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Vesta Industrial Real Estate

Third Quarter 2021 Results Conference Call

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PRESENTATION

Operator

Welcome to Vesta's Third Quarter 2021 Results Conference Call.

I'll now turn the call over to your host for today's call, Ms. Fernanda Bettinger, Vesta's Investor Relations Officer. Please go ahead.

Fernanda Bettinger

Thank you, Rob.

Good morning. Welcome to Vesta's conference call to review our third quarter 2021 results.

On today's call will be Lorenzo Dominique Berho, Chief Executive Officer; Juan Sottil, Chief Financial Officer, and Laura Ramirez, our ESG director.

Our results were released yesterday afternoon and can be found on the Investor Relations section of our website, along with our supplemental package and appropriate filings with the Mexican Stock Exchange. A replay will be available shortly after the completion of the call.

Certain comments we make during today's discussion may be deemed forward-looking statements within the meaning prescribed by securities laws, including statements related to the future performance of our portfolio, financial activity, our pipeline and other investments. All forward-looking statements represent Vesta's judgment as of the date of this conference call and are subject to risks and uncertainties that can cause actual results to differ materially from our current expectations. Investors are urged to carefully review various disclosures made by the Company, including the risks and other information disclosed in the Company's filings with the Mexican Stock Exchange.

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

With that, I will now turn the call over to Mr. Berho.

Lorenzo Dominique Berho

Thank you, Fernanda.

Good morning, everyone, and thank you all for joining us. I'd like to begin our commentary by discussing the environment we're seeing in the industrial real estate sector and how some of our key operating metrics have trended for the quarter.

Today, we have reached the point where we can confidently say manufacturing has reawakened and Vesta's clients are assertively moving forward and committing to long-term plans. Vesta has hit the ground running in a revitalized market environment, reflected in outstanding third quarter results driven by considerable year-on-year increases in rents, occupancy, and leasing activities.

Revenue for the third quarter increased 9.4% year-on-year to $41 million, with NOI and EBITDA margins which reached 94% and 83.8% respectively, also reflecting our prudent approach to cost and expense management. Vacancies and availability within Mexico's industrial real estate market have fallen to the lowest levels we have seen in decades, with demand for warehouse and distribution space considerably outpacing supply as manufacturers expand their footprints to supply mostly U.S.-based customers and strive to keep pace with exploding ecommerce sales of consumer goods. We saw the ecommerce trend accelerate during the COVID-19, and it's clearly here to stay, resulting in demand for larger logistics and warehouse space.

The supply chain issues we saw in recent months further underscores the benefits of near-shoring, and businesses are urgently stockpiling inventories to mitigate shipping and delivery risk. What's good for the consumer also translates into a reduction in price and logistics costs, which improves profitability and proximity to the North American consumer that yields several benefits and compares favorably to offshore producers, enabling reduced delivery lead times and freight costs while also reducing manufacturing's environmental impact.

Now, in particular, lead times are critical to the retailers' ability to make sales. Dealers can't complete a sale when the consumer's product is stopped somewhere in a container from Asia. It's important to note that of Vesta's industrial real estate clients in a variety of industry sectors, some have experienced supply chain issues. Our results this quarter are a reflection of clients' resolve to secure Vesta's high-quality buildings for much needed space, which is more critical than ever to ensure their success.

Vesta's third quarter leasing activity totaled 1.8 million square feet during the third quarter, with one million square feet in new contracts. Leasing activity during the quarter included many global ecommerce retail transport and logistics and light manufacturing companies, such as O'Reilly Auto Parts, ThyssenKrupp, Kuehne and Nagel, and Coppel. We also saw the most significant renewals to date for the year to reach more than 800,000 square feet. Vesta's inventory building in Guadalajara and Tijuana were pre-leased by O'Reilly Auto Parts and Coppel respectively during the third quarter 2021 to become a spec to suit building program. The Company began construction of three new buildings, totaling 505,000 square feet, including a 78,000 expansion with ThyssenKrupp and two new inventory buildings: one 200,000 square foot construction in Monterrey, and one 220,000 square foot building in Guadalajara.

As of third quarter 2021, the Company development pipeline reached 1.8 million with an expected $98.8 million investment, 70% of which has already been leased today.

