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Corporacion Inmobiliaria Vesta SAB de CV

Q1 2024 Earnings Call

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CORPORATE SPEAKERS:

Fernanda Bettinger
Corporacion Inmobiliaria Vesta SAB de CV; Investor Relations Officer
Lorenzo Dominique Berho
Corporacion Inmobiliaria Vesta SAB de CV; Chief Executive Officer
Juan Sottil
Corporacion Inmobiliaria Vesta SAB de CV; Chief Financial Officer

PARTICIPANTS:

Pablo Ricalde
Santander; Analyst
Rodolfo Ramos
Bradesco BBI; Analyst
Jorel Guilloty
Goldman Sachs; Analyst
Alan Macias
Bank of America; Analyst
Gordon Lee
BTG; Analyst
Francisco Suarez
Scotiabank; Analyst
Felipe Velarde
Citi; Analyst
Alejandra Obregon
Morgan Stanley; Analyst
Isabela Salazar
GBM; Analyst
David Sara
Scotiabank; Analyst
Jeronimo Delgado
Santander; Analyst

PRESENTATION:

Operator
Greetings, ladies and gentlemen. Welcome to the Vesta first quarter 2024 Earnings Conference

Call. (Operator Instructions) And as a reminder, this call is being recorded. It is now my pleasure to introduce your host, Fernanda Bettinger, Investor Relations Officer. Please go ahead.

Fernanda Bettinger
Good morning, everyone. Welcome to our first quarter earnings call. Presenting today with me is Lorenzo Dominique Berho, Chief Executive Officer; and Juan Sottil, our Chief Financial Officer.

The earnings release detailing our first quarter 2024 results was released yesterday after market close and is available on the company's website, along with our supplemental materials.

It's important to note that on today's call management remarks and answers to your questions may contain forward-looking statements.

Forward-looking statements address matters that are subject to risks and uncertainties that may cause actual results to differ. For more information on these risk factors, please review our public filings.

Vesta assumes no obligation to update any forward-looking statements in the future. Additionally, note that all figures including herein were prepared in accordance with IFRS, which differs in certain significant respects from U.S. GAAP.

All information should be read in conjunction with and is qualified in its entirety by reference to our financial statements including the notes thereto and are stated in U.S. dollars unless otherwise noted. I'll now turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho
Thanks, Fernanda. Thank you all for joining us today. 2024 is off to a great start. Our team maintained Vesta's strong track record of leasing activity during the quarter, capturing increasing rents on new and renewal leases, securing Class A tenants for Vesta's development and building out a solid pipeline for the future ahead.

Probably our most exciting news for the quarter was Vesta's successful pre-lease to one of Latin America's largest ecommerce companies of our Mexico City, Vesta Park Punta Norte for a substantial 890,000 square feet. This is another significant milestone for Vesta and an important proof of concept for our company, Vesta anticipated market trends in the early stages of Mexico's nearshoring wave. We turned our strategic focus towards gaining a first-mover advantage within Mexico's most strategically relevant infill locations; successfully leveraging time earned relationships and our outstanding balance sheet to acquire some of our country's most strategically relevant land. Today Vesta has built privileged position within Mexico's most desirable locations.

Latin America's leading online marketplace has again chosen to partner with Vesta. The robust consumer demand we're seeing continues to drive aggressive ecommerce expansion, an important tailwind for Vesta in 2024 and beyond.

Stabilized occupancy for the first quarter 2024 increased 40 basis points to 97.1% with a strong and geographically diverse client base, reflecting balanced sector exposure. First quarter leasing activity reached 2 million square feet: 1 million square feet from new leases- among them was the above leading Latin American ecommerce company- and nearly 1 million square feet of renewals. Over the last 12 months, ecommerce renewals and re-leasing spreads reached 8%. As a related comment, according to Colliers, first quarter 2024 rental prices for Mexico's industrial space rose 22% year-on-year with an average cost of $6.89 per square meter driven by nearshoring strength.

