Transcript of
D.R. Horton, Inc.
Q3 2026 Earnings Call/Webcast
July 21, 2026

**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**

John Lovallo - UBS Group AG
Stephen Kim - Evercore ISI
Alan Ratner - Zelman and Associates
Matthew Bouley - Barclays
Eric Bosshard - Cleveland Research Company
Sam Reid - Wells Fargo & Company
Ryan Gilbert - BTIG
Anthony Pettinari - Citigroup Inc.
Rafe Jadrosich - Bank of America
Trevor Allinson - Wolfe Research, LLC
Susan Maklari - Goldman Sachs
Michael Dahl - RBC Capital Markets
Buck Horne - Raymond James & Associates, Inc.
Kenneth Zener - Seaport Research Partners
Jade Rahmani - Keefe, Bruyette & Woods, Inc.
Jay McCanless - Citizens JMP
Alex Barron - Housing Research Center, LLC

**Presentation**

**Operator**
Good morning, and welcome to the Third Quarter 2026 Earnings Conference Call for D.R. Horton, America's Builder. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

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, Paul, and good morning. Welcome to our call to discuss our financial results for the third quarter of fiscal 2026.

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 statement.

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 its most recent quarterly report on Form 10-Q, both of which are filed with the Securities and Exchange Commission. This morning's earnings release and our supplemental data presentation can be found on our website at investor.drhorton.com, and we plan to file our 10-Q later this week. After this call, we will also post our updated investor presentation 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 Chief Operating Officer; and Bill Wheat, our Chief Financial Officer. The D.R. Horton team delivered a solid third quarter, highlighted by earnings per diluted share of $3.20. Consolidated pre-tax income totaled $1.2 billion on $9.2 billion of revenues, resulting in a pre-tax profit margin of 13.3%. We closed 23,983 homes during the quarter, which was at the high-end of our guidance range, and achieved a home sales gross margin of 20.7%.

We remain focused on capital efficiency to generate strong operating cash flows and deliver compelling returns to our shareholders. Over the past 12 months, we generated $3.4 billion of cash from operations and returned all of it to shareholders through repurchases and dividends.

For the trailing 12 months ended June 30th, our homebuilding pre-tax return on inventory was 17%, while our consolidated returns on equity and assets were 12.8% and 8.5%. Our return on assets ranks in the top 20% of all S&P 500 companies for the past 3-, 5-, and 10-year periods, demonstrating that our disciplined returns-focused operating model delivers sustainable results and positions us well for continued value creation.

We work every day to leverage our industry-leading platform, unmatched scale, efficient operations, and experienced teams to bring home ownership opportunities at affordable price points to more Americans. 65% of our mortgage company's closings this quarter were to first-time homebuyers.

Our teams manage each community with discipline, balancing pace, price, incentives, and inventory levels to meet demand and maximize returns. Affordability constraints and cautious consumer sentiment continue to impact new home demand, and our operators will continue to adjust as market conditions evolve. Mike?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
Earnings for the third quarter of fiscal 2026 were $3.20 per diluted share compared to $3.36 per share in the prior year quarter. Net income for the quarter was $905 million on consolidated revenues of $9.2 billion. Home sales revenues in the third quarter totaled $8.7 billion on 23,983 homes closed, compared to $8.6 billion on 23,160 homes closed in the prior year quarter.

Our average closing price was flat sequentially and down 2% year-over-year to $362,000. This is below the average price of new homes in the United States by approximately $155,000, or 30%, reflecting our continued focus on affordability. Bill?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Net sales order value in the third quarter totaled $8.4 billion on 23,084 homes sold, both flat with the prior year quarter. Our cancellation rate for the quarter was 20%, up from 17% in the prior year period and from 16% sequentially within our normal historical range. The average number of active selling communities increased 2% sequentially and 9% year-over-year. The average price of net sales orders was $365,600, essentially flat both sequentially and year-over-year. Jessica?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
Our gross profit margin on home sales revenues in the third quarter was 20.7%, above the high-end of our guidance range, reflecting lower stick-and-brick costs and slightly lower incentives than the second quarter. However, we expect incentives to remain elevated relative to historical levels.

On a per square foot basis, home sales revenues and lot costs were flat sequentially, while stick-and-brick costs were down 2%. Year-over-year, home sales revenue was down 3%, stick-and-brick costs were down 5%, and lot costs were up 5%. We currently expect our home sales gross margin to be relatively flat in the fourth quarter compared to the third quarter. Bill?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Our homebuilding SG&A expenses in the third quarter increased 8% compared to last year, and SG&A as a percentage of revenues was 8.3%, up from 7.8% in the prior year quarter. We remain focused on managing our platform with discipline to gain market share efficiently, and we expect to return to positive SG&A operating leverage when revenue growth resumes and our average sales price and community absorption rates stabilize. Paul?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
We started 23,900 homes in the third quarter, and we ended the quarter with 38,000 homes in inventory, down 1%, both sequentially and year-over-year. 23,300 of our homes at June 30th were unsold. 7,600 of our total unsold homes were completed, of which 600 have been completed for more than 6 months.

