

Transcript of  
D.R. Horton, Inc.  
Q4 2024 Earnings Call/Webcast  
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**Participants**

Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.  
Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.  
Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.  
Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.

**Analysts**

Stephen Kim - Evercore ISI  
Matthew Bouley - Barclays  
John Lovallo - UBS Group AG  
Carl Reichardt - BTIG, LLC  
Sam Reid - Wells Fargo & Company  
Michael Rehaut - JPMorgan Chase & Co.  
Alan Ratner - Zelman & Associates LLC  
Eric Bosshard - Cleveland Research Company  
Paul Przybylski - Wolfe Research, LLC  
Anthony Pettinari - Citigroup Inc.  
Kenneth Zener - Seaport Research Partners  
Rafe Jadrosich - Bank of America  
Susan Maklari - Goldman Sachs  
Jade Rahmani - Keefe, Bruyette & Woods, Inc.

**Presentation**

**Operator**

Good morning, and welcome to the Fourth Quarter 2024 Earnings Conference Call for D.R. Horton, America's Builder, the largest builder in the United States. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

I will now turn the call over to Jessica Hansen, Senior Vice President of Communications for D.R. Horton.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Thank you, Tom, and good morning. Welcome to our call to discuss our fourth quarter and fiscal 2024 financial results.

Before we get started, today's call includes forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Although D.R. Horton believes any such statements

are based on reasonable assumptions, there is no assurance that actual outcomes will not be materially different. All forward-looking statements are based upon information available to D.R. Horton on the date of this conference call, and D.R. Horton does not undertake any obligation to publicly update or revise any forward-looking statements.

Additional information about factors that could lead to material changes in performance is contained in D.R. Horton's annual report on Form 10-K and our most recent quarterly report on Form 10-Q, both of which are filed with the Securities and Exchange Commission.

This morning's earnings release can be found on our website at [investor.drhorton.com](http://investor.drhorton.com), and we plan to file our 10-K in about 3 weeks. After this call, we will post updated investor and supplementary data presentations to our Investor Relations site on the Presentation section under News and Events for your reference.

Now, I will turn the call over to Paul Romanowski, our President and CEO.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Thank you, Jessica, and good morning. I'm pleased to also be joined on this call by Mike Murray, our Executive Vice President and Chief Operating Officer; and Bill Wheat, our Executive Vice President and Chief Financial Officer.

The D.R. Horton team produced solid results to finish the year, highlighted by consolidated pre-tax income of \$1.7 billion on revenues of \$10 billion, with a pre-tax profit margin of 17.1%. Earnings per diluted share for the fourth quarter were \$3.92. For the year, earnings per diluted share increased 4% to \$14.34, and our consolidated pre-tax income was \$6.3 billion on revenues of \$36.8 billion, with a pre-tax profit margin of 17.1%.

Our homebuilding pre-tax return on inventory for the year was 27.8%. Return on equity was 19.9%, and return on assets was 13.9%. Our return on assets ranks in the top 25% of all S&P 500 companies for the past 3, 5, and 10 year periods.

Our consolidated cash flow from operations for 2024 was \$2.2 billion, and we returned all of the cash we generated this year to shareholders through repurchases and dividends. Our fiscal 2024 share distributions increased by approximately \$700 million, or 44% from the prior year. Over the past 5 years, we have generated \$9 billion of cash flow from operations, and we have reduced our outstanding share count by 12%.

For the quarter, despite continued affordability challenges and competitive market conditions, our net sales orders increased slightly from the prior year. Our sales pace was in line with normal seasonality from the third to fourth quarter, but below our expectations. While mortgage rates have decreased from their highs earlier this year, many potential homebuyers expect rates to be lower in 2025. We believe that the volatility of rates combined with general uncertainty during the election season is causing some buyers to stay on the sidelines in the near-term. To help spur demand and address affordability, we are continuing to use incentives, such as mortgage rate buydowns, and we have continued to start and sell more of our smaller floor plans.

With 46% of fourth quarter closings also sold in the same quarter, our sales, incentive levels, and gross margin are generally representative of current market conditions. We typically experience seasonally slower demand during the fall, and our tenured local operators seek to find the right balance of sales pace, pricing, and incentives in each community that will best position our returns and inventory levels before we enter the spring.

For the full year of fiscal 2025, our homebuilding volume and profit margins will largely be dependent on the strength of the upcoming spring selling season. Overall, the demographics supporting housing demand are favorable, and we continue to see a generally limited supply of both new and existing homes at affordable price points, in addition to a limited supply of finished lots available for new home construction.

With our focus on affordable product offerings, 37,400 homes in inventory, continued improvement in our construction cycle times, and adequate finished lots available in our pipeline, we are well positioned for fiscal 2025.

We remain focused on enhancing the capital efficiency of all of our operations to produce consistent, sustainable returns and cash flows, so that we can return more capital to shareholders through both share repurchases and dividends. Mike?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Earnings for the fourth quarter of fiscal 2024 decreased 12% to \$3.92 per diluted share, compared to \$4.45 per share in the prior year quarter. Earnings for the full year increased 4% to \$14.34 per diluted share compared to \$13.82 in fiscal 2023.