Our focus for the first quarter 2024 was therefore on long-term objectives and establishing a solid foundation for the year. We're evaluating land acquisitions with access to energy and utilities in urban infill locations, replicating the successful process I just described: acquire optimally located land, develop best-in-class spec buildings and lease and re-lease to top-tier clients. Meanwhile, we are expanding relationships with existing tenants and connecting with new clients, many of which are referrals, maintaining Vesta's proven disciplined approach to the continued development of state-of-the-art facilities. This ensures we maintain the industry's best-in-class portfolio. The Vesta team has demonstrated the ability to innovate to create value, also with the capital to execute and, importantly, develop aligned with our disciplined sustainable and profitable growth path.

Moving to the broader Mexico industrial real estate market; strong fundamentals continue to drive high rates of occupancy, particularly within our target markets. According to Kearney's 2024 Foreign Direct Investment Confidence Ranking released this month, Mexico has returned to the top 25 countries, attracting the most foreign direct investment in the 21st position after having disappeared from the FDI confidence ranking for the last four years. This was driven by capital invested in construction of plants, factories and manufacturing production lines, which have migrated to Mexico from Asia and other places through nearshoring. The Mexican economy is expected to grow between 1.8% to 2.5% in 2024. And new incentives designed to boost nearshoring investment in 2024 and 2025 will help the economy as well. Given that Vesta's primary focus for new developments is on land-constrained markets, we're well-positioned in the current environment.

Touching upon some other relevant highlights from the first quarter 2024; Vesta's total portfolio occupancy increased to 94% from 93.4% last quarter, while stabilized and same-store occupancy increased to 97.1% and 97.4% from 96.7% and 97%, respectively.

We began construction on three new buildings in Monterrey and one 1.0 million square foot plus expansion in Queretaro for one of Vesta's long-time clients, aligned with our growth plan and reflecting today's strong market dynamics.

Current construction in progress reached 4.1 million square feet by quarter end: a $344 million estimated investment and a 10.1% yield on cost- in Mexico City, Ciudad Juarez, Monterrey and the Bajio.

We again delivered strong financial results, as Juan will discuss in more detail, with a 20.1% increase in adjusted NOI to $57.4 million and an adjusted NOI margin and adjusted EBITDA margin, which reached 96% and 84.7%, respectively. Vesta ended the quarter with FFO at more than $40 million; a 32.4% increase year-on-year.

In closing, it was a great start to what we expect will be another excellent year. And while the outcome of our country's upcoming elections are uncertain, this quarter's results underscore that Vesta's path forward remains unchanged. Both the U.S. and Mexico benefit from robust institutional frameworks, strengthening consumer demand and a broad range of industries that require premium industrial real estate to ensure uninterrupted supply chains. Vesta is optimally positioned to capture this and other exciting opportunities.

Let me now pass our conversation to Juan, and I'll return for some brief closing remarks.

Juan Sottil
Thank you, Lorenzo. And good day everyone. Let me begin with a summary of our first quarter results. Starting with our top line, we have a strong start of the year with total revenues, which grew 21% to reach $60.6 million, mainly due to rental revenue coming from new leases and inflationary adjustments and rental property during the quarter.

In terms of current mix, 87.8% of our first quarter revenue was denominated in U.S. dollars, up from 86.7% from the first quarter 2023. Turning to our profitability; adjusted net operating income increased 20% to $57.4 million, while the margin decreased 35 basis points to 96%.

This increase was primarily driven by higher rental revenue from our rental properties as Loren has described, including energy income. Adjusted EBITDA reached $50.6 million in the first quarter, a 20% increase reported to the prior year quarter, while the margin decreased slightly by 21 basis points to 84.7%, primarily due to higher cost and expenses. Administrative expenses during the quarter were impacted by the peso appreciation relative to the same period last year and the increase in auditing, legal and consulting expenses driven from our recent equity transactions.

