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# Professional Builder®



## 2012 Builder of the Year

How Toll Brothers Came Out of the Downturn  
With \$2 Billion in Cash, Envious Land Positions,  
and a Diversified Platform for Growth

The Big Three  
(l. to r.): Bruce Toll,  
Vice Chairman;  
Bob Toll, Executive  
Chairman; Doug  
Yearley, CEO



2012 JESSE H. NEAL  
AWARD WINNER

 **SGC HORIZON**  
a Scranton Gillette  
Communications company

PHOTO: DAVE MOSER

# 2012 Professional Builder® of the year



It's true that Toll Brothers is the only company to twice be named Builder of the Year by this magazine. But 1988 was a long time ago, and at that point, the recognition was focused primarily on Bruce Toll and Robert Toll, who founded the company in 1967. This award has long since stopped being about individuals and has focused more on company achievements. And the achievements of late have been remarkable.

Many other large builders have managed through the historic downturn quite well. For that matter, so have many small- and mid-sized companies. But Toll Brothers today is arguably at the top of the industry when it comes to its cash position, its leading land positions

across the country, its access to and extremely low cost of capital, the strength of its brand, the experience and tenure of its people, its high levels of quality and customer satisfaction, and its ability to execute against a long-term product diversification strategy that is working well and is one that holds great promise for the years to come.

So when Bob and Bruce Toll sat together to discuss their company at this point in its upward trajectory, their focus was entirely on the team, more specifically a new group of top leaders, whom they had mentored for decades. "I want everyone to know how proud we are of the team here," said Bruce Toll. "This is about their hard work and effort."

Until May of 2010, when Doug Yearley was named chief executive, top management for many years had consisted





# Toll Brothers: New Guard, New Era, More Success

Arguably better than any of the Giant builders, Toll Brothers built a business that was ready to absorb and pivot from the historic downturn to a new market.

By Patrick O'Toole, Editorial Director and Publisher, David Barista, Editor-in-Chief, and Pat Curry, Contributing Editor

of Bob Toll as CEO and chairman, Zvi Barzilay as president and COO, and Joel Rassman as CFO and treasurer. Their stewardship of the business was greatly admired and influenced many builders and other outside professionals who wanted to learn about the home-building industry.

Several top investment analysts who cover home building today cite the tutelage of Joel Rassman in helping them initially learn the business. Sadly, Rassman passed away in the fall of 2010 and was replaced by Martin Connor, whose deep familiarity and

close working relationship with the company stemmed from his two years working directly for Rassman in anticipation of the transition and, prior to joining Toll, as the lead partner for Toll's outside auditing firm. And it was about one year later that Rick Hartman was promoted to COO, succeeding a retiring Barzilay.

Hartman has been with the company since 1980, and Yearley since 1990. Such tenures are not atypical at Toll. In an era when people move from place to place without compunction, these individuals choose to stay and remain immersed in home building. And

that, say many, is a testament to Bob Toll, who remains as executive chairman and who consistently hews to a myriad of learned axioms about home building that keep the daily work of the company's employees quite focused on the ground-level business that must be executed week-in and week-out.

Anyone visiting the Toll headquarters in Horsham, Pa., on a Monday night should expect to see the executive team and many others working late. It is a tradition, a way to unite the company in real time across many time zones. Project managers, for example, in California and Arizona know that they can reach out to the home office for specific questions and expertise on Monday nights. The whole package — Monday office hours, professionalism, and long tenures — speaks to a deep reservoir of employee engagement and pride.

Among construction-management graduates, the company is known to hire only the best, with competitive compensation packages and benefits that include use of company owned vacation properties, notes Jon Downs, SVP of human resources. Through the downturn, when the company (like all other builders) had to dramatically reduce headcount, and now in the upturn, as more people are needed, Downs has managed Toll's staffing needs. The company, he says, has recruited back 600 former employees, many of whom left jobs to return.

### Strong Systems and Processes

A thorough review of sales figures and potential land deals exemplifies the company's core conservative methods and processes. They deserve part of the credit for Toll's leading position as the market improved this year, and the reason why this magazine believes the company is positioned well for the

upturn. While project managers, divisional heads, and regional presidents for Toll have a lot of authority over how things get executed, decisions on land and community pricing still merit the close scrutiny of Yearley, Hartman, and Bob Toll. Land-deal briefs come to the executive team on Fridays so they can be reviewed over the weekend for a Monday meeting. Ninety percent of those deals get approved, but

## Toll Brothers: Then and Now

A comparison of Toll Brothers today versus 1988 — the last time they captured *Professional Builder's* Builder of the Year honors.

