Vesta Industrial Real Estate

Fourth Quarter and Full Year 2022 Earnings Conference Call

February 16, 2023

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PRESENTATION

Operator

Greetings, ladies and gentlemen and welcome to the Vesta Fourth Quarter and Full Year 2022 Earnings Conference Call.

At this time, all participants are in a listen only mode. A Question & Answer session will follow the 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.

Fernanda Bettinger

Good morning, everyone and thank you for joining our fourth quarter results.

With me today are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer.

The earnings release detailing our fourth quarter 2022 results was wired yesterday afternoon, and it's available on the Company's website. This conference call is also being broadcast live on the Investor section of the Company's website at vesta.com and the webcast replay of the call will be available at the same site approximately one hour after the end of today's call.

Before we begin, I would like to caution listeners that during the course of this conference call, Management will make projections or forward-looking statements regarding future events, including statements of our business assets strategies, demands, and markets, as well as trends that may continue. Management uses these measures to establish operational goals and review operational performance based on current assumptions and believe that these measures may assist investors in analyzing underlying trends in the Company's business over time. These statements are subject to risks and uncertainties that could cause actual results to differ materially. We undertake no obligation to update them as a result of new information or future events.

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

Let me now turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho

Thank you, Fernanda. Welcome everyone.

Vesta closed an extraordinary 2022, delivering outstanding operational and financial performance while advancing our Level 3 strategy. Vesta's excellent fourth quarter and full year results were driven by continued nearshore and tailwinds, and by the ally-shoring that more recently has gained traction. Ally-shoring, or friend-shoring, is a collaborative twist on the concept of nearshoring, where we're leaning into trade and co-production relationships with the friends and allies we trust.

This was boosted by the North American Three Amigos leaders summit in January, when the region's leaders vowed to tighten economic and trade ties in North America. The U.S. and Mexico have grown to recognize that not only is ally-shoring more cost-effective than onshoring, it's the most powerful path to make critical supply chains more reliable and resilient, and the best way to build our mutual economies.

These trends drove extremely tight market conditions throughout the year and fourth quarter was no exception. We're seeing historically low vacancy rates with increasing rental rates per square foot, particularly in Vesta's core markets. Essentially, all construction is being absorbed at rates we have never seen before. In 2022, we delivered some all-time record performances, exceeding the upper range of our revised revenue guidance to reach $178 million, a 10.7% increase year-over-year. Full Year 2022 NOI and EBITDA margins exceeded guidance, reaching 95% and 84.4% respectively.

In terms of net asset value per share, we reached $2.86 per share, an increase of 10% year-over-year, and AFFO per share of $0.15, an increase of 22%. Vesta also achieved record high 2022 leasing activity, closing more than 10 million square feet, just under 4 square feet from new leases with clients such as DSV Logistics, Amazon, Eaton, Home Depot, Foxconn, Safran, and Cummins among others.

Lease renewals for the year reached 6.7 million square feet, another historical high for Vesta with a seven-year average weighted lease life and a 7% positive spread, and Vesta's rental rates overall have been increasing well above inflation, successfully passed through to our clients.

As the key nearshoring markets, Monterrey, Tijuana, and Ciudad Juarez are absorbing a significant part of the country's demand so far.

We are particularly well-positioned in the Monterrey market, having anticipated today's explosive demand when we acquired land for our new Vesta Park Apodaca, which is currently under development. This has enabled us to continue expanding within a location where we're already adding value. Our approach to this and similar markets is an excellent example of how Vesta is developing industrial parks of outstanding quality and standards, and which effectively capture today's opportunities through urban infills as Vesta develops vacant or underutilized land parcels within existing developed areas.

Following quarter's end, in January 2023 we preleased two buildings with Polaris, a global industry leader in power sports recreational vehicles. The buildings are currently under construction at the Vesta Park Apodaca under a long-term lease which comprises a total of 577,000 square feet. Polaris made a meaningful investment in Mexico, adding back shop capacity while also investing in vertical integration and capacity expansion in the new location.

