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Vesta Industrial Real Estate

First Quarter 2020 Earnings Conference Call

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Armando Rodriguez, *Signum Research*

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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 First Quarter 2020 Earnings Conference Call.

All participants are currently in a listen-only mode, and as a reminder today's call is being recorded.

I would now like to turn the call over to your host Ms. Maria Fernanda Bettinger, Vesta's Investors Relations Officer. Thank you, ma'am. You may now begin.

Maria Fernanda Bettinger, *Investors Relations Officer.*

Thank you, Donna, and thanks to everyone for joining our call to discuss Vesta's First Quarter 2020 Financial and Operational Results.

Today with us from Vesta are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer. Following their prepared remarks, there will be a Q&A session during which we will answer your questions. Yesterday, we issued our earnings press release after the market close. This release is also available via the Investor section of Vesta's website.

Before turning the call over to Management, I would like to remind you that this conference call includes forward-looking statements based on current available information. Forward-looking statements in currently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements. Statements made in this conference call should be considered together with cautionary statements, and other information contained within the Vesta's Earnings Press Release dated April 23, 2020 and within the most recent regulatory filings for discussion of those risks. All figures included herein are prepared in accordance with IFRS and are stated in normal US dollars unless otherwise noted. I will now turn the call over to Mr. Berho.

Lorenzo Dominique Berho, *Chief Executive Officer.*

Thank you, Fernanda. Good day, everybody, and thank you for joining us. Despite our good first quarter results, today we are not experiencing a normal environment. Therefore, I will like to start by giving an update on current status of the Company and the way we believe we will overcome together to challenging current situation successfully. We have created a COVID-19 Task Team to develop quick-reaction contingency plans to ensure that we maintain property and administrative operations at optimal levels, close and proactive communications with our clients and particularly with regard to measuring critical activities and supplies.

This committee is comprised of key senior executives and myself to assess regional operations during the moment and generate reports in real time. We have taken precautionary steps to help mitigate the various risks that the virus possesses. Risks that we closely and carefully monitor. We have had the benefit of observing what has occurred in China, Europe and most recently the U.S., and we prepared early on. Our immediate priority has been the health and safety of Vesta's employees, clients and their families. In late February, we began adopting protocols and measures recommended by the World Health Organization and local authorities.

These safeguards have been implemented across our Organization and made extensively to the community. Employees who do not work at Vesta facilities are now working remotely from home and all nonessential business travel is not permitted. Enhanced cleaning and sanitizing procedures have been implemented at all construction sites in Vesta Parks. Within workspaces, employees are able to maintain safe distances. We have also increased the level of staff communications regarding preventive, personal and family care including wellness tips to help them stay motivated and productive during this difficult period. Talking about the financial situation, another precautionary measure we did was the drawdown of 85 million from an existing credit revolver, increasing our cash position to $122 million at quarter end.

This gives us more near-term financial flexibility. Today, we have received client requests for rent paid of around 5% of our total annual revenues, which are coming from clients operating in a variety of industries and regions and mostly fall under a global operations mandate. We will continue to engage and maintain close communication with clients. We possess a solid base of high-quality multinational clients with which we have close longstanding relationships, long-term leases and high renewal rates. Additionally, they are the types of companies that are likely to recover faster than others might. As a reminder, the average weighted maturity of Vesta's leases is five years and only 5% of our leases are up for renewal this year. Further, 85% of our rental income is paid in US dollars, which puts in a very good position to overcome the next quarter. For the time being, we will not begin construction of any new inventory buildings based on what we know today, instead we will focus solely on leasing activity in facilities, renewals and built-to-suit projects. Pre-existing development projects will be finalized except for one facility in Guadalajara which we were able to stop without major implications and will be able to resume at a later time.

