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Vesta Industrial Real Estate

Second Quarter 2016 Earnings Conference Call

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PRESENTATION

Operator:

Good morning. My name is Elena and I will be your conference Operator today. At this time, I would like to welcome everyone to Vesta's Second Quarter 2016 Earnings Conference Call. Vesta issued its quarterly report on Wednesday, July 27, 2016. If you did not receive a copy via email, please do not hesitate to contact the Company at +52-55-59500070.

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. Please go ahead, sir.

Lorenzo Berho:

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

This year marks the second consecutive year that we have delivered on our aggressive expansion strategy underpinned by Mexico's emergence as preeminent global industrial manufacturing hub. Vesta achieved multiple milestones in the second quarter which were critical to the execution of the Vesta Vision 20/20 strategic plan. Our lease agreement established with prestigious global companies supported our strong growth. We're pleased to confirm that we will continue to expand our asset portfolio by 3.4 million square feet, having already delivered over 800,000 square feet. This will allow us to achieve our full year growth target in the first half of 2016 which is consistent with our long-term plan.

As the world rapidly evolves towards a new way of producing, a paradigm known as the forth industrial revolution, the ability to anticipate client demand will determine which companies are able to successfully adapt to these dynamic global bankrupt. Vesta's proven ability to anticipate has made us an agent of change and transformation, ensuring our Company and country will flourish in this scenario. Therefore we continue designing manufacturing and warehousing spaces, working closely with authorities to ensure the appropriate infrastructure is available to support leading edge technology that meets both plans and supply chains logistical and communications needs.

Our ambitions for growth are also supported by compelling macroeconomic trends. Mexico is expected to be the world's sixth largest vehicle producer by 2020. According to the Mexican Association of Automotive Industry and our close proximity to the US and more efficient labour cost structure are particularly attractive for manufacturers across all sectors.

During the second quarter, our leasing activity totalled 1.8 million square feet, and the Company renewed leases with approximately 600,000 square feet office portfolio property. Significantly, these agreements include those (inaudible) Mexico, a subsidiary of France based global aircraft engineering company top line group which underscores our strategic commitment to expanding our relationships with existing clients, an area in which we are particularly very strong.

This quarter Vesta also signed a lease agreement with automotive manufacturing Bilstein, a subsidiary of German multinational ThyssenKrupp which encompasses 670 companies worldwide across diverse sectors. This agreement demonstrate key industry leaders increasing global recognitions, operating position as Mexico's leading industrial real estate developer, boasting some of the most modern facilities in the world.

In addition, Vesta completed the acquisition of 102 hectares of land in Querétaro to develop a new industrial park, a strategically important acquisition for the Company in a region with strong demand dynamics. As we continue to invest for growth, global occupancy rates continue to improve as we target markets with robust demand generators. Both total portfolio and stabilize portfolio occupancy rates rose year-over-year. At the same time the same store occupancy rate declined. I would like to note that this July, Vesta celebrates its fourth anniversary as a public company, and with operational success that demonstrate an enviable track record. We have nearly doubled our gross leasable area to 20.84 million square feet and have expanded our portfolio to 129 properties.

We are pleased to confirm that this week we finalized our previously announced debt transactions and our debt with Blackstone Group will be fully paid. These agreements enabled Vesta to solve all of our—all of its 2016 debt maturities, significantly reducing the Company's cost of debt and lengthening the volumes. This unmatched achievements positioned us to accomplish our Vesta Vision 20/20, a strategic plan, and thereby doubled the Company's footprint. Our new asset management teams' client centric approach continues to bear fruit. With Vesta renewed 90% of its in-place rate leases set to expire in 2016, a 43% (phon) due in 2016.

As we look to the second half, we're confident in our ability to achieve sustainable growth as an innovative company positioned to capitalize on the growing demand for industrial facilities throughout Mexico. We appreciate your continued trust and support.

I will now turn the microphone to Mr. Juan Sottil, our CFO.

Juan Sottil:

Thank you, Lorenzo. Good morning everyone. Thank you for joining us today. Vesta's state-of-the-art industrial portfolio continues to produce strong financial and operating results. While lease agreement we've signed with globally recognized names affirmed the calibre of our client base. As mentioned, the Company has resolved its 2016 debt maturity and cut the financing cost significantly with a longer maturity schedule, coupled with our solid pipeline and positive industry demand dynamics, we remain confident on the outlook.

In the second quarter, our portfolio continues to expand through strategic trade, logistic and manufacturing hubs in Mexico, both in the Central and Bajio regions. During the period, Vesta's portfolio consisted of 129 top quality industrial properties and the Company grew GLA to more than 20.8 million square feet. Vesta has a strong pipeline and it is currently developing more than 2.6 million square feet in build-to-suit than inventory building which are expected to contribute $14.4 million to rental revenue once the project have been stabilized.

