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# Vesta Industrial Real Estate

## First Quarter 2022 Results Conference Call

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## C O R P O R A T E P A R T I C I P A N T S

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**Lorenzo Dominique Berho,** *Chief Executive Officer*

**Juan Sottil,** *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Nikolaj Lippmann,** *Morgan Stanley*

**Rodolfo Ramos,** *Bradesco BBI*

**Adrian Huerta,** *J.P. Morgan*

**Durrell Galati,** *Goldman Sachs*

**Juana Machado,** *GBM*

**Mariana Cruz,** *BTG*

**Javier Gao,** *GBM*

**Vanessa Quiroga,** *Credit Suisse*

**Francisco Suarez,** *Scotiabank*

## P R E S E N T A T I O N

**Operator**

Welcome to the Vesta First Quarter 2022 Results Conference Call.

As a reminder, this conference is being recorded.

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

**Maria Fernanda Bettinger**

Thank you, Rob and everyone, for joining today's call.

I would like to advise listeners that comments made on today's call may reflect forward-looking statements that are related to Vesta's future activity and results and other financial projections. While Management believes that its assumptions, expectations and projections are reasonable in the view of the current available information, you are cautioned not to place undue reliance on these forward-looking statements. The Company's actual results may differ materially from those discussed in this call. Vesta undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events or other factors. Investors are urged to carefully review the various disclosures made by Vesta, including the risks and other information and disclosure in the Company's filings with the Mexican Stock Exchange.

We issued our earnings press release after market close yesterday. It's also available within the Investors section of Vesta's website.

Joining us on today's call are Lorenzo Dominique Berho, Chief Executive Officer, and Juan Sottil, Chief Financial Officer.

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

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

**Lorenzo Dominique Berho**

Gracias, Fernanda, and thank you all for being on today's call.

I'll begin with a brief review on our first quarter results and we'll address the market environment. Juan will follow me with more details, and we'll then open it up for your questions.

Turning to the market and current activity which is driving our strong performance. Mexico has always been one of the world's industrial real estate leaders and benefits from, among other things, a skilled workforce and close proximity to the U.S. These important differentiators combined with rising geopolitical tensions, related tariffs, supply chain disruptions and shortages have caused manufacturers and suppliers to shorten their supply chains and bring manufacturing and safety stock closer to home. Major brands and retailers across the U.S. and Europe are also focused on reshoring and nearshoring their supply chains amid the ongoing global supply chain crisis, geopolitical uncertainties. This has accelerated the pressing need for supply chains to become more original versus the world's prior global dynamic. We therefore believe these are important signs that globalization as we know it may be coming to its end.

Vesta has the largest development growth pipeline among institutional developers in Mexico today. We're the only publicly traded company in position to take advantage of this current development environment, as we are well capitalized and well positioned in premier land locations and experienced in-house development team.

During the first quarter, our construction pipeline reached 2.7 million square feet, totaling 12 buildings in markets, such as Tijuana, Monterrey, Juarez, Guadalajara and Queretaro, with an average return on cost of 9.9%, despite recent increases in construction costs.

We believe Vesta's development deals are substantially higher than current market cap rates, resulting in substantial value creation to our shareholders. Some of these new buildings are part of our new Vesta Park Mega Region in Tijuana, which we announced on Monday, which together with the recent finalized and delivered building in Alamar will be an investment of $100 million and 1.5 million square feet, positioning

Vesta as the leader in the hottest industrial market at the moment with 0% vacancy, incredible demand for Class A industrial and logistics space, and high barriers of entry.

It's important to note that all buildings within our current development pipeline will be LEED certified as part of Vesta's ESG strategy. We also increased our presence within target markets, acquiring land in Monterrey and Ciudad Juarez. In Ciudad Juarez, Vesta acquired land to develop 1.3 million square feet for its new Vesta Park, Juarez Oriente, on prime real estate located in close proximity to the commercial border crossing between Ciudad Juarez and El Paso. While in Monterrey, we acquired additional land for the Vesta Park Monterrey, Apodaca, in an urban infill location securing growth potential in a robust metro market. This investment ensures Vesta will be extremely well positioned to capture increasing sector opportunities in the years ahead. Amid record demand, rent growth and investment activity, industrial real estate will remain strong throughout 2022 on the heels of record transactions volume and rent growth amid extremely tight supply and high demand.

E-commerce expansion will fuel the need for more warehouse space, as will the growing economic population migration and the desire for safety stock onshore. Today, industrial real estate is leased as quickly as it is available, and there is little signs of slowing, particularly in those markets where Vesta has a presence. Vacancy rates continue to drop during the first quarter to as low as 0% vacancy in Juarez and Tijuana. E-commerce and third-party logistics tenants led the demand. Vesta's continued ramp-up in other leasing activities, which for the first quarter reached more than 2 million square feet with 1.3 million square feet in renewals and more than 821,000 square feet in new contracts, with companies in the dynamic expanding industries we're targeting, directly aligned with our Level 3 strategy, notably a new lease with Amazon which we believe is the start of a long and expanding relationship with a great company.