We are excited to announce that the second phase of our Vesta Park in Guadalajara is in progress, and during the quarter, we acquire 89 additional adjacent acres in land reserves, ensuring we're well positioned to capitalize on the important demand we're seeing for the highest quality industrial real estate in prime urban locations, which provides coveted last mile logistics and demonstrates Vesta's ability to penetrate in the most attractive markets in Mexico.

Vesta has closed more than 18 new leasing transactions since June, signing more than 3 million square feet in new leases year to date, the highest number since 2017. This is a clear sign that today's real estate fundamentals are stronger than ever. Increased occupancy, leasing activity and rent, and the opportunity we are seeing have enabled us to confidently, upwardly revise our year-end guidance, increasing our revenues guide to above 6%, with an NOI and EBITDA margin increased to 94% and 84% respectively.

We are also focused on ESG-related deliverables and during the quarter achieved social investment strategic alliances with MercadoLibre, with PNUD, and others during the quarter. Also, 95% of new construction within Vesta's development pipeline are in the process of LEED certification, fully aligned with our bond commitments.

Finally, our annual Vesta Challenge cycling event sponsorship and registrations resulted in $130,000 directed to 15 local social initiatives related to education, inclusion, and community development in the 12 states where we operate. Five hundred cyclists and more than 100 employees and partners participated in this year's live Vesta Challenge in Queretaro, which was also an excellent return to normalcy.

Looking ahead, we're seeing today's strong real estate fundamentals continue. Vacancies in Vesta markets are approaching zero, with clear advantages for our Company as a well established, well capitalized developer uniquely positioned to capture today's exciting market opportunities.

With that, let me pass over the discussion to Juan to review this quarter's financial highlights. Thank you.

Juan Sottil

Thank you, Lorenzo, and good day to everyone. Let me begin with a summary of our third quarter results, beginning with our top line.

Total revenue increased 9.4% to $41 million, mainly due to rental revenue coming from new leases. In terms of currency mix in the third quarter revenue, 83.9 was denominated in U.S. dollars, decreasing from 86.1 recorded in last year's comparable period.

Turning to our cost structure, total operating costs reached $2.8 million in this quarter from $2.3 million in the third quarter of 2020. This was mainly due to an increase in real estate taxes, insurance, and other property-related expenses related to property condition assessments and green property condition assessments, commonly known as GPAs, during the quarter.

Net operating income increased 8.6% to $38.5 million, driven by higher rental revenue, while the margin contracted 68 basis points to 94%, mainly due to higher costs from occupied properties. While administrative expenses were 28.5%, this was mainly explained by non-cash expenses due to an increase in the Company's long-term compensation plan. In turn, EBITDA reached $34.3 million in the third quarter of this year, a 7.1% increase compared to the prior year quarter, while the margin contracted 179 basis points to 83.8% as compared to 85.6% for the same period of last year.

Moving down the P&L, total other income reached $14.6 million compared to $1.6 million in the third quarter of 2020. This increase was mainly due to a $26.6 million renovation gain on investment properties arising from better lease contracts and renewals, improved discount rate and capitalization, and the successful execution of new leases and building development in the quarter. This was partially offset by exchange rate loss and a higher interest expense. As a result, we closed the quarter with a pre-tax income of $47.2 million compared to $32.7 million in the third quarter of 2020, while pre-tax FFO increased 2.6% to $22.7 million and third quarter of this year NAV per share increased 5.7% to $2.53 from $2.39 in the third quarter of last year.

Now turning to our Capex and portfolio composition. We invested $30.4 million in the quarter, mainly through the construction of new buildings in the Northern and Bajio region. At the end of the third quarter, the total value of the portfolio was $2.28 billion, comprised of 189 high-quality industrial assets with a total GLA of 31.6 million square feet and with 83.9 of total income denominated in U.S. dollars.

Year-over-year, our stabilized portfolio grew by 5.6% to 31.3 million square feet, with occupancy up to 93.1%, down from 91.9% in the third quarter of last year. We ended the third quarter of 2021 with a land bank of 40.9 million square feet, up 9.1% sequentially due to the acquisition of 89 acres in Guadalajara adjacent to our existing Vesta Park, which will enable us to expand our presence in the logistics and ecommerce sector in that city.

