Vesta Industrial Real Estate

Second Quarter 2020 Earnings Conference Call

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Alan Marquez, *Bank of America*

PRESENTATION

Operator

Good morning. My name is Sherry and I'll be your Conference Operator today.

At this time, I would like to welcome everyone to Vesta's Second Quarter 2020 Earnings Conference Call. All participants are currently in a listen-only mode. As a reminder, today's call is being recorded.

I would now like to turn the call over to your host, Ms. Maria Fernanda Bettinger, Vesta's Investor Relations Officer. Please go ahead.

Maria Fernanda Bettinger

Thank you, Sherry.

Thanks to everyone for joining our call to discuss Vesta's Second Quarter 2020 financial and operating results. With us today from Vesta are Lorenzo Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer.

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Following the prepared remarks, there will be a Q&A session during which we will answer your questions. Yesterday, we issued our earnings press release after market close. This release is also available via the investor section of Vesta's website.

Before turning the call over to management, I would like to remind you that these conference calls includes forward-looking statements based on currently available information. Forward-Looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements. These are included in our report on file with the Mexican Stock Exchange.

In particularly, significant uncertainty remains about the relation uncontemplated impact of the COVID-19 pandemic. This means Vesta results can change at any time and the impact of COVID-19 on the Company's business results and outlook is a best estimate Vesta information available as of today's date. Statements made on these conference calls should be considered together with cautionary statements and other information contained within the Vesta earnings press release, dated July 23, 2020, are within the most recent regulatory filings for a discussion of those risks.

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

I will now turn the call over to Mr. Berho.

Lorenzo Berho

Thanks, Fernanda. Good day, everyone, and thank you for joining our results call.

Before discussing our second quarter performance, I would like to provide a brief update on our operations in the current environment. The pandemic is bringing enormous change and acceleration in upcoming trends happening so quickly that we're already pursuing it. Unfortunately, many businesses will suffer strongly the consequences, while others will show resiliency and swiftly adapted to mega trends in today's altered environment.

Despite the headwinds, Vesta has successfully maintained the disciplined execution of our level three strategy. Vesta's internal COVID-19 committee, established during the initial phase of the pandemic, ensured we responded early and quickly, putting in place mitigation measures that continue to be effective and which have enabled us to operate normally.

Property maintenance remains uninterrupted, our administrative functions are at optimal levels, and we're maintaining close, proactive communication with all our clients. However, we're not letting our guard down and continue to maintain a defensive posture, closely monitoring and assessing conditions in the regions where Vesta operates and remaining vigilant to any risk to our operations in each.

Further, appropriate safeguards are still in place to protect Vesta's employees, clients, and their families, allowing all of us to stay healthy and productive.

During the quarter, we granted rent deferrals to 42 qualified clients that have been seriously impacted by the economic fallout of the pandemic.

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Also, we have closed the program. We're currently in negotiations with five remaining tenants, aside from these companies. The deferrals totalled $4 million, or 3% of the first annual revenues, and will be collected primarily in the second half of the year. Because so many of our clients are large multinationals with strong balance sheets, few clients have to rely on ours.

I would like to emphasize here that we use very strict criteria to grant deferrals. Leveraging past experience, we initiated the program with a clear idea about how we could and could not support our clients during these extraordinarily challenging times. A client had to be in good standing with Vesta and with a solid case to be eligible for a deferral. We view each deferral granted as an investment in retaining high quality clients that have strong long-term futures, which enables Vesta to continue to grow with them.

As a final point on this subject, collections during the quarter were 98%. We're encouraged by our clients operating levels. While their activity contracted 50% during the peak in end of April, activity has since jumped nearly 100% as of this time.

Also promising is the USMCA agreement, which took effect at the beginning of this month, removing much of the uncertainty that surrounded commercial relations between the three countries. Generally, the business community has reacted favorably to the USMCA agreement as companies have announced of investments in Mexico, including a recreational product company and a European aerospace company. These recent investments include Mercado Libre, which formally announced yesterday their new operations at Vesta Park Guadalajara.

We congratulate Mercado Libre, which is a great example of technologies accelerating disruption across markets, and of consumers rapidly changing buying habits. In fact, we see a continuing trend among various global companies to bring more of their production closer to the U.S. market, further benefiting Mexico and Vesta in particular.