We're seeing demand expand beyond Guadalajara and Monterrey to less saturated markets as well. CBRE noted that dynamics in the Bajío region are improving, and vacancy rates closed at just over 4%, the lowest since 2018. Throughout the year, roughly 50% of our new leasing activity has come from the Bajío markets.

Turning to the key aspects of our strategy. Throughout the year, Vesta has been developing its parks with optimal last-mile logistics opportunities. It's important to note that logistics and live manufacturing are not electricity- or water-intensive industries, so ensuring Vesta Park has the capacity to provide our clients with the necessary utilities and resources is not a problem that we haven't already solved. Vesta Parks are well-connected to roads and railroads, guaranteeing simplified logistics with the reduced transportation cost and risk that our logistic clients need. This is another instance where Vesta's considerable industrial real estate experience is an important advantage for us.

Manufacturing companies demanding building criteria and restriction creates a unique opportunity for companies like Vesta that have extensive experience in industrial restate. Our 25 years building premier properties represents an important differentiator to our clients.

In the fourth quarter, we acquired 52 acres of land in the San Martin Obispo area of Mexico City, 1 million square feet, and located adjacent to one of Mexico City's main roads, which also ensures optimal connectivity. This best-in-class location is ideal for last-mile distribution and logistics and another addition to Vesta's increasing footprint within Mexico City and metropolitan areas, as I have described, in line with the Company's Level 3 strategy and related growth plan.

E-commerce expansion will fuel the need for more warehouse space, as well as the growing economic population migration and the desire for safety stock onshore. During the fourth quarter, we also completed the acquisition of two buildings in Toluca, expanding our footprint in the state of Mexico's submarket, further penetrating the central region.

Today, industrial real estate is leased as quickly as it is available, and there is little signs of slowing, particularly in those markets where Vesta has a presence. While we don't expect current trends to change for the foreseeable future, this will only be contained by the limits of Mexico's infrastructure to continue to support development on a massive scale. Today we see the extraordinary leasing demand as manageable and Vesta will maintain a disciplined approach of profitable and sustainable growth.

Finally, regarding the ESG as a pillar of our Level 3 strategy, we achieved important milestones during 2022. Vesta was included within the S&P Bolsa Mexicana de Valores Total Mexico Index for the third consecutive year and within the S&P year book for the first time. Vesta was also selected for inclusion within the 2023 Bloomberg Gender-Equality Index, which is important recognition of the Company's commitment to supporting gender equality. Vesta is also on track to achieve our related to the sustainability-linked bond we issued at the beginning of 2022, having ended the year with five new LEED-certified buildings.

With that, let me turn it over to Juan, and then we'll stop with some brief closing remarks.

Juan Sottil

Thank you, Lorenzo and good day everyone.

Let me briefly discuss some key financial results. Starting with our full year performance, 2022 was another year with a record result for Vesta, as Loren has noted. We delivered outstanding financial results, we exceeded our upward annual guidance revision while reaching several historical records in key metrics, such as leasing activity and renewals.

We achieved $178 million in revenue, representing a 10.7% increase year-on-year and 270 basis points above the upper end of our revenue guidance between 7.5% to 8% for the Full Year 2022. NOI and EBITDA margin also exceeded our revised guidance by 100 basis points, which is 95% and by 93 basis points, reaching 84.4%, respectively.

Let me now turn to our fourth quarter results. Beginning with our top line, total revenues increased 14% to $47.4 million, mainly due to initial rental revenue coming from new leases and inflationary adjustments on rental property during the quarter. This was partially offset by a decrease in rental income related to properties sold at the end of 2021. As a reminder, all of our lease contracts are indexed inflation. Therefore, we continue to benefit from the favorable effect of higher-than-expected inflation on our top line results.

In terms of occupancy needs of the fourth quarter revenue, 82.2% was denominated in U.S. dollars, decreasing from 83.6% recorded in last year's comparable period, mainly reflecting higher other income, which is recorded in Mexican Pesos.

Turning to our cost structure. Total operating costs maintained relatively stable at $3.8 million in this quarter. Net operating income increased 14.5% to $44.6 million, driven by higher rental revenues, while the margin expanded 4 basis points to 94.1%, mainly due to higher income from increased portfolio occupancy.

