TRI Pointe Group, Inc.
Form 10-Q
April 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

or

o 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

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 x No ¨

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 x No ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Registrant's shares of common stock outstanding at April 22, 2016: 162,048,087

EXPLANATORY NOTE

As used in this Quarterly Report on Form 10-Q (including the consolidated financial statements and condensed notes thereto in this report), unless the context otherwise requires:

- “Closing Date” refers to July 7, 2014;
- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “GAAP” refers to U.S. generally accepted accounting principles;
- “Merger” refers to the merger of a wholly owned subsidiary of TRI Pointe with and into WRECO, with WRECO surviving the merger and becoming a wholly owned subsidiary of TRI Pointe;
- “SEC” refers to the United States Securities and Exchange Commission;
- “Securities Act” refers to the Securities Act of 1933, as amended;
- “Transaction Agreement” refers to the agreement dated as of November 3, 2013 by and among Weyerhaeuser, TRI Pointe, WRECO, and a wholly owned subsidiary of TRI Pointe;
- “TRI Pointe Homes” refers to TRI Pointe Homes, Inc., a Delaware corporation;
- “TRI Pointe Group” refers to TRI Pointe Group, Inc., a Delaware corporation;
- “Weyerhaeuser” refers to Weyerhaeuser Company, a Washington corporation and the former parent of WRECO; and
- “WRECO” refers to Weyerhaeuser Real Estate Company, a Washington corporation, which following the Closing Date was renamed “TRI Pointe Holdings, Inc.”

Additionally, references to “TRI Pointe”, “the Company”, “we”, “us” or “our” in this Quarterly Report on Form 10-Q (includin the consolidated financial statements and condensed notes thereto in this report) have the following meanings, unless the context otherwise requires:

- For periods prior to July 7, 2015: TRI Pointe Homes and its subsidiaries; and
- For periods from and after July 7, 2015: TRI Pointe Group and its subsidiaries.

TRI POINTE GROUP, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
TRI POINTE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$144,019	$214,485
Receivables	32,688	43,710
Real estate inventories	2,705,251	2,519,273
Investments in unconsolidated entities	17,494	18,999
Goodwill and other intangible assets, net	161,895	162,029
Deferred tax assets, net	126,812	130,657
Other assets	45,918	48,918
Total assets	$3,234,077	$3,138,071
Liabilities		
Accounts payable	$67,601	$64,840
Accrued expenses and other liabilities	201,302	216,263
Unsecured revolving credit facility	374,392	299,392
Seller financed loans	—	2,434
Senior notes, net	869,939	868,679
Total liabilities	1,513,234	1,451,608
Commitments and contingencies (Note 14)		
Equity		
Stockholders’ Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized; 162,007,850 and 161,813,750 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	1,620	1,618
Additional paid-in capital	912,719	911,197
Retained earnings	780,418	751,868
Total stockholders’ equity	1,694,757	1,664,683
Noncontrolling interests	26,086	21,780
Total equity	1,720,843	1,686,463
Total liabilities and equity	$3,234,077	$3,138,071

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2016	2015
Homebuilding:		
Home sales revenue	$423,055	$374,265
Land and lot sales revenue	355	2,000
Other operations	580	993
Total revenues	423,990	377,258
Cost of home sales	324,499	299,907
Cost of land and lot sales	779	2,308
Other operations	566	562
Sales and marketing	26,321	23,286
General and administrative	28,396	28,153
Restructuring charges	135	222
Homebuilding income from operations	43,294	22,820
Equity in (loss) income of unconsolidated entities	(14)	107
Other income, net	115	256
Homebuilding income before taxes	43,395	23,183
Financial Services:		
Revenues	148	—
Expenses	58	26
Equity in income (loss) of unconsolidated entities	715	(33)
Financial services income (loss) from operations before taxes	805	(59)
Income before taxes	44,200	23,124
Provision for income taxes	(15,490)	(7,827)
Net income	28,710	15,297
Net income attributable to noncontrolling interests	(160)	—
Net income available to common stockholders	$28,550	$15,297
Earnings per share		
Basic	$0.18	$0.09
Diluted	$0.18	$0.09
Weighted average shares outstanding		
Basic	161,895,640	161,490,970
Diluted	162,192,610	162,807,376

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(unaudited)

(in thousands, except share amounts)

