Transcript of
D.R. Horton, Inc.
D.R. Horton Q2 2026 Earnings Call/Webcast
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Presentation

Operator

Good morning, and welcome to the Second 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 second 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 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 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 Presentations section under News & 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 am 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 solid second quarter results with consolidated pretax income of $867 million on $7.6 billion of revenues and a pretax profit margin of 11.5%. New home demand remains impacted by affordability constraints and cautious consumer sentiment. However, our tenured teams continue to respond to current market conditions with discipline.

During the quarter, we delivered a consolidated pretax profit margin above the high end of our guidance range, generated revenues within our expected range and increased net sales orders by 11% compared to the prior year quarter. At the same time, we reduced our unsold completed homes by 35% from a year ago, reflecting our focus on balancing sales pace, pricing and incentives to drive incremental sales while maximizing returns.

We continue to focus on capital efficiency to generate strong operating cash flows and deliver compelling returns to our shareholders. Over the past 12 months, we generated $3.7 billion of cash from operations and returned $4 billion to shareholders through repurchases and dividends.

For the trailing 12 months ended March 31, our homebuilding pretax return on inventory was 17.6%, while our consolidated returns on equity and assets were 13.2% and 8.9%. Our return on assets ranked in the top 20% of all S&P 500 companies for the past three, five, and 10 year periods, demonstrating that our disciplined returns-focused operating model delivers sustainable results and positions us well for continued value creation.

Our sales incentives increased during the second quarter and we expect incentives to remain elevated for the rest of the year with a level dependent on demand, mortgage interest rates and other market conditions. We work every day to leverage our industry-leading platform, unmatched scale, efficient operations and experienced teams to bring homeownership opportunities at affordable price points to more Americans. 65% of our mortgage company's closings this quarter were to first-time homebuyers.

We will continue to tailor our product offerings, sales incentives and inventory levels based on demand in each of our markets to maximize returns. Mike?

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

Earnings for the second quarter of fiscal 2026 were $2.24 per diluted share compared to $2.58 per share in the prior year quarter. Net income for the quarter was $648 million on consolidated revenues of $7.6 billion. Home sales revenues in the second quarter totaled $7 billion on 19,486 homes closed compared to $7.2 billion on 19,276 homes closed in the prior year quarter.

Our average closing price was $361,600, down 1% sequentially and down 3% year-over-year. Our average sales price on homes closed is below the average price of new homes in the United States by approximately $160,000 or about 30%, reflecting our focus on affordability. In addition, the median sales price of our homes is approximately $70,000 lower than the median price of an existing home. Bill?

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

Net sales orders increased 11% year-over-year in the second quarter to 24,992 homes, while total order value increased 10% to $9.2 billion, in line with our business plan and expectations. Our cancellation rate for the quarter was 16%, consistent with the prior year period and down from 18% sequentially. The average number of active selling communities increased 4% sequentially and 11% year-over-year. The average price of net sales orders was $366,300, up 1% sequentially and down 2% compared to 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 second quarter was 20.1%, which included a 40 basis point benefit from a favorable litigation outcome and lower-than-normal warranty costs. Assuming normalized warranty and litigation costs, our home sales gross margin would have been 19.7% in the second quarter, slightly higher than our guidance range.

On a per square foot basis, sequentially, home sales revenues and stick and brick costs were both down 2% while lot costs were essentially flat. Year-over-year, home sales revenue and stick and brick costs were both down 4% per square foot, while lot costs were up 4%. We currently expect our home sales gross margin to be 19.7% or slightly higher in the third quarter as we expect to realize additional construction cost savings on homes closed. Incentive levels and gross margin for the remainder of the year will continue to be dependent on demand, mortgage rates and broader market conditions. Bill?

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

Our homebuilding SG&A expenses in the second quarter increased 2% compared to last year, and SG&A as a percentage of revenues was 9.2%, up from 8.9% in the prior year quarter. The year-over-year increase in our SG&A expense ratio was primarily driven by lower home closings revenue, reflecting the decline in our average sales price. We continue to manage our platform with discipline and remain focused on gaining market share efficiently while driving operating leverage over time. Paul?

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

We started 27,500 homes in the second quarter and we ended the quarter with 38,200 homes in inventory, of which 22,900 were unsold and 5,500 were completed and unsold. Our completed unsold homes are down 25% from December and 35% from a year ago with both unsold homes as a percentage of total inventory and completed unsold inventory at their lowest levels since fiscal 2023.

For homes closed in the second quarter, our median cycle time from home start to home close improved by almost a month year-over-year. Our improved cycle times enable us to hold less inventory and turn homes more efficiently. We expect starts in the third quarter to be lower than the second 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 March 31 consisted of approximately 575,000 lots, of which 23% were owned and 77% were controlled through purchase contracts. We are actively managing our investments in lots, land and development based on current market conditions.

