Vesta Industrial Real Estate

Third Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Doug and I'll be your conference Operator today. At this time, I'd like to welcome everyone to Vesta's Third 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, Doug. Thank you, everyone, for joining our call to discuss Vesta's Third Quarter 2020 Financial and Operating Results.

With us today from Vesta are Lorenzo Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer. Following the prepared remarks, there will be a Q&A session in which we will answer your questions.

Yesterday we issued our early scheduled release after market closed. 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 this conference call 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 we filed with the Mexican stock exchange. In particular, significant uncertainty remains about the duration and contemplated impact of the COVID-19 pandemic. This means Vesta’s results could change at any time and the impact of COVID-19 on the Company’s business results and outlook is a best estimate based on the information available as of today’s date. Statements made on this conference call should be considered together with cautionary statements and other information contained within the Vesta's earnings press release dated July 23, 2020, and within the most recent regulatory filings for a discussion of those risks.

All figures included here in 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 Dominique Berho

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

The global economic environment remains tenuous as I'm sure everyone in this call is well aware. When setting our level three strategy early last year, we had anticipated that Vesta’s economic and political environment would become more complex and challenging; also, not to this extent. Nonetheless, we understood at the time that we needed to adopt a more defensive posture, building in higher levels of resiliency at our Company.

As part of our strategy, we reinforced our balance sheet and increased financial flexibility. Also, during the early stages of the health crisis, we paused the development of spec buildings, with an emphasis on leasing off our existing property portfolio and, of course, lease renewals.

Today, our focus still remains more on profitability than growth, as well as maintaining the integrity of our operations by carefully protecting the health and well being of our employees and practically managing risk. Vigilance is still paramount at every level of our Company. These proven metrics, combined with Vesta’s solid long-standing base of mostly global blue-chip tenants mean we remain well positioned to better weather the current crisis. It also means continue to be strategically positioned to capitalize on the long-term trend of global companies consolidating their operations, and either shifting them to, or expanding within, countries like Mexico.

Our country continues to offer sustainable competitive advantages, such as exporting to the United States, lower operating expenses, and an abundance of skilled labor and engineering talent at low cost. In the meantime, our strong position is also enabling us to capture near term opportunities, such as the ongoing shift in consumers buying habits toward more online purchases. This shift is expected to create more opportunities in markets where we own land, but offers last mile advantages, such as in Guadalajara, but also in Monterey, a new geographic market for us where we recently signed another anchor tenant in the e-commerce sector.

Assigning follows that of Mercado Libre earlier in the year and demonstrates our ability to diversify in terms of geography and the sectors we serve. Our positive long-term outlook is tempered though; uncertainty remains. With differing predicted outcomes, it is clear the world has a long way to go to full recovery from the effects of the COVID-19 global pandemic. Despite Mexico's own complex political environment, our sector of its economy remains solid, with 95% of Vesta's clients now operating at pre-crisis levels, albeit unevenly across industries.

The strength of Vesta's tenant base is reflected in our solid third quarter financial results, which are tracking well to our revised full year guidance. During our previous earnings call, we discussed granting rent deferrals for selected clients between August and year-end. I'm pleased to report that all of them have been fulfilling their obligations. Total collections of COVID-related deferrals during the quarter were hundred percent. In fact, at the end of the quarter, we had collected nearly 70% of total amount of deferrals. That said, certainty prevails, including the expected pace of the world's economic recovery, which could be hampered further by the growing momentum of the pandemic second wave, as can be seen in Europe currently.

Another unknown is policy responses implemented by governments, which have varied country by country and even within each one. Consequently, tenants and prospective clients have remained cautious and are deferring leasing decisions, resulting in only moderate growth in new contracts during the third quarter. Nevertheless, our leasing pipeline is solid, while the supply of buildings across our markets remain limited, with low vacancies, helping maintain a healthy pricing environment.

