TRANSCRIPT

02 - 22 - 2024

Corporacion Inmobiliaria Vesta SAB de CV

Fourth Quarter Earnings 2023

TOTAL PAGES: 17

Corporacion Inmobiliaria Vesta SAB de CV

Fourth Quarter 2023 Earnings

CORPORATE SPEAKERS:

Fernanda Bettinger
Corporacion Inmobiliaria Vesta SAB de CV; Investor Relations
Lorenzo Dominique Berho
Corporacion Inmobiliaria Vesta SAB de CV; Chief Executive Officer
Juan Sottil
Corporacion Inmobiliaria Vesta SAB de CV; Chief Financial Officer

PARTICIPANTS:

Alejandra Obregon
Morgan Stanley; Analyst
Adrian Huerta
JPMorgan; Analyst
Wilfredo Jorel Guilloty
Goldman Sachs; Analyst
Pablo Ricalde
Santander; Analyst
Alan Macias
BofA; Analyst
Felipe Barragan
BTG; Analyst
Alejandro Lavin
Santander Asset Management; Analyst
Francisco Chavez
BBVA; Analyst
Juan Macedo
GBM; Analyst
Andre Mazini
Citibank; Analyst
Ben Salazar
GBM; Analyst

PRESENTATION:

Corporacion Inmobiliaria Vesta SAB de CV

Fourth Quarter 2023 Earnings

Operator^   Greetings, ladies and gentlemen. Welcome to the Vesta Fourth Quarter 2023 Earnings Conference Call.

At this time all participants are in listen mode only. A question-and-answer session will follow today's prepared remarks. And as a reminder, this call is being recorded.

It is now my pleasure to introduce you to your host, Fernanda Bettinger, Investor Relations Officer. Please go ahead.

Fernanda Bettinger^   Good morning, everyone. And thank you for joining us today. With me are Lorenzo Dominique Berho, Chief Executive Officer; and Juan Sottil, Chief Financial Officer. The earnings release detailing our fourth quarter 2023 results was released yesterday after market and is available on the company's website, along with our supplemental materials. It's important to note that on today's call, management remarks and answers to our questions may contain forward-looking statements. Forward-looking statements address matters that are subject to risks and uncertainties that may cause actual results to differ.

For more information on these risk factors, please review our public filings. Vesta assumes no obligation to update any forward-looking statements in the future. Additionally, note that all figures included herein were prepared in accordance with IFRS, which differs in certain significant respects to U.S. GAAP. All information should be read in conjunction with, and is qualified in its entirety by reference to our financial statements, including the notes thereto, and are stated in U.S.

dollars unless otherwise noted. I'll now turn the call over to Lorenzo Berho.

Lorenzo Dominique Berho^   Good morning. Thanks, Fernanda.

Before turning to our results, I would like to provide some perspective on our company as we celebrated many significant milestones in 2023, a tremendous year of opportunity and growth for Vesta. We have grown to become the leading premier industrial real estate asset manager and developer in Mexico, and our space has become increasingly more crowded and competitive with continued near shoring tailwinds. Vesta is differentiated by our 25-year track record of execution excellence, disciplined investment process and outstanding asset quality.

So while there are broad industry tailwinds, which Vesta and peers will benefit from, there also are important differentiators -- for example, asset quality is an important competitive advantage for Vesta. It attracts and expands our portfolio of best-in-class tenants as well as our suppliers in a virtuous cycle. Vesta's clients are top-tier global companies, many who expanded their relationships with us from one to several facilities during 2023. You have heard me reference Foxconn, best known for being an outstanding manufacturing in the electronics sector based in Asia.

Corporacion Inmobiliaria Vesta SAB de CV

Fourth Quarter 2023 Earnings

During the fourth quarter, Foxconn deepened their investment in Mexico, expanding once again within the Vesta Guadalajara.

We also signed with Tesla for the distribution facility in the Bajio region and BRP expanded its relationship with Vesta signing a new building in Juarez. Our understanding of headwinds and how potential conflicts impact the global economy and supply chains enables us to help our clients understand how we can be helpful in diversifying or transitioning their manufacturing to Mexico. We're seeing this resonate with more best clients in the electronics, automotive and EV industries. For example, Eton Systems, Visa Electronic Component Solutions and Amphenol, which makes electronic and fiber optic connectors have all shifted their production to Mexico from Asia. Let me turn to our fourth quarter 2023 results, which demonstrates the strong leasing we're seeing.