Given the current environment, for the moment we're not exploring any strategic transactions such as asset sales or other ventures. Even though they remain part of our Level 3 strategy and could be resumed at a later stage if the conditions and economic environment permit. We have not lost sight of our Level 3 strategy objectives. Our flexibility and resilience are now serving us well in the face of the various economic disruptions resulting from the spread of the coronavirus across the world, most recently in Mexico. Importantly, we have highly experienced management team and a strong independent board as well as a healthy balance sheet that we recently reinforced. Vesta's loan-to-value is 35% and our weighted average maturity of our debts is six years. Disciplined execution of our strategy has consistently generated profitable growth that has further strengthened Vesta's financial position, which includes our most recent quarter.

We began the year with strong leasing activity, reaching 1.9 million square feet of which 1.7 million square feet was new contracts, and 200,000 square feet were renewals. Over the last quarters, we have seen renewed interest of Chinese companies reshoring into Mexico in order to supply the North American market. More recently, we signed built-to-suit contracts with two internationally recognized companies, enabling Vesta to further penetrate the e-commerce and consumer's goods industries and to continue diversifying our tenant base with greater representation within the logistic sector, one of the goals of our Level 3 strategy.

Occupancy levels remain healthy at 92.9% and 93.6% for our total and stabilized portfolio, respectively. In addition to the strong foundation upon which we operate, there were other first quarter numbers besides those I have already highlighted. Revenues increased 4% year-on-year to 38 million with NOI and EBITDA margins at 94% and 83.4%, respectively. It is important to highlight that revenues are higher than first quarter in spite of the portfolio sale we did last year in the second quarter. This performance along with share repurchased has helped derive pretax FFO per share 4% higher than last year's quarter while net asset value per share rose 10%. Looking ahead still we are being prudent and have adopted a cautious and defensive approach to managing our business as the duration, scope and impact of COVID-19 are largely unknown at this time.

Before turning the call over to Juan, I would like to return to the subject of people. We consider ourselves members of the communities where Vesta facilities are located and social responsibility as an integral part of our Company's culture. Following our strong corporate governance standards, Vesta's Board of Directors has made the decision to reduce the Board's compensation by 25% during the second half of 2020. This amount will be redirected to the Company's COVID-19 ESG program. The Vesta COVID-19 ESG Program supports scholarships for 200 nurses, purchases critical medical equipment needed at clinics within the state of Mexico and is funding upgrades for temporary clinics in Mexico City and Tijuana. Vesta is also working with the Mexican Association of Industrial Parts, AMPIP, to purchase much needed medical supplies, together with other developers in the market. These programs are in addition to the Company's existing programs established through Vesta's ESG Committee.

Again, we are monitoring the situation carefully and in every regard. That concludes my prepared remarks for now. Juan, please go ahead.

Juan Sottil, *Chief Financial Officer*

Thank you, Lorenzo, and good day, everyone. The first quarter rental income increased nearly 4% year-over-year, 37.7 million, mostly due to revenue coming from new leases but also inflation adjustments during the quarter. In addition, the rent increased 2.7%, 43 cents per square foot. The next increase in revenue was partially offset by rent that we do not longer earn on property that had been sold in the second half of

2019 and by expired leases that were not renewed. The first quarter revenue, 83.5%, was denominated in US dollars, one percentage point below last year's comparable period.

Coming down the income statements, total operating cost rose 61%, 2.9 million on higher cost on both occupied and vacant property. Increases in property taxes, maintenance, expenses and allowance for accounts receivable increased cost 70% to 2.3 million, our investment property that generates rental income. That brings us to net operating income increased to 1.4% to 35 million although our NOI margin contracted 135 basis points to 94%, due to higher cost of income-generating property. Vesta's administrative expenses are 8.3% to 4.7 million mainly on higher legal audit on tenancy as well as higher expenses related to our long-term incentive plan.

First quarter EBITDA rose just over 1% to 31.5 million while the corresponding margin contracted to 230 basis points, 83.4%, due to higher operating cost, deducted expenses, radius cover. Interest expenses rose 1.3%, 9.3 million, reflecting a higher debt balance in the first quarter 2019. During the reporting periods we went from 1.2 million FX gain a loss of $9.1 million. This was due to functional quarterly depreciation of the peso, functional currency of our WTN subsidiary reported a lower gain in US Dollars. At the end of the first quarter, 16.3 increase in the value of Vesta investment properties resulted in a nearly 40 million other gain. A higher valuation was due to increase occupancy in our total portfolio. Testing our interest expenses, FX loss and the revaluation gain reported a total other loss of 4.4 million versus other income 3.8 million last year's quarter, resulted 8.3 million year-over-year Vesta's pretax income was US$25.6 million first quarter.

