

TRI Pointe Group, Inc.
Form 10-K
February 26, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____
Commission File Number 1-35796

TRI Pointe Group, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 61-1763235
(State or other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)
19540 Jamboree Road, Suite 300
Irvine, California 92612
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (949) 438-1400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2018, based on the closing price of \$16.36 as reported by the New York Stock Exchange, was \$2,448,101,287.

141,669,513 shares of common stock were issued and outstanding as of February 8, 2019.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions from the registrant's proxy statement relating to its 2019 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14.

TRI Pointe Group, Inc.
 ANNUAL REPORT ON FORM 10-K
 FOR THE YEAR ENDED DECEMBER 31, 2018

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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains certain statements that are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are based on our current intentions, beliefs, expectations and predictions for the future, and you should not place undue reliance on these statements. These statements use forward-looking terminology, are based on various assumptions made by us, and may not be accurate because of risks and uncertainties surrounding the assumptions that are made.

Factors listed in this section—as well as other factors—may cause actual results to differ significantly from the forward-looking statements included in this annual report on Form 10-K. There is no guarantee that any of the events anticipated by the forward-looking statements in this annual report on Form 10-K will occur, or if any of the events occurs, there is no guarantee what effect it will have on our operations, financial condition, or share price.

We undertake no, and hereby disclaim any, obligation to update or revise any forward-looking statements, unless required by law. However, we reserve the right to make such updates or revisions from time to time by press release, periodic report, or other method of public disclosure without the need for specific reference to this annual report on Form 10-K. No update or revision shall be deemed to indicate that other statements not addressed by that update or revision remain correct or create an obligation to provide any other updates or revisions.

Forward-Looking Statements

Forward-looking statements that are included in this annual report on Form 10-K are generally accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “future,” “goal,” “intend,” “likely,” “may,” “might,” “plan,” “project,” “should,” “strategy,” “target,” “will,” “would,” or other words that convey the uncertainty of future events or outcomes. These forward-looking statements may include, but are not limited to, statements regarding our strategy, projections and estimates concerning the timing and success of specific projects and our future production, land and lot sales, outcome of legal proceedings, operational and financial results, including our estimates for growth, financial condition, sales prices, prospects and capital spending.

Risks, Uncertainties and Assumptions

The major risks and uncertainties—and assumptions that are made—that affect our business and may cause actual results to differ from these forward-looking statements include, but are not limited to:

- the effect of general economic conditions, including employment rates, housing starts, interest rate levels, availability of financing for home mortgages and strength of the U.S. dollar;
- market demand for our products, which is related to the strength of the various U.S. business segments and U.S. and international economic conditions;
- levels of competition;
- the successful execution of our internal performance plans, including any restructuring and cost reduction initiatives;
- global economic conditions;
- raw material prices;
- oil and other energy prices;
- the effect of weather, including the re-occurrence of drought conditions in California;
- the risk of loss from earthquakes, volcanoes, fires, floods, droughts, windstorms, hurricanes, pest infestations and other natural disasters, and the risk of delays, reduced consumer demand, and shortages and price increases in labor or materials associated with such natural disasters;
- transportation costs;
- federal and state tax policies;
- the effect of land use, environment and other governmental laws and regulations;
- legal proceedings or disputes and the adequacy of reserves;
- risks relating to any unforeseen changes to or effects on liabilities, future capital expenditures, revenues, expenses, earnings, synergies, indebtedness, financial condition, losses and future prospects;
- changes in accounting principles;
- risks related to unauthorized access to our computer systems, theft of our homebuyers’ confidential information or other forms of cyber-attack; and

other factors described in “Risk Factors.”

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EXPLANATORY NOTE

As used in this annual report on Form 10-K, references to “TRI Pointe”, “the Company”, “we”, “us”, or “our” in this annual report on Form 10-K (including in the consolidated financial statements and related notes thereto in this annual report on Form 10-K) refer to TRI Pointe Group, Inc., a Delaware corporation (“TRI Pointe Group”) and its subsidiaries.

PART I.

Item 1. Business

Our Company

TRI Pointe was founded in April 2009, near the end of an unprecedented downturn in the national homebuilding industry. Since then, we have grown from a Southern California fee homebuilder into a regionally focused national homebuilder with a portfolio of the following six quality homebuilding brands operating in 15 markets across ten states:

• Maracay in Arizona;

- Pardee Homes in California and Nevada;

• Quadrant Homes in Washington;

• Trendmaker Homes in Texas;

• TRI Pointe Homes in California, Colorado and the Carolinas; and

• Winchester Homes in Maryland and Virginia.