Today's tight market environment enables Vesta to improve our lease contract renewal terms during the first quarter. This will resonate in future quarters' results. Rents are rising due to demand. This also enables Vesta to successfully transfer the impact on increased inflation as part of the lease agreements. During the first quarter, we generated a 9.4% year-on-year revenue increase largely driven by new revenue generating contracts during the first quarter and the adjustment of inflation in our current contracts. Importantly, Vesta's per share net asset value increased just under 8.5% to 2.62% for the quarter, which is further validation of our Level 3 strategy's success in driving shareholder value.

Looking to the year ahead, we believe our clients' top concern will be rising transportation costs and supply chain delays. The cost to ship goods via ocean freight and domestic freight have increased considerably. While the increases may ease as 2022 unfolds, transportation costs will likely remain elevated for the foreseeable future. Manufacturers are still not at full capacity amid pandemic related shutdowns, and it will likely take them until 2023 to fully recover. Further, robust investor appetite for industrial assets will continue to drive up prices and values and further compress cap rates across markets and product types in 2022. Vesta is therefore uniquely positioned to capture this exciting market dynamic.

With that, let me now turn it over to Juan.

**Juan Sottil**

Thank you, Lorenzo, and good day to everyone.

Let me begin with a summary of our first quarter results.

Starting with our top line, as Loren commented, total revenue increased 9.4% to $42 million in the first quarter of 2022. It is mainly explained by an increase of $4.2 million from new revenue generating contracts, an increase of $2.6 million related to inflationary adjustments on rented property during the quarter, and was partially offset by a $2.1 million decrease related to the property sold at the end of 2021. In terms of currency mix, 82.6% of Vesta's first quarter revenue was denominated in U.S. dollars, decreasing from 84.6% recorded last year in the comparable period.

Turning to our cost structure, total operating cost reached $2.1 million in the first quarter of 2022 from $1.5 million in the first quarter of 2021. This was mainly due to an increase in other property related expenses, which was impacted by a tough comparison as the prior-year's quarter benefited from a decrease in the allowance for bad debt accounts, which was partially offset by these expenses. We also recorded higher first quarter 2022 maintenance expenses due to the increase in the number of parts between the portfolio.

Net operating income increased 8.5% to $40.4 million, driven by higher rental revenues, while the margin contracted 76 basis points to 96.2, mainly due to higher costs from occupied properties. While administrative expenses were up 23.9%, this was mainly explained by an increase in employee benefits resulting from a one-time expense of approximately $420,000 related to employees who retired during the first quarter of 2022.

In addition, the increase in employee benefits for the quarter was due to the creation of a pension fund requirement reserve starting this year on the first quarter to provision for requirement related expenses between our results moving forward, with a quarterly expense amounting to approximately $92,000 per quarter. Excluding these two impacts, as well as a $100,000 adjustment to the Company's short-term bonds, the increase in administrative expenses would have been 9% year-on-year, mainly due to the impact of inflation and an increase in the Company's long-term compensation plan.

In turn, EBITDA reached $35.4 million in the first quarter of this year, a 5.9% increase compared to the prior-year's quarter, while the margin contracted 236 basis points to 84.3% as compared to 87.1% for the same quarter of last year.

Moving down the P&L, total other income reached $27.4 million compared to an expense of $9.9 million in the first quarter of 2021. This increase was mainly due to a higher revaluation gain on investment properties. As a result, we closed the quarter with a pre-tax income of $60.8 million compared to $21.8 million in the first quarter of 2021, while the pre-tax FFO increased 11.7% to $25 million and NAV per share increased 8.4% to $2.62 per share from $2.42 per share in the same quarter of last year.

Now turning to our Capex and portfolio composition. We invested $82 million during the quarter, mainly in the construction of new buildings in the Northern and Bajio regions. At the end of the first quarter, the total value of the portfolio was $2.38 billion, comprised of 190 high-quality industrial assets with a total GLA of 31.4 million square feet and with 83% of total income denominated in dollars.

Year-over-year, our stabilized portfolio remained relatively static at 31.1 million square feet, with occupancy increasing to 94.3%, from 90.6% in the first quarter of last year. We ended the quarter with a land bank of 44 million square feet, up 12.9% sequentially due to the land acquisition in Monterrey and Ciudad Juarez.

Turning to our balance sheet, we closed the quarter with a total debt of $932 million and our cash position stood at $343 million. Net debt to EBITDA was 4.3 times and our loan to value ratio was 34%. In addition, on April 13, subsequent to quarter's end, we paid a cash dividend for the first quarter of 2022 equivalent to 0.41 peso cents per ordinary shares.