We closed the first quarter of 2024 with a pretax income of $150.6 million compared to $43.1 million in 2023, which benefited from higher gains on revaluation of investment properties and higher interest income. Vesta's FFO increased 32%, reaching $40.4 million, as Loren described. Turning to our capital structure and balance sheet, cash and equivalents stood at $445 million, and our total debt decreased slightly $914 million at the end of the quarter. Net-debt-to-EBITDA was 2.4x and our loan-to-value was 24%.

As a result of our successful 2023 capital raise, we're starting this year with a very solid financial position that enables us to remain focused on execution while committed to our disciplined approach to sustainable and profitable growth.

Finally, subsequent to quarter's end on April 16, we paid a cash dividend for the first quarter, equivalent to MXN 0.29 per ordinary shares. This concludes our first quarter 2024 review.

Operator, please open the floor for questions.

Operator
(Operator Instructions) Your first question comes from the line of Pablo Ricalde of Santander.

Pablo Ricalde
Congrats on the results.

I have two questions. The first one is on the rental growth we saw in the quarter. I don't know if you can explain on a per region basis, how are you seeing rent growth? That's the first one.

The other one is on the peso denominated rents. I don't know if you have seen an increase of tenants asking for peso rent instead of USD?

Lorenzo Dominique Berho
Pablo, thank you very much for your question and being on the call. Regarding your first question, we have definitely seen rent increase in most of the markets pretty much throughout the quarter, what we have presented and it's actually out of the supplemental package is the rent increase that we have had in general terms, trailing 12 months, and we saw an increase of 8% which is based on renewals and re-leasing, which is a great spread way above inflation and reflects the importance on being able to mark-to-market rents coming from the spread between renewals as well as the spread between re-leasing.

Pretty much the ranges- and it varies market-by-market- but what I can tell you is that there continue to be very strong markets where we have been able to have spreads of 20% to 40%. Such markets are Tijuana, Ciudad Juarez, Toluca for example, but also in markets like the Bajio, we have also seen rents increase between 10% to 20%. Some of the renewals are at inflation. Remember that some of our renewals have to be at the in-place rent plus inflation.

But the combination of renewals that already have an increase on inflation combined with re-leasing, new re-leasings, we get to a very attractive spread of approximately 8%. And regarding your second question, actually, interestingly, we've seen that there is a huge interest for companies to lease in U.S. dollars.

And that was actually the example of some of the new leases that we recently did for the logistics operations in Mexico City, and we think that the companies are agnostic on the currency, they want to lease a good quality space, and Vesta has great quality space in good locations and they rather have that particular location, which gives them a better functionality for their operations, make them more efficient, more profitable and therefore, are able to pay in the corresponding currency, which is dollars in our case.

Thank you.

Operator
Your next question comes from the line of Rodolfo Ramos from Bradesco BBI.

Rodolfo Ramos
My first one is -- I have two. The first one is a follow-up on Pablo's question. In terms of the leasing spreads that you're seeing, we're seeing some of your peers reporting higher numbers. Given that when you look at your expiration profile in 2025, we're going to see a pickup in expirations. How do you see these leasing spreads going forward in 2025 with these expirations? So that will be the first one.

Second, we have seen more capital flowing to the sector, at least looking to enter, whether it's at the asset level or at the structural level. I mean how does this greater appetite from investors, increased competition for land -- and how does this impact your growth trajectory more medium, long-term? Do you think that tenants will be able to absorb these costs and keep development yields stable at current levels?

Lorenzo Dominique Berho
Thank you, Rodolfo, for your question.

So regarding the 2025 expirations, we will maintain the same approach to be able to renew leases as well as re-lease buildings at market rents, so that we can be able to catch up with some of the upside potential that some of these markets represent. We are very proactive in our asset management team to be close to our clients, try to recover as much as possible. We have approximately- we might have- almost 7 million square feet expiring between 2024 and 2025.

So for that reason, we see a great potential upside in terms of rents. It will vary market-by-market. It will vary according to the lease agreement that is in place or the situation of each of the expirations.

