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Vesta Industrial Real Estate

Third Quarter 2016 Earnings Conference Call

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PRESENTATION

Operator:

Good morning. My name is Matt and I will be your conference Operator today. At this time, I would like to welcome everyone to Vesta's Third Quarter 2016 Earnings Conference Call. Vesta issued its quarterly report on Wednesday, October 26, 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, 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 go ahead.

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Lorenzo Berho Corona:

Good morning, everyone. Thank you for your interest in Vesta and for participating in today's conference call. Against the backdrop of rapid change, Vesta's executing an ambitious growth strategy as Mexico's foremost industrial real estate provider. We're strongly positioned to capitalize on the country's manufacturing expansion and our depth of experience enables us to anticipate client needs.

Our commitment to innovation was shown at Vesta's recent Board Meeting in Silicon Valley, our program designed to bring our last two years of investing efforts to the next level. Exponential is a mindset, a choice that innovate nimble companies like Vesta have made. We're already seeing strong results from systems we have introduced to accelerate the pace we process client's proposals, a dynamic that will forward to drive Vesta's growth.

Mexico's main industries showed strong growth during the third quarter. In September, automotive sales rose to 18%, the highest volume ever. Almost two-thirds of foreign direct investments so far in 2016 has been directed to the manufacturing sector. Mexico also gained four places in world competitiveness rankings, as foreign companies continue to make it their manufacturing location of choice.

Vesta is an active participant in these dynamics, at least over 930,000 square feet during the period. This drove our vacancy rate down to 9.7% from 12.2% previously. Overall, our portfolio grew to 20.9 million square feet. These achievements against our Vesta Vision 2020 Strategic Plan are underpinned by a robust development pipeline, unique for its high proportion of build-to-suit properties. This quarter build-to-suit reached 48% of our pipeline, a record high, supported by contracts such as one we signed in Aguascalientes of over 99,000 square feet for 10-years, at an 11.4% cap rate.

We also signed an eight-year lease agreement with German Automotive Saargummi Technologies, and existing tenant of the Company. In addition, Saargummi extended its existing contract for an additional five-years to 2023 year. Critically, this trend translates into stronger GLA growth and continued FFO per share gains for all shareholders. We are continuously investing to ensure we maintain excellence in the development of industrial real estate with an entrepreneurial team that generates innovative and sustainable solutions.

Vesta's solid financial results are a reflection of our continued success with a 14.2% rise in total rental income, to $69.5 million for the period. Net operating income grew over 14% to more than US$63.7 million, and NOI margin fell slightly to 96.2%. EBITDA rose 15% to over US$55 million. Funds from operations totaled US$33.2 million in the nine months and from US$28.6 million previously, a rise of over 26%.

Looking ahead, we have a positive view of industrial market. Automakers continue to invest in bringing their suppliers to Mexico and Vesta is playing an active role in facilitating this demand. We are focused on refining our high-quality industrial portfolio and leveraging operational efficiencies. At Vesta, we're advanced on the path to being an exponential organization, one that is technologically smart, adaptive, and able to seize opportunities that translate into profitable growth.

As always, we're committed to the ongoing execution of our Vesta Vision 2020 Plan, to double the size of our Company by the year 2020, utilizing our expertise to fulfill demand for well-located, high-quality industrial facilities. We appreciate your continued trust and support. Thank you and I will now turn the microphone to Mr. Juan Sottil, our CFO.

Juan Sottil Achutegui:

Good morning, everyone, and thank you for joining us. This quarter, the quality of our portfolio and expertise of our team was demonstrated with another set of positive financial and operational results. We

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achieved double-digit growth in revenues and EBITDA, while our vacancy rate fell, and Vesta's high ratio of build-to-suit properties in our pipeline bodes well for future profitability.