Turning to our balance sheet, we closed the quarter with a total debt of $934 million and our cash position stood at $374 million. Net debt to EBITDA was 4.2 times and our loan to value ratio was 35%. The successful completion of our debt and equity offerings provide us with significant financial flexibility to deploy capital and make strategic land acquisitions to anticipate demand while maintaining a proven capital allocation strategy. Along these lines and committed to continue delivering strong shareholder value, subsequent to quarter end, on October 15, we paid a cash dividend for the third quarter of 2021 equivalent to 41.6 cents per share in pesos for ordinary shares.

Finally, as a result of the successful execution of our Level 3 strategy and the strong performance we are expecting for the coming quarters, supported by high occupancy levels and rent increases, we decided to raise our full 2021 guidance. We now expect to achieve a six to six-and-a-half year-on-year revenue from our previous guidance of four-and-a-half to five-and-a-half. We're also raising full NOI margin guidance to 94% from 93% and EBITDA margin to 84% from our previous indication of 83%.

That concludes our third quarter review.

Rob, let's open the floor for questions.

Operator

Absolutely.

Our first question comes from the line of Gordon Lee with BTG. Please proceed with your question.

Gordon Lee

Hi, good morning, everybody. Thank you very much for the call.

A couple questions, first on land prices. If you were to consider the type of land that you're buying in the regions that you're focusing on, how much has land inflation been year to date or, let's say, over the past 12 months?

Then the second question, just thinking of the supply chain issues, in industries that you service or that your tenants service that might be affected, and I'm thinking specifically of the auto industry where you've had production stoppages, is there a risk, do you think, that if this continues that later down the road you'll have to offer concessions on the rent front to some of these clients, or do you think that it's nowhere part of conversation that you're having with them at this point? Thank you.

Lorenzo Dominique Berho

Thank you, Gordon, and thank you very much for being on today's call. I will first of all answer your question regarding supply chains.

We see that there is clearly a disruption and most of the different business sectors are trying to find solutions for that particular problem. We actually see that in the industrial sector they might benefit from getting some space for some of their safety stock, or safety inventories as we call them, and I believe that more than asking for some rent relief or whatever, I think they're asking more for that type of support: what do you have available, what can I use. Definitely I think that not necessarily they will have to push their margins by trying to—there is really no conversation regarding giving any grants whatsoever.

Actually, we are currently—I think that all of the concessions we did, we gave in COVID last year, it has been incredibly well taken by our clients, they were very happy with our approach to support them with deferrals, and today I think we have recovered 99% of all the deferrals, because it was part of the strategy to defer over time. With that, I think the clients are going to be actually happy with that; but really last year, and for the rest of the restrictions with all the supply chains, I think they are working with other vendors or other suppliers.

Regarding land values, it's really becoming more of an art than a science to acquire new well-located land. I think that the example of the acquisition we did in Guadalajara is a good example that we really want to buy the best land in the best markets, because we think that we can differentiate very well from our competitors by having great located land. The land we acquired in Guadalajara is an extension of our successful Vesta Park in Guadalajara, where we did the MercadoLibre project and the two expansions. We recently signed a new lease with a subsidiary of O'Reilly Auto Parts, which is a fantastic company, and that's why it's key for us to keep acquiring land, having those land reserves, and of course securing the best possible prices, because in the end, that's how we believe we can achieve attractive risk-adjusted returns, double-digit return on costs, and that's a way we can develop on our strategy of spread investing.

Just to give you an idea on spread investing, which part of the value of the land is a very important role in developing a 10% return on cost, and currently we're seeing transactions in the 6% cap rate, 6.5% cap rate in markets such as Guadalajara, for example, or in Central Mexico, pretty much in the most dynamic markets in Mexico. That's why, for us, it's so important to keep emphasizing that we want to keep on doing accretive investments, mostly from development and acquiring and securing good pieces of land at good prices is still going to be key for our strategy.

Thank you, Gordon.

Gordon Lee

Thank you very much. And just to follow up, if you were looking at a piece of land today in, say, Guadalajara or Mexico City and you were looking at the same piece of land a year ago, how much more expensive is it today?