For homes closed in the third quarter, our median cycle time from home start to home close improved by roughly 3 weeks year-over-year. Our improved cycle times enable us to hold less housing inventory and turn it more efficiently. We expect starts in the fourth quarter to be lower than the third quarter, and we will continue to manage our inventory levels 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 June 30th consisted of approximately 570,000 lots, of which 22% were owned and 78% were controlled through purchase contracts. We continue to actively manage our investments in lots, land and development based on market conditions.

We remain focused on relationships with land developers across the country so we can build more homes on lots developed by others. This approach enhances our capital efficiency, returns, and operational flexibility. Our own lot position is down 13% from a year ago, and in the third quarter, 67% of the homes we closed were on lots developed by either Forestar or third parties, up from 66% in the prior year quarter.

During the third quarter, our homebuilding investments in lots, land, and development totaled $2.1 billion, including $1.5 billion for finished lots and $520 million for land development and $75 million for land acquisition. Paul?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
In the third quarter, our rental operations generated $31 million of pre-tax income on $266 million of revenues from the sale of 601 single-family rental homes and 339 multi-family rental units. At June 30th, our rental property inventory totaled $3 billion, including $2.7 billion of multifamily rental properties and $321 million of single-family rental properties. We remain focused on improving the capital efficiency and returns of our rental operations, and we currently expect our rental inventory to remain around $3 billion dollars.

Turning to our financial services operations, pre-tax income for the third quarter was $70 million on $221 million of revenues, resulting in a pre-tax profit margin of 31.9%. Mike?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
Forestar, our majority owned residential lot development company, reported third quarter revenues of $407 million on 3,659 lots sold, with pre-tax income of $49 million. At June 30th, Forestar's owned and controlled lot position totaled 92,000

lots. 66% of Forestar's owned lots are under contract with or subject to a right of first offer to D.R. Horton.

During the third quarter, we purchased $360 million of finished lots from Forestar. Forestar's strong, separately capitalized balance sheet, national operating platform, and lot supply position them well to provide essential finished lots to the homebuilding industry and to continue aggregating significant market share over the next several years. Bill?

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

Our capital allocation strategy remains disciplined and balanced, supporting an operating platform that delivers attractive returns and substantial operating cash flows. We maintain a strong balance sheet with low leverage and healthy liquidity, providing significant financial flexibility to adapt to changing market conditions and opportunities.

At June 30th, we had $6.1 billion of consolidated liquidity, including $2.1 billion of cash and $4 billion of available capacity on our credit facilities. Total debt at quarter end was $7.1 billion, with $600 million of homebuilding senior notes maturing over the next 12 months. Our consolidated leverage at June 30th was 23%, and we continue to target leverage of around 20% over the long-term.

During the first 9 months of the year, homebuilding cash provided by operations totaled $1.3 billion, and consolidated cash provided by operations was $881 million. During the third quarter, we paid cash dividends of $0.45 per share, totaling $127 million, and our board has declared a quarterly dividend at the same level to be paid in August.

We also repurchased 4.2 million shares of common stock for $616 million during the quarter, reducing our outstanding share count by 6% compared to a year ago. At quarter end, our stockholders' equity was $23.8 billion, down 1% from a year ago, while book value per share increased 5% from a year ago to $84.85. Jessica?

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

Looking ahead to the fourth quarter, we currently expect consolidated revenues to be in the range of $8.8 billion to $9.3 billion, with homes closed by our homebuilding operations to be in the range of 22,500 to 23,000 homes. We expect our home sales gross margin for the fourth quarter to be in the range of 20.5% to 21%, and our consolidated pre-tax profit margin to be between 12.3% and 12.8%.

For the full year of fiscal 2026, we now expect consolidated revenues of approximately $32.5 billion to $33 billion, and homes closed by our homebuilding operations of 83,800 to 84,300 homes. We now forecast an income tax rate for fiscal 2026 of approximately 25%, and still expect operating cash flow of at least $3 billion, common stock repurchases of approximately $2.5 billion, and dividend payments of around $500 million. Paul?

**<u>Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.</u>**
In closing, our results and positioning reflect the strength of our experienced teams, industry-leading market share, broad geographic footprint, and focus on delivering quality homes at affordable price points. These are key components of our operating platform that support our ability to grow market share, generate substantial operating cash flows, and consistently return capital to our shareholders. We recognize the current volatility and uncertainty in the broader economy, and we will remain agile and disciplined as we focus on enhancing the long-term value of D.R. Horton.

Finally, I want to thank the entire D.R. Horton family, our employees, land developers, trade partners, vendors, and real estate agents for your continued dedication and hard work. We remain committed to continuing to improve our operations and creating home ownership opportunities for even more individuals and families.

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

**<u>Operator</u>**
Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] And the first question today is coming from John Lovallo from UBS. John, your line is live.

**Q:** Good morning, guys, and thanks for taking my questions. The first one is that stabilization is something that we've heard numerous times in our channel checks, despite what's been continued volatility from not only an interest rate but a geopolitical standpoint. I mean, would you agree with that assessment and do you think that we're kind of getting to a point where we're starting to form a bottom here?