As we know, friction between U.S.-China trade remains and is potentially motivating more Chinese companies to shift their operations to Mexico, as we experienced firsthand earlier this year. We also believe that a number of companies in response to the current economic environment, but also in search of long-term, competitive advantage, will consolidate their global operations, concentrating them in our country, which offers distinct and durable advantages in terms of operating costs, logistics and human capital.

Turning to detail operational themes in our regional markets, business remains brisk in the North driven by the medical device electronics and e-commerce sectors, as well as by U.S. logistic companies. Demand in material, however, remains soft affecting our stabilized occupancy levels in this region. That said, we are encouraged by recent requests for proposals, as well as by a healthy supply level and pricing environment in the region.

In the coming months, we will be carefully analyzing, in conjunction with our investment committee, if circumstances allow us to restart new development projects. As of today, we're keeping our development spec building pipeline on pause, and have completed all, but one property that had been under construction prior to the pandemic. Currently, we have four build-to-suit and projects in our pipeline, two of which are expansion project with current clients that we recently signed, illustrating the effectiveness of the close relationships we maintain with our tenants. At the end of the quarter, Vesta's total development portfolio stood at just over 1.5 million square feet.

We continue to focus on leasing of existing facilities, lease renewals and built-to-suit projects for the most part. Investment and construction in our sector has been halted thus limiting supply of available properties, which is also helping maintain a healthy pricing environment for leases.

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With that in mind, we are leveraging our close relationship with clients, many of which are high quality multinational companies with whom we have long standing relationships, and which generate mostly dollar based rental income for Vesta. That focus has been paying off with second quarter leasing activity higher than we expected.

While remaining disciplined in terms of client's quality and pricing, we signed 1.5 million square feet of leases with new and existing clients, 1.1 million square feet of this amount was lease renewals reflecting the resilience of Vesta's tenant base. The quarter's leasing raised Vesta's stabilized occupancy 30 basis points to just under 94% and leaves only 2.6% of our leases up for renewal this year and 7% in 2021.

Also, it remains difficult to predict market conditions in each region. Current science indicates that economic conditions could remain challenging through 2020 and possibly beyond.

Given the initially wide range of potential outcomes as a result of highly dynamic and unpredictable economic and business environment, we have decided to adjust our full year 2020 revenue guidance, which Juan will expand on later.

We recently signed a sale by agreement to sell land in Queretaro to an end user and therefore not a competitor, optimizing our Park and adding to our cash position. This is a first line sale and representative of our intention to continue executing asset sales it demonstrates for our portfolio.

Returning to our second quarter results, the 2% year-over-year increase in revenue was mainly due to new revenue generating leases during this quarter. Keep in mind that last year we sold a 1.6 million square feet property portfolio that is not contributing rental income this year. Consistent with the goals of Vesta's level three strategy, second quarter NAV per share increased 4% to $2.36 per share, while pre-tax FFO per share increased 12% year-on-year.

Vesta's balance sheet remains healthy and we continue to maintain a prudent and disciplined approach to the management of our business. At the end of the quarter, our cash position was $145 million after drawing down a remaining $40 million from an existing $125 million three-year revolver, raising our loan to value ratio to 37.8%.

The decrease in second quarter gross income was partially offset by a 13.8 decrease in SG&A resulting in an EBITDA margin of 83.7%, 49 basis points lower than last year's quarter. The decrease in administrative expenses was a result of looking at our 2020 budget again and readjusting our cost structure for the rest of this year.

Also, the ultimate impact of COVID-19 on Mexico and the global economy remains unknown at this time. Our financial flexibility, strong tenant, and lease profile, largely dollar-based revenues, and our proven ability to navigate and adapt to changing market conditions, make us a resilient company. These strengths, and what we still believe is a right growth strategy, mean we are well positioned to capitalize on opportunities that will undoubtedly emerge when this crisis ends.

That concludes my prepared remarks for now. Juan, please go ahead.

Juan Sottil

Thanks, Lorenzo, and good day, everyone. I would like to begin by explaining why we adjusted our annual guidance.