Looking at quarterly income taxes, this expense line increased roughly fourfold to $50 million dollars, The current tax fell to 1.1 million, 7.2 million in the prior year's quarter due to the depreciation of the peso, generated a negative FX-related effect. Deferred taxes were 48.2 million versus less than one million last year. An explanation of the change in deferred taxes is detailed in our earnings press release. For the quarter, we reported a comprehensive loss of 25.9 million compared to income of nearly 21 million in the first quarter of 2019. On a pretax basis, funds from operation increased just over 1% to 22.2 million, nearly 4% on a per share basis. Capital expenditures during the quarter totaled 12 million, mainly the construction of new buildings in the North, Bajio and central regions. End of the quarter, Vesta's total debt was 799 million a fraction of which is short-term liability, compared to that of 740 million at the end of last year. The increase stems from drawing down 85 million from our existing credit facility as Lorenzo noted and highlights our strong cash position.

We announced last month facility matures in all of the 2022, and we pay an interest rate of a 100 basis points above LIBOR. I will take this moment to also point out that the average weighted maturity of Vesta's total debt is six years, bearing an average weighted interest rate of 4.5%, 90% of which is fixed. Further, a 100% of our debt remains in US dollars. Further still, we finished the quarter with a loan-to-value ratio of 35%, and leverage of 5.6 times net debt-to-EBITDA. In other words, Vesta continues to maintain a healthy debt profile. The total value of Vesta investments property portfolio at the end of March was just over $2 billion, financial increase of 1.3%.

As Lorenzo has also highlighted, Vesta's NAV per share increased 10%, aided by additional share repurchase has been ticking over the last year. Before opening the call for questions, I will provide some additional highlights for the portfolio property. At the end of first quarter, the GLA of our total portfolio rose slightly on a sequential basis, 29.8 million per feet, while our occupancy increased 125 basis points just under 93%. Our stabilized portfolio expanded 1.4 million square feet to 29.6 million square feet while occupancy declined 320 basis points to 93.6% over the same period. Inventory buildings under development totaled 1.8 million square feet at the end of the quarter, Lorenzo has emphasized we will not begin construction of any additional inventory buildings for the next one or two quarters, precautionary measures.

Regarding Vesta's land bank, it stood at 41.8 million square feet, probably 5% less at year-end 2019. That concludes our prepared first quarter review. Operator, could you please open the call for questions?

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two, if you 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 a question at the time.

Our first question is coming from Gordon Lee of BTG. Please go ahead with your question.

Gordon Lee, *BTG*

Hi, good morning. Thank you very much for the call. I hope everybody is safe and sound and your families too. Just two quick questions, first, I noticed you didn't make mention of a guidance on your remarks and I didn't see it on the press release either, so I was wondering—just wanted to confirm that I suppose the guidance that you shared with us when you reported fourth quarter results is, for the moment, suspended until you upgraded visibility. Then the second question you mentioned that you have only seen requests from clients for rent relief for about equivalent to 5% of your rental revenues. Just to clarify, is that as of now or was that as of the end of the first quarter? Thank you.

Juan Sottil, *Chief Financial Officer*

I can answer the guidance questions and I will let Lorenzo answer the client requests, if that's okay? In regard of guidance, Gordon, let me tell you right now we're not changing guidance. We don't have enough information to give you an impact of the COVID on the books, as of today we don't see that impact, our clients are currently paying rents as scheduled. If I look at collection on March and even on April, with the collections coming through regularly, we don't see any clients dropping significantly, so we're just not changing guidance at this time, as the crisis evolves if we feel the need then we will adjust the figures. We're not giving any rental concessions at this point, any help that we're giving our clients involve referral of rental payments for a couple of months and payments—the loans that we in effect gave our clients will be paid back by the end of the year or depends on the situation. For guidance itself, we're not changing this today. We're prone to the information if anything changes, that's about it I guess.