But the Vesta team is doing the right decisions and working in the right direction in order to capture value coming from rent increases, and that has been a very good portion of the overall revenue increase that we have seen just this quarter. Increasing revenues above 20% is an excellent number, which is a combination of new leases but also with current and existing leases which are increasing- which we have been able to increase rents and mark-to-market.

Secondly, regarding your question on capital flow: absolutely, there has been a lot of activity in the market. And nevertheless, most of this activity is focused on acquisitions. Many of the players that have been raising capital do not have very well-developed development capabilities, and they are just in early innings on development, and that's why their position is mostly going to be based on acquisitions. They have all expressed actually that. And doing acquisitions at cap rates in the 5.86% or even at 7% including a lot of tenant improvements and a lot of amortized investments that have to be done during a certain period of time- that's a completely different approach. So we think that all of them have different investment venues and different strategies. Therefore, we think that for the sizable development transactions, the companies that have raised capital do not have those development capabilities, and that's exactly a sweet spot where Vesta has been able to acquire land, which we are currently in that process to start construction, as we have recently done, to lease up during construction or during the stabilized period -lease-up period- and that's where we believe we can capture the most value, create spreads between 300 basis points and 400 basis points on top of acquisition cap rates. And this particular trend towards other companies and actually new players coming into the market- that's going to be pushing cap rates down, particularly for stabilized assets, and that's going to be another important trigger that our assets will be better priced looking forward.

Operator
Your next question comes from the line of Jorel Guilloty from Goldman Sachs.

Jorel Guilloty
I have two pretty straightforward questions. We were looking to the release and we didn't see anything on guidance. So is it fair to assume that it remains unchanged from what you published in 4Q?

Then the second question is around Guanajuato: we saw that the decline in occupancy Q-on-Q is about 400 basis points, whereas the majority of the markets saw an increase in occupancy Q-on-Q. So I just want to understand what the dynamic is there and what we should expect going forward?

Lorenzo Dominique Berho
Thank you, Jorel. Regarding the Guanajuato question, we recently developed a building, an inventory building in (Guanajuato) Puerto Interior.

We have been successfully leasing up the rest of the space and probably that's why you see a small adjustment on the total portfolio because it's a brand-new building that we recently incorporated. But if you look at stabilized portfolio, as well as same-store, we have kept that occupancy at 91%. I would suggest that you follow the stabilized portfolio because that doesn't have any major adjustments. The market is doing well. It's just probably the incorporation of a new spec building that we have recently developed, and we have been announcing that throughout the last quarters.

And regarding your first question, yes, we will maintain the guidance that we gave in the last call without any adjustments for the moment.

Jorel Guilloty
And a quick follow-up, just to understand because when I look at the GLA for Guanajuato, it remains unchanged for about three quarters. So you're saying it became incorporated right now or I'm just trying to understand how that works.

Lorenzo Dominique Berho
Yes so if you look at the numbers in Guanajuato, if you look at the supplemental package at page number 10, you will see the new buildings that are currently as part of the lease-up. We have one building in Guanajuato, in Puerto Interior, 231,000 square feet. If you look at the total portfolio, we currently have 4.6 million square feet. And first quarter last year it was 1.3 million square feet. So it does change by 230,000 square feet, which is basically that building.

Operator
Your next question comes from the line of Alan Macias from Bank of America.

Alan Macias
Just if you can remind us on your land bank, what is the potential GLA that it represents?

And just another question on leasing spreads. I guess the assumption is that there is upside risk for the 8% going forward.

Juan Sottil
[Potential risk on the 8% going forward.]

Lorenzo Dominique Berho
Alan, thank you for your question. So I mean regarding your second question on the rent spread, well I think that more than risk, I think that we believe that there is greater opportunities to have major rent adjustments.

First of all, we think that in the current inflation environment, we have shown that Vesta is very well positioned to hedge towards inflation very well because that's how the leases are structured. So the majority of the leases that will expire will have full adjustment towards inflation, either in U.S. or Mexico, and I believe inflation currently is between the 3% or 4% ranges depending on the currency. But in the end, I think that we are very well-positioned.

