Vesta Industrial Real Estate

Fourth Quarter and Full-Year 2015 Earnings Conference Call

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PRESENTATION

Operator:

Good morning. My name is Manny and I will be your conference Operator today. At this time, I would like to welcome everyone to Vesta's Fourth Quarter and Full-Year 2015 Earnings Conference Call. Vesta issued its quarterly report on Wednesday, February 17, 2016. If you did not receive a copy via e-mail, please do not hesitate to contact the Company at +52-55-5950-0070.

Before we begin the call today, I would like to remind you that forward-looking statements made during today's conference call do not account for future economic circumstances, industry conditions, Company performance, and financial results. These statements are subject to a number of risks and uncertainties. All figures included herein were prepared in accordance with IFRS and are stated in nominal US Dollars, unless otherwise noted.

Joining us today from Vesta in Mexico City is Lorenzo Berho, the Chief Executive Officer; Juan Sottil, the Chief Financial Officer; and Iga Wolska, the Investor Relations Officer.

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

Lorenzo Berho Corona:

Thank you very much Manny, and good morning everyone. Thank you for your interest in Vesta and for participating in today's conference call.

Throughout Vesta's operating history, we have established an unmatched track record of consistent growth and a strong financial performance to become the leading industrial real estate developer in Mexico. In 2015, I am very proud to report that our Vesta Vision 2020 Strategic plan met its goals in the first year of operation. Over the year, we achieved a record increase in gross leasable area of 19.4% to 20.1 million square feet. This reflects the expansion of our asset portfolio of more than 3.2 million square feet, consistent with our six-year growth plan.

Crucially, we leased over 3 million square feet of vacant space, including the renewal of leases maturing in 2015 and 2016. Total leasing activity reached 5.5 million square feet. Same-store occupancy grew to 95.9% against 93.8% in 2014, while total portfolio occupancy was broadly stable at 86.7%. This achievement affirms our overarching strategy to double the size of our Company by 2020. Such solid growth, underpinned by our strong financial metrics, reflects the work of a focused team and demand for industrial real estate in markets where we operate.

In terms of funds from operations, I am also very pleased to report 23.6% growth during the year to US$40.1 million or 51% of sales. EBITDA was US$66 million, 84% of revenue growing 14.9% in 2015 to meet guidance provided to the market. This robust performance continues to reflect our unique structure. As we have no management fees, any growth in revenue is efficiently translated into EBITDA and FFO.

Reflecting on 2015, the period can be characterized as Vesta's strongest yet in terms of operational performance since our Initial Public Offering. We executed important strategic goals, increased our operational efficiency, and prepared the Company for continued expansion. Last year we hired 19 new employees, mostly in asset management, allowing our regional managers to focus on growth opportunities while maintaining our client-centric approach. Similarly, we hired additional development staff to facilitate our expected growth. We have also improved our internal controls by implementing a new CRM and MIS system.

Our successful completion of a $230 million follow-on offering provides us with a strong equity base needed to achieve our growth ambitions, while strengthening our balance sheet to help renegotiate our 2016 debt maturity.

We continually strive to present the most relative metrics and are committed to enhancing our reporting transparency in accordance with industry best practices. In this regard, we will begin to disclose metrics on a same-store portfolio basis using the NAREIT standard, while continuing to report total portfolio metrics.

As the economic climate for industrial real estate continues to improve, Mexico presents an unparalleled opportunity in global markets. We offer the best access to manufacturing goods to the world's largest economy, a young and educated work force, and an exchange rate that has enhanced our competitive advantage. At Vesta we have the skill, resources, and experience to adapt where necessary, while maintaining realistic targets. As always, our underlying philosophy is one of sustainable growth.

I will now hand the call over to our CFO, Juan Sottil, for a more detailed discussion of our fourth and full-year quarter results.

Juan Sottil:

Thank you, Lorenzo. Good morning, everyone, and thank you for joining us today. As Lorenzo mentioned, last year was one of successful execution for Vesta. We continue to expand our portfolio quality industrial buildings and distribution centers throughout key logistic manufacturers and freight carriers (phon) in Mexico.

As demand from our industry remain strong, Mexico's attraction as a manufacturing center due to lower cost and proximity to the US, is bringing clients from all industrial and geographies to our key regions. Our reputation for providing state-of-the-art industrial facilities places Vesta in a unique position to take advantage of these dynamic turning points through the fourth quarter.

Our portfolio consisted of 125 quality properties and Vesta increased its total gross leasable area to more than 20 million square feet due to the completion of five inventory buildings and the acquisition of industrial properties. Our fourth quarter vacancy rate rose to 13.29% from 11.67%, reflecting the completion of new inventory buildings which have not yet been leased.

