

New Home Co Inc.  
Form 10-K  
February 26, 2016

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, 2015 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 001-36283

The New Home Company Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)  
85 Enterprise, Suite 450  
Aliso Viejo, California 92656  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (949) 382-7800

27-0560089  
(I.R.S. Employer  
Identification No.)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Non-accelerated filer (Do not check if smaller reporting company)  Smaller reporting company  Accelerated filer

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2015, based on the closing price of \$17.23 as reported by the New York Stock Exchange was \$157,576,707.

There were 20,549,798 shares of the registrant's common stock were issued and outstanding as of February 24, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE:**

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2016, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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## CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this annual report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “goal,” “plan” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part I, Item 1A, “Risk Factors” and Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K. The following factors, among others, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements:

- economic changes either nationally or in the markets in which we operate, including declines in employment, volatility of mortgage interest rates and inflation;
- a downturn in the homebuilding industry;
- continued volatility and uncertainty in the credit markets and broader financial markets;
- our future operating results, financial condition and liquidity;
- our business and investment strategy;
- availability of land to acquire and our ability to acquire such land on favorable terms or at all;
- availability, terms and deployment of capital;
- shortages of or increased prices for labor, land or raw materials used in housing construction;
- delays in land development or home construction resulting from adverse weather conditions or other events outside our control;
- issues concerning our joint venture partnerships;
- the cost and availability of insurance and surety bonds;
- changes in, or the failure or inability to comply with, governmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- our leverage and debt service obligations;
- restrictive covenants relating to our operations in our current or future financing arrangements; and
- availability of qualified personnel and our ability to retain our key personnel.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this annual report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

The forward-looking statements in this annual report on Form 10-K speak only as of the date of this annual report on Form 10-K, and we undertake no obligation to revise or publicly release any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.



## PART 1

### Item 1. Business

As used in this annual report on Form 10-K, unless the context otherwise requires or indicates, references to “the Company,” “our company,” “we,” “our” and “us” (1) for periods prior to the completion of our formation transactions, refer to The New Home Company LLC and its subsidiaries and affiliates, which we sometimes refer to as “TNHC LLC,” and (2) following the completion of our formation transactions, refer to The New Home Company Inc. and its subsidiaries. On January 30, 2014, The New Home Company LLC was converted into a Delaware corporation and renamed The New Home Company Inc., which we refer to as our formation transaction.

#### Our Company

We are a new generation homebuilder focused on the design, construction and sale of innovative and consumer-driven homes in major metropolitan areas within select growth markets in California and Arizona, including coastal Southern California, the San Francisco Bay area, metro Sacramento and the greater Phoenix area. We also seek to create unique communities via our significant land development expertise.

We were founded in August 2009, towards the end of an unprecedented downturn in the U.S. homebuilding industry by Larry Webb, Wayne Stelmar, Joseph Davis and Tom Redwitz, who have worked together for over 25 years. In January 2014, we completed our initial public offering of shares of our common stock. We believe our management team has extensive and complementary construction, design, marketing, development and entitlement expertise, as well as strong relationships with key land sellers within each of our local markets, which provide a competitive advantage in being able to acquire land, create masterplans, obtain entitlements and build quality homes.

In June 2015, Mr. Davis retired from his role as Chief Investment Officer, but was retained by the Company as a consultant on a part-time basis. Concurrent therewith, Mr. Stelmar assumed the role of Chief Investment Officer and John M. Stephens was hired as our Chief Financial Officer.

We employ a local market, consumer-driven approach to designing differentiated homes to meet the unique lifestyle needs of homebuyers across a variety of demographics. We believe our approach to market research and construction expertise across an extensive product offering allows us the flexibility to pursue a wide array of land acquisition opportunities and appeals to a broad range of potential homebuyers, including entry-level, move-up, move-down and luxury customers. The homes that we and our unconsolidated joint ventures are building range in price from approximately \$300,000 to over \$5 million, with home sizes ranging from approximately 800 to 5,400 square feet. We believe that customer-focused community creation and product development, as well as exemplary customer service, are key components of the lifestyle connection we seek to establish with each homebuyer.

Additionally, we strive to enhance the home-buying experience and buyers’ personal investment in their homes by actively engaging them in the selection of design options and upgrades. We believe that our on-site design studios, which allow buyers to personalize our home offerings are a key source of competitive differentiation, and contribute to greater profitability through the sale of higher margin options. In addition to our on-site design studios, we also believe our emphasis on customer care provides us a competitive advantage. In 2013, 2014 and 2015 we were awarded the Eliant Homebuyers’ Choice Award for Best Overall Customer Care Experience and have also been awarded Best Design Selection Experience and Best Construction Experience among mid-size builders. Our commitment to customer satisfaction is a key element of company culture, which fosters an environment where team members can innovate. We believe our reputation for high quality, differentiated architecture and design, as well as high customer satisfaction and company culture, enhances our overall financial performance and generates increased customer loyalty.