During the quarter, our leasing activity was 774,000 square feet, of which 105,000 square feet was new contracts with logistics and repeated e-commerce companies, 214,000 square feet in growth from new projects, and 455,000 square feet of lease renewals. Maturity levels declined to just under 1% for this year, and 6.5% for next year 2021. In the quarter, small grade leasing activity led to occupancy of 90.5% in our total portfolio, down sequentially from 92.3%. Also impacting our occupancy was the expiration of three leases in the Central and Bahir region that were not renewed, as well as two buildings from one client in Tijuana that were recovered through a bankruptcy. For both these buildings in Tijuana, the losses have already been accounted for in our provisions for that for receivables. We are reasonably confident that the buildings will be re-leased given the quality and location, as well as Tijuana's healthy market dynamics with record low vacancy rates.

Although we suspended spec building at the second quarter, we still maintain an active development pipeline, a mix of pre-leased buildings, built to suit facilities and tenant expansions. This includes two new projects during the quarter, one being a pre-lease 280,000 square foot spec building for a new e-commerce in Monterey, and a 44,000 square foot expansion for an existing client.

That increased our development portfolio to 1.9 million square feet, nearly 72% of which is leased, and with an expected weighted average return cost of 10.6%. It's important to note that this has been the strongest development pipeline with a very high number of pre-leases we have seen since the third quarter of 2018, which underpins our ability to adapt according to market conditions.

That leads us to NAV per share, which increased 4% versus last year. Regarding our third quarter financial results, revenues increased 5% to $37.5 million. Our NOI and EBITDA margins are also tracking guidance at 94.7% and 85.6% respectively. The margins reflect a disciplined approach to administrative expenses and the strict cost controls that we have implemented in the spring.

Compared to last year’s quarter, pre-tax FFO per share increased 6%, in line with the goal to power level three strategy.

Before turning the call over to Juan, I would like to highlight that we recently signed an agreement with a data center company that will purchase 506,000 square feet of land in Queretaro. A $4.5 million sale is subject to government sale licenses, but this is largely a formality.

Active recycling is a major component of our level three strategy. Also, the focus is on our portfolio of facilities. The low yield environment that still prevails across the world's capital markets continues to support cap rates in Mexico's industrial real estate sector. As such, institutional investors are still engaging us from time to time, and we look to sell whenever the right opportunity arises, but only then.

As regards capital location, also our share repurchase program, we made some calls in favor of cash preservation, we intend to continue providing a dividend based on our current performance outlook, as was seen also in this particular quarter.

That concludes my prepared remarks for now. Over to you, Juan.

Juan Sottil

Thanks, Lorenzo, and good day, everyone.

I will begin with some details on our top line growth in the quarter. As Lorenzo mentioned, revenues increased 4.6% to $37.5 million in the third quarter. Most of these growth results from rentals of the state that has been vacant in the previous years' quarter. These results were partially offset by a decrease related to expired leases agreements that were not renewed. In his remarks, Lorenzo had emphasized the strength of Vesta's client base. The resiliency of our business is also due to our mostly dollar-based revenue stream from export-related companies which rose to just over 86% of total revenue from 85% in the third quarter 2019.

Operation operating costs increased 36% during the quarter due to higher costs of our occupied and Vesta and rental properties, though mostly the former. Cost related investment property generating rental revenues increased 17%, mainly due to our allowances for doubtful accounts, which was $3.3 million at the end of the quarter, and up from $2.9 million at the end of June. Nonetheless, it is important to notice that these costs decreased 22% from last quarter, as a result from a decrease in the doubtful account provision as tenants would feel the delayed payments, as well as the favorable outcome of the legal claim against the tenant in Tijuana. Nevertheless, because of the economic climate remains tenuous, we are still carefully monitoring our receivables and maintain our robust collection process.

Higher year-over-year operating costs primarily accounted for 58 basis points decline in our operating income margin, 94.7%, which was 180 basis points higher from the second quarter 2020, which is helping us track our revised annual guidance of 92%. In absolute terms, net operating income increased 4% to $35.5 million.

During the quarter, we continued reducing administrative expenses, it's most likely on a sequential basis due to the peso appreciation or decrease about 10% versus the last year quarter. That helps us increase EBITDA by 6.2% to just over $32 million. On the corresponding margin expanded 126 basis points year-over-year to 85.6%. It's helping us track guidance on these measures as well.

Moving to other income.

