TRI Pointe Takes the 2015 Builder of the Year Award

TRI Pointe says it’s home building’s ‘next generation;' here's what they mean by that

By John McManus

A new take on a classic home model—a ranch—will get a tryout in the nation's capital region late this year or early 2016.

The home design's footprint and its bones cast a spell of both intrigue and familiarity—a covered outdoor sanctuary merges an open great room and
kitchen in an adrenaline sweep of form and function, directed outward to Northern Virginia's rolling farmlands and forests. A single-bay garage sits diagonally to a separate, main two-bay garage fed by the same driveway; their catty-corner juxtaposition creates a courtyard. It's without question a ranch. But it strays edgily progressive in a market that's only now beginning to press the indoor/outdoor buttons that work to so compelling an effect among discretionary home buyers in the West and Southeast right now.

This is just what Winchester Homes president Alan Shapiro could hope for, and has wanted for some time, especially to electrify a product line he expects to make hay in Willowsford, a farm-to-table master planned community located outside Washington, D.C., near Virginia's Dulles International Airport.

This is happening only because stars aligned in a way they can at a company that works differently than most home building enterprises with multiregional footprints. A few months after TRI Pointe Group closed at the end of June 2014 its $2.8 billion acquisition from Weyerhaeuser Real Estate Co. (WRECO) of Winchester and its four sibling home building operations—Maracay Homes in the Arizona market; Pardee Homes in Southern California and Nevada; Quadrant Homes in the Puget Sound market; and Trendmaker Homes in Texas' hyperactive markets—Shapiro and his fellow unit chiefs met for 2015 planning. It was their first deep-dive gathering as business colleagues and partners in Southern California, near TRI Pointe's Irvine headquarters.

"We were in need of a ranch, and we tended toward developing a new one from scratch for Willowsford with our own design team," says Shapiro, whose career started at Georgia Pacific almost 30 years ago before he migrated, first to Ryan Homes, and ultimately, to Winchester's ranks for the past 17 years. He hopped from purchasing, sales, and operations jobs to an opportunity as vice president of operations under then-Winchester president Larry Burrows, whose ascent to the top job at WRECO in 2008 gave Shapiro his shot at succeeding Burrows as the division president.

"But, I thought, 'Hey, why don't I talk with the guys in the other TRI Pointe regions?' I'd heard they'd been doing some great work, and took a look at some of their plans," Shapiro recalls. "Matt Osborn [division president of
TRI Pointe's Colorado unit] told me about this ranch that was going great at Candelas in Arvada, Co., in the Denver market."

The good news for Shapiro was that the Colorado models, like the ones in the D.C. region—and unlike many of the slab-on-grade models typical of California, Nevada, and Texas markets—had basements. It was love at first sight for Shapiro when he saw the Encore Collection ranch, with its indoor/outdoor byplay, and its ability to adapt its wraparound extra-bay garage into a living area, and elevate the entire structure to two stories. The working title for the Winchester project—likely pricing in the $500s to mid-$600s and currently making its way through Willowsford guidelines and local permitting—is the Woodley ranch, named after the architect of the original Colorado model, Michael Woodley of Woodley Architectural Group, with offices in Southern California and Denver.

"It's an exciting plan, and working with Matt on it was a win-win because, apart from seeing a home design that we think will work for our market, we got to add another new architect, Mike Woodley, into our fold," Shapiro says.

It's a house, yes—a new model some may characterize as bold and fresh for a market whose staid hardwiring is practically a given. But the house itself is a mere speck of a minuscule detail within the complex that is TRI Pointe's $2.8 billion empire. It's the way it came to be, and the way it will go to market that makes this the story it is—a logical progression of vision, deal-making, integration, and execution. As the threads of each weave together, the Woodley ranch for the Northern Virginia/Maryland market is a single outcome of what will be tens of thousands of outcomes, each a byproduct of both a grand bold vision and a local, profoundly workman-like execution, knitted together by trust.