	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2014	161,355,490	$ 1,614	$ 906,159	$ 546,407	$ 1,454,180	$ 18,296	$ 1,472,476
Net income	—	—	—	205,461	205,461	1,720	207,181
Adjustment to capital contribution by Weyerhaeuser, net	—	—	(6,747)	—	(6,747)	—	(6,747)
Shares issued under share-based awards	458,260	4	1,612	—	1,616	—	1,616
Excess tax benefit of share-based awards, net	—	—	428	—	428	—	428
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(2,190)	—	(2,190)	—	(2,190)
Stock-based compensation expense	—	—	11,935	—	11,935	—	11,935
Distributions to noncontrolling interests, net	—	—	—	—	—	(3,833)	(3,833)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	5,597	5,597
Balance at December 31, 2015	161,813,750	1,618	911,197	751,868	1,664,683	21,780	1,686,463
Net income	—	—	—	28,550	28,550	160	28,710

Shares issued under share-based awards	194,100	2	4	—	6	—	6
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(1,087)	—	(1,087)	—	(1,087)
Stock-based compensation expense	—	—	2,605	—	2,605	—	2,605
Distributions to noncontrolling interests, net	—	—	—	—	—	(1,719)	(1,719)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	5,865	5,865
Balance at March 31, 2016	162,007,850	$ 1,620	$ 912,719	$ 780,418	$ 1,694,757	$ 26,086	$ 1,720,843

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net income	$28,710	$15,297
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,792	1,481
Equity in income of unconsolidated entities, net	(701)	(74)
Deferred income taxes, net	3,845	2,018
Amortization of stock-based compensation	2,605	2,381
Charges for impairments and lot option abandonments	182	360
Changes in assets and liabilities:		
Real estate inventories	(180,540)	(127,304)
Receivables	11,141	(2,894)
Other assets	2,871	6,963
Accounts payable	2,761	(7,865)
Accrued expenses and other liabilities	(14,828)	1,323
Returns on investments in unconsolidated entities, net	2,486	—
Net cash used in operating activities	(139,676)	(108,314)
Cash flows from investing activities:		
Purchases of property and equipment	(411)	(378)
Investments in unconsolidated entities	(13)	(978)
Net cash used in investing activities	(424)	(1,356)
Cash flows from financing activities:		
Borrowings from debt	75,000	50,000
Repayment of debt	(2,434)	(2,535)
Net repayments of debt held by variable interest entities	(132)	(742)
Contributions from noncontrolling interests	808	873
Distributions to noncontrolling interests	(2,527)	(726)
Proceeds from issuance of common stock under share-based awards	6	263
Excess tax benefits of share-based awards	—	308
Minimum tax withholding paid on behalf of employees for share-based awards	(1,087)	(1,827)
Net cash provided by financing activities	69,634	45,614
Net decrease in cash and cash equivalents	(70,466)	(64,056)
Cash and cash equivalents - beginning of period	214,485	170,629
Cash and cash equivalents - end of period	$144,019	$106,573

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

Organization

TRI Pointe Group is engaged in the design, construction and sale of innovative single-family attached and detached homes through its portfolio of six quality brands across eight states, including Maracay Homes in Arizona, Pardee Homes in California and Nevada, Quadrant Homes in Washington, Trendmaker Homes in Texas, TRI Pointe Homes in California and Colorado and Winchester Homes in Maryland and Virginia.

Formation of TRI Pointe Group

On July 7, 2015, TRI Pointe Homes reorganized its corporate structure (the "Reorganization") whereby TRI Pointe Homes became a direct, wholly owned subsidiary of TRI Pointe Group. As a result of the Reorganization, each share of common stock, par value $0.01 per share, of TRI Pointe Homes ("Homes Common Stock") was cancelled and converted automatically into the right to receive one validly issued, fully paid and non-assessable share of common stock, par value $0.01 per share, of TRI Pointe Group ("Group Common Stock"), each share having the same designations, rights, powers and preferences, and the qualifications, limitations and restrictions thereof as the shares of Homes Common Stock being so converted. TRI Pointe Group, as the successor issuer to TRI Pointe Homes (pursuant to Rule 12g-3(a) under the Exchange Act), began making filings under the Securities Act and the Exchange Act on July 7, 2015.

In connection with the Reorganization, TRI Pointe Group (i) became a co-issuer of TRI Pointe Homes' 4.375% Senior Notes due 2019 (the "2019 Notes") and TRI Pointe Homes' 5.875% Senior Notes due 2024 (the "2024 Notes" and together with the 2019 Notes, the "Senior Notes"); and (ii) replaced TRI Pointe Homes as the borrower under TRI Pointe Homes' existing unsecured revolving credit facility.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with GAAP, as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as described in "Reverse Acquisition" below, as well as other entities in which the Company has a controlling interest and variable interest entities ("VIEs") in which the Company is the primary beneficiary. The noncontrolling interests as of March 31, 2016 and December 31, 2015 represent the outside owners' interests in the Company's consolidated entities and the net equity of the VIE owners. All significant intercompany accounts have been eliminated upon consolidation. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included.