### Toll Brothers

**Founded:** 1967

**Headquartered:** Horsham, Pa.

**Website:** [www.tollbrothers.com](http://www.tollbrothers.com)

### 1988

**Revenue:** \$200,167,000

**Closings:** 778

**No. of employees:** 536

**Markets served:** five states (Pa., N.J., Del., Md., Mass.)

**No. of communities:** 26

### 2012

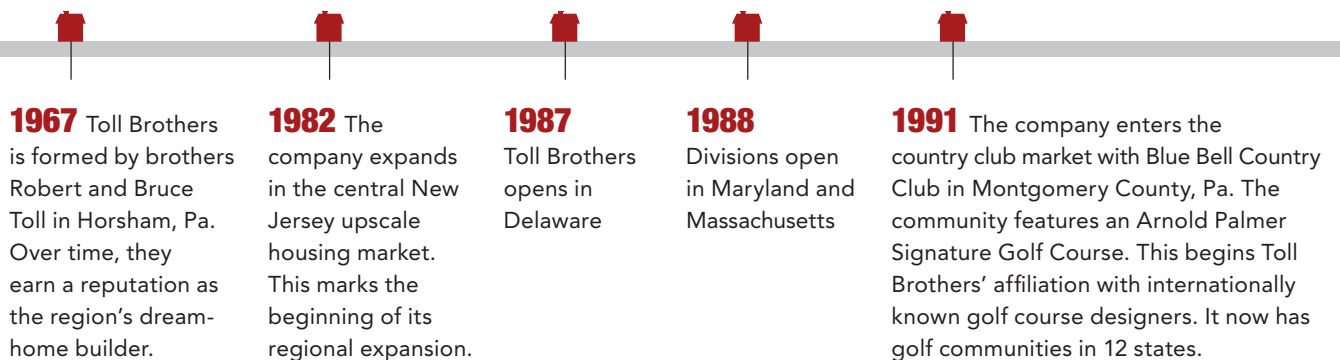
**Revenue:** \$1,475,882,000 (2011)

**Closings:** 2,611 (2011)

**No. of employees:** 2,396

**Markets served:** 20 states (Ariz., Calif., Colo., Conn., Del., Fla., Ill., Mass., Md., Mich., Minn., N.C., N.J., Nev., N.Y., Pa., S.C., Texas, Va., Wash.)

**No. of communities:** 224



all division presidents supporting those deals come out with questions that need to be resolved first.

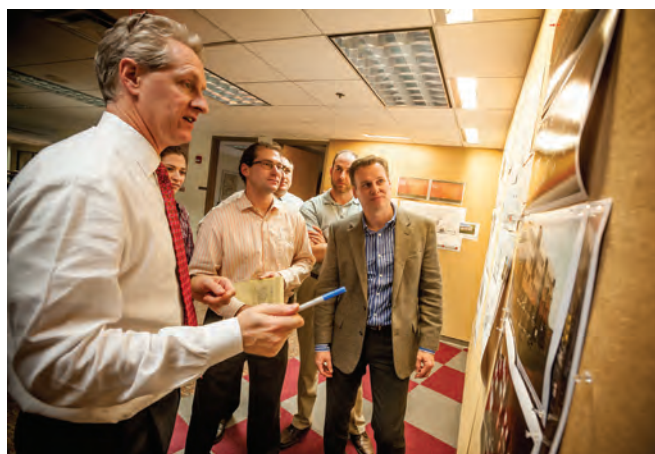
“They go out of the meeting with a greater understanding of the community that they brought us for approval. We will say, ‘We don’t think this comp is accurate. You don’t support this pace. Yes, you say they sold seven homes in the last month, but if you look over the last two years, they have done 14. So something is not making sense,’” Bob Toll explains.

“We will go through every negative that we can find. We may find that the way the contract is written so that the money that is put up is refundable during due diligence, but only if the seller’s conditions are met after due diligence, and then we read down three paragraphs later and it says there are no conditions. Something is wrong here. We will want to know who wrote it and to determine where we really stand. So while we might kill one out of 10, those that go through do so with additional concerns and additional questions.”

The rigor applied to land deals and to pricing at the very highest levels of the company also sends the right message to the rest of the company’s employees, says Yearley. “I think it is a great message that senior management is getting into the kind of details that we get into. And I think that trickles down to everybody and how they do their jobs.”

## Financial Conservatism with Access to Public Markets

Being a publicly traded company has numerous benefits, chiefly low-cost access to capital. About the time Hurricane Katrina hit New Orleans in the late summer of 2005, Toll Brothers executives, says Bob Toll, began “seeing the movie” they had seen preceding other downturns. Beginning in 2007, they scaled back their land purchases and they continued to do so for two or three



**Jed Gibson, president of Toll Architecture, leads a design review session with several Toll architects. All new house plans go through an extensive review period that includes construction of a full-scale, physical model.**

years, at the same time selling homes on existing lots. Through that process, the company built up its cash position from approximately \$600 million to nearly \$2 billion, says Connor.

As a public company, they had for many years created a massive pool of liquidity by selling bonds and staggering the maturity dates in a process called laddering. Their cost of borrowing hundreds of millions averaged near 6 percent throughout most of the toughest years for home building. Furthermore, with all of the company’s cash on hand, Toll was one of very few builders that was able to consistently maintain a significant line of credit during the downturn. Currently, a consortium of 12 lenders around the world maintains a \$900 million facility with the company. Toll’s head of investor relations and SVP of finance, Fred Cooper, says the firm tapped that credit line only sparingly, as a function of facilitating land deals as the market began to hit bottom.