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Based on what we know today, we now expect full-year 2020 revenues to increase between 1% to 2% and are trimming our annual margin to 92%, while maintaining our EBITDA margin target at 83%. These revisions are based on a higher devaluation of the peso, which will affect our peso in nominated leases, which represent approximately 13% of revenues at the end of the second quarter.

On a more conservative forecast, leasing activity in the second half of the year, as we anticipate it will be economically challenging. We are also taking into consideration the allowance on accounts receivable, which we increased as precautionary measures.

Jumping into the second quarter results beginning with our top line. The 2% increase in rental income was primarily a result of leasing new space that had been vacant in the last quarter, a nearly 6% increase. The quarter revenue increase was achieved despite the absence of rental income from the property portfolio that we sold last year as part of our asset recycling strategy. The sale accounted for 2.2% offset among others. Importantly, in the current economic environment, over 86% of the quarter's rental income was in U.S. dollars, up 290 basis points sequentially.

Operating costs rose 61% primarily due to a 53% increase at occupied property costs, mostly a $2.9 million allowing for payable accounts given the current economic and business environments. These have served as an emphasis to strengthen our collection process and move faster on any tenant that falls into arrears. It is also a fresh reminder to continue maintaining a disciplined approach to leasing.

This allowance will boost primarily impact second quarter NOI, which decreased 0.6% to $34 million, while the corresponding margin contracted 230 basis points to just under 93%. As Lorenzo noted, we reduced administration expenses nearly 14% during the quarter following budget reviews and subsequent cost adjustments. We will also benefit the coming quarters.

Nevertheless, our EBITDA margin contracted 49 basis points to 83.7% in the second quarter. Interest expense decreased 9% to $10.2 million, reflecting the negotiated terms of Vesta current debt balance. We reported a $14.3 million gain on the revolution of Vesta investment properties, 56% less than last year's second quarter gain. The small gain was a function of the discount rates used for evaluations and the FX impact.

Total other income was $6.1 million in the second quarter compared to $38 million last year. The decrease was primarily due to the lower evaluation gain and the fact that last year we booked $16 million gain on the sale of the property portfolio. That brings us to pre-tax income, which was $35.6 million, 47% lower than second quarter 2019.

While the current portfolio of our income tax was significantly lower due to the negative exchange rate effect, these benefits have partially been offset by higher deferred taxes. For the quarter, income taxes were $16.6 million, 6.7% lower than last year quarter. For second quarter 2020, we reported total comprehensive income of $9.3 million, down 82% year-over-year.

Turning to pre-tax FFO, an increase of 7.5% to $20.5 million, a 12% increase on FFO per share, while NAV per share increased 4% to $2.37 per share. Second quarter capex was $21.6 million, primarily related to the completion of inventory buildings in the north and the construction of mostly built-to-suit facilities in the Bajio and Central region.

At the end of the quarter, total debt stood at $639 million, up from $714 million at the end of 2019, as we drew down another $40 million from the $125 million revolver in order to reinforce delta cash position. A hundred percent of our debt is dollar based and 85% of the interest is fixed. Our loan to value ratio was

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37.8% and net debt to EBITDA, 5.7 times. This means Vesta's debt provide remains healthy as reflected in our Triple B Minus credit rating that Fitch affirmed on July with unstable outlook.

The total of Vesta investment property portfolio was $2.04 billion at the end of June, 2.3% higher than the year-end of 2019.

We finished this quarter with a 30.2 million square feet G&A in our total portfolio, a 1.2% sequential increase. Occupancy decreased 60 basis points to 92.3% as we completed three inventory building within our development portfolio during the second quarter. Of note, two of these buildings are in the lease-off process.

Year-on-year, our internalized portfolio grew 7.7% to 29.6 million square feet, while occupancy declined 290 basis points to just under 94%.

Lastly, Vesta land bank was unchanged at roughly 42 million square feet, off 5% below the level that we had at the end of 2019.

That concludes our review of Vesta's second quarter performance. Operator, please open the call for questions.

Operator

Thank you. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Adrian Huerta with J.P. Morgan, please proceed.

Adrian Huerta

Thank you, and good morning, everyone. Thank you for taking my question.

Juan and Lorenzo, my question has to do with operating expenses that you mentioned that were down 14% in the quarter. How much of that is here to stay? The other question is related to the long-term incentive plan. I believe the current program ends at the end of this year. Do you have any details on how the new program will work?