Vesta leasing activity reached 2.7 million square feet, another record high for our company. 1.7 million square feet was in new contracts with top quality companies such as Foxconn in Guadalajara, Tesla in the Bajio region, Eaton, BRP, as I have described, as well as [Tsen] Group and others. 1 million square feet was in lease renewals during the quarter. Close client relationship and deep local experience enable us to know what's going on in our markets to anticipate and capture opportunities with agile adaptability and quick decisions. This helps drive Vesta's development pipeline.

And in 2023, Vesta delivered almost 4 million square feet in new buildings and began construction on 3.2 million square feet.

During the final quarter of 2023, we also completed an opportunistic acquisition of 81,000 square feet in Toluca to an 8.5% estimated cap rate. Importantly, this is aligned with the Level three growth plan we presented in June to reach almost 50 million square feet by 2025. Our investment process is disciplined and based on 25 years of experience, strategically allocating capital to the markets that matter most. We ended the fourth quarter with a total development pipeline of 3.1 million square feet at an expected investment of $267.1 million and an average cap rate of 9.8%.

Total portfolio occupancy for the quarter reached 93.4%, -- while stabilized and same-store occupancy reached 96.7% and 97%, respectively, also reflecting a continued trend of increasing rents.

While fourth quarter occupancy declined slightly year-on-year due to the new buildings in our portfolio, this declined sequentially relative to last quarter. We continue to see strong absorption in most of our markets and are actively marketing those buildings still vacant by quarter's end, which are in Mexico's most sought out regions, Juarez, Monterrey and Tijuana. As our peers have commented, Tijuana is one of the most constrained markets on the supply side, mainly due to limited land and electricity constraints. However Vesta Tijuana properties are not energy constrained, an example of our deep understanding of what's going on in the market and our ability to anticipate demand.

18 months ago, we began investing heavily in energy in substations, voltage and ensuring great connectivity, a significant investment many companies were not able to make.

Today we're in a privileged position with the appropriate infrastructure. We expect the Tijuana market trends to further strengthen in 2024. Investors advantage is an important competitive moat demonstrated by the quality of our portfolio and the rents that Vesta commands. Also note that client switching costs are high.

When a client secures the right property in the right location with reliable energy, strong labor pools and logistics, it results in natural stickiness. We ended up the year strategically executing Vesta's asset recycling strategy, another Level three strategy pillar. We sold a 313,000 square foot building in Tijuana, from which we extracted 15 years of value for $37 million during the fourth quarter, a premium price, reflecting a 6.5% cap rate over market rent and a 4% cap rate over in-place rent. We also sold 8.5 hectares of land in Aguascalientes during the quarter for $5.1 million. Proceeds from sales will be directed to tax payments, paying down debt and other corporate uses.

Vesta has new projects under construction and a strong pipeline, also with substantial demand for Vesta buildings in markets where we're seeing a scarcity of land. We have been successful moving into infill locations within high barrier entry markets and our focus on Monterrey, Mexico City and Guadalajara, which is becoming the Silicon Valley of Mexico, with some iconic projects underway. Ciudad Juarez is also leasing up. We're also starting to see strong dynamics and initial signs of rent increase in the Bajio and expect we'll continue to see rent growth similar to what we have seen in other regions. Sumitomo, Tesla, Tsen, Safran and Continental, all wanted to go to the Bajio for the quality of infrastructure and available scale labor pools.

Re-leasing spreads have also increased during the quarter. We closed 2023 with renewals and releasing of 4.1 million square feet, with a weighted average spread of 6.5% with some regions such as Juarez and Tijuana, reaching re-leasing spreads of above 20%. Importantly, same-store NOI grew 9.5% during the quarter. We delivered exceptional financial results, as Juan will expand upon in more detail. 2023 revenues increased more than 20% to $214.5 million with adjusted NOI and adjusted EBITDA margins of 94.6% and 82%, respectively.

Full year 2023 FFO reached $127.9 million, a 23.6% year-on-year increase. And we invested more than $269 million in innovative best-in-class projects throughout the year. Investors portfolio is supported by the industry's strongest balance sheet. Our reputation for prudent capital allocation has engender investors trust and enable us to return to the market when needed to fuel our growth. I again want to thank the entire Vesta team who have contributed to 25 years of success.

Before I pass our conversation over to Juan to review our financials, I'd like to note that 2024 will be a record-breaking year for elections. Around the world, more than 2 billion voters in 50 countries will head to the polls, including the United States and Mexico. Many predict a growing adversarial trend in international economic relations, higher business costs, trade restrictions, market instability and policy swings. Vesta believes that with volatility comes opportunities, we'll continue to leverage our privileged position, time earned experience and demonstrated track record to size the opportunities focusing on our goal, not on obstacles. As we look forward to the year ahead, I'd like to note that 2024 is the final year of strong execution on our Level three strategy.