Gordon Lee, *BTG*

Thank you, Juan, that's very clear. Is the 5%, again, is that as of the end of the quarter or is that so far as of yesterday I would say?

Juan Sottil, *Chief Financial Officer.*

The 5%--we have a meeting every week—we have three weekly meetings, the management team, the upper management team in which we analyze client requests to make any strategy of negotiation and it is implemented by our active Management Team locally. That number is as of Monday, I guess, this week.

Gordon Lee, *BTG*

Perfect, that's very clear. Thank you very much.

Operator

Thank you. Our next question is coming from Eduardo Alvizouri of GBM. Please to ahead.

Eduardo Alvizouri, *GBM*

Hi, guys. Thank you for taking my question. This question is on the request guidance from payment deferral. Can we get a little bit more color on the negotiations you're reaching with tenants and in the long term are you worried these deferrals might affect cash flow? My second question is just about the tactic volatility. Have you seen any tenancy came through, negotiated contracts and changed to better denominated ranks? Thanks.

Lorenzo Dominique Berho, *Chief Executive Officer*

Hi, Eduardo. Thank you very much for being on the call and for your question. This is Lorenzo Berho. Absolutely. I think it is important to understand the current situation and why the industrial sector plays differently in the situation. Let me give you more clarity on what we're seeing in current Vesta's portfolio and I think this will be useful for everybody.

As of today, we are seeing that approximately 60% of the companies have slowed down operations or have shut down operations for the moment. I think this is an important number and considering the other parts of the portfolio is still at the same or higher activity and this is what we have been able to assess. Secondly, I think it's important to mention that we're not seeing any particular region which has had a major impact than other. I think this is very general across the country in different regions, different industries, different ways. To give you also another important update, we have been getting requests from several tenants. In many of them, we stay as we are and there is now negotiation in process. I think that they analyzed the situation, we analyzed it together with them. They have strong financial capacity and we pretty much are staying with the same contracts. In some of them, we have already have had agreements and in some of them we're still negotiating. We believe that out of that 5% which will impact that, that represents that rent-aided request, we believe that for end of the next month we're going to be able to be closing all of them.

Normally, the way that we're approaching this is the strong tenants that have a good track record with the Company, that have been paying on time and that still have a long-term commitment are the ones that we're giving important financial aid which is a paid rental deferral and rent-deferral normally is regarding the upcoming months and they would end up paying for the end of the year. We're seeing that the companies have strong financial positions; as you may know many of our clients have corporate currencies, many of them have global presence and we think that, that is complete—it's very important in current situation, and I think that's why our discipline in order to really close transactions with strong tenants is giving us an edge today when the situation is more difficult.

Regarding the dollars and pesos, we strongly believe that the dollar leases are how the market should operate, and we have been also been very disciplined in getting dollar leases even—this is not the first devaluation that we've seen in the last four years, five years, it is the second time and I remember four years ago, five years ago, we also had approximately 80% of our leases in dollars and even with that devaluation today, we have more leases in US dollars, and this reflects the economic situation of most of the companies we work with. They are long dollars and in our case is the same situation, even in some cases, the new contracts that we have been signing lately, even for built-to-suit projects we have been able to close in US dollar terms, so we are going to keep that discipline, understanding that there could be some financial stress by some companies. We want to have--find solutions for our clients, long-term solutions also, and I believe that, that approach will benefit ourselves and would benefit the clients in the long term too.

Eduardo Alvizouri, *GBM*

Great. That's clear too. Thank you.

Operator

Thank you. Our next question is coming from Enrique Alcantara of Citi. Please go ahead

Enrique Alcantara, *Citi*

Hello, guys. Thanks for the call. From what we understood you have US dollar denominated assets that had a gain when converted these into pesos with any exchange rate fall, and could you please clarify which assets are these? Thank you.