**<u>Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.</u>**
I would say that when looking at our sales, our sales were relatively in line with normal seasonality. They were a little softer post our call in April and still see plenty of buyers out there in our sales offices as we travel and in front of people. It's just needing to see them be a little more confident in the overall economy and in their ability to move forward with a purchase today.

**Q:** Understood. And you guys slightly pulled back, I think, about 3% on your full year deliveries, despite being within actually towards the upper end of the third quarter range and with flattish orders on a year-over-year basis. So I guess, is the trimmed outlook predominantly driven by just uncertainty in consumer confidence and geopolitics as we move into the fourth quarter? Is it a function of maybe lower than internally expected orders in the third quarter or are you just kind of moderating growth to maintain margin?

**<u>Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.</u>**
It was lower than our internal expected sales rate. We really kind of needed to see a little better than normal seasonality in the quarter and felt like we could see that at

the beginning of the quarter. That demand softened a little bit as we went through the quarter and hence the reduction in our annual guide.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
But to your point, John, happy with the trade-off of what we were able to achieve from a gross margin perspective at the lower sales volume level.

**Q:** Yeah, 100%. Thank you, guys.

**Operator**
Thank you. The next question will be from Stephen Kim from Evercore. Stephen, your line is live.

**Q:** Yeah. Thanks very much, guys. Impressive results in what I consider to be a pretty tough environment, but that's kind of related to my first question. When you think about the current environment and you look at your outlook for, let's say, long-term through cycle returns, how do these current results stack up relative to that? Like, do you regard your current returns as about average longer-term? Or if not, what are the elements that you expect might push your returns higher or lower over the longer-term?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Yeah, Steve, our current returns are lower than where we expect them to be longer-term. We have our margins, while in the longer-term historic range, we believe our longer-term stabilized margin should be a bit higher than this. Our operating margin, including our SG&A leverage, should be better than this over time when we're seeing some more consistent growth. We have not seen growth on our top-line for a few years here. And so, we're always positioning for growth, and so, with a little better operating leverage.

And frankly, I think we still feel like we have some opportunity to improve our capital efficiency in our homes in inventory and our land. So we continue to focus on that. So, overall, we would expect our returns on our capital, whether it's ROA, ROE, both to be higher longer-term than they are right now.

**Q:** Well, that's encouraging. I appreciate that color, Bill. Second question kind of relates to scale, and I think you talked about when growth returns, that's when you think SG&A could be leveraged, and that makes sense. However, I was curious if you could contextualize that, given the fact that we've seen a lot of consolidation in the industry from competitors, let's say, both foreign and domestic. I'm wondering if you can comment on how you think about your opportunity set from a scale perspective, particularly. I know you've been hard at work generating a lot of economies of scale, and your volume is kind of stabilized here, but you still talk about future growth.

And so I'm curious, can you talk about what the importance of scale for you to achieve the efficiencies that you desire? Should we be thinking there's another sort of step function higher in volume that could unlock some of these opportunities? Or maybe you could think about it a little differently, could you walk us through that? Thanks.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
Steve, when you look at our scale today, or at our revenues and absorption being relatively flat over the last couple of years, that's while we have been expanding our footprint. We've opened 30 or so markets over the last 5 years, and we've lacked some leverage on our SG&A, because of creating that footprint. But I think that that footprint geographically puts us in a great position as we see demand rebound a little bit.

We see some strengthening in consumer confidence and demand. We feel we're in a great position to gain scale nationally. We also feel very good about our positioning at a local level. That scale is still very important to us. We see the benefits of it, believe in it, talk about it, and still have our operators in a position to maintain their position in the market and grow when the opportunity is there for us.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
And as a reminder, we're only number one only in half of the markets we operate in today. So, we still have a lot of opportunity to continue to grow our share locally across the country.

**Q:** That's great perspective. Appreciate that, guys.

**Operator**
Thank you. The next question will be from Alan Ratner from Zelman. Alan, your line is live.

**Q:** Hey, guys. Good morning. Thanks for the detail so far and taking my question. Obviously, very impressive results on the gross margin. It looks like a lot of that has been driven by really strong cost controls. And I'm curious, as you think about the cost environment today, obviously, you've done a great job of pushing back on suppliers and trades and driving down costs where you can. Where do you think you are in that process? Because as we look at, at least the [Technical Difficulty] announcements on Canadian concrete, I'm not sure how big of a piece of your business that is. Fuel remains elevated. So, do you feel like there's still further room to drive costs lower or is there risk over the next handful of quarters that that could actually reverse given all of those headwinds I just mentioned?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
We lost a little bit of your question, Alan, but I think I got the gist of it. We've seen good improvement in our cost containment efforts comparison to the prior year. But it's an ongoing battle. And there is certainly some headwind out there right now with some fuel cost increases. I don't believe the Canadian recently announced Canadian tariff changes are going to have a material impact on D.R. Horton and our

footprint. But I'm looking for us to hang on to perhaps squeeze out a little additional cost improvements in future quarters. But it's more challenging now just as you get closer to an optimal state to get significant improvement going forward.