**1992**  
Divisions open in Virginia and Connecticut

**1993** The New York division opens. The company’s position as a luxury home builder in the Northeast and Mid-Atlantic is firmly established.

**1994-1995** Company enters the Sun Belt second-home market “in a big way,” according to CMO Kira Sterling. It expands into North Carolina and California in 1994 and Arizona, Florida, and Texas in 1995.

**1995** Toll Brothers makes its first acquisition: Geoffrey H. Edmunds & Associates, Inc., a luxury home builder in Scottsdale, Ariz.

Since the earliest days of the company, Toll's leadership team has come together on Monday to review business results, discuss land deals, and work through any issues.



Perhaps the crowning achievement from a financial management perspective came late this past summer when the firm successfully accessed the convertible bond market in a \$287 million deal that was announced just after Labor Day. The terms were 0.5 percent interest (one-half of one percent) over 20 years. Bond holders are betting that the stock price will grow 50 percent in the next five years enabling a potential 10-15 percent overall return. Not only was it a huge vote of confidence in Toll Brothers' stock, but it also showed investor confidence in home building generally.

These are the advantages of being a publicly traded home-building company, particularly those companies that are well regarded by the investor community. John Burns, the respected head of the real estate consultancy that bears his name, recently blogged about the huge advantage public builders have when it comes to accessing low-cost capital.

Of Toll's convertible bond deal, Burns said, "To our knowledge, there are no restrictions on the use of this cash. In the meantime, private equity requires a minimum 20 percent annual return for their equity investment, and debt costs most private builders 6 percent to 16 percent. How in the world is a private builder supposed to compete with a builder whose cost of capital is that low? The answer — they can't compete head-to-head."

But the benefits of being a public home builder did not always seem so clear in 2000, when public builders were trading at sickeningly low levels versus earnings. At the time, dot-com stocks were taking all of

the air out of the room. Home-building stocks were respected only as trading vehicles to be held during an upturn in housing and sold soon after.

IR chief Cooper took the time to explain, to this magazine, the error being made by investors in thinking of home-building stocks this way. Way back in 2000, he pointed out that leading home builders like Toll had become more professionally managed, that they could weather the downturns and emerge on the other side making profits. Neither he nor anyone else knew the extent to which this theory would be tested. But, by and large, Toll Brothers did exactly what they said they would do.

Operating on an October 31 fiscal year, Toll this year is likely to show an increase in revenue of 40 percent or more, with commensurate growth in profitability. And with all of that capital behind them, they are uniquely positioned to buy more land. On top of owning or controlling perhaps the best land positions of any builder, they get to see all of the deals and to be selective, notes Yearley. A recent analysis of land holdings by John Burns Real Estate Consulting ranked top builders

**1996**  
Company website launched

**1999** Toll Brothers opens Riviera at Westlake in Jackson, N.J., its first active-adult community. This allows Toll Brothers to follow the baby boomer market, a key target buyer for the builder.

**2000** The company changes its logo and its positioning statement from "Toll Brothers, Quality Homes By Design" to "Toll Brothers, America's Luxury Home Builder." This officially differentiates the company as focusing on the luxury end of the production home-building business.



2012

# Professional Builder of the year

While most corporate cafeterias are ghost towns after the lunch hour, Toll Brothers' bistro in their Horsham, Pa., office stays hoppin' well into the evening on Mondays for the company's Monday night meeting. It's a tradition that dates back to the company's founding in 1967. And just like the early days, the company treats employees for dinner on Monday.



according to the quality of their land holdings. They call their analysis the Submarket Desirability Index. The higher the index, the better the land positions. Toll Brothers came out No. 1 in this analysis, followed by M/I Homes, Ryland, PulteGroup, K. Hovnanian, Meritage, Beazer, Standard Pacific, Lennar, D.R. Horton, NVR, KB Home, and M.D.C. Holdings to round out the top 13.

According to Yearley, this enviable bank of land is less about a grand plan than it is about the aforementioned rigor they apply to buying it. If anything, he says the company may have missed some opportunities in California in the early 2000s when they shied away from deals in markets where prices kept escalating. For him, it goes back to the company's innate financial conservatism.



"We have always had cash," says Yearley. "Marty's predecessor, Joel Rassman, as the CFO of this company, was so conservative. We were always looking to do the next bond deal, even though we did not need it. We were always looking to expand our line of credit, even though we did not need the money. That has allowed us to look at deals when others were tightening up. As a result, we've grown after every recession."

## A Taste of the Toll Culture

Monday, November 5, 2012, was a big night in Philadelphia. The hometown Eagles were set to take on the New Orleans Saints in a primetime Monday Night Football matchup in Louisiana. It was one of those crucial games that could determine the fate of either team's season.



**2001** The company launches "Fly and Buy," a program to fly prospective buyers to experience the lifestyle at second-home communities. This demonstrates the relative ease of reaching the destinations in a short amount of time to maximize use of the property.



**2004** Toll Brothers enters the urban, luxury high-rise market with the introduction of the City Living brand. This gives the company access to the luxury, high-rise tower market and status with wealthy urbanites.