While administrative expenses were up 60.2%, this was mainly due to an increase in employee benefits and the noncash expense in the Company's long-term compensation plan and during the fourth quarter. In turn, EBITDA reached $39.8 million in the fourth quarter of last year, a 15.9% increase compared to the prior-year's quarter, and the margin increased 138 basis points to 83.9%, as compared to 82.5% for the same quarter of last year.

Moving down the P&L, total other income reached $36.4 million compared to $44.0 million in the fourth quarter of 2021. This decrease was mainly due to lower property valuation gains and lower margins from property sold in this quarter, partially offset by a positive variance in foreign exchange results. As a result, we closed the quarter with a pretax income of $74.2 million compared to $76.6 million in the fourth quarter of 2021, while the pretax FFO increased 18.6% to $27.5 million, and NAV per share increased 10.1% to $2.86 from $2.61 per share in the same quarter of 2021.

Now, turning to our Capex and portfolio composition, we invested $86.6 million in the quarter, mainly in the construction of new buildings in the Northern and Bajío regions, land acquisition, and the new portfolios we acquired. At the end of the fourth quarter, the total value of the portfolio was $2.74 billion, comprised of 202 high-quality industrial assets with a total G&A of 33.7 million square feet and with 82.2% of total income denominated in dollars.

Year-over-year, our stabilized portfolio grew 5.9%, 32.9 million in square feet, with occupancy of 94.4% from 94.3% in the fourth quarter of last year. We ended the year 2022 with a land bank of 39.6 million square feet, down 2.9% sequentially due to the use of land in Tijuana, Monterrey, Guadalajara, and Silao, and we began construction of eight new buildings during the fourth quarter of last year. This was partially offset by new land acquisitions in Mexico City.

Turning to our balance sheet, we closed the quarter with a total debt of $931 million and our cash position stood at $139 million. Net debt-to-EBITDA was 5.3-times and our loan-to-value ratio was 31.5%. As a reminder, in Q3 we closed a $200 million sustainability-linked revolver line of credit to provide us with additional liquidity when necessary. Subsequent to quarter end, on January 13, we paid a cash dividend for the fourth quarter of 2022, equivalent to $0.40 per share in pesos per ordinary share.

Finally, I would like to disclose our outlook for the year-end. We are expecting to increase revenue between 13% to 14% year-on-year, while we expect to achieve 93% NOI margin and 82% EBITDA margin for the Full Year 2023.

With that, this concludes our fourth quarter and Full Year 2022 review.

Operator, could you please open the floor for questions?

Operator

Thank you. Ladies and gentlemen, at this time we will be conducting a question-and-answer session.

Our first question comes from the line of Gordon Lee from BTG. Please go ahead.

Gordon Lee

Hi. Good morning. Thank you very much for the call and thank you for taking my question. I actually have two of them. One for Loren, one for Juan.

Loren, I was wondering if you could give us a little bit more color on the acquisition in Toluca because it obviously seems like this is a perfect environment for development, just given how tight the market is and how strong absorption is. So, I was wondering if there was anything about those two buildings in particular that you saw strategic, and whether this is a one-off or whether we should expect more acquisitions to stabilize properties going forward.

Then the other question, the question for Juan, and this is a question that we ask every year when you give guidance, and throughout the course of the year, you end up beating that guidance, but the question is, given the big jump in revenues, why the more conservative expectations for NOI and EBITDA margins in the guidance? Is it just conservatism or is there something there? Thank you.

Lorenzo Dominique Berho

Hola, Gordon, and thank you very much for being in the call.

The acquisition we did on the properties in Toluca was a great opportunity to close on two stabilized properties which are part of a supply chain for a major auto manufacturer, which is actually adapting production lines for electric vehicles. We think that this is a key market for Vesta.

We were able to acquire it with low replacement costs, and our approach towards this type of acquisition will continue to be opportunistic. As long as we can be able to buy good quality assets with good tenants with good leases in a sector and market that we like, we will continue to have this type of approach opportunistically. Actually, we are analyzing further acquisitions. As you might see, these are not large in size, but we think that given our exposure in the market and the region, we believe that there could be also more opportunities looking forward within this type of assets.