Thanks.

Juan Sottil

Okay. Hello. Thank you for the question.

Look on the expense side, just please clarify, are you referring to the expenses at the NOI level or at the administrative expense level?

Adrian Huerta

The administrative expenses. I believe those are the ones that you said were down 14% in the quarter, no?

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Juan Sottil

Yes, sir. Look, Adrian, we adjusted our budget consistently. We basically modify the expense level. It was mostly related to personnel that we did not hire during the year that we were intended to hire, and we are reassessing our personnel needs looking forward. These were new employees that we were planning to hire, and that we are postponing definitely, or that we will be very carefully hiring in the future. We also adjusted certain other office expenses and things of the sort. That was the adjustment that we did this year. We are resetting our personnel needs looking forward.

On the executive compensation program, you are correct. The first program was maturing in 2020. However, on the last shareholder meeting, we approved a new program, which is basically a continuation of the existing one that covers the period from 2021 to 2025.

The basis of the program are roughly the same. We will be compensated on total relative return on a share basis, and the shares can be delivered to the executives as long as they keep being employees of the Company over a three-year earnout period. So, it's basically the same program. We extended it for the next five years.

Adrian Huerta

Wonderful, Juan. Thank you.

Juan Sottil

Thank you, sir.

Operator

Our next question is from Carlos Peyrelongue with Bank of America. Please proceed.

Carlos Peyrelongue

Thank you, Lorenzo and Juan, for the call.

Can you provide a little bit more color on the interest that you have seen from companies moving from Asia to Mexico, either existing ones or new ones? There was some comment that Lorenzo provided at the beginning. If you could expand a little bit and provide some specific examples, it would be great.

Just to confirm, spec buildings are still on halt? I would like to confirm that as well. Thank you.

Lorenzo Berho

Hola, Carlos, and thank you very much for being on today's call.

Definitely we're seeing an important trend towards near shoring and companies trying to establish operations in North America. When I say North America, clearly I think the greatest positive impact will probably be towards Mexico, through its competitiveness and of course, the historical good track record on attracting foreign investment and supplying to the U.S.

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We recently saw some important signs of this happening already, particularly in Queretaro when we signed the lease agreement with a cabinetry company for 300,000 square feet, and we have seen some new requests in that area, in the Bajio region, but also Tijuana and Ciudad Juarez particularly, we have seen also some important demand, not only from Chinese companies, but also from Korean companies, as well as in Ciudad Juarez as from Taiwanese companies in Ciudad Juarez.

I think that particular trend is not only what we are seeing at Vesta. I think this has been similar among the industry. I've been talking to some of our peers in the sector, and I think that this is happening rapidly, this is a trend, and I think we will move forward very quickly.

As you know, moving to the U.S. is going to be very difficult for these companies. I think that having labor situation, problems with visas and a high cost of manufacturing makes it a little bit difficult for companies to go to the U.S. That is why Mexico has a better advantage.

Juan Sottil

Okay. Give us two seconds.

Carlos Peyrelongue

Sure.

Juan Sottil

Gracias.

Carlos Peyrelongue

So, thanks. Gracias for the answers. And lastly, to reconfirm on spec buildings, you mentioned, but just I want to confirm that those are still on hold, is that correct?

Juan Sottil

Yes, that is correct. We are adamant in having cash conservation needs. We are only on day 90 of the pandemic and we are keeping cash under control. Therefore, spec buildings are off the table for the time being.

Carlos Peyrelongue

Perfect. Thank you, Lorenzo and Juan. Thanks.

Lorenzo Berho

And probably, Carlos, as I mentioned, we will revisit that in the upcoming time, and I think that's something that our investment committee is going to be very keen on analyzing where and how we should resume some of the operations.

The markets are healthy, that's a very good sign, and probably another important aspect is that April and May, there was really not a lot of activity because of the same pandemic situation, but more importantly, in June, we saw a greater pickup in terms of requests for proposals, and that I think is going to be an important

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trend in these upcoming quarters, so we are going to be analyzing carefully what happens in each of the markets.

Carlos Peyrelongu

Awesome. Thank you. Thanks, Lorenzo. Gracias.