Interest expense in the third quarter increased little over 9% which reflects a higher debt balance than last year although it is one with better terms overall. For the quarter, we reported a net FX gain of $7.7 million compared to a loss of $1.5 million last year. This shift explained yesterday earnings press release. The quarter gain evaluation of our investment property was $4.3 million compared to a gain of nearly $14 million in the last years' quarter The smaller gain in this quarter was due to the higher vacancy level, discount rate supply, exchange rate, and of course, a weaker economy versus last year. The smaller gain, along with the other factors I just covered, mostly accounts for the $1.8 million in other income.

Our third quarter pre-tax income was $32.7 million, about 1% below the 2019 quarter on pre-tax FFO was nearly 5% higher at just over $22 million. As Lorenzo noted, we have an active development pipeline made up of all elite buildings, build to suit projects and tenant expansions, although our third quarter capex was less than half last year's level at approximately $15 million. We continue to take a cautious approach. Further, we expect to finish the year with a solid cash position.

At the end of the quarter, our debt balance was approximately $840 million, nearly all of which as a long-term tenant. One hundred percent of our debt is dollar denominated and 85% there's fixed interest rates. Lastly, on this, we finished the quarter with a loan to value ratio of 37.9%, while the net debt to EBITDA was 5.8 times.

Moving to the asset side of our balance sheet, the total value of our investment property for (inaudible) was $2.6 billion, up 3.5% from year-end 2019. The GLA of our total portfolio was 30.2 million square feet with no additions during this quarter. Occupancy declined 180 basis points to 90.5%, due to the net negative assertion as Lorenzo explained earlier. Our stabilized portfolio at the end of the quarter was 29.6 million square feet, the occupancy was just shy of 92%, which compared to 93.9%, in the second quarter 2020. Finally, our land banks between 1.2% quarter-over-quarter, or 41.3 million square feet.

That concludes our review of Vesta's third quarter performance. We'll be happy to take your questions now. Operator, please open the call.

Operator

Thank you. Ladies and gentlemen, we will now be conducting your question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you 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 key.

Our first question comes from the line of Adrian Huerta from JP Morgan. Please proceed with your questions.

Adrian Huerta

Hi, thank you. Good morning, everyone. My question has to do with a guidance. The NOI margin seems to be in the first nine months of the year approaching close to 94%, if you have a guidance overall 92%. Just wondering what are you expecting for the fourth quarter and why you're not revising the guidance upward, and also with regards operating expenses which have been coming down on a sequential basis for the last two quarters? I assume that there are some expenses are going to be back but can you tell us a little bit what has happened on the expense side and if there has been any costs that are permanent or not? Thanks.

Juan Sottil

Thank you for the question. Basically because of our careful approach to our accounts receivable as I have mentioned in the past, we value a strong balance sheet above all and we have been marking so to speak, our receivables since the last quarter of last year; that continued on the first quarter and had some more to do on the second quarter. I believe that we are comfortable with the levels of accounts receivable reserves that we have right now. In fact, this quarter we have recovered some of our mark down receivables because of our efforts to talk to our clients. That's a good sign, no, under the current circumstances.

I believe that NOI will behave on a more oblique manner for the rest of the year and, indeed, over the next quarter. As I always mentioned, COVID has been with us for six months, and we believe that's going to be for a little bit more so we will be watchful, we're going to be watchful of any developments. Elections are doing good, as I mentioned on write up. We've been comfortable with what we have been doing right now.

As for the administrative costs, we have been incredibly strict over the last six months. We have adjusted our budget several times and we will be very watchful to administrative costs. I believe that the gains we have made on expenses are largely going to be repeatable next year. We have seen these companies growing. Look at our growth rate over the past couple of years, we may need to hire a couple of more people to achieve the largest part of my administrate expense. We have stopped all hiring, as we said on the last conference call, but we're watchful of the stresses that these are making on our operational level. We keep a tight look at those, and we react accordingly.

Adrian Huerta

We should not see the NOI margins behaving differently in the fourth quarter versus what we have seen in the first nine months, right?