Lorenzo Dominique Berho

I mean, if you inflation hadn't—I don't know, probably 5%. I think that from last year—actually, many of these negotiations have been already from last year, so definitely we are seeing some price increase. Interestingly, we have seen also in markets where land has already infrastructure, for example in Queretaro, we have seen an incredible increase in land prices, mostly inside of industrial parks, because they have the infrastructure, and we saw that this year some transactions that sold land at probably double the value that we actually developed. From last year to this year, I think it depends market by market, but clearly I think that it's an upward trend in terms of values.

Gordon Lee

Perfect, thank you very much.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Adrian Huerta with J.P. Morgan. Please proceed with your question.

Adrian Huerta

Hi, Loren, Juan and Fern. Thank you taking my question. Two quick questions.

Number one, on new construction. We saw a nice pick-up on new construction during this quarter, closer to 50,000 square meters of new GLA. What can we expect in the coming quarters in terms of the pace that we can see on average per quarter? Is this 50,000 something that you aim to have leased for the next couple of quarters?

The second one is on land investments. You did this investment in Guadalajara, there's recently one in Monterrey. How much have you spent so far year to date, and what can we expect for the rest of this year and for next year?

Lorenzo Dominique Berho

Sure, hola Adrian.

I think we're very active in starting new construction soon in different markets. In some of those markets, we already have land, which is great, because we can make sure that we can start construction. Just to give you an idea, now with the new building that we pre-leased in Tijuana for an ecommerce company, we're out of stock, so we're starting a new park, a new Vesta Park that we're going to develop 1.2 million square feet. That's over time, that doesn't have to be immediately, but that's over time. But we have the capacity to develop, and currently with vacancies frankly close to zero in Tijuana, this is exactly what we're going to achieve, so we're going to be very active in Tijuana.

The same for Ciudad Juarez, similar to Monterrey, where we are starting a new park where we are going to be able to develop approximately 2 million square feet, and in the Bajio market by market, we're going to be cautiously looking at where it makes sense to develop. Very interesting is that we are seeing a very high level of pre-leased buildings, which is great, because this is a way that we can convert some of these spec buildings or inventory buildings immediately to leased buildings or income-producing properties, and we can even lease them before finishing the buildings.

Currently we have 70% of our buildings under construction already leased; that's a very good number, a very healthy number. And I think that we can match pretty well to the buildings under construction with the pipeline that we have. We're going to be able to match with good clients and lease them up, sometimes even before starting the construction. That's why we really like the model of spec buildings, but now actually we call them spec to suit, so we can build them even before finalizing the construction of the buildings.

All in all, I think with Capex for next year, without giving guidance, we believe it could be above $200 million.

Adrian Huerta

Perfect, thank you, Loren.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from Vanessa Quiroga with Credit Suisse. Please proceed with your question.

Vanessa Quiroga

Hi, Loren, Juan, Fernanda, all the team.

My question is regarding your investment plans for land acquisition. We saw the acquisition in Guadalajara, and it seems a larger amount than the originally planned in the presentation that you published for the follow-on, for the recent follow-on, so I'm wondering if since then the dynamics of the market have changed or the land prices have changed in a way that you are adjusting your regional investments, and then also I'm wondering if you can comment on how sustainable you think the rent increases that we saw in the quarter are for coming quarters. Thank you.

Lorenzo Dominique Berho

Thank you, Vanessa, and thank you for being on the call.

We are seeing a surprisingly high number in terms of rent increases. We actually foresee increasing rents being for the foreseeable future as inflation is ticking up, as supply is limited, as demand is picking up from strong demand from the ecommerce sector, from near-shoring trends. We see that rents are only going one way, which is up. How much depends market by market.

Our approach is to, of course, have the best possible rents, but also we're very disciplined with the type of tenants and the type of leases we host. If you look at the names of companies we have recently closed from June until today, we have fantastic names, so we want to keep on being disciplined at attractive rents, with very good corporate credit ratings, dollar-denominated leases. We are very disciplined in that, and we like long-term leases because over time with inflation adjusted leases, we have a natural hedge, and we have seen that recently with existing clients where we have been—we're increasing rents 5% every month just by contract, because the contracts, as you know, are linked to inflation, which is a fantastic increase and revenue contribution. So in that regard, I think that we're going to keep that discipline and keep absorbing the good clients.