#### Our Competitive Strengths and Strategy

We look to drive the success of the business through the following:

##### Focus on Attractive Growth Markets in California and Arizona

We are currently focused on identifying unique sites and creating communities that allow us to design, construct and sell consumer-driven single-family detached and attached homes in major metropolitan areas in coastal Southern California, the San Francisco Bay area, metro Sacramento and the greater Phoenix area. Given our existing land

positions, strong local relationships and reputation for quality building, we believe our business is well-positioned to capitalize on the housing market

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expansion underway in these markets. Certain defining characteristics of our markets include barriers to entry, job growth and increasing populations, which can create growing demand for new housing. Moreover, our management team has deep local market knowledge of the California homebuilding and the land planning and development businesses. We believe this experience and our strong relationships with local market participants enable us to source site acquisitions and achieve land entitlements to fuel our growth.

#### Disciplined Acquisition of Attractive Land Positions

We believe that we own and control high-value land positions strategically located within our core markets. We believe that our professional reputation and long-standing relationships with key land sellers, including master plan community developers, brokers and other builders, as well as our institutional investors and joint venture partners, enable us to acquire well-positioned land parcels in our existing markets as well as new target markets.

In addition, we intend to leverage the strength of our land planning and land development expertise in each local market to add value to our land, capture incremental profit opportunities and provide a steady supply of lots to support the planned growth of our homebuilding business. We seek to acquire land where we believe our development and entitlement skills can help earn a risk-adjusted return that is accretive to our overall return profile and superior to other existing market opportunities. We also have a meaningful fee building business that complements our wholly owned and joint venture business in what we believe to be among the most attractive masterplan communities in coastal Southern California.

We further seek to reduce our exposure to land risk through the use of land options, joint ventures and other flexible land acquisition arrangements. Our joint venture and lot option strategy has been instrumental in allowing us to leverage our entity-level capital and returns on equity, participate in and develop larger masterplan communities, and establish a homebuilding platform focused on high-growth, land-constrained markets.

#### Deliver a Diverse, Consumer-Driven Product Offering and a Superior Home Experience

We consider ourselves a local market, consumer-driven homebuilder with expertise across a wide variety of product types and customer segments, including the entry-level, move-up, move-down and luxury-focused customer segments. In addition to understanding the key economic drivers of demand in our markets, we focus on understanding the pool of potential buyers, the product types sought by those buyers and the proper price point for the product types in each market. We perform extensive consumer research that helps us create land plans and design homes that meet the needs and desires of our specific targeted buyers. Our homes are competitively priced, but are not designed to be the lowest cost option in the market. 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 the buyer's lifestyle needs and enhancing communication, knowledge and satisfaction.

A key element of our strategy is to allow all buyers to personalize their homes regardless of the price point. Unlike many homebuilders with centralized locations where buyers must travel to select options and upgrades, each of our communities has an on-site design center with dedicated designers who are knowledgeable about the attributes of the homes offered in the community. The specific options and upgrades, both structural and finishes, available for the community are selected by our buyers as they navigate the buying process. In many cases, these options and upgrades can form a substantial part of the total purchase price of a home and are typically priced with profit margins in excess of the profit margins on the base home purchase before the options and upgrades. We believe that the active participation of buyers in selecting options and upgrades results in buyers becoming more personally invested in their homes, which leads to fewer cancellations. We also believe our diversified product strategy enables us to better serve a wide range of buyers, adapt quickly to changing market conditions and improve performance while strategically reducing portfolio risk.

#### Increase Active Community Count in Our Markets

Our belief that homebuilding is a local market business supports our strategy to pursue significant opportunities to expand our business in our existing markets. We continually review the allocation of capital among our markets, based on both aggregate demographic information and our own operating results. We use the results of these reviews



to focus our investments on those markets where we believe we can increase our profitability and return on capital. Additionally, we engage in limited speculative building and proceed with community development in phases where we believe it is economically feasible to do so with the goal of optimizing community design and increasing profits. We may explore expansion opportunities, including in other markets, through organic growth or acquisitions, but our primary growth strategy is currently focused on increasing our market position in our existing markets.

We recently purchased 68 lots through an unconsolidated joint venture in an infill location of Paradise Valley in the metropolitan Phoenix area, and have hired an experienced local division president to establish our presence in the Phoenix market.

## Focus on Cost Structure

Cost control throughout our business permeates our corporate culture. Our management team maintains its focus on controlling costs and implementing measures designed to ensure that our organization is efficient. We competitively bid each community while maintaining strong relationships with our trade partners. We manage production schedules closely and, while respecting our valued relationships, require accountability from our vendors and trade partners.