**Toll Brothers CEO Doug Yearley (far right) leads the Monday meeting with the senior management team, which includes all regional heads and department managers.**



the city, the office was abuzz with energy. But the big game was the last thing on the minds of the 100 or so Toll employees in the company cafeteria around 6:30 p.m. Same goes for the dozens of executives and key staff members seen huddled in meeting rooms, working in their offices, or walking the halls of the building. If we didn't know any better, we would have thought it was noon, not early evening.

"Yes, every Monday night is like this," said Yearley, as we ate dinner in Toll's fully stocked cafeteria. Yearley, a 22-year Toll employee, reminisced about the early days of the company's legendary Monday night meetings, when Bob and Bruce would send out for pizzas or, on special occasions, Boston Market, to feed the then-small staff as they worked into the night discussing the previous week's sales numbers, land deals in the works, community issues, and other key company business. Of course, the company is much larger these days — 2,396 full-time employees, as of late October — but the Monday night meetings have remained a mainstay at every level of the company. And yes, the Tolls still pop for dinner.

Perhaps no other Toll Brothers business practice exemplifies the company's corporate culture — where employees are taught the business from the executives who built the business through continual mentorship and shared learning — more than the Monday night meetings. It's when the entire company comes together to assess the business, work through issues, make tough decisions, and learn from each other.

"I like to think of it as Toll University," says Ed Weber, a regional president who also oversees Toll Architecture, the company's 127-person, in-house design firm, as well as the Golf and Country Club Division and the Florida home-building operations. "Our Monday night meetings are where we do all the lessons. It's experienced-based, teaching all the pitfalls that we've learned throughout the years."

Toll employees talk about the Monday night meeting with a sense of pride and company spirit. It's a rite of passage of sorts. Yearley can even recall the number of Monday nights — roughly 800 — he participated in before he was deemed ready to take the helm as CEO.

"I remember nights waiting outside Bob's office at 10:30 to catch a few minutes with him," says Yearley. This culture of mentorship, learning the business from the ground up, and coming together for a free exchange of ideas, has created an extremely rewarding work atmosphere at all levels of the company. This is evidenced by the unusually long tenure of Toll employees, especially at the management level. The average length of service for division presidents is 12 years, group presidents 17 years, and regional presidents an astonishing 25 years.

**2005** Toll Brothers announces its first — and only — national sponsorship, the radio broadcast of the Saturday matinee of the Metropolitan Opera. This is the longest-running classical music program in the history of American broadcasting. The program is broadcast on the Toll Brothers-Metropolitan Opera International Radio Network over more than 300 stations in the U.S. It reaches 11 million people in 42 countries.

**2006** Toll Brothers opens its New York City division. This gives the company a high profile with Wall Street investors and analysts and helps diversify the company, providing stability as suburban locations start to falter.



**It's not all business on Monday nights. Employees use dinner as a break to catch up with friends and colleagues. Given Toll's national scope, Monday nights are often the only time certain employees see one another.**

"It's what keeps me coming back. I want to be challenged and always growing," says Kira Sterling, Toll's chief marketing officer, talking about the spirit of continual learning, shared knowledge, and entrepreneurship that exudes throughout the company. They are qualities derived from the company's founders.

"I think Bob had this reputation from way back as being this hard-driving, short-tempered person with no tolerance," says Yearley. "In my 22 years here, I have never seen it. He always wants opinions, and he is happy to be overruled."

### Vertically Integrated Operations

Toll operates using a vertically integrated business approach, where centralized departments (home finance, marketing, architecture, engineering, component manufacturing, lumber, insurance, title, mortgage, landscaping, home security, legal, IT, etc.) service the divisional home-building businesses. By operating these services in house, the company can better control costs and schedule while also maintaining a high level of quality and customer service.

To ensure that all vertical support businesses remain focused on the customer — Toll's home-building operations — the company puts its operations heads in charge of the vertical units. While the tactic may seem a bit off base at first — for example, Toll's IT department is headed by a career home builder with degrees in mechanical engineering and finance, Barry Depew — this "boss as the customer" approach has paid dividends for the



company. "We want them to be accountable to the people they support," says Yearley.

Each home-building division is operated as an autonomous unit, with its own profit and loss responsibilities, save for three critical areas: price setting in new communities; price changes of significance in existing communities; and land acquisition. As stated earlier, Bob Toll has remained steadfast on centralized control of these facets of the business; he, along with Yearley and Hartman, review all land-deal proposals and home-price decisions and have the ultimate say.

Bob Toll's attention to detail goes even deeper. It's not uncommon to see him walking communities, picking up pieces of trash along the way. It's a leadership quality that is infectious. "I used to have a buddy that said all the time, 'The big things, they'll take care of themselves; it's the small things that will kill you.' This business is all about the details," says Toll.

Case in point: Every Sunday night at about 9 p.m. Eastern, Bob Toll (along with all senior executives) reviews a detailed sales report that breaks down the prior week's activity at each Toll Brothers community across

**2010** The company's Web team transitions from being under the control of Information Technology to reporting to CMO Kira Sterling. This recognizes the importance of Internet marketing to prospective home buyers and ensures that the company's brand remains consistent from a buyer's first introduction to the company to post-closing.