We remain focused on our relationships with land developers across the country to allow us to build more homes on lots developed by others. This approach enhances our capital efficiency, returns and operational flexibility. In the second quarter, 67% of the homes we closed were on lots developed by either Forestar or third parties, up from 64% in the prior year quarter. During the second quarter, our homebuilding investments in lots, land and development totaled $2.1 billion, including $1.5 billion for finished lots, $500 million for land development and $120 million for land acquisition. Paul?

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

In the second quarter, our rental operations generated $12 million of pretax income on $212 million of revenues from the sale of 566 single-family rental homes and 216 multifamily rental units. At March 31, our rental property inventory totaled $3 billion, including $2.7 billion of multifamily rental properties and $347 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.

Turning to our financial services operations. Pretax income for the second quarter was $52 million on $193 million of revenues, resulting in a pretax profit margin of 26.8%. Mike?

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

Forestar, our majority-owned residential lot development company, reported second quarter revenues of $374 million on 2,938 lots sold, with pretax income of $44 million. At March 31, Forestar's owned and controlled lot position totaled 94,000 lots. 65% of Forestar's owned lots are under contract with or subject to a right of first offer to D.R. Horton.

During the second quarter, we purchased $280 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 aggregate 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.

During the first six months of the year, homebuilding cash provided by operations totaled $619 million and consolidated cash provided by operations was $442 million. During the second quarter, we repurchased six million shares of common stock for $904 million, reducing our outstanding share count by 8% compared to a year ago. We also paid cash dividends of $0.45 per share, totaling $130 million and our Board has declared a quarterly dividend at the same level to be paid in May.

At quarter end, our stockholders' equity was $23.6 billion, down 3% from a year ago, while book value per share increased 5% from a year ago to $82.91. At March 31, we had $6 billion of consolidated liquidity, including $1.9 billion of cash and $4.1 billion of available capacity on our credit facilities. Total debt at quarter end was $6.6 billion, with $600 million of homebuilding senior notes maturing over the next 12 months. Our consolidated leverage at March 31 was 21.7%, and we continue to target leverage of around 20% over the long-term. Jessica?

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

Looking ahead to the third 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 23,500 to 24,000 homes. We expect our home sales gross margin for the third quarter to be in the range of 19.7% to 20.2%, and our consolidated pretax margin to be between 12.2% and 12.7%.

For the full-year of fiscal 2026, we now expect consolidated revenues of approximately $33.5 billion to $34.5 billion and homes closed by our homebuilding operations of 86,000 to 87,500 homes. We continue to forecast an income tax rate for fiscal 2026 of approximately 24.5%, operating cash flow of at least $3 billion, common stock repurchases of approximately $2.5 billion and dividend payments of around $500 million. Paul?

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

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 aggregate 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 continue to adjust to market conditions with discipline 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 hard work and commitment. We look forward to continuing to improve our operations and expand homeownership opportunities for more individuals and families throughout fiscal 2026.

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

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions]. And the first question today is coming from Alan Ratner from Zelman. Alan, your line is live.

Q: Hey guys. Good morning. Really nice job in a tricky environment. So congratulations. First question, I would love to drill in a little bit more on the gross margin outlook. It sounds like adjusting for the various warranty and litigation charges, it sounds like you're expecting pretty stable margins sequentially, which is very encouraging given what's going on.

I know you mentioned you have some tailwinds there from lower construction costs. I was just curious if you can kind of give a little more detail on what you're seeing on that front lately, especially with the higher oil prices of late. We're starting to pick up some chatter about fuel surcharges from suppliers and trades, and I'm curious, if you're experiencing that in general, what your outlook there is maybe beyond the third quarter if oil remains near current levels?

<u>Bill Wheat - Executive Vice President and Chief Financial Officer, D.R. Horton, Inc.</u>

Sure. As we've discussed in prior quarters, we focused throughout our operations on sitting down with our trades and working our costs down as we held our starts back in Q4 and Q1. I feel good about what has been accomplished there. It's an ongoing effort, will continue to be ongoing. But we can now see in our construction cycle and our homes under construction, lower costs coming through. And so we've started to see the front end of that in the current quarter that we're reporting, and we can see a bit more of that coming through next quarter. And so we expect to see some incremental benefits in Q3 and Q4.

With respect to recent inflation, potential inflation from oil prices, that's something we'll be monitoring closely. Right now, we have nothing tangible to report in terms of anticipating inflation from that. But if we were to see an extended period where oil prices stayed elevated for an extended period, then there could be some pressure. If it remains a relatively temporary period, we wouldn't expect too much impact.