Net income for the quarter decreased 15% to \$1.3 billion on consolidated revenues of \$10 billion. And for the year, net income increased slightly to \$4.8 billion on revenues of \$36.8 billion. Our fourth quarter home sales revenues were \$8.9 billion on 23,647 homes closed compared to \$8.8 billion on 22,928 homes closed in the prior year. Our average closing price for the quarter was \$377,600, down 1%, both sequentially and from the prior year quarter. Bill?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Our net sales orders in the fourth quarter increased slightly from the prior year quarter to 19,035 homes, and order value decreased 2% to \$7.1 billion. The sequential decline in our net sales orders was consistent with the prior year and in line with normal seasonality from the third to the fourth quarter. But both our home sales and closings this quarter were below our expectations.

Our cancellation rate for the quarter was 21%, up from 18% sequentially, and unchanged from the prior year quarter. Our average number of active selling communities was flat sequentially and up 10% from the prior year. The average price of net sales orders in the fourth quarter was \$375,400, down 1% sequentially and 2% from the prior year quarter. Jessica?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Our gross profit margin on home sales revenues in the fourth quarter was 23.6%, down 40 basis points sequentially from the June quarter. The decrease in our gross margin from June to September was primarily due to higher incentive costs on homes closed during the quarter. On a

per square foot basis, home sales revenues were down roughly 0.5% sequentially, while stick and brick costs per square foot decreased 1% and lot costs increased 1.5%.

We anticipate our incentive levels to increase further on homes closed over the next few months, so we expect our home sales gross margin to be lower in the first quarter compared to the fourth quarter. Our incentive levels and home sales gross margin for the full year of fiscal 2025 will be dependent on the strength of demand during the spring selling season, in addition to changes in mortgage interest rates and other market conditions. Bill?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

In the fourth quarter, our homebuilding SG&A expenses increased by 17% from last year. And homebuilding SG&A expense as a percentage of revenues was 7.6%, up 100 basis points from the same quarter in the prior year. For the year, homebuilding SG&A was 7.5% of revenues, up 40 basis points from fiscal 2023. Our increased SG&A costs in both periods are primarily due to the expansion of our operating platform. Our employee and average community count are both up 10% from a year ago, while our market count increased to 125 markets in 36 states from 118 markets in 33 states. Paul?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

We started 18,400 homes in the September quarter and ended the year with 37,400 homes in inventory, down 11% from a year-ago and approximately 5,000 homes lower than at the end of June. 25,700 of our total homes at September 30 were unsold. 10,300 of our unsold homes at year-end were completed, of which 1,100 had been completed for greater than 6 months. The increase in unsold completed homes this quarter resulted from a combination of a seasonally slowing sales pace and further improvement in our construction cycle times.

For homes we closed in the fourth quarter, our cycle time decreased by almost a week from the third quarter and a month from a year-ago. Our improved cycle times positioned us to turn our housing inventory faster in 2025, and we will continue to manage our homes in inventory, and starts pace based on market conditions. Mike?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Our homebuilding lot position at September 30 consisted of approximately 633,000 lots, of which 24% were owned and 76% were controlled through purchase contracts. We remain focused on our relationships with land developers across the country to maximize returns. These relationships allow us to build more homes on lots developed by others. Of the homes we closed during the fourth quarter, 64% were on a lot developed by either Forestar or a third-party, up from 62% in the prior year quarter. Our capital efficient and flexible lot portfolio is a key to our strong competitive position.

Our fourth quarter homebuilding investments in lots, land and development totaled \$2.2 billion, of which \$1.5 billion was for finished lots, \$560 million was for land development, and \$170 million was for land acquisition. For the year, our homebuilding investments in lots, land, and development totaled \$9.5 billion, up 19% from fiscal 2023. Paul?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

In the fourth quarter, our rental operations generated \$100 million of pre-tax income on \$705 million of revenues from the sale of 1,692 single-family rental homes and 868 multi-family rental units. For the full year, our rental operations generated \$229 million of pre-tax income on \$1.7 billion of revenues from the sale of 3,970 single-family rental homes and 2,202 multi-family rental units.

We continue to operate a merchant-build model, in which we construct and sell purpose-built rental communities. Our rental operations provide synergies to our homebuilding operations by enhancing our purchasing scale and providing opportunities for more efficient utilization of trade labor and land parcels.

Our rental property inventory at September 30 was \$2.9 billion, which consisted of \$800 million of single-family rental properties and \$2.1 billion of multi-family rental properties. We expect our total rental inventory to remain around the current level for the next several quarters. Jessica?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Forestar, our majority-owned residential lot development company, reported revenues of \$551 million for the fourth quarter on 5,374 lots sold with pre-tax income of \$109 million. For the full year, Forestar delivered 15,068 lots, generating \$1.5 billion of revenues and \$270 million of pre-tax income with a pre-tax profit margin of 17.9%.

Forestar's owned and controlled lot position at September 30 was 95,100 lots. 65% of Forestar's owned lots are under contract with or subject to a right of first offer to D.R. Horton. \$430 million of our finished lots purchased in the fourth quarter were from Forestar. Forestar had approximately \$860 million of liquidity at year-end with a net debt-to-capital ratio of 12.4%. Our strategic relationship with Forestar is a vital component of our returns-focused business model.

Forestar's strong, separately-capitalized balance sheet, growing operating platform, and lot supply position them well to capitalize on the shortage of finished lots in the homebuilding industry and to aggregate significant market share over the next several years. Mike?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Financial services earned \$76 million of pre-tax income in the fourth quarter on \$222 million of revenues, with a pre-tax profit margin of 34.2%. For the year, financial services earned \$311 million of pre-tax income on \$883 million of revenues, with a pre-tax profit margin of 35.3%.