What's cool about what we've set this up is that you can learn something every day," says Doug Bauer, TRI Pointe chief executive officer. Bauer, chief operating officer Tom Mitchell, and chief financial officer Mike Grubbs started TRI Pointe on legal pads, a white board, and an Excel pro forma six years ago. In mid-2009, going-concern viability as a fee builder was as grandiose as Bauer, Mitchell, and Grubbs could afford to be as they road-mapped their vision to be a "next generation" home builder—free of legacy
land issues, intimate with home buyers' needs, and an operational outperformer. In mid-2015, Fortune 1000 sustainable profitability is more like it, based on mapping national, but acting, eating, sleeping, and breathing local. The leaders of TRI Pointe's confederation "look at their world from a retail perspective," Bauer says. "What the consumer wants has begun to shift much faster and more dramatically than at other times in home building cycles, so what we learn from each of those leaders every day allows us to change our thought processes and focus on what the consumer's going to want. With our structure, everybody gets immediate on-the-ground updates and can address and mine that."

TRI Pointe's "sharing economy" business model materially impacts its odds at triumph—a house plan product that works effectively in multiple markets; a best practice that can port from one division to another; a
marketing or demand-generation technique that flares up and takes hold in a single submarket; a land underwriting process that can scale across the enterprise; a validated safety procedure for jobsites. High-level and in-the-trenches collaboration is something that has become standard operating procedure at the freshly formed top-20 home building enterprise.

The Winchester Homes Woodley ranch speaks to two truths that might seem buried in the sizzle, thunder, and smoke of TRI Pointe's rocket-blast zero-to-3,100-plus home trajectory in its toddlerhood. One is that, having paid about $100,000 per home site for the WRECO empire of 27,000 lots in five U.S. regions, the Woodley ranch means that TRI Pointe also acquired the human nimbleness and heart to pivot off some challenging deal terms and build a profitable turn for each and every one of its $100,000 lots. Perhaps even more important, it also acquired a brain trust and executional SWAT team of five operating chiefs with 70-plus years of battle testing who represent the promise to replenish the lot pipeline—when the moment is right to do so—for less than $100,000 per lot the next time around.

"When it comes to product design, we're obsessive when it comes to learning what we should be building based on the local knowledge, the data, and the competition," Grubbs says. "It may be a manufacturing-based process, but it's a consumer-centric company."

A rocket-thrust takeoff gave TRI Pointe a storybook start. From its first incarnation as an Irvine Co. fee-builder in spring 2009, to its initial public offering in January 2013, to its dramatic $2.8 billion coup to acquire the five WRECO home building companies, it has been a hell of a ride, even for a precocious six-year-old.

"This is absolutely the company that we envisioned when we were first talking about what it could be," says Mitchell, the COO. "The magnitude may be different, but the heartbeat, the passionate culture, the customer focus, and our core thought that we could be different from every company that had come before us was part of the genesis of the idea."

As we glance, momentarily, back at TRI Pointe's 2014 triumphs, we see a who-are-these-guys fearless upstart that delivered 144 homes in 2012, and 459 in 2013, emerging victorious from a seven-month high-stakes scrum for
the huge WRECO land and talent prize in late 2013. We see a story that's as much about trust's role in big-time outcomes as it is the magic of smart money, and it's also the story of how scale may play differently in home building than many people think it does. For TRI Pointe, being profitable on a per-lot basis at $100,000 a unit goes back to its model and processes for scale—being a great brand locally, and supporting that nationally. Being able to do it all again, iterating the formula, is about trust, which is something money never buys.

"I felt a cultural alignment 10 minutes into listening to Doug, Tom, and Mike," says Shapiro, whose words and sentiments echo in nearly identical terms those of Trendmaker president Will Holder, Quadrant Homes president Ken Krivanec, and Maracay Homes president Andy Warren, who came, along with Shapiro, into the TRI Pointe family of regional presidents at the time of the WRECO deal. "I could have marched [the TRI Pointe executive trio] into any one of my group management meetings, and they'd be talking the same language, and Doug, Tom, and Mike introduced this notion that we can build this 'next generation' home building organization around being local and national, acting small and leveraging big, and it feels as if we're on to something special, like building Apple in a garage."