Finally, the capital raising initiatives executed last year, we are very well positioned to capture thriving sector dynamics in the years ahead, as Loren has explained. We have a strong balance sheet that enable us to strategically deploy capital while maintaining an efficient capital structure to continue to deliver strong shareholder value.

With that, we conclude our first quarter 2022 review.

Operator, please open the floor to questions.

**Operator**

Thank you. Our first question comes from Nikolaj Lippmann with Morgan Stanley. Please proceed with your question.

**Nikolaj Lippmann**

Hi, thank you very much for the call and for taking my question.

When we look at the market in Mexico, we can see clearly an emerging manufacturing ecosystem, particularly in the north, and you're clearly investing to address that. Could we talk a little bit about your vision for manufacturing in Mexico over the next five years or so, and also some of the risks that you see to both the aerospace and the Bajio region that have clearly been lacking in recent years? How are you thinking about that from sort of an asset allocation and portfolio exposure perspective? Thank you very much.

**Lorenzo Dominique Berho**

Thank you Nikolaj. Thanks for being on today's call.

We definitely envision a very privileged position for the Mexican, the manufacturing sector. You were asking regarding the next five years, and looking backwards, we believe Mexico is at its best when it comes to being a manufacturing platform, a global manufacturing platform. Why are we being on our best? I think that the recent cancellation of the energy reform is a signal on that and I think that the validation on the USMCA, or let's say the second part of NAFTA, is really putting all of the manufacturing investment that has been done in Mexico in the last 20 years in its best position.

And that's why we're seeing a lot of new investments from existing clients in different production lines and business cases being raised and business lines coming into Mexico instead of going to Asia, Eastern Europe, and actually instead of going to the U.S. North America is playing a more important role as a region and Mexico is the most important component when it comes to manufacturing for North America. And that's why we believe that it's not only about 2022 but we definitely see a very positive foreseeable future, and I think that the commitments from many of the companies that we're signing leases with is a signal of that.

You're asking regarding the aerospace sector and the Bajio region. Well, I had the opportunity to meet with the CEO of Bombardier last month in Queretaro, who is an important player in the aerospace sector, and they are firmly committing—and they're firm in their commitment towards Mexico. They're very happy with what has happened in the region throughout these last 15 years, and they are looking forward to keep investing in this particular market, which, by the way, if you analyze what many companies in the aerospace sector have done in other countries and other regions globally, many companies have actually closed operations. And that's exactly not the case for Mexico, as it has a greater labor force and it has a good business environment, and aerospace sector will be thriving as well as other sectors in Mexico related to nearshoring and related to integration of supply chains within North America.

The Bajio region we're seeing vacancy rates coming down. We actually are starting for the first time in four years two new buildings, two new spec buildings in the Vesta Park Queretaro. As you will see in our numbers, we are very active in the region with the low vacancy for the moment. And that's why we decided to hit the gas pedal again in a market that we know well, that companies are looking for expansions, and we think that we're going to keep on seeing great high-credit rating companies investing in the region in the foreseeable future. The good thing about this region is that it's not dependent on only one market and one sector, but it's multi—it's diverse in the sectors and diverse in industries, and that's what we believe we're going to be taking advantage of.

**Nikolaj Lippmann**

Thank you. Just a follow-up question if I may. Are you starting—can you perhaps talk a little bit about the sectors that you see, like new ecosystems for manufacturing, new sectors that appear to be moving to Mexico, in particular, I would imagine to the north? And also if you were starting to maybe limit your exposure to the aerospace, to auto parts, anything that has to do with the combustible engine from sort of a portfolio perspective? Thanks.

**Lorenzo Dominique Berho**

Absolutely. So, clearly, the sectors that are thriving the most are the electronic sector for different markets. The medical device sector. Furniture, which is interesting because it's kind of bulky and has to be—and is shipping its, I would say, its footprint from too much exposure in Asia and now more towards being closer to the final market in the U.S.

Definitely, the electric vehicles are starting to thrive in Mexico and we have a strong pipeline in different markets for the electric vehicle sector. Mexico is well positioned, and there's several investments in large amounts and in large sizes that are looking to more space in Mexico. And it's not only in the north part of Mexico, but we're starting to see that again also in the Bajio region. Many of them comes from existing clients with existing companies in Mexico that are looking for expansions. It's not the case of a tenant from Vesta, but there has been recently large amounts in the north part of Mexico, which is exactly a supplier, a Tier 1 supplier, in the auto sector doing a multi hundred million dollar investment in the north part of Mexico just to dedicate to its powertrain and electronic vehicle division. That's a good example and we're going to keep on seeing more of those.

**Nikolaj Lippmann**

Got it. Thank you very much.

**Operator**

Our next question is from Rodolfo Ramos with Bradesco. Please proceed with your question.

