couple of new buildings and we have some good potential tenants for those inventory buildings in the Vesta Park Queretaro. We have not started anything yet in Guanajuato and San Luis Potosi, and Aguascalientes. We are going to probably wait until probably let's say the rest of the year that we see really stronger signals on demand, and if we do so we are going to be able to develop again. But for the moment we feel comfortable with occupying the vacant space and whenever necessary we would start building again. But for the moment I think that we kind of still take off the rest of the year.

Thank you, Vanessa.

Vanessa Quiroga

Thank you, Loren.

Operator

Thank you. Our next question is from Pablo Monsivais with Barclays. Please proceed with your question.

Pablo Monsivais

Hi. Thanks for taking my questions and congratulations on your 10-year anniversary.

I have a question on your development pipeline. It looks like most of the projects that you are right now building are about to be completed this year. How does, as I look forward, 2023 because we have not seen—I'm not seeing any project ready to start operations next year, so I'm not sure if we are going to see this higher Capex and then a little bit of a plateau, or how is the GLA evolution in the near term? Thank you.

Lorenzo Dominique Berho

Pablo, thank you very much for your question.

Our development pipeline I think only, the one that we consent on the reports, we believe it's only a picture for the moment, but I think what is more important is that we have larger projects, as we announced recently in the Investor Day, as large as \$1.1 billion in the industrial parks that we're currently developing. So I think that every quarter we are going to keep on starting new buildings as long as we keep on leasing and finalize other buildings. This development progress I think it's important to just monitor how far we are. I think that what we are seeing today is we have currently, let's say under construction, we have some buildings that we started early this year that we are just about to finalize, and also, we are just about to finalize leasing up. We are going to see in some of these markets we have really nothing available. They only thing that we have available is what we have under construction.

It's great to know that we were able to acquire land, we were able to start construction. We are going to end up leasing some of these buildings. Then we are going to start new buildings and new projects. I think it's not necessarily that every quarter that we are going to be having these same projects under construction, and we monitor very well where we stand in terms of the development progress of each of the Vesta parks in each of the markets.

But for sure, we are going to see in the next 18 months a lot of construction going on and whenever we lease up and we finalize a building, I am pretty sure that our Investment Committee is understanding very well the market dynamics and for sure we're going to be developing more.

Pablo Monsivais

Perfect. My last question is, if you compare right now the leases of time right now versus four or three years ago, have leases shortened significantly because of nearshoring, or it's a little bit of the same as in the past? Just to take an assessment of this time.

Lorenzo Dominique Berho

Is there a shorter what? I'm sorry, Pablo. I didn't get your question.

Pablo Monsivais

The lease-up process. Once you finish a...

Lorenzo Dominique Berho

The lease-up, yes. Okay.

Pablo Monsivais

Once you finish one building, how long it takes now and how long it took you four years ago, roughly?

Lorenzo Dominique Berho

I think I got it. Right now leasing up is way quicker than before, absolutely. I think that that's a result of stronger demand in many of the markets. Companies have to make decisions quicker because of their own situations, and in many cases it's just because they need to secure the buildings. So in many cases they have to lease it up, otherwise—and we have been in situations where we have two or three potential tenants for the same building. That puts more pressure on the tenant and that creates more of a landlord market. Definitely, we are in a way better shape—or let's say the market is in a much better condition right now.

Just by looking at the vacancy rates in many of the markets, even in the Bajío region, which is a little forward than other markets, it's by 4% or 5% the vacancy, and in other markets like 0%. So, definitely we are seeing a very, very different environment right now which leads to quicker lease-up stages.

Pablo Monsivais

Thank you very much.

Lorenzo Dominique Berho

Gracias, Pablo.

Operator

Thank you. Our next question is from Anton Mortenkotter with GBM. Please proceed with your question.

Anton Mortenkotter

Hello guys, thank you for taking my question and congrats on your great results and your 10-year anniversary.

I have just two quick questions. One is related to developments. I've seen a strong deployment of investments, but I see that you push back for a little months some projects in Tijuana. Just wanted to understand the reason for this, if it's related to construction, to the construction site or are there permits and stuff, or just to get a little bit more color there.

Lorenzo Dominique Berho

Thank you. Thank you, Antonio. Absolutely, and Tijuana is a project that consists of six inventory buildings. We have currently four under construction. There were some minor delays in the first buildings; minor delays is a couple of months. It's basically the reason for that is just because the first buildings regularly you have to do a lot with earthworks, with certain infrastructure, and that's why I think that we had some unexpected delays on the construction.

However, what I can say on the positive front is that we are making very good progress in terms of leasing, and I think that on that regard even that we have a couple of months delay, which is pretty common—it's fine—that we're going to be able to lease up part of a couple of those buildings very soon, just as a result of how strong the demand is and also as a result of our commercial team's effort to lease up the buildings before they are—let's say by the moment that they are finished, no?