As mentioned, we have introduced new operating metrics to help facilitate and issue comparisons with some of our US peers. Firstly, the stabilized portfolio occupancy is the metric most often reported by US REIT to illustrate portfolio occupancy. A property is generally considered stabilized once it has reached 80% occupancy or has been completed for more than one year, whichever occurs first.

On a stabilized portfolio basis, Vesta vacancy rates decreased 5.76% in the fourth quarter to 7.64% in the year-ago period. Vesta has also updated the definition of same-store occupants. Investors often evaluate the performance using a same-store analysis as the number of properties is consistent, eliminating the affects of changes in portfolio composition and performance measures. On same-store portfolio, the vacancy rate was reduced by 213 basis points to 4.10% in the fourth quarter from 6.23% in the year-ago period. We have provided a reconciliation of the results based on these updated definitions in our financial statements.

During the period, we continued the construction work on 10 buildings with a total GLA of 1.9 million square feet and a total investment of $92.9 million. Vesta also signed eight new leases for investor buildings in Toluca, Querétaro, and Tijuana with multinational companies in various industries, including plastic, electro domestics (phon), logistics, and the automotive sector.

In terms of our key financial results, revenue increased by more than 11% to $20.8 million in the fourth quarter. Our operating costs as a share of total Rental income fell 398 basis points on a year-on-year basis as Rental income properties continue to rise faster than the increases in operating costs. Net operating income grew 11% to more than $20.12 million in the fourth quarter, driven by the Company's ability to lease buildings and contain cost increases.

NOI margin was broadly stable during the quarter, but expanded 70 basis points over the full-year to 96.7%, reflecting our growing efficiencies of scale. For the year ending December 31, 2015, NOI was $75.98 million compared with $66.57 million at the end of 2014. Our operating leverage was also reflected in administrative expenses for the quarter, which fell as a share of Rental income.

EBITDA rose 16.7% during the quarter to $18.8 million while EBITDA margin was 86.6% from 82.5% in the previous year fourth quarter. The rise in EBITDA margin was mainly due to the reduction of the prohibition under the stock option plan. The loss before income taxes was $8.61 million compared to a profit of $5.5 million in the same quarter last year. The decrease mainly reflects the exchange loss.

The Company reported $3.54 million loss in the fourth quarter of 2015 compared with $3.95 million loss in the prior year's final quarter. Funds from operation, most importantly, rose 44.8% to $13.3 million.

Regarding our balance sheet, Vesta cash and cash equivalents were $230 million at the end of the year. Operating activity generated cash flow of $68.7 million during the whole year. Investing activities were mainly related to payments for work-in-progress on the construction of new buildings in Bajio, Toluca, Tlaxcala, Ciudad Juárez, and Baja California. Total investments for the quarter came to $23.7 million for the full-year, and for the full-year represented $116.7 million. As of December 31, 2015, the overall balance of debt reached $344.8 million of which $86.5 million is related to short-term liabilities while 13.5% represents long-term debt. At the end of the year, 100% of the debt was denominated in dollars. Vesta is actively exploring a range of financial options to enable us to increase leverage, minimize our weighted average cost of capital, and diversify our funding.

In the year ahead, we are committed to a healthy rate of expansion that reflects sustainable growth. We are currently forecasting between 13% and 14% growth in terms of Rental revenue with a net operating margin above 95% and an EBITDA margin of 83%. Our guidance is based on broadly stable exchange rates, interest rates and inflation, supportive conditions in the Mexican industrial real estate, and continued expansion of the US and Mexican economies.

Once again, Vesta's performance has cemented our organization as a leading industrial real estate company. With our strong track record of growth, we remain adaptable and committed to generating sustainable returns for all of our shareholders.

Thank you. I would like to open the floor to any questions that you may have.

Operator:

Thank you. We will now be conducting a question-and-answer session. If you'd 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.

Our first question is from Alan Macias of Bank of America. Please go ahead.

Alan Macias:

Hi. Good morning, gentlemen. Just, I guess two questions, if I may. On your 2016 (phon) guidance, can you just provide a little more color on what your expectations of GLA growth are? You currently have close to 2 million square feet under development, and will there be more and investment will be closer to $150 million or closer to $100 million during the year? The second question is: you've added GLA in the Baja California and the Juárez markets. Could you just give us an update on your leasing expectations for these markets given the current macro environment? Thank you.

Lorenzo Berho Corona:

Thank you, very much, Alan. This is Lorenzo. Well, basically the first question is related in the respective GLA growth and I think that one of the things that we took a lot of time to try to explain to all of our investors in calls and in all the road shows and visits was about our Vesta Vision 20/20 plan. This plan was done very deep, very seriously with a lot of analysis. I think that as the year 2015 is over, I think that we are in a great position to check to the past and explore to the future.