**Rodolfo Ramos**

Thank you. Thanks for taking my question. It's a little bit of a follow-up.

If you can elaborate a little bit more on your expectations for rental growth in the remainder of the year, and if you can make a special emphasis on the Bajio region. And also given this rental price growth that you are expecting, should we expect any sort of upside to your guidance that you issued earlier this year in terms of revenue growth and EBITDA margin? That's my first question.

The second question is whether you've seen input cost prices moderate so far, and how does this affect the profitability that you see in your developments? Are you exposed in that sense to fluctuations, or you're covered there? I just wanted to understand that. Thanks again.

**Lorenzo Dominique Berho**

Regarding guidance, we're not revising guidance for the moment. Clearly, we'll be—we're way ahead of our guidance in the first quarter. But we're not giving any revised guidance for the moment, and we'll see in the next quarters how it comes.

However, and I think that you are touching on very important elements, which is the volatility and inflation in construction costs and other related items. Definitely, we're seeing lots of volatility coming due from the pandemic, supply chain disruptions and now related also to the war in Ukraine. And that's why I think that Vesta is currently in a strong position where we already own land, which is putting us in a fantastic position to capture opportunities.

We have a strong development team that has been able to secure development projects with the best construction companies, and that's why we feel comfortable with the approach on development, let's say partnering with good construction companies in different markets where we have a—it's regularly of this development—our development approach is based on lump sums and its maximum price. So it's GMAX and we fix it at total cost, so we feel comfortable in that regard. And that's why we also have been very active in the construction side and analyzing the best construction customer to keep on capitalizing on the greater opportunities.

And then on the rent side, we think that rents are definitely spiking all over Mexico. A bit of a reflection of increased construction cost, increased land prices and increased—an increase in inflation which adjusts to the lease agreement. So replacement costs is increasing, but also rents are increasing, which is taking us to get attractive return on cost, as we mentioned throughout the call: 9.9% return on cost is incredibly attractive, and development still at competitive pricing we think we can be still very competitive to find value for our shareholders. Bear in mind that the current environment and current market dynamics are showing acquisition pricing above $100 per square foot in several transactions recently by other institutional players. I think this is a strong signal that replacement costs are increasing in Mexico. And that's why, for us, as it's important to have a good in-house development team capable to securing good construction cost and being able to secure attractive rents and deals.

On the nearshoring question, and I think that good examples are just some of the leases that we recently signed. In the Bajio region, for example, we signed a lease with Eaton, which is actually our second lease with Eaton, and this time it's San Luis Potosi. They're clearly expanding operations and they are seeing a very bright future when it comes to manufacturing in Mexico. Same thing for Daimler, in Paluca recently. Same thing for Dräxlmaier, who is in the automotive harnessing sector for the auto industry. Continental, another other German company, which recently expanded with us in the Bajio in Silao. And I think these are great examples of companies expanding in different markets, in Guanajuato, San Miguel de Allende, San Luis Potosi, Queretaro, and we think that we're going to keep on seeing more of this in the upcoming future too.

**Rodolfo Ramos**

Thank you. And if I may squeeze here a follow-up on your comments about the energy reform and still seeing a lot of good momentum in terms of USMCA. With the Supreme Court decision and the—have you seen—how have your conversations with clients evolved, particularly regarding renewables?

Are you having to invest more on energy infrastructure? How are you approaching this with focusing on new clients? Thank you.

**Lorenzo Dominique Berho**

That's a good question. So, I mean, getting a little bit out of the politics, I will probably focus on our operations. As you know, when we acquire land, we put all the infrastructure in place so that we can have our clients secure their operations. Part of that investment that we do, part of it is also related to energy and power and that sort of infrastructure so that when clients come into our buildings and to our Vesta Parks, they already—they have a—it's a key-ready building, and they can anticipate for their production lines and their commitment with their clients.

We are really—of course, we're very glad about the outcome from the Supreme Court—I'm sorry, from the Congress, sorry, and it's going to be very helpful for our clients when it comes to making commitments in Mexico. I think that in the end more than securing only the energy, and many of the names that I just mentioned, many of our clients, they all have very aggressive plans to a decarbonized world, and they have a sustainability approach towards their investments not only in Mexico but globally.

I think that that's a good way so we can align interest with our clients. Vesta, as you know, is certifying all of our new buildings and we try to also analyze alternative energy resources coming from renewable energy, for example. And I think it's a matter of being more efficient, being cost competitive, that's very important, and, of course, ensure that their sustainability objectives as well as Vesta's sustainability objectives are well met and are in cutting-edge standards, and I think that's what we will be focusing on in the upcoming future.

**Rodolfo Ramos**

Thank you.

**Operator**

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

**Adrian Huerta**

Thank you. Hi, Loren. My congrats on the results.