Juan Sottil

It's going to be in line. We're not going to be taking more accounts receivable reserves. I think that they're going to be in line with this quarter if they wait a little bit. Because we stopped doing the reserves in the middle of the quarter. There's a couple of openings on the last quarter of the year.

Adrian Huerta

Thank you, Juan.

Juan Sottil

Thank you, sir.

Operator

Our next question comes from the line of Vanessa, Quiroga with Credit Suisse. Please proceed with your question.

Vanessa Quiroga

Hi, good morning. Thanks for the call. Hello, Lorenzo, Juan and Fernanda and all the team. My first question is regarding Tijuana and the assets that you were able to repossess. Where are they located exactly? Are you already getting interest from potential tenants and I guess I would ask you if you would be willing to sell any of your assets in Tijuana given how strong the appetite is?

The second question is regarding the data center that you sold to the data center, if you consider this to be a one-time event, or would you be looking to do more of these transactions in your part? Thank you.

Lorenzo Dominique Berho

Hola, Vanessa. Thank you very much for being on the call. Regarding your first question on the property in Tijuana. We were able to repossess the two buildings from a toy manufacturer which went bankrupt during the year. These two properties are located in the Pacifico Industrial Park, industrial submarket which currently has an incredibly high occupancy level. Since we recently repossessed, we already have an important line of potential prospects to lease out the properties. It's important for us to—first of all, to, as we do every time we recover a building, an empty building, we put it in shape, we have it ready and then we lease it up.

We feel very confident that we're going to be able to lease it up, particularly in a very strong market. As you know, Tijuana has been seen an important increase in rent because of the lack of supply and the high demand and I think that because of that we're going to be able to capitalize with a potentially good payment, a good lease and a good leasing rate. One of the buildings was built in the last, I think, three years ago. It's almost brand new. The other one, it's a second-generation building, but we believe that the type of the building is going to be very well taken by the market and hopefully we can have some good news soon.

As to your question regarding sales. As you know, we have a strategy to keep on selling real estate assets as the part of our level three strategy. We are currently analyzing what are the best options to sell assets. Definitely, if there is an opportunity to sell and if time permits, we will analyze if Tijuana could be also a potential area of recycling capital where we're open to that. We have currently over 5 million square feet in Tijuana.

Regarding your second question on the data center in Queretaro. We sold this piece of land, and we believe that we're going to be able to keep on selling more land, particularly for projects where we normally would sell only land if it's not a developer. In this case, it's a data center, it's not part of our business model to do a build to suit projects for data centers, which have a high complexity and high specialization and they're normally tend to be in some cases 10 times larger investment per square foot. Therefore we believe that we can be capitalizing value to asset to land sales. It will not be a one-off transaction. We think that we can be repeating this business, but of course, it will have to be limited so that we still have enough land for future developments for projects that we want to accomplish which match our portfolio investment thesis, projects or spec buildings. Therefore, we will be limited at some point into how much land we might sell.

But definitely we're going to see more of this. We see a very high demand of data centers coming into Mexico. The trend was already before the pandemic, but clearly with the pandemic there's just so much need for technology infrastructure in the country, and definitely data centers are the ones that are playing a very important role in in that regard.

Vanessa Quiroga

Thank you, Lorenzo. If I can follow up there, it's very interesting. If you sell more land, you think it will likely be in Querétaro? Or are you considering your whole portfolio? Also, can you give us a range of that cash-on-cash return or any idea of value over appraisal that you are willing to do these kinds of asset recycling? I guess, some question linked to that is, if you will sell developed land or are you willing to sell raw land? Thanks.

Lorenzo Dominique Berho

I think it's important to determine that—remember that in Queretaro, we developed the Parque Queretaro which is a park of hundred hectares. We sold five hectares which is 5% of the total project which is a low number. Therefore, we can comfortably, we can be able to sell approximately 20% of that particular portfolio. We will still be in a good position to keep developing.

Regarding Queretaro, we think we have some land to develop and we think that margins for land sales could be in the, say, 50% to 100% marginal cost so in the end I think that this is very profitable. Nevertheless of course the land that we have, its main focus is to be developed so that we can keep expanding our portfolio and keep on getting attractive returns through development. Are we able to sell land in other places? I think that we will have to see project by project, but definitely in markets where we have a bit more land than expected and does not jeopardize our development projects, I think we might be open to sell land at margin.