During the fourth quarter, essentially all of our mortgage company's loan originations related to homes closed by our homebuilding operations, and our mortgage company handled the financing for 77% of our buyers. FHA and VA loans accounted for 60% of the mortgage company's volume. Borrowers originating with DHI Mortgage this quarter had an average FICO score of 724 and an average loan-to-value ratio of 88%. First-time homebuyers represented 59% of the closings handled by our mortgage company this quarter. Bill?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Our capital allocation strategy is disciplined and balanced to sustain an operating platform that

produces consistent returns, growth, and cash flow. We have a strong balance sheet with low leverage and substantial liquidity, which provides us with significant financial flexibility to adapt to changing market conditions and opportunities.

During fiscal 2024, our consolidated cash provided by operations was \$2.2 billion, and we distributed all of the cash we generated through share repurchases and dividends to enhance shareholder returns. During the quarter, we repurchased 3.4 million shares of common stock for \$561 million, and for the year, we repurchased 12.5 million shares for \$1.8 billion, which reduced our outstanding share count by 3% from the prior year end.

Our remaining share repurchase authorization at September 30 was \$3.6 billion. During the quarter, we also paid cash dividends of \$98 million for a total of \$395 million of dividends paid during the year. On September 30, we had \$7.6 billion of consolidated liquidity, consisting of \$4.5 billion of cash and \$3.1 billion of available capacity on our credit facilities. In August, we issued \$700 million of senior notes due 2034. Our debt at September 30 totaled \$5.9 billion. Subsequent to year end, we repaid \$500 million of senior notes at maturity, and we have no additional maturities in fiscal 2025.

Our consolidated leverage at September 30 was 18.9%, and leverage net of cash was 5.2%. We plan to maintain our leverage around 20% over the long-term. At September 30, our stockholder's equity was \$25.3 billion, and book value per share was \$78.12, up 15% from a year-ago. For the year, our return on equity was 19.9%, and our return on assets was 13.9%.

Based on our strong financial position and cash flow, our Board recently increased our quarterly cash dividend by 33% to \$0.40 per share. Jessica?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Looking forward, our fiscal 2025 business plan was built from the community level up beginning with our lot position. With a return to more normal seasonality, we expect our results for the full year will largely be dependent on the strength of the spring. As outlined in our press release this morning, for the full year of fiscal 2025, we expect to generate consolidated revenues of approximately \$36 billion to \$37.5 billion and homes closed by our homebuilding operations to be in the range of 90,000 to 92,000 homes.

We forecast an income tax rate for fiscal 2025 of approximately 24.5%. We expect to generate more cash flow from operations in fiscal 2025 than fiscal 2024 and to utilize a substantial portion of our cash flows to enhance shareholder returns. We currently plan to repurchase approximately \$2.4 billion of our common stock this year, in addition to making annual dividend payments of around \$500 million.

For our first fiscal quarter ended December 31, we currently expect to generate consolidated revenues of \$6.8 billion to \$7.3 billion, and homes closed by our homebuilding operations to be in the range of 17,500 to 18,000 homes. We expect our home sales gross margin in the first quarter to be around 22.5%, and homebuilding SG&A as a percentage of revenues to be approximately 8.9%.

We anticipate a financial services pre-tax profit margin of around 20% in the first quarter, and we expect our income tax rate for the quarter to be approximately 24.5%. Paul?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

In closing, our results and position reflect our experienced teams, industry-leading market share, broad geographic footprint, and focus on affordable product offerings. All of these are key components of our operating platform that sustain our ability to produce consistent returns, growth, and cash flow while continuing to aggregate market share. We have significant financial flexibility, and we plan to maintain our disciplined approach to capital allocation and provide consistently high returns to our shareholders to enhance the long-term value of our company.

Thank you to the entire D.R. Horton family of employees, land developers, trade partners, vendors, and real estate agents for your continued efforts and hard work. We look forward to working together to improve our operations and provide home ownership opportunities to more individuals and families during 2025.

This concludes our prepared remarks. We will now host questions.

**Operator**

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] And your first question this morning is coming from Stephen Kim from Evercore ISI. Stephen, your line is live. Please go ahead.

**Q:** Yeah. Thanks very much, guys. I appreciate the color. I wanted to ask a couple of questions regarding your guide. First of all, I think in particular, your revenue guide can be influenced a lot by rental revenue. And, the other factor that you didn't give was also the ASP for closing. So I just wanted to see if you could help us disaggregate a little bit. What are you assuming in terms of rental revenue, maybe sequentially or year-over-year, however you think is best? I'm thinking about it in revenue dollars, and both for the first quarter and for the full year guide.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Yeah, Steve, implied in our consolidated revenue guide would be relatively flat rental revenues year-over-year. We would expect those revenues to be weighted a little heavier in the back half of the year than in the first half of the year, and so a little bit lighter in the first quarter as well. In terms of ASP, we're assuming relatively flat ASP with recent trends. Of course, that's going to be subject to market conditions going forward into the spring as well as incentive levels.