My question has to do with the land that you added during the quarter. Pretty big two pieces of land in Juarez and Monterrey. What is the status of these two big pieces of land in terms of availability of infrastructure, permits, etc.? Basically, wanted to understand how quickly you can start construction in these new lands and what level of annual absorption are you expecting on each of these two plots.

**Lorenzo Dominique Berho**

Absolutely. Let me start by Monterrey, which you know well.

Monterrey, the acquisition on the land that we did, it's an adjacent land to the current Vesta Park Apodaca that we have already under development. So this secures our opportunity to keep expanding in a location where we actually adding value. This is in Apodaca, very close to Guadalupe, and this is probably one of the few urban infill opportunities that we could find in Monterrey. Our approach in markets like Monterrey has been, of course, developing a good quality and high standards industrial park, a Vesta Park standard, but more importantly is how we can capture the opportunities for the e-commerce sector through urban infills, through last mile logistics opportunities, and we have close logistics e-commerce operations in Monterrey, and there's some in our pipeline that are coming along. Also, light manufacturing. I think in that particular location, we feel that we're going to have the right infrastructure so that our clients in e-commerce or in light manufacturing can start operations soon. So we have 500,000 square feet under development right now, and this will be finished at some point by year end, these two particular buildings in Monterrey.

And Juarez, we acquired land, because we ran out of land in Juarez. It was very important for us to find a good location and this is a fantastic location, as mentioned, next to the border crossing in Zaragoza. For those of you who have been in Tijuana, also this reminds me a lot of the Otay position, which is a premier location. I think that this is going to be a location that is going to be very well taken by different sectors that need to export and to be close to the border and are close to the workforce, to the labor force, to secure the labor force, and it's located within the most important—it's not highway…it's a road towards the access to the border crossing. So, it's a fantastic location with good infrastructure attributes.

**Adrian Huerta**

(Multiple speakers).

**Lorenzo Dominique Berho**

We will start construction on this site this year, probably by third quarter this year, and we will develop about a million square feet in this Vesta Park.

**Adrian Huerta**

Thank you, Loren.

**Lorenzo Dominique Berho**

Thank you.

**Operator**

Our next question is from Durrell Galati with Goldman Sachs. Please proceed with your question.

**Durrell Galati**

Good afternoon. Thank you for taking my questions.

I wanted to get a sense of where you see Vesta going forward in terms of regional exposure, because today you're about 30% north by GLA, 50% in the Bajio and 20% in the center. And if you fully develop your land bank, if you fully develop your pipeline, you'd be about the same. It wouldn't really change that much. But it seems from the conversation we're having today that there is a desire to grow more in the Northern region.

So, what I wanted to get a sense of, is there a regional distribution today that you're thinking makes sense? And what does that mean vis-à-vis your current land bank today?

Would it mean that you'd have to buy more in the north or would you do some divestments, perhaps, of existing properties? So it's a more broad-based question, but just wanted to understand your strategic imperative in terms of regional distribution. Thank you.

**Lorenzo Dominique Berho**

Great. Thank you, Durrell, very much for the question and for being here. I'll make a few quick announcements. We're going to have an Investor Day on June 7 in New York, so hopefully we can see you all in our Investor Day, because part of the agenda is clearly to present the current strategy of Vesta. Which, actually, as you may know, we currently are following the strategy that we presented in 2019, which was based on the Level 3 strategy, which is based on certain markets that we want to maintain leadership, markets that we know well, Bajio, Central Mexico, Tijuana and Ciudad Juarez.

Keeping the leadership is incredibly important. We need to secure land reserves in those markets, but also part of our strategy was to enter the metro areas where we're not at, which was Guadalaguchi, Guadalajara, Monterrey and Mexico City. So, part of our strong focus in 2019 has been acquiring land and developing in these markets. I think that we have been quite successful in securing the land. We just discussed about Monterrey being the third plot of land that we buy in just this last couple of years. We have also acquired a couple of—two plots of land in Guadalajara. But more importantly, we have been incredibly successful to close some of the most important transactions when it comes to e-commerce, logistics and also some light manufacturing in these metro areas.

We're going to keep on focusing in the existing markets as well as the new markets. And I think that looking at Vesta some years from now, we will absolutely have a more diverse portfolio where we are implementing or we're incorporating a large position in e-commerce, which is largely in Mexico and we are well positioned with great companies, such as Amazon, such as Mercado Libre, such as Coppel, among others third-party logistics. And also the most important, well let's say the largest, metro areas that we have been also successful closing transactions.

All in all, I think that we're going to have a well balanced portfolio in terms of sectors and a very well balanced portfolio when it comes to regions, which, by the way, in many of the markets we have already secured land and we're going to have a good position to develop in the near future, which again, more details will come in our Investor Day in New York in June.

**Durrell Galati**

Okay, thank you. Looking forward to it.

**Operator**

Our next question comes from Juana Machado with GBM. Please proceed with your question.