Vanessa Quiroga

Excellent. Thank you very much, Lorenzo. Thank you all.

Operator

Our next question comes from the line of Carlos Peyrelongue with Bank of America. Please proceed with your questions.

Carlos Peyrelongue

Thank you. Thank you, Lorenzo, for the call. Two questions, if I may. First one related to the demand for new developments, if you could give us an idea of how demand is? Is it picking up? Is it stable? Also, more importantly, if you could give us a sense or some color as to where is the region or country that you've seen the demand coming from and what industry? That would be the first and the second, if you could also comment on the lease spreads that you're achieving on contracts that are being renewed in the third quarter, and this year? That will also be helpful. Thank you.

Lorenzo Dominique Berho

Carlos, thank you for being on the call. Regarding your last question on lease renewals. The data that we have for this year for renewals is that we have been able to meet at a spread of 2.5% from the in-place rent to renewal rate. This is a good number, it's way above inflation and remember that this is in U.S. dollars. We have been able to renew 1.8 million square feet throughout the year. We see this as a positive trend that the market is absorbing at higher rates and pretty much across the country.

Secondly, regarding on your first question on new development. It's interesting how the pipeline on the second quarter when the pandemic hit was completely put on hold and little by little the pipeline has been increasing from second quarter to third quarter and we believe that that particular pipeline will keep on increasing particularly for end of the year and a lot for 2021.

The only thing that we have also been seeing is that many, even that there's a large pipeline that is partly following the trend from nearshoring opportunities as well as the USMCA being signed, we have seen that some of the projects, or some of the companies have delayed their decisions to close transactions up to end of the year or even 2021. In our opinion, it's part of the pandemic uncertainty and the volatility that we are still seeing on the market. I think that we have to be patient. We think that 2021 could be a very strong year, particularly if it considers that many of the companies that want to come to Mexico, and if you think about near shoring trends, they don't make decisions overnight. They make an analysis, they make a study, it's a little bit longer process. We have seen that in the past and therefore we think that a process of six months to one year is something that might be might be very normal.

Regarding regions, clearly we see that, as I mentioned, Tijuana is currently one of the strongest markets, particularly in even new sectors that having—arriving to Tijuana, medical device industries, as well as electronics and also even e-commerce, and this is a similar situation to which are lower vacancy today.

After the Bajio region, it's interesting that the automotive sector has recovered at a very fast pace. We believe that it's related to the backlog of production that was generated from the top of when the pandemic started, and we have seen also a pickup in demand of car purchases in the U.S. However, there has been some adjustments in the automotive industry in terms of platforms, more focused towards SUV and less towards sedans. That will bring another opportunity since there will be probably more suppliers that will have to supply for this particular new platform. Currently, the automotive industry and the plants are over 80% occupancy levels or utilization levels, which is a very good number considering that they had to really stop at the beginning of the pandemic.

That's driving most of the demand in the Bajio, and as I mentioned, I think that e-commerce is really going to be an important player, not only in strong markets such as Mexico City, Guadalajara and Monterey, but also we might be seeing more e-commerce projects in other regions in Mexico. We recently closed a deal in Tijuana for an e-commerce company. We're pretty sure that there will be more latency in markets, for example, in the Bajio region or for markets like Puebla where there is also high demand and high demand for e-commerce products.

Carlos Peyrelongue

Perfect. Thank you, Lorenzo. I appreciate it.

Lorenzo Dominique Berho

Gracias, Carlos.

Operator

Our next question comes on the line of Pablo Ordonez with Itau. Please proceed with your question.

Pablo Ordonez

Thank you. Hi, good morning, Lorenzo and Fernanda. Congratulations on the results. My question is on the e-commerce front. Can you comment on the economics of Monterrey and Guadalajara? Are they in pesos, dollars? What is the maturity, and expected return on these type of projects, and also how do you describe the pipeline for this type of businesses in the coming quarters? Thank you.