Along with solid demand and sector fundamentals, these dynamics enable Vesta to remain a best-in-class provider of industrial real estate in Mexico. Most of our properties are located in markets with the most significant economic growth such as the Central and Bajio regions and we remain focused on major manufacturing trade and logistic hubs, where clients require high-quality buildings for specific industrial needs.

Vesta's portfolio grew to 20.9 million square feet in the third quarter, while occupancy trends were broadly stable on a same-store and stabilized basis. Overall, the vacancy rate fell to 9.7% from 12.2% a year earlier.

During the quarter, we signed leases totaling 731,000 square feet with international companies across the industry. The lease agreements we signed to develop a build-to-suit in Aguascalientes contributed to the 48% of build-to-suit properties we have in our pipeline that will boost our future profitability.

Regarding key financial metrics, revenue grew to 14.5%, to over US$22 million. As of the third quarter, Vesta has already renewed 48% of leases due to expire in 2017, and we have 2.9 million square feet in buildings under construction. We expect these projects to contribute around US$60 million to revenue once they are established, giving us confidence on the revenue outlook.

Third quarter operating results as a share of rental income rose 50 basis points on year-on-year due to a rise in maintenance costs and other expenses. Net operating income was 13.7% higher to US$21.9 million as demand for our properties offset costs.

NOI margin was 60 basis points lower to 96.2. EBITDA grew 13.2% to US$90 million, while EBITDA margin fell 100 basis points to 83.4 from the previous year's third quarter.

Total comprehensive income was US$16.5 million, up from a loss in the prior year, due mainly to a gain in (inaudible) of investment properties. Funds from operations rose nearly 33%, to US$14.4 million.

Turning to our balance sheet, cash and cash equivalent were US$92.2 million. Operating activity generated cash flow of US$63 million. Investment activities were focused on payments for construction work, on progress on buildings in Bajio, Ciudad Juarez, Tijuana, and the Central Region. Total investments were US$31 million for the quarter.

Financing agreements which we signed earlier this year have ensured our cost of goods remains low and Vesta maintains a robust and efficient balance sheet, that will enable us to fulfill our ambition for an aggressive and sustainable growth.

As the quarter closed, we had an overall debt balance of US$340 million, all of which is related to long-term liabilities. All of our debt remains denominated in US dollars as we can comfortably address any upcoming maturities.

As Mexico's preeminent industrial real estate company, we have a strong balance sheet, and a robust pipeline to support our ambitious growth plan, we are committed to generate sustainable growth over the long-term for all stakeholders, and fulfilling the goals of our Vesta Vision 2020 Plan. We look for the period ahead with confidence and will continue to deliver our growth promise.

Thank you very much and I will open the floor for questions. Matt, at this time if you like—if somebody would like to ask a question, can you pass it through please?

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Operator:

Sure. At this time, we'll be conducting the question-and-answer session. Now, 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'd 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. One moment please, while we poll for questions.

Our first question comes from Enrico Trotta from Itau BBA. Please go ahead.

Enrico Trotta:

Good morning all. Thanks for the presentation; I have two questions. The first question regarding the BTS projects, we see there is a proportion of BTS projects has been increasing inside the Company's pipeline of Greenfields. When you look at the 2020 Vision Plan, what should we expect in terms of proportion of BTS projects ahead? Should we expect a new BTS against the inventory viewings that you have been announcing? So, I'd like to understand how the new BTS should be as a proportion of the 2020 Vision Plan?

And the second question, I think again, vacancy rates show a big improvement on a (inaudible) basis in all regions, especially in the Bajio. I'd like to understand your expectations for vacancy rates ahead and what about prices? Have been decreasing prices to keep this (inaudible) vacancy rates or are you sustaining at the prices that you have inside the portfolio? That's it from my side. Thank you very much.

Lorenzo Berho Corona:

Thank you very much, Enrico. Thank you for being here today. I would like to just try to address both questions, three questions. The first one related with the proportions; as you have seen we have had 48% of our build-to-suits this year and we have always planned to have a good balance in terms of build-to-suits, and in inventory buildings. Inventory buildings require smart intelligence of the market so we have the product ready to go to plug-and-play when the companies are nominated or decide to establish operations in one side so it's important to have the right product, the right sites, the right quality in the right market.