**Q:** Got you. Okay. Yeah, that's helpful. All right. And then the second question I wanted to sort of delve a little bit into your comment about market conditions, which I think we all realize, it's tough out there. But in particular, you talked about how you think that buyers are sort of on the sidelines kind of waiting, maybe the election, maybe just affordability. And so, I wanted to see if we could disaggregate that. Can you talk about what you're seeing with respect to your interest lists or traffic? And help us maybe draw a distinction between what you're seeing today versus what you saw in other previous times, when buyers' kind of went on strike, like maybe the back half of calendar 2022, for example. Just to help us get us a better sense of how much of this is actual true unaffordability versus psychological effects causing people to wait on the sidelines?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Yeah, Steve, it certainly is a combination of both, but we are seeing our buyers sit on the sidelines, sit on the fence, a little less motivated today than they were previously in prior quarters. And affordability has been challenged. We still see consistent traffic. It was below our expectations in the quarter, hence the results in terms of total sales. But still, we were up year-over-year, I would say, for the quarter. And our sales were in line with normal seasonality. I don't think this is a structural issue with demand. There's just a lot of noise in the market today. The rate volatility we've seen combined with the election news that's out there, I just think we're seeing people take a pause. But it certainly is a stretch today, and we've got to continue to focus on affordability, to make sure we get product and monthly payment in position for our people to move forward.

**Q:** Just a clarification there. Are you looking for mortgage rates to come down next year? Is that what's embedded in your guide?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

No. We wouldn't expect, and we aren't going to manage our business around that expectation one way or another. We're going to continue to respond to the market as we go week to week, and month to month.

**Q:** Got you. Okay. Thank you so much.

**Operator**

Thank you. Your next question is coming from Matthew Bouley from Barclays. Matthew, your line is live. Please go ahead.

**Q:** Good morning, everyone. Thank you for taking the questions. So, looking at the delivery guide of 90,000 to 92,000 in 2025, and comparing that versus, I guess, the 37,000 homes in inventory you have at the moment, I guess that ratio is maybe a little bit higher than it typically is entering the year. So, is there kind of an expectation for maybe a bigger ramp in starts as you get into the spring, or are you saying that kind of cycle times have come down to such a degree where you can have that kind of ratio where it is? Thank you.

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Matt, I think we're looking at both, actually, to come into play in 2025. We have seen tremendous improvement in our cycle times over the past year and continuing through the fourth quarter. With our lot position that we have, our ability to lean into starts with the market. As we see the market unfold, we'll be able to press into the starts, and we feel really good about our ability to turn that opening housing inventory, what it implies almost 1.5 times in fiscal 2025.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yeah, so for the first quarter, our starts probably only step up slightly from where they were in Q4, and they're lower than the average for the full year. So we would expect to pick up as we move into the spring.



**Q:** Okay. Got it. Thank you for that. And then, on the topic of building smaller floor plans, apologies if I missed the number. But I guess what was your home size down in Q4 and kind of what is the expectation for home sizes that you're embedding in 2025? And beyond just the numbers, I'm curious if you could just speak about that kind of balance of affordability versus kind of how you think about the efficiency of building smaller homes. So kind of what goes into that decision? Thank you.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

I'll start with the specifics, and then Paul can give you his commentary on where he thinks we're going. In terms of square footage for the quarter, we were down, again, both 1% sequentially and year-over-year. And part of that driver is we continue to see attached product, predominantly townhomes, making up a bigger percentage of our closings mix. So we were roughly 15% of our closings this quarter were attached product versus detached single-family homes.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

And we do see efficiency in the smaller plans, and that helps us to position as we enter into the spring market for our ability to deliver. We have purposefully reduced the number of homes we have in the market, because of that ability. No significant shift overall, other than we just need to continue to drive to affordable price points and affordable monthly payments. And that comes from a lean towards smaller product. That being said, we still do have our move-up and Freedom buyers that we'll continue to provide what it is that they are looking for in the marketplace.

**Q:** All right. Thanks, guys. Good luck.

**Operator**

Thank you. Your next question is coming from John Lovallo from UBS. John, your line is live. Please go ahead.

**Q:** Good morning, guys. Thanks for taking my questions as well. The first one is that, I think, you described the inventory in the market as generally limited supply of new and existing homes. Just curious if you saw some worsening in that trend as the quarter progressed? And if so, are there particular markets where you are seeing more inventory come online? And how are you feeling about overall conditions in that regard?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

The overall numbers haven't grown significantly. I think with the low number of sales you are seeing, the months of supply continues to expand, but still at the price points that we compete at, we see limited supply across most of our markets. And with people still, that lock-in effect still impacting people from the low mortgage rate that they have, we are just not seeing that supply grow in a significant way. We still feel very good about our competitive abilities with new home, ability to offer a more attractive rate, and in markets where there is pressure on insurance, we see a consistent and relatively stable insurance premiums which are a competitive advantage against the resale market.

**Q:** Understood. And then on the first quarter gross margin outlook of 22.5%, that 110 basis point step down. I think you guys attributed the majority of that to just step up in incentives. Just want

to make sure that that is the case. And if so, can you just help us with what are your current incentive levels as a percentage of revenue? And where are you expecting those to trend over the next few months?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Yeah, that's right, John. The step down in our guide for margin in Q1 is due to higher incentives. And really, we started seeing those higher level incentives later in Q4. Our margin in the month of September was lower than it was in July and August, and we expect that trend to continue into Q1. And it's based on volatility in rates, where rates have recently gone, the costs of our interest rate buydowns is increasing, and so that's why we expect our incentive levels to increase further into Q1. On a year-over-year basis, do you have some stats, Jessica?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yeah. I'll give you just the buyers that had a rate buydown associated with it. So of the buyers utilizing our mortgage company during the quarter, over 80% had some form of a rate buydown, which was flat sequentially, but it was up from 74% a year-ago. And so that equates to 63% of our overall closings in the fourth quarter, which was also relatively flat sequentially. So it's not necessarily an increase in the percentage of buyers utilizing it, it really is just the costs associated with the buydown.