Lorenzo Dominique Berho

Sure, absolutely. I think we have a very disciplined approach towards getting attractive and accretive returns from our development projects. We are still seeing returns in the 10.5% to even above 11% return on cost. That's something that we believe we might be still seeing in the upcoming future, as you have seen in our development pipeline. We currently have a very high pipeline, and 1.8 million square feet under development. Interestingly, 70% of it is leased. If you compare that number to last year's third quarter of 2019, we have half of the development pipeline and we had less than 10% of leased buildings. But we had a more aggressive strategy towards spec buildings.

Currently, our strategy is strongly based on pre-leased buildings and the sign of that is reflected in our pipeline. It's interesting, and it is still a mix of dollar and peso. As you know, we're very careful trying to maintain a high level of dollar leases, 85% of our portfolio is dollars, however, we have a bit of room to take, from time to time, with great companies, some pesos leases too, as long as we balance out.

But currently our return on costs for the development pipeline is at 10.6%. We believe it's a great return on costs, particularly considering that there is a very low risk as to the leasing periods and the absorption periods. We feel very comfortable and we hope to maintain these good returns for upcoming development projects.

Lastly is how careful we are at really getting great companies in our portfolio. We have learned from the past, we learned from some other deals, and I think that's making us be even more disciplined and not only lease because we need to lease it. We want to make lease agreements long term with great companies.

Pablo Ordonez

Thank you, Lorenzo, it's very clear. Finally, another question, do you think that this e-commerce opportunity is mainly focused on big metropolitan areas? Or should we also expect to see a lot of buildings in secondary cities like Queretano for instance?

Lorenzo Dominique Berho

Absolutely, I think that's the next trend that we're going to be seeing every time more, that e-commerce players do not want to be only Mexico City, they want to expand and they want to expand rapidly into other regions and other markets. I'm glad that we define as part of our level three strategy last year to have e-commerce as part of our portfolio and I'm really happy that we have been increasing our portfolio and we have extended our relationships with many of these e-commerce companies. I'm glad that Vesta is currently being considered as a very important player in the e-commerce sector for industrial space. Remember that we currently have the largest e-commerce project under development in Mexico. All other e-commerce players know that and that's why they want to know where else we can be helping in their growth strategy throughout the country. I'm glad that we're going to be able to do so.

Pablo Ordonez

Very clear. Thank you, Lorenzo.

Operator

Our next question comes from the line of Andre Mazini with Citigroup. Please proceed with your question.

Andre Mazini

Good morning, Lorenzo, Juan, Fernanda. This is on the contracts that were not renewed, like you mentioned three contracts not renewed. I Wanted to understand which types of tenants did not renew any pattern there, or if they were shrinking their operations or they moved to different locations, so any color you could give on that front? Also, on the other hand, on the development pipeline, the 70% pre-lease, which is pretty good. Definitely.

Also, to give similar questions, some color on the types of tenants there are preleasing. The bulk of the development pipeline is BTS, right? Which types of tenants? Is it driven by e-commerce instead or are you using shoring that's driving the demand for the development pipeline? Thank you.

Lorenzo Dominique Berho

Pleasure, Andre, welcome, thank you for being on the call. Regarding your second question on the development pipeline. In most of the cases (…) —I'm sorry, can you hear me well?

Andre Mazini

Yes.

Lorenzo Dominique Berho

In most of the cases, e-commerce operations is three of the cases. Well, actually, two of the cases. One of them is the second phase, Mercado Libre in Guadalajara, and the other one is now Monterey. The other one is a project for Pepsi in Puebla, so the consumer goods and the other ones are related the auto industry, recreational vehicles and the other one is related consumer good expansion. We're seeing a broad base of different industries.

I think, looking forward, we're still going to be seeing a diversified industry in our goal pipeline. Regarding the projects, that is nothing new. It's interesting that, first of all, contracts did go onto 3G, onto explorations, did pay on time until the last day. In one of the cases, they reduced their footprint, and their still in ours and we extended it a bit. This is one building that we currently which is a very strong market, and we feel confident that it will be leased.