Returns are attractive from a risk-adjusted return perspective, and I believe that we are still looking for land in Toluca to be developed, and as long as we can be able to find good land at the right price, we think that this is a solid market that will continue to grow in the electrical vehicle industry as well as logistics, e-commerce, among other sectors.

Juan Sottil

Gordon, thank you for the question.

Look, the guidance that I provided is prudent. Let me tell you why I err on the prudent side this year, and I again erred on that side last year. This year, I'm prudent because the financial conditions of the market are quite volatile. We do not quite know what the end of the figure of inflation is in the U.S. Just this week and last week there were significant revisions, for the U.S. market that is, on inflation expectations, on the possibility of continuing the Fed intervention. The Fed intervention and the response of the Banxico are teaming local Mexican interest rates way to high, and that has created an incredibly strong peso. I do not know how long the peso will continue to be strong.

Please remember that Vesta is a very dollar-like company; 82% of my revenues are dollar denominated, but let's not forget that at the opposite side of the coin, 15% is peso-based, and as the peso is very strong and all of my costs are related to pesos, all of my costs are related to pesos, a total strong peso sustained by locally high interest rates begs the question, what is the exchange rate that I can use to forecast my peso cost in dollar terms, and therefore my NOI and EBITDA. Particularly tricky.

So, that's the sightline. I'm basically being prudent and continue with an exchange rate that reflects the strength of the growth in sales and its impact on the income statement, while just underlying that my basic costs are peso-based.

Gordon Lee

Perfect. That makes sense.

I'm not sure whether this is something you want to disclose, but the peso assumption that you're considering in this guidance, is this more or less around where spot levels are today? Or is it where it ended the year?

Juan Sottil

I'm being prudent just above 19 pesos, and I mean, let’s say, 19 pesos even, but if the peso continues to be below 18.60, 18.65, whatever, that creates a risk event for me.

Gordon Lee

Super. Thank you very much.

Operator

Thank you.

Our next question comes from the line of Jorel Guilloty from Goldman Sachs. Please go ahead.

Jorel Guilloty

Good morning. Thank you for taking my questions.

First off, I had a question around vacancies. I imagine this has something to do with the timing, but just if you can help us think about the Tijuana vacancy, you did have a material amount of deliveries there, and it's about 7%. Is this something that we should expect to narrow down rather quickly in 1Q? Or is it that you have some space for spec leasing perhaps that we're not aware of up for 1Q ’23?

The other part is the Bajío region continues to see improvement, as you mentioned in your comments earlier, and I was wondering if you can—I know you don't provide guidance specifically for vacancy, but I just wanted to get a sense of where do you see the vacancy rates going for the Bajío, which are currently around 7% in the near term? Should we expect them to approach north and center levels as they are in your portfolio? So, those are my two main questions.

Lorenzo Dominique Berho

Thank you, Jorel.

I think you touch on a very important point that is a main driver of the current environment and real estate fundamentals. Definitely, we're seeing historic low vacancy rates, not only in investors' portfolio but overall in the market. Actually, even that we care about our occupancy, we also care a lot about the type of property, the property tenants that we lease to, and the rents we lease to. So we're trying to achieve both things, trying to get the best tenants with the best leases at the highest rate possible.

In that regard sometimes, as you mentioned, in Tijuana, we might experience a little bit longer period of time in order to close good transactions, and I think that with such a strong market it's better to wait a couple of months with a vacant building rather than lease too quickly and probably not in the right conditions.

Just to use the example of Tijuana, as you could see, we were able to lease the first building to Home Depot, its logistic warehouse facilities, the second one for Herdez. Both of them focused in the consumer market, which is expanding rapidly, e-commerce as well as Food and Beverage, very resilient sectors, but we're currently viewing also the new buildings that we recently finished with other sectors, including Electronic sectors, Medical Devices as well as others related to nearshoring.

So, on that regard, I think that we're very excited that we are able to not only develop—to not only being able to have available buildings, but where it is going to be very profitable transactions. Actually, we might be even closing way above our underwriting assumptions that we did when we started the development process of the operation in Tijuana.

