

# Mr. Toll Turns to Towers

*King of Suburban Minimansions Follows Boomers Back to the City; Catering to 'Hedge Fund Johnny'*

By MICHAEL CORKERY

**R**OBERT TOLL stands on the rooftop of a 21-story condominium tower his company is developing in Manhattan's trendy Union Square area. "That's not a bad view," he says. The project illustrates a shift in strategy for Toll Brothers Inc. and a shift in attitude for many of its affluent customers. Long known for building minimansions in the suburbs, the company Mr. Toll co-founded with his brother Bruce in 1967 is the first publicly traded national home builder to develop housing in Manhattan. It's also developing condos in Queens, Brooklyn and nearby Hoboken, N.J.

To cater to luxury home buyers, Mr. Toll believes his company needs to offer not just spacious single-family houses on golf courses and balmy beaches, but also high-rise units in urban areas. The 65-year-old Mr. Toll himself splits most of his time between an apartment on Manhattan's Upper East Side and an 18th-century, five-bedroom house in suburban Philadelphia, close to the company's headquarters in Horsham, Pa.

In a series of interviews, Mr. Toll shared his sometimes outspoken views on why retirees and young people like cities, why Hurricane Katrina helped spark the nation's housing slump and when the market will rebound. Here are excerpts:

**WSJ:** Why is Toll Brothers, a suburban home builder, making significant developments in New York City?

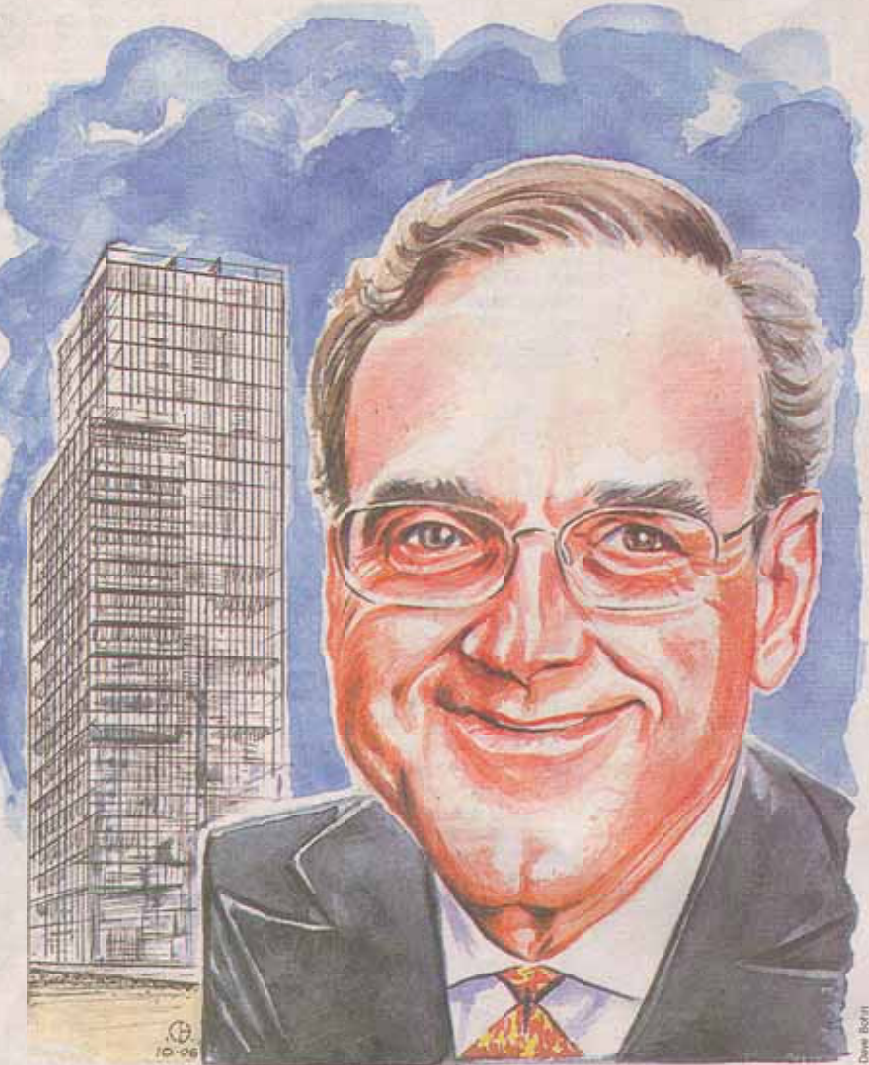
**Mr. Toll:** We are following our people. We have been a builder to the baby boom since we began. First that took us into the move-up luxury-home business, then into golf-course resort communities. It has also taken us into the active-adult communities. The city is a combination resort community, but the resort is New York City—or Chicago or L.A. or Miami.