**Juana Machado**

Thank you. Thank you for the call.

Earlier you mentioned San Luis Potosi, a new client entering San Luis Potosi. I was wondering if he had taken place in the vacant property you had in San Luis. That would be my first question.

**Lorenzo Dominique Berho**

Sure. As you know, the Bajio region and San Luis Potosi was pretty slow in the last couple of years. We're starting to see a shift in these regions and this markets like San Luis, which have a strong focus towards the auto industry. Yes, this was a building that was vacated. This was a building that was leased for more than 20 years from existing clients in the auto remanufacturing business, and this is located inside of one of the most successful parks in San Luis Potosi, Tres Naciones, a nature park, and exactly this vacant building was taken by a current user in the park.

**Juana Machado**

Great. Thanks. My next one would be about the new property you recently finished developing in Monterrey. You said that you didn't have any clients yet. How is that doing? Do you have any prospects for the property?

**Lorenzo Dominique Berho**

Yes, we actually pre-leased half of the building for our newer industries, and I think that's part of the report already. So we were able to lease it before finishing. And also, we have—we're just about—we're closing a transaction with another important client. So, basically, today, when we finalized that project in Monterrey and Guadalupe, this is not, let's say the former project, 32% is already leased, and we have a potential client already closing for the rest of the building.

The dynamic in Monterrey is amazing. There's a lot of the construction; however, there's huge demand in the market, and many of the companies are requiring larger spaces. And that's why—and that takes me probably to just emphasize on our desire to anticipate to the demand and to develop in these dynamic markets, and that's why we started a second building in our new Apodaca project which is going to be finished by the end of the year. And hopefully, throughout this year, we can also pre-lease that new one—in some of that space before ending the construction.

**Juana Machado**

Great. Thanks. Just one final question. It is regarding your recent lease with Amazon. I was wondering if you could give us some color on that.

**Lorenzo Dominique Berho**

Absolutely. This is a last mile operation, and what I can tell you is that we have been working hard with Amazon to finalize all of the requirements. And more than talking about one particular project, I think it is important to understand that there might be more coming on with Amazon. They are growing throughout Mexico. They have a e-commerce history in different markets, and the good thing about Vesta is that we are particularly well positioned in different markets and different regions. So when it comes to large clients that need—that have a strategy in multi cities, they kind of have a one-stop shop with developers like ours. So it was very important for us to do this transaction. This was a building that we had available in Paluca, with the Vesta Park Paluca. Some of you may know it. It's 80,000 square feet approximately. So there will be more coming in other markets too. So we're excited about this first transaction.

**Juana Machado**

Great. Thanks for the color, and congratulations on the report.

**Lorenzo Dominique Berho**

Mucho gracias.

**Operator**

Our next question is from Mariana Cruz with BTG. Please proceed with your question.

**Mariana Cruz**

Hi, all. Thank you very much for taking my question.

Can you please give us color on what are your plans for your overall portfolio in terms of LEED certifications for the year and also in the long term in terms of certification. Thank you.

**Maria Fernanda Bettinger**

Mariana, can you repeat your question?

**Lorenzo Dominique Berho**

You're breaking up a little bit, Mariana.

**Mariana Cruz**

Yes, sure. I was asking about your plans for your overall portfolio in terms of LEED certifications. What are your plans for this year and what are your plans in the long term.

**Lorenzo Dominique Berho**

Okay. I guess your question is based on LEED certifications in the short term and long term. Is that correct?

**Mariana Cruz**

Yes, exactly. Your plans for the LEED certifications for the year.

**Lorenzo Dominique Berho**

Okay. Thank you. So we are—all of the (inaudible – 0:44:19) we have on the construction will be LEED certified in different categories. Some of them gold. Some of them silver. Additionally, we are currently certifying other buildings that we have, that we developed recently, and other buildings that we—every time that we have a Capex opportunity on another building, we analyze the alternative to have also LEED certifications on the existing portfolio. So, as you know, part of our objectives for the Level 3 strategy is to have approximately 20% of our GLA already with LEED certification, that's in the short term. It's very much in line to what we have established in our sustainability bond, which was issued last year. However, we are really encouraging our development team as well as asset management team to be aggressive on these numbers.

This is something that we are really on top of. We think that we are already a standard in the sector. We believe that we can even grow beyond that. So we're happy with the approach. We're happy with the evolution of the sector and we're glad that things that we have done in the past, with the things that we have learned, are also very well received by investors nowadays.

**Mariana Cruz**

Perfect. Thank you very much for the question.

**Operator**

Our next question comes from Javier Gao with GBM. Please proceed with your question.

**Javier Gao**

Hi, everyone. Thank you for taking my questions. Congratulations on the results.