Operator

Our next question is from Eduardo Alvizouri with GBM. Please proceed.

Eduardo Alvizouri

Hi, guys. Thank you for taking my question.

Regarding last term trends, how do you see demand for industrial spaces in the following years? Do you expect a positive trend in the logistics space after the pandemic boosted ecommerce penetration in Mexico, or do you see this as a short-term shock? Thanks.

Lorenzo Berho

Hola, Eduardo, thank you for your question. We are clearly seeing an increased demand from ecommerce companies. I believe that Mexico was lagging the percentage of online sales to retail, and I think this is clearly going to accelerate part of their plans, and there's some large companies that are growing rapidly, but there's also small to medium size companies that were just created probably during the pandemic. So, I think that definitely that's going to be an opportunity looking forward.

Previously, it was mostly based in Mexico City, and now we're seeing that particular demand in other regions. Of course, Guadalajara is an important market, Bajio is an important market, but the north part of Mexico, we're also seeing an increased demand from ecommerce companies. So clearly, I think that the speed of decision making of these types of companies is going to be very quick and we're going to see more of that in the upcoming quarters.

Eduardo Alvizouri

Great. Thank you.

Operator

Our next question is from Andre Mazini with Citigroup. Please proceed.

Andre Mazini

Good morning, Lorenzo and Juan.

My first question is on the Mercado Libre lease up. The size of this lease up initially is 20,000 square meter, if you can confirm that. That is something that some new speakers were mentioning, 20,000 square meters.

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The second question is on news on big tenants of yours BRB and Safran, they've announced after the USMC implementation this month that they're going to be investing more in Mexico, right? Building two new factories in Mexico.

I was wondering, I mean, did you talk to them to have these factories in a Vesta Park eventually? And, if you think this new factory of theirs is going to maybe increase the likelihood of them increasing the footprint with you guys given that they're going to be needing more supply chains, they're going to be even more entrenched in Mexico. Thank you.

Lorenzo Berho

Gracias, Andre, for being on the call.

Yes, I'm very happy to see that after the ratification of the USMCA, there came a wave of investments announcement, and I think that's a positive for the country, and clearly it's a positive for some of the regions and Vesta.

The Safran project is going to be in Chihuahua. Nevertheless, I think it was a good signal that there's still appetite for expanding operations, even that it's not necessarily a project that Vesta will take on, and the second one is BRP, doing another plant and a large investment due to the high demand of recreational vehicles, and actually, that was one of the most interesting things that we saw in the pandemic, that there's some industries that are more cyclical, but many companies or many industries are also very resilient, like recreational products, and I think that that's another good example of how competitive they are in Mexico, and that's why they are still committed to investing and they're announcing a new plant, which they have not announced yet where in Juarez it will be established. They're still finalizing those items. We're very close to them. But, I'm sure that that's going to bring good opportunities for the existing facilities as well as for the supply chain, and of course, it's going to be a great benefit for the region.

Additionally, I think that there's other few announcements that were done and I mentioned the data center establishment in the Vesta Park Queretaro, and I think even though we sold the land, I think that their decision of basing it in a Queretaro was primarily because of the infrastructure and quality of infrastructure they saw in industrial park, and I think that's exactly what we want to deliver. The Vesta Parks are projects with great infrastructure, great energy, good amenities and I think this is exactly where companies want to be established. I think data center is going to be another important trend that we're going to see in the very close future too.

Getting back to Mercado Libre. Mercado Libre is a 60,000 square meters, or 660,000 square feet facility in two phases, and they also have an expansion option of 20,000 square meters or 200,000 square feet, so they could even grow to 80,000 square meters, the total project in Guadalajara. This is exactly how they announced it yesterday with the State Governor of Jalisco.

Andre Mazini

Perfect, Lorenzo, very clear. And just a quick followup. Do you think that data center reserves will be any different in terms of the contract length? I imagine that the centers have a lot of capex involved, so is it fair to expect this contract will be a little bit longer than, say, logistic contracts?

Lorenzo Berho

Sure. I think that definitely this is a very different industry and that's why we decided also to sell land instead of doing the investment. Because as you mentioned, it's a high capex industry. But normally, they also have

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some longer-term commitments. So, we are not necessarily considering entering into highly specialized buildings.