The only thing I can tell you is that I'm really happy that after all these efforts with it—and that was not—remember that the Vesta Vision plan was a full plan, a full strategy plan that incorporated not only respective GLA growth, but also in what markets, what industries, at what speed, what kind of organization structure we needed, what kind of things were happening according to what we knew one year ago, and I'm really, really happy to tell you that in the first year we achieved our goals and a little over goals, which in terms of GLA, which is strictly your question, we did 3.3 million square feet of GLA in 2015 and our expected growth has been 3 million square feet per year in all these—until year 2020.

So, I will say that just think about Vesta as a company that from now to year 2020 will grow at 3 million square feet per year, so you can just plug that into your analysis for year 2016 to 3 million square feet. One of the things that probably you were able to see was that sometimes in the past, some regions were growing faster than others, specifically—and this changes course a little bit to your second question.

This year 2015 was a very good year because all our regions had a very good growth. The regions in the center of Mexico pretty much related mostly for the auto industry, some of the aerospace industry, and in the border, the two markets in which we operate, Tijuana has very much linked to electro domestics, to electronics, and also to medical devices, and their social (phon) has been pretty good.

In Juárez we are able to close the largest deal in almost the six-year business administration after all the announcements of Electrolux. There had not been other announcements about this amount of investments, and that includes, of course, our investments and BRP investments, which was huge. So, I'm really—and we finished the building and that building is paying rent today. We also announced that TPI, which is another project build-to-suit in Juárez, is also going to be very large and we just did a groundbreaking ceremony last week in Juárez.

So, this is the kind of deals that Vesta is getting and help us to get a very, very strong position in the region. So, I would say I'm really happy. I'm flying today to Tijuana. We're looking at deals, we're looking at opportunities. We like to have strong inventory buildings in those regions for the companies that do not have time, but I'm really happy that on top of the competitive advantage, the advantages that Mexico has had in the past, which has made investors to decide to bring manufacturing operations to export from Mexico, now we are having the additional benefits—or they are having the additional benefit of the exchange rate, which—and I don't know if that is going to be permanent or temporary. So, I prefer to think of Mexico as the—because of all the other competitive advantages that we have got in the past, but I cannot stop looking at the effect that this additional benefit of the currency is bringing to all those decisions, which are speeding the growth in those regions.

Alan Macias:

Great. Thank you. Very clear. Thank you.

Lorenzo Berho Corona:

Thank you, Alan.

Operator:

Thank you. The next question is from Gordon Lee of BTG. Please go ahead.

Gordon Lee:

Hi. Good morning. Thank you very much for the call. Two quick questions—and I guess these are mostly for Juan. The first is on the employee compensation. I guess two questions related to that. One, the charge that we saw, the non-cash charge cost charge that we saw this quarter was low compared to what we have seen in recent quarters. Going forward, should we expect the quarterly charge to be similar to what we have seen in the past or is this more of the recurring level? Related to that, during the course of the year, you've obviously made the expenses on the P&L for the shares to be issued, but I was wondering when will we actually see the shares related to that issued and what amount of shares can we expect to be issued based on 2015 compensation? Then just a final question is: any update on the refinancing of the GE liability would be helpful as well. Thank you.

Juan Sottil:

Gordon, thank you for your questions; quite to the point. Compensation, well, first of all—first let's go to the big headlines. In the 2015 compensation, as you recall, the key metric is total return to our shareholders, what—total relative return to our shareholders, that is we will get the compensation packets that at this point are quite attractive, if and only if our investors make money on Vesta vis–à–vis their investments in other Mexican real estate companies.

Well, last year that was not the case. Vesta did not over perform. In fact, we underperformed the industry. As we said in our goals—we basically didn't make bonds. Our long-term bonds to Vesta top management, to 15 people, was zero. We didn't get any shares. Therefore, there will be no dilution based on that fact.

However, please take note of the following. According to IFRS policies, IFRS 2 in particular, we have to account for what would be the expense on a normalized year given the plan, and in particular, the part of the IFRS 2 stated that we have to apply is related to share compensations based on market performance of the price of the share. In that chapter, we need to basically tell the reader of our financial statements what would be the cost at the beginning of a financial year related to the compensation package. I have to say that this compensation package is quite innovative and during 2015, we didn't quite do it in a quarter-by-quarter basis that way. Therefore, at the end of the year, when we were—we have large input from our auditors—we realized that what we need to do is basically estimate in January the expected level of compensation related to that plan.