We look forward to presenting our plan for the next phase of our journey and continued evolution at our 2024 Investor Day. With that, let me pass our conversation to Juan, and I'll return for some brief closing remarks.

Juan Sottil^ Thank you, Lorenzo. And good day everyone.

Before delving into our financial results, I would like to point out some changes we made in our adjusted EBITDA, adjusted NOI and our Vestas FFO calculations. Since 2023, we began to experience certain effects in our business driven by the strong growth of our tenants, operations in Mexico, which resulted in significant increases in our energy used. Since we believe that both income and cost derived from our tenant energy used, do not represent a business actively managed by the company and directly related to our operations and strategy. And we decided to adjust certain profitability metrics for a better understanding of our financial performance.

Therefore, starting Q4 2023, we are excluding both energy income and costs from the calculations of adjusted EBITDA, NOI, adjusted NOI and Vesta's FFO. This is also applicable to full year 2023 results and a year-on-year comparisons. You can find detailed information regarding energy, income, and cost in our financial statements in Note 13 and Note 14. Now let me briefly go to some key financial results. Starting with our full year performance.

2023 was another year of outstanding results for Vesta, as Lorenzo noted. We achieved $250 million in total revenue, representing a 20.5% increase year-on-year, exceeding the upper end of our revised revenue guidance. NOI and EBITDA margin also exceeded our revised guidance by 210 basis points, reaching 94.6% and by 50 basis points, reaching 82%, respectively. Let me now turn to our fourth quarter results. Beginning with our top line, total revenue increased 17.9% to $55.9 million, mainly due to initial rental revenue coming from new leases and inflationary adjustments on rental property during the quarter.

In terms of the current mix, 87.8% of our fourth quarter revenue was denominated in U.S. dollars, an increase from 87.2% from the fourth quarter two022. Turning to our profitability. Adjusted net operating income increased 19.4% to $53 million with a margin expansion of 220 basis points to 98.1%. This was mainly driven by higher rental revenue and lower costs from our rented properties, excluding both energy income and costs.

Adjusted EBITDA reached $44 million in the fourth quarter, a 12% increase compared to the prior year's quarter; while the margin decreased 365 basis points to 81.7% primarily due to higher administrative expenses, mainly from the increase in employment benefits, auditing, legal and consulting expenses. We closed the quarter with a pretax income of $99.8 million compared to $74.8 million in 2022, which benefited from higher interest income and gain in revaluation of investment properties. Vesta's FFO increased 20%, reaching $32.6 million. Moving to our capital structure and balance sheet. As Lorenzo noted, we ended the year with a very strong financial position.

Our total debt slightly decreased to $960 million at the end of this quarter. Net debt to EBITDA was 2.4x, and our loan-to-value was 24%. Cash and equivalents increased to $501 million, reflecting the funds raised from our recent IPO and funnel one transactions in the New York Stock Exchange.

As a reminder we will use the net proceeds to fund our growth strategy, including land acquisitions and the development of industrial buildings. In addition and in line with our commitment to increase value for our shareholders, subsequent to quarter's end, on January 15, we paid a cash dividend for the fourth quarter, equivalent to 0.29 in pesos per ordinary shares.

Finally, I would like to discuss the outlook for the year. We are expecting to increase revenues between 16% to 17% year-on-year, while we expect to achieve 94% NOI margin and 83% EBITDA margin for the full year 2024. This concludes our fourth quarter 2023 review. Operator, could you please open the floor for questions.

QUESTION & ANSWER:

Operator^ Our floor is now open for question and answer. (Operator Instructions) Our first question comes from Alejandra Obregon from Morgan Stanley.

Alejandra Obregon^ Thank you. Good morning, Vesta team. So I have a question on your guidance, if I may. So it seems that if I understand correctly, you're considering some revenue growth deceleration from 2023 highs. So wondering if you could elaborate a little bit on what's driving the trend?

What's behind the 16% to 17% revenue growth? And if there is some factor that we need to keep on the radar for 2024, perhaps on your delivery of pipeline. Is that still on track? Anything that you could -- that could help us understand that deceleration? And then the second question would be about your occupancy in Monterrey at 80%.

Wondering if you could talk about the leasing dynamics that you're seeing in the state and perhaps elaborate where you see the occupancy for your portfolio in the [landing] in 2024. That will be very helpful..

Lorenzo Dominique Berho^ Thank you very much for being on the conference. And regarding your questions. I think that Vesta has had extraordinary rental growth throughout the years. Clearly, the guidance that we have is way above even our average historic rate of growth in terms of revenues. And more than this year, I think that Vesta is a company that will continue to provide rental growth, not only this year but also in the upcoming years.