We prefer more the generic. We prefer more the—that's why some of the spec generic buildings are exactly where we are trying to develop. I think that we're going to be seeing more of those. If in some cases we can establish them in some of our spec buildings, fine, but I don't think that we necessarily want to do the high capex technology investments that many of these data centers require.

Andre Mazini

Very clear. Thank you very much. Have a good day.

Operator

Our next question is from Froylan Mendez with J.P. Morgan. Please proceed.

Froylan Mendez

Hi, guys. Thank you very much for taking my question. We have seen a drag on NOI margins in the last three quarters, and now we get a sense that part of these was likely coming from that debt expense accounts. Can you explain to us if there has been any change in your regional policies this last year, and how much of the impact that we saw in the quarter has to do with the deferrals that you're giving to the COVID-19 support clients?

That is my first question. Thank you.

Juan Sottil

Thank you, Froylan, for the question.

Let me be clear. COVID clients that we defer payments for are the best clients of Vesta. The number one requirement to request help from us was to be a current client in good standing with us. If you have that qualification and you are an industry that was particularly impacted by the COVID pandemic, then we could defer some rents. So, that is the first part.

The second part is, to us, our most important, I mean, after our employees and clients, the next most important item in Vesta is our financial statements. We have strong financial statements and we want to have full transparency with our investors, and we want to keep them strong, honest for the future. We began taking a look into accounts receivable last year, and we made some reserves for potential accounts receivable that were turning bad. We did that on the third, fourth quarter, and first quarter.

Coincidentally, the pandemic began, and we took a further look and decided to be even more conservative and we took more reserves, and that's why you are seeing—as you create a reserve in accounts receivable, what you impact is an NOI cost. That is what you're seeing on the income statement. We this attitude, I think that we strengthened our balance sheet, and we give a clear picture to you the investors, that our numbers are conservative and are looking forward to solve any problem that we may have on these fronts.

Froylan Mendez

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Very clear. Thank you, Juan, and if I may, so Vesta was a big sponsor for automakers to come to Mexico in the past year, especially German companies. What role do you expect to have on these new expected trend of near shoring, especially in international companies, and what could be different with the relationship with these kind of companies, more Asian based, and which sectors do you believe they will be more active on? Thank you.

Lorenzo Berho

Sure, Froylan. Well, basically the auto sector, we believe, is still going to be strong in Mexico. We have important OEMs established in the country, but more importantly, there's a global interaction and connection among different suppliers, and particularly in Mexico, we are completely linked to North America, to the U.S., and that was actually one of the reasons why there was so much pressure coming from the U.S. government back in May, that Mexico had to open up operations and integrate the supply chains so that the OEMs in the U.S. could reopen.

I'm sure you remember those dates when the Mexican government even received a letter from the Pentagon asking Mexico to activate some of the plants in Mexico so that they could open up. This is how linked that particular industry is. And actually, when we think about the German auto sector, the German auto sector is in a similar case where they have global supply chains, so many of the products from a German car are actually not even German they depend on different suppliers from different parts of the world, and many of them are already from Asia.

In this case, I think that this is another—the other way to see it is that we are going to be seeing even more global operations in Mexico. We're going to see the near shoring and USMCA new ratification will drive demand from European companies, from Asian companies, and even from U.S. companies that want to have more integration, regional integration in Mexico.

One of the expansions that we recently announced was a company that in the last couple months, they received an increase in production and that's why they require immediate expansion of their operations, and I think that's an important signal on how quickly things can be moving. In one sector that Mexico is strong, companies know Mexico well, and I think this is exactly the place where they can be competitive and make profits for their companies, particularly in challenging times. I believe that Mexico has a very good company base.

Those will have opportunities to expand, and I'm sure there will be more coming too.

Froylan Mendez

Thank you so much guys and congrats.

Lorenzo Berho

Gracias.

Operator

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

Vanessa Quiroga

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Hello, everybody. I hope you are well, Lorenzo, Juan, and Fernanda.

My question is regarding the provisions that were recorded in the quarter. We saw an increase, practically doubling the size of provisions in the second quarter versus the first quarter, so I wanted to get your comments on what you are expecting that trend to be in the coming quarters for that line. Also, to give us more color on the background behind those provisions.