So, from now on what you will see on a quarter-by-quarter basis is the expected cost of the plan as if we would have made the standard compensation. So, that this, of course, will mean that there will be no more swings in operating administrative costs on a quarter-by-quarter basis and that we will accrue the expected cost of the year. Please take note that the expected cost of the year for the year has nothing to do with the actual performance of the Company as of year-end, and if we make bonds we will receive the shares and we will be very clear to all of you how much dilution came from those shares.

So, in 2016 what you can expect is that on a quarter-by-quarter basis we will accrue the second portion of the 2015 bonds cost and the first portion of the 2016 bonds cost, which basically has the same methodology. We will start with a Ps.29 per share price because we're on the first two years and this is a three-year total relative return basis. On the second year, we started the same benchmark and we basically will measure the end of 2015 year-end price against Ps.29 and we will calculate it for all the peers and we'll see—and I am confident that this year will be a better year for all of us. So, that takes care of your first question.

The refinancing things, we are very, very active on talking to our banks and our investment banks about how to refinance our debt. As we noted on our financial statements, we have no doubt that Vesta will be successful in refinancing our debt. Basically, in my experience in banking, I have never seen such choppy markets for January and February. We were ready to launch a bond and we're holding on that offering because of the choppiness of the market. They greatest spreads in the bond market has widened to unreasonable levels.

At the same time, we have quite deep and quite good banking relationships and we're accessing those to reformat our refinancing alternatives. At the end of the day, (inaudible) Vesta has a 23% debt to total assets. We have the healthiest statistics in terms of growth metrics in the Mexican in real estate industry. Are we concerned? Yes, of course, but we're concerned doing things that will allow us to refinance at very competitive rates, the soonest, the better.

So, it's tough to say. We are working very hard and we're ready to launch our bonds if the market allows and if the credit spreads come back to reasonable levels. If not, we will go to the insurance or banking market and do the same as fast as possible.

Lorenzo Berho Corona:

I just want to add to what Juan is saying that, of course, thinking about the long-term compensation goals, I think that we know that, of course, we need to measure this by year, but we know that this is more a video than a picture. This is a plan that was set up in place to straighten the alignments (inaudible) with the best options that we found, with the best practice that we found, and the vision of this is to match the interest of the shareholders with the interest of top Management with the vision of going to year 2020 as well.

So, we're looking forward to—as Juan said, we probably had a kind of—I will not call it unfair because that was the case, but because we—I would say a little bad luck of what's the starting price at the end of last year, but—and then the follow-on didn't help in terms of the pricing effect. But bottom line, we had probably the best operating year ever in the history of Vesta and that has to pay off in the future.

Related with financing, I just want you to remember that we still have up August this year, so there's still reporting months to come; things will have to balance and we have options, and I believe we're in the right position to make that happen when that comes.

Gordon Lee:

Understood, very clear. Thank you very much. If I could just have one quick follow-up on the accounting, Juan, of the compensation program just to be clear. So, let's hope this doesn't happen, but let's take the pessimistic assumption and that by the end of the third year the relative performance from the total return was not enough to justify a payout. At that period of time, all of the expenses that have been provisioned for or accrued throughout those three years would be versed then presumably?

Lorenzo Berho Corona:

No. Regretfully, look, unfortunately, IFRS is quite adamant that what you have to give a sense to the reader the financial statement is that if the compensation is based on the market price performance of the shares, which is the case, then what you have to tell the reader is how much those—how what—I think about it as how the deal was struck between Management and the Company. So, and that is the relevant fact: how much does Management cost? So, and this number has nothing to do with the actual dilution in our case, or in another company would be the actual cost of the compensation. The key metric is how the deal was struck. So, let's think that over the next three years, for the 2015 plan we actually have in the neighborhood of $0.75 million per year charge because of how the deal was struck. At the end of three years, we will add up those three numbers to $2.1 million and they will remain as cost. It will never be reversed.

If you see on our capital account, there is a line just above—in the capital accounts of the Company—that will reflect this charge. That will be the counterbalance of the cost charges. That account will remain with $2.1 million for the history of Vesta.

Now, over the 2015 plan, you overlay the 2015 plan in 2016. The price to beat for Vesta would be 29 shares. Of course, the December 31 starting price is $25. All of the creditors (phon) will have their own starting on total. You calculated total relative return and a new number—a new deal has been struck that will be an actual analysis of what is the likely outcome on January 1 of this year, a number will be produced and three, actually four charges will be charged over the next four years, the working year 2016 and then the three vesting years from 2017 onward, and so on you move.

If at the end of 2016 the performance of the shares of Vesta outperform, then we will get the shares on a three-year basis and dilution will happen gradually over the three vesting periods. But the accounting charge will remain forever there. The difference is that if we get the shares, then the balancing account in the capital accounts will get reduced by the delivery of the shares to the top Management.