In terms of occupancy, Vesta's stabilized portfolio occupancy rate increased by 80 basis points year-over-year to 91.8%. The total portfolio occupancy increased to 87.8 while our same-store portfolio occupancy rate moderated slightly to 94.7% in the second quarter of 2016 from the same period last year. The Company saw a fall in total vacancy rate to 12.2% from 12.5% in the first quarter of this year. Over the period, Vesta signed leases totalling more than 1.1 million square feet with global companies across a range of industries and renewed over 645,000 square feet of its property portfolio.

Turning to key financial metrics; revenues increased 14.8% to around $22 million, up from $19.3 million in the prior quarter of last year. Operating cost as a share of total rental income were 37 basis points lower year-on-year as property rental income growth, a strict rise in operating cost. Net operating income grew 15.3% to $20.5 million, compared with $18.8 million in the prior period. The NOI margin increased 50 basis points year-over-year to 97% in the second quarter 2015.

EBITDA increased 14.4% to $18.8 million from $16.5 million in the second quarter of 2015. EBITDA margin fell 30 basis points to 85%. The total comprehensive income loss of $10.5 million reflect the year-on-year impact of the foreign exchange variation primarily on WTN capital accounts. This is Vesta's only subsidiary using Peso as its main currency. The result compared to our gain of $16.4 million at the end of 2015 second quarter.

Funds from operations dropped 6% to $11.4 million. Regarding our balance sheet, cash and cash equivalent were $114.8 million. Operating activities generated cash flow of $29.7 million. Investing activities mainly related to payments for works in progress on new building construction in Bajio, Ciudad Juarez, Tijuana and Central Mexico.

Total investments for the quarter were $55.76 million. As noted earlier, we have finalized the agreement totalling $400 million. This enable Vesta to resolve its 2016 debt maturities reducing the Company cost of debt by almost 300 basis points and lengthening the weighted average term to six years. The Company has therefore secured the resources to ensure our ongoing growth, strengthening our balance sheet with a reduced cost of debt and longer maturity schedule against the backdrop of highly competitive debt pricing conditions in Mexico.

At the end of the quarter, the overall balance of debt was just over $340 million, of which 86.2% is related to short-term liability and 13.8% is longer-term liability. All debt is denominated in US dollars. For the second half of the year, we reiterate our forecast of between 13% and 14% growth in rental revenues, net operating income margin above 95% and EBITDA margin is above 83%. As usual this assumed global stable exchange rate, interest rate and inflation, supportive conditions in domestic real estate industries and continued expansion of the US and Mexican economy.

As Mexico's leading industrial real estate company, we look to the remainder of 2016 with strong balance sheet, growing demand for our premier industrial facilities and the commitment to sustainable long-term growth for all shareholders.

Thank you all, and I will open the floor for questions.

Operator:

We will now begin the question-and-answer session. Anyone wishes to ask a question may press star, and one on their touchtone telephone. You will hear tone to confirm that you have entered a queue. If you wish to remove yourself from the question queue, you may press star, and two. Participants are requested to use only handsets while asking a question. Anyone who has a question may press star and one at this time.

The first question is from Mr. Enrico Trotta from Itaú. Please go ahead.

Enrico Trotta:

Good morning, Lorenzo and Juan. Two quick questions; looking at the square feet of the total portfolio, the square feet vacant, we saw it remained fairly flat compared to the first quarter. Can you comment, I mean, what are your expectations for vacancy rates ahead, and how are you seeing the leasing activity across the different markets, so Central Mexico, Baja California and Juarez? The second question, on your refinancing program, you're mentioning in the release that interest rates could increase depending on the Company's leverage ratio. So, can you further elaborate on that? What would be the long-term value limits to trigger these high interest rates? That is from my side. Thank you very much.

Lorenzo Berho:

Okay Enrico. Thank you very much for being here and thank you very much for your question. I think we can start by your second question related with refinancing and then we come back to the market. On your question, basically the financing deals that we have are basically a fixed rate loan for 10 years with 7 year grade which, well it is what it is, and I think it's a fantastic transaction on 4.55%. On the syndicate of bank loans, we have two projects; one is 5-year note. That one has a LIBOR plus 200 basis points cost. If my leverage gets over 40%, I have an increase in margin and I believe it's around 25 basis points if I'm not mistaken. But if bases step up, if I keep the loan for more than three years, then I will have a step up of 50 basis points in year three and another 50 in year four. Yearly the structure that we negotiated for this loan favors a refinancing of this facility within the next three years, and the step ups were only considered to the banks in order for them meet the capital requirements on longer term markets, I guess. But we remain confident that within the next 36 months we will be able to access the unsecured debt capital markets to refinance these loans. So basically, I think that these two transactions represent a very solid step forward for the Company. We lower our cost of debt by 300 basis points or even slightly higher, and I think it's a fantastic step forward for the Company.