**Meeting of the Minds**

The cultural alignment Shapiro refers to may sound to some like consultant-speak. What it means is this: Shapiro and his fellow chiefs at Maracay, Pardee, Quadrant, and Trendmaker had carved out ways to achieve relative operational excellence as regional players, but for years it was clear to them and everybody else that Weyerhaeuser was "all about the trees," the timber-related products that were the mainstay of its future business as it grappled with capital demands and investment strategies across diversified stakes in related verticals. Its home building companies—while well-run and overachieving—were a pimple on the ocean, compared with the forest products focus.

Shapiro, Trendmaker's Holder and a few other WRECO presidents got their first whiff of cultural alignment on Sept. 4, 2013, at the Morgan Stanley
offices at the corner of Constellation Boulevard and Avenue of the Stars in Los Angeles. They were invited into the process of screening potential suitors for the WRECO companies, a journey that had begun in mid-June and already had been culled down to five companies for the final bidding: Beazer, Brookfield Residential, Meritage, NVR, and TRI Pointe.

When Shapiro, Holder, and the others met and listened to each of the five bidders in a daylong presentation, two positives leapt out at them. Specifically, the Beazer, Meritage, NVR, and TRI Pointe pitches sounded like music to their ears simply because each was a pure-play home builder—they didn't make money doing anything else, and they were in it for the long haul. The WRECO operators no longer would be a footnote on the Weyerhaeuser balance sheet, but rather they would have an opportunity to make a strategic difference in the outcome and destiny of their respective companies.

"We were on notice that we were being prepared for market, and because of that, we were managing against shorter-term goals and horizons, and working with really scarce resources," Holder says. "In each of the scenarios we heard from the bidders, the result could have had positive outcomes—if only because each of these people were home building people, pure play. When you're in a market that's so competitive with product, people, processes, systems, margins, and the ability to execute, it's good to be talking to people who live and breathe these things."

Other positives were almost certainly exclusive to TRI Pointe. Not only was there very little geographical overlap with the footprint of the WRECO operations in TRI Pointe's tiny coverage area, but the TRI Pointe plan was to leave the home building brands and leadership in place. Now, maybe those individual company operators were not the ultimate arbiters of who'd come out with the prize, but given the complex Reverse Morris Trust accounting structure of the transaction, Weyerhaeuser, its board, and its stakeholders needed to buy into trusting their feeling for what would work best.

"Weyerhaeuser management had to spin this back to their shareholders, so a deal that was going to keep their company brand names and their people in place has got to sound good to them," says Barry Sternlicht, chief
executive officer of Starwood Capital and chairman of the board for TRI Pointe. Sternlicht has been the minnow-that-swallowed-the-whale on a number of occasions, including the 1997 Starwood Lodging purchase of ITT Sheridan for $14.3 billion, a company twice Starwood’s size. "They had to pick their horse, and they could trust Doug, Tom, and Mike."

Sternlicht didn't profess to be enthusiastic—initially—in leaving six brands, including TRI Pointe Homes, in place, saying he could see "positives and negatives about the idea." But Bauer, Mitchell, and Grubbs won him over to the notion of home buying as a local decision, based on local knowledge from the dirt to the deed.

"It was management's recommendation, and certainly we knew that Weyerhaeuser's board and shareholders liked that idea as well, so it didn't hurt," Sternlicht says, adding that his confidence in the wisdom of that path, versus a total integration of the units into a single operating brand company, comes from his trust in Bauer, Mitchell, and Grubbs. "I'd known Doug and knew of the others for 20 plus years while they were all at William Lyon, and tried to hire Doug a few times. His loyalty impresses you. You learn to judge people by what they do in a crisis, so I got to see them all that way."

