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D.R. Horton ramped up its incentives in the latest quarter as affordability concerns kept some home buyers away.
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Slow Home Sales Dog Builder D.R. Horton

CEO expects high incentives to drag down margins in the current period

BY NICHOLAS G. MILLER

D.R. Horton recorded lower first-quarter profit as affordability concerns continued to put off home buyers, hurting sales and forcing the company to offer larger incentives as the quarter progressed.

"Affordability constraints and cautious consumer sentiment continue to impact new home demand," said Executive Chairman David Auld. "We expect our sales incentives to remain elevated in fiscal 2026."

Chief Executive Paul Romanowski said in the company's earnings call that the company's incentives increased during the quarter and that based on December incentive levels, margins would likely decline in the second quarter.

Shares fell 1.8% Tuesday to $153.19. The stock is up 6.4% year to date and up 3.75% in the past 52 weeks.

Home builders have suffered from slow home sales as high mortgage rates and economic uncertainty have put off buyers.

Many builders have been forced to offer aggressive sales incentives, often in the form of mortgage buydowns, cutting into their margins.

D.R. Horton said its average closing price for the first quarter was $365,500, flat sequentially and down 3% year over year. The company closed 17,818 homes, 7% fewer than in the year-ago quarter.

However, mortgage rates have declined in recent weeks, sparking hope of a recovery in home sales. “If rates continue to compress and stay compressed, we would expect to see a slight decrease in the cost of providing those incentives, but that’s not yet factored into any of our guidance,” Romanowski said, adding that the company’s sales offices have seen an uptick in activity.

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But cracks in the labor market have also raised concerns that the housing market may remain stubbornly slow, even with lower mortgage rates. “Long term we absolutely need to see job growth and continued job growth if we want to see growth in overall housing demand,” Romanowski said.

At the end of the year, many builders pulled back on new starts to preserve margins while waiting for the downturn to end. D.R. Horton said Tuesday that it expected to increase its starts in the second quarter.

For the second quarter, the company guided for $7.3 billion to $7.8 billion in revenue, 19,700 to 20,200 homes closed and home sales gross margin of 19% to 19.5%. Analysts see second-quarter revenue of $7.7 billion, 19,629 homes closed and gross margin of 20.2%, according to FactSet.

The company reiterated its fiscal 2026 guidance, seeing revenue of $33.5 billion to $35 billion and 86,000 homes to 88,000 homes closed. Wall Street expects fiscal-year revenue of $33.75 billion and 86,793 homes closed.

For its fiscal first quarter, the home builder posted net income of $594.8 million, or $2.03 a share, down from $844.9 million, or $2.61 a share, the year prior. Analysts expected $1.93 a share.

Revenue fell to $6.89 billion from $7.61 billion. Wall Street expected $6.59 billion.