And I will take on your question related with markets. The way we see, we see a very strong year in basically all the markets in which we have pressed. I believe that because we know that the amount internal pipeline and the pricing and the negotiations that we keep holding our—maybe at the highest level in these four years that we have been a public company. If we start in the region, first I would like to point out that our, maybe for the first time in the history of Vesta, we're developing more build-to-suits than inventory buildings. We have 55.5% are build-to-suits and 44.5% are inventory buildings, and this is a great number because inventory buildings according to our market intelligence and that those are taking upon that. Build-to-suits is difficult to predict where and when they are going to arrive, but we have been very effective with build-to-suits from Juarez (phon) to (inaudible) and that's a positive.

Now in Juarez, we probably are the most effective developer right now with the biggest deals. Both CPI, BRP and we are starting the second phase of TPI which is another build-to-suit that we announced. In the other markets, we have seen very good activity. Maybe some slower activity in the beginning of the second quarter due to the fact that some of the OEMs delayed their nominations according to what they had expected, (inaudible) being one example of those; and (inaudible) also had slowed the process but it's just part of their process. For a better hand, we see (inaudible) accelerating the nomination process in our clients. So that means that we will see good impact in the next quarters in those regions.

We're happy also—I mean, the Toluca market have some effect of the construction of the highway and the train. But definitely this kind of investments are investments that will increase activity within the region. I don't know if you know about that, last week the highway was opened, all the top part of the highway which is completely new dynamics to that region; it will shorten the distance, increase the activity and reduce the logistic costs. So, I'm very happy with the activities that we're seeing. I think that there's been a 12% of vacancy rate in the overall portfolio in a company that is growing more than three million square feet. It's a great number. Of course if we can lower that, that would be even better.

The leasing activity, I'm hoping to get better in the next quarter in some of the regions which as I told you the nominations from some OEM's were postponed for some months, and right now they are taking place.

Enrico Trotta:

That's perfect. Thank you very much.

Lorenzo Berho:

Thank you Enrico.

Operator:

The next question is from Mr. Javier Gayol from Grupo Bursátil Mexicano. Please go ahead.

Javier Gayol:

Hi, Juan and Lorenzo. Thank you. Thank you for the call and congratulations on the results. I have just two questions. The first one would be if you could comment, and how do you see the dynamics on (inaudible). We saw the acquisition of land and under some analysis, we find that the markets are, it's reaching its peak that I think you guys could give us a lot of—much better color on that market because you know it so well. So, if you could just comment on that? The second question is regarding the political situation in the US. Have you guys seen any changes on the dynamics of your tenants and have you seen them a little bit more worried and to you expanding their contracts or something like that. If you just comment on that, that would be very helpful. Thank you.

Lorenzo Berho:

Sure. Thank you very much, Javier, and thank you very much for being in this call. I would just like to comment about a couple of things. First of all Querétaro; well, to be honest Querétaro was one of the best promoters of the neighbouring states, like (inaudible), and that doesn't mean that (inaudible) is not doing a great job in promoting. Unfortunately because there was no land available anymore in (inaudible) some companies, especially the ones needing larger scale of buildings had to move to other places or select other places because they didn't see infrastructure being there right now. So, part of the—if you try to measure market peak that means of what is available right now, but the problem is what is not available right now.

So, it took us some time but we found this great property which is exactly in the middle of the airport of Querétaro and the 57 Highway, and we believe this is going to be—I hope we have gotten this deal before, but I think that we will be finishing using our own reserves in the region. So, the way I see it, I think that the next wave to Querétaro will keep coming very soon. I had the opportunity to be in (inaudible) a couple of weeks ago in the air show, seen a lot of activities from some of these companies picking suppliers or increasing or expanding the plans in Mexico like we just announced with the one with Safaran Group, but we were close to both parties and other ones. And, let's say this is the first time that the Governor which has been in place for a few months was also at the show in England, and also the Mayor of Colon (phon) which is a municipality with most dynamics in their space was there as well. I'm really positive about Querétaro, that is something I'm happy.

Related with the political situation, maybe in Vesta we see opportunity while other people see risks, and the way we—and this is why we are trying to focus on our long-term strategy, and I'm trying to see the world one year from now and see the impact of companies because companies have not stopped making the decisions. So, especially OEMs keeps nominating and people need to be establishing and expanding in a very fast and dynamic way, and so there will be distraction, there will be a lot of issues throughout the impact and the potential, but really it's to the benefit of the US and the competitive of US the partnering and deepening the partnering with Mexico. That's the way I see it, and really, there would be a lot of noise as we have heard in the past days. This is normal, maybe a little more than other years but we believe that whoever is the next President of the US has to team up with Mexico, and Mexico is strongly positioned in a very competitive situation to gain. Just recently we just got in the bank with almost 14% of all imports from the US now come from Mexico. So, that means that we are strongly positioned, but also the Texas imports exports more to Mexico than any other countries. So, I think that we are in a good position and we're trying to focus on what we do best which is keep bringing in multi-nationals and strong companies to our country in the most competitive way possible.