But the upside on rent is not only inflation, but it's our ability to be able to mark-to-market many of our leases at the expiration that are re-leasing. We believe that since rents have been increasing in many of the markets, maybe even probably all of the markets, we see a great potential to renew. The market is incredibly hot right now. There's good demand and companies that are established in Mexico are performing quite well.

So we don't see this trend changing in the near term.

And regarding land bank: well we currently have land bank that could help us to increase our portfolio more than 10 million square feet. However, we are in the process of acquiring more land. We're looking into land in the north part of Mexico-Tijuana, Juarez, Monterrey, as well as Guadalajara, Mexico City- to incorporate a potential larger pipeline opportunity as we have done in the past.

Operator
Your next question comes from the line of Gordon Lee of BTG.

Gordon Lee
Just very quickly, and this is sort of more out of curiosity. But in the last two or three quarters you've had two or three properties, not many, but two or three properties that have in the pipeline that have seen some delays for delivery. So my question is, is there a common theme in some of those delays or is each of them sort of its own particular driver- maybe tenant modifications, et cetera- or is it more to do maybe with permitting and infrastructure? And maybe that's a little bit more systemic.

Lorenzo Dominique Berho
Thank you, Gordon, for your question. Yes. I think one of the good things is that we're incredibly active in construction. We currently have under construction over 4 million square feet, which is a great pipeline pretty much in all of the regions where we operate. In many of these cases, at the same time that we're in the construction, we are in the marketing phase. A good example is what we recently did in Mexico City: it's a very large building for ecommerce, very well located in Punta Norte. This building will be delivered at the end of the year, and we were able to lease this quarter to a great ecommerce company as mentioned.

So, in the process, sometimes we need to do a couple of adjustments and sometimes that generates certain delays. That was actually the case of Queretaro, one of the projects which is leased to Eaton. We're working close with them, and there has been some minor adjustments, which represent some adjustments also on the date. So it is a bit common that this might happen.

Then there was another adjustment that we had to do, and this was basically because it took us a little bit longer to start the building as forecasted, and it was merely based on the start that took us later to start basically. And we will let you know every time there's a situation with any of the dates, but we feel very comfortable that it doesn't represent a major impact to our potential income or value proposition.

Operator
Your next question comes from the line of Francisco Suarez of Scotiabank.

Francisco Suarez
The two questions that I have. I've noticed that Foxconn now is one of the most important tenants. Any plans to go beyond that? Perhaps offering a full park or consolidating other assets that Foxconn may have in Mexico in a single park as they usually want?

And the second question that I have is if there is any reason that explains why the buildings in Tijuana and Juarez haven't been leased at all? I mean these markets of Tijuana and Juarez are totally sold out, perhaps it is related with the fact that perhaps the tenants are willing to have more energy-intensive buildings over there and you don't have the KBAs for those type of tenants. Anything missing that explains why these three buildings haven't been leased so far?

Lorenzo Dominique Berho
Great. Thank you, Francisco for your questions. Let me start by the latter: Yes, we have some buildings that have recently been finished, and we are currently in the marketing stage.

In both cases, Tijuana and Ciudad Juarez, these buildings are still being marketed. But bear in mind that, for example, in Ciudad Juarez, we have leased four buildings out of the five buildings that we developed throughout the last year pretty much. So there's only one building, which is currently on marketing stage, out of the five. The other four buildings are leased to DB Schenker, to BRP, to Sage Electronics, and another one is currently on a letter of intent.

So we feel very comfortable with our position to have one project available on a marketing stage, and we're waiting until the best tenant to take this building. Nothing to do with energy. Actually, the park is already running -- as a good example is the clients that we have already started operations.

And the same situation for Tijuana, where we leased to Home Depot, we lease to Amphenol, Herdez and other companies, and we're currently working with some great companies to take this space, and we sometimes are a bit more patient to take the best client rather to take immediately a client. Normally, we give 12 months for a lease-up. Our underwriting considers 12 months of lease-up stage. That's why we will be converting these to the third quarter of 2024 to stabilize, but hopefully before that, we might close the transaction.