**Setting the Bar**

Bauer, Mitchell, and Grubbs are well into their third decade of working together. They're more often than not spoken of in the same sentence, and sitting together at the grand expanse of a boardroom table at the TRI Pointe Group's new Irvine, Calif., headquarters, they don't so much finish one another's sentences as they complete paragraphs blended of three separate but trusting perspectives. They're central to how TRI Pointe put itself on the map as one of home building's wunderkind publics on such short order.

"I want to create products that arrive fully formed in the future, just barely ahead of customer expectations," says Quadrant Homes' Krivanec. "Doug, Tom, and Mike challenge us to be nimble, to be responsive to customers, to employees, to be innovative. They set the bar and trust us to reach and exceed it."
Which doesn't mean agreeing with 100% of what operators like Krivanec, Shapiro, Warren, Holder, and the Pardee folks were already doing. Quite the contrary, in fact, and that's not a problem for them. They'd been left alone to fend for themselves for several years working under the Weyerhaeuser umbrella, and learned hard-nosed entrepreneurial behaviors by heart. What they welcome now is having been taken in, as if by adoptive parents, who recognize immediately and implicitly what it's taken to survive and prove oneself in highly adverse circumstances out in the wild world of a fragile, choppy, lumpy recovery. They expect structure. They expect discipline where needed. A strong, gentle push in the right direction—sometimes diametrically opposite of where they'd been heading—is something they each regard as a blast of fresh oxygen after learning to cope on a less than adequate supply.

For instance, Krivanec had to swallow hard when he first experienced that "gentle push." It had been Krivanec's brainchild, coming out of the recession, for Quadrant to pivot out of its low-cost-provider comfort zone—managed profitably for years under the masterful direction of former Quadrant chief Peter Orser, one of home building's best-of-breed practitioners of the "Rayco model" of high-volume home production. Krivanec—with a pedigree that includes stints at KB Home, Ryland, and Ivory Homes—had come of age in a home building era that focused heavily on "University of Toyota–style" lean production modeling, even-flow starts and completions, and low-average selling price offerings. He reported through to Orser for most of his 14 pre-TRI Pointe years at Quadrant, and got his big moment just as the tech industry began to flex its "new geography of jobs" muscle in the Seattle and Northwest markets.
The pivot point for Quadrant was a head-turner new architectural template, a "Douglas Fir Country Modern" style, borrowing heavily from a blend of Silicon Valley chic and forestland-influenced new urban tones. Its models and neighborhoods would open under a new name, Evoke, that would submerge the Quadrant brand in favor of a handle that meant dreams, aspirations, and inspirations to a new, well-heeled tech professionals able to spend a penny on having it his or her way. (See page 60 for more on the Evoke line.)

Evoke struck a chord, to say the least. It sold well enough to make a holy mess of Quadrant's ability to manage its labor and direct costs per unit, given all the variability and "personalization" the models invited from a rather persnickety clientele. While the selling prices, after upgrades and options, shot north of seven figures on each home, the margins kept nowhere near the pace of the expense. That had to stop, and although no
one could quibble with the pulse-quickening designs and the award-winning stature of Evoke, TRI Pointe was about to tolerate what came across as a rogue business margin model in its portfolio.

Ironically, it again was the Woodley Architectural Group team that came to the rescue on the makeover.

"The fear I had initially was, 'Is this going to be a tap on the breaks in our momentum serving the demand in the market?'" recalls Krivanec about the reality-check moment that kicked in as Bauer, Mitchell, and Grubbs looked at the Quadrant plan. "Instead, their disciplines and look at the opportunities in the market allowed us to take it one more step in a brand revision, adapting all that was positive about this new 'Northwest Modern' style we'd pioneered, keeping it greatly differentiated, and at the same time producing a home we can iterate profitably under our collective Quadrant brand name. It was a huge relief, especially the way they kept total regard for the entrepreneurial spirit. They're always asking us, 'How can you stay nimble? How can what you do scale? How do you stay responsive to your customer, your employees?' That's why we feel right now like we're part of something big."

Trendmaker chief Will Holder affirms that he, too, is liking the sound and the feeling of the challenge he's getting from TRI Pointe executives to get out of his product-line comfort zone and get some "where the puck is going" positioning into the mix.