Juan Sottil, *Chief Financial Officer.*

I am having a bit of trouble hearing you. Can you repeat a little bit louder the question and then I will address it?

Enrique Alcantara, *Citi*

Yes, sure. From what we understood you have US dollar denominated assets that had a gain when converted into pesos with any exchange rate, and could you clarify which assets are these?

Lorenzo Dominique Berho, *Chief Executive Officer.*

I did get it, Juan. I did get it clear, and that is not the situation. We have dollar leases and they are staying dollars, then we have the pesos leases that we have with clients in the consumer goods business, and we have mentioned them before, it's Nestle, Danone Group, I mean those are the ones that pay in pesos, so there is no change. That was never mentioned by anybody from Vesta.

Enrique Alcantara, *Citi*

Okay, great. Thanks.

Operator

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

Vanessa Quiroga, *Credit Suisse*

Hi, thank you. Good morning to the Vesta's Team. Thanks for the call. My question is regarding the 5% that we mentioned.

Operator

I am sorry we seem to have lost Vanessa. We'll move onto our next question which is coming from Armando Rodriguez of Signum Research. Please go ahead.

Armando Rodriguez, *Signum Research*

Hi. We want to thank you for the call and congratulations on the results. My question is just to know during these circumstances, if we should expect some changes on your asset recycling program and also on your buyback program in order to preserve liquidity? That's my only question. Thank you very much.

Lorenzo Dominique Berho, *Chief Executive Officer*

Good afternoon, Armando. Thank you for being on the call. Regarding the buyback program, as you know, we were active throughout the first quarter which was part of our program and plan. Today, we are not active on the buyback. I think that currently it is important to preserve cash, see how after the dust settles, where we're at and I think at that time we will analyze further, but for the moment we are preserving cash which we believe is the appropriate thing to do.

Regarding the asset recycling program, it's part of our Level 3 strategy and we will do it only if the environment permits. As for the moment, we are not executing any transactions. We did one last year which was a good timing to do a transaction, and we believe that in the future there will be other opportunities to price our properties well and to be successful on an asset recycling program. Thank you.

Armando Rodriguez, *Signum Research*

Perfect, Lorenzo. Thank you very much.

Operator

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

Froylan Mendez, *J.P. Morgan Chase*

Hello, guys. Thank you very much for taking my question. On buyback, should we be expecting that every dollar now not going to development should be going to share repurchases. Can you tell me your thoughts on cancelling those shares? That's my first question. Secondly, on margins, this quarter margin contraction follows almost four quarters of year-on-year contraction. What is happening on the margin front? Should we expect these to be a one off and normalize through the rest of the year? Thank you so much.

Juan Sottil, *Chief Financial Officer*

Let me take these ones. Share repurchase, look right now the priority of the Company is to devote our cash reserves, which are substantial, to operations. That is, you help clients by deferring rental payments. You are in effect not receiving cash, so cash preservation is paramount at this time. We have contracted our capex expenditures significantly. As Lorenzo mentioned, we're not going to do any spec buildings, inventory buildings for the next couple of quarters, and we will be doing the same from a net capital allocation point of view into the repurchase of shares. I don't think that we're going to be active at all over the next couple of quarters. We will see. This is a day-by-day situation, but I don't expect to be active. It is a matter of cash preservation during these times.

Regarding cancellation of the repurchase shares that we have done in the past, let me confirm and underline that every share that we repurchase gets cancelled. That's what we will do. You can expect that the balance that we announce of shares that we have repurchased on—the last time we did a summary was on the shareholder meeting of March, and download that presentation. All of those shares are going to be cancelled, so that's what you can expect.

Regarding margin contraction, margins have been affected mainly by expenses of maintenance in last quarter and certain reserves on accounts receivable that we have done last quarter and this quarter. We are being extra prudent on receivables and I think that the things we're going to be doing—financing of clients—we have to be incredibly transparent and incredibly precise in taking very careful in showing a strong book, all the precautionary measures like the receivables as we, management's opinion, on the help of our client. But looking forward I can expect these margins are going to grow. Main reason for it is most of our expenses are peso-based. Pesos are going to be depreciating throughout the rest of the year, and as our rental income is mostly denominated in dollars, that will tend to increase our margins across the board also. That's what I see looking forward.