On our strategy to certain markets, our focus is to invest in urban areas, which is Mexico City, Guadalajara and Monterrey, as we mentioned in our follow-up, $350 million. Surprisingly, we have seen that some of these markets have behaved even better than expected, and we are just moving quicker to that. That's our strategy in Monterrey; that's why we acquired a second piece of land in Guadalajara. And as long as we see strong demand, we will continue developing and being very active in these markets. It is part of the Level 3 strategy. We're executing well. We like last mile locations, and we see good demand for that.

Vanessa Quiroga

That's great, Loren. Are you still expecting to invest in Mexico City?

Lorenzo Dominique Berho

Yes, it's part of the Level 3 strategy, part of the plan. It's taking us a little longer; however, I think that the execution is going to be similar to Monterrey, similar to Guadalajara. We're looking for good pieces of land where we can really find attractive returns, and make it be part of the strategy, execute well on the strategy.

Vanessa Quiroga

Excellent, very clear. Thank you.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from the line of Francisco Suarez with Scotiabank. Please proceed with your question.

Francisco Suarez

Thank you so much, and congrats to see that the conversation on spec to suit is back again in your calls, it's great; and also on the pre-leasing activity and your pipeline, it's impressive.

You have been mentioning before the importance of having—the strategic importance of having the right pieces of land, the right plots of land with infrastructure and particularly on electricity. Can you disclose how much of your land reserves does have access to electricity and also if there is any constraint on your side on that particular plots of land that may get in the way with your plans to develop property on the key markets that you are allocating capital?

Lorenzo Dominique Berho

Great, thank you, Francisco, for being on the call, and good questions to elaborate further on part of our development strategy.

Most of the land that we acquire has electricity capabilities; however, it requires a process in order to, let's say, electrify the parks, and all of them are in different markets with different restrictions, and we have different strategies for each one. One of the things that we internally as a structure, and you know that we're a vertically integrated Company, we decided to have a team focusing on the energy components for Vesta, for the development projects. We currently have part of the development team, a leader which is analyzing the different alternatives, and I can use the example of Queretaro, which is the one that has been a great example in terms of energy.

When we acquired a piece of land it was a ranch. There was nothing in the area, and we invested an important amount not only on the infrastructure of the park but also on the substation, on the transmission, and the distribution capabilities inside of the park, and that has been a major decision driver for many companies to establish themselves in parks like ours. Understanding that situation, that's exactly what we are doing in markets like Guadalajara, Tijuana, Monterrey, and other markets in the Bajio.

It is important to have a strong department, because with many clients, before asking what's the rental price, they're asking what's your electricity strategy or availability, and that's why for us it is very important not only to have the availability but also the reliability in terms of energy.

With having said that, Mexico is really facing major restrictions in terms of energy, in terms of distribution; and many of the companies, it's one of the challenges they are facing. We have seen that they might find solutions; however, sometimes it might take them longer than expected. But for that, I think that it's a good collaboration that we, as a Company and developers, have to work with the clients, together with the authorities, in order to find ways to get energy in most of the regions, and this is something not only for Vesta but also for other industrial parks that we are facing, and we are trying to find the best possible solutions.

Francisco Suarez

Great answer, thank you for that. One last question. You have been very clear that basically all the entire pipeline of your new properties are going to be having a certification under LEED. Considering the outlook that we have on lease spreads in the future and so on, would it be economically feasible to think that you might also conduct certain retrofits to your existing buildings to increase the share of certified buildings in your portfolio? I'm thinking about perhaps you're seeing Level 1 certifications and the like, and not necessarily all the LEED certifications.

Lorenzo Dominique Berho

Thank you. You're really on top of this. I like it, Francisco.

I think this is a very important matter for us. Definitely the new buildings have LEED certification, but also we're analyzing in some of the other buildings, without necessarily being retrofits, but we assess property, green property condition assessments to analyze what we can do in many of these buildings to improve them and have them at a high standard in terms of energy efficiency as well as water consumption and other processes that might need to have certain green certifications.

I believe this is not only important for Vesta; it's getting very important for our clients too as we are seeing that rents are picking up. Clients, which actually are our focus, are great companies, they also focus on this type of considerations additionally and finalizing on—because how eco efficient they want to become and because they also have corporate commitments.