**2011** Toll Brothers formalizes its active-adult offerings as a brand with the launch of Toll Brothers Active Living.

**2011** Toll Brothers purchases CamWest in Seattle. This completes its position of having a presence in the 15 most-affluent markets in the country.

# Toll Brothers City Living: A Commercial Construction Powerhouse

In 2004, Toll Brothers ventured into a segment of the residential construction business that few traditional production builders dare to enter — inner-city mid- and high-rise living. The company's first foray into urban multi-family development was the 325-unit, 17-story Sky Club luxury complex in Hoboken, N.J., which sold out in two years.

Today, Toll Brothers City Living has projects in half a dozen metro markets throughout the Northeast, including Manhattan and Brooklyn in New York; Hoboken and Jersey City in New Jersey; and Philadelphia. Recent projects include The Touraine, a 22-unit building in Manhattan that sold out in just four months; 205 Water Street in Brooklyn (see pictures), which sold all 65 units in a year; and 1450 Washington Street, a 157-unit development in Hoboken that is nearly 80 percent sold out.

The company's move into urban living was spurred by the up tick in the number of past Toll buyers that, upon becoming empty nesters, were downsizing and moving to more urban areas.

The division has grown to represent about 15 percent of the company's home-building business, and CEO Doug Yearley is looking for that piece of the pie to stay strong.

"It's largely an untapped market for us across much of the country," says Yearley, adding that a major source of revenue growth for the company moving forward will be expanding its diverse set of products, including urban living, to more divisions.

"We're not looking to acquire builders or open new divisions," says Yearley. "We plan to grow organically by expanding our product offering to more divisions — where it makes sense, of course."



**The 65-unit 205 Water Street project in Brooklyn was a huge success for Toll Brothers. Located in the DUMBO area (Down Under the Manhattan Bridge Overpass), the development sold out in a year with multiple price increases.**

the country. It's a practice that dates back to the earliest days of the company, when he would call his sales managers individually and jot down key sales metrics — deposits, agreements, number of lots for sale, cancellations, traffic, etc. — and get the story behind each customer from that week.

"This report is absolutely critical for us," says Toll. "Our people make arrangements for their week ahead based on the information that comes in on Sunday night. Let's say a community only has four lots for sale. We'll get on the phone and find out why. Invariably, it's the same answer — they wanted to force people to finish off a section of the community before they went across the street to the better lots. Well, that's not the way we do it. So we'll suggest to price the lots across the street \$20,000 more and let the public decide."

## It's All About the Brand

The central element of the development of a brand is consistency. Everything a company does and says needs to line up with the message it presents to the public. To maintain a brand position of "America's Luxury Home Builder," Toll Brothers has to be extraordinarily conscious of everything it does, from the location of the land it buys and its corporate sponsorships to its incentives and the move-in gifts for its new homeowners.

The last part has been fairly easy to accomplish. Nothing says luxury like a gift that arrives in the famed blue box from Tiffany's. But it's not a standardized item like a logo keychain for the house keys or a crystal vase filled with fresh flowers. Within a couple of weeks of moving in, the sales consultant hand delivers a Tiffany gift selected especially for them.

"The blue box does mean something," says Sterling. "It doesn't get ignored. The fact that we're associating with that brand is important."

The front end of the value proposition — location — has always been the most difficult to manage. No one's making any more land. Toll Brothers defined its position unequivocally when it entered the Manhattan high-rise luxury tower market. Its latest offering is The Touraine, a condo project at 65th and Lexington Avenue, just blocks from Tiffany's flagship store in Manhattan.

Toll Brothers has made a point of associating with well-known, highly respected brands as part of its sales and marketing strategy. Its website devotes a section to the brands it uses in its homes, including Kohler plumbing fixtures, Jenn-Air and Viking appliances, and Bose sound systems. The golf courses at its country club communities are designed by the top names in the business, including golf legends Arnold Palmer and Greg Norman.

“Having these celebrities appear at the courses doesn’t hurt either,” Sterling notes.

### **Building the Right Product for the Buyer**

Getting into golf communities was just one of the strategic sales decisions made by the 2012 Professional Builder of the Year, but it’s one that exemplifies the brand. Toll Brothers not only builds the houses but also manages the courses and the amenities. Its golf and country club division runs 12 courses that include full-service clubhouses with swimming, tennis, and fitness centers.

“Golf is a luxury sport,” Sterling points out. “It speaks to the idea of having leisure time to play. So much business takes place on the golf course. Having the courses helps us create the lifestyle. It’s all about making the members happy because happy members bring other people to the club. It’s a brand assist. The opportunity to have a sales conversation with a prospective buyer at the clubhouse is very valuable.”

Just as some builders opt to target first-time or move-up buyers, Toll Brothers made the decision in the late 1970s to target luxury home buyers — baby boomers who were building their careers and their wealth or had benefited from the generational transfer of wealth from parents who grew up in the Depression and World War II.

Those buyers had sufficient funds for second homes in Sun Belt locations, including Arizona, Nevada, Florida, California, and the Carolinas. Toll Brothers took advantage of regular, reliable air travel and launched “Fly and Buy,” a promotion that gave prospective buyers a chance to sample the lifestyle. It showed buyers how easy it was to spend a weekend in the sunshine with family and friends.