Anton Mortenkotter

Fair enough. That's very clear. My second question is regarding the sale of land in Ciudad Juarez. It seems like you guys bought this land just last quarter. I understand it was sold at a significant markup. Just wanted to understand this. Was it acquired by a client, or what was the process of deciding to sell land that you just acquired?

Lorenzo Dominique Berho

Sure. This was a piece of land—we acquired a larger plot of land very close to the border crossing where we are going to be—hopefully we are going to start soon some new buildings. Part of the transaction involved selling part of the land to a neighbor, just because of some synergies that we found with a potential—with another potential company, but that potential synergy involved selling part of plot of land that we were acquiring, to sell it to this company.

Of course, we did it to a markup and that helped some of the financials on the number, but in reality we are going to focus on the rest of the land to develop for lease long term.

Anton Mortenkotter

Perfect. That's really clear. Thank you.

Lorenzo Dominique Berho

Thank you.

Operator

Thank you. Our next question is from Andre Mazini with Citigroup. Please proceed with your question.

Andre Mazini

Sure.

Lorenzo Dominique Berho

Sorry. Operator, I cannot (cross-speaking) I am having difficulties hearing everybody. Okay, I think Andre I am listening better. Thank you.

Andre Mazini

Hi Loren. Hopefully this is clear. Thanks for the call. The question is on the Foxconn lease you guys disclosed. Is Foxconn, is this lease going to be related to EV manufacturing? So the electric vehicle manufacturing? We saw Foxconn starting up and new factory in the USA, and of course EVs are the future, right? All the American automakers want to go fully electric at some point in time. If you guys could

tell if that lease in particular has to do with electric vehicles, and how you see the electric vehicles ecosystem in Mexico in general. Thank you.

Lorenzo Dominique Berho

Thank you, Andre. This question, we are very happy with closing the transaction with Foxconn. As you know, it's a major player in the electric vehicles, a contract manufacturer electronics globally.

This is actually a 100,000 square foot facility. It's a smaller facility, however we see a large potential for them to keep growing with us. Definitely it is related to new industries that are in the electronic sector. I don't know exactly if this one is only specific for EV, but I am sure that there are—Foxconn and many other companies are evaluating carefully how they can be competitive in Mexico and when it comes to Mexico it is in different regions, absolutely.

That's why I think that this was a great way to also approach the electronics sector in Guadalajara. As you know, it's one of the most important hubs in Mexico for electronics with Foxconn, with JBL, with IBM with many other companies, and I think that this creates a great diversification for our Guadalajara project which started with an anchor tenant, Mercado Libre. We also lease-up to Amazon another facility in that project in Guadalajara. We leased to O'Reilly for logistics of auto parts, and now to Foxconn. From that perspective, I think that's exactly what we want to do in many of the parks, that we have good diversity and outstanding, high creditworthy tenants.

Definitely, I think I kind of answered your question on the EV front. I think that Mexico is about different industries. Mexico is about diversification, and I think that electronic vehicles is definitely going to come to Mexico in different ways and we have seen some recent news. Hopefully this we can at some point announce—let's say Mexico brings something larger, more than smaller suppliers just integrating their supply chains to the U.S., which is great. However, I think it would be even greater to bring a larger facility to Mexico.

Andre Mazini

Very clear. Thank you, Loren.

Lorenzo Dominique Berho

Gracias.

Operator

Thank you. Our next question is from Mariana Cruz with BTG. Please proceed with your question.

Mariana Cruz

Good morning all. Thanks for taking my questions and congratulations on the results. Can you please remind us of your distribution of dividends in the coming quarters? Thank you very much.

Lorenzo Dominique Berho

Can you repeat the question? We kind of lost you. A little bit louder?

Mariana Cruz

Sure, yes. I was asking about your retention policy, if you can remind us about your retention policy and how is the distribution of dividends in the coming quarters.

Juan Sottil

Okay, dividends. Dividends is an important part of the mix of returns that Vesta offers our investors. I think that the mix of a strong capital gains and some dividend payouts, this is very important. However, the ability of Vesta to develop property with double-digit returns, as Loren mentioned, makes us a little bit concerned on dividend payments.

Dividends are important, but our ability to invest in double-digit returns is even more important, so we have to balance there. We have increased dividends in the past. We have a \$1.1 billion plan of investment for the future, so we will be mindful of dividends, but as long as our returns continue to be very high on the investment side, we would be a little bit conservative on dividend payments. We are paying in the neighborhood of \$58 million per year. Our dividends are dollar denominated and we pay them in pesos because we pay them inside of Mexico, but they are dollar denominated. And they will grow from year to year. That's what I can tell you, Mariana.

Mariana Cruz

Perfect. Thank you very much.

Juan Sottil

Thank you.

Operator

Our next question is from Jorel Guilloty with Goldman Sachs. Please proceed with your question.