**Q:** Thanks very much.

**Operator**
Thank you. The next question will be from Matthew Bouley from Barclays. Matthew, your line is live.

**Q:** Good morning, everyone. Thanks for taking the questions. I want to ask on incentives. I think you said the incentives were slightly lower quarter-over-quarter. And so, you mentioned demand softened a bit during the quarter. It looked like finished spec came up slightly and, obviously, interest rates are where they are. But it seems like, obviously, you're still guiding to that flattish sequential gross margin going forward. So maybe you just kind of unpack what's assumed around incentives there and why wouldn't there be kind of an incremental incentive headwind going forward? Thank you.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Well, in the current environment, we saw a slight improvement in incentives. But as Paul mentioned, it was a bit softer later in the quarter. So we do expect incentives to remain elevated. And as Mike just discussed, we may still see some stick-and-brick savings. But we have achieved a lot of what we expect to achieve today. So really where we see where we are a relatively stable outlook going into the next quarter. Obviously, a lot of our sales and our closings in the quarter occur in the same quarter. So there's still some uncertainty around what may be required going forward. But right now, the visibility we have points to a relatively stable margin going into Q4.

**Q:** Okay. Got it. Thank you for that. And then secondly, stepping back, I wanted to ask about your exposure to the first-time buyer. I think it looks like you're around two-thirds today first-time buyer, and we can go back any number of years. Once upon a time, that was half the business, maybe even less than half the business. So it's been a very steady mix towards that first-time buyer.

And so given the state of the first-time buyer today, would you say that the kind of two-thirds of the business you're at now maybe stabilizes? Do you expect it to actually continue to move higher if you kind of look at it as we are kind of the answer to the affordable needs of the country today? Or would you actually look at it and say, you know what, we actually do want to mix a little bit back towards that kind of first-time move-up buyer. So just curious on how you're positioning the business from that perspective on a multi-year time frame. Thank you.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
The positioning of our business today lends itself to still seeing significant portion of our buyers, I think, in that two-thirds range as first-time home buyers. There's some

opportunity to go up some. We'll certainly take it. If we see more buyers out there, we're happy every day to sell them a home. That said, as we penetrate markets, we also take the opportunity to move up market a little bit. So I think blending that at a community level and at a division level, our operators are charged every day to find the market, go meet that market. But I would expect us to see a first-time home buyer segment relatively consistent with what we see this quarter.

**Q:** All right. Well, thank you, Paul. Good luck, guys.

**Operator**
Thank you. The next question will be from Eric Bosshard from Cleveland Research. Eric, your line is live.

**Q:** Good morning. The stick-and-brick down 5%. Curious where you're seeing that, if labor is a meaningful piece of that, and then the path forward you expect from here and how this is influencing or contributing to gross margin?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
Sure, Eric. The majority of the savings we're seeing is still on framing, which would be inclusive of labor. As I think we've talked about previously, we pay for a lot of things turnkey, so we can't split it out for you perfectly, labor versus materials. But framing was our biggest cost category of savings. Very positively, though, across all of our major cost categories, we saw a decline in terms of our costs on closings in the third quarter. And so, I think, we expect that to hold at least into Q4. Maybe into 2027, we start to have a slight lumber headwind again with where lumber prices have gone, but we feel good for at least the next quarter or so.

**Q:** And then in terms of how that is supporting gross margin or supporting the ability to increase incentives, how are you thinking about that or planning that, or how is that playing out?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
The stick-and-brick cost structure and incentives in our mind are kind of separate things. We think about the home we want to deliver on the lot, try to build it as efficiently as possible, and then look to go to market with the appropriate price and incentives that stimulate demand in the marketplace to get the pace we need to drive the return we need, and then manage the return on the basis of trying to pull back or increase incentives to stimulate demand or to improve margin. Two separate parts of the equation for us.

**Q:** And then secondly, you were relatively clear that in the quarter, a little less volume, a little bit more margin. Is this the path forward strategically? I know it moves around, but is that kind of plan A from here?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
That was our plan this past quarter, and we're going to respond to the market based

on what we see quarter to quarter, month to month, really week to week. So we're managing our business, I think, very efficiently, responding to the market as it comes to us. Our operators did a great job of delivering on the quarter in terms of our guidance in closings and in margin. We did make the decision to hold margin a little more than push into the units, and hence the reduction in our guide for the year. But we're going to continue to manage the business as efficiently as we can to drive the best returns that we have at a community level.

**Q:** Okay. Thank you.

**Operator**
Thank you. The next question will be from Sam Reid from Wells Fargo. Sam, your line is live.

**Q:** Thanks so much everyone, and good quarter. You gave a lot of helpful color on lot cost inflation. I believe it was up 5% year-over-year in the third quarter. Curious as to what's embedded for lot cost inflation in the fourth quarter. And then contextualize where you see that line item potentially tracking into next year, whether you expect to get some help just from slack in the horizontal supply chain, or whether there could be some implications from higher oil costs on some of those horizontal lot inputs? Thanks.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
We expect to see similar lot cost appreciation, although we're seeing some savings and some benefit in the development cost that won't come through for several quarters well into 2027 and 2028. Anything that we are seeing today. So expect to see similar level of lot cost inflation as we head into the fourth quarter.