Javier Gayol:

Thank you very much, Lorenzo. That was very helpful.

Lorenzo Berho:

Gracias, Javier.

Operator:

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

Vanessa Quiroga:

Hello, good morning, Lorenzo, Juan, Iga. Congratulations on the result. I have a question regarding two topics. One is if you can explain the reason for the lower occupancy in Central Region versus last quarter, and also regarding the very important renewals that you have been obtaining, even in some cases renewals in contracts that would expire in 2017. Is that a strategy that you are following right now because of how you're seeing the market or what's driving these early renewals?

Lorenzo Berho:

Thank you, Vanessa. Thanks for being here in the call again and thanks for always your interest in Vesta. Let me mainly start by the second question, and I think that this is part of our strategy that we announced early in 2015. Remember when we set up part of our Vesta Vision 20/20 plan was normally about growth. It was about financing, it was about important decisions including our change in headquarters and investing in the team, but also our organizational structure, and at that particular time, we did some strategic change which was to separate and create a new division called asset management which we didn't have in the past. In the past, as probably you remember, our own regional managers which are now Vice Presidents of new business were once doing both—approaching new opportunities and taking care of the business and renewals. As we were able to go to portfolio, there was a time in which this was not sustainable.

We decided to create the division with a completely new team, completely new head and with local people which are both focusing and being even closer to our clients in terms of understanding their needs and facilitating and/or anticipating renewals, and I believe and convinced that that strategy is the one that is helping us to make such a good progress. Not only in the renewals of 2016 but also participate to their need from service to physical contact, and that explains also why 50% of our growth is with existing clients. That's the importance of having local offices, local people and being very close to your clients. That explains the 1.8 million renewals that we have had and especially the ones going into next year.

I also want to highlight that we have been getting—some people the way to appraise a company has to do with the potential growth or increase in the price of rates, and (inaudible) but our way has been also trying to make sure that our clients keep or increasing their competitiveness, and if you see the prices in which we have closed, we are getting better returns with those prices because we have lowered our cost of equity and we have built in a much competitive way by the scale that we are developing. So, from Vesta's point of view even with the close to same rates in some cases, in some workplace we have increase according to inflation, we are getting much better returns, and I think that's important for value creation.

So, I would now turn to Juan to try to explain the occupancy in the central market.

Juan Sottil:

Okay, basically—Vanessa, nice to see you here in the meeting. Thank you for the questions, first of all. The Querétaro market remains very strong and please bear in mind that in the Vakhil region, we—a couple of the buildings have been developed over the past—I'm sorry I'm just being corrected, the question is not regarding—are you referring to the occupancy in this region right or in the central region? Okay, let me just go on—

Vanessa Quiroga:

I was referring to the Central Region occupancy. I think you were down 300 basis points in quarter-on-quarter.

Juan Sottil:

Basically, in the Central Region we are gathering—we occupancy in the Central Region, I'm sorry Vanessa but what I think we reported on the Central Region is basically the same number of square feet vacant, 885,000 square feet from last quarter to this quarter. There is a slight occupancy in the same stores portfolio, I guess you're right, it dropped to 97.4%. I believe that it has to do with, not in the client that have vacated our buildings, I have to check, but I think it is related to the project in that were moved from the development portfolio to the lease portfolio to the stabilized portfolio and perhaps that's what's bringing the noise.

But, our demand in the Toluca region is quite strong. We have one building on the new Vesta park, Toluca which we haven't occupied. That's not a problem, it's basically a strategy. This is largest building in Toluca that remains, and we're targeting that building to a suitable client. We're holding back partitioning the building to smaller occupants. In the other parts of the Central Region that we're targeting, the Audi project that Lorenzo has mentioned, Audi is beginning to step up nominations for suppliers and that is why we have to be in the region that we're keen to occupy at our supplemental package to indicate, and we remain very optimistic on the inventory project that we're developing in Querétaro.

Vanessa Quiroga:

Okay Juan, thank you very much. Thank you, Lorenzo.

Lorenzo Berho:

Gracias, Vanessa.

Operator:

The next question is from Alan Macias from Merrill Lynch. Please go ahead.

Alan Macias:

Hi, good morning and thank you for the call. Just a follow up on average rents. It's my perception that perhaps your aggressive leasing and the reflection in lower average rents is perhaps greater increase in the competitive landscape in the industrial segment. Are you seeing a pickup in competitors and having them be more aggressive in terms of leases? Thank you.

