

## News

# Sternlicht Cashing In on Housing Rebound in U.S. With IPO

**B**arry Sternlicht, who built his career buying distressed real estate in the early 1990s, is seeking to profit from the U.S. housing market revival by taking public a four-year-old homebuilder that has yet to make money.

Tri Pointe Homes LLC (TPH), an Irvine, California-based company 83.5 percent-owned by Sternlicht's closely held Starwood Capital Group LLC, has filed to raise as much as \$187.2 million through an initial public offering. The IPO will help Sternlicht, who plans to sell 1.7 million of his Tri Pointe shares, get low-cost capital for the company and recoup part of Starwood's \$150 million investment as demand for new houses and homebuilder stocks rises.

"The markets are of the opinion that homebuilding is doing nothing but going up," Jeff Meyers, president of Meyers Research, a unit of Beverly Hills, California-based Kennedy-Wilson Holdings Inc., said in a telephone interview. "The best time for an IPO is when it looks like the sky has cleared."

Homebuilder shares yesterday rose to their highest levels since August 2007, after a report showing housing starts last month jumped 37 percent from a year earlier to an annual pace of 954,000, the fastest rate since June 2008. Tri Pointe is one of two homebuilders that have filed IPO plans since the beginning of last month. Scottsdale, Arizona-based Taylor Morrison Home Corp. (TMHC) said on Jan. 16 that it wants to raise \$250 million.

## MAJORITY OWNER

Starwood Capital, based in Greenwich, Connecticut, has about \$20 billion of real estate assets under management, including office buildings, hotels and residences, ranging from single-family rental homes to apartment buildings, according to the Tri Pointe filing.

Sternlicht, Tri Pointe's chairman, may continue to own a majority of the company after it goes public, potentially holding 51.7 percent of

its shares. The underwriters, led by Citigroup Inc. (C), Deutsche Bank AG and FBR & Co., have the option to purchase as many as 1.76 million shares. That would leave Sternlicht's ownership stake at 46.1 percent should the options be fully exercised.

Starwood has the right to designate two members of Tri Pointe's board as long as it owns at least 25 percent of the common stock. Starwood Managing Director Marc Perrin, who oversees the firm's West Coast investing, sits on Tri Pointe's board.

The IPO will give Sternlicht a potential exit from his investment, through a sale to or merger with a larger builder in about five years, said Stephen Duffy, an investment banker with Moss Adams Capital LLC in Irvine.

## 'LAST BOOM'

"This is what I would do assuming we return to the housing mergers and acquisition market that we saw in the last boom," Duffy said in an e-mail. "I believe that we will."

Sternlicht, 52, declined to comment on the IPO, citing regulatory restrictions on discussing a pending offering, according to his spokesman, Tom Johnson of public-relations firm Abernathy MacGregor Group.

Tri Pointe, which hasn't reported a profit since its 2009 founding, had revenue of \$26.7 million for the 12 months through Sept. 30. It expects to report home-sale revenue for the quarter ended Dec. 31 of \$52 million to \$55 million, according to the preliminary prospectus. The company's strategy is to acquire land it can sell within two or three years "to maximize our returns on capital and minimize our exposure to market risk," the builder said in the prospectus.

## IPO PROCEEDS

Tri Pointe and Sternlicht are seeking to sell 11.7 million shares at \$14 to \$16 each, according to

a filing two days ago. The IPO will raise about \$137.7 million for the company, assuming a share price of \$15, after underwriting discounts and offering expenses. Proceeds will be used "primarily for the acquisition of land," according to the prospectus.

Tri Pointe is an "emerging growth company," as defined in last year's Jumpstart Our Business Startups Act, also known as the JOBS Act, which allows companies to go public with just two years of audited financial statements rather than what had been a three-year minimum. That makes calculating the company's valuation relative to publicly traded homebuilders difficult.

The company owned or had options to buy 1,393 lots as of Sept. 30. A light land position can present a challenge at a time when builders are competing to amass lots.