**Q:** That's helpful. And maybe let's switch gears and quickly touch on SG&A. There was a step up in SG&A spend on a dollar basis. Realize there was probably some community count embedded in that, but just if you could contextualize some of the levers behind the higher year-over-year homebuilding SG&A dollars just so we can understand how we should be thinking about that both for the quarter and also for fiscal Q4? Thanks.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Yeah, Sam, the primary driver of the SG&A has been our community count increase. Our active communities were up 9% year-over-year. Our total dollar spend of SG&A was up 8%, so relatively in line there. And that's been a trend for the last 2 to 3 years as we've added 30 markets over the last several years. But yet our volume, so our absorptions per community have declined a bit and so our overall revenues have not increased, and we've been adjusting our ASPs to meet the market as well. So we have had some deleveraging over the last couple of years. But at the point at which we do begin to see stabilization in pricing and absorption pace, we would expect then to be in position to get forward operating leverage on SG&A. But right now

we're in a position where we built the infrastructure and we need to see the growth coming off of that in the future.

**Q:** Thanks so much. I appreciate it.

**Operator**
Thank you. The next question will be from Ryan Gilbert from BTIG. Ryan, your line is live.

**Q:** Hi, thanks. Good morning, everyone. I wanted to circle back on the finished spec inventory question. It does look like finished specs are up around 2,100 homes sequentially. I think that's more than the typical sequential increase. Is that more than you expected? Is that tied to some of the softer results in, I guess, May and June versus what you saw in mid-April? And then how should we think about potential gross margin implications for right-sizing the spec count?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
So we look at the spec counts, it's a function of a few things. One is some improvements that we continue to see in our construction cycle times. We're finishing homes faster. At the same time, our average selling communities are up 9%. So that's up more than those completed specs are up. Therefore, we have fewer per community at this time. And then the other part to the forward margin piece, those completed specs are very recently completed. You can look at our aged specs and they're actually down a few hundred units' year-over-year. And so we feel pretty good about going into the fourth quarter, able to provide a stable margin guidance.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
As we said in the scripted part, we do expect our Q4 starts to be lower than Q3 and we'll continue to adjust our starts accordingly based on the demand that we're seeing. Of our total completed specs, only 600 have been completed and unsold for greater than 6 months, and that's actually down from 800 sequentially. So to Mike's point, the vast majority of our completed specs are very fresh.

**Q:** Right. Okay. Yeah, that makes sense. Thanks. And then second question is on community count growth. I think you've talked in the past about that growth rate decelerating to kind of a mid-single-digit rate at some point in time. I'm just wondering given the continued declines in the controlled lot count, should we recalibrate that mid-single-digit growth rate expectation or do you think you can continue to grow community count despite lower controlled lots?

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
Yeah, I think that would still be our base case over the longer-term is that our goal would be to have a roughly mid-single-digit community count growth. It can be a little bit choppy. It's actually been sticky at the low-double-digits for quite some time. We did see a slight moderation to a 9% increase on a year-over-year basis this

quarter and 2% sequentially. So did start to see it trend down modestly and would still expect it to trend down to mid-single-digit over time.

**Q:** Okay. Great. Thanks so much.

**Operator**
Thank you. The next question will be from Anthony Pettinari from Citi. Anthony, your line is live.

**Q:** Good morning. I was wondering if you could talk about any meaningful regional variation you're seeing in terms of demand and any MSAs that stand out as being stronger or weaker. And I guess related question, we've heard about some MSAs with tech exposure being strong like Bay Area, some others like Seattle being weak. Is there anything you're sort of observing there? It's kind of sometimes hard to tell whether that's a plus or a minus.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
I think what you just mentioned is consistent with what we're seeing and fairly consistent with what we talked about last quarter on the call, is that across really what we show as our North operating area, which is the Mid-Atlantic states, the Ohio Valley, the Midwest, seeing relative strength in most of those markets, a little more weakness out in the Northwest, and especially as you look up into Seattle, where we've seen some of the shift in the software jobs and more layoffs and some headwinds to demand in those markets, and that's pretty consistent with what we've seen through this quarter.

**Q:** Okay. And then any other regional variations that you'd highlight in terms of, I don't know, Sunbelt or Northeast or…

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
The Florida markets seem to be performing pretty consistently at this point in time and some of the same across the Southeast. So it's been pretty encouraging.

**Q:** Great. And then, I guess, one last one. Stick-and-brick costs down year-over-year. You've taken down cycle times year-over-year. Is there sort of a theoretical limit or floor for cycle times? Just generally, how should we think about that?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
You'll never hear us say there's a floor in terms of our ability to run our business more efficiently. That said, the reduction has come more from complete to close than it has from our start to complete. In other words, in the construction cycle time we've come down maybe a day, I think sequentially, and most of that reduction has been from complete to close. So our focus in the field and our operations in our communities is to sell the homes earlier in the process.

We're building homes at the most efficient rate that we have in the history of the company, and so we need to get back to selling homes earlier in the process. That will help reduce that overall start to close cycle time. And we do think there's some room to bring that down further.