And, I think with the substantial majority of our closings already being bought down through our mortgage company, that would be the continued expectation is it's just going to be the cost level, not necessarily a significant higher percentage of buyers that would utilize it.

**Q:** Got it. Thank you, guys.

**Operator**

Thank you. Your next question is coming from Carl Reichardt from BTIG. Carl, your line is live. Please go ahead.

**Q:** Thanks, everybody. Just one two-parter. Can you talk at all about any impact from hurricanes on ops, traffic, the communities themselves? And then has there been any positive or negative impact given your reliance on buyers' brokers? It's a big focus for you, has been for a long time. Any impact from the settlement to driving traffic sales rates at all or cost?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Yeah, Carl, I'll take the first part of that question. First of all, the hurricanes just horrified as everyone else was with the impact that had on so many families across those regions. Fortunately, the D.R. Horton family, our employees and our homeowners, fared very well in those storms. We did not have a significant impact on our communities. Thankfully, with the current building codes we build to, we see those communities perform very well in adverse weather events.

At the same time, you see the crews responding, utility crews and municipalities focuses diverted to restoring services to residents and rightly so, and so that can slow down power, electrification for us, it can slow down inspections and some of that processing. But it becomes a timing issue

rather than any kind of a permanent effect on the business. So we feel very fortunate as D.R. Horton, the D.R. Horton family, got through these storms pretty well.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

As far as the NAR settlement and realtor community response, they seem to have been handling it well. They are largely adjusting to what they need to do to satisfy the requirements of the NAR settlements. I haven't seen much of a significant shift one way or the other in terms of traffic, and/or much change in broker commissions. I think that will play out over time. But, again, with the limited number of homes generally available across the market, we still have our realtors that have been consistent in their performance with us, still showing up in our sales office and able to navigate the requirements of the settlement.

**Q:** All right. Thanks for that. And then you talked about employee and average store count up quite a bit in fiscal 2024. As you are looking at 2025, what are your expectations for what we might see in terms of a flattening of that store count growth or a slowdown in the number of new markets you'd add so that we might get better SG&A leverage next year? Or do you expect to continue to grow those pretty aggressively? Thanks.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Yeah. Clearly, we have been making an investment in these new markets to prepare for some growth. And as we grow into that, I would expect those growth rates to moderate a bit. The community count growth has been near double-digit, high-single to low-double for the last year or so. And so, naturally, we'd expect that to start to moderate back towards the mid-single-digit level as well. So, yes, we always want to make sure to control our SG&A, but we have been making some investments here recently, that we do expect will support a higher growth level going forward.

**Q:** Okay. Thanks, Bill. Thanks, everyone.

**Operator**

Thank you. Your next question is coming from Sam Reid from Wells Fargo. Sam, your line is live. Please go ahead.

**Q:** Thank you so much. So it sounds like gross margin moved lower intra-quarter, September versus July, August. And then as you look to your guidance for the fourth quarter, that 22.5%, kind of is that 22.5% in-line with the exit rate from the last quarter? Or does it imply that November or December will be below October levels?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yeah, great question, Sam. It is incorporated in our guide that our September month of closings was our lowest gross margin in the quarter. Not quite to where we expect to be for the full year of Q1 because as we said, we do expect to have further increases in incentive costs, but not far off from where we were in the September month.

**Q:** Got you. And then, I wanted to touch on your completed unsold inventories around 10,300. Just wanted to see if there was any details specifically on geographic dispersion, whether you are

seeing a concentration of completed unsold inventories in some of the focus markets that investors are interested in like Florida and Texas? Thanks.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

No, no geographic sensitivity or a place where we've seen those units stack up. Across the board and across our footprint, we've seen improvement in our cycle times. And sales being slightly below our expectations in the quarter is why we've seen that increase in completed inventory. We still are not seeing it sit around and age, and that's when we start to get concerned. We do expect that our completed inventory over the next few quarters, we'll start to trend back down. As we've hit the sales pace we need community by community and have adjusted starts where we needed to, so that we have the homes, we're comfortable with today, and we need to adjust that completed number down over the next few quarters.

**Q:** Great. Thanks so much. I'll pass it on.

**Operator**

Thank you. Your next question is coming from Michael Rehaut from JPMorgan. Michael, your line is live. Please go ahead.

**Q:** Great. Thanks. Good morning, everyone. I appreciate you taking my questions. I want to delve a little bit into regional color, if possible. And apologies if I missed this earlier. But with all the focus on Florida and Texas obviously, and around inventory levels, I know that you've kind of stated a couple of times that you feel like that that perhaps on a broad basis is not an issue. But just trying to get a sense, when you think about particularly the guide kind of flat to up low-single-digits for closings, does that reflect any regional challenges? Or maybe just more broadly, if you can kind of give us a sense of where you feel demand is stronger versus weaker across your footprint?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

I don't think the guide is reflecting any concern with a given region. The biggest markets that we've been in, Florida and Texas, are also very competitive markets. And so, as the buyers have taken a pause that's been reflective, I think, across the footprint in those markets. And looking forward into the guide and expectations for next year, that was built largely on the basis of available lots that we have, that we have a comfort level around starts pace, that we'll lean into as we see spring unfold. And we have the capacity to adjust that starts pace reflective of the spring selling conditions.