Our growth strategy is to capitalize on high demand in selected "core" markets with favorable population and employment growth as a result of proximity to job centers or primary transportation corridors. As of December 31, 2018, our operations consisted of 146 active selling communities and 27,740 lots owned or controlled. See "Lots Owned or Controlled" below. Our construction expertise across an extensive product offering allows us flexibility to pursue a wide array of land acquisition opportunities and appeal to a broad range of potential homebuyers, including buyers of entry-level, move-up, luxury and active adult homes. As a result, we build across a variety of base sales price points, ranging from approximately \$200,000 to \$2.2 million, and home sizes, ranging from approximately 1,000 to 5,500 square feet. See "Description of Projects and Communities under Development" below. For the years ended December 31, 2018 and 2017, we delivered 5,071 and 4,697 homes, respectively, and the average sales price of our new homes delivered was approximately \$640,000 and \$582,000, respectively.

In October 2018, we announced the expansion of our TRI Pointe Homes brand into the southeast region with the launch of a new division in the Carolinas. In December 2018, we announced the acquisition of Dunhill Homes, LLC, which extended our homebuilding presence in Texas to the Dallas–Fort Worth region. Dunhill Homes began operating under our Trendmaker Homes name on January 1, 2019.

Our founders firmly established our core values of quality, integrity and excellence. These are the driving forces behind our innovative designs and strong commitment to our homebuyers.

Our Competitive Strengths

We believe the following strengths provide us with a significant competitive advantage in implementing our business strategy:

Experienced and Proven Leadership

Douglas Bauer, our Chief Executive Officer, Thomas Mitchell, our President and Chief Operating Officer, and Michael Grubbs, our Chief Financial Officer, have worked together for over 29 years and have a successful track record of managing and growing a public homebuilding company. Spanning over a century, their combined real estate industry experience includes land acquisition, financing, entitlement, development, construction, marketing and sales of single-family detached and attached homes in communities in a variety of markets. In addition, the management teams at each of our homebuilding subsidiaries have substantial industry knowledge and local market expertise. We believe that our management teams' prior experience, extensive relationships and strong local reputations provide us with a competitive advantage in securing projects, obtaining entitlements, building quality homes and completing projects within budget and on schedule.

Focus on High Growth Core Markets

Our business is well-positioned to continue to capitalize on the broader national housing market. We are focused on the design, construction and sale of innovative single-family detached and attached homes in major metropolitan areas in Arizona, California, Colorado, the Carolinas, Texas, Nevada, the Washington, D.C. metro area, and Washington State. These markets are generally characterized by high job growth and increasing populations, creating strong

demand for new housing. We believe they represent attractive homebuilding markets with opportunities for long-term growth and that we have strong land positions strategically located within these markets. Moreover, our management teams have deep, local market knowledge of the homebuilding and development industries. We believe this experience and strong relationships with local market participants enable us to source, acquire and entitle land efficiently.

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Strong Operational Discipline and Controls

Our management teams pursue a hands-on approach. Our strict operating discipline, including financial accountability at the project management level, is a key part of our strategy to maximize returns while minimizing risk.

Acquire Attractive Land Positions While Reducing Risk

We believe that our reputation and extensive relationships with land sellers, master plan developers, financial institutions, brokers and other builders enable us to continue to acquire well-positioned land parcels in our target markets and provide us access to a greater number of acquisition opportunities. We believe our expertise in land development and planning enables us to create desirable communities that meet or exceed our homebuyers' expectations, while operating at competitive costs.

Increase Market Position in Growth Markets

We believe that there are opportunities to expand profitably in our existing and target markets, and we continually review our selection of markets based on both aggregate demographic information and our own operating results. We use the results of these reviews to re-allocate our investments to those markets where we believe we can maximize our profitability and return on capital. While our primary growth strategy has focused on increasing our market position in our existing markets, we recently expanded our homebuilding operations to the Carolinas and the Dallas–Fort Worth region in Texas. We may continue, on an opportunistic basis, to explore expansion into other markets through organic growth or acquisition.