The other two projects, one of them is related to logistics, it was a short term, a shorter period. The last one was a (inaudible) operation. If we think that our companies are just being cautious, they want to achieve, this is, in our opinion, this is a regular business cycle. We have to be open to whenever we receive buildings, let's have it ready as soon as possible so that we are able to leave them up and I am hopeful, I really think that we're going to be able to meet them up in attractive, in some cases, higher rent than they were previously indicated.

Andre Mazini

Okay, very clear. Thank you, team. Good morning.

Lorenzo Dominique Berho

Gracias.

Operator

Our next question comes from the line of Anton Mortenkotter with GBM. Please proceed with your questions.

Anton Mortenkotter

Hi, guys, thank you for taking my call. Regarding to the cash balance, do you plan to repay all your debt anytime soon? Or are you keeping it to maybe to acquire buildings, or something related to that, could you provide some color on that aspect? Thank you.

Lorenzo Dominique Berho

look, our cash balance. We've been comfortable with our cash balance. As you know, we increase our debt, pooling the emergency lines to be ready to confront any situation given the pandemic. We are not going to repay those lines. I need to have more data going, so companies continue to pay on time. That has been the case for the last—since the pandemic began. We will be cautious; I will keep the cash in house. I don't feel the need to repay the lines, the lines mature in a couple of years. They are relatively low-cost lines, incrementally they don't add much to my expenses. I think a cautious approach will be on order for the next, at least for the next quarter. We'll take it from there.

Anton Mortenkotter

Okay, guys, thank you. The in regard to make acquisitions or something like that. If the speculative sector do you see you doing something like that any time soon or also continued with the pipeline?

Juan Sottil

Look, as Lorenzo mentioned, I think that I would like to underline the capacity of Vesta is shifted strategy as the environment changes. Right now, the environment calls to be aggressive on re-lease buildings, from build to suits. We're going to continue to be cautious on spec development. I think that's prudent. You'll never go wrong to be prudent on a market like these ones. We will continue to be so, so that's what you can expect. Also, a lot underlined the strength of the return on cost that we're getting on businesses and that's very good. I think that Vesta is a flexible company, we have a flexible strategy, and we've continued to adapt to our environment, no?

Anton Mortenkotter

Okay, perfect. Thank you. Congrats on your results.

Operator

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

Francisco Suarez

Hello, good morning. Thanks for taking my question. Quick question, with the returns that you may expect from e-commerce buildings, do those—any difference in the returns that you may get out of those investments?

Secondly, on that regard, how competitive do your locations start in the cities of Monterrey and Guadalajara to precisely attract more business on e-commerce and on what type of buildings you think you may be attracting? Are we talking about fulfillment centers for the typical scale of those markets? Or are we talking about last mile or complimentary buildings? Thank you so much and congrats on the results.

Lorenzo Dominique Berho

Gracias, Francisco. Definitely, I think you might remember when we did the acquisition of the two plots of land in Guadalajara and Monterrey, this was part of our level three strategy which was to enter certain markets where we believe we could have an advantage, particularly because of the quality of the projects that we might develop. This was the case in both projects. We acquire land to cater the logistics sector, the e-commerce sector, and very rapidly in less than a year, we have been able to lease up even before development starts, we were able to lease up four e-commerce projects. E-commerce projects in this case are being adapted to, really, I would say generic logistic facilities, very much in line to the typical spec building we could develop. They normally require a good space for truck yards, for maneuvering areas, for a higher building. But that was already a standard in Vesta.

Basically, we have not really changed that much how we're trying to get to generic logistics facility. E-commerce, now having said that, we believe that the returns that we still have to focus are in line to what we have been doing in the past. For both Guadalajara and Monterrey, returns are in the 10.5% to 11%. I think that that's something that we want to keep the same discipline. We're learning from the sector. We're learning the different types of buildings that you just mentioned, last mile, sortation centers, fulfillment centers, and we need to understand which one will cater to each and in this case, it's Guadalajara, it is a fulfilment center. It is, as I mentioned, it is the largest project for e-commerce being developed in Mexico for the moment, it's very impressive. It even has an expansion area. These are definitely a long-term investment, and these are going to be strategic buildings for our clients in the e-commerce sector.