Q: Great. I appreciate that. Second question on the rental segment. I know it's not necessarily an area of growth for you guys, but obviously, a lot of noise with the outstanding Senate bill related to BFR. I see you did sell 500-plus homes in single-family rental this quarter. Just curious if you could talk about the demand you're seeing kind of for going forward on BFR and whether you think this is going to kind of cause a bit of a pullback in activity in your rental segment beyond '26 if it does come to fruition?

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

We still see interest out there, but there is uncertainty around the legislation, and I think a little bit of a pause in terms of people waiting to see how that plays out specifically as it relates to the seven-year potential sale requirements.

Generally speaking, we have underwritten our build-for-rent communities as for sale. So if need be, as we go forward, we can move those if needed. We also have focused the majority of our forward business on forward sales. In other words, we aren't starting those unless we have a contract and firm commitments. And so I feel good about our positioning there, not overly relying at all on having that business continue to be able to hit certainly our guide, and feel good about our positioning in the space.

Q: Appreciate it. Thanks a lot.

<u>Operator</u>

Thank you. The next question will be from John Lovallo from UBS. John, your line is live.

Q: Good morning guys. Thanks for taking my questions as well. The first one is, how would you sort of characterize demand in March relative to normal seasonality? And the reason I ask is we've had certain checks that indicate normal seasonality sort of occurred each week through the first week of March and then sort of leveled off as the war started. Other checks have indicated they saw normal seasonality all the way through March, notwithstanding the war. And then I'm curious also what you're seeing year-to-date in April from a seasonality standpoint?

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

I would say the demand was good. We saw sales in line with normal seasonality, kind of as we expected and hoped throughout the month, and we're pleased with our sales results through mid-April at this point. But it's only the middle of the month at this point.

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

And our cancellation rate was stable throughout the entire quarter.

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

Yes. No change in that.

Q: Yes. No, that was encouraging. Okay. And then on the order ASP of $366,000, it seemed to stabilize a bit here in the second quarter. It was actually up, I think, quarter-over-quarter for the first time since maybe the second quarter of '24. I mean was there any notable mix impact to call out there? And do you think we sort of found the floor on order ASP or close to it at this point?

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

I don't know that there was a notable mix for that impact. Our incentives do remain elevated as we had called out. And we're not going to call a floor relative to the market, and demand will depend on what we see through the remainder of the spring and into the summer selling season.

Q: Understood. Thank you guys.

Operator

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

Q: Great. Thanks very much guys. And yes, strong results here in a tough market. I wanted to ask you about the incentive environment. You called for incentives remaining elevated through the remainder of the year. And I'm curious if you've seen any changes in trends worth calling out in terms of perhaps maybe an increase in the use of ARMs or temp buydowns. If you could just give us a sense for what you're seeing in terms of recent trends or recent activity in terms of how your incentives are tracking?

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

Sure. On the ARM front, we ran about 10% of our closings, at least through a mortgage company this quarter, were an ARM product. That's down from 13% sequentially, but it is up from essentially zero a year ago. We are incentivizing. We've got products out there that are ARM incentives. So we are not surprised by that tick up. It's been somewhat strategic. I don't know that we expect it to grow materially from here. It could bounce around in that 10% to 15% range would be my guess today.

And then in terms of just the buy down overall, we did have 90% of the buyers that utilized our mortgage company get some version of a permanent and/or a temporary buydown this quarter, which is up on our overall closings. That's roughly 73% of our closings had some form of a buydown.

Q: And could you give us a sense for overall, what incentives may, in aggregate, represent as a percentage of the -- maybe the MSRP, the initial home price? And whether this has been whatever it is, I'm sure it's obviously elevated, as you indicated. It sounds like there's no expectation to sort of bring that down, at least as far as you can see this year. And I'm wondering how would you respond to folks who are worried that this is becoming a new normal, that the buyer has become conditioned to expect very elevated level of incentives. And do you still have the same confidence that you had, let's say, three years ago when we started getting into this mess that you're going to be able to bring those incentives all the way back down to the level they historically were.

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

Steve, the incentives as a percent of revs is roughly 10%. And as it speaks to that level of incentives relative to market, rates have remained relatively stable. They've been somewhat range-bound, and we've stayed pretty consistent in the rates that we're offering. Therefore, that cost of those rates has stayed relatively stable in terms of the total incentive package. That being the most significant incentive that we are giving.

I think we're going to need to see rates moderate some before we see that break up, and/or an increase in consumer confidence and more buyers in the market that allow for a reduction in incentive and over time, eventually, some increase in base house pricing. But we incentivize and look at that on a community by community level. We do have communities that we see a reduced incentive level. We haven't seen that come in aggregate when you look at our overall revenues. And as we focus on selling earlier in the process, we see the opportunity to hold back on some of those incentives as well.

Q: Okay. Great. Thanks.