I have two questions. The first one is related to the capacity of development that you guys have at Vesta. We've seen an increase in development. Basically, you doubled in the last year. If I'm not mistaken, this might be record levels of development. So I was wondering, is the—what are the capacities of the company other than financial, in terms of operations, in terms of people? Are you able to double again, or is this maximum levels of capacity?

**Lorenzo Dominique Berho**

Very good question. Thank you, Javier.

I think that this is something that differentiates Vesta from other developers and other vehicles, investment vehicles. Definitely I think that Vesta has been able to develop for many years. We have experience in the sector, and we have experience to develop even at a larger scale. Sometimes, let's say, our main challenge has been the volume of development—of absorption of the markets, but it's not on the development side and in our ability. I think that our in-house team is able to develop what we are doing and even more products.

Looking at a little bit more into the details. Just right now, we're doing four buildings in Juárez Oriente Park in Tijuana, which is helpful because we can focus—it's really one project that we are developing. We have different project managers which are external also. So we have other—have general contractors, we have a bidding process on each of the buildings, so we have different construction companies. These are companies that we believe have greater characteristics in order to try to handle these type of projects. So we have good discipline in our risk management analysis into how we develop one of those projects.

Jumping into Monterrey, it's a little bit the same situation, where we have one project and we have different general contractors in that particular project. But we do not develop internally—I mean, we don't have—construct internally. We do it with third parties that are the most—the best suitable for the projects, and we have a lead position internally to oversee some of these projects.

Queretaro is inside of the Vesta Park that probably you have already been there, Vesta Park Queretaro. We did start development for a couple of years just because there was a slowdown in the market. But now we are seeing strong demand and our team is focused. And actually our office is right there, which is helping us to keep a good eye on the development process.

In Guadalajara, we have been developing since we started three years ago, and we just started our fourth building just because of how good the demand is in this market. We leased the first building to Mercado Libre. We have then did two more expansions. We did the Oleili spec to suit. We're currently developing the third spec to suit which actually is very—we have a good balance in terms of leasing. And that's why we decided to start a new building in Guadalajara.

We have been active in Guadalajara and I think that we are good at mitigating risk. I think that in the end it's core markets that we know well. We have developed recently, we have good experience and our development team is doing a tremendous job using technology which we have enabled in the last years, and I think that one of the strengths of Vesta is our ability to manage risk on developments, on construction, and we actually think that we can handle even more construction, which probably will come over sooner rather than later too.

**Javier Gao**

Yes, that's great to hear, Lorenzo. Thank you. And coming back to one of your previous comments. As you mentioned, some of the transactions we've seen are around, as you mentioned, $100 square feet. You're building at around $55. That's the number I get. So, right now, does it make more sense for you to seek monetization of assets or to fuel that development that you guys are seeing, or are you comfortable with the level of operations that you guys have currently going on under your management?

**Lorenzo Dominique Berho**

If I get your question right, I think that in terms of monetization….

**Javier Gao**

If I could rephrase maybe, Lorenzo.

**Lorenzo Dominique Berho**

Yes, thank you.

**Javier Gao**

What I'm seeing is there is appetite in the market for these kind of properties, and they're paying maybe 100% above of what the actual cost that you guys are—that you guys have for building this. So looking at those returns, does it make sense to hold properties or maybe seek monetization given the environment? I just want to understand how are you guys looking at this.

**Lorenzo Dominique Berho**

Okay. Perfect. Well, absolutely, Javier. It's a very, very good question.

I think that Vesta is a player for the long term. Vesta invests and develops to hold. That's the main objective of Vesta: to create the best portfolio in terms of quality of assets, in terms of quality of buildings and in terms of the type of tenants that we want to have in our portfolio.

Every now and then we're going to keep on monetizing in some of our assets; but in the end, our main objective is try to have a long-term hold that creates value through the arbitrage of developing at a high yield and maintaining good clients in the long term, and knowing that there is an important value creation over the long term. Generating predictable cash flows, quality of income, and that here is going to be the main strategy of the Company. Part of the Level 3 strategy was to recycle capital. We think that we're going to keep on recycling capital every now and then. But more importantly I think is that the overall strategy of Vesta is to have a portfolio where investors like the diversity, like the sectors, like the markets, like the tenants, and like to hold for the long term, generating cash flow and knowing that there's value generation opportunities.

**Javier Gao**

Great, Lorenzo. Thank you for the color. Thank you, and congrats again.

**Operator**

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

**Vanessa Quiroga**

Hi, thank you for taking my questions.

The first one is if you have identified opportunities for land acquisitions in Mexico City, and if you have a potential timing for materializing those acquisitions? Also for your current development and land available, do you have all the permits and power secured for being able to operate so far?

And I guess the other question is, I was looking at your core land bank in Aguascalientes. It's a big portion right now. When do you expect you'll be able to develop some of the land that you have at Aguascalientes? Thank you.