Gordon Lee:

Got it. Thank you very much.

Lorenzo Berho Corona:

Thank you. You're welcome.

Operator:

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

Vanessa Quiroga:

Hello. Thanks, Lorenzo, Juan, Iga. How are you? I have a follow-up question on the strategy for the debt refinancing. What are the options that you are considering right now in terms of how much flexibility do you expect to have with regards to the assets guaranteeing those loans? Do you expect to have to link assets, properties to the loan, or are you still preferring a loan structure that gives you more flexibility? What kind of costs or interest rates are you expecting to get at this point in time? Thanks.

Juan Sottil:

Excellent question, Vanessa. As you would imagine, the ideal situation for any real estate company is to have the flexibility of not pledging the assets to a loan structure. With that idea in mind, we prefer the Company, basically since June last year, to be able to issue a bond. The bond market at the time was there. It was deep. The creditor spreads was low. We did all the legwork from rating agencies to documentation and we basically wanted to launch the bond in January. What we didn't expect, as I mentioned, was the choppiness of the market.

Now, the counterbalance of not pledging the assets to a loan transaction, the other side of the coin, is really the creditor spread. At the end of the day, I tend to focus a lot on the creditor spread. I basically compared the yield, the cost of funds on a bond transaction vis-á-vis the cost of funds on a pledged deal, something like what we have had in the past. My concern is how wide that spread is.

To counterbalance this point of view, my Board likes flexibility, Lorenzo likes flexibility, and really—and all pledged property looks a lot like an insurance policy. Whenever you need it in the next 10 years, you have unpledged assets that can bail you out of a problem and that is worth something. In my mind, that something cannot be (inaudible) if taking into account fees, the whole thing. Typically, last year, that spread was 50, 60 basis points, 70 maybe. That's reasonable. Even I would like to pay that.

When you see the conditions that my peers' bonds are trading in the secondary market, I cannot justify the spread. So, we're ready to documentation, agencies, everything is set up to top that market. However, I do have to worry about the spreads, and at the same time that these negotiations were happening, as conditions were worsening in November, December, we talked to other financing alternatives, more traditional financing alternatives that do require the pledging of assets, and that's what we need. We have viable alternatives today to refinance this debt, so now we have a menu of alternatives and we will try to very consciously and not looking at rolling over—in my mind the issue is not rolling over these debts. In my mind, the issue is what shape of balance sheet Vesta would like to have during the 2020 growth phase of the Company. It would be very easy for us to access our banking sources, pledge the assets, and rollover these debt. But, if we do that, we're basically deciding what type of leg we're going to issue in 2018 and that does concern me.

So, we're trying to get the best deal for the Company and keep as much flexibility as possible, and that's where we are. We're not concerned that we will not be able to rollover. We're concerned about the shape of the balance sheet in 2018 and onwards, and that is what makes us take two steps back, look at the overall picture, look at the menu, and make the best choice.

Regarding the rate, well that's tougher. Today in Mexico we have a beautiful day. This is the first day that we can see very far. In the last couple of weeks we have been very foggy. Well, regretfully, the financial markets are still very foggy, and so if I look at the bond market, the price doesn't look good. If I look at the credit market, the price looks very good. In my mind, all-in for a bond shouldn't be much above $5.50 and—in my mind, that's what I would wish. In the credit market, the price is well below $5 and well below $5. So, look at the price on last year financing with the insurance companies that we did.

So, we're there, Vanessa.

Lorenzo Berho Corona:

But, Vanessa, hello; this is Lorenzo. If I can—thank you for being on the call. I also—I would like just to add to what Juan's saying that—as Juan is saying, we have a Debt and Equity Committee, which is very active and working hand-to-hand through Management in order to find the best possible solution for this. Two good options that we have, two options that we have is that, of course—I'm not saying that we want to close this in July, but the longer it takes, the less amount of double interest that we pay, so that's a good point in a way.

The other is remember that Vesta has the most modern portfolio of our peers because everything has been developed and mostly recently. So, by saying that, even though we love flexibility we're trying to build and increase for flexibility, the cost of having secured debt in our case when we don't have the need to recycle properties as probably some of our peers, then for us, we can also easily just take a secured debt if that's more convenient, or if the bond market is not there, or if the bond market is there but it's higher than a hundred basis points to what secure debt would be.

So, I would say that we have the options. We will be working. We are concerned about what's happening in the markets, but we do have options, and as soon as we do something, we will, of course, let you know.

Vanessa Quiroga:

Thank you, Lorenzo. Thank you, Juan. The other question that I have is regarding the table that you provided in your press release about the developments that are currently under construction. Some developments, some of these buildings are expected to be completed in September this year, but they are already started. So, I was wondering if you can explain the reason for estimating nine months or more than nine months for the construction of some of these buildings. Is this normal? Are you giving some cushion there in case of delays, or do something changed since I think the guidance that you were providing not so long ago was a six months construction time for buildings. Thanks.