Francisco Suarez

Thank you for that wonderful answer. That means that there are no more—there's not much of TI's involved in this project, isn't it? That is perhaps one of the factors explain why returns are so similar with other typical person that you engage with.

Lorenzo Dominique Berho

You're correct, we regularly—I think in both cases it's mostly the generic part of the building with, I will say, no TI's let's say tenant improvement, the basic tenant improvement. Very importantly, these buildings, the clients, per se, are doing huge investments inside of the facility because they are going to put a lot of automation inside of the building, a lot of technology, and therefore, I think it's a combination of what we develop as a shell building, and what they are investing in, in not only TI's but also in part of their operations. Yes, if you look at the numbers per square foot, they're pretty much in line to a generic logistics facility.

Francisco Suarez

All right, thanks so much and congrats again. Take care.

Lorenzo Dominique Berho

Thank you. I'll be glad next year at some point if the sanitary restrictions for me to invite you to the projects in Guadalajara and Monterrey. They're really fascinating projects and I'm sure that this is going to be a part of a great portfolio that we're developing of industrial parks in different markets.

Operator

As a reminder, it's star, one to ask a question.

Our next question comes from the line of Froylan Mendez with JP Morgan. Please proceed with your question.

Froylan Mendez

Hello, everyone. Thank you for taking my question. Lorenzo, were you willing to do the big bets on land acquisitions? What does this imply in terms of annual investment?

Secondly, is there a big difference in the returns that you are able to extract given where land prices are today, versus what you were used to in the past? Thank you.

Lorenzo Dominique Berho

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

Land acquisitions are clearly part of the strategy of the Company. Nevertheless, I think that land acquisitions, you have to do them on time so that you can really capture on the opportunities. I think that currently that is the opportunity that we're discussing, it's because we were able to identify where we wanted to buy land, we were able to negotiate buy the land and put infrastructure in place so that we can be able to be awarded on this project, which as you might know, there's high competition for these types of buildings. I think that, for us, being able to buy the land back in time is giving us a great competitive advantage.

As of today, we feel comfortable with the amount of land that we currently hold in our portfolio. We currently have, let's say, $130 million of land we can keep expanding in markets. We have enough land to keep on developing in markets such as Queretaro, we still have land for Guadalajara, we still have land even for Tijuana for hopefully we might start another building soon because how hot the market is. I think that we were able to buy enough land in many of these markets. There's some other areas such as Toluca where we have not been able to buy land. In some cases, it's because land prices are not there where we think that we can achieve attractive returns.

It's important to be in certain markets. We believe that it's very important to be disciplined on the returns we might be looking at. We think that being able to develop a double-digit return on costs is highly profitable and highly accretive for our shareholders. As long as we find markets where we can be doing so, we're going to be able to keep on developing. We want to be very cautious in certain last mile operations where land prices are way too high, returns are low and even in some cases, the listings are in pesos. Not all of the projects might, even that they might sound interesting, not add value for our shareholder base. We're very prudent from where we invest our money and that's why we're very careful and very selective on how we identify projects that can be accretive for the Company, no?

Froylan Mendez

Very clear, Lorenzo. Thank you very much.

Lorenzo Dominique Berho

Gracias.

Operator

There are no further questions in the queue. I'd like to hand the call back to Mr. Berho for closing remarks.

Lorenzo Dominique Berho

Thank you, Operator.

Our ability to continue executing our level three strategy and remain a sector benchmark rests with Vesta's many employees across Mexico. I'm proud of my colleagues' continued perseverance, as well as their commitment to Vesta, our clients and each other during these periods of great change and uncertainty. That spirit was clearly evident to me during the Vesta challenge earlier in the month. And Although our cycling race was conducted virtually this year, we raised over $65,000 for social investment projects, in partnership with 11 other companies that participated in the event. That spirit, this perseverance and commitment also gives me confidence in our ability as a company to lead from a position of strength and to act with agility and discipline for the benefit of Vesta's clients, our fellow shareholders and other stakeholders. We remain vigilant to potential risks, but also to opportunities, keeping our eyes on the future, on our 2024 goals.

Thank you again for participating in our call today. Until our next one, please stay safe.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.