**Q:** Understood. I'll turn it over.

**Operator**
Thank you. The next question will be from Rafe Jadrosich from Bank of America. Rafe, your line is live.

**Q:** Hi, good morning. Thanks for taking my question first. Can you remind us the lag between when lumber prices move and when it shows up in your gross margin for delivered homes?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
It usually takes a few quarters for that to come through based upon how we're kind of priced to an average price at the point of purchase order and then those homes have to go through the production process to be sold and closed to show up in margin. So it's usually a few quarters.

**Q:** So three quarters?

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
Yeah, two to three quarters is fair.

**Q:** Two to three quarters. Okay. And then the second question, just your operator has been pretty nimble sort of balancing margin and volume and sort of earlier this year, it seemed like there was more of a push into volume in the first half and there's been an adjustment here. Can you just talk about maybe what you're seeing out there that kind of caused that shift? Is it where 3Q orders came in? Is it the outlook for the fourth quarter? And then what would it take to sort of get you to shift back to more aggressive volume given the growth ambitions you have longer-term and the strong lot pipeline?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
Our efficiency and reduced cycle times have allowed us to respond inter-quarter to those changes in demand. And I think that's really what you saw with our second quarter, where we saw strong early selling season, our spring selling season allowed us to increase our starts pace respond to that, and then we adjust in kind. And I think when throughout this past quarter we saw the market soften a little bit, and that's why we're anticipating to see our starts rate in the fourth quarter be below what it was this past quarter. So really it's our operators, to your point, being nimble, responding to the market, and being out there on the ground every day responding to the market that comes at them.

**Q:** Thank you. That's very helpful.

**Operator**

Thank you. The next question will be from Trevor Allinson from Wolfe Research. Trevor, your line is live.

**Q:** Hi, good morning. Thank you for taking my questions. First question is back on incentives and your rate buydown program. With rates moving higher through the quarter, have you made any adjustments to those programs? And if so, can you talk about what rate you were buying down to on average currently and how does that compare to recent quarters?

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

It was actually the first quarter that we did see our rate in backlog tick up because of that move in rates. So we saw our average buydown decrease slightly to 1.6% from 1.7% in the second quarter. And the mortgage rate for our buyers in backlog utilizing our mortgage company at June 30th was 4.9% against, call it, a rough market rate of about 6.5%. So we're still in the market pretty consistently with anywhere from, call it, 4.99% to 5.5% depending on mortgage product. We have an array of offerings, so you'll find some things outside of that band, but that'd be the largest piece of our offering today.

**Q:** Okay. Thank you for that, Jessica. And then second question, last quarter you talked about selling specs earlier in the construction cycle, expecting that to provide some gross margin benefits. Can you quantify or at least talk about any of the benefit you saw in 3Q from that process? And should we expect incremental tailwinds from selling earlier in the construction process in 4Q? Thanks.

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

We definitely did see probably on those closings a lower incentive level having to be offered. At the same time, it provides a much greater efficiency to the turn of the inventory in the selling process earlier so that as soon as the construction process is complete, the buyer has gone through the mortgage qualification process and they're excited and ready to move into their home.

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

Certainly more room for improvement though. We saw a step up in those closings this quarter, but it's not where we ultimately want it to be.

**Q:** Thank you for all the color and good luck moving forward.

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

Thank you.

**Operator**
Thank you. The next question will be from Susan Maklari from Goldman Sachs. Susan, your line is live.

**Q:** Thank you. Good morning, everyone. My first question is on the rental side of the market. Can you talk about what you're seeing there, especially post the housing legislation that passed and how you're thinking about the outlook in terms of that part of the business?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
We certainly saw, until it was settled, some uncertainty in that market, a pullback on the single-family for rent purchasers. We have seen them out there with interest. Haven't seen a significant shift as of yet. It's fairly new in terms of that legislation being activated. But feel good about our position there. Majority of what we're selling is really on a forward sale basis. And so we have those opportunities and continuing to work with the buyers that have been with us the future and look for new buyers for that segment.

**Q:** Okay. That's helpful. And then thinking about the priorities of capital allocation, you reiterated the guide for the $2.5 billion of buybacks. I guess considering though where you are already coming into this quarter and the seasonality of the cash flows, how should we think about the potential for some upside there? What are you watching for to get more active in that? And can you talk about any other priorities in terms of capital allocation?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
Our share repurchases and dividends are governed by our cash flow. And right now our visibility to cash flow is still to meet or exceed $3 billion. And so our year-to-date spend on repurchases has been in excess of our cash flow year-to-date. Obviously, we expect a strong cash flow performance in Q4 to get that more in line. So, right now, we don't really have visibility to any upside to any large extent on our current year repurchases, but we will monitor cash flow as we move through the quarter and adjust accordingly.

