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D.R. Horton posts loss - Homebuilder's first shortfall is much higher than expected.

By Steve Brown - Dallas Morning News July 27, 2007

Fort Worth-based homebuilder D.R. Horton Inc. said Thursday that it lost \$823.8 million in the most recent quarter. The loss was a first for the country's largest homebuilder and dramatically higher than Wall Street analysts had expected. It was one of the largest corporate earnings hits so far in the current downturn of the housing sector.

In another sign of the troubles affecting the housing industry, the government said sales of new homes tumbles in June by the largest amount in five months. Horton also took write-offs and charges against earnings of more than \$1.27 billion during the quarter that ended June 30. At the same time, the company's home sales were down almost 30 percent to 9,643 houses, compared with 13,377 in the same quarter of 2006.

Horton had warned earlier this month that it would post a loss for the quarter. Thursday's numbers indicate just how severely the home building industry has been hit by the housing recession.

On Tuesday, Dallas-based builder Centex Corp. reported that it lost \$128 million in the quarter. And on Thursday, Michigan-based Pulte Homes, another of the nation's largest builders, said it lost \$507.6 million.

Also, Builders FirstSource Inc., a Dallas-based firm that provides products for residential construction nationwide, said Thursday that its profit for the quarter ended June 30 was down more than 70 percent from last year.

Horton officials said the home building industry faces ongoing challenges from excess inventory and falling profit margins, Tighter mortgage requirements are also hampering sales. "We're not projecting when there is going to be a recovery because we don't see one on the horizon," Horton chief executive Don Tomnitz said in a conference call. Horton's quarterly loss of \$823.8 million, or \$2.62 a share compares with \$292.8 million, or 93 cents a share, in profit in the same quarter of last year. Revenue for the quarter that ended June 30 was \$2.6 billion, down from \$3.6 billion a year ago

Security analysts were taken aback by the size of Horton's latest write-offs. "The impairments this quarter are obviously a huge step up from previous quarters,"

said Michael Rehaut of J.P. Morgan. The write-offs were for charges to costs of sales, inventory impairments, write-offs of deposits and pre-acquisition costs related to land purchase contracts and goodwill impairments.

The Company's backlog of uncompleted home sales was 15,801 units, about 36 percent fewer than in the same quarter of 2006. The builder's biggest total drop in new sales orders during the quarter was in the South Central region, which includes Texas. But Mr. Tomnitz said, "Texas remains a very strong state for us. We have a lot of our assets in Texas and the market is still good in Texas." Horton builds in 85 markets in 27 states. Horton has cut it's work force by almost 4,000 employees since last summer. The company's poorest performance has been in the West. "We are still struggling in California," he said. "Our sales are not where they need to be, and our cancellation rate is higher than the rest of the country." Almost 40 percent of Horton's contracted sales fell through in the most recent quarter.

The normally strong spring home sales market has been a bust for most builders in 2007. "It's now clear that the selling season did not materialize this year," Mr. Tomnitz said. "We don't see a lot of strength in any of our markets currently." Tougher lending standards in recent months have caused more new home purchases to be canceled. "We are trying to qualify the same buyer two or three times based on the changes in the mortgage industry," Mr. Tomnitz said.

Horton's stock closed at \$17.16 per share, down almost 2 percent. Nationwide, new home sales were down almost 7 percent in June, with the biggest declines coming in the Northeast and West, according to the Commerce Department. June new home sales were up more than 7 percent in the South, which included Texas. "A significant increase in prime mortgage interest rates, along with the tightening of mortgage standards in subprime and other components of housing finance, clearly weighed on home buying in June," David Seiders, chief economist of the National Association of Home Builders, said in a statement. "Homebuilders continue to trim prices and offer large non-price sales incentives, but many prospective home buyers obviously are reluctant to sign on the bottom line.

"We still expect to see signs of stabilization later this year, although downside risks appear to be mounting."

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