Regarding energy, it's interesting, but for example, in Tijuana, we did a major investment in energy. And probably the Vesta Park Megaregion is a project with the most energy out of the whole region. So it has nothing to do with it. Actually, we have more energy available just because the type of clients that we have leased require our light manufacturing, which require smaller amounts of energy.

And that's why we feel actually very comfortable that we will have excess energy in Tijuana, which is a greater advantage and our marketing team in Tijuana knows how to position that very well to be able to capture a great company.

Francisco Suarez
You are more selective in other words, I mean you can be more selective at how market conditions are at this moment. That's the reason why.

Lorenzo Dominique Berho
Exactly. If you look at our numbers and the total portfolio, basically, this is the only property we have available in Ciudad Juarez and Tijuana, these are the only properties. So it's part of the development process, and hopefully, we can have some closing soon, but we feel comfortable with the dates. So there's no major delay to underwriting.

Regarding Foxconn: absolutely, Foxconn is one of the best examples of nearshoring where they have been expanding rapidly in Mexico, particularly in Guadalajara, because they already had presence before Covid. Since all of these disruptions have happened in terms of trade, supply chains and adjustments- which have benefited nearshoring, friend-shoring- and Foxconn has been a great example of growth. They have taken several buildings inside of our campus, of the Vesta Park Guadalajara.

And so basically, they have a good position in several buildings where they're going to be incredibly active with several electronics manufacturing components. I'm pretty sure that Foxconn will continue growing, and I'm pretty sure that other companies similar to Foxconn will have a similar process going forward.

Operator
Your next question comes from the line of Felipe Velarde from Citi.

Felipe Velarde
Good morning. My question is around 2024 guidance. First quarter P&L: could we expect the same level of margin for the full year, beating guidance?

Juan Sottil
Your question was a little bit garbled. So I understand that you're asking about our rental growth, which was outstanding. I agree with you. And you were asking about the question itself. Can you repeat it, please?

Felipe Velarde
Yes. About the NOI and EBITDA margins too. Should we expect the same level of margin for the full year?

Juan Sottil
Yes. NOI for sure, we will continue to be expecting higher NOI throughout the year. In terms of EBITDA, we have a higher impact of the peso exchange rate in those. But I feel confident that we will be on guidance throughout the year.

Operator
Your next question comes from the line of Alejandra Obregon of Morgan Stanley.

Alejandra Obregon
I just have one on capital allocation. So I'm thinking if you think of macro conditions, probably interest rates higher for longer, as you balance that with construction cost, your requirements for more land, you just dropped the Apodaca properties into the development pipeline. So you're probably looking at some acceleration there.

So when you put all those things together and your debt and equity program, when do you think you could potentially be tapping the market, either debt or equity again? And when you think of your capital allocation structure or your capital structure, where do you see equity and debt balancing for you and going forward, if that makes sense?

Juan Sottil
Sure. It's an excellent question. Look, we have a dry powder for more than $430 million somewhere around there. I think we do expect to invest about north of $300 million this year, all-in-all. So I think that we have about 18 months or 20 months of dry powder to invest.

We will tap the market at some point. I think that there are both opportunities in debt. I do agree that it's higher for longer, but we live in “the longer”. So in terms of inflation coming under control in the U.S., I think that rates are going to be more amicable.

In regards of equity, we take equity decisions very carefully. We have a good and strong balance sheet. So we will see what's the best way to fund the company at some point in the latter part of next year. I don't see any offerings in either of the equity or debt.

Alejandra Obregon

Got it. And do you mind reminding us how much is your debt program -- how much has it been approved?

Juan Sottil
Wow, I think $1.5 billion, somewhere around there at our shareholder meeting of last year, I think that we did it for $1.5 billion, give or take.

Operator
Your next question comes from the line of Isabela Salazar of GBM.