Reverse Acquisition

On the Closing Date, TRI Pointe consummated the Merger with WRECO, with WRECO becoming a wholly owned subsidiary of TRI Pointe. The Merger is accounted for in accordance with ASC Topic 805, Business Combinations. For accounting purposes, the Merger is treated as a "reverse acquisition" and WRECO is considered the accounting acquirer.

Use of Estimates

Our financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from our estimates.

Reclassifications

Certain amounts in our consolidated financial statements for prior years have been reclassified to conform to the current period presentation.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue-recognition requirements in ASC Topic 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. On July 9, 2015, the FASB voted to defer the effective date of ASU No. 2014-09 by one year and it is now effective for public entities for the annual periods ending after December 15, 2017, and for annual and interim periods thereafter. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. Early adoption is permitted, but can be no earlier than the original public entity effective date of fiscal years, and the interim periods within those years, beginning after December 15, 2016. We are currently evaluating the approach for implementation and the potential impact of adopting this guidance on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 ("ASU 2014-15"), Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis.   ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We adopted ASU 2015-02 on January 1, 2016 and the adoption had no impact on our current or prior year financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, ("ASU 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of position. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The adoption of ASU 2015-17 is not expected to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, ("ASU 2016-02"), Leases (Topic 842): Leases, which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASU 2016-02 may have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, ("ASU 2016-09"), Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. We are currently evaluating the impact that the adoption of ASU 2016-09 may have on our consolidated financial statements and disclosures.

2. Restructuring

Restructuring charges were comprised of the following (in thousands):

	Three Months Ended March 31,	
	2016	2015
Employee-related charges	$13	$112
Lease termination charges	122	110
Total	$135	$222

Employee-related charges of $13,000 and $112,000 for the three months ended March 31, 2016 and 2015, respectively, relate to severance-related expenses for employees terminated during the period. Lease termination charges of $122,000 and $110,000 for the three months ended March 31, 2016, and 2015, respectively, relate to the adjustment of restructuring reserves related to the estimate of sublease income.

Changes in employee-related restructuring reserves were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Accrued employee-related charges, beginning of period	$220	$3,844
Current year charges	13	112
Payments	(159)	(3,423)
Accrued employee-related charges, end of period	$74	$533

Changes in lease termination related restructuring reserves were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Accrued lease termination charges, beginning of period	$767	$1,394
Current year charges	122	110
Payments	(312)	(578)
Accrued lease termination charges, end of period	$577	$926

Employee and lease termination restructuring reserves are included in accrued expenses and other liabilities on our consolidated balance sheets.

3. Segment Information

We operate two principal businesses: homebuilding and financial services.

Our homebuilding operations consist of six homebuilding companies that acquire and develop land and construct and sell single-family detached and attached homes. In accordance with ASC Topic 280, Segment Reporting, in determining the most appropriate reportable segments, we considered similar economic and other characteristics, including product types, average selling prices, gross profits, production processes, suppliers, subcontractors, regulatory environments, land acquisition results, and underlying demand and supply. Based upon the above factors, our homebuilding operations are comprised of the following six reportable segments: Maracay Homes, consisting of operations in Arizona; Pardee Homes, consisting of operations in California and Nevada; Quadrant Homes, consisting of operations in Washington; Trendmaker Homes, consisting of operations in Texas; TRI Pointe Homes, consisting of operations in California and Colorado; and Winchester Homes, consisting of operations in Maryland and Virginia.

Our financial services operation (“TRI Pointe Solutions”) is a reportable segment and is comprised of mortgage financing operations (“TRI Pointe Connect”) and title services operations (“TRI Pointe Assurance”). While our homebuyers may obtain financing from any mortgage provider of their choice, TRI Pointe Connect, which was formed as a joint venture with an established mortgage lender, can act as a preferred mortgage broker to our homebuyers in all of the markets in which we operate, providing mortgage financing that helps facilitate the sale and closing process as well as generate additional fee income for us. TRI Pointe Assurance provides title examinations for our homebuyers in our Trendmaker Homes and Winchester Homes brands. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company. We commenced our financial services operation in the fourth quarter of 2014.

The term “Corporate” refers to a non-operating segment that develops and implements company-wide strategic initiatives and provides support to our homebuilding reporting segments by centralizing certain administrative functions, such as marketing, legal, accounting, treasury, insurance, internal audit and risk management, information technology and human resources, to benefit from economies of scale. Our Corporate non-operating segment also includes general and administrative expenses related to operating our corporate headquarters. A portion of the expenses incurred by Corporate is allocated to the homebuilding reporting segments.