As the baby boomers aged, Toll Brothers developed active-adult communities for them. It got into that market in 1999 with Riviera at Westlake in Jackson, N.J. The key was being able to offer a different experience than the minimalist, budget-minded senior citizen community of the past.

“We take a more luxury approach to active adult,” says Sterling, “not always with more space, but with features and amenities in the homes and clubs, with services supportive of that buyer.”

### **Telling the Right Story**

Sponsorships are another key part of any corporate branding strategy. As part of establishing itself as a legitimate option for ultra-luxury, urban home buyers, Toll Brothers announced its sponsorship in 2005 of the Metropolitan Opera’s radio broadcast, the longest-running classical music program in the history of American broadcasting. Broadcast on the Toll Brothers-Metropolitan Opera International Radio Network over

more than 300 stations in the U.S., it reaches 11 million people in 42 countries.

“It was an opportunity to align ourselves with the pre-eminent brand in the classical music universe,” Sterling says. “It gets the music out to people who would be the next generation of listeners as opera expands. We get letters from people all over the country and the world.”

To date, Toll Brothers hasn’t pulled the trigger on two brand strategies that might seem like a good fit. They haven’t aligned themselves with a well-known designer, such as KB Home’s collaboration with Martha Stewart, or a luxury car manufacturer.

“We floated the idea; it just never panned out,” Sterling says. “We wouldn’t rule it out, but nothing yet has made brand sense.”

Advertising and incentives also are a telling part of a builder’s brand position. During the housing bust, the majority of builders piled on incentives and ran ads touting massive discounts. Toll Brothers’ buyers weren’t impervious to the effects of the recession, but the company “tried not to ride the train in terms of the public messaging, the flight to the bottom of who can give away more,” Sterling says. “The potential brand damage from that is very difficult to recover from.”

Instead, Toll Brothers focused its advertising on the company’s stability and consistency. They offered incentives that didn’t dilute the value of the existing homeowners. Sales events have been tied to financing rates or upgrades at discounted prices. “It’s not that we would never cut a base price,” Sterling says, “but we prefer the idea of adding value when you need to by offering different upgrades at reduced prices to help hold value for those who have bought before.”

Unlike many builders, Toll Brothers has an in-house marketing and advertising, Web, and graphics team. Recent ads have included a red carpet theme, mini-profiles of homeowners who exemplify the buyer profile, and an “I Wish I Had” campaign that spoke to the experiences that would be lost by postponing a purchase.

“We do work with some outside companies, but we’re really like an in-house agency,” Sterling says. “Copywriting, Web design, traffic, client services — those are all internal. It’s a special opportunity to have messaging that’s organically relevant. We’re listening to our salespeople day-in and day-out and are learning about what they’re hearing and seeing.”

More than anything else, the message has been consistent.

“If you are vanilla this month, chocolate next month, and strawberry the next, people get confused about who you are,” Sterling says. “The fact that we have been steady and consistent with our messaging — we’re not trying to be all things to all people; we’re not going to be fad-oriented — to me that is fundamental.”



# Builder of the Year: Through the Years

1966	William J. Levitt
1967	Eli Broad
1968	Ray Watt
1969	Donald Scholz
1970	Trammell Crow
1971	George McKeon
1972	Robert Winnerman/Charles Rutenberg
1973	Raymond L. Watson
1974	David G. Fox
1975	Philip J. Reilly
1976	Bob Schmitt
1977	George S. Writer, Jr.
1978	Richard B. Smith
1979	Guy Odom
1980	Ray Ellison
1981	None
1982	William Lyon
1983	Tawfig Khoury
1984	Nash Phillips/Clyde Copus
1985	John Crosland Jr.
1986	Arthur Rutenberg
1987	Ralph and Goldy Lewis
1988	Bruce and Robert Toll
1989	Peter M. Ochs
1990	David M. Weekley
1991	Ralph Drees
1992	Joseph Duckworth
1993	John Wieland
1994	Robert Strudler and Isaac Heimbinder
1995	Millard Fuller
1996	Philip Dion
1997	Sarah Peck
1998	Tim Eller
1999	D.R. Horton Inc. (first corporate award)
2000	The Olson Co.
2001	Pulte Homes
2002	None
2003	Hedgewood Properties
2004	WL Homes (aka John Laing Homes)
2005	Bigelow Homes
2006	Simonini Builders
2007	Shea Homes
2008	Veridian Homes
2009	Legacy Communities
2010	Jagoe Homes
2011	DSL D Homes
2012	Toll Brothers

## Toll's Process for Creating Winning Designs

Five over four and a door. It's one of the simple design formulas that have served Toll Brothers well for decades — a colonial-style home with five windows over four windows and a door that can be customized with rooms on either side. Bob Toll says the home style has been a winner among Toll buyers dating back to the mid-70s. It's indicative of the type of product the company has become known for — spacious, four- to five-bedroom, two-story, single-family detached houses with well-detailed elevations.