Juan Sottil:

Basically, Vanessa, you're referring to some buildings on the fixed pipeline on Querétaro. Vanessa, on our vision, we want—we will—and we have a commitment that we have the vision of building up 3 million square feet per year. That doesn't mean that we're going to build a hell of a lot of buildings just for the sake of it. We're very responsible and we plan to develop the buildings on a judicious basis. We have reason to believe, reasons to believe, that in the Querétaro market, there we have a strong demand for our properties, and we're in the process of closing deals that will require us to have those buildings ready. We approved these buildings and that's why we put it on this list.

The September date for these particular buildings, the picks—what we call the Pixatel, has to do with the fact that we would like to stabilize the portfolio first and then initiate the construction of this building second.

However, we do have to have the initial dealer stages of this building up and ready for what we expect would be a fantastic thing, and that's why as we started on that process and we're starting to deploy smaller amounts of money in that particular building, we need to account for it and that's why we're telling you. However, we need to develop it slowly enough for the deal to happen.

Lorenzo Berho Corona:

Let me jump in a little bit in this question because that's more development. Development, Vanessa, as you remember, we have basically shared with you that construction takes six months. So, doing basic math, you said, well, that doesn't match. But let me tell you what happens before construction starts. We need to have Investment Committee approvals; we need to have the full designs; we need to have engineering; we need to have the bidding process; we need to have the permits; and then we can start the building. In this case, what we did was took all these building to our Investment Committee. So, we got the approval and in a couple of them they said be very responsible very disciplined. They said, for example, okay, I will do the approval, do the bidding process, the land is reserved, get the permits, get everything to go, but you will only start when I see that the other buildings that you have there is either partially or fully leased.

So, and maybe we have letters of intent, but it's not the leasable sign, so that's why we cannot do some announcement. So, we know that the process is there. It's linked to having discipline in the vacancy and the availability of new inventory buildings. But, for the purpose of calculations it's not that we're taking longer to build. We're building the same, with same efficiencies, or having the discipline and (inaudible) that is responsible for this kind of business and this kind of risk.

Vanessa Quiroga:

Okay. That's very clear. Thank you, Lorenzo and Juan.

Lorenzo Berho Corona:

Thank you, Vanessa.

Operator:

Thank you. The next question is from Javier Gayol of GBM. Please go ahead.

Javier Gayol:

Hi, Juan, Lorenzo, Iga. Thank you for the call. I have two questions. First one would be related on rental prices. We've seen a flattish performance throughout the year. I just wanted to get a sense from you guys of what's been going on and how do you guys look at it going forward? Also in your guidance for 2016, do you guys maintain regular prices or do you guys see any increase? Also, if you could tell us—in that manner FX, the year with the FX volatility that we've witnessed—could you tell us if any tenants have come forward and try to renegotiation some of the contracts or whatever on that matter? My final question would be, in terms of the cap ex provided on your press release, I understand that it's in pesos, but I just want to be clear in that because your guys'—the investment hasn't changed, so I just want to know if I'm looking at this correctly. That would be very helpful.

Juan Sottil:

Okay. Let me tackle the rents and FX exposure that the Company has. First, the easy one; no, we have no requests from customers, no significant requests from customers that would like to switch to a peso lease. In fact of all of our customers only one wants to do it and we were very clear that the deal we have will remain in dollars until its maturity which is 18 months from now, and they understand that and they are complying.

All of our leases that are in dollars are being paid in full, in time, and just—let me do the math. Roughly speaking, $80 million—rough number—80% of dollar is $64 million; on the cost side, around $30 million in debt service, interest and principal. The Company is actually operationally loaned $30 million. This number is bound to grow as we grow the GLA. This is a fantastic story and one that we truly will continue to underline. If you look at my bank debt account, I have around $400,000 of bank debt accounts, underlying all my clients pay in full, on time, in dollars. So, that's very good news.

On the sort of FX, on the rental prices, rental prices we made very strong. We're not doing significant price concessions on rollovers of leases, on renewals of leases. You can look at that number on our MD&A and if you track that number historically you will see that we're not making much concessions and that's really good. We see very solid rental prices in the markets we operate. Generally speaking, it's not worth our time to go market-by-market, but the general impression that I would like to give you is of one very solid price throughout our portfolio.