Provide Superior Design and Homeowner Experience and Service

We consider ourselves a “progressive” homebuilder driven by an exemplary homeowner experience, cutting-edge product development and exceptional execution. Our core operating philosophy is to provide a positive, memorable experience to our homeowners through active engagement in the building process, tailoring our product to homeowners' lifestyle needs and enhancing communication, knowledge and satisfaction. We believe that the new generation of home buying families has different ideas about the kind of home buying experience it wants. As a result, our selling process focuses on the home's features, benefits, quality and design in addition to the traditional metrics of price and square footage. In addition, we devote significant resources to the research and design of our homes to better meet the needs of our homebuyers. Through our LivingSmart® platform, we provide homes that we believe are earth-friendly, enhance homeowners' comfort, promote a healthier lifestyle and deliver tangible operating cost savings versus less efficient resale homes. Collectively, we believe these steps enhance the selling process, lead to a more satisfied homeowner and increase the number of homebuyers referred to our communities.

Offer a Diverse Range of Products

We are a builder with a wide variety of product offerings that enable us to meet the specific needs of each of our core markets, which we believe provides us with a balanced portfolio and an opportunity to increase market share. We have demonstrated expertise in effectively building homes across product offerings from entry-level through luxury and active adult. We spend extensive time studying and designing our products through the use of architects, consultants and homebuyer focus groups for all levels and price points in our target markets. We believe our diversified product strategy enables us to best serve a wide range of homebuyers, adapt quickly to changing market conditions and optimize performance and returns while strategically reducing portfolio risk. Within each of our core markets we determine the profile of homebuyers we hope to address and design neighborhoods and homes with the specific needs of those homebuyers in mind.

Focus on Efficient Cost Structure and Target Attractive Returns

Our experienced management teams are vigilant in maintaining their focus on controlling costs. We competitively bid new projects and phases while maintaining strong relationships with our trade partners by managing production schedules closely and paying our vendors on time.

We combine decentralized management in those aspects of our business in which we believe detailed knowledge of local market conditions is critical (such as governmental processing, construction, land acquisition, land development and sales and marketing), with centralized management in those functions in which we believe central control is required (such as approval of land acquisitions, financial, treasury, human resources and legal matters). We have also made significant investments in systems and infrastructure to operate our business efficiently and to support the

planned future growth of our company as a result of executing our expansion strategy.

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Utilize Prudent Leverage

Our ongoing financial strategy includes redeployment of cash flows from continuing operations and debt to provide us with the financial flexibility to access capital on the best terms available. In that regard, we expect to employ prudent levels of leverage to finance the acquisition and development of our lots and construction of our homes. See “Our Financing Strategy” below.

Lots Owned or Controlled

As of December 31, 2018, we owned or controlled, pursuant to land option contracts or purchase contracts, an aggregate of 27,740 lots. We refer to lots that are under land option contracts as “controlled.” See “Acquisition Process” below. Excluded from lots owned or controlled are investments described in Note 6, Investments in Unconsolidated Entities, of the notes to our consolidated financial statements included elsewhere in this annual report on Form 10-K. The following table presents certain information with respect to our lots owned or controlled as of December 31, 2018.

	Lots Owned	Lots Controlled	Lots Owned or Controlled
Maracay	2,346	962	3,308
Pardee Homes	13,700	676	14,376
Quadrant Homes	883	861	1,744
Trendmaker Homes	1,661	831	2,492
TRI Pointe Homes	3,150	945	4,095
Winchester Homes	1,317	408	1,725
Total	23,057	4,683	27,740

Description of Projects and Communities under Development

Our lot inventory includes land that we are holding for future development. The development of these lots will be subject to a variety of marketing, regulatory and other factors and in some cases we may decide to sell the land prior to development. The following table presents project information relating to each of our markets as of December 31, 2018 and includes information on current projects under development where we are building and selling homes as of December 31, 2018.