Holder, who answered a "we will teach you to build homes" ad from David Weekley 35 years ago and never once looked back, had put time in at Weekley, a pre-Lennar Village Builders, and—earlier—worked a stretch in politics for a Texas representative in Congress while he was in D.C. getting his MBA at George Washington University.

Holder's been at Trendmaker for about half of the company's 44 years in business, and has been getting a lot of things right in fiercely competitive markets swarming with home builders for a long time. Still, while most of the emphasis in the superheated Texas markets has been on pushing average selling prices up (which is where Trendmaker has been doing well
all along), the TRI Pointe leadership wants Holder to explore stretching into mid- and lower-band price tiers as well.

"Nobody's going to get away unscathed from the impact of the oil price crisis," says Holder. Bauer, Mitchell, Grubbs, and the team see that "the Texas market is changing right now, so their leadership direction is appropriate and welcome. They're getting us more capital to direct into new options, and they're giving us more direction and a lot more discipline on matching our product to our land positions. We're learning some new tricks and we're seeing some real results start to take shape."

Maracay's Warren corroborates ways TRI Pointe's discipline-centric, deep resources make his company a better competitor in an Arizona market where some of the biggest fish get into trouble because they can't move nimbly enough in nor out of land commitments, and where the smaller private ones are boxed out of the action because they don't have resources. "We've got the best of both worlds," Warren says.

Sternlicht, who agreed at the time of the TRI Pointe/Weyerhaeuser transaction to stay on at TRI Pointe as chairman of the board, describes Bauer, Mitchell, and Grubbs as a not-too-hot-not-too-cold hybrid of boldness and caution.

"They're like Goldilocks," Sternlicht explains. "There's not a great deal of skill in saying 'no' all the time, and there's not a great deal of skill in saying 'yes' all the time. Doug, Tom, and Mike know when to be aggressive and when to be careful. And the best thing about them is they do what they say they're going to do. That's why people trust them."

So, call TRI Pointe's latest claim to fame among its peer companies—our 2014 Builder of the Year—the end of the beginning for a company born of pedigree and privilege. TRI Pointe comes so quickly of age by virtue of something else entirely, something more blue-collar, more earth-bound, more effortful than pedigree and privilege would yield.

How do you explain it, starting with three guys who woke up one day after successful careers of well over two decades eating, sleeping, and breathing the legend of William Lyon Homes, and deciding they'd like to level-set, from scratch, in the middle of the Great Recession? How in six years—and a
few fell swoops—did what originated as those three guys' scribbles on legal pads and a white board around a kitchen table become one of home building's most powerful, geographically diversified, well-positioned organizations?

Alchemy?

Alchemy is a word you can hear in home building, as you might in any one of the financial investment-centered occupations. It tells of a hybrid blend of skills and talent—where business discipline and analytical acuity end, and a near-magical grasp of the path of consumer desire, a near-uncanny intuition on timing, and near-mystical power of negotiation persuasiveness begin. It might be said that TRI Pointe's three top executives personify that hybrid blend.

Although the word alchemy may have an appealing ring to it—especially when an individual or an organization is on a good run—elixirs, sorcery, and magic are rarely, if ever, the stuff of the very real world of home building. It's rather a world that lives in and takes its true meaning and value from dirt, from money changing hands, and from often-fickle people making up their minds, and doing what they say they'll do. Or not.

Let's not ever mistake what the people in home building do for alchemy. It's too grueling, complex, and full of risk. It takes something different to make good happen, and there's nothing metaphysical about it. It's about trust.

"It sounds cliché, but it's like we've got the best of both worlds, every bid as nimble and customer-service oriented as a private company can be, but with the powerful resources of marketing behind Linda Mamet and her team, Kevin Wilson and his national purchasing team, and great integrated systems, and collaborative processes, best-practices, and on-hand capital to grow," says Warren, Maracay's president. "And with Doug, Tom, and Mike, it's a self-fueling spiral, around culture, which means we can hire better talent. We can keep super-charging the business."