In terms of cap ex, I'm not sure what the sense of your question, but we—the plan of the Company is to continue to deploy around $125 million, $130 million per year. As the peso devaluation has happened, that—in fact, what we do have is a little bit of gravy in the sense that rental prices remain strong in dollars with our target market with the types of clients that we are able to attract. The cost of our buildings are—well, they remain mostly based in pesos, or a significant portion of that. So, there's a slight tick-up that we will have there. It is there for developers, and Vesta being one of the prime developers, we do pick up that slightly tick on the return and that's good news. I guess that was the sense of your question.

Javier Gayol:

Yes. Well, yes, just to understand it, it's—what I'm looking at is the graph that you guys put out with the investments of the underdevelopment projects. So, if I track that investment, for example, the S5 project, it's basically the expected investment has not changed. So, I'm just wondering, should I be changing it to peso denominated and then translating it to US dollars, because in that sense I'm not giving—well, if we didn't do that, we're not giving the Company that benefit that you just mentioned.

Juan Sottil:

Well, I mean, there's two things that are going on. The cap rate with the development—the cap rate of the cost, what we call the return on cost, those are going to be higher than what we thought because at the same rate of price in dollars would cost in pesos you get a kick, okay. So, it is what it is. Now, the flip side of that is that on my balance sheet, on my uses of funds, we do plan to invest $125 million per year, but the peso got smaller, so we're deploying the same 3 million in square feet but because the peso's gotten smaller it's going to be tougher to get $125 million of deployment, isn't it? So, that's the flip side of the coin.

So, how do I look at it? Well, the money is working at a faster pace. The key question is the return on cost kick is going to be permanent? Well, water tends to find its level, so I cannot tell you that this kick is going to be there forever. My guess is that the deployment is going to be tougher on 130, 140—Alan's question—because the peso's got smaller. But, it is what it is, right.

Lorenzo Berho Corona:

I would like just to add, and, of course, this is—there could be a lot of assumptions in this kind of question, Javier—but I want to tell you something. I would say that what is important is that to make sure that we're getting the kind of expected returns that we decided and that we have shared with our investor base, and if—that's why sometimes even reducing the rent price, we can get the same return of cost because of lowering the cost because some of the devaluation impact whenever we have our bidding process. I think that assuming that we keep the same return on cost and that we were able to lower our cost of construction in our leading process in the bids that will be developed this year; that means that the tenants will be more competitive and that makes stronger case for Mexico manufacturing export base.

So, I would say that it's a hopeful position. Either we get a higher return on cost than expected, if the market allows, or we get the same return on cost and we give the benefit to the client and the client becomes more competitive, which is in the long run, very good for the country, for the industry, and for debt (phon).

Javier Gayol:

Well, thank you. That's very helpful.

Lorenzo Berho Corona:

Thank you, Javier.

Operator:

Thank you. The next question is from Adrian Huerta of J.P. Morgan. Please go ahead.

Adrian Huerta:

Hi, Lorenzo and Juan. How are you? Thank you for the call. I just wanted to ask you how you see leasing activity overall for this year. I mean, last year you leased around a little closer to 300,000 square meters. Are you expecting a similar number for this year, and if that is the case, in which regions are you expecting leasing activities to be stronger? Then you have explained already that you're more prudent on when to start construction of new assets, etc. When can we get announcements of new assets being built for 2017?

Juan Sottil:

Okay. Related to leasing activity, the answer I think is very clear. Just think of Vesta as being able to do leasing activity for developing 3 million square feet and leasing activity for 20 million square feet. So, that—now, talking about renewals—and this comes to our organizational structure, and remember that last year we separated the Asset Management from the Regional Directors. I think that that was a very strategic move for us because that allows our Regional Directors to become Vice Presidents of new business regionally, so they are just looking for new use (phon). But while Asset Management have to do two jobs, doing maintenance or coordinating maintenance for the business and working on renewals. So, that has allowed not only to explore or renew as we did today in this year 2015 91% of the renewals of that year, but when we went ahead to 2016, so we somehow have been ahead of the year, which has been very helpful because that will allow us to get ahead also the year by doing some 2017 renewals, especially the second half of the year. That's what we expect. So, think of if we are able to just keep repeating what happened this year, I think that that's a good way to think about it.

Adrian, just I want to mention that we really believe that transparency in reporting is key. Please take a look at our package that's this is the first time we do this package with all this transparency and refer to Page 11. We provided something that we call lease of properties and those—and we give you the percentage leased off in any given period. We intend to track—we intend you to track our performance on leasing based on the few (phon) pages.

Operator:

We may have lost the speakers. Just hold one moment.

Lorenzo Berho Corona:

Hello? Hi. Adrian?