Operator

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

Q: Hi, thanks. Good morning everyone. Just first question on, what you just said on selling homes earlier in the process. It does look like based on the backlog data, you've been able to sell more homes before they've been completed. Is that just a function of the drop in standing inventory? Or are you able to offer more incentives on homes under construction than you have been able to previously or have consumer preferences shifted away from completed spec?

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

With our cycle times where they are today, we're able to sell earlier and still put them into the BFC if that's the incentive that we're needing to get them across the finish line, whereas before construction cycle times were elongated and we weren't able to do that. But usually, when we sell a home earlier, we actually see a gross margin lift versus selling a home later.

Q: Okay. Got it. Thanks. And then second question on starts, pretty big year-over-year pickup. Did you increase starts throughout the quarter? Do you need to make any adjustments as a result of the Iran conflict? It sounds like potentially not based on the third quarter guidance. But yes, any color on the starts gains throughout the quarter? And then if you think 3Q will also be down on a year-over-year basis in addition to sequentially?

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

On the starts for the quarter, we maintained our plan for the quarter, throughout the quarter, and we felt really good with the sales demand we saw. So the starts plan was in line and continued. I think we'd expect to be seeing starts down sequentially in Q3, but likely roughly flat with what we had last year, somewhere in that range. Obviously, dependent upon the sales environment at a community level.

Q: All right. Thanks very much.

Operator

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

Q: Thanks everyone. Just wanted to talk through the cycle time benefit you got in the quarter relative to last year. I know this came up a little bit on the prior question. But how much of the one month improvement was explicitly from lower construction cycle times versus shorter complete to close? And then can you talk to any sequential benefits you might have gotten from that lower complete to close in Q2 versus Q1?

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

Our complete to close was down about a week sequentially, which is good. We still have room that we can improve that further. But a week quarter-over-quarter is a good start.

Q: No, that's awesome. Helpful to hear. And then I know your red tag sale, I believe that's ongoing right now. Can you just remind us whether there are any timing differences between the sales this year versus last year? And maybe any tweaks to incentives we should be mindful of on the Red Tag sale? I mean I know you run it fairly regularly, but always trying to get a sense for any changes at the margins.

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

We've been consistently doing a Red Tag sale normally around the start of our fiscal quarters, and the incentive levels vary by community, by submarket. No, I won't say there's anything different in timing this year or anything really different in the incentive levels we're looking at in the aggregate. We have a little less completed inventory today in today's the current Red Tag sale than we did in the prior Red Tag sale.

Q: Helpful context. Thanks so much.

Operator

Thank you. And the next question is coming from Matthew Bouley from Barclays. Matthew, your line is live.

Q: Hey, good morning everyone. Thank you for taking the questions. So I wanted to first get a sense of what led the margins to be above your guidance and presumably with that continuing to how you're thinking about Q3 here. So was it kind of a reflection of the 6% mortgage rate environment we had from earlier this year? I mean it sounded like lot costs at 4%, probably a little bit lower than what we've seen recently, maybe more success on stick and brick than you had thought. Just sort of how do you bucket all that out? Thank you.

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

I think it's a combination of all those things. We've seen some reduction in stick and brick come through that Bill spoke to less reduction of the increase of lot price. So those somewhat offsetting. And then we saw a fairly strong quarter from a demand perspective. And just under 25,000 homes sold in the quarter allowed us to hold incentives, maybe a little more than we had anticipated, and that's the result of our margin being at the high end or above our guidance.

Q: Got it. Okay. No, that's perfect. And then secondly, I wanted to dig in back to that ARM's question. So I guess, number one, was there any more sort of temporary buydowns on top of the ARMs? Or is that 10% you mentioned kind of the whole thing. But then more specifically, I guess, going from zero to 10% or if it's more with the temporary buydowns, like is there a rule of thumb? Or how would that impact your homebuilding gross margins relative to your financial services margins as well? Thank you.

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

I don't think it had a really significant material impact on the company. I think the ARM product has been pretty slow on the uptake this time versus prior cycles and people definitely prefer a 30-year fixed rate mortgage. And it is up 10% from zero last year, but it's down 3% from Q1. So it's not having a significant impact truly on margins at the homebuilder or the financial services team at this point.

Q: Got it. Thanks guys. Good luck.

Operator

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

Q: Good morning. On stick and brick, you talked about trends in building products costs. I'm just wondering if you could talk a little bit more about the labor piece, what that is year-over-year? And is there kind of an opportunity to keep driving that down on a year-over-year basis? And sort of what you're doing there?

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

We are seeing consistent labor and plenty of labor in the market. Hence, our reduced cycle times, and we continue to see those. The construction cycle times have slowed in terms of reduction just because we're below our historical average pace of home construction. So with more labor means more competition.