Lorenzo Berho:

Well we have our own strategy in the quality of buildings and the target companies that we approach, and we are very strict. So if I could remind you, Alan, and thank you very much for your interesting question, is that rent disposition has been topnotch of the multi-nationals and the quality of buildings. That's why we have today the best quality portfolio in Mexico and the most modern one. Now, having said that, industrial buildings, if you have the land and infrastructure ready it will take you really six to seven months to build. So, market by market is difficult to predict what exactly is going to be what our competitors will do in each specific market.

But, what I can tell you is little by little, the companies have been able to differentiate the quality and go more for quality than just for price, and there are some places sometimes we lose some deals because we want to keep our building to hold it to the specific industry that will match our quality portfolio than just closing factor and try to show that we lowered our vacancy, sacrificing either the quality of the tenant or the price of the rent. So, sometimes we just let it go, we let the tenant go and have the competitors with different quality and different pricing take the client, and then we keep the property, and we probably are the only one with that size of building in that particular region. That's the way we approach it.

But, I would highlight that if you see the supplemental package, we have been maintaining 10.9% of our as return on this project on the development, and that is the combination of increasing or maintaining our quality, lowering our cost of debt, building with larger scale and finding good properties at very competitive prices and giving all these value to our shareholders. That's how without increasing price too much we can maintain being very competitive and keep are very aggressive growth program.

Alan Macias:

Thank you. Just one follow-up question; if you can remind us, your main competitors, who do you see as your main competitors? Is there a national competitor at the national level or is it more by region? Thank you.

Lorenzo Berho:

Yes. When we talk about competition, we have to admit that we compete in two different level. We compete for capital and we compete for capital worldwide in order to create and bring force and deepen our investor base. We compete basically with (inaudible) and especially industrial (inaudible)—which you know them all, they are good competitors and experienced people. What is prolonged is (inaudible) that we compete for capital and we compete in the debt market sometimes. The real competition for us is at the local level, mostly with local developers which are not very much know, and some of them are very good developers, and we have to make sure that the mission that our Company is very well-known for the expertise that we have and the contact that we have up in local basis, from Tijuana to Juarez to (inaudible) to Querétaro; these CEOs have called us as a very strong local player with multi-national standards, and that's the strategy that we have hold. And we are very happy with that. This explains, as I mentioned, why we have 50% of our growth keeps being with existing clients with repeat business for us. When a client knows that they have multiple clients in different states, they would rather choose not the local developer but go with somebody that they can partner for the long run. Are you listening?

Alan Macias:

Thank you, again.

Lorenzo Berho:

Thank you, Alan.

Operator:

The next question is from Marimar Torreblanca from UBS. Please go ahead.

Marimar Torreblanca:

Hi, guys, thanks for the call. I have a quick question. I'm sure you've seen in recent data the manufacturing activity in Mexico seems to be slowing down. So, I wanted to ask you if you could comment on what has happened in your occupancy and your rent levels or anything that's relevant for your business in previous economic cycles when this has happened. So, how fast is the pass through and if you're worried at all about this indicator?

Juan Sottil:

Marimar, welcome back. I'm so glad to hear you back. Look undoubtedly Vesta sits on the industrial landscape in Mexico. But please bear in mind that in the specific place that we sit on which is the export oriented industrial led part of Mexico, one confirm to the general statistics that you can read on the economy wide. What we have is a substantial demand on new business. I can tell you that the pipeline that we have basically underlying by the number of lease that we are managing is—we have never had the number of lease that we have today. Not only for renting our inventory buildings, the one that we have and the one that we plan to do, but for to do actual build-to-suits.

As Lorenzo mentioned earlier on the call, this is the need that you have on the projects and their construction is by majority a build-to-suit demand of our product, and this gives us a loft of comfort. The number of lease related to a specific build-to-suit projects in the Central and (inaudible) regions, we have never had them in the past. So, I relate to your question that Mexico, why do you see a low industrial activity. But if we were to have a measurement of industrial demand for export, that would certainly paint a very different picture, and that's what we feel first and foremost.

Marimar Torreblanca:

Thank you, that's very helpful.

Operator:

The next question is from Mr. Francisco Suarez from Scotiabank. Please go ahead.

Francisco Suarez:

Thank you, good morning guys, for the call. Just want to clarify the proportion between spec and build-to-suit, and I'm referring to the Page 14 on your supplemented information. Just wanted to make sure which one of the projects are build-to-suits. I mean, for instance in the Vaher (phon) region, the sizing and mass should we consider spec but you mentioned, if I'm not mistaken, a 55% mix on build-to-suits and the number that I have here based on these slide is roughly 48%. So, you can guide me through that. Also a follow up question on the Bajio region; also on your Slide 12, we see the total rental revenue seen in one quarter were falling 5%, so if you can comment on that?

Lastly, the third question on your competitors; you mentioned that locals are the ones that local developers maybe one of the strongest competitors. But I'm not sure to what extent guys like the private equity guys, so far advanced real estate might be a threat for you because they have the funding and also they seem to be very knowledgeable of the region since 2007. Thank you.