Adrian Huerta:

Yes. I think you guys got disconnected. We appreciate all the disclosure, Juan, that you guys are doing. It's really great and I hope the other ones follow as well. If I can just add, again, on the new GLA, so you have the capacity and you did around 300,000 square meters of new leases last year. You currently have under construction around 170 million square meters and you have around 100 million square meters that are not—that are vacant at the moment, so that gives you closer to 300 million square meters. Does that mean if you keep the same leasing activity that you had last year, that this year you will be adding half of the GLA that you added last year, which was around 300,000 square meters?

Juan Sottil:

Well, that hinges on the assumption that leasing activity won't pick up. So, Adrian, let me tell you what we won't do. What we won't do is have a loss in build (phon). Vesta Vision 2020 was (inaudible) very responsible. That doesn't mean that we're going to float into the pool regardless of reality. Reality makes us responsible. If leasing activity of vacant space doesn't pick up, we will develop more slowly. I can explain excess cash in my balance sheet and I can have that hard conversation with you as we have had in the past, or with any investor. I will ask for your patience. But what I cannot explain and what I cannot sit down in front of anyone is to tell you why we have—if that would be the case—a lot of empty buildings.

Adrian Huerta:

Yes.

Juan Sottil:

That one is a tough one. So, yes, Vesta first and foremost is a responsible Company. The way we set up the disclosure is for you to track our responsible development. We've set it up so that you know what is in development and you can ask the hard questions. But we would like you to ask the hard questions. We believe that we have not gotten to 20 million square feet by building (inaudible). We build a building because we know it can be leased relatively quick, and because I don't want investors to have a shadow of a doubt that that's what we will do, we set up the reporting for you to keep track of our commitment to do just that.

Adrian Huerta:

Excellent. Perfect. Thank you, Juan. I appreciate it. Thank you.

Juan Sottil:

Thank you.

Operator:

Thank you. The next question is from Cecilia Jimenez of Santander. Please go ahead.

Cecilia Jimenez:

Very good, thank you, Juan. Just two very quick questions. The first one is regard a follow-up on guidance. For the 13% to 14% growth that you're expecting, when are you assuming the recent delivered properties are going to be leased? Is it going to be six months, nine months, or what are you assuming? Then the second question is regarding dollar-denominated rents. They used to be in the high 80s. Now we are in the low 80s. What are we—what should we expect going forward within the next, I don't know, two years to have that number around? How much peso denominated rent should we see in the portfolio for the long run?

Lorenzo Berho Corona:

Cecilia, thank you very much for your questions, and that is key. Your first question is, okay, we—the assumption that we do is that six months after completion date is when the buildings are going to be, and we have not changed that assumption and I think that, as Juan explained, today we have very precise information on when we can expect that buildings to be completed, and out of that, what assumption is the one that we're taking; sometimes we can do that before and sometimes it's after if it takes a bit longer. It's market-by-market and building-by-building. But, of course, this is the same assumptions that we have kept.

In the second question, it's not that we were close to 90. I would say that it was—we were close to 75% in dollars in 2014 and the rest was pesos. Little by little we have been letting go a stronger base in terms of how much dollar denominated if (phon) we have, and I would say that today we have about 82 and I would say—82.5 to be precise—and this is a (inaudible) to get, but we feel very comfortable having 80/20 peso/dollar proportions.

Cecilia Jimenez:

Okay. Perfect. Just one follow-up if I may, regarding the refinancing. You mentioned, Lore, before that the closer we get to the date, the less double interest you would pay, which is correct, but also probably you will have less money to negotiate with banks or other institutions. So, when should we see or when should you feel comfortable doing that refinancing actually taking place?

Juan Sottil:

Look, I don't enjoy walking like a fired plank that's reached to end of the plank. That's something that don't particularly enjoy. So, yes, we wouldn't wait until the summer. In my mind, we finance these sometime, as late as eight months, that would be my gut feeling about it.

Lorenzo Berho Corona:

Yes. But I would say that if you don't go for vacation in Easter, check your e-mail.

Cecilia Jimenez:

Okay. Great. Thanks.

Lorenzo Berho Corona:

No. We wanted to have this done by January. Of course, what Juan explained happened: we were ready, but on the other hand, which is also (inaudible), but (inaudible) a little later than January, so and that's why I want to have a different range of the window we have.

Cecilia Jimenez:

Okay. Very clear. Thanks.

Lorenzo Berho Corona:

Thank you very much, Ceci for being on.

Operator:

Thank you. We have no further questions at this time. I would like to turn the conference back over to Mr. Berho for any closing comments.

Lorenzo Berho Corona:

Okay. Well, thank you very much for participating in Vesta's Fourth Quarter and Full-Year 2015 Conference Call. We look forward to speaking to you again when we release our first quarter 2016 results. If you have any questions in the meantime, please do not hesitate to contact our Investor Relations department. Thank you and have a great day. Bye-bye.

Operator:

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.