And so we've seen certainly a portion of those total stick and brick savings come through labor as well as some mix of materials. That specific amount or percentage or split, we don't have but expect to see with what we're seeing in the market, that we continue to see some stick and brick savings show up, especially into our third and our fourth quarter in our homes that we closed.

Q: Okay. That's helpful. And I'm wondering if you could give any more kind of regional color on market strength and particularly what you're seeing in Texas and Florida this spring season?

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

I think we're seeing good demand in Texas consistent as well in Florida. The markets feel pretty good to us. Generally, across the country, I would say that most of our markets are performing well in line with expectations, perhaps a little bit of softness in a few of our markets that have kind of traditionally heavy exposure to the software industry, that buyer sentiment may be off a bit. Other than that, just kind of a good start to spring, pretty encouraged.

Q: Okay, that is helpful. I'll turn it over.

Operator

Thank you. The next question will be from Trevor Allinson from Wolfe Research. Trevor, your line is live. Apologies, it looks like we just last Trevor. We'll come back to him if he comes back in. The next question will be from Michael Rehaut from JPMorgan. Michael, your line is live.

Q: Great. Thanks everyone. Good morning. I wanted to circle back to comments you made earlier about demand trends in March and April, and you kind of indicated that, I believe March, in line with seasonality, and you're pleased so far with April. I was kind of curious if you could kind of go a little bit more into detail on that? Obviously, the consumer sentiment data has come out a little shaky since the start of Iran war, a lot of volatility, a lot of headlines.

And just kind of curious what you're seeing more on a bottoms-up basis from your home buyers and week-to-week, if perhaps month as a whole might have been kind of consistent with seasonality, but if you saw any more volatility on a week-to-week basis?

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

We don't generally comment on intra-quarter in terms of monthly trends, but to reiterate what Mike said, demand was good throughout the quarter and in line with our expectations and normal seasonality. Normal seasonality would be that February into March and into April are really getting into the heart of the spring selling season.

And we didn't see any meaningful impact or disruption to the business that we would tie to any global or gas-related price increases. And I've said earlier, but also our can rate was stable throughout the quarter, which is another positive.

Q: Okay. I appreciate it. I guess, secondly, you highlighted gross margins being stable going to the third quarter, if you exclude the 40 bp benefit, also expecting to benefit from lower costs into the third quarter. Perhaps if I heard it right, more than the second quarter as some of those benefits compound, let's say or you feel the fuller impact.

With flat gross margin sequentially, you have better continued gains on the lower cost. Are there anything that's offsetting that, that otherwise, you wouldn't see a potentially slight sequential improvement? And I'm thinking, in particular, if perhaps there's still kind of some movement around incentives or higher land costs or any factors that might offset the otherwise benefit from lower construction costs?

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

We do continue to expect our lot cost to incrementally be a bit higher. It was relatively flat this quarter sequentially, but year-over-year, still up 4%. So that is a continuing headwind that our base case for this year was that we would see enough improvement in our stick and brick labor costs to offset that. And that's what we've seen thus far. That's kind of what we see as we look into Q3 right now. Obviously, incentive levels will depend on demand and mortgage rates and all the other factors that will impact our selling process. So that remains to be seen what will happen on the incentive front.

Q: Thank you.

Operator

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

Q: Good morning. Thank you for taking my questions. You mentioned earlier that your completed specs are down about 35% year-over-year. So made some real progress on working down inventory. In past quarters, you've talked about industry inventory levels kind of still being extended here. Have you seen the industry overall also start to make some progress on working down inventory? And then was that a factor either industry-wide or for you guys, specifically in your 2Q gross margin coming in better than you anticipated?

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

I think we have seen inventory levels reduce across the competitive environment and I think similar to what we have done, a little more control on starts and that being dependent on the sales pace and demand. And we have absolutely watched that closely week-to-week and managing our starts in line with our housing demand that we see and our expectations as we move from quarter-to-quarter. So we feel very good about our inventory position and good about the starts level that we had as it related to our sales throughout the quarter.

Q: Okay. Very helpful. And then second question on your lot count, it's down about 10% year-over-year. You've got land prices, which remain sticky, demand still challenged. Is it your expectation that lot count kind of still continues to move lower sequentially here as maybe fewer deals just meet your underwriting standards in the current environment? Or were you able to find enough deals here where you expect that lot count to kind of flatten out from where it's at now? Thanks.

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

I think we feel really good about the current lot position we have, and we're probably as good as we've ever been in the company's history of positioned with our land pipeline, such that we're able to kind of pass on deals that don't make sense in today's current incentive environment and being disciplined in our approach to the underwriting.

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

I think our development partners continue to work with us as well to adjust lot takedown schedules. And so that's probably a big driver of the sequential decline in our owned lot count as we still have an immense need for finished lots and appreciate those relationships and the ability to flow our takes in the projects where we need to.