## Description of Completed Projects and Communities under Development

Our homebuilding projects usually take approximately 24 to 48 months to complete from the initiation of homebuilding activity. Our lot development projects usually take approximately 24 to 48 months to complete from the acquisition of land. The following table presents project information relating to each of our markets as of December 31, 2015 and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

Project, City	Total Number of Homes or Lots to Be Built at Completion <sup>(1)</sup>	Cumulative Homes or Lots Delivered as of December 31, 2015	Lots as of December 31, 2015 <sup>(2)</sup>	Backlog at December 31, 2015 <sup>(3)</sup>	Homes or Lots Delivered for the Year Ended December 31, 2015	Sales Range of Homes Delivered or in Backlog (in 000's) <sup>(4)</sup>
<b>Wholly-owned Projects</b>						
<b>Southern California</b>						
Canyon Oaks, Calabasas <sup>(6)</sup>	69	—	69	—	—	Not Available
Amelia, Irvine	70	39	8	6	33	\$1,850 - \$2,650
Trevi, Irvine	82	35	8	6	30	\$2,340 - \$3,960
Fiano, Newport Beach	39	11	8	25	11	\$3,270 - \$5,770
Twenty Oaks, Thousand Oaks	20	—	20	8	—	\$1,140 - \$1,400
Cressa, Portola Springs	95	—	3	—	—	Not Available
Sherman Oaks 7, Sherman Oaks	7	—	7	—	—	Not Available
<b>Southern California Total</b>	<b>382</b>	<b>85</b>	<b>123</b>	<b>45</b>	<b>74</b>	
<b>Northern California</b>						
Mission Blvd, Fremont	33	—	33	—	—	Not Available
Woodbury Garden, Lafayette	36	26	10	—	26	\$1,170 - \$2,020
Woodbury Terrace, Lafayette	20	—	20	3	—	\$1,100 - \$1,190
Chaparral at Blackstone, El Dorado Hills	72	—	72	6	—	\$430 - \$520
The Grove, Granite Bay	14	10	4	4	8	\$930 - \$1,800
The Meadows, Folsom	40	40	—	—	15	\$410 - \$560
Candela, Sacramento	10	5	5	1	5	\$280 - \$320
Cannery Heirloom, Davis	72	15	57	6	15	\$450 - \$650
Cannery Sage, Davis	73	5	30	2	5	\$990 - \$1,290
Bayto, Santa Clara <sup>(6)</sup>	33	—	33	—	—	Not Available
Shannon Townhomes, Fremont	25	—	25	—	—	Not Available
<b>Northern California Total</b>	<b>428</b>	<b>101</b>	<b>289</b>	<b>22</b>	<b>74</b>	
<b>Wholly-owned Projects Total</b>	<b>810</b>	<b>186</b>	<b>412</b>	<b>67</b>	<b>148</b>	
<b>Unconsolidated Homebuilding Joint Venture Projects<sup>(5)</sup></b>						
<b>Southern California</b>						
Aqua, Villa Metro, Valencia	95	92	3	1	20	\$310 - \$420

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Terra, Villa Metro, Valencia	99	83	16	3	28	\$360 - \$480
Sol, Villa Metro, Valencia	99	86	13	2	26	\$380 - \$480
Cielo, Villa Metro, Valencia	22	21	1	—	13	\$360 - \$520
Avanti, Calabasas <sup>(6)</sup>	72	—	72	14	—	\$1,270 - \$1,650
Meridian, Newport Beach	79	77	2	1	56	\$1,710 - \$4,350
Oliva, San Juan Capistrano <sup>(7)</sup>	40	2	38	10	2	\$1,780 - \$2,540
Southern California Total	506	361	145	31	145	

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Project, City	Total Number of Homes or Lots to Be Built at Completion <sup>(1)</sup>	Cumulative Homes or Lots Delivered as of December 31, 2015	Lots as of December 31, 2015 <sup>(2)</sup>	Backlog at December 31, 2015 <sup>(3)</sup>	Homes or Lots Delivered for the Year Ended December 31, 2015	Sales Range of Homes Delivered or in Backlog (in 000's) <sup>(4)</sup>
Northern California						
Garden House, Rose Lane, Larkspur	29	29	—	—	12	\$1,650 - \$3,490
Terraces, Rose Lane, Larkspur <sup>(6)</sup>	42	42	—	—	15	\$640 - \$1,200
Row Towns, Orchard Park, San Jose	107	48	59	21	39	\$690 - \$1,010
Court Towns, Orchard Park, San Jose	60	38	22	20	29	\$690 - \$1,010
Condo Flats, Orchard Park, San Jose	72	29	43	33	25	\$730 - \$1,070
McKinley Village, Sacramento	336	—	336	—	—	Not Available
Tidelands, San Mateo <sup>(6)</sup>	76	—	76	4	—	\$750 - \$1,360
Northern California Total	722	186	536	78	120	
Unconsolidated Homebuilding Joint Venture Projects Total	1,228	547	681	109	265	
Unconsolidated Land Joint Venture Projects <sup>(5)</sup>						
Southern California						