But through the years, the company has greatly diversified its product range to include everything from 500-square-foot, inner-city condos to 8,000-square-foot estate homes, and from ranch-style active-adult models to high-rise buildings.

So, is there a Toll “look” anymore?

“I would say no. There isn't one look,” says Weber. “In fact, it's not just about the product. It's how our buyers feel as they drive through the community. For example, we cant the homes. We don't just line them up in a row. We upgrade the landscaping. We pour over every detail, from the signage to the landscaping to the way the community is laid out.”

Weber says every design created by Toll Architecture (and third-party firms) is scrutinized to the nth degree by the operations team, both at the design table and in the field, to ensure they meet Toll's standard of quality.

“The architecture group is very good and knows what we're looking for, and they typically present us with a product that we're very happy to start with,” says Weber, “but it's only after a rigorous review that it's deemed ready. It bogs down the process, but we would rather take the time to get it right.”

Once a design passes the paper test, a full-scale, physical model is built in the community for which it's designed. There, the local operations team conducts a framing inspection with the trade contractors who built the model, as well as the local sales team, designers involved in the project, and even homeowners from the area.

“There are two tracks to the framing inspection,” says Jed Gibson, president of Toll Architecture. “The first is constructability. How hard was it to build? What are the technical issues with building it? The second is the user experience. Does it flow and feel the way we want it to from a design point of view? What are people going to see when they walk into the home? When they walk by the powder room, do they see the vanity and mirror or the toilet?”

Weber says the inspection team picks apart every aspect of the design, from the way the homeowner will take dishes out of the sink to the direction the front door swings. “It could be the difference between seeing a blank wall or a grand view when you open the door,” he says. “We apply the design lessons we've learned over the years.”

Other Toll design best practices include:

**Incorporate memory points.** Whether it's a dual staircase, wall of windows, or grand kitchen island, each Toll plan is designed with at least one landmark feature that will likely cause a home shopper to recall the home later. “We understand that when people are looking at houses, they may see 50 in a day,” says Gibson. “We have the

opportunity in the foyer, the kitchen, master bath, and the family room to create a memorable feature.”

**Don't skimp on products.** “We've learned not to skimp because inevitably you end up paying twice as much in warranty than if you just spent a little more upfront,” says Gibson, citing the use of cellular PVC trim as an example. He says that Toll designs typically exceed the code minimums, especially with regard to structural design. For example, as standard, the builder beefs up the floor structure in the kitchen to allow homeowners to install marble tile down the road without worrying about cracking due to deflection issues.

“We also don't want them to walk across their dining room and hear the china in their china cabinet rattle,” says Gibson. “Telling them, ‘Well, it meets code’ is not what they want to hear.”

**Maximize lot width.** “We try to maximize the width of the home on the lot, because we realize what sells

a home is the feeling you get when you drive up,” says Weber. “People want to see a substantial home.”

**Flexible plans.** As a semi-custom builder who sells more than \$100,000 on average in structural and design options per home, creating plans that can adapt to a home buyer's wants is essential. “We make it incredibly flexible so the same house can be a one story, two story, or a loft in the center along with all the other various structural options,” says Gibson. “For instance, we have 3,000-square-foot plans that, with options and add-ons, can end up at 6,000 square feet or larger.” **PB**



Snap this QR code on your phone or tablet to see videos of Toll Brothers CEO Doug Yearley and Executive Chairman Bob Toll discussing their thoughts on the housing market and on winning Professional Builder of the Year for 2012.

## Building with Components: Toll's Key to Quality and Speed

**F**or more than 25 years, Toll Brothers has relied on component manufacturing to ensure their homes are built right every time — and on time. Bob and Bruce Toll learned early on that as their operations ramped up, they could gain efficiencies, reduce waste, realize cost savings, and assemble a better product by constructing a significant portion of their homes in a factory environment. In the mid-80s, they partnered with local component manufacturers to produce wall panels and roof trusses for their projects in the Northeast. In 1988, they decided to bring the operations in house with the launch of a facility in Morrisville, Pa.

Today, the company's component manufacturing division, Toll Integrated Systems, includes three plants — the original location, as well as factories in Emporia, Va., and Knox, Ind. — that combined serve about 50 percent of Toll's home-building business with roof trusses, wall panels, exterior trim, exterior doors, interior millwork, select windows and window screens, hardware, and other components. Together, the factory-assembled components make up on average 25 percent of the hard cost of a given home, according to Rob Parahus, regional president running home-building operations in New York, New Jersey, Connecticut, and Massachusetts, and head of Toll Integrated Systems.

Parahus says there are a number of tangible benefits to running an in-house component manufacturing facility, including faster construction, less waste, higher quality, and better control of the supply chain.

“For instance, as a builder, we're able to identify our needs from a resource standpoint early on and we can secure the lumber and products to ensure that we meet the needs of the communities,” says Parahus. “With third-party manufacturers, if their lead time goes from three weeks to seven weeks, we're at their mercy. By doing this in house, we have the ability to staff up and maintain a more reasonable lead time during peak selling times.”

In addition, by using components versus stick-built, Parahus says Toll's trade partners can frame a project (from foundation to under roof) in anywhere from five to 10 days — roughly half the time it would take a typical stick builder. And the end product meets Toll's high-quality standards.