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

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 questions. Just following up on the last comment. Can you talk about your exposure to land banking, maybe as a percentage of the option mix and then your ability to actually slow down the pace of the lot takedowns?

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

We have a mid-single-digit exposure to land lot bankers within our lot portfolio. So it's not a significant part of our land strategy at this point. Most of our lot position is held by few third-party developers that are putting lots on the ground for us or Forestar. And we've been able to work with those folks in terms of adjusting, as Jessica said, take down schedules, timing of development phases to meet the market in line that makes sense for the market.

We believe our strategy of working with third-party developers provides us a lot of operational flexibility, in addition to capital efficiency and utilizing the benefit of some very knowledgeable and seasoned experts in the development world.

Q: Great. That's really helpful. And then I know it can be difficult to predict at times, but just can you help us at all with how we should think about the community count growth in the second half of the year? And if there's any sort of cadence that we should be considering?

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

I always start with this. So we don't guide to community count for a reason. It's a really hard one because it is so dependent on what's happening with our sales pace community by community. But it had stayed on a year-over-year basis, up a double-digit, low double-digit percentage. We were up 11% year-over-year and 4% sequentially. We do continue to expect that to moderate at some point. I think the biggest positive this quarter, irrespective of community count, is that our sales were up 11%, in line with our community count increase. So we didn't see any decline on a year-over-year basis in terms of absorption. So another really positive sign about the second quarter and the demand environment.

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

We expect it will moderate to that mid-single digit. Exactly what that timing will be, whether it's in the next few quarters or it's next year, sometime, that's the part that's a little more difficult to predict.

Q: Great, thank you.

Operator

Thank you. The next question will be from Buck Horne from Raymond James. Buck, your line is live.

Q: Hey, thanks. Good morning, guys. Congrats. Apologies if I missed this earlier, but I was just wondering if you could clarify for me, the changes to the top end of the revenue guidance for the year, given the -- I mean, the pretty resilient strength in net orders and the faster cycle times you're seeing, I just wanted to be clear on what the messaging was on kind of taking down the top end of revenue guidance for the year?

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

We lowered our closings guide by 500. And then we also saw a lighter ASP than we would have originally anticipated, and we're not really assuming our ASP to increase in the back half of the year. And so it's a combination of slightly lower closings at the high end and slightly lower average sales price.

Q: And those lower closings would be driven by what factor?

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

We were light on our closing guide in both Q1 and Q2. We didn't achieve what we said we were going to do. We're still very well positioned to deliver in the heart of our original guide. We just felt like it was prudent to bring down the top end, since the first half of the year, we didn't deliver exactly what we were expecting.

Q: Got it. Got it. Thanks for that. Appreciate it. And just secondly, I was just curious if you're making any thoughts or changes around your land pipeline just due to what's changing around gas prices and just as consumers are having to drive longer distances for new home communities and the elevated cost of commuting, if we see an elevated energy price outlook longer term, do you start to reevaluate some of the locations where your communities are at in the pipeline?

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

We would have to see a very extended period of elevated gas prices to want to be responsive to that. The time that it takes to bring these communities online and our positioning of those communities are where we'd like to see them. So we feel good and comfortable about our community and our future community counts and locations. That said, we adjust as the market moves. And if we see an adjustment in market based on distances, then we'll adjust in time, but nothing that we feel we need to be proactive about at this point in time.

Q: Got it. Appreciate it. Thanks guys.

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 SG&A. Can you just talk a bit more on how we should think about the path from here and your ability to get some leverage in the second half as those closings continue to come through?

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

So we do expect to see some leverage in Q3 and Q4 as our guide for closings is a step up. So we'll see a higher revenue volume in Q3, Q4. Obviously, we want to be as efficient as we can there. The decline in our ASP over the last few quarters and then specifically this quarter, obviously is a little bit of a drag on the SG&A ratio as well. But as we look forward, we do expect to see SG&A as a percentage of revenue coming down from where we've been in the last few quarters.

Q: Okay. All right. That's helpful. And then how should we think about your ability or your willingness to continue on the shareholder return? Any thoughts there on potential upside or changes to the guide? And how you're thinking about balancing investments in growth relative to the dividend and the buyback in this environment?

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

Our approach will remain consistent there. We're focused on generating strong cash flows from operations. And then you're basically utilizing 90% to 100% of that cash flow for distributions to shareholders. We've been consistent with our dividend and inching that up each year, and then the remainder goes to share repurchases. We're still guiding to approximately 2.5 billion of share repurchases this year. We're ahead of pace through Q2, when we saw the pullback in the stock in the latter part of the March quarter.

Obviously, we continued to purchase and leaned into it a bit. So we've really essentially accelerated a bit of our repurchases into Q2, but still right on track towards our $2.5 billion guide for the year.

Q: All right. Thank you. Good luck for the quarter.