Lorenzo Berho:

Okay, Francisco, thank you very much for your support and your question again. I would like just to start by your last comment which is the threat from the locals. I had the opportunity to be and the honour of meeting the President of the (inaudible) Association for two years, and I've been always very close and I'm at the Board, and we're working the committees. And believe me, competition is what makes you stronger. So, and we were once a local player and we know what it takes to be a good local player, and that's what we took to the next level to become a national player. So, I really recognize those guys. I know them all, am very close, and really sometimes we learn from some of them.

So, having said that I don't see why they have a benefit in their regions where they operate to what Vesta has. If they are funded, we are funded. If they have skills or people, professionals around, we do have that, and the other elements that we do have, that's something that probably they do not have. So, in niche of the market that we're participating, competition's welcome. That keeps us honest and improves every time, but there is nothing against the asset trade unless that we keep—take somebody out from close and local office, or—I really see that is normal, that is business as usual, both. But we are very happy to look at that. On the contrary, I feel that some people really feel the threat to go into that market. So, that's my feeling.

Relating with the percentages, the ones that I have here, let me just walk you through some of the big suites. We did mention about TPI which is 358,000 square feet for Phase 1 and then 339,000 square feet for Phase 2 which we just announced that this is revealed to consider (inaudible) year for Phase 2 but October 16 is the finishing for Phase 1 and it's a beautiful building. I was there last week. (Inaudible) which is the subsidiary for (inaudible) group, that is 338,000 square feet and we took long to negotiate with them but it's a beautiful building that is going to be—doing the place for new engine 356 which is going to be the age under wheel, the most sold engine and that will replace the larger fleet in the world (phon) in both airports and Boeing.

Then the other bill to suit ThyssenKrupp, for—that's 205,000 square feet and that's also crucial; ThyssenKrupp will know what kind of company they are, and those are the ones that if you add them up that would represent 55.5% compared to the 44.5% that has raced to the summary of the portfolio that we are developing as a whole. So, that would include—also in the recruits that has been delivered during this year, 121,000 square feet and also (inaudible) inventory building but early in the process, even when we were in there and maybe one quarter of the construction was performing the build to suite, and that's why—that's 275—39,000 (phon) square feet. So, all those build-to-suit represent 55.5% as compared to 44 of inventory buildings which we don't have inventory buildings and that has been key in our strategy because those are—when you do that with smart intelligence, market intelligence, you have really the product when companies really need it, and we just probably recommend here. So, we reduce a lot the risk and the time to market for those companies.

So now Juan is going to talk a little bit about (inaudible). My first approach on that was that—let's say it's important to look at the average cost of rate, but what is difficult to compare is really when we do inventory buildings (inaudible), you never know that building is going to cost little less than the inventory buildings or more than the inventory buildings, and that's why—I mean, I'm not everything in terms of cost and in terms of market price. What is really important is the returning cost that we get in each of the specific project. And in that regard, our investment community is very disciplined—actually one of the members of the investment community is here with us today, he came here for yesterday's Board and they are very disciplined in the way they select the products making sure that we have great tenants, quality buildings, long-term leases and good return-on-cost which is what creates value for us.

Francisco Suarez:

Okay, yes. Thank you very much.

Lorenzo Berho:

Thank you Francisco. Hello? Hello? Hello? Hello?

Operator:

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

Cecilia Jimenez:

Hi, good morning everyone. I thought I was not able to make the question.

Lorenzo Berho:

How are you Cecilia. We are here the whole day, especially for you.

Cecilia Jimenez:

Thank you. Just a follow-up maybe on the vacancy, you have done a great job keeping vacancy under control considering the pace you are growing. So, in that regard I just like to know how has been the leasing activity, particularly for the properties that were included in the portfolio? At the end of 2015 you've alluded last year of 1 million square meters of 4Q. So, how has that been going? And whether you see a potential pick up in vacancy towards year end? That is my question. Thanks.

Lorenzo Berho:

Thank you, Cecilia. You're referring to our (inaudible)I guess, look, let me remind you what's the strategy for the San Miguel— the big picture for taking this particular important. We don't expect—we expect to keep controlling our vacancy in the Company. We're very careful about initiating new buildings and we initiate buildings if and only if we feel strong demands for potential clients in the inventory buildings, and we're very disciplined and we have always been very disciplined in the past. Now the San Miguel buildings represent a particular good opportunity for us. Let me remind you the competitive landscape in that area.

