



Q+A: Trez Capital's head of equity investments on its US\$660m development play

The Vancouver firm held a first close in May on its latest opportunity fund

by **Matt Lamers**

U.S. homebuilders increasingly want finished lots delivered just-in-time to build, so they don't have to carry land costs on their balance sheets or take on entitlement risk.

Enter Trez Capital U.S. Opportunity Fund #9 Limited Partnership, better known as TOF 9. The closed-end vehicle held its first close in May and is targeting at least US\$40m (C\$57m) in overall equity for the latest vintage of the opportunistic series. Projected lot sales will generate more than US\$660m of revenue.

Green Street News sat down with Sam Salloway, senior managing director and head of equity investments, to discuss the market opportunity, the fund's playbook and the Vancouver-based shop's exit approach.



Sam Salloway

Can you outline the fund's investment strategy?

Raw land is entitled, then taken through horizontal development – grading, roads, wet and dry utilities and amenities – and finished lots are sold to builders, who take them vertical.

Trez comes in once entitlements are secured and the land is ready to close.

Beyond entitlements, two further conditions must be met before Trez will commit capital to a development project. First, phase one must be under contract with builders. Builders post a 10% deposit, which effectively helps fund horizontal development of the property.

Second, we require land development financing to be in place at closing. We then deliver finished lots as builders are ready to go vertical.

A key feature of the model is the lot takedown schedule embedded in the lot purchase agreement. The agreement, entered into by Trez, our development partner and the homebuilder, sets out the delivery schedule, allowing builders to

plan their trades. Builders therefore have certainty of just-in-time lot delivery, and we have a contracted absorption schedule backed by their deposits.

National builders such as D.R. Horton and NVR run this model at scale.

Why is positioning the fund between entitlement and vertical construction central to your risk mitigation strategy?

As a fund manager, our mandate is to maximize risk-adjusted returns for our investors, and in land, the biggest risk is time.

Some investors buy unentitled land and carry it through entitlement. However, our funds have a fixed term, so we need

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our capital working from day one. That is the first consideration – we want to avoid exposure to a site where the entitlement timeline extends well beyond our underwriting.

The second mitigant is forward selling: We place lots under contract with builders at closing on the land, which gives us visibility on our exit from the outset.

It operates much like a manufacturing line: acquire, develop and sell at predetermined prices.

The fair question is what happens if the market softens, since a builder can walk away from an option. We underwrite for that. Deposits make walking away costly, we phase development to avoid delivering lots ahead of demand and we focus on deep submarkets where released lots can be re-marketed.

Provided the business plan is executed as underwritten, we have a high degree of visibility on projected returns.

Where will TOF 9 deploy capital, and what criteria inform those investment decisions?

We apply both a top-down and a bottom-up approach. From a top-down perspective, we assess the fundamentals of each metro market: population growth, in-migration, job growth and where major employers are relocating or expanding.

At the site level, we examine access points, school districts and other submarket factors. Lot absorption and pricing can vary considerably from one school district to another.

How do you view the structural housing supply gap in the U.S., and why was now the time to launch TOF 9?

Two forces are converging: a structural housing shortage, and builders moving land off their balance sheets just as traditional lenders have pulled back from land development lending. That leaves a clear gap for well-capitalized land partners. The U.S. has been underbuilt for two decades. Depending on the source, estimates of the shortfall range from 2 million to 4.7 million units. That may appear counterintuitive given recent market conditions, but supply has not kept pace with

population growth in parts of the country.

Many homebuilders have shifted towards an asset-light model, under which they no longer hold land on the balance sheet. Instead, they control lots through option contracts, posting a deposit of typically 10% to 20% of the lot value upfront and taking down the lots once they are ready.

D.R. Horton, among the largest U.S. homebuilders, controls approximately 75% of its lots through options. Lennar recently increased that figure to approximately 98%, while NVR, another of the largest, has operated an exclusively option-based model since 1992.

It is a structural shift: The model is far more capital-efficient for publicly listed homebuilders.

How does this compare to how Canada operates?

The model is far less prevalent in Canada, which has few, if any, publicly listed homebuilders.

Most Canadian homebuilders hold substantial land banks over long horizons and are not subject to quarterly reporting, so they can be patient. A publicly listed U.S. homebuilder, by contrast, is under far greater pressure to drive inventory turns and deliver consistent quarterly home closings.

What is the exit strategy for these assets?

We have multiple exit routes. Finished lots – which we refer to as contracted finished lots – as well as pod sales, paper lots, bulk sales, commercial parcel sales and special district proceeds.

In a pod sale, we deliver the master infrastructure and the builder completes in-tract development. Proceeds can be recycled into further development or used to accelerate the overall timeline. Paper lots, by comparison, are entitled lots sold before any horizontal improvements are made.

Within our larger master-planned communities, we also monetize commercial, multifamily and build-to-rent parcels.

Finally, special district reimbursements, such as municipal utility district bonds, repay developers for eligible public infrastructure costs incurred to facilitate development, providing an additional source of return as the community builds out.