And just to finalize on the chain, and this is where I think you guys are doing a very good job, is this is what we match very well with the investors base and capital markets, which today are every time more and more on top of what companies are doing, what strategies are taking that type of certifications. I think that on that regard, this is becoming really a virtuous cycle between companies, investors, and clients.

Francisco Suarez

Very clear, thank you very much. Take care.

Lorenzo Dominique Berho

Thank you.

Operator

Our next question comes from the line of Alberto Valerio with UBS. Please proceed with your question.

Alberto Valerio

Hi, Loren and Juan, thank you for taking my questions; Fernanda too. Two quick ones on our side.

First one, if the original plan to deploy the capital from follow-on, 60% this year and another 60% in another year, it's maintenance, it's by the construction costs. And a second one on the new negotiations for contracts: if the energy reform had been already a subject in discussion about the new contracts. Thank you very much.

Juan Sottil

Regarding our Capex investments, look, I think that we will invest up to $200 million per year, starting next year. We have around almost $400 million in cash, and remember that that's taking into account the sale of properties in December, so we will take 18 months, 24 months tops, to invest the proceeds of the follow-on. I did take into account that most of our investments that we have, the buildings that we have done have been re-leased, our returns on costs are double digits, so I think that the environment is helping us to deploy this money in a way quicker than we expected. We're pretty satisfied we have the financial resources and we have the financial flexibility, so we're on top of that.

On the second question, the energy reform is an important issue for the Company, for our clients, so we're very watchful. As Loren pointed out, it's very important that we have the best product in the market, and that is like not only having the best buildings but the best availability of electricity and the best locations. And availability of electricity is clearly a differentiating factor, and it represents a significant investment of the Company, and I have to say that there is few developers in Mexico that can have both sides of commitments to invest in the connectivity to the grid, so that's clearly a differentiating factor and a good one for us.

Lorenzo Dominique Berho

On top of that, let me add to Juan's comment, because this is a very important manner, not only for Vesta, but for also other industrial developers.

I have been heading the Mexican Association of Industrial Parks, where many of our peers are also participants or are part of the Board, and we together are collaborating in order to find the best ways and the best means to lobby these different congressmen, who require or who are actually the decision makers in how this initiative will evolve over time. It will be voted probably for the end of the year, so us, as an organization, together also with other organizations, this is a very, very top priority for the competitiveness of Mexico, and definitely this is going to be at least one of the most important factors of why companies are coming to Mexico.

One of them is the proximity to the U.S. Secondly is of course the competitiveness in terms of labor, logistics. And another important component is energy, and that's why energy is so critical for industrial park developers, it's so critical for companies that want to establish themselves, and with that, I think that it's going to be part of our agenda in the next weeks and months so that we get the best outcome out of this particular initiative.

Alberto Valerio

Fantastic. Muito obrigado. Gracias.

Lorenzo Dominique Berho

Obrigado.

Operator

Our next question comes from Naoki Otsuka with GBM. Please proceed with your question.

Naoki Otsuka

My question is regarding the land acquisition that you have made. With still cash on hand, do you see any buying opportunities in the northern parts of Mexico, where the near-shoring trend has resisted the industrial activity?

Lorenzo Dominique Berho

Can you repeat the question, please?

Naoki Otsuka

Yes, of course. With still cash on hand, do you see any buying opportunities in the northern parts of Mexico?

Lorenzo Dominique Berho

Okay, thank you for your question.

Vesta has the opportunity to be an important developer and finding accretive returns through development. That's why our strategy has been and still is to develop in the most attractive markets, and that's what we're doing, for example in Tijuana. In Tijuana, we are developing 1.2 million square feet. We have land and we have a strong pipeline, and we have attractive returns on costs: 10%, even 11%, return on costs. Acquisitions, we believe, are still in the lower yields. They are probably trending, in Tijuana for example, below 7%, and therefore we think that our main objective is to develop in the markets like Tijuana or even Ciudad Juarez.

Having said that, we are clearly seeing that replacement costs are also increasing, and we always have analyzed opportunistic acquisitions in many markets, so we're always going to have our eyes open. If it makes sense from a replacement cost perspective or from a return perspective, we might have those acquisitions. We have been actually very successful in opportunistic acquisitions, and one of the markets has been Tijuana. Tijuana, currently Vesta has the largest footprint of GLA, being above 5 million square feet, and part of that growth has come from acquisitions. But acquisitions in our strategy are only opportunistic and not the core of the long-term strategy.