**Q:** Okay. Thank you. Good luck.

**Operator**
Thank you. The next question will be from Mike Dahl from RBC Capital Markets. Mike, your line is live.

**Q:** Good morning. Thanks for taking my questions. Maybe to expand on Susan's question, can you just broaden out and give us your perspective now that the ROAD to Housing has officially passed and you know all the final details. Give us your view on kind of puts and takes and whether or not anything really is impactful. Aside from what you just commented on the SFR or BTR dynamic?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
I think one of the biggest impacts will be on the SFR. It's settled down for institutional investors, their ability to operate in their business without required sale. I think that is certainly a benefit. We're encouraged by the fact that there's still a lot of focus on affordability and on deregulation. I think that has the biggest long-term impact or opportunity at the state level. And then really it has to come down to a local level, municipal and county level, where we see some deregulation opportunity. We're hopeful for that. We see more of that discussion today throughout our communities, but don't expect to see any significant shift or change in either demand or supply in the near-term from what was just passed.

**Q:** Got it. Okay. Appreciate that. And then just shifting gears back to the land dynamic. I mean, your land acquisition spend in particular has been coming down and obviously that's kind of alongside the lot count. But can you just give us your perspective on the land market right now and how you're managing that? It seems like for the time being, even as you enter new markets and try to build those positions, you're comfortable with kind of moving to the sidelines a bit on acquisition or shrinking your lot count a little. But just curious to get kind of your updated views on how that market's evolving.

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
We're certainly trying to have our land acquisition efforts in line with what we see as market demand right now. And there are some markets that we've been able to rework some of our lot position, lot portfolio, working with our developers, been very pleased with their partnership and working through some changes along those lines. And at the same time, there are still opportunities we see where it still makes great sense to go out and tie up new positions.

We're probably buying less raw dirt in the most recent quarters than we have in a while and we'll probably continue that trend a bit right now because there's a fair number of lots that are in the pipeline, both under control by us and that are available from some of our development partners to look at.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
Our focus is to continue to manage it more efficiently and own fewer lots where we can if we're still in position to be in control of our start pace, which will govern our revenue. So we have about 1.5 years of owned land today, which is down from 1.6 years sequentially and 1.7 years year-over-year. But more importantly, we control 6.7 years, so we're in a great position even with our lot count coming down a little bit. We're pleased that our owned lot count has come down, but we still control almost 7 years of land overall.

**Q:** Great. Appreciate that. Thanks.

**<u>Operator</u>**
Thank you. The next question will be from Buck Horne from Raymond James. Buck, your line is live.

**Q:** Hey, thanks. Good morning. I was just wondering if you can go back to the inter-quarter demand trends a little bit just as it relates to the can rate. I'm just wondering, as demand kind of seasonally softened into May and June, I was wondering if you saw was the can rate also the increase there back-end loaded or was it more of a slowdown in kind of the incoming gross orders or some combination of both?

**<u>Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.</u>**
Yeah, it was a little bit of both. As we saw a bit of softening mid-quarter and in the later part of the quarter, our can rate did tick up alongside that. And so that was something that our operators were adjusting through the quarter.

**<u>Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.</u>**
Even our exit rate or can rate wise for the quarter was still well within our normal historical range.

**Q:** Awesome. That's helpful, Jessica. Appreciate that. And what were the largest reasons for cancellation in the quarter? Was it the ability to qualify or just cold feet or any other reasons?

**<u>Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.</u>**
Yeah, it's still largely qualification as it historically has been. We have a general lack of confidence. We'd love to see a bit more confidence among our buyers today. But qualification is still largely the biggest reason for cans.

**Q:** Got it. Thanks, guys. Appreciate it.

**<u>Operator</u>**
Thank you. The next question will be from Kenneth Zener from Seaport Research. Kenneth, your line is live.

**Q:** Good morning, everybody.

**<u>Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.</u>**
Good morning, Ken.

**<u>Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.</u>**
Good morning, Ken.

**Q:** Hello? Just checking. Your gross margin beat, I mean, your regional segment results are very consistent versus other builders. So what kind of led to the modest beat that you guys had? Was it regional mix? Can you talk to if these newer 30 markets, which you said, they'll have higher SG&A, do they also have higher gross margins? Thank you.

**Jessica Hansen - Senior Vice President, Communications, D.R. Horton, Inc.**
No. Typically a new market wouldn't have higher-than-normal gross margins. It takes a little while for them to live into that on both the gross margin and SG&A front. So that'd be a little bit of a drag compared to our company averages.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
I think mostly that margin beat is the efforts in cost reduction, and it's stick-and-brick, and it's seeing those come through now with the efforts that our operators have been focused on for some time. And that's largely where we saw, I think, the difference in the margin beat, slight reduction in incentives as well as we adjusted throughout the market and took the position to hold on to a little bit of margin instead of leaning into absorption.

**Q:** Okay. And then you talked about 4Q starts being below 3Q, it's not heroic. Last year, your starts were 14,500. Is that the range that we should be thinking about given that occurred last year? I'm just trying to think about your base of inventory units, which historically you said are ending inventory times two. That was your long-term revenue outlook. Now you're a little more efficient, so it could be higher than that. But I'm trying to think where you're bringing starts in 4Q and inventory for your 2027 positioning.