And it's not about -- so that's why -- and this is coming mostly from the development portfolio as well as rent increase in the current portfolio and operational results. So more than one year, I think that what is attractive is to see that we have -- that we will continue to have good high teens numbers throughout the following years. And I think that, that consistency is what drives the investors main differentiator, which is to keep on investing prudently at above average weather returns. And I think that profitability is exactly what we're looking for. And this doesn't mean that there's -- in any ways that this is a deceleration.

I think actually that this is having continuous sustainable revenue growth is exactly what we want to achieve in the upcoming future. On the occupancy metric, it's -- basically what we have in Monterrey, we have currently Five buildings, out of which two of them are in lease-up stage. Actually, one of them is in the lease-up stage. And that's why 80% is really not necessarily an important measure because of how much we have under development. Actually, as you -- we will start construction of several buildings in Monterrey throughout this year in 2024, early in the year.

So the footprint in Monterrey will change dramatically. And because of how small the footprint is right now, that's why the number looks below the average of Vesta. But leasing is coming quite well in Monterrey, and construction starts will kick keep on quite soon.

Alejandra Obregon^   Thank you. That was very clear. If I can follow up on your first answer. -- if you were to balance all the assumptions that you're baking into the top line guidance, where do you think you could see some upside or downside surprise?

Lorenzo Dominique Berho^   It's -- I would like to -- we would like to stay on the guidance that we have just provided. And for the ones that know us well, we like to give guidance for you to give some clarity and hopefully, we can get some better news after this. But as of today we know that at least we will continue to deliver growth -- rental growth in the high-teen numbers. And I think that's quite good. And this is having sustainable rent growth, I think it's exactly what we will want to continue achieving throughout the next years.

Alejandra Obregon^   Excellent. That's very clear. And congratulations on the amazing 2023. Thank you very much.

Operator^   Our next question comes from Adrian Huerta from JPMorgan.

Adrian Huerta^   My questions are around Greenfields. We have seen the implied cost per square meter, increasing quite a bit over the last few quarters now. It seems to be up 40% versus what you had a year ago. So if you can just give us some explanations on this. And the second one is on the land bank.

two-thirds of the current Greenfields that you have are in the north and in the center and you have limited land bank at the moment. So if you can just tell us what your plans for land bank are and what we could expect in terms of land acquisitions for the year...

Lorenzo Dominique Berho^   Excellent. Thank you, Adrian, for in on today's call. And yes, I think that Vesta has changed in the last years. The most important element is that we have entered certain markets, Monterrey, Mexico City, Guadalajara, and we have been incredibly active in the north part of Mexico. So the increase in cost per square foot comes from, first of all, the different markets that we are entering and the balance that we have through our new markets.

And also, it comes from an increase in construction costs. An increase in construction cost comes from materials, inflation as well as FX because our results are based on dollars. However even with the approximately 40% increase in construction costs, this is highly offset by the increase in rents in dollar terms by all of the markets where we are currently developing. And that is driving our return on costs to still be at very attractive numbers, way above -- at a good spread still to average cap rates in the acquisition market. We will continue with that discipline.

We will follow -- even with an increase in cost, we think that the main differentiator of Vesta is to have the ability to have higher returns -- even considering the risks and the effects on construction and development, which part of that is an increase in land, increase in construction materials and also an increase on FX. But we feel very comfortable with the pipeline.

We have -- probably this drives me to your second question, Adrian, that we have been acquiring great land reserves in the last years. And actually, we have pretty much been able to develop most of what we have acquired, and we will continue to acquire this year land in several markets where we are running out of it, particularly the ones that are strategic for Vesta. This includes markets like Tijuana, Ciudad Juarez, Mexico City, Guadalajara, among others.

So this year is going to be very important and part of the capital raise will help us to fuel the land acquisition investment in infrastructure on that land. And of course after that, on buildings that will eventually generate income and importantly at high returns.

Adrian Huerta^   And if I may ask a follow-up. What has been the rent per square meter on average over the last two quarters on new assets that you delivered over the last two quarters? -- within what range...

Lorenzo Dominique Berho^   I mean frankly -- I mean on average, it's a little bit difficult because of the different markets where we're at. But what I can tell you is that the rent increases have been quite high in all of the markets. So I mean many of them are in the high double digits. Markets like Bajio, for example, we are currently leasing at rents which are, I don't know, probably 25 -- 20% to 25% above last year, the previous year, so that's quite high. Markets like Monterey, brands have increased in the last couple of years by more than 50%.

Tijuana has been growing at a sustainable way throughout the last four years at 15%, 20% per year per annum. So that's why -- and so and rents vary from market to market. But what we're seeing today is historic high numbers. And as long as we see on the supply being limited in many of these markets, we only see rents to continue growing.