But on the other hand, Vesta's skills for development have every time been gaining and gaining credibility and that's exactly what the companies are happy to have, and they talk very much to each other. So, that's why it's not a surprise to have this increasing pipeline in build-to-suits, but if you wanted to foresee the future and really it all depends on when you take the picture, I would say that considering 40% of build-to-suit going forward is a pretty good range. Going to 48% or 50%, which we have today is even better, but 40% for build-to-suits would be fine.

Then, the other question related the vacancy rates, yes, just as you described we have seen activity in the markets and we have been closing deals. I mean 900,000 square feet just during this quarter is a great example of what we are doing. We have also been renewing the 2017 leases, so this shows activity so in this regard let me tell you a couple of examples of deals we have closed. One of them being in Toluca, we have been able to increase substantially the price because for some reason they were—they were lower for many years and we are able to replace those tenants with better rates. But mostly I would say they are either flat or with an increase of CPI, that's what we have seen the rents in pricing.

Enrico Trotta:

Thank you very much.

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Lorenzo Berho Corona:

Thank you, Enrico.

Operator:

Once again, as a reminder, if you would like to ask a question it is star, one. Our next question comes from Javier Gayol with GBM. I'm sorry, please go ahead.

Javier Gayol:

Yeah, hi. Hi, Lorenzo and Juan, thank you for the call. I have two questions; the first one would be regarding the projects that enter development this quarter that if I'm correct are located in Guanajuato and (inaudible). I want to check if that's correct? Also, I want to understand the strategy on that market, as we can see on your information one of those inventory buildings has been vacant throughout almost the whole year. I want to understand why are you guys going into development of two new projects in that same area without leasing the first one first? And just understand the strategy on that market and what you are seeing there?

My second question is regarding the strong pipeline that you guys are expected to deliver in the next four to five months. Can you tell us how are things going on that side, on the month that has already passed, and if this is the case that you guys expect the vacancy to drop because of these large increments in GLA? Thank you.

Lorenzo Berho Corona:

Thank you. Thank you very much Javier. Thank you very much Javier and let me work a little bit through that. I think you're right, the 2.9 million square feet that we have been developing are—shows how strong we have been in development in all markets and as you can see, as we just talked about this, 48% of that are build-to-suits. So, looking ahead, and you can see the dates in which they are being—going to be terminated, and you look how many of those are build-to-suits like the (inaudible) deal which is going to start paying rent in March next year. Or the TPI 2 which also will be ending in February of next year, all those big projects are the ones exactly at the top, they represent the build-to-suit that we will be delivering and they will be producing rates.

Now, going to inventory, it's important. First of all, some of the companies have sometimes are anticipating that what we expected, like Daimler in Aguascalientes, they have been very active in the nominations. We feel the process sometimes the negotiations take some time, but we know that several of those companies are—been nominated, the build-to-suit of (inaudible) that we close in Aguascalientes shows how they're active in terms of build-to-suit and denomination in Aguascalientes. Then some places like Guanajuato, the (inaudible) requires a park we all would like to have a finished product which partially has been leased.

Then, we are starting—we are working in other inventory because we know that in that particular region, the trends of strong demand is there, and whenever they are leased we will be announcing that. So, we will not be building another inventory buildings until this keep moving at the pace that we require. What wouldn't be a surprise would be just to have other build-to-suits in the same park, which that would not increase the risk of inventory space in the same region.