Froylan Mendez, *JP Morgan Chase*

Perfect. Thank you so much.

Juan Sottil, *Chief Financial Officer*

Thank you, sir.

Operator

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

Vanessa Quiroga, *Credit Suisse*

Thank you. I am back. Regarding the question that I was making, so 5% of the rent requests that you receive, is that the impact to annual revenues that you're expecting from these deferrals or are you saying that the tenants that made their request represent normally at the 5% of your annual revenues. That's my first question. The second one, can you clarify whether you're going to charge interest for the rent deferrals. Is it financing of rents or is there going to be zero interest on those deferrals for clients, and the third one is if you can quantify what percentage of your tenants are currently not operating at their plants? Thanks.

Lorenzo Dominique Berho, *Chief Executive Officer*

Hello, Vanessa. This is Lorenzo and thank you for jumping back to the call and making these important questions which I think will be very useful in terms to clarify to the whole audience where we're standing.

Regarding the client requests that we have been getting, so the request represents 5% of total income. That is the amount of requests. That doesn't mean that, that will be the impact for the Company. Importantly, the way that we are negotiating is a way that we can defer the rents or defer part of those rents. That's part of what we're trying to negotiate, so that we do not have a major impact in the income, total annual income from the Company.

The way we're negotiating is deferring the rents so that they can pay at some point in time. According to their business, according to the situation where they are, and I think this is where communication with our clients is very important. Knowing them for many years is what gives us the advantage of really being able to understand their situation and hopefully find a great solution for them so that they can also overcome the current situation and are very good solution for us in order to be able to collect rents at some point in time, and keep on a long-term relationship with our clients.

Regarding the interest, I believe that it's kind of secondary. We do not make money out of interest that are payments on rents normally, so in the end I think we're focusing more on the negotiation of the rental income that we want to defer more than interest.

Vanessa Quiroga, *Credit Suisse*

Great. Thank you.

Lorenzo Dominique Berho, *Chief Executive Officer*

Regarding your question on which companies are not in operation right now, is that correct?

Vanessa Quiroga, *Credit Suisse*

Correct, yes.

Lorenzo Dominique Berho, *Chief Executive Officer*

Okay, so companies that currently have complete shutdown is, to be precise, 32% which is up to this week. These are very recent numbers. These are updated every week but many of the companies also have had a major slowdown situation so those together account for roughly 60%. If it is shutdown or a major slowdown, we think that both of them are pretty much in a similar situation. We believe those companies will get back on track at some point during, and probably end of next month.

It's important to understand and you have all heard the news regarding the supply chain of the auto industry and how important Mexico is to the U.S. auto industry, so there is—at some point in time--there would be a slowly but prudent way in order to start operations on many of these facilities, and many of these companies as you know the Tier 1 companies in the auto sector, these are very well-capitalized companies today, very different 2008 and 2009. I think many of them are key to the final OEMs, and many of them have very moderate facilities in Mexico which I think is going to help them in order to start operations and have the right components with a good cost approach which I believe is also very important to consider.

Probably just to add on that, I think that what we're doing currently is also working on really having the most sanitized industrial parks throughout Mexico with the high standards and trying to foster our clients to kind of keep the same standards and have very good health measures in the operations whenever they resume operations which it will be at some point now and that is something that we're going to have to focus particularly this quarter will be key for our operational team.

Vanessa Quiroga, *Credit Suisse*

Thank you, Lorenzo. If I can just make one last question, sorry? Maybe it is for Juan. How about collections done so far in April? What percentage of the rents for the months have you have been able to collect compared to last year if you have that information handy. Thank you.

Lorenzo Dominique Berho, *Chief Executive Officer*

I have that, so the number as of last Monday was 75% of rents have been collected, so we believe that we're going to have, in the end, a good collection for the rest of the month.