That particular example of Tijuana is repeating itself in different markets such as Juarez, Monterrey, Guadalajara, where rents are increasing dramatically, and we're capturing all that value by leasing at very high rates, historic high rental rates, with good leases and great tenants. We leased recently to Foxconn in Guadalajara a larger facility focused in the Electronics sector.

The Bajío region is performing also incredibly well. We actually started construction of a couple of new building in Puerto Interior in Guanajuato, just because we are seeing that demand is picking up again. We were able to lease good buildings throughout the year in San Luis Potosi. So, we're going to have a poolside to the market. We're going to see where opportunities arise, and we're going to have a well-disciplined approach towards development and try to capture good risk-adjusted return projects in all of these very dynamic markets.

Jorel Guilloty

Thank you.

Operator

Thank you.

Our next question comes from the line of Javier Gayol from GBM. Please go ahead.

Javier Gayol

Hi, Lorenzo, Juan. Good morning, and thanks for the call. Congratulations on the results and the record year for the Company. I have two questions if I may.

First, we were positively surprised by the price paid for the landmaking in Mexico City. Maybe if you could give us a little bit more color. Is this land ready to develop, or is Vesta needing to put more money into it for it to be ready? That will be my first question.

My second question, maybe a little bit more strategic, but you guys had very good timing regarding capital markets, and your plan of expansion seems to be going at a very fast pace, so I think my question here is, do you guys think that maybe there's more potential for growth within the markets? Given the dynamism that we're seeing, and there's record low vacancy, there's increases in prices, would you guys expect or maybe think of maybe increasing your potential development? Or are the Company's capabilities set at the guidance that you guys provided?

Lorenzo Dominique Berho

Thank you, Javier. Thank you for being on the call and thank you for your question.

Regarding the first question on Mexico City, we are very excited to being able to acquire a great piece of land in the Periférico Norte closest to the La Venta-Chamapa highway in the San Martino Obispo area. This is also a location known as Punta Norte. So this is a fantastic opportunity to acquire 20 hectares of land exactly at the moment when we're seeing a rising market with demand accelerating and rents increasing. That's why we're very happy to be able to close that land.

You're right, I think that the price per square meter of land has been increasing in the market; however, rental rates are increasing, and we are able to develop a large distribution logistics facility and still get great risk-adjusted returns in a market that is very strategic for Vesta to penetrate and keep on growing with some of our existing e-commerce clients as well as other ones that are entering the market.

So, from a risk-adjusted return perspective, we're incredibly happy with having this opportunity. This is going to be our second trophy asset in the Mexico City market. One million square feet is not easy to find and not easy to develop, particularly in this strong market with this environment characteristics. We will be developing soon. Hopefully, we can break ground first semester of 2022, which we present or will have a results that the buildings will be available at some point next year and start generating income at some point in 2024. So yes, it shouldn't take very long.

There's plenty of potential for growth for Vesta, not only in the Mexico City market, but also in other markets. We are seeing that the Vesta buildings are absorbing very rapidly. That's what we have seen in Guadalajara. That's what we're seeing in Tijuana, in Monterrey. Now with the Polaris project, which not only were we able to lease all of the existing buildings we have under construction, but also there's an opportunity to keep growing with Polaris as they would like to expand their manufacturing facilities to produce ATVs for the North American market primarily. This will represent an acceleration to our growth plan in those objective markets that we have already identified.

So, we're going to be very active throughout the year in development, very active in leasing, and also very focused in still getting the best clients, investment-grade clients with long-term leases, U.S. dollar leases, and keep on our focus on profitability to increase net asset value per share as well as FFO per share.

Javier Gayol

Thank you, Lorenzo. Super clear. Thank you.

Operator

Thank you.

Our next question comes from the line of Alejandra Obregón from Morgan Stanley. Please go ahead.

Alejandra Obregón

Hi. Good morning, Vesta team. Thank you for the call and for taking my question. It's actually two questions from my end.

The first one is on guidance. I would like to ask the guidance question differently, if I may. I was wondering if you could provide some of your specific assumptions used for your 2023 outlook, and then perhaps what are the main variables that you think could drive upside or downside to it? So, you did mention FX, but what about the macro and the micro variables? Is there any other that you think we need to take into consideration or maybe on the cost side that could drive upside to what you mentioned?