So, I would say that those are—those are basically the comments, and in the next quarter as you were able to see we were able to reduce to a little over 9% our vacancy rate of the total portfolio. But of course, you can see the same-store measures and you can see how the portfolio increasing in terms of size, and of course, sometimes it's just a matter of exactly when you close the deal, that could either

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increase a little bit one or two points, or stay at the 9% levels. So, that really all depends on when you take the picture, but a company that develops and develops to the same entity, it usually has some movement in terms of the ratio at the time that you take the picture. But this is what our Board and our Investment Committee delivered with a lot of discipline, considers the right path in terms having the growing quality buildings in strategic regions, and having some inventory buildings for the companies that do not have time and need to plug-and-play very easily.

Operator:

Thank you. Our next question comes from Marimar Torreblanca from UBS. Please go ahead.

Marimar Torreblanca:

Hi, guys. Thanks for the call. I have a group question, was there any change in your FFO calculations this quarter because the conversion from EBITDA to FFO was surprisingly high for us, so I was wondering if there something in particular in the quarter? Or was there a change in the calculation methodology or what should we expect going forward as far as your FFO line?

Juan Sottil Achutegui:

Marimar, thank you for the question. Let me address it, no we didn't change the methodology; in our supplemental package, we published the methodology that we follow, which closely follows (inaudible) recommendations so we provide you with a tie-in between FFO and—between net income, total comprehensive income and FFO. So, we haven't changed the methodology; let me try to address specifically why FFO is shooting up.

Basically, and as a general proposition, we believe that FFO will begin to grow substantially for the quarters to follow. The most salient increase of FFO, of course, comes from the reduction of interest rates. As you know, we renegotiated the debt, our prior interest rate average for the Company was somewhere around 7%, and today, we're a hell of a lot lower, lower than 4%. If we were to swap the debt into fixed, we haven't done that swap so our effective interest rate is just LIBOR-plus, 200-plus basis points. So, that kind of explains the high-interest, also bear in mind, that the increase only was affected for two of the three months of the quarter so there's some more kick that we're going to get in the future.

So, that is specifically in terms of the biggest impact because of the debt cost. There were other things that also had bearing on the increase in FFO, which is remember that in Vesta we're basically a high-leverage high-company operational leverage. Our costs are way controlled, like tightly controlled, and increasing revenues directly go to the bottom line and in particular, to FFO so that's another source of the high increase.

Also, remind yourself that—let's remind ourselves that our cost, our administrative costs are based in Pesos and this quarter, as the Peso continue to slide against the dollar, our administrative costs shrink a little bit so that also provided a boost to FFO. This element, of course, is temporary we do not base our value proposition on FX inflations, but rather we do it on very strict cost controls and that's how we do it. I don't know if I—if it makes sense against your worksheet calculations?

Marimar Torreblanca:

Oh, yes Juan, it's very helpful. I appreciate it.

Juan Sottil Achutegui:

Thank you.

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Operator:

Our next question comes from Alan Macias from Merrill Lynch. Please go ahead.

Alan Macias:

Hi. Good morning, everyone, and thank you for the call. Just two questions, back on the development pipeline; I guess you have five inventory buildings being completed this quarter and three build-to-suits. If you can give us more detail on if you have finished the construction of these—of some of these buildings are ready, and if you can just provide us on any preleasing details on these buildings? The second question is any timeframe for using the derivatives in your—in your debt? What do you estimate the cost—the cost of debt would go up once you've covered from variable to fixed interest? Thank you.

Juan Sottil Achutegui:

Okay, let me address first the debt question. No, we don't—we do not have derivatives on the Company at this moment in time. On the debt side, we basically have close to US$350 million debt, out of which US$150 million are based on a floating rate basis. We haven't fixed the rate, the intention of the Company at some point in time to swap it into fixed and yes, at that moment in time we would probably do float to fixed swap for—not for the five-years of the debt, but probably for two-years, somewhere in that neighborhood. But at the moment, we keep it on a floating rate basis; we will swap it sometime within the next couple of months.