Juan Sottil, *Chief Financial Officer*

Basically in line, I don't see any particular trend if I compare April collection with March or any typical month.

Vanessa Quiroga, *Credit Suisse*

Excellent. Thank you very much for all these details.

Lorenzo Dominique Berho, *Chief Executive Officer*

Vanessa, I will just go over a little bit on that question. We are keeping an eye every day on collection and that's what we have been doing through April. That's why I knew the number well, and that's part of the Task Team that we have incorporated but definitely that's something that we're going to be watching very closely through the next quarter, particularly which is the one that we believe that we have the most differences to what normal would be, so May is going to be important and even June is going to be important, so that's something that we're keeping an eye on and we believe that we're in a good position to overcome the particular situation even if the percentage of payments is lower than the typical 100% or close to 100%.

Vanessa Quiroga, *Credit Suisse*

Thank you.

Operator

Thank you. Our next question is coming from Francisco Suarez of Scotia Bank. Please go ahead with your question.

Francisco Suarez, *Scotia Bank*

Thank you so much for this call, and apologies if you have answered this question because I had briefly disconnected. The question that I have is, if you are seeing a potential TIs emerging out of COVID-19 and is that actually an opportunity for you guys to negotiate with your tenants perhaps lengthening the life of the contracts or perhaps an enhancement in rents. Also, the second question, if I may, relates with the overall disruptions that you are seeing and particularly on those tenants that have no activity in their operations. Is that correlated by their industries that are essential, and what industries are not considered essential in Mexico? Thank you.

Lorenzo Dominique Berho, *Chief Executive Officer*

Thank you, Francisco. Thank you for being on the call. This is Lorenzo again.

I think that it does rely—part of it is because of some industries are not considered essential for the Mexican Government, that's correct. On top of that, there are also other companies that are taking a bit more precautions also because of their global outreach, yes probably their own standards. It's a bit of combination of both but even the ones that are operating are taking a lot of precautions, but in the end I think it relies a lot on how essential they might be and how they are considered within the Mexican Federal Government standards and measures.

Then, regarding your question, I think it was tenant improvements, TIs?

Francisco Suarez, *Scotia Bank*

Yes.

Lorenzo Dominique Berho, *Chief Executive Officer*

Okay. We have not been getting requests particularly on tenant improvements per se but what we have been doing is now that we are in touch with our clients for whatever reason, clearly we're negotiating with them, and we're negotiating extensions on leases. We are negotiating, in some cases—normally when we do renewals, we also incorporate sometimes some investment to a company, and I think that is normal in a regular renewal environment that is something that we would be doing, but we have not seen any major TIs investments requests for the moment for this particular situation. I think it's just the normal situation.

Francisco Suarez, *Scotia Bank*

That's very clear, and congrats on how you guys are heading with things. Thank you.

Lorenzo Dominique Berho, *Chief Executive Officer*

Muchas gracias Francisco. Thank you very much for your comments.

Operator

Thank you. Our next question is coming from Eduardo Altamirano of HSBC. Please go ahead with your question.

Eduardo Altamirano, *HSBC*

Hi, all. Thank you for taking my questions. I appreciate it. I understand you cancelled or at least suspended developments for the time being, but I was curious to find out whether you're getting any inquiries in terms of expansion developments from current or even new parties. We've heard some chatter from other groups in the space that they are getting additional requests for more GLA, so just wanted to see what your tenants or at least potential tenants are saying?

Lorenzo Dominique Berho, *Chief Executive Officer*

Thank you very much, Eduardo, and to be frank you're talking about the opportunities and we wanted to a bit to keep the tone of this conversation to how we are playing a defensive role for the moment, and I think that's what Vesta is currently focusing on.

