D.R. Horton Sees Jump in New-Home Deliveries

By Kris
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D.R. Horton’s revenue and profit increased, and it raised its quarterly dividend 28%. Photo: Reuters

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Home builder D.R. Horton Inc. sidestepped the labor shortages plaguing many of its peers, posting a 23% year-over-year gain in delivered homes for its fiscal fourth quarter ended Sept. 30.

D.R. Horton, the largest U.S. home builder by sales, contracted to sell 8,477 homes in the quarter, up 19% from the year-earlier period, and delivered 10,576. The Fort Worth, Texas-based builder notched a 0.6 percentage point increase in pretax profit margin to 10.7%, a sign that rising labor costs haven’t tripped it up.

“No question, labor is tight,” D.R. Horton CEO David Auld said Tuesday on a conference call with investors to discuss the quarterly results. “The reports coming out from other builders—we’re not immune to it. I think we may have mitigated it by having the best operating team in the industry. The relationships that our people have with vendors and suppliers put us at the front of the line.”

D.R. Horton's experience is atypical. Big builders such as PulteGroup Inc. and MDC Holdings Inc. have reported declines in home deliveries in the third quarter as they scramble to find enough crews to complete construction of houses sold during this year's busy spring selling season. Others, such as Meritage Homes Corp., reined in their financial guidance due at least in part to construction delays caused by labor shortages.

Much of the U.S. home-building industry has struggled to cope this year as new-home sales gained momentum but the ranks of construction workers remained depleted from the downturn. The seasonally adjusted annual pace of construction starts on single-family homes in September of 740,000 marked a 72% gain from the market's nadir in 2011. In comparison, employment in residential construction has increased by 25.5% to nearly 700,000 in October from the market's trough in January 2011, Department of Labor data show.

"It's clearly impacting our production," Pulte CEO Richard Dugas said of labor shortages during the builder's quarterly call with investors on Oct. 22. "In general, we're having to pay more for labor."

Builders, contractors and economists think that the construction industry has been slow to rebuild its workforce because pay isn't high enough to lure people from other industries, tight immigration laws have limited one source of labor, and networks for training and recruitment have atrophied since the downturn. Some builders now are paying more to lure workers back from retail, hospitality and other indoor jobs. Those pay increases are expected to result in higher new-home prices.

D.R. Horton, however, said higher pay isn't part of its solution yet. The builder notched a revenue gain of 4% a square foot of homes delivered in the fourth quarter from a year earlier while its costs for labor and materials, excluding land, increased by 3.5% in that span. Still, the builder anticipates that labor costs will be a limiting factor next year, contributing to its forecast that its margins will show minimal to no gains in 2016 from 2015.

D.R. Horton, which operates in 27 states, draws subcontractors partly because it produces a high volume of home sales, which in turn provides them steady, relatively predictable work. Mr. Auld added that the builder's seasoned executives in many of its markets have long-standing relationships with subcontractors, which helps keep them on its sites.

Another factor in D.R. Horton's favor: The builder relies more than many of its peers on sales of speculative homes, meaning those that go under construction without a buyer already lined up. That allows D.R. Horton a bit more leeway in spreading out its construction schedule rather than lumping much of the work toward the end of each year.

Still, analysts suspect the labor shortage eventually will trip up most, if not all, home builders.

"If there's anyone who can manage through this, from a revenue standpoint, it's probably them," said Mike Dahl, an analyst with Credit Suisse AG, regarding D.R. Horton. "The question is really the implication for margins. Even if you are able to get these crews in, how much are you having to pay to get the work done? And is that going to eat into your gross margins?"

All told, D.R. Horton reported a 27% increase in sales for its fourth quarter to $3.1 billion. It posted a 44% gain in net income to $238.9 million.

Meanwhile, the builder gave an optimistic forecast for its 2016 fiscal year, predicting revenue of $12 billion to $12.5 billion, a gain of at least 11% from its fiscal 2015 revenue of $10.8 billion. It predicts delivering 39,500 to 41,500 homes, up at least 7.8% from 2015.

"We still think there are legs left in this (housing) cycle," Mr. Auld said. "We're not even close to what is historical demand."

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