On the development pipeline, the build-to-suit—the build-to-suit inventory buildings, there is a table in the development pipeline in the supplemental package that tells you the percentage of completion that the buildings have. Most of the buildings are progressing according to plan, bear in mind that inventory buildings usually takes us six-months to build. Build-to-suits, because of the complexity of our requirements to the clients, may take a little bit longer, and for example—the one example that would be the Snegma (phon) building of the BTI building. But again, that's the nature of the building, when a client requires a very specific PI we may take one month to 45 days longer, but that's about it. The building progression is according to plan.

Also, if you take a look in the supplemental package in Page 14, you will see our progress in leasing the buildings. There's a column called percentage of leased buildings and there you can keep track of how we're leasing buildings in construction, which is key, if we're very good in doing this we really want to diminish the development risk of the Company first. So, for example, in the building that we call (inaudible) which is in the Queretaro Industrial Park, we have—the building is due to completion this month, in fact, it was delivered sometime during October. But regardless of that, we have already leased close to 43% of the area to various customers. Another example would be the building in the San Miguel Industrial Park in—which was also delivered to us during October, and we have 23% leased building.

So, that is an important feature, bear in mind that we call them inventory buildings and not spec, because we really believe that if you do it with intelligence and local knowledge we can begin leasing the buildings even before we finalize the product and these are two examples of how we do that. Once the buildings are delivered, they will show up in the leased-up properties on Page 12 of the—on Page 11 of the supplemental package. On that Page, on the leased-up properties portfolio, we continue to tell you what's the percentage of lease-up that we have so for example, for Queretaro II, which is an inventory building in Guanajuato region (inaudible), 40% leased percentage. If that percentage were to reach a substantial amount, more than 80% we will put it on the (inaudible) and you can see an example of that, the (inaudible) building which was delivered and was part of the lease portfolio last quarter is 100% leased. We moved it to the (inaudible) portfolio as per the rules that (inaudible) has defined in how to treat this portfolio.

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So—that way, as a reader of our report, you can keep track of how much development risk we have on the balance sheet. So today, we have the development portfolio, which will come and will pop-off finalized products at some point in time, the dates are there for you to review, but our development risk of delivered property is around one million square feet, 946,000 square feet, which is a rather low number. When you see a low number on the lease-up properties, we will grow more aggressively by developing more inventory buildings, which is what we control. If that number were to be very high, three million square feet leased-up property portfolio and if the percentage of lease-up is very low, the Company will be more conservative in initiating more construction and this is the purpose of this reporting methodology. For you to assess what is the growth path and the growth rate of Vesta.

Lorenzo Berho Corona:

I would also like to add that when you check about the termination dates of the pipeline, all of them are on time, remember that we have a very disciplined (inaudible) procedures to do the bidding process, and to control the project. We are very keen in making sure that these are delivered on time. If you see the progress percentages, that's economic percents, those are payments which—which have been already paid, but some of them they may show October 2016, all of them have been finished in the exact month that we have established here. So, that's what you should expect, I have that, and you see how important this is just to keep, and we understand that having clients that have processes like just in time, or just in sequence and not delivering on time is not an option for us. That's what builds our creditability and that's what we take a lot of care and today we had the full (inaudible), the project that is soon to be finished by February '17, which they will make the blades for the most important engine in the world to be replaced, and that's the kind of things that we are doing.

Alan Macias:

Great, thank you.

Lorenzo Berho Corona:

You're welcome.

Operator:

Our next question comes from Cecilia Jimenez from Santander. Please go ahead.

Cecilia Jimenez:

Yes. Hi, good morning. Thank you for taking my question (inaudible). As a follow-up to development pipeline, could you give us some color regarding the potential tenants of those developments? What I'm trying to see is whether the firm pipeline is (inaudible) breakdown that we have today from roughly 42% exposure to (inaudible) sectors would potentially increase or decrease versus the other areas of the portfolio? Thanks.