My second question is on some of your comments on the release. So, you were saying that there's a contribution to rental revenue from a space that was previously vacant, and then some decrease from the expired rents that were not renewed. Just wondering if you could elaborate on these dynamics, but from a regional perspective. Where are you seeing more demand, and where do you think you are facing more resistance? Thank you.

Juan Sottil

Thank you. Quite good questions. Let me just try to be brief on the explanations.

First of all, on the revenue side, as we have inflation in all of our leases, the inflation expectations that the Company has, they are an important bearing on our sales growth, so those things have an effect on how much our sales will grow. As you pointed out, I think, when we need our substantial pipeline, there is a very important role as well. We have an important development pipeline. Most of it today are the spec buildings. Therefore, when those buildings are going to be leased at the market rates, which are significantly above our in-place rent, it also affects guidance on the revenue side.

So, on the revenue side, what we view at the beginning of the year is inflation, leasing assumptions of our development pipeline, how quickly we're going to be leasing them. If you take a look at my development pipeline, it's quite substantial. It's the largest development pipeline that we have ever had, so that's an important assumption. On the total portfolio, U.S. inflation is an important variable. On the revenue side, exchange rates play a role; 18% of my revenue is peso-denominated, so it has a variant.

Now, on the cost side, as I mentioned before, the vast majority of my expenses, both at the property level and at the administrative level are peso-based. So, where we view the exchange rate has an important bearing on the guidance. We are quite optimistic on our leasing assumptions. Therefore, the revenue guidance of 13% to 14%—12% to 13%, sorry there is a slide correction here, 13%-14%, I believe is quite aggressive, and it basically responds to the items that I said before.

Those more or less are comfortable to us. The exchange rate is more difficult, Alejandra, to forecast. Again, the peso on this administration, historical strength level, calls for prudence.

Alejandra Obregón

Understood. That was very clear.

On the dynamics of the different renewals and vacancies, can you provide some color on what you're seeing from the different regions?

Juan Sottil

We're increasing rates on all our rollovers across all regions, so we're very optimistic on that. We are making very strong assumptions about the leasing rate of the spec buildings we're developing in all of the regions across the board, from the Bajío to Tijuana. Again, that's an important source of value to Vesta, not only to increase the rates on the rollovers that we do, but the fact that with a strong development pipeline we are basically leasing at the top of the market in terms of leasing rates across all of Mexico.

Alejandra Obregón

Got it. Thank you so much for the color, and congratulations on the numbers.

Operator

Thank you.

Our next question comes from the line of Renata Cabral from Citi. Please go ahead.

Renata Cabral

Hi. Good morning. Thanks for taking my question.

I have two here. It's, in fact, a follow-up regarding the acquisition you've made this quarter. The acquisition to develop a spread for this transaction was 180 bps, and if you continue to find deals with this low spread, can we expect for you to continue acquiring? Or would a larger spread, let's say, 250 basis points make an acquisition become unattractive?

My second question is a hypothetical one. If hypothetically, you wanted to become a FIBRA, what would be the cost and taxes involved, and if you can talk about the trade-off of this decision? Thank you.

Fernanda Bettinger

Sorry, Renata, we cannot hear you clearly. Can you repeat your questions?

Renata Cabral

Sure, I will speak a bit louder. Thanks again for the opportunity.

It's a follow-up regarding the acquisition versus development. It is the spread for this acquisition that you've made was 180 basis points. If you continue to find deals with this low spread, should we expect for you to continue acquiring?

The second question is a hypothetical one. If hypothetically you wanted to become a FIBRA, what would be the cost and taxes involved, and if you can talk about the trade-off of this decision?

Lorenzo Dominique Berho

Thank you, Renata. Did you mention 180 basis points on top of what? Sorry.

Renata Cabral

If you continue to find these attractive deals, if you should expect to see other acquisitions on this front?

Lorenzo Dominique Berho

Great. Thank you, Renata.

