

# Q+A: Trez Capital's Horie on navigating a changing market as a lender

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A more conservative approach and diversification are two key strategies



Eric Horie

As spring arrives, Vancouver's commercial real estate market is still grappling with several lingering uncertainties, keeping sales volumes below levels seen in years past.

Economic uncertainty remains one of the biggest obstacles. And it isn't just developers and investors who are having to reassess their strategies as shifting market conditions reshape their outlook – lenders are also adapting their approach, evaluating how to best navigate the current environment.

To better understand how lenders are approaching the moment, *Green Street News* spoke to Eric Horie, executive managing director and head of Canadian origination at Vancouver-based Trez Capital, about how the firm is positioning itself in today's market.

## **We're seeing a rough market for residential properties in Vancouver right now. How is Trez Capital navigating those challenges?**

Both experts and economists agree that it's been a tough go on the residential side in Metro Vancouver – that's due to some macroeconomic and other headwinds we are experiencing in the market. As a lender, we're certainly being more selective about where we deploy our new debt capital going forward. As a whole, investment decisions in commercial real estate are being impacted due to geopolitical and economic uncertainty – tariffs don't help.

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There are structural issues around demand due to lower immigration, and population growth is the big one that we're looking to navigate. Additionally, the market is experiencing a lack of buyer confidence, leading to low demand for new condos and new product, and resulting in fewer housing starts.

And finally, as a backdrop – notwithstanding the headlines about prices coming off and rent softening – affordability remains a big constraint for many would-be buyers. At the end of the day, these variables are exacerbating the lack of buyer confidence.

### **And how do you approach that?**

First and foremost, we're being more conservative in our underwriting and remaining selective about the opportunities that we look at. If I point to a multifamily construction loan as an example, we'll apply higher minimum hurdle rates and more conservative assumptions around achievable rents. We are factoring in a higher capitalization rate than the borrower might, as well as a higher vacancy allowance. So, all in all, it's all more conservative underwriting assumptions around those loans.

And we're going to stress the downside. We need to ensure the proformas can absorb drops in revenue or value, and/or an increase in the cost base. In this environment, you need all of your assumptions to pan out near perfectly for it to be profitable. Proformas are that tight right now, and if you see a drop in market

rents, it can be a challenge.

The departure here from past years was that developers and lenders historically underwrote on the basis of market appreciation to mitigate proforma risk. Meaning, in the case of a tight proforma, the market would save you because the project's value would go up. We can't rely on that anymore – those days are gone.

Today, value is being added, driven, or created by the borrowers and developers that we lend to. Developers need to create consistent and repeatable income from a completed asset, and they cannot rely on, or fall back on, market appreciation to save their performance. I suppose it's a long way of saying this is why we prefer to lend to repeat borrowers, as they have proven their ability to bring projects to successful completion.

### **Do other markets factor in?**

Yes, from a diversification standpoint. For the first time in years, we originated a loan in Saskatchewan. It's probably been a decade since our last funding in that province, and we're looking at other opportunities there. It is about diversifying outside of British Columbia, and B.C. residential in the near term. I think in the long term, we'll come back to it.

We are also diversifying by asset class. We continue to focus on industrial – it's at the top of our list. We're also remaining very active in Alberta – that market didn't see the highs and lows we did here in Metro Vancouver or, say, the GTA in the industrial space. Calgary is the only major Canadian market that saw industrial availability rates decrease year over year.

### **Despite the current market, some people say it looks a bit brighter for 2026. Do you agree with that assessment?**

I would. Despite the negative headlines we read about Metro Vancouver residential real estate, we're seeing pockets of strength on the ground. The first one I point to is move-in-ready, end-user condo product. And that's the key – it has to be move-in ready. This is what we're seeing sell right now.

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The velocity isn’t what it was relative to two or three years ago, but it’s consistent. And this is a product that’s not designed for investor buyers; it’s product that you or I, as potential home buyers, would want to live in. It’s larger units: one-bedroom-plus-den, two-bedroom, or three-bedroom, with good layouts, well-appointed finishings and parking – everything an end-user wants if it’s going to be called their home.

What we’re not seeing move in the market is the investor condo product. It’s small units – what we call doggy-crate condos – so studios and small one-bedroom units catered towards buyers who are either going to flip the units on completion or hold them as rentals.

### **Are there any specific financing structures you’re finding more common in this market?**

Firstly, we’re seeing a higher demand for inventory loans. Those are loans on newly completed, unsold condo units and, typically, they’re needed for two reasons. One, the construction loan wasn’t self-liquidating, so there’s a residual balance on the construction loan that needs to be repaid, and an inventory loan will do that. Second, you have developers who just need liquidity, and the only way they can get it is against the value of these unsold units, because unsold condo units, at the end of the day, are relatively risk-free compared to, say, a project that’s under construction.

We’re also seeing requests for lower pre-sales hurdles or tests on condo construction loans. What that does is allow developers to get out of the ground more quickly. They don’t sit on their land carrying costs for nearly as long, and we will consider those requests on select basis.

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Additionally, we're seeing multifamily rental construction opportunities, particularly for condo developers who've pivoted a condo building plan to a rental. On the ground, we're seeing this a bit more in the GTA, but certainly here in Metro Vancouver as well. I'll be honest, it doesn't necessarily translate well, both in terms of built form and the developer's ability. For example, a 50-storey condo tower project doesn't necessarily convert well to a rental building. The project may need to be resized to make the proforma work, and the property management skill set is altogether very different for a rental building than it is for a condo. As a result, although we're seeing demand for this, we are approaching it carefully.

### **Can you share your firm's strategy for next five years?**

At Trez Capital, we're going to grow as we see market risks permit; I think that's the best way of framing it. For many years now, we have been active in the U.S., and we continue to favour that geography when evaluating new lending opportunities for our debt capital.

We don't want to grow our loan book by taking on new incremental risk, and we're going to reallocate across markets and asset classes based on where we see the best risk-adjusted rate of return for our investors.

If I make one future prediction, I would say that, as the residential market improves in B.C., you will start to see us pivot more capital back into the market here at home.