Lorenzo Berho Corona:

Sure, Cecilia. Thank you for being on the call. I thank you for your question. What we—first of all, let me tell you of course we cannot share things that have not closed, but especially since Guillermo Diaz joined as part of our—being our new CFO in the Company—CIO of the Company, sorry. He—we have not seen a stronger pipeline ever in the history or Vesta so that shows a little bit of how much internal work we need to do. That's why, as I expressed in my letter, we have been working even in reducing our internal time to deliver pricing and solutions to the clients when we are negotiating the deals, and that is

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something that internally and operationally, is much more effective and has been good news inside the Company.

Now, on the other hand, I don't have any evidence of a change in the percentage of share of the industry that we have today. Remember that 50% to 60% of our growth comes from existing clients so sometimes one client of the aerospace industry may have—for example, (inaudible) may be considering growing different plants, which they have announced, they had a meeting with the President and we will be bidding for those. If that happens, of course, probably temporary the aerospace sector could increase percentage here. If the automotive keep rolling as the way we see the pipeline, this will be basically keeping the 40% percent of share that the automotive sector has. Logistics (inaudible) internal consumption has been good and the companies that we have in our portfolio are also having the means to grow as the demand is needed. So, I would say that in general terms, looking forward, I don't see any specific change in the percentage of industries that we have today in our portfolio setting.

Cecilia Jimenez:

Perfect, thanks Lorenzo. Then a second question regarding competition. Where do you see competitors acting more aggressively? Is it price? Is it—I don't know, quickness or in delivering? Where is it that you most see fierce competition? Thanks.

Lorenzo Berho Corona:

No, thank you, Cecilia. That also is a very good question. Let me tell you there is fierce competition all over and that's good for the sector. I mean competition makes us better, every time it keeps us busy, and that's one of the reasons we are here today in Palo Alto—let me share with you that we brought full our Board and Top Management to the Singularity University to take a seminar, an educational program about how to become an exceptional organization, which is one of the—probably the best place in the world to learn about this. So, we took that time to do it, that's how we want to keep differentiating ourselves from our competitors, but that's an ongoing process and I just wanted to share that with you.

Now, we see competition all over and we have most—the competitors that we see are basically local competitors. The (inaudible) and all that, they mostly acquire properties and some of them are concentrated in the very large markets and you know, we are in different states, and we are very keen to follow through and keep growing with your clients. So, it's local competitors who are very good competitors, and they—if they have for example, land that we do not have, they may have an advantage on that. But in terms of construction time, I don't think that no one is as efficient as we do, with the quality that we have, and that's something that we are very happy.

I don't think I fully answered Javier's question regarding one of the buildings and I want to relate this with your question, Cecilia. There are sometimes that we face competition and we have had some competitors that may have lower quality and probably they want to accept to give lower pricing in Pesos. In that regard, sometimes we prefer to wait for the quality multinational that requires our product and the quality of our product and is willing to pay in dollars. So, that's why sometimes it's a rather a kind of holding on instead of just being desperate to close one of these leases at any price or in any currency. We want to keep also the quality portfolio that we have developed, that's what we have understood that our investors like, and basically keeping with the returns and with the spreads that we can give by developing internally and giving the full scope of the spread and value to our shareholders.

Cecilia Jimenez:

Perfect. Thanks, Lorenzo.

Lorenzo Berho Corona:

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Thank you, Cecilia.

Operator:

Our next question is from Mark Demmer from Credit Suisse. Please go ahead.

Mark Demmer:

Hi, Lorenzo. Hi, Juan. Just a quick question on—I know there's a proportion of revenues in US dollars, increased a little bit year-on-year, but I was just wondering if you could give us an update on how does your—how does a lease contract denomination matches the tenant's revenues currently? So, Juan, how does that 82.5% of dollar denominated rents matches against the tenants that are currently paying Pesos and have dollar revenues? Or the other way around? Thank you.