I think that this is a good point. As you know, we regularly focus our capital allocation strategy towards development where we can find attractive returns. However, every now and then, we also analyze acquisitions. Not every time that we're able to find acquisitions at attractive returns. Some of them have been pricing recently in Mexico in the low 6% cap rates. Therefore, every now and then, we're able to find even smaller transactions like the one that we did in Toluca.

As long as they fit our market strategy, as long as they fit our quality of projects and the quality of tenants, and we are able to buy below replacement cost and have an opportunity to increase rents, we believe that there could be value creation for our shareholders, and therefore, we will continue to analyze acquisitions.

Our main objective is to continue developing. We have an important pipeline of over $1 billion, but every now and then, we think that opportunistically, we should be analyzing and acquiring whenever we see an attractive return and in line with our growth and portfolio strategy.

Juan Sottil

On the second question, basically, we don't see any value in converting to a FIBRA structure for our shareholders. Basically, I think that the ability to retain earnings is a powerful motor for value creation. I believe that our point of view that a FIBRA is better suited for an acquisition strategy as opposed to our Company, a development strategy, so I don't see any potential incentive for that conversion.

Renata Cabral

That’s super clear. Thank you.

Operator

Thank you.

Our next question comes from the line of Francisco Suarez from Scotiabank. Please go ahead.

Francisco Suarez

Thanks so much. Good morning. Congrats on your superb execution.

The question that I have is a follow-up on Gordon's question related with acquisition on your buildings in Toluca. Can you walk us a little bit more on what has changed if anything on your risk underwriting standards related particularly with certain industries that are in transition. For instance, in this case, it was the auto industry, and you mentioned when you were answering Gordon's question that this were heading towards EV. So, in other words, what are you considering now in your risk underwriting on certain value chains that are transitioning like the auto industry?

My second question—well, now that you have been deployed a lot of your excess cash after the last equity follow-on, and considering that you are now closer to net debt to EBITDA, so roughly 5-times net debt-to-EBITDA, are you considering that it is the right time to go to the market again and do another equity follow-on to fund your growth? Thank you.

Lorenzo Dominique Berho

Thank you, Francisco.

Yes, so one of the things we like about this transaction is that it has great tenants. Actually some of the tenants are part of Vesta's already tenant roster with clients such as HBPO, Android, Sakina, Rozay, all of these are global suppliers to the auto-industry that are very, very successful. The acquisition was done at almost 15% below replacement costs at a cap rate of approximately 8.5%.

That's why these tenants that manufacture front-end suspension systems, tire and wheel assembly, we think that can cater and adapt very well to the growing electric vehicle industry as well as the traditional combustion engine industry. This is going to be a part of the supply chain of the new Jeep Compass, which is an electric vehicle expected to be produced in Toluca shortly, as you have probably been seeing in some of the news.

So, that's why we really like this acquisition. Very much in line to the Vesta strategy and towards the sector. Even though it's small, we think that it's fully in line with our ability to grow in strong markets.

Juan Sottil

Regarding your second question, backlog. I believe that we have a lot of financial flexibility, and we have a very strong balance sheet and we will use our financial facility to increase, to continue with our expansion. We have a leverage ratio, which is substantially strong, 31%. So, there's plenty of room. I have a revolver line available. There have been several transactions in asset recycling done last year, so there's opportunities to do that. There is plenty of things that we can do.

Francisco Suarez

Following up on that last question, Juan, if I may. You just secured a revolver with a spread of 1.65, isn't it, so that's a good spread to continue to do what you're doing.

Juan Sottil

Our spread is 1.60, and we have a 5-basis point upside for ESG purposes. Therefore, I will talk of possible impact. I expect that this year, starting on June, to be 1.55 because we're way ahead of our ESG objectives. Therefore, since we use that revolver, and from our banking relationships, I can tell you that there's very strong interest in lending to our sector, to all of the real estate successful developers. So there's certainly a lot of opportunities to continue funding our aggressive growth.

Francisco Suarez

Got it. I'm talking about asset recycling, any budget whatsoever for this year on potential asset recycling?

Juan Sottil

We are always looking at opportunities. We do not have a specific guidance to provide because it really depends on the timing and what we feel from the market, but today, we don't have any specific guidance.