Jorel Guilloty

Good morning, gentlemen. Thanks for taking my questions and congrats on the decade on the public markets. The first question is around onshoring. You mentioned it as being a key driver to the leasing demand that you've seen so far over the past few quarters.

Lorenzo Dominique Berho

Good morning Jorel. Could you get closer or can you try to speak a little louder? Sorry for that.

Jorel Guilloty

Can you hear me now? Better?

Lorenzo Dominique Berho

Better, thank you.

Jorel Guilloty

Hello? Yes, so I have two questions. The first question is around onshoring. You mentioned it as being a key driver for leasing over the past few quarters or so. I was just wondering if there's a way to quantify that. I don't know if there's perhaps a ballpark figure, like maybe if it's 20%, 30%, 40% of your new leases

that are being driven by this onshoring trend. Any color you could provide to quantify that would be helpful.

Then the other question is around basically demand for land in the north. Because as we understand it there's basically not much land left in Tijuana, and I was just wondering if at this point are clients or yourself looking towards non-traditional border markets in order to build, perhaps? Perhaps in Mexicali or something along those lines, given the fact that there's such land scarcity in Tijuana. Thanks.

Lorenzo Dominique Berho

Thank you Jorel, and thank you for participating today.

Definitely what we are seeing is we have never seen before. Companies try to enter into certain markets—and you've got it right—they don't find anything available and they start looking into alternative markets. But let me—which is fine. I think that companies should at least make quick decisions and the good thing about Mexico is that it's not about one market. Nevertheless, I think Vesta has a very strong focus into certain markets. That's why we recently announced our five main regions where we are going to keep investing. Even if a client wants to expand in another region, if it's not inside of our five rings, as we call it, the five Olympic rings, we'd rather pass on the opportunity just because we want to be very focused, very disciplined, and maintain leadership in the markets that we operate.

Hopefully they look for other places—which has happened in the past—if they fall into other objective markets on Vesta we can help them out.

What was the first question? Sorry.

Jorel Guilloty

I was just wondering if you can quantify the onshoring trend. You mentioned it as being a key driver for leasing and I just wanted to know if there's a percentage of leases that are coming from onshoring or something along those lines.

Lorenzo Dominique Berho

Sure. You know, I don't want to shoot from the hip on your question, so why don't you give me and Juan and Fernanda some homework and we'll give you a little bit more detail.

I think that now that we have been seeing more results and more closings on the nearshoring trend, it's easier to track what has happened in the, let's say, last six to 12 months, and I think that could give us some good insight. But I don't want to shoot from the hip right now.

Jorel Guilloty

Great. Thanks Loren and again congrats on the 10 years.

Lorenzo Dominique Berho

Thank you.

Operator

Thank you. Our next question is from Armando Rodriguez with Signum Research. Please proceed with your question.

Armando Rodriguez

Thank you for the questions. Congratulations again for the anniversary and these results.

I have just one question related to your balance sheet and considering these strong, really strong demands on your company and on the industry, are you seeing maybe some changes related to loan-to-value leverage, for example. If you are going to maybe mark debts that in order to catch up this strong demand in the mid term, for example? That's my only question. Thank you very much.

Juan Sottit

Armando, good question. Thank you for being on the call.

Look, it's certainly challenging to finance a \$1.1 billion road plan that we announced on the Vesta Day, that's certainly going to be challenging. However, we carry a substantial cash reserve. We do have a substantial cash reserve. We started the year with \$450 million; we are closing this quarter with close to \$300 million. That's substantial still. Our leverage will continue to go down in the sense that as we convert dollars into properties and the properties get valued, we're going to move the leverage closer to 32%, 31%. At some point in time, however, we will leverage the balance sheet. As you know—and I believe that we have the ability to do so. There's pockets of liquidity that will offer us attractive prices to leverage and we will take advantage of those. That's only one of the tools that we may do.

As you know, in the past we have sold property portfolios, which is another way to continue our build-up. We sell properties that are not necessarily the best properties of Vesta. They are just core properties of Vesta, and we do new buildings which are top of the line, so that makes sense on its own.

We sell our properties above net asset value, which is always nice and attractive for us, and so that's another mechanism to finance our growth.

I believe that it is very achievable to use our cash to leverage in the future, and to sell properties in order to achieve our \$1.1 billion of investments over the next four or five years.

Armando Rodriguez

Perfect, Juan. Thank you. Very helpful. Congratulations again.

Operator

Thank you. There are no further questions at this time. I'd like to turn the call back over Mr. Berho for any concluding remarks. Please go ahead, sir.

Lorenzo Dominique Berho

Thank you. This year we celebrated our tenth anniversary on the Mexican Bolsa. Vesta has demonstrated our success in anticipating trends and everything to capture important opportunities. Also, in climates of unprecedented crisis.

We are progressing our stated objectives, reflected in our strong first half results and upward revision of our 2022 guidance. We remain committed to disciplined growth and on executing our Level 3 strategy program. Thank you all. Good bye.

Operator

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