The other question or the other topic that I would like to touch on today is your land bank strategy. Given what you are seeing for your markets going forward, how do you plan to manage your land bank in terms of sales and acquisitions?

Thank you.

Juan Sottil

Vanessa, good morning. Thank you for the questions.

Look, as I had mentioned, our balance sheet and numbers integrity are the most important thing that we have if we take out our employees and clients, and we're always keen on keeping it that way. It seems to us that in the beginning, we were taking a look at it, since the third quarter last year, and after the pandemic began, we took a harder look and we decided to be even more conservative.

Indeed, our provisions almost doubled during the quarter, and I think that that conservative stance basically distinguishes us. We will always be keeping an eye on accounts receivable, and if we perceive that we need to strengthen provisions, I would not hesitate to do it again. We feel comfortable with the level we have now, and we will just keep an eye on accounts receivable and we have the leasing tenants.

If we perceive that other leasing tenants will not end up paying, we will affect provisions immediately. That's kind of the policy of the company. I don't know if you would like me to elaborate any more on that.

Vanessa Quiroga

So, just to confirm, Juan, you are expecting this line to remain flat going forward, assuming that your clients' conditions remain stable.

Juan Sottil

Exactly. I think we're comfortable with the level we have now, and if we need to take further provisions, we will do so. We do have a couple of the leasing tenants and they still occupy the buildings, so as time goes by and we involve those leasing tenants, we will keep adding to the provisions, but I don't see the leasing tenants increasing in numbers.

We have the same culprits over the last three quarters, so that situation in that sense is stable.

Vanessa Quiroga

Okay, Juan. Thank you very much for that.

Juan Sottil

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Thank you.

Operator

Our next question is from Armando Rodriguez with Signum Research. Please proceed.

Armando Rodriguez

Thank you, everyone, and congratulations on these solid results. You guys have mentioned since IPO, that the growth of the Company, it's mostly explained by your same clients, so I'm wondering, considering your comments on the Asian and German investors, how are you seeing your growth mix in the last term? That's my only question. Thank you very much.

Juan Sottil

Okay. Let me address that. Indeed, if you see our growth, growth with existing clients has been an important feature of Vesta. Over time, I don't have the latest statistic on top of my head, but over time we said that more than 50% of our growth came from existing clients. That is certainly a true statement. As evidence of that, look at the expansion that we have announced over the last two quarters. Both of them are with existing clients. We grow a lot with existing clients.

Having said that, we also target new sectors and we also target our expertise within an industry. So, if you look at the automotive industry in times past, we used to go to the auto shows of Europe, as well as to the aerospace show in Europe, to source new clients we have been particularly successful doing that.

In the new reality, we will have to adapt and see how we can target the same client base because I think that we have a lot of expertise in the medical device, in the aerospace, in the auto sector business, and I think that we can penetrate those industries with creativity. Just a couple of weeks ago, we had a Zoom show to promote our buildings to the broker and client community, and I think it was a success. At some point in the future, we should do the same with our investors, and with you, all of you analysts that provide coverage. But yes, we continue to explore these avenues. I don't know if this answers your question.

Armando Rodriguez

Yes, that's right. Thank you very much, Juan.

Lorenzo Berho

Thank you, Juan.

Let me address, I think there was another question from Vanessa that we did not answer that I'd like to jump in, which is regarding the land bank.

I think that it's important to understand the strategy and the Company as it comes to development. The way that we develop is through acquiring parcels of land, put infrastructure in the land and start developing inventory buildings, as well as build-to-suit in projects.

We currently have land in some of the major markets throughout Mexico, Tijuana, Ciudad Juarez, now Monterrey, Guadalajara, as well as other markets in the Bajio region. I think that that has been a great

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advantage of the Company of always having land on time so that when projects arise and when there's good demand, we can develop the projects.

That was the case of the project in Guadalajara for Mercado Libre, and that was the case also in Puebla for the large logistic facility we recently developed for Pepsi. I think that this is exactly the strategy that we want to maintain looking forward. We think we currently have a good investment on land, which is still in the single digits of our total balance sheet, and as we look forward, I think that all these—even that there's currently, it seems, that we have good land available, it's only projected for the midterm, three to five years, and I think that in that regard, it's going to be important that we keep the quality of our parts, the quality of our buildings, and when companies get into a Vesta Park, they see a different type of asset quality, and I think that's an important differentiator that we would like to maintain looking forward.