The industrial part of Querétaro is one of the premier industry parts in the country, and we basically develop all of the land that Vesta has in that park. That is not one of our parks. We purchased that land where we made a strategic alliance in 2006-2007 with five developers. We bought most of the land reserve of the land that he had available, and four years after the IPO we basically developed all of the land, I think we have one plot left. The price per square foot of the remaining land we see in that park has shot up through the roof. If I have taken you to the Querétaro industrial park, and when you see around, it’s a lot of land. So clearly there was no need for us to buy more land reserves within that park. We found out the excellent park 15 minutes away in that important highway. Let me remind you that that highway links San Miguel (inaudible) to the industrial park and to the national highway, and a lot of the workers that comes through the industrial park, through the Querétaro industrial park live in San Miguel.

So, that park developer had a clear vision of developing a park in a very strategic place within that region. We purchased most of the land in that park and that's what we call San Miguel Industrial Park. We've seen that park, we have—we can develop two build-to-suits and one of the new project that we have closed is also within that park, the ThyssenKrupp building for (inaudible). So, there is a strong demand that proves the point that is a good park. Now like what we do invest that, we do take risks, that's what you want us to do, and we develop couple of buildings and we just signed one of the buildings to Reatate (phon) which is our very important client, and we will continue to develop inventory buildings within that park because we proceed that the demand for space, for industrial phase in the regions remains very strong.

If you check our land prices, vis-à-vis the industrial park, you will find out that their position of that land was particularly attractive and an opportunity not to be missed.

Cecilia Jimenez:

Okay. Could you foresee to what year end a little bit pressure on vacancy due to the latest or there—the buildings that weren't acquired or included from volume considering they will be already one entire year within the portfolio?

Lorenzo Berho:

Well, that's a good question, and let me tell you one of the beauties of opening up our total portfolio in the same store (inaudible) portfolio and total portfolio is the fact that you can have all information and see what happens to the portfolios as my investment community does when we take decisions. If within that framework, what we expect this to have same stores occupancy very strong, and let me remind you that represents the core earnings of the Company and it is that motor that allows us to take some risk, some measured risks on growing the portfolio with new inventory buildings where needed.

I don't expect any significant change in the same portfolio basis. Some of the buildings that we have developed in the past will migrate to the satellite portfolio and we have a strong demand and I think that that portfolio will also show good results. However, on the margin, the total portfolio vacancy, I don't expect any significant change, but part of the management of the Company as we have talked so many times in the past is the fact that we do take development risk and total portfolio occupancy does look (inaudible) which is we gave you the clarity of showing you very strong core earnings by the same store, relatively solid satellite portfolio, and on the margins some investment that we believe will pay off in time. I don't foresee any problem however by year end. I see (inaudible) very strong for Vesta.

Cecilia Jimenez:

Great, very clear. Thanks.

Lorenzo Berho:

You're welcome.

Operator:

The next question is from Mr. Froylan Mendez from JP Morgan. Please go ahead.

Froylan Mendez:

Guys, thank you very much for the call. Could you elaborate on the increasing the (inaudible) expenses, why would you—why would we need to expect forward to these normalized at the current levels we saw in this quarter? And also could you remind me if you paid double interest during this quarter given any overlaps from previous debt before the debt refinancing? And also, regarding the mix between build-to-suit and inventory, I know Lorenzo you mentioned now having 55% of the development portfolio, but has this mix changed along the history of the Company? And, what would be your outlook if there is something there? And also—sorry, for so many questions. In the Toluca project that you mentioned, how much of the vacancy does this asset represents and would you ever considering to break it down into a smaller GLA just to have it printed more rapidly? Thank you.

Lorenzo Berho:

Let me take one at a time, and I would—I may ask you to repeat the questions. I'm going to go bottom to top. On the Toluca buildings, look, this is truly a tactical decision. This building is 150,000 square feet, give or take a few. We have three buildings in that park, we rented one, the second one we decided to partition in half to allow one large client to take one half buildings. And the other half we keep it as to—in order to break it out, that's how you develop inventory buildings, very flexible building. If you see the competitive landscape within Toluca, there is lack of large buildings and we decided to hold on on one building because we believe we're streaming the top of the market. It is a tactical decision. We think it's a good tactical decision. What is needed, we will replete it out, that is not an issue. So, I would believe it's a good bet.

The prior question was related to debt. On debt, I can give you question but correct me if I'm wrong, has to do if we have—now look, we manage these carefully. What we did is on April, we signed committed lines, and I have two very strong buying commitment for this (inaudible) basically $250 million by the end of July; $150 million for long-term notes and $100 million for revolver. That cash would allow me to pay off my debt. At the same time we negotiated a will with MetLife based on property. That is a bit more complex because they have to do due diligence on each and every of one of the properties we leverage and thus this is lengthier. But with the commitment we take permit so that we (inaudible) and that's what we have been doing. So, we avoid (inaudible) and it will take two days to feature (inaudible). So we time it, because we plan it with a very carefully drafted commitment letter from two very (inaudible).