Adrian Huerta^   But if you were to say a range on that rent per square meter, would you say $7 to $9 per month...

Lorenzo Dominique Berho^   Per square foot per year. Yes. We are -- I mean we're seeing rent in Mexico way above $10. So -- and then in other markets like Tijuana, Juarez in the, I don't know, $8 to $9 per square foot range. But again this depends a lot on the type of building, the type of asset, the type of lease tenants. But I think that the main message is that the trend is up.

The fundamentals are incredibly strong. And we are -- and we're having rents way higher than in the past on the new leases and in some cases, even above market. Probably a discussion on market by market on the following conversation would be more appropriate.

Operator^   Our next question comes from Jorel from Goldman Sachs.

Wilfredo Jorel Guilloty^   I have two. So first one is I'm curious to know a little bit more about your criteria for divestments because it's very interesting that the asset that you ended up selling this last quarter was in one of the hottest markets in Mexico and Tijuana, and you sold it at a very attractive cap rate. So I just wanted to understand how does a assets become going to the divestment category? What is the criteria? And also given that you're so focused on growing through development, I mean is the idea of becoming more of a merchant developer that is developing to sell more attractive?

And then my second question is going back to what Alejandra was asking about your guidance for revenue growth. I just wanted to kind of understand the parts because as we understand it, you're growing GLA or your pipeline right now is about 8% of your current GLA, then you have U.S. CPI, call it, in the low single digits. I'm just trying to understand where the rest of that potential growth is coming from? Is it from leasing spreads.

So any color you can provide would be helpful. Thank you...

Lorenzo Dominique Berho^   Thank you, Jorel, for being on the conversation and your question. So basically, the rent growth comes from a combination of leasing spreads on the existing portfolio and our ability to convert vacant buildings or buildings under development to income producing assets. So basically, the development pipeline. So it's a combination of both. I cannot recall right now what -- how much comes from one or the other, but it's a balance of both.

-- probably next time we can give a little bit more clarity on first so that everybody can know what comes from which -- but I think that, again one of the main attributes of Vesta is its ability on development and also its ability to increase rents as was presented in this quarter where we increased same-store NOI growth year-over-year was 6.5%, approximately, with some leasing spreads coming between, some leasing spreads and renewal spreads coming between 8% to 20%. So this is quite appealing.

And if you combine -- if you -- if we continue to deliver growth through development and we continue to deliver rent growth through leasing spreads, I think that revenue growth will continue to kick in the -- not only this year, but in the following years and revenue will change dramatically. Regarding the asset recycling, yes, we sold one asset in Tijuana. We sold it to the current user.

This was quite appealing from an investment perspective in which we held this property -- we developed this property, I think like 13, 15 years ago. So we have been able to lease it up to -- actually, there was -- we had two different tenants. One was the initial tenant and then the other final tenant. So we thought that it was a good way to recycle capital with an existing user at a higher price. -- and is part actually of our asset recycling program where we think that we can crystallize value by recycling assets, selling assets, and we will continue to do so in the next years.

We have done that in the past. We are doing it right now, and we will continue to do that in the future as long as we think that it could be a good value proposition. Yes, Tijuana's a market we will continue developing it doesn't mean that we are exiting a market. It's just one asset where we saw an opportunity. It was more an opportunistic approach.

And -- but in Tijuana market, we will continue to invest through development. We have also done acquisitions in the past in Tijuana opportunistically. And as long as we think that this is profitable, we will continue to acquire.

Wilfredo Jorel Guilloty^   And a quick follow-up, if I may. -- is, understand that the focus is to continue to develop for yield for Vesta you not necessarily develop for asset sales?

Lorenzo Dominique Berho^   Yes. We hope. We hope and that's why it's only opportunistic every now and then.

Wilfredo Jorel Guilloty^   Wonderful... Thank you.

Operator^   Our next question comes from Pablo from Santander.

Pablo Ricalde^   Maybe I have two questions. One is a follow-up on Alejandra's question on Monterrey. But in this case, for the Bajio region, we saw a sharp improvement in occupancy. I don't know how should we see occupancy in the Bajio region going forward? Do you think there's more room to improve there?

You have a lot of buildings under construction there. So how should we think of occupancy for the Bajio region for 2024? That's my first question. And my second question is on your new energy disclosure. How should we see maybe these lines going forward?

Do you expect aggressive growth there or you're expecting to be very stable for 2024 onwards?

Lorenzo Dominique Berho^   Okay.