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

Thanks Susan.

Operator

Thank you. The next question will be from Jade Rahmani from ABWK. Jade your line is live.

Q: Thank you very much. Could you talk about what's driving these warranty and litigation benefits, which you've experienced for more than this quarter and if you expect further benefits going forward?

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

Yes, Jade. The last three quarters, we've had various kind of one-off events that occurred. This quarter, we had a favorable outcome from a specific litigation case that had been previously reserved, and the results was better than what we had anticipated when we booked the reserve. And so that was a positive benefit this quarter. As well as we did see our warranty costs step down a bit, and we're seeing the benefits of that. We set our reserves based on really where our costs have been. So there was some benefit from that.

So this quarter, we would attribute 40 basis points of benefit from those items that we do truly believe are one-off. And so really, our forward anticipation is that the net impact of litigation and warranty would continue to be around 40 to 50 basis points negative impact on margin each quarter. This quarter, that impact was zero. We would expect normally it would be a negative impact of 40 bps.

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

And as a reminder, our supplemental presentation out on our Investor Relations site does give that line item detail on the home sales gross margin slide. And so you can see quarter-to-quarter what that is. And if you go further back than the last three quarters, you will see we're right in the heart of that 40 to 50 basis point typical impact.

Q: Thanks very much. And in terms of the share buybacks, is there a multiple at which above book value, you don't think it makes sense and where you would look to rather lean on the dividend as a way to efficiently return capital?

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

We look at all aspects of our distribution strategy, and valuation of where the stock is, is a component of that. However, we're committed to continuing to distribute the substantial majority of our cash flow to our shareholders. We've typically kept the dividend at a more consistent level because any payment of dividends, you prefer that to continue to increase over the long-term, and we are very reluctant to reduce dividend levels. And so the share repurchase would be the element that would be more likely to either toggle up or toggle down over time.

Q: Thank you.

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 and nice results. I just wanted to ask a clarifying question on the incentives. I believe in the opening remarks, you made a comment about incentives continued to increase in the quarter. But then a lot of your subsequent commentary, it sounded like it was actually a little more stable. So I just wanted to kind of confirm, was that a comment that was sequential or year-on-year? And then I understand that on a forward basis, the market conditions will dictate where you go with that. But in terms of what's embedded in the 3Q guide, is that for stable sequential incentives or different level, good or bad?

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

I think you heard that properly as stable incentive levels from Q2 to Q3. In Q2, about 61% of our homes closed were sold within the quarter, so they're very reflective, the results were reflective of the market conditions we experienced, and that's what we're kind of projecting forward from an incentive level.

Q: Okay. So the 10% you experienced in 2Q, was that also stable relative to 1Q?

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

It ticked up slightly, but it was essentially rounded to the same number.

Q: Got it. Yes, yes. Okay. That makes sense. I wanted to also follow-up on the material cost dynamic. I appreciate that you guys have some forward visibility given the way you negotiate with your trades and labor. If we've now seen a slew of price increase announcements across a large basket of construction materials and building products and understanding that it may take time for those to go through, it may fluctuate based on ultimately what's happening on the ground today. But from a timing standpoint, if we start seeing price increases go into the market, later this spring, when does that flow through to? Is that a fiscal '27 closings dynamic for you at this point in the year? Are you pretty locked for '26 starts and closings?

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

If we started to see those price increases truly come through, then yes, that would be more of an impact on fiscal '27. Certainly, we'd see some, but I think probably offset in balance, and we really haven't seen that to date. So we'll just see how that goes based on what occurs in the world.

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

Increases get announced a lot. That doesn't mean we actually take them.

Q: Of course. Okay. Thank you.

Operator

Thank you. The next question will be from Ken Zener from Seaport Research. Ken, your line is live.

Q: Given your normal order seasonality, do you feel did your teams tell you that you guys gained share? Or is that kind of just the demand environment?

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

Hard for us to gauge what we're doing on share versus the overall environment. It felt pretty good. Anecdotally, I'd say maybe it's a little bit of share, but I don't know. We'll find out when everybody else reports...

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

Over the next week and a half, I think you'll have a pretty good idea.

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

Yes. I mean our [indiscernible] each other's.

Q: Right. No, it's very impressive. And then your lower land cost, I think you said it was up 4% year-over-year. Could you give us some context to that? I think it was more in the mid-to-high single digits. And then can you talk to the benefit you believe you're realizing from when you slowed down starts to renegotiate? Just trying to understand how those two factors might play out going forward. Thank you.

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

When you talk about the benefit of slowing starts, are you talking on the land side or on the labor side? Labor? Yes, I think that...

Q: It could be both. I mean really just to illuminate us, if you would.