Operator

Thank you very much. We do have a follow-up question from Armando. Please proceed.

Armando Rodriguez

Thank you. Just a follow up regarding your asset recycling program. I will appreciate your comments on the supply area, the exit cap rates that you are seeing from your peers. That's my only concern. Thank you.

Lorenzo Berho

Sure. That is a great point. I believe—so currently I think that this has been, these last three months, have been interesting in terms of figuring out where pricing is, where valuations are, how transactions are responding, and I think it still might be a little early to resume part of our operations on asset recycling.

Nevertheless, as you know, we have a plan to recycle $300 million of assets in the upcoming years, part of the Level Three strategy, and that's something that we're going to keep on doing whenever we find the right window of opportunity to do a good sale at the right price, and I think that's something that we have a strong discipline, and we're going to keep the discipline on that.

As we did last year, when we sold that $109 million portfolio at a 7% cap rate, what we have seen lately is that valuations in the U.S., for example, for industrial assets have pretty much remained in line to pre-COVID valuation terms. Some months from now, I think that we're going to start to have some price discovery. There's appetite from institutional investors for these type of quality dollar denominated leases, long-term leases, good multinational companies, so I think that looking forward, we're going to be able to find the right window of opportunity to keep on with our asset recycling plan.

Armando Rodriguez

Perfect. Thank you so much, Lorenzo.

Operator

Our next question is from Alan Marquez with Bank of America. Please proceed.

Alan Marquez

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Hi. Just one quick question. Any markets in which you operate that have resumed activities but that have had to lock down again? Thank you.

Juan Sottil

Alan, nice to hear from you now. Look, at this point in time, we have, as we have talked in the past with you, every week we have an assessment from our asset management divisions, which operated throughout the pandemic, giving service to our clients, to which tenants were partially shut down or totally shut down in our portfolio. I am happy to report that by the beginning of June, we saw significant change, and by now, all of our tenants are fully operational. We could have one or two out of the 220 different tenants that we have so we have no issues with that right now. Everybody is back working.

Operator

Thank you. We have no further questions. I would like to turn the call back over to Mr. Berho for concluding remarks. Please go ahead, sir.

Lorenzo Berho

Thank you, Operator. In summary, we continue executing well against our Level Three Strategy and will remain vigilant for the rest of 2020 and beyond, to face the current operating environment head-on while exercising caution and being prudent in every decision we make. In light of current economic and geopolitical dynamics, we are confident that opportunities will emerge for Mexico and for Vesta in particular, to attract more of the world's most important companies to our best -in-class industrial parks and buildings.

As we continue to experience the effects of COVID-19 personally and professionally, to date, we have approximately 5% employees cases at Vesta, which are provide our full and unconditional support to help these employees and their families. I would like to thank Vesta's Board members and employees who made voluntary contributions to help support our ESG initiatives, which in addition to the Board's donation of 25% of their second half compensation, is helping fund various medical support programs while COVID-19 continues to impact the nearby communities where Vesta operates. These are the same programs that I highlighted during our previous earnings call, as well as new ones.

It's important to note that these and other social elements that make up our overarching ESG program contributed to Vestas inclusion in the S&P, Mercado de valores, total Mexico ESG index. Our company ranked 12th among the 29 other Mexican companies to become a constituent of this new globally recognized sustainability index, as we also successfully met rigorous environmental and governance standards.

Once again, Vesta continues to raise the bar within our industry I would like to thank Laura Ramirez, our Sustainability Officer, for helping us achieve high ESG disclosure standards and performance levels. Increasing in this index is not only an honor, but further differentiates our Company in Mexico's industrial real estate market.

Like us, the leading global companies we seek to attract and retain as clients respect the environment, support employee growth and their surrounding communities, and employ governance practices. I'd like to close by commending the continued excellence of our employees whose unwavering commitment and dedication help ensure our ongoing success and maintain Vesta as a benchmark in our sector.

Thank you again for joining us on today's call. We look forward to providing further updates during our second quarter call in October. Thank you.

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Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time and thank you for your participation.

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