“We literally have guys that are looking at the studs in the factory and crowning the studs so that when they go in the walls everything looks nice and straight when crown molding or chair rail is installed on the jobsite,” says Parahus. “We have full control of the product going out the door.”



Toll's three component manufacturing facilities combine to serve about 50 percent of the company's single-family business.

## Public v. Private



**T**welve years ago, I was a senior editor on *Professional Builder* magazine. Early in 2000, I received a call from Fred Cooper, the current head of investor relations for our 2012 Professional Builder of the Year, Toll Brothers. He thought it would be interesting for me to consider writing a story about the stock valuation of publicly traded home-building companies. As a group, he argued correctly, they were quite undervalued by the market, particularly considering builder profits at the time. Dot-com stocks, conversely, were delivering no revenues but received high valuations.

We wrote a story, “Out of Whack on Wall Street,” highlighting a question: What is the benefit of being a publicly traded company? At the time, it certainly was not in valuations. The chief benefit was and is access to low-cost capital, the ability to sell shares, and the ability to offer bonds. Back in 2000, when there was plenty of liquidity in both the public and private markets, private builders of all sizes were able to access capital at fairly low rates and grow and compete against anyone, including public builders.

This old question of public versus private was not particularly important during the housing downturn. But now that the market is improving, it is becoming much clearer that access to low-cost capital offers an extraordinary advantage to public builders in the near and medium term.

Toll Brothers’ recent sale of \$287 million in convertible bonds at an interest rate of 0.5 percent over 20 years is extraordinary. It is almost free money: to invest in land, to invest in people, to invest in acquisitions. This offering was quickly over-subscribed because investors see the value of Toll Brothers stock rising by 50 percent, allowing a profitable conversion of the bonds to stock. Specifically, bond holders are betting that Toll’s stock price will rise to \$49.08 from \$32 in the next five years.

This particular deal and its very favorable terms are not available to every publicly traded home-building firm today. Rather, it is an assessment of Toll Brothers’ underlying strength as a company. It is byproduct of years of painstaking relationship building with the investment community. It is a commitment to being a good home-building company and a commitment to being a professionally managed publicly traded home-building company. It is a commitment to being an admired company.

Back in 2000, Fred Cooper argued that home-building firms should no longer be seen as trading vehicles, stocks to be purchased only on the front end of an upturn and sold after a sufficient gain in share price. Rather, he said, Toll Brothers was (and is) a company built to withstand downturns and to emerge on the other end with more market share and more profits. This year, the company grew revenues by approximately 40 percent. With the benefit of hindsight, we see that Toll Brothers made all the right moves and has emerged as a primary beneficiary of this recovering market.

*Professional Builder* magazine congratulates Toll Brothers for all of their achievements. In the coming years, they will be an interesting company to watch, as they have been since 1967.

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# 6 'Toll-isms' TO LIVE BY

**“You Can Buy More Land in an Afternoon...  
Than You Can Get Rid of in a Lifetime.”**



This simple home-building proverb sits framed, front and center, on Doug Yearley's desk at the Toll Brothers corporate headquarters outside of Philadelphia. As Toll's CEO and chief dealmaker, Yearley likes to keep the axiom close as a constant reminder of one of the most important lessons that legendary builder and company chairman Bob Toll taught him during his 22 years with the company — when it comes to buying land, be selective and be careful, but don't be afraid to pay for the best. To that end, Yearley, Toll, and company COO Rick Hartman personally evaluate every land acquisition deal in the company's pipeline. If a proposal doesn't pass the Toll-test, it's nixed or sent back to the drawing board.

“We will pay to control land at the corner of Main and Main, because in a bad market that's where people buy and in a good market that's where you drive price,” says Yearley. “We're not going to go to the Inland Empire because that's where land is cheap. We will pay up to be in Princeton, N.J., and we'll pay almost whatever it takes as long as it makes sense.”

Bob Toll's land lesson is one of a half-dozen “Toll-isms” that executives and employees repeated during our recent visit to the Toll offices in Horsham, Pa., for the 2012 Builder of the Year report. Bob and his brother, Bruce, who together founded the company more than 45 years ago, like to share their knowledge through, among other methods, these Yogi Berra-ish observations that seem to take on a life of their own. Here are several other Toll-isms that have become legendary in the halls of Toll Brothers:

- **“Seven fat years and seven lean years.”** Bob and Bruce have built their business while navigating numerous downturns. They understand the cyclical nature of home building and are always preparing for the next market slump.
- **“Always check the back door.”** Bob stresses to his team about planning for the worst-case scenario when working a deal.
- **“Put the hay down when the goats can get it.”** In short, only advertise when people are ready to consume your message.
- **“Always get it in writing.”** Cover your butt at all times.
- **“A wise man knows what he does not know.”** The Toll culture is built on Bob and Bruce's conservative nature. They don't take unnecessary risks, and they understand their strengths and weaknesses.

Read more about our 2012 Builder of the Year at [www.HousingZone.com/2012BOTY](http://www.HousingZone.com/2012BOTY).

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