**Q:** Okay. I appreciate that. I guess, secondly, you mentioned that throughout the quarter, September was your lower margin month with higher incentives. And, again, apologies if I missed this earlier, but wanted to get a sense just from a demand and order growth standpoint, sales pace standpoint. We've heard some of your competitors talk to September being the strongest month of the quarter. And I was just kind of wondering if that's what you saw from a sales pace or an order growth standpoint. Obviously, rates fluctuated a lot during the quarter, but there was perhaps that points into August, September, a little bit of a lower point from a rate standpoint. So just kind of curious on what you saw, how things trended during the quarter and where September was relative to the rest?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

I think we saw a pretty choppy sales environment through the quarter. If we look at the chart of the mortgage rates. We started the quarter just under 7%. We ended the quarter just above 6%, and it is a pretty smooth trajectory down. And I think that affected a lot of buyers' psyche in thinking about, "Wow, the rates are on a good trend. I'm going to keep riding that trend before I jump in." And then lo and behold, we saw October turnaround after the Fed cuts and rates are up 50 basis points in the month of October. So it's kind of crazy predicting interest rates. So hard to see any discernible trend, other than we saw some choppy sales and a buyer that was on pause.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

And still have through the month of October to date, just with continued rate volatility.

Q: Okay. Very good. Thanks so much.

**Operator**

Thank you. Your next question is coming from Alan Ratner from Zelman & Associates. Alan, your line is live. Please go ahead.

Q: Hey, good morning, guys. Thanks for the time and info so far. My question, I guess, relates to just the broader strategy that you've had, as long as we've been covering Horton, which is to consolidate market share. And, I guess what I'm thinking about is you've heard from several other of your larger peers, a goal or a target to grow in 2025 by a 5% to 10% rate on closings, orders, whatever the metrics they are looking at. And your guide is obviously a bit below that in 2025. And I know it is preliminary and I know it can obviously move around based on how the spring unfolds. But on the surface right now, it would look like, at least in the near-term, you don't expect to be taking a significant amount of market share.

So I'm curious when you think about that outlook, is that a function of you see maybe some more aggressive incentives out in the market from some of your competitors, that you don't feel the need or the desire to match right now to do what you need to do to actually take share? Do you think that some of the guides out there might prove to be too aggressive? Is it a function of a price point differential, maybe stronger activity at higher price points? Just curious if you can kind of talk about the competitive dynamics that would seemingly set you guys up for a year of no meaningful share growth.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Alan, we do feel very good about our position. We are still well ahead of the spring selling season. We do have the lot position. We have the inventory and cycle time improvement that we need to lean into the market if we see a stronger market in the spring. Our operators are always going to have a higher goal than the numbers that we're reaching to, and it's not a significant shift other than a guide as best we see it today. And we are going to stay positioned to respond to the market. We feel great about our position and great about our operators in the field and their ability to gauge the market and lean in should it show up stronger in the spring.

**Q:** Got it. All right. That's helpful. I appreciate that. And then second question is kind of around the spec strategy. I know, obviously, you and others have pivoted to kind of 100% spec models over the course of the last several years, somewhat out of necessity given the supply chain somewhat out of, that's where the demand was given the tight resale market. But we've talked about this in the past where even though you never were a huge build-to-order builder by any stretch of the imagination, that was always at least some portion of your business. And I'm curious now with kind of where your spec position is, where your backlog is. Is there any thought of maybe kind of returning to some extent to the build-to-order market, especially if the demand in the spring turns out to be showing signs of acceleration?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

I wouldn't see a seed change shift in our strategy, it's a kind of a community by community, since we are past the supply chain challenges. We've driven a lot of efficiency into the building process and cycle times. We will allow our local operators to make those decisions community by community about going to more of a presale focus depending upon the customer segment that they're seeking to serve with that particular community and what the market conditions are like. I mean we still see tremendous demand, especially for the first-time homebuyer with the house that can close in 60 days, get them qualified for the mortgage and in line with when a lease or something may be expiring.

**Q:** Make sense. All right. Thanks a lot. I appreciate it.

**Operator**

Thank you. Your next question is coming from Eric Bosshard from Cleveland Research Company. Eric, your line is live. Please go ahead.

**Q:** Thanks. Two things, if I could. The increased incentive spend or costs, just to have a little more clarity, is this you investing more, lowering the cost for your customers and is that the strategy? Or is this just the cost of it's gotten more expensive as rates ticked back higher? Just where we are and what the strategy or vision for that is?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

It is our expectation, we need to increase our incentives and stay where they are, and maybe lean in a little more based on rates and achieving affordability for our buyers. So, then, if want to maintain a bigger spread off of market rates, that's going to cost a little more. But as we look forward into the next quarter, we expect that our incentives will have to remain elevated in order to maintain affordability and monthly payments that our buyers are looking for.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

And then, Eric, when rates are volatile or more uncertain, the cost of those incentives do increase. And so, regardless of where the level is or how much we're choosing to buy during those periods where it's more uncertain, the cost is just higher.