Juan Sottil Achutegui:

(Inaudible), thank you for the question. Look, basically, we—we're very careful and we go through a very thorough credit analysis on the leases that we sign, and obviously, one important question that we see from when we do this process is if our client can afford the rate, the lease, and in what position can they—do they have regarding currency situation. In that regard, there's very few—most of our clients that have dollar leases are export—denominated clients and we perceive that they have a close match between dollar revenues or dollar index revenues, so to speak, and dollar leases. Some of them are export oriented companies, car manufacturers for example, some of them are export oriented companies through the supply contracts they have signed with car manufacturers.

Now, there are exceptions to this and in those cases, we carefully look at the company, and its—their ability to pay. Let me give you one salient example, Bonafont is one of our best customers in the Toluca region, and Bonafont houses in our facility water, bottled water for domestic distribution. It is one of our preeminent logistic operations we have in the Central Region, their rent is in dollars, obviously being—if what they hold is water to be sold in Mexico, the revenue stream is in Pesos so that's one example of a client that has a mismatch.

Now, when we analyze the economics and the ability to pay, we feel very comfortable. If that situation were to be repeated on a logistic operation of a smaller company, we will be very careful to sign the lease, and if we were to sign it, we would require additional protection usually a performance bond or something to that effect. We are very disciplined in credit considerations and we'd rather say no to a potential client if we believe the capacity of payment is in question.

Mark Demmer:

Great. Thank you very much. That's very good so and congratulations on the results.

Operator:

Our next question comes from Ivan Enriquez from HSBC. Please go ahead.

Ivan Enriquez:

Hello, Lorenzo; Juan, Guillermo. Congratulations again and thanks for the call. My question is more like strategic and industry oriented and forward-looking. It has to do with one of your projects, Phase II of the Nissan project that you have. Would like to know if you can share with us how the construction of that plant is developing from your perspective? If you have started to see some demand coming from this

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project or when can we expect to start seeing some demand from here? If you know where—when that plant would be—is expected to be ready, the Douki Nissan plant? Thank you.

Lorenzo Berho Corona:

No, thank you. Thank you very much, Ivan. It's good to have you on the call and well, talking about Aguascalientes, we all know that first of all we knew since the beginning that this was going to be the (inaudible), which is the Aguascalientes II for Nissan, the fastest ever plant developed by Nissan, in 18-months. The park, the suppliers park, the DSP which means (inaudible) park because it's synchronization with the plant is strategic for them and for us so and we have been keeping on developing as we are just announcing, and still grow at the pace of Nissan.

What we were not sure, whenever we invested in the region was when and the potential alliance that Daimler did with Nissan for the Compass Project. The Compass Project is a project that has been developed, it's huge, the interesting thing is to see the two cultures mixing plants, the Japanese and the Germans. We all know the kind of quality of automakers they both are and Daimler, for—is the one who has been working even faster, in terms of preparing their supplier-base. We have been a couple of times in Germany, working very close with them in the supplier's base and that's why we announced the acquisition of the 80 hectares just across the road in order to increase the base of available GLA for future projects.

That's the one that we have been—of course, developing from scratch, a complete new land required, buying from different owners, getting the permits ready, preparing all that, in fact feasibility studies, regional impact; all that has been very fast been done. Pretty shortly, we will announce—very shortly, I'm talking about weeks, we will have the groundbreaking ceremony—we are just expecting to have the confirmation of the date, but this will be done with the former Governor, who will be—who will be only a few weeks more Governor. That shows the groundbreaking ceremony, but we are working already with potential tenants as part of our pipeline.

Ivan Enriquez:

Thanks so much, Lorenzo.

Lorenzo Berho Corona:

No, thank you very much, Ivan.

Operator:

Thank you. I'd now like to turn the floor back over to Mr. Berho for any closing comments.

Lorenzo Berho Corona:

Okay. Well, thank you very much for participating in Vesta's third quarter 2016 conference call. We look forward to speaking with you again, when we release our second quarter—our last quarter results for the year. If you have any question in the meantime, as we always do, please do not hesitate to contact our Investor Relations Department. Thank you very much and have a great day.

Operator:

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.

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