Naoki Otsuka

Okay, thank you very much.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question is from Renata Cabral with Citi. Please proceed with your question.

Renata Cabral

Hi, good morning. Thanks for taking my question.

My question is just a follow-up about the energy topic, which is a hot topic today in the world because of the shortage scenario. We've been following the debates on all the energy report in Mexico that we know is still under discussion, but we do like to know how could this potentially affect Vesta.

And with the scenario of energy crisis, your admission the things that you did in some projects. We would like to know that solar panels could be part of the solution in the future, as we see in China improving, that the economics would allow this. Thank you.

Lorenzo Dominique Berho

I did not—we did not hear very well. I don't know, Barbara, were you able to hear better?

Renata Cabral

Yes, sure. Can you hear me better now?

Lorenzo Dominique Berho

A little better, yes. Thank you. Sorry for that.

Renata Cabral

Okay, not a problem, thank you.

My question is just a follow-up about the energy topic. We've seen the debate about the energy report in Mexico that we know it is still under discussion. My question is how could this potentially impact Vesta.

And the other one is your admission that development is about the energy front. We'd like to know if in the future the solar panel could be part of the solution that we see in China; if you believe that the economics would allow this. Thank you.

Lorenzo Dominique Berho

Okay, so I did understand if solar panels can be helpful in the situation on the implications of the energy reform, I believe, and also your first comment about how the reform will affect Vesta. Is that—?

Renata Cabral

Exactly, correct. Thank you.

Lorenzo Dominique Berho

I'm sorry, we were not able to hear very well, but let me try to elaborate a little further.

Definitely this energy reform initiative has different limitations; however, focusing a little bit on the type of clients that we have and focusing a little bit on our applications in industrial parks, we believe that definitely it would be a huge mistake to eliminate private investment in renewable energies. As you may know, renewable energies in Mexico have mostly been done by private investors, not by CFE, not by the government. So by eliminating private investment and eliminating renewable energies, immediately we will know that we will have to rely on the CFE, and they generate what they transmit, and that would probably have a negative impact to many power clients and potential clients.

I personally think that affecting the renewables would be a major mistake, because many of our clients already have clear commitments to get a good portion of their energy from renewables, solar panels as you mentioned, or even from wind turbines and wind generation because they also have commitments. In that regard, by affecting the production and generation of renewable energies, you're affecting immediately the clients, and they will have to rely on let's call them fossil fuels or traditional means.

Anyways, I think that's a very big implication, on top of the other implications on having again a monopoly from CFE, because CFE did have a monopoly in the years, back in the years. But today, I think that they don't have the capacity to invest. Mexico requires four megawatts per year: that's a huge investment that somebody has to do, and we don't think that CFE would have the ability to do that. I think they'd need to rely on private investors, and in the end, that will affect not only industrial parks but that would also affect all sorts of industries and sectors and the total infrastructure in the country.

Hopefully this particular reform finds ways to not only have attractiveness in renewable energies but also have the reliability to have enough energy for companies that need to have operations in Mexico.

Renata Cabral

Yes, no, that's perfect. Sorry for my bad connection. Thanks.

Lorenzo Dominique Berho

Gracias.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back over to Management for closing comments.

Lorenzo Dominique Berho

Gracias, thank you, Operator. Thank you, everybody, for joining the call.

In closing, we believe that, together, we have weathered the storm. Vesta has successfully emerged stronger than ever from particularly challenging years by continuing to focus on what we do best: develop the world's best and most strategically located buildings, leverage our prudent balance sheet to make targeted strategic land acquisitions, deploy capital and recycle assets, while anticipating clients' needs by carefully evaluating the market and future demands.

We will continue our Level 3 strategy discipline and prudent execution as we nimbly adapt and invest for future growth. We prioritize our investments to the highest return opportunities and remain committed to capital efficiency. As our forward outlook unfolds, we expect to deliver on the revised guidance we shared today with industry leading returns for our shareholders.

Finally, before you go, we're looking forward to celebrating Vesta's tenth anniversary as a public company during 2022, commemorated with our annual face-to-face Vesta Day. In the following quarters, we will let you know the details for this event.

Thank you very much.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.