I would probably answer on Bajio and then Juan, if you can help me on the energy side. So we are clearly seeing very hot markets throughout Mexico and Bajio is no exception. We were able to lease up buildings into different type of tenants in the region. Talking about Queretaro, the recent lease to Tesla was an important one.

This is a distribution facility for Tesla, but electric vehicles. And we have also other clients in the electric vehicle business that are expanding operations. So fundamentals, so vacancy rates in the Bajio region are decreasing together with absorption being increasing strongly in all of the markets. And so with these vacancy rates and the high absorption and actually, the trends that we see from current clients and others, that's why we even decided to start some construction in some of the markets in the Bajio. But I think that throughout the last year, we saw a major decline on vacancies.

And so developers that have good access to land with infrastructure, with energy, good quality buildings and the ability to give that immediately. I think that's exactly the opportunity that we will continue to see. So we're quite happy with the recovery of the Bajio. On top of the increase in rents that we have seen the market rents that we saw over last year. So that dynamic, we think that will continue as long as the logistics, ecommerce, electric vehicles and manufacturing platforms supported by near shoring, keep on increasing throughout Mexico.

Definitely, Bajio will still benefit from that. So we're very bullish on the Bajio and most of the other markets, too.

Juan Sottil^   Okay. Regarding the energy question, what we try to do is provide some clarity to our investors of how energy is going to change over the years. Bear in mind that we have several types of users of energy and they should be treated differently. Energy is not our core business. First of all, are the energy that we sell to those non-tenants customers that -- where we have sold land reserves, such as Equinix and Acentia primarily in the Bajio region.

Those energy sales, we moved down the line. We moved down EBITDA line on the other revenue -- other income, rather, because they are not the core business of Vesta and they are nonclients of Vesta. The second distinction that we made is between the usual energy -- the typical energy sales, energy payments that we do on behalf of our clients where we have -- where we basically have reimbursements. That is we pay on behalf of our clients a certain amount, and then we recover back those amounts from them. That's what we have typically done in the past.

The new item that should -- that I would like to underline is those tenants that are heavy users of energy. We do have some clients that are heavy users of energy. As you know, we think ahead and provide infrastructure to help them. And those heavy users, we decided to separate the revenues from those guys by putting a line in the -- in Note 13 of our financials. -- and open that line as well in the cost.

So the revenue that we get from heavy users has a corresponding disclosure on the cost side. And what will happen there, is that we believe that this energy income of heavy users will grow significantly over the next three to five years. And the only thing that we want to point out is that this business is really a convenience business to attract these clients for leasing. The spread on the energy is not significant, and we just wanted to provide the clarity by segregating the income and the cost so that you can take that into account, and that's about it. That's the basis of the segregation of the revenue and costs.

Pablo Ricalde^   Thanks, Juan. This was very, very clear.

Operator^   Next question comes from Alan Macias from Bank of America.

Alan Macias^   Just one question. At this point in time, is there any indication of potential new tenants slowing down leasing decisions due to election uncertainties. And also, have you seen any delays in acquiring permits and licenses due also to election times.

Juan Sottil^   Look, basically, client business is risk. We don't see any slowdown due to any election either in Mexico or in the U.S. We have a lot of demand and demand is risk, and we're basically focusing in providing the product to our clients. I reiterate that we will continue to invest about $300 million in deployment over the next couple of years because we see a lot of demand, and we see risk leasing activities.

Lorenzo Dominique Berho^   I would only add that this particular last quarter, we saw major transactions, which are long-term investments and our long-term decisions. The example of Tesla, the example of Foxconn -- these companies are making decisions even last year, knowing that we have elections this year and actually the whole world, I think elections. And even with that, companies are making long-term decisions based on whatever they require in terms of global footprint. And I think that sets what happened last year sets an example. And this year, we don't think that there will be an exception even that we might be having elections.

Many of the companies aren't making decisions this year or that are taking space, let's say this year, we have already taken -- we have already made their decisions in the past. So hopefully, we don't have too much noise. We knew everybody knew about elections. everybody knew about the alternatives and the possible outcomes and the elections. So that's why I think that companies still comfortable in Mexico making the long-term decisions.

And I mean regarding permitting and licensing, I think it's -- yes, a business, as you saw, I don't see any major difference.

Operator^ Our next question comes from Felipe Barragan from BTG.

Felipe Barragan^ Congrats on the great year. My question is a quick one. It's on the reduction on the pipeline in JuÌÁrez Oriente 4. Could you touch on what drove that reduction? And if we can expect it to see in other developments in the coming years?

Lorenzo Dominique Berho^ The reduction...

Felipe Barragan^ Yes. So the previous quarter from JuÌÁrez Oriente four and the development pipeline. It went down like 70,000 square feet. So I'm just curious what drove that adjustment...