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

Yes. I think that what we have seen and expect to see as we go into the third and fourth quarter, that the stick and brick savings between both materials and labor will offset any increase that we see on the land side. As we've gone through community-by-community, just like we do on the sales and our incentive level, this is a regular discussion with our development partners and/or landowners relative to the terms of any particular deal. And we've seen some savings on land deals, not widespread, but some land and lot reductions based on the reality of the environment and the pace at which we're buying lots and/or starting homes.

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

And Ken, so the first part of your question, we did see moderation in terms of that increase on a year-over-year basis. We were up 6% last quarter, 4% this quarter. Too early for us to say it's going to continue to decline or stay right in that 4% range. But we have expected, as we continue to move through our earlier or our more recently purchased land that that will moderate in terms of the year-over-year increase.

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. Jessica, I wanted to go back to a comment you made about a gross margin tailwind on homes that you guys sell earlier in the construction process. Is that some extra upgrades going in? Or is that just some cost attribution flowing through?

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

Some of that comes from choice selling earlier in the process compared to a completed home or one that we may be more motivated to move off balance sheet and get a buyer in there. So when we sell early in the process and there's a little more choice, whether that's lot selection or some of the things that go in the homes, I think those all attribute to a slight advantage on gross margin at the time of sale.

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

Yes. Just to clarify that we would expect a slightly higher margin on homes sold earlier in the construction process than those that are sold when they're complete, just to make sure we got the headwind tailwind on margin and cost of sales.

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

And we typically always talk to the point that once the home is completed and unsold for a period of time, we do start to see the margin degrade, which is why we have such a focus on not letting our completed specs age and how pleased we are with our completed spec reduction today.

Q: Okay. That's great. Thank you for that explanation. The second question I had, I guess, along those lines, if you are able to sell a little bit earlier, I guess, how much were you able to raise prices in certain markets this quarter? Or is it still kind of tricky to pull that off?

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

It's certainly tricky to measure with any consistency because that is a community-by-community balance. In some cases, it's a reduction of incentives compared to a price increase, and trying to nail that down and put a number to it is just not something that we have.

Q: Okay. Great. Thanks for taking my questions.

Operator

Thank you. The next question will come from Jonathan Bettenhausen from Truist Securities. Jonathan, your line is live.
Q: Hey guys. Thanks for taking the questions. I know it's a smaller mix of sales, but another good quarter for the North. It's a fairly large region from a geographic perspective. So are there any metros specifically to call out that you're seeing outsized growth? Or is it more just kind of broad across the region there?

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

Pretty consistent across the regions. It's also reflective of investments we've made in that geography over the past several years that are now coming in and bearing fruit. So we're really pleased with the teams, how they're performing across the North region, and the contribution they're making to the overall sales results as Texas and Florida are not quite the powerhouses they once were.

Q: Yes. Okay. And just to follow-up on that. Can you talk about the kind of investment thesis in the North?

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

The investment thesis? It was markets we had not heavily penetrated. We saw opportunity to take national market share by expanding our presence in those markets, and we did it through a combination of greenfield organic growth as well as a few acquisitions.

Q: Okay. Got it. Thank you.

Operator

Thank you. The next question will be from Alex Rygiel from Texas Capital. Alex, your line is live.

Q: Thank you. Cancellation rates have remained fairly stable, but have the reasons for the cancellations changed at all?

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

No. We continue to see that the vast majority of our cancellations are due to the buyer ultimately not being able to qualify for the mortgage once they get into the full documentation process.

Q: Thank you.

Operator

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

Q: Thank you. Good morning. I was recently in San Antonio and saw you guys had several communities priced in the high 100s, low 200s. And I was wondering if that's just something you're only doing in that market? Or it's a new push you guys are doing across more markets to build more lower-priced affordable communities?

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

Alex, we have focused on finding a more affordable product and doing it where we can in the markets that especially allow the smaller lot prices and allow for those smaller square footages. Not something we can do across all municipalities in the country. We still face a lot of minimum lot size requirements that put the cost of the lot out of range to achieve that and/or minimum square footages. But where we can achieve, we have seen good success with that. And certainly in Texas, allowing to get some of the lowest prices we can provide around the country where you're seeing in San Antonio, and we're seeing those across the Texas markets and feel good about the positioning.

Q: Okay. And are you finding above average sales pace for that price point?

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

We are. It certainly opens up homeownership to places where there is no other option in a lot of the markets and certainly not for a new home with a warranty and stability of neighborhood and community that we're delivering. So it's absolutely opening up home ownership across the markets, and we see a higher pace because of that.

Q: All right. Best of luck. Thank you.

Operator

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

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

Thank you, Paul. We appreciate everyone's time on the call today, and look forward to speaking with you again to share our third quarter results on Tuesday, July 21st. And congratulations to the entire D.R. Horton team on a solid second quarter. We appreciate everything 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.