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
Certainly seeing 4Q starts inside of 3Q. And while that's not heroic, it will be more starts probably than we had last year in the fourth quarter. That was deliberately suppressed to try to bring inventory back in line. Largely, it's going to be dependent upon the sales environment we see through the quarter. And positioning for our September 30th inventory. A two-times turn had been a historical norm for us. Today, we're looking in excess of that, and our internal goals are to get that to three. And we'll be – not this year, but we'll be close.

**Q:** Really. Okay. Do appreciate it. Thank you.

**Operator**
Thank you. The next question will be from Jade Rahmani from KBW. Jade, your line is live.

**Q:** Thank you very much. Just the multifamily inventory, given where rates are and cap rates in the market as well as supply overhang, what's the outlook for stabilizing and moving that inventory?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
We're right at about $3 billion in terms of our total and that's split largely between apartments at $2.7 billion and around $320 million in our build-for-rent. Our focus on

the build-for-rent has really been on a forward sale, so we don't need to grow that much other than if we see demand for that, then we'll be able to build into it. And we're looking to hold that inventory stable at about that $3 billion mark.

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
And then the multifamily, we do expect to close a few more units in Q4, so expect that inventory to come down a bit in Q4 and then in aggregate keep the overall rental inventory multi and single within the $3 billion range. So a bit coming down in the short-term though.

**Q:** Thank you. And then on the technology side, I was wondering if there's anything in off-site manufacturing or AI you're seeing that looks promising. The housing legislation included some manufacturing housing incentives and maybe that's an area of potential synergy. Just curious about your thoughts there.

**Michael Murray - Executive Vice President and Chief Operating Officer, D.R. Horton, Inc.**
We continue to evaluate opportunities to deliver the housing more efficiently, looking at a wide number of off-site manufacturing processes and players that are trying to crack the code there. We haven't yet found anything that's replacing the way we've done it for a long time that can do it more efficiently. But we are continually looking and evaluating.

**Q:** Thank you.

**Operator**
Thank you. The next question will be from Jay McCanless from Citizens. Jay, your line is live.

**Q:** Hey, good morning, everyone. So my first question, nice to see the backlog price up year-on-year for the first time in several quarters. I guess, is that just a function of mix or were you guys able to find some pricing power in some of these markets?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
I think that's largely a function of mix. We do have pricing power in some markets, and when that opportunity is there, our operators are going to take it at the community level. Some of that slight reduction in incentives as well, if it's in our rate buydowns, we'll add back to the revenue column.

**Q:** And then the second question, just kind of looking at July and rates have been moving up pretty aggressively. I guess, what have you seen so far on traffic and demand, and also as part of that, what are you seeing from competitive inventories, especially on the entry-level and first-time buyer side?

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
I don't know we've seen much change in inventories. I think that the industry as a

whole has been relatively disciplined in trying to measure that towards demand. Still early in July for us to forecast, and we're responding daily in the field and at point of sale to meet what's in front of us.

**Q:** Got it. All right. Thank you.

**Operator**

Thank you. And the next question will be from Alex Barron from Housing Research Center. Alex, your line is live.

**Q:** Yes. Thank you. I'm sorry if this was asked in a different manner, but on the single-family rental side, it seems the business has sort of been winding down. Is that the basic idea of what's going to happen, or is this going to come back at some point?

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

We have taken the business from one in which we developed the entire neighborhood, stabilized the neighborhood, and sold it as a fully stabilized rental property to one in which we're working with those institutional and owners of those properties to basically deliver units to them as we complete construction. So they're responsible for the lease-up and stabilization process of it. We do the site identification, acquisition, development. They then do the lease-up and stabilization process and ownership.

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

And there was probably a little bit of a gap, while there was a lot of uncertainty until we knew how the actual act was going to come out. And so, I think, those buyers now can be more comfortable to move forward. So we certainly are not winding that business down and could do more of it going forward depending on investor appetite.

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

And it's a more efficient model, so we will operate it with a lower inventory balance than we had historically in the SFR business.

**Q:** So will it still show like on balance sheet type business where you report revenues and closings and stuff, or is it more of off-balance sheet or JV or something much?

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

Same. Not a JV. Selling homes [and completions] [ph] to third parties.

**Q:** Okay. And on the multi-family side, it seems like you guys still have a lot of assets committed, but it doesn't seem like there's too many revenues coming out of it lately. So can you expand on what the future looks like?

**Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.**
We do expect an increase in revenues in Q4 from our multifamily business. There are a number of projects that are under contract, are completed, are stabilized. And so, we've got a little bit of a back-end weighted revenue base here for fiscal 2026. And as we look into fiscal 2027, we do have an active pipeline that is working and expect to continue to add to that over time. But the revenues have been a bit inconsistent quarter-to-quarter.

**Q:** Okay. Appreciate it. Thank you, guys.

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

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

**Operator**
Thank you. And that does conclude today's Q&A session. I will now hand the call over to Paul Romanowski for closing remarks.

**Paul Romanowski - President and Chief Executive Officer, D.R. Horton, Inc.**
Thank you, Paul. We appreciate everyone joining us today, and we look forward to sharing our fourth quarter and full year results with you on Thursday, October 29th. And to the entire D.R. Horton team, congratulations on a solid third quarter. Thank you for all that you do.

**Operator**
Thank you. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.