**Q:** Okay. And then second question which is lately potentially redundant, I'll ask it nonetheless. But you talked about this phenomenon of affordability challenges. Your solution for affordability challenges, incentives, a bit more smaller homes. Is there anything beyond that or incremental to

that as you look at one of the key limiting factors is this phenomenon of affordability? Any other solutions that you see that you can help address that to unlock more demand?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

We are continually evaluating the product selections that are going into the homes and looking to see where it makes sense to hit the affordability numbers. Neighborhood location can have a lot to do with ultimate affordability as to cost of the underlying dirt, cost of the development requirements and what municipalities are asking for, whether it's in horizontal improvements or the homes themselves. And so continually looking for ways to bring houses people can afford in the market, and it's a combination of everything. It's not one thing that we do. It's something we try to get to do every day and be as efficient as possible with our starts program, to work with our trade partners and labor to make sure that they're able to plan a business and share those savings of a plan full business with us that we can pass along to our shareholders.

Q: Thank you.

**Operator**

Thank you. Your next question is coming from Paul Przybylski from Wolfe Research. Paul, your line is live. Please go ahead.

Q: Thank you. Your can rate increased a little bit quarter-over-quarter. I was wondering, are accelerating incentives creating any issues with backlog right now? And, historically, down payments have been the greatest impediment for the entry level buyer. Is that still the case? Or has that shifted more to DTI or monthly payment constraint?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

No. I think we haven't seen a big change in the buyer profile. Obviously, we've harped on affordability being an issue that hasn't changed. So it does take a little bit more household income to qualify for a home today than it did several years ago. But our can rate was in line with a year-ago and, typically, we do see a slight tick-up in the fourth quarter for various reasons. And if you look at our cadence intra-quarter and Q4 on our can rate, it was very consistent with last year's Q4. And high-double-digit to low-20s is a very comfortable rate for us to manage.

Q: Okay. I was wondering, what was your average 4Q rate promotion. How that compared to 3Q? And what is it so far in October?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Yeah. We are really in the 4.5% to 5.5% in terms of our offerings that are out there. Rates have moved up in the last few weeks. We'll see where they settle in over the next couple. That may drift up. But still staying in that 1% to 1.5% kind of below market rates is where we have maintained this past quarter and in the prior couple of quarters.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yeah, our backlog is right in the middle of that, it's at 5.2%.

Q: Great. Thank you. I appreciate it.

**Operator**

Thank you. Your next question is coming from Anthony Pettinari from Citi. Anthony, your line is live. Please go ahead.

**Q:** Hi, good morning. You had pretty favorable stick and brick costs in the quarter, and I was just wondering how you saw those trending in fiscal 1Q. And then, I think referencing maybe John's question, is it fair to say stick and brick is not really driving a big move in margins quarter-over-quarter in terms of that step down?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yeah. That's very fair. I think we've said for a couple of quarters, we expect the benefit of lumber to be behind us, but that was still a benefit in the closings this quarter. Our stick and brick costs were down roughly 1% sequentially and about 2.5% year-over-year. And, I think our base case as we move throughout 2025 as we'd see relatively flat, give or take a percent, on the stick and brick side.

**Q:** Got it. And I'm just curious, I mean with the election coming up, are there one or two issues that you could see impacting the industry from a builder perspective or buyers that you'll be really watching as we see kind of how it plays out?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

I think everybody would be happy the election is over. I think that would help buyer sentiment and the ability to move forward with their life decision.

**Q:** Sounds good. Thanks, guys.

**Operator**

Thank you. Your next question is coming from Ken Zener from Seaport Research Partners. Ken, your line is live. Please go ahead.

**Q:** Good morning, everybody.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

Good morning, Ken.

**Q:** Can you hear me?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Yes, go ahead.

**Q:** I just want to check. Thank you. All right. Obviously, not what the Street or probably what you all were expecting. But I just want to go through a few basic thoughts here. First, do you think part of the – I mean, look, price is high. We can see that in affordability. Therefore, you're using incentives, which makes sense. But do you think part of the issue is on the slowing supply given the whole narrative of tight supply in terms of under construction? Is that in most markets,



because the builders are so dominant that new homebuyers already have been in a rate neutral environment, because most new builders are offering incentives? That seems to me like you might have pulled forward demand given that you still have these incentives. Or do you think it's strictly an issue of affordability, therefore, that affects your long-term view on gross margins?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

I do think that the lock-in, the fact that we don't have a lot of resale homes in the market also means that we don't have those buyers coming in when they sell their house coming into our offices. 45% of our buyers are not first-time homebuyers. Although we sell more than 50% too. Those means they need to move on from their existing home. I don't think there is a lack of want or need accruing out there. So we could be building some pent-up demand.

And so, we aren't that concerned if we see resale inventory start to rise a little bit, because that means people are moving around more, and that's going to provide more buyers into our offices. We are certainly competitive with the resale market today. We do hear that from our realtors, that because of our rate buydowns and availability that we have of homes at more affordable price points that it's challenged to the resale market.