Isabela Salazar
I have two questions. The first one is I was wondering if you could give a bit of color on the non-tenant reimbursement during the quarter. I'm just trying to understand what this means.

The second question is: I saw you sold some land in Queretaro. I was just wondering what the driver for this sale was and also if you could share your thoughts on the dynamics in the Bajio region?

Juan Sottil
Sure. We invest on behalf of the tenants on tenant improvements. I mean there are some investments that tenants want that we basically say that they are not part of our interest and tenants ask us to do them anyway. So we manage the construction process of those tenants. At some point in time, they reimbursed us. That was the case for a larger amount in this particular quarter. It was about $14 million. So we got reimbursed. It was a major investment. It has to do with the properties that we sold in Queretaro some time ago. That's why the number is so large. It's not common that amount of tenant improvement that we manage on behalf of our tenant.

Lorenzo Dominique Berho
Regarding the land sale: this was a nonstrategic asset outside of the Industrial Park and it's always better to clean some assets. It's very small, below $1 million, and it was a major premium. Nevertheless, it was a small transaction.

Operator
Your next question comes from the line of David Sara of Scotiabank.

David Sara
I have a few questions. The first one is related to the asset recycling strategy: should we expect divestments in other regions?

And my other questions are related to the development program: is there any environment that could affect the delivery timeline?

And: what should we expect from lease-up in the next quarters?

Lorenzo Dominique Berho
Great question. Thank you, David, for your question. Since we incorporated the Level three strategy, we initiated an asset recycling program. We have done that in the past. Nevertheless, right now we are focusing on the capital deployment from the funds raised recently from the IPO in the New York Stock Exchange. That's why we're more active on investment and development. And in that regard, we foresee a strong pipeline, as Juan mentioned, above $300 million of investment throughout this year.

That's where we're going to continue seeing a strong development activity. When we start buildings, we don't see any major variables. As you remember, we have third-party contractors that take the responsibility of construction. We have different contractors. So we have managed the risk on development very well, in that regard. The markets where we're investing spec buildings are very strong. Leasing activity is very good, as was seen recently with some buildings being leased before construction ends.

And for that reason, we think that we will continue to see strong activity. Markets are at record high occupancies and supply is incredibly limited still for good quality buildings, and that's why Vesta, we believe, has a good advantage to take that opportunity. Lease-up buildings, again we have a strong local marketing team that is close by existing clients that might grow and other new clients and the broker community, which is always helpful to bring new opportunities for our buildings.

Operator
And your next question comes from the line of Jeronimo Delgado from Santander.

Jeronimo Delgado
Congrats on the results, first of all, this is great for the company. Apologies if my question was already asked and I missed it, but just wanted to ask given the current interest from multiple players in the market on Fibra Terrafina: is it something you are currently evaluating as well? Is it something you're interested in? Would like to get some color.

Lorenzo Dominique Berho
Thank you, Jeronimo. That's a good question. What I can say is that Vesta will continue focusing on its investment pipeline that we have presented.

We believe that that particular focus and discipline is giving us the ability to capture opportunities at above market returns with higher spreads. And for the moment, we have a greater strategy through development through higher rents and through being able to capture a leading position in many of these markets.

It's a crowded transaction. I'm glad that there is a lot of interest that's important for the sector. It's very important for the industry. For the moment, we want to keep that discipline to our shareholders and keep the strategy that we have maintained, which is giving us a great edge for the opportunities that Mexico is presenting at the moment.

Operator
There are no further questions. I'd now like to turn the call back over to Mr. Berho for concluding remarks. Please go ahead, sir.

Lorenzo Dominique Berho
Thank you, Operator. 2024 is off to a great start, and our portfolio results remain solid and the Vesta team continues to drive long-term value creation. We're very well positioned to take advantage of new opportunities with a strong capital base.

As a team, we are laser focused on execution and our long-term strategy. Thank you, to the Vesta team. Thank you to our shareholders and see you on our next call. Thank you.

Operator
This concludes today's conference. You may now disconnect your lines. Thank you for your participation.