Francisco Suarez

Okay. Fantastic. Thanks so much. Congrats again.

Operator

Thank you.

Our next question comes from the line of Mariel Abreu from T. Rowe Price. Please go ahead.

Mariel Abreu

Hi. Thank you for the question. I have two things that I want to follow up.

I know you said you have some financial flexibility, you have some other sources of available liquidity, and you talk about asset recycling. Could you consider coming to the debt market, either local or international, to continue funding your growth? Can you maybe talk about funding needs for this year?

A second question, on the nearshoring theme, I've been hearing mixed thoughts about this, and I know it's been very positive for you, but talking with other Mexican players, especially in the financial side, they seem to be a little bit more cautious with this topic. The reason that they provide is that the infrastructure, especially energy infrastructure in Mexico, is not enough to support all that growth, especially with all the limitations that you have in renewable energy. So, just wondering how are you thinking about these and maybe limitations to the strong nearshoring driven growth that we're seeing right now? Thank you.

Juan Sottil

If you allow me, Mariel—thank you very much for the questions. Let me first answer the debt question.

We have a significant number of alternative sources for debt. The banking sector in Mexico is quite active and quite open to lend to my sector and to Vesta in particular. So, we will certainly take advantage of that.

We have been exploring all the banking type of loans—typically a five-year loan—without real estate guarantees, so just a clean loan to Vesta.

We have also been talking or receiving interest from investment banks to place our paper on private debt for longer periods, and there's a substantial interest in doing those types of transactions. So those two pockets of liquidity are still there, and they are they are deep, and we can tap them at any point in time. It's a matter of timing, and that's why I mentioned that I will use my revolver because I think that timing on this environment is crucial.

Now, regarding the local market, local debt—in the banking sector, I want to bring attention to you that Bancomext, the premier government bank, is offering a nearshoring, a line, to promote these activities within Mexico. Again, a lot of interest in lending to companies such as ours or to people that are bringing nearshoring opportunities.

The local financial market is basically denominated in pesos. I do not foresee issuing any peso-related debt. Banks are keen in opening peso-related debt converted into dollars. I don't like those transactions for a couple of reasons, but I will not go into details. So, leveraging the Company, I don't foresee any problems, any issue. It's just a matter of using the right market at the right time.

Regarding the other question about limits to the nearshoring because of infrastructure, let me just be very strong here that we haven't lost any transactions or any potential clients because of problems of electricity or water sourcing. Our client base is basically logistics, which you notice a lot of those resources or light manufacturers REMOVE which do involve resources in a heavy way.

The issue is productivity, we have the balance sheet to provide that, and we have been able to source the resources as the companies has needed them across all regions. So, look, I think that so far, we haven't hit that snags, in Vesta's case.

Mariel Abreu

Okay, so just to confirm, we should not expect you to be in the international market with a bond this year, unless you do something big or a big acquisition.

Juan Sottil

For global bonds, I would hesitate to tell you that you can expect me because I think that size is the issue and a few hundred-million-dollar global bonds, I frankly don't see every year. If the opportunity happens, maybe, but I hesitate to tell you. I think that there's alternative ways to form the company that are more attractive given the state of the market.

Mariel Abreu

Yes. Okay. Thank you very much. That's very helpful.

Juan Sottil

Thank you, Mariel.

Operator

Thank you.

Ladies and gentlemen, there are no further questions in the queue. I'd now like to turn the call back over to Mr. Berho for concluding remarks.

Lorenzo Dominique Berho

Thanks, Operator.

While we are pleased with our outstanding 2022 results, we are also focused on moving toward our future.

This year, our Company celebrates its 25th anniversary, which underscores our experience in the market, supported by a skilled team with considerable business know-how. Today's market environment has accelerated our plans, enabling us to unlock shareholder value to continue successful execution of our Level 3 strategy. We're therefore bullish and confident about the year ahead and are leveraging our extensive experience and competitive advantages to deliver where we maintain Vesta's long-standing philosophy of remaining vigilant to market dynamics and prudent but opportunistic in our investments.

Thank you to the entire Vesta team for your hard work and many successes throughout the year and in the future ahead.

Operator

Thank you.

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect your lines.