Nevertheless, there are definitely certain situations which have turned into opportunities. We have seen that already with some clients requesting immediate space, some clients requesting expansions, we're dealing with those, and we did an announcement early last week and there are certain industries which are just moving incredibly fast particularly e-commerce and logistics. We're very happy that we brought two new tenants to the list of tenants for Vesta. These are fantastic companies, and we have large plans, one million square feet for any e-commerce and goods and beverage in Guadalajara and Puebla which are strong consumer-based markets and in the end we're going to see a lot of demand for these types of industries, particularly e-commerce which was lagging in Mexico. We see that they're looking for more space in new markets and Vesta is well-positioned to take those opportunities. Hopefully, next quarter, we can talk more about opportunities and growths and in the meantime we want to keep on focusing to overcome the situation and make our tenants also overcome the particular situation and I think with that, we're going to see these opportunities and even more. Thank you.

Eduardo Altamirano, *HSBC*

Sure. Thank you, and I can appreciate that.

Operator

Once again, ladies and gentlemen, if you do have a question, please press star, one on your telephone keypad at this time. Our next question is coming from Ben Rummelhart of American Equity. Please go ahead.

Ben Rummelhart, *American Equity.*

Hi. Thanks for the call. I just had a question and again coming back to the rent relief requests, you mentioned 5%. Have you received any kind of mitigation from any other tenants who might not have requested formally rent relief but had given you some indication that, that might be necessary upcoming and if so, what percentage of tenants would that be, and then also just kind of to understand is it kind of a month-by-month request or is it you're granting one month, two months, kind of how you're looking at those?

Lorenzo Dominique Berho, *Chief Executive Officer*

Okay. Hi, Ben, thank you very much for being on the call and for your questions.

I think it is important to mention that as of today it is 5% of total annual revenues what we're currently under negotiations. Nevertheless, that number will increase, I think that's normal. I think that the companies are assessing their situation and I am pretty sure that, that number is going to be growing at some point. Nevertheless, I think we have already a good indication if this is going to be a major number or not. I believe that what we have seen today, we have some room to maneuver even more requests at some point, and will not put the Company into a very difficult situation.

We will analyze them and with our COVID-19 Task Team give a response back soon. Again, there will be cases where we can be proactive and supportive and then there will be cases where we can pretty much keep in the same situation where we are at, so I am sure that there will be more, more cases of those.

What your second question was? Can you repeat that? Thank you.

Ben Rummelhart, *American Equity.*

Yes, I will. The deferrals that you granted if those are based on month to month and then just deferring until the end of the year or if you just said for granting two months or if they're hard amounts of time?

Lorenzo Dominique Berho, *Chief Executive Officer*

Okay, so yes, it is case by case. Normally, the typical relief is a tenant comes and says, "I will not be operating fully for the next couple of months what can you do about it?" Normally, they're already anticipating for two months or three months, and then we get back in a case by case we give a response on how to defer part of the payment at some point in the next year, throughout the year.

It is case by case, but normally it is not that they are coming just for this month, they come for the next to make a plan and to have an addendum to the lease agreement, what we are also doing is having promissory notes signing together with our tenants, so that once we get into that agreement and with that we expect to collect that rent or part of that rent at some point throughout the year. But, it is case by case really.

Ben Rummelhart, *American Equity.*

Thank you.

Operator

Thank you. That puts us to the end of our question-and-answer session. I would like to turn the floor back over to Mr. Berho for closing remarks.

Lorenzo Dominique Berho, *Chief Executive Officer*

Great, well thank you, everybody, thank you, Operator, for this call. This is a very important call for us to keep communicating to our investors who have trusted us through good times, through difficult times. Now more than ever, we want to wish you all to be safe at home, that may be your family safe, and we're going to keep on close communications with you.

To make some final remarks, I would like to highlight that our Level 3 strategy was actually designed to make Vesta a more flexible and resilient Company in addition to driving FFO and net asset value to higher levels among other objectives. Vesta's strengths lie in our leadership team, employees, balance sheets, our relationship with our clients as well as our long-term leases with them.

Also, much about the current and potential impact of COVID-19 is currently unknown, we are well-prepared and also well-positioned from a competitive standpoint. I appreciate Senior Management's support throughout these difficult times and throughout the great first quarter operating results which will fortify our position to overcome the economic global challenges. Thank you again for joining us on today's call, and we look forward to providing further updates during our second quarter call in July. Be safe.

Operator:

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