Lorenzo Dominique Berho^ All right. Thank you... Thank you for your question. Yes, so this was interesting. So what we are developing right now is JuÌÁrez Oriente three and JuÌÁrez Oriente 4.

When we started those projects under development, the first one was -- the first one was leased to BRP. BRP is doing -- has a major facility in JuÌÁrez, actually two of them, and we leased a distribution facility. So we expanded one of the buildings and by expanding it, we had to reduce the footprint of the second building -- so altogether, it's kind of -- it's the same GLA. It's a similar GLA, but we did that final adjustment when we started construction. I think this is a good example of many clients that want to take the space and lease up the buildings even before construction starts.

So we did a minor adjustment here, but I think this was a great outcome that even before starting construction, we were able to lease a building to a great company for a distribution facility and again another good example that companies are still growing in Juarez, good companies, and we're taking advantage of that. So we have only one more building under development that is for lease, and we are in the marketing stage, which is JuÌÁrez Oriente 4.

Operator^ Our next question comes from Alejandro Lavin from Santander Asset Management.

Alejandro Lavin^ So I have a couple of quick questions on M&A. So as always, you have been opportunistic this time recently selling assets at 4%, buying at 8%. So going forward, my first question is on asset sales. What could be the potential size of this asset recycling program? I mean how much could it be worth, obviously depending on the opportunity?

And the second quick question on acquisitions. If you have plenty of firepower, you have an attractive development pipeline. But what if you have the opportunity to make a big stabilized acquisition. Let's call it for $100 couple of million dollars, maybe even bigger. So would you be willing to consider a big acquisition...

Lorenzo Dominique Berho^ Thank you, Alejandro, for being on the call. So I think that -- I'll take this opportunity to mention that Vesta, we don't like to acquire just for growth just for growth. That's not our main driver on acquisitions. So that's why in Vesta will continue to see that we will acquire only opportunistically and only if it adds value for our shareholders. That's why we have passed along many acquisitions and more importantly, on larger portfolio acquisitions, which we believe are not drivers of value for shareholders.

But every now and then, there's opportunistic acquisitions like the ones that we did, and we will continue to analyze those. And as long as we think that they're in line to our strategy, we will continue to pursue those. However we are very happy with the development pipeline that we have been able to identify and more profitably than acquisitions. -- and we will continue to focus on that path. And on the disposition side, as you remember, part of the Level three strategy was to have an asset recycling program, where we have sold, I believe the plan was for $300 million, and I think that we have sold, I don't know, let's say $250 million approximately in the last cycle or the last business plan cycle.

Nevertheless, end of this year, we will be providing a new 5-year plan for next year and beyond. And I think part of that plan will incorporate also a strategy on asset recycling, and we will give more clarity on our Investor Day. And -- but definitely, we think that all of these are drivers of value as long as they are profitable, and we will continue to sell high. We will continue to buy low and net asset value per share growth as well as FFO per share growth are what we believe the main drivers of profitability, and that's going to keep on being our main focus.

Alejandro Lavin^   All right. And congrats on a solid year...

Operator^   Our next question comes from Francisco Chavez from BBVA.

Francisco Chavez ^   Just a follow-up on rents and on the Bajio region. Can you give us an idea on the specifics of the new contracts that you signed in Bajio with Tesla and Foxconn, a ranging price? Or are these U.S. dollar denominated? What is the average term of those contracts?

Sure.

Lorenzo Dominique Berho^   Thank you for your question, I mean on the call, I think that Foxconn Tesla, I would even say that all of our leases have been in the quarter in power terms. And all of them are the standard of adjusted lease, which is in the long term longer-term period with annual adjustments. And rents are, again at market or even a bit above market. And I think that these are good examples of what we will continue to focus on in the future, which is having new buildings with great companies, long-term leases, adjusted to adjust it with annually. And so the business proposition is the same one.

What I think is more attractive is the type of tenants that best is looking for. We have always said that we'd rather have an empty building than a lousy clients. And that's why if you just look at the quality of the tenants on the Vesta portfolio, I don't think that there's no other portfolio in all Mexico with the quality of Vesta and the quality of tenants that Vesta has. And this is a good example of the discipline that we have maintained throughout the years.

Francisco Chavez^   Great. Thanks...

Operator^   Our next question comes from Juan Macedo from GBM.

Juan Macedo^   Thanks for the color and congrats on the results. I have two questions. The first one is regarding the Toluca acquisition. I did mention the property tenant. But could you give us more detail on the kind of other operations?

And the second question is on the credit land bank. We saw mild increases in core, but you also initiated a new project in Queretaro that should have diminished reserves -- was there a under position in Queretaro or something else that including... Acquisition...