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Maracay

County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾	Cumulative Homes Delivered as of December 31, 2018 ⁽³⁾	Lots Owned as of December 31, 2018 ⁽³⁾	Backlog as of December 31, 2018 ⁽⁴⁾	Homes Delivered for the Twelve Months Ended December 31, 2018 ⁽⁵⁾	Sales Price Range (in thousands) ⁽⁶⁾
Phoenix, Arizona							
City of Buckeye:							
Verrado Victory	2015	98	80	18	5	31	\$373 - \$405
Arroyo Seco	2019	44	—	44	—	—	\$406 - \$458
City of Chandler:							
Hawthorn Manor	2017	84	59	25	11	28	\$490 - \$564
Mission Estates	2019	26	—	26	3	—	\$530 - \$590
Windermere Ranch	2019	91	—	91	—	—	\$499 - \$539
City of Gilbert:							
The Preserve at Adora Trails	2017	82	82	—	—	48	Closed
Marathon Ranch	2018	63	9	54	27	9	\$513 - \$556
Lakes At Annecy	2019	216	—	216	—	—	\$275 - \$350
Annecy P3	2020	250	—	250	—	—	\$226 - \$301
Lakeview Trails	2019	92	—	92	—	—	\$495 - \$570
Copper Bend	2019	38	—	38	—	—	\$451 - \$484
Hamstra Assemblage	2020	332	—	332	—	—	\$470 - \$750
City of Goodyear:							
Villages at Rio Paseo	2018	117	18	99	1	18	\$190 - \$219
Cottages at Rio Paseo	2018	93	31	62	8	31	\$230 - \$250
City of Mesa:							
Kinetic Point at Eastmark	2013	80	80	—	—	3	Closed
Curie Court at Eastmark	2016	106	106	—	—	48	Closed
The Vista at Granite Crossing	2018	37	25	12	11	25	\$438 - \$513
Electron at Eastmark	2019	53	—	53	11	—	\$361 - \$438
City of Peoria:							
Legacy at The Meadows	2017	74	66	8	2	40	\$425 - \$451
Estates at The Meadows	2017	272	100	172	41	57	\$497 - \$571
Enclave at The Meadows	2018	126	29	97	8	29	\$375 - \$470
Deseo	2019	94	—	94	—	—	\$494 - \$547
City of Phoenix:							
Navarro Groves	2018	54	24	30	17	24	\$439 - \$484
Loma @ Avance	2019	124	—	124	—	—	\$352 - \$412
Ranger @ Avance	2019	143	—	143	—	—	\$398 - \$466
Piedmont @ Avance	2019	101	—	101	—	—	\$475 - \$495
Alta @ Avance	2019	26	—	26	—	—	\$595 - \$625
Town of Queen Creek:							
Spur Cross	2020	118	—	118	—	—	\$454 - \$544
Closed Communities	N/A	—	—	—	—	43	

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Phoenix, Arizona Total		3,034	709	2,325	145	434	
Tucson, Arizona							
Oro Valley:							
Desert Crest - Center							
Pointe Vistoso	2016	103	87	16	2	38	\$262 - \$307
The Cove - Center Pointe							
Vistoso	2016	83	82	1	1	33	\$345 - \$405
Summit N & S - Center							
Pointe Vistoso	2016	88	85	3	3	20	\$397 - \$432
The Pinnacle - Center							
Pointe Vistoso	2016	69	68	1	—	8	\$448 - \$480
Closed Communities	N/A	—	—	—	—	5	
Tucson, Arizona Total		343	322	21	6	104	
Maracay Total		3,377	1,031	2,346	151	538	

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Pardee Homes

County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾	Cumulative Homes Delivered as of December 31, 2018	Lots Owned as of December 31, 2018 ⁽³⁾	Backlog as of December 31, 2018 ⁽⁴⁾	Homes Delivered for the Twelve Months Ended December 31, 2018 ⁽⁵⁾	Sales Price Range (in thousands) ⁽⁶⁾
California							
San Diego County:							
Almeria	2017	80	75	5	5	60	\$1,440 - \$1,560
Olvera	2017	84	84	—	—	69	\$1,315 - \$1,470
Vista Santa Fe	2019	44	—	44	—	—	\$1,780 - \$1,895
Sendero	2019	112	—	112	24	—	\$1,150 - \$1,295
Terraza	2019	81	—	81	19	—	\$1,260 - \$1,370
Carmel	2019	105	—	105	18	—	\$1,380 - \$1,490
Vista Del Mar	2019	79	—	79	11	—	\$1,530 - \$1,700
Pacific Highlands Ranch Future	2020	115	—	115	—	—	\$1,800 - \$1,900
Sandstone	2018	81	49	32	10	49	\$640 - \$710
Lake Ridge	2018	129	34	95	21	34	\$710 - \$860
Azul	2017	121	121	—	—	57	\$360 - \$475
Veraz	2018	111	10	101	—	10	\$380 - \$460
Moderna	2018	44	10	34	—	10	\$355 - \$440
Marea	2020	135	—	135	—	—	\$370 - \$470
Solmar	2019	74	—	74	—	—	\$365 - \$440
Solmar Sur	TBD	108	—	108	—	—	\$365 - \$440
Meadowood	TBD	845	—	845	—	—	\$290 - \$590
South Otay Mesa	TBD	893	—	893	—	—	TBD
Los Angeles County:							