**Q:** And do you want to comment, I think, at some point over the last couple of years, you talked about structurally higher gross margins in contrast to what had been a 19% or 20% time under prior management. But like do you still have confidence that the gross margins can be structurally higher for you guys? Or do you perhaps have the view that at current rates, the affordability is actually a bigger issue given the persistency of these incentives? Thank you.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

Ken, we've always said that we're going to do what we need to do to maximize returns. And so for periods of time, we could see gross margin compression. But over the long-term, I do think, on average, we believe there are reasons that the long-term average gross margin could be structurally higher because of the scale advantages in the business and our lower cost of capital from the deleveraging we've done. But we're going to meet the market quarter to quarter to quarter. And if that means compressing margins in the short-term to maximize returns, that's the approach we're going to take.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

And to the longer-term view, we are talking about a step-down in margins to 22.5%, which is above the high-end of our historic range of margins. So we have been at a higher level. But, we are going to meet the market, and there will be various of times where we need to.

**Q:** Thank you.

**Operator**

Thank you. Your next question is coming from Rafe Jadrosich from Bank of America. Rafe, your line is live. Please go ahead.

**Q:** Hi, good morning. Thanks for taking my questions. You spoke about the stick and brick inflation that you are expecting. Can you talk about what you're anticipating for land inflation in the first quarter and then through 2025?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

So we've seen a little bit of a moderation from low double-digit percentage increase in our lot cost to high-single-digit this quarter. On a full year basis, we were up a double-digit percentage. But on a quarter-over-quarter basis, it was a high-single. So, I think, we expect to continue to have cost inflation as we move throughout 2025 that maybe it can moderate to a mid-single-digit as we get a couple of quarters past and have cycled through some of those comparisons already. But our base case is that lot costs will continue to increase at least a mid-single-digit percentage.

**Q:** Okay. That's really helpful. And then just putting that all kind of together, how do we think of what level of net price you would need in fiscal 2025 to hold margins?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**

We would need a small amount. With the lot cost at mid-to-high, impact on overall price, you need a small amount, but not a significant amount because we do expect our stick and brick costs to remain relatively flat.

**Q:** Okay. That's really helpful.

**Operator**

Thank you. Your next question is coming from Susan Maklari from Goldman Sachs. Susan, your line is live. Please go ahead.

**Q:** Thank you. Good morning, everyone. I just want to focus in a bit more on the cost side of the business. We have seen lumber and wood product prices generally inflating over the last several weeks. It feels like they are on a general upward trajectory as you think about the next several quarters in there. Can you talk about what you're seeing and how you're thinking about that element of the cost structure in fiscal 2025?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Sue, we have seen lumber come up some recently. And as we look at next year, we are looking for relatively flat stick and brick. We have seen a good response from the labor markets. We see trades looking for business, which tends to mean we can hold our costs as relatively flat. So as we kind of look at it all, we aren't sure exactly where lumber goes, as we move over the next several months, but feel like we don't expect much movement up or down in stick and brick in 2025.

**Q:** Okay. That's helpful. And then maybe turning to the rental side of the business. You mentioned in your comments that you expect your inventories to hold flat for the next several years. But as you do think about the potential that rates stay relatively higher versus lower in there, can you just talk about the demand that you are seeing on that rental side? And how you're thinking about managing that and meeting that need as well?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**

A quick clarification on the first part. The comment on our rental investment was over the next several quarters. Haven't spoken out to future years, that's going to depend on market conditions and where we get the return profile on that business in terms of what we're willing to invest in it.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Yeah. And I think, overall, as we look at the market, we still see relatively solid demand in terms of the number of buyers in the market. We've certainly seen a reduction in apartment starts consistently over the past 12 months and feel good about our positioning, and the inventory we have in production, the timing that it's going to come to market. So still feel good about that segment, and we will monitor it quarter-to-quarter in terms of what we do with our starts and positioning on a go-forward basis.

**Q:** Okay. Thank you for the color. Good luck with everything.

**Operator**

Thank you. Your next question is coming from Jade Rahmani from KBW. Jade, your line is live. Please go ahead.

**Q:** Thank you very much. What level of rates would you need to see to spur demand and get buyers off the sidelines as you've categorized? Would it be around a 100 basis point reduction? And would you need to see that through the 10-year treasury?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**

Yeah, hard to predict what's going to drive the rates, whether it's the underlying 10-year benchmark or the spreads to treasury. But more than any one given rate, I think stability in rates is most helpful for us in seeing buyers demand and come off the sidelines. So that they are not waiting for rates to come down or fearful they're going up and they're going to escape their ability to afford right now. Stability is good, we saw a tighter trading band in the mortgages in the third quarter, and we have a stronger sales environment. Yeah, and there's some seasonality to that as well, but we had more volatility in rates in the fourth quarter, and that was a negative demand.

**Q:** In terms of the APR you're currently offering, is it in the mid-5% range or low-5% range? I've seen at least one competitor in the 4%, but most do seem to be in that 5%-ish range.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Our offering across the market can kind of range in the mid-4 to mid-5. The average in our backlog, I think Jessica alluded to earlier, was just over 5%.

**Q:** Thank you.

**Operator**

Thank you. This does conclude today's Q&A session. I would now like to hand the floor back to Paul Romanowski for closing remarks.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**

Thank you, Tom. We appreciate everyone's time on the call today and look forward to speaking with you in January to share our first quarter results. Congratulations to the entire D.R. Horton family on a successful fiscal 2024. Due to your efforts, we just completed our 23rd consecutive year as the largest builder in the United States. We are honored to represent you on this call, and we look forward to everything we will accomplish together in fiscal 2025.

**Operator**

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.