"In a recovering market, land becomes the biggest constraining factor," Stuart Miller, chief executive officer of Miami-based homebuilder Lennar Corp. (LEN), said on a conference call this week. "Across the market right now, it is the biggest constraining factor for builders. Driving community count and finding new locations is very difficult."

## LAND PIPELINE

One of Tri Pointe's advantages is having a pipeline of land from Starwood, which has been acquiring lots since 2007, when prices were falling as demand for new homes collapsed. Selling Starwood land to Tri Pointe is a way for Sternlicht to be involved with both sides of the transaction, said Richard Gollis, principal at Newport Beach, California-based Concord Group, a real estate advisory firm.

"Having a public builder provides an additional opportunity to monetize their land inventory," Gollis said in a telephone interview.

At the end of 2011, the most recent reporting period, Sternlicht's Starwood Land Ventures LLC had spent \$220 million to acquire almost

17,000 residential lots and generated \$138 million in proceeds from the sale of more than 3,600 lots, according to a company statement from February of last year.

#### **'BIG INVESTMENT'**

"We made a big investment in residential land in '08 and '09 and we didn't lever that at all," Sternlicht said in a Nov. 30 interview with Bloomberg Radio. "We're just waiting for the markets to recover, which they are."

Tri Pointe intends to use proceeds from its IPO to acquire 92 lots in Castle Rock, Colorado, from Starwood for \$5.4 million, according to the preliminary prospectus. In December, Tri Pointe paid about \$3.2 million for 57 lots in the Colorado development, according to the filing.

Tri Pointe said in its prospectus that conflicts may arise with Starwood, and that Starwood may pursue land deals with competitors.

Starwood controlled more than 21,100 residential lots throughout the U.S. as of Sept. 30, including about 9,600 lots in California, Arizona and Colorado, where Tri Pointe is operating, according to the company's IPO prospectus.

#### **STRONGEST RECOVERY**

Western states that suffered the biggest housing collapse after prices peaked in 2006 have had the strongest recovery. An index of home-

builder confidence in the western U.S. jumped 14 points in January to 59, its highest since June 2006, according to a Jan. 16 report by the National Association of Home Builders and Wells Fargo & Co. A reading below 50 means more respondents reported poor conditions than reported good conditions, and higher than 50 means the reverse. The U.S. index stood at 47, unchanged from December.

Tri Pointe CEO Doug Bauer, President Thomas Mitchell and Chief Financial Officer Michael Grubbs worked together at William Lyon Homes, a Newport Beach-based builder that went private in 2006. William Lyon Homes, which had borrowed \$206 million from Thomas Barrack's Colony Financial Inc., exited from a prepackaged bankruptcy in December 2011 with Luxor Capital Group LP as its majority owner.

"They're experienced and well-liked in the industry," Meyers said of the three executives.

None of the three was able to comment because Tri Pointe is in a quiet period, according to Bauer.

#### **APARTMENT PURCHASES**

Sternlicht founded Starwood in 1991 and began buying apartments seized from savings-and-loan companies by the U.S. government's Resolution Trust Corp. In 2009, he led a group that took over the real estate assets of bank-

rupt Corus Bankshares Inc. from the Federal Deposit Insurance Corp.

The public-private partnership has repaid \$1.3 billion to the FDIC and amassed more than \$1 billion of cash, it said in a statement today. ST Residential, the property manager owned by the partnership, has begun marketing a portfolio of 13 multifamily properties with an estimated \$1 billion value, according to the statement.

"We are very proud of where we have taken this portfolio and look forward to finishing our task with continued excellent performance, including the sale of this portfolio," Sternlicht said in the statement.

Sternlicht has structured more than 300 investment transactions with an asset value of more than \$40 billion, according to his company biography. From 1995 to 2005, he was chairman and CEO of Starwood Hotels & Resorts Worldwide Inc. (HOT), where he created the W hotel chain.

"This is the best time to invest in property relative to other asset classes since probably 1990, when I started Starwood Capital Group," Sternlicht said in the November interview. "The asset class is in a sweet spot. It's a good time for the property markets in the U.S."

*By John Gittelsohn*