And then regarding your questions with the percentage build-to-suit (inaudible) our inventory, the percentage is a consequence of investment decision and we have never been a target certain percentage. We can either do more inventories or more build-to-suit as we decide that it's crucial in some of the regions. So, it's good to monitor people, some people (inaudible) build-to-suit. I personally love inventory buildings when there is a problem of analysis and smart intelligence of market opportunities. So, but I would say in the past we closely got to a (inaudible) build-to-suit, for example, just to monitor, today it went to 55, it would be reasonable to go one-third again, but we think that (inaudible) would say that's again the consequence of some investments decisions and taking opportunities.

Froylan Mendez:

Great, thank you. And just on the administrative expenses that we saw increasing this quarter? Can we see this going forward?

Lorenzo Berho:

Yes, I would say that if you check up with—I mean quarter-by-quarter based quickly on the discipline of the Company and making sure you can see our margins are slightly higher NOI, EBITDA margins are higher than guidance with a 14% growth for the Company which is consistent with what we have planned. But at the administrative level, remember that last year we moved to a new office, which that of course represents some important expenses and yes, we did it because we have—because at the same time we have been hiring more people to have to give a better service in all the opportunities that we are receiving comprising to both (inaudible) in two park managers. Those are simply the reflection of the growth needed for a company, healthy growth of a company making sure that the percentage and the margins remains, both making sure that we give better service and get the opportunities that come regionally.

Froylan Mendez:

Great, thank you very much.

Lorenzo Berho:

Thank you very much Froylan.

Operator:

The last question for today comes from Mr. Ivan Enriquez from HSBC. Please go ahead.

Ivan Enriquez:

Hello Lorenzo and Juan, Iga, congratulations on the results and thank you for the call. When we look at the project you have under construction, this project have GLA that represent close to 12% of Vesta's operating GLA, and actually 10 out of the 13 are expected to be completed in the second half of this year. So, my first question would be how confident you are that this building will be completed before the year or at the end of the year? And, the second question would be—and I think it's more importantly, how confident you are about only leasing these buildings? Of course you have now a new asset management investment team that has very good credentials, of course we know Guam (phon), we all know him. But can you assign a timeframe for all these inventory buildings to be fully occupied in 2017? Thank you.

Lorenzo Berho:

Thank you very much for your question Ivan and thank you for your interest. Let me tell you—first of all, how confident we are in finishing on time, 100%. I'm 100% confident because of the kind of team, because of the procedures we have (inaudible) procedures, the selection of contractors and how our team manages monitor those proceeds. Believe me, understand the kind of tenants that we have; aerospace and automotive industries, there is no chance that we cannot meet their finished and the completion time. We really had them—they work just in time and just in sequenced production systems, and it's important to just be there on time, as we have always done. So I'm very confident on that.

Some of them, as in February 2017, the CPI (inaudible) that was just (inaudible) in the last week and we were able to start right away with the contractor we have in place. So, I was personally checking those, the mixed CPI lines were to be exactly finished on time, CPI II—I have no doubt because there is no—I have no reason to think that they could not be delivered on time, same as Safaran. Actually, I think we have announced that also (inaudible) were delivered few days before, and same as (inaudible). So I'm very confident that the construction—that we are good at monitoring and managing the construction, as well as the construction costs. So that is crucial.

The other question was about the leasing activity; and believe me, what I can tell us is that as we have done in the past, usually the inventory buildings—our investment community understands that it would take us six months to build those and approximately six months to lead them. As we just mentioned in some of the buildings, we have been like an example, we are able to leave them a little before, some of them close to the six months. So, that would be the timeframe, I will stick to that. There is no meaning that it could change from that where we might either anticipate one of them or sometimes take any longer than one of them, that's part of business as usual and I think that the average is what's important and if you check them all, that's why it's important to have this inventory build in different markets, not in the same place. In fact, we're all concentrated in one region that will be completely important, a different answer.

Ivan Enriquez:

Thank you, Lorenzo. Basically all the inventory buildings that are expected to be completed by the end of 2016 should be—of course that can become—it should be fully occupied by the end of 2017 inventory.

Lorenzo Berho:

Yes, if you take the termination date, if you had to play a little bit of analysis, take six months from that date and that's the time that they should be leased, not in the case of build-to-suit which you know the date (inaudible).

Ivan Enriquez:

Exactly. Okay, perfect.

Lorenzo Berho:

You’re welcome Ivan.

Operator:

This was the last question. I would now like to turn the conference back over to Mr. Berho for closing comments. Please go ahead.

Lorenzo Berho:

Okay. Thank you very much Elena. (Inaudible) Vesta, once again, thank you very much for being with us today. We look forward to a very strong third and fourth quarter 2016. We will be approaching you or we are open, all our team in inventory relations is open for any further questions that you may have. So thank you very much, again and have a great summer and a great day. Bye bye.

Operator:

Ladies and gentlemen, your conference is now over. Thank you for participating. You may now disconnect your lines. Goodbye.