**Lorenzo Dominique Berho**

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

Aguascalientes, similar with Bajio region, we're seeing a recovery in the region. It was slow. There was not much happening in the last couple of years. However, we're starting to see a stronger pipeline building up, and hopefully, in Aguascalientes and other markets we're going to see—we could pursue a couple of build-to-suits in the market soon. So that's what we're aiming at. Definitely, it has been slower years.

Now jumping into the infrastructure of the rest of the Vesta Parks. Definitely, I think that one of the key advantages of Vesta is not only to secure land, but have land with infrastructure. In many of the cases, we have to do this land entitlement, zoning, as well as putting the infrastructure in place, and that takes time and that requires capital and that's part of the plan when it comes to developing assets. You have seen some of the Vesta Parks when they're already finished.

However, it requires also a lot of work from the in-house development team to get all the permits, to get all the licensing and all the requirements in order to have the park ready to build. And that's what we're working on in many cases. It varies by market by market and by project by project. But definitely, we need to ensure that we have the right relationships with the current operative, with the local authorities, with support of the government. That's why we have a local presence in many of these markets, with local dealerships, because many of these markets we are the local player. That’s one way to approach it.

And thirdly, regarding the question on Mexico City, definitely it's a market that we want to enter. We're analyzing some acquisitions, some opportunities that would cater to the e-commerce sector. So we might see something coming in this year still. But as you know, this is part of the strategy, and we have a focus on it. It has just taken a bit longer to find the right location in the market.

**Vanessa Quiroga**

Thank you very much, Loren.

**Operator**

Our next question is from Francisco Suarez with Scotiabank. Please proceed with your question.

**Francisco Suarez**

Hi. Thank you for the call, and congrats on allocating capital so well in this great market. It has been superb.

The question that I have relates with your overall returns on cost that you are seeing. When I see the supplemental information, your weighted and average on investments in the Mega Region Park is roughly $52 per square feet, and you have actually a nice return of roughly 10.1% of those expected. So the question that I have here is that should we expect that further—that the other two buildings that are not considered so far are going to be in the range of the $62 per square feet, or are those going to be actually higher? Perhaps, more importantly, if there are many current improvements in the rest of the buildings, is it fair to say that it will then be compensated by a higher rent in order to keep that—are those returns that you're expecting in the neighborhood of 10%? Thank you.

**Lorenzo Dominique Berho**

Gracias, Franco.

I think this is a good question that focuses a lot on the development specifications from the projects. So returns in Tijuana—first of all, I think that Tijuana has always been a very challenging market to acquire land and to develop, but we are currently the leader in the market. With what we have currently under development, we have above 6 million, almost 7 million, square feet in our portfolio, considering also what we have under development on that that we will develop. So, in this case, one of the things that we are seeing is that rents in Tijuana keeps on increasing, and they're increasing in numbers and at a pace that we have never seen before.

Return on cost are also increasing. Therefore, we're seeing returns in the Tijuana market in the 10%, even higher than 10%, along with the rent increase. However, there's certain constructions because they are also increasing. But all in all, I would say, Franco, to analyze or just to have a general framework, I think that construction—replacement cost in Tijuana will be in the neighborhood of, let's say, $70. And when I say $70, it's assuming that we could see some increase in cost. But the good thing is that we're seeing an increase in rents. So we are going to be able to maintain return on cost in those markets.

Now, the greater opportunity is not that we're seeing developments at 10% or above that. It's that the stabilized market in Tijuana is paying off with cap rates of 6%, and it's paying $100 or even more for this particular market. That's why we have a strong appetite to keep on developing in markets like Tijuana with higher barriers of entry. That's why we recently did an announcement that with what we recently developed in Alamar, which we just finished and the new project, we invested $100 million in one of the hottest markets in Mexico right now. I think this is exactly what Vesta represents: an opportunity to invest well in markets where we have a leading position and where we see big arbitrage between what we can develop, let's say below the $70 per square foot, and stabilized assets which are above $100. This is great arbitrage for us and for shareholders.

**Francisco Suarez**

Excellent response, because you already addressed the second part of the question. So, that's very clear. Thank you so much. Congrats again.

**Lorenzo Dominique Berho**

Gracias, Franco.

Thank you. Thank you, everybody, for being on today's call. In closing, the current operating environment will continue to present greater opportunities for us and really exciting for the year ahead. We're executing on the Level 3 strategy, and it has enabled us to take advantage of today's unique dynamics and leveraging the Company's extensive industrial real estate experience and our reputation of excellence.

I will again remind you that we're going to be hosting our New York Vesta Day on June 7, with presentations from 2:00 pm to 5:00 pm, but we will also provide details and updates on our strategies, growth pipeline, and market outlook. Also we are focused on Vesta's execution related to ESG, and we look forward to seeing you all there.

Thank you all for being on today's call, and we hope to see you soon. Bye-bye.

**Operator**

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