

# Builder

## EARNINGS SNAPSHOT: SPEC STRATEGY CONTRIBUTES TO STRONG Q3 FOR TRI POINTE HOMES

**Strong demand allowed the home builder to continue to increase construction starts and grow its backlog in the third quarter.**

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October 26, 2023



Despite mortgage rate headwinds in the third quarter, Tri Pointe Homes saw net new-home orders increase by 122% compared with the prior-year period. CEO Doug Bauer said the home builder was able to successfully convert backlog in the quarter and sell and close move-in-ready spec homes during the quarter.

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“Throughout 2023, our strategy to increase construction starts combined with improved cycle times has significantly bolstered our inventory of spec homes,” Bauer said during the home builder’s earnings call. “Under the current market backdrop, having the availability of quick move-in homes has allowed us to ramp up our delivery potential and capture share in today’s undersupplied housing market and higher interest rate environment.”

The efforts resulted in a third quarter profit of \$75.4 million, or \$0.76 per share. While profits and profits per share both decreased by over 45% on a year-over-year basis, the

third quarter results were a surprise to analysts, who projected profits per share \$0.22 lower than actual results.

The home builder, the 17th-largest company on the [2023 BUILDER 100 list](#), generated home sales revenue of \$827.3 million in the quarter, down from \$1.1 billion in the third quarter of 2022. New-home deliveries decreased 16% year over year to 1,233 homes with an average sales price of \$675,000, 7% lower than the prior-year period. The lower year-over-year performance was factored into the home builder's quarterly guidance. Results in the third quarter, including deliveries and home sales revenue, surpassed Tri Pointe's quarterly guidance.

"Despite the persistence of elevated mortgage rates, much of the third quarter demonstrated stronger seasonal demand than normal, due largely to the underlying fundamentals of our industry, as well as the severe lack of resale supply available on the market," Bauer said.

## **Demand Trends**

Net new-home orders increased by 122% in the third quarter to 1,513 homes. The monthly pace of net new-home orders per average selling community was 3.3 homes, an increase from 1.8 in the third quarter of 2022. The quarterly cancellation rate improved significantly on a year-over-year basis to 10% from 27% last year.

Bauer said the strong absorption pace has allowed the home builder to grow its backlog by 10% sequentially and by 108% since the beginning of the year. Tri Pointe Homes ended the third quarter with approximately 3,000 units in backlog valued at \$2.1 billion.

"Based on the level of demand we experienced during the quarter, we were able to achieve modest price increases in about two-thirds of our communities," Bauer said.

"We are using forward commitments and continuing to employ a range of pricing incentives, including closing cost credits, interest rate locks, and buydowns, which are tools that are not typically available in the resale market."

Glenn Keeler, chief financial officer and chief accounting officer for Tri Pointe Homes, said demand was broad-based across both product and market segments for the company.

Monthly absorptions were 3.7 homes per community for entry-level offerings and 3.1 homes per community for both first and second move-up offerings. Monthly absorptions were 3.5 homes per community in the West, 2.8 in the Central, and 3.7 in the East, according to Keeler. In particular, Tri Pointe's Inland Empire; Orange County; [San Diego](#); [Arizona](#); [Nevada](#); [Houston](#); [Dallas](#); and Charlotte, [North Carolina](#), markets demonstrated strength in the third quarter.

Keeler said interest increases and normal seasonality have contributed to a moderation of absorption pace to 2.3 homes per community in October. While this is a decrease from third quarter levels, it is in line with pre-pandemic levels and significantly higher than the 1.1 pace a year ago.

## **Organic Growth and Mortgage Synergy**

Bauer highlighted two strategic initiatives from the third quarter at Tri Pointe Homes that will be instrumental to its long-term growth goals.

The company organically expanded operations into the Salt Lake City market in [Utah](#), continuing its efforts to diversify geographically from its historical concentration in California.

“We announced our organic entrance into the [Salt Lake City](#) market, which we view as having a diverse, strong, and growing economy coupled with a desirable quality of life, and we are very excited to commence operations this year,” Bauer said.

Bauer said the builder's recent success with organic expansions into [Sacramento, California](#); Austin, [Texas](#); Charlotte; and Raleigh, North Carolina, contributes to Tri Pointe's enthusiasm for the Salt Lake City market. Looking ahead, Bauer said the

company is eyeing opportunities in [Florida](#) and the Charleston, [South Carolina](#), market for expansion.

In addition to the organic expansion, Tri Pointe also exercised the right to purchase the minority stake in Tri Pointe Connect, its mortgage joint venture with Loan Depot. The transaction will be completed in the the first quarter of 2024, at which time Tri Pointe Connect will become a wholly owned subsidiary of Tri Pointe Homes.

“This alignment of mortgage operations with our core home building business offers more flexibility in terms of the customer experience and competitive pricing along with adding a positive impact to the bottom line,” Bauer said.

## **Land Strategy**

Tri Pointe Homes ended the third quarter with 32,964 lots owned or controlled, marginally lower than 33,794 lots at the end of the third quarter of 2022. Keeler said the land position provides a foundation for volume growth for the Tri Pointe Homes platform in the next several years.

The builder increased its active selling communities 23% year over year to 163. The 30 new communities added in the quarter generated strong demand, with an average monthly absorption pace of 4.4 homes per community. Tri Pointe Homes ended the quarter with 3,558 homes under construction, a 50% increase on a year-over-year basis.