Lorenzo Dominique Berho^   Okay. So see -- thank you for your question. And thank you for being on the call. I think that Queretaro, I think the reduction is because I think we are developing a build-to-suit in Queretaro that also we use part of the land bank for that build-to-suit as well as another spec building. And that's why it was a minor adjustment. And as you know, we are mark-to-market our land bank as well as the rest of the portfolio, probably the adjustment comes from there.

Additionally, so it's -- yes, so -- and basically, on the acquisition in Toluca, this building was part of three property portfolio acquisition we did throughout the year, and this was the last one. And these are suppliers of Stellantis and Stellantis, as you know, has an important plan on electric vehicles in the region. So these are suppliers that actually also -- we also -- we already have those tenants in other markets of Mexico. So we feel very comfortable with the market. We feel very comfortable with the type of tenant, the industry.

And again when we are able to acquire assets at below replacement cost, good property assets and at attractive cap rate, I think this is a good example on our approach and acquisition, even that this was minor. I think that we want to emphasize our discipline on acquisitions and our discipline on the investment cycle.

Juan Macedo^   Yes, good for the detail. Thank you.

Operator^   Our next question comes from Hugo Grace from Citibank.

Andre Mazini^   Hi. Gentlemen, this is Hugo from Andre Mazini team here at Citi. Congratulations.

I would like to go back to the topic of the guidance that you disclosed. And I wonder how much it looks to us on the conservative side, the fact that the top line growth projections reduced year-on-year. And we wonder how much of that has to do with changes to macro conditions.

And more specifically, how much the changes the projections of U.S. inflation reflecting on U.S.-denominated contracts all denominated contracts and -- or asking perhaps from another angle, if you were to keep U.S. inflation constant, would we perhaps see a guidance more in line with top line growth in last year. That's all from my side...

Juan Sottil^ Let me just answer guidance is a good topic to talk about. But please bear in mind that Vesta has always been a conservative company. I'd rather be conservative. Bear in mind, conservative is a double-digit growth in sales. So I mean -- let's keep that in perspective, no.

I -- it has to do with the pace of construction, the pace of leasing. We just want -- we don't want to overpromise. I mean we will deploy $300 million. It takes time to build up the pipeline, and it takes some time, even today with so much demand to lease the properties to the ideal tenants. I think that the guidance that we provide is quite reasonable.

I wouldn't focus on the fact that we achieved a 20% plus increase in sales, and I provided a lesser growth rate on 2024. I will focus that it's a double-digit growth and that we're deploying significant amount of cash into buildings, and we will continue to do so.

Operator^ Our next question comes from Mr. Ben Salazar from GBM.

Ben Salazar^ Hello. I was wondering if you could offer some more color on your anticipated CapEx deployment for the coming year. On top of the current pending 95 million, you have to complete the pipeline.

Lorenzo Dominique Berho^ Sorry. Can you repeat the question?

Ben Salazar^ Sure. I was wondering if you could offer some color on your anticipated CapEx deployment for the upcoming year on top of the current pending 95 million you already have to complete the pipeline that should be delivered by mid-2024.

Lorenzo Dominique Berho^ I mean I don't like to commit to a number of deployment of cash because we never do. But I do see this year deploying a little bit over $300 million, and there will be some land acquisitions in some key markets. And we're working on those as we speak. And we will continue to develop buildings where we see opportunity growing. Clearly, the north part of the country, we see those opportunities at Guadalajara, and we will focus on those.

The delivery of the buildings are in time, and we see demand across the board at significant higher rents. So as we continue to see higher rents that opens up opportunity to buy land even if it's pricing. And as long as the acquisition of land and the deployment of cash is accretive, we will push on the pedal. So as we have said, we're pretty much leaning forward on this year.

Operator^ Other questions. I'd now like to turn back the call over to Mr. Berho for his concluding remarks. Please go ahead, sir.

Corporacion Inmobiliaria Vesta SAB de CV

Fourth Quarter 2023 Earnings

Lorenzo Dominique Berho^   Thank you, Operator. And thank you, everyone, for joining us today. I'd also like to take this opportunity to comment as Juan underwent surgery in December, and Juan returned to his full responsibilities two weeks after the procedure and have since then made a near full recovery. So as we look forward to the year ahead, I'd like to note that 2024 is a final year of strong execution on our Level three strategy. We'll also be presenting our plan for the next phase of our journey and continued evolution at our 2024 Investor Day. My team and I are committed to further value creation and on fulfilling our responsibilities to our stakeholders -- thank you, everyone, and see you next -- on our next call...

Operator^   This concludes today's conference.

You may now disconnect your lines. Thank you for your participation.