The reportable segments follow the same accounting policies as our consolidated financial statements described in Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies. Operational results of each reportable segment are not necessarily indicative of the results that would have been achieved had the reportable segment been an independent, stand-alone entity during the periods presented.

Total revenues and income before taxes for each of our reportable segments were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenues		
Maracay Homes	$45,437	$32,477
Pardee Homes	118,933	85,658
Quadrant Homes	46,058	45,629
Trendmaker Homes	43,786	56,208
TRI Pointe Homes	131,957	106,858
Winchester Homes	37,819	50,428
Total homebuilding revenues	423,990	377,258
Financial services	148	—
Total	$424,138	$377,258
Income (loss) before taxes		
Maracay Homes	$2,636	$1,040
Pardee Homes	32,131	13,559
Quadrant Homes	3,696	1,580
Trendmaker Homes	2,058	4,360
TRI Pointe Homes	10,715	11,132
Winchester Homes	661	381
Corporate	(8,502)	(8,869)
Total homebuilding income before taxes	43,395	23,183
Financial services	805	(59)
Total	$44,200	$23,124

Total real estate inventories and total assets for each of our reportable segments, as of the date indicated, were as follows (in thousands):

	March 31, 2016	December 31, 2015
Real estate inventories		
Maracay Homes	$211,362	$206,912
Pardee Homes	1,066,086	1,011,982
Quadrant Homes	209,707	190,038
Trendmaker Homes	214,290	199,398
TRI Pointe Homes	742,753	659,130
Winchester Homes	261,053	251,813
Total	$2,705,251	$2,519,273
Total assets		
Maracay Homes	$241,762	$227,857
Pardee Homes	1,139,330	1,089,586

Quadrant Homes	231,436	202,024
Trendmaker Homes	227,791	213,562
TRI Pointe Homes	907,366	832,423
Winchester Homes	289,890	278,374
Corporate	193,688	292,169
Total homebuilding assets	3,231,263	3,135,995
Financial services	2,814	2,076
Total	$3,234,077	$3,138,071

4. Earnings Per Share

The following table sets forth the components used in the computation of basic and diluted earnings per share (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net income available to common stockholders	$28,550	$15,297
Denominator:		
Basic weighted-average shares outstanding	161,895,640	161,490,970
Effect of dilutive shares:		
Stock options and unvested restricted stock units	296,970	1,316,406
Diluted weighted-average shares outstanding	162,192,610	162,807,376
Earnings per share		
Basic	$0.18	$0.09
Diluted	$0.18	$0.09
Antidilutive stock options not included in diluted earnings per share	5,449,790	1,266,863

5. Receivables

Receivables consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Escrow proceeds and other accounts receivable, net	$22,026	$ 32,917
Warranty insurance receivable (Note 14)	10,362	10,493
Notes and contracts receivable	300	300
Total receivables	$32,688	$ 43,710

6. Real Estate Inventories

Real estate inventories consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Real estate inventories owned:		

Homes completed or under construction	$650,602	$575,076
Land under development	1,554,925	1,443,461
Land held for future development	295,428	295,241
Model homes	146,078	140,232
Total real estate inventories owned	2,647,033	2,454,010
Real estate inventories not owned:		
Land purchase and land option deposits	24,278	39,055
Consolidated inventory held by VIEs	33,940	26,208
Total real estate inventories not owned	58,218	65,263
Total real estate inventories	$2,705,251	$2,519,273

Homes completed or under construction is comprised of costs associated with homes in various stages of construction and includes direct construction and related land acquisition and land development costs. Land under development primarily consists of land acquisition and land development costs, which include capitalized interest and real estate taxes, associated with land undergoing improvement activity. Land held for future development principally reflects land acquisition and land development costs related to land where development activity has not yet begun or has been suspended, but is expected to occur in the future.

Real estate inventories not owned represents deposits related to land purchase and land option agreements as well as consolidated inventory held by variable interest entities. For further details, see Note 8, Variable Interest Entities.

Interest incurred, capitalized and expensed were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Interest incurred	$15,149	$15,176
Interest capitalized	(15,149)	(15,176)
Interest expensed	$—	$—
Capitalized interest in beginning inventory	$140,311	$124,461
Interest capitalized as a cost of inventory	15,149	15,176
Interest previously capitalized as a cost of inventory, included in cost of sales	(8,830)	(6,765)
Capitalized interest in ending inventory	$146,630	$132,872

Interest is capitalized to real estate inventory during development and other qualifying activities. Interest that is capitalized to real estate inventory is included in cost of home sales as related units are delivered. Interest that is expensed as incurred is included in other income, net.

Real estate inventory impairments and land and lot option abandonments

Land and lot option abandonments and pre-acquisition charges were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Land and lot option abandonments and pre-acquisition charges	182	360
Total	$182	