**WSJ:** What does this shift say about baby boomers?

**Mr. Toll:** It says we are not as our parents were. The baby boomer always wanted more. We are more hip-hop and happening than our parents. We want the sophistication and joy of culture and music that comes with city dwelling—and doesn't come with sitting in the big home in the burbs watching the day go by while puttering, painting, reading, writing, making flies for fishing, customizing your own golf clubs, stringing your own tennis racket, tending your tropical fish.

It was a rarity 20 years ago to find hedge-fund Johnny making a decision to stay in the city. Home buyers went up to Westchester and out to New Jersey—back to wherever they came from. It was a rarity to see kids in the city. Now it's not.

What do kids do in the burbs? You ride your bike until you can get your car. You've done the three movies at the plex. Now what? Having had five kids, I'm not sure that it's not more dangerous in the burbs than it is in the city because



## 5 Tips from Robert Toll on running a business

- **TIP 1:** A wise man knows what he doesn't know. (Never assume knowledge.)
- **TIP 2:** We're already born rich. The goal is to not die poor.
- **TIP 3:** It takes a long time to build a brand, but it doesn't take long to destroy it. Always protect the brand.
- **TIP 4:** Respect the management; it's what got you here.
- **TIP 5:** Remember: It's only business. Wipe it off your shirt when you go home at night.

you are riding your bike in traffic. Or you are driving your car, which is even worse. You go down to the [convenience store] and smoke cigarettes, and the parents sit up with their arms wrapped around their knees, hoping that you come home.

**WSJ:** Just 10 or 15 years ago, everyone thought cities were dying, and no one wanted to live in them.

**Mr. Toll:** Absolutely right. But [affluent home buyers] weren't there. We hadn't demanded the services, and we weren't there with the willingness to pay for the services that make that city what it is

today. People have come in and insisted, 'I don't want the bum on the sidewalk.' Now, there is no committee meeting. The cops go out and chase him off.

**WSJ:** Does this mean the days of large houses, driveways and backyards are numbered?

**Mr. Toll:** I don't think you will see more than 10% or 15% shift gears and decide to move to the city. The suburban patterns still remain in place. We are looking to increase our business by going into the city.

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# King of Suburban Minimansions Adds City Condos to His Empire

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not substituting it for our business in the suburbs.

**WSJ:** Is it easier to build in the suburbs versus the city?

**Mr. Toll:** It's easier in the city. The approval process is more professional in the city. The experts that you deal with are pretty much doing the assigned job, as opposed to the secret unassigned job to stop the growth, stop sprawl [in the suburbs].

**WSJ:** Is the amount of time people have to spend commuting from the suburbs pushing people into cities?

**Mr. Toll:** No, it's such a different lifestyle that I don't think people who are in burbs get up and say I can't stand the drive time, let's move back into the city. I think they've got to want to go into the city.

**WSJ:** Do you have criteria you use before you plunge into a city?

**Mr. Toll:** Is there excitement in the city? Will people want to come? And has someone else succeeded? We are not going first, I will tell you that. It also has to be a great land price. We are not going into this on a 'let's try it' basis. High-rise development is much more dangerous, much riskier than suburban development because you've got to build the whole damn thing. You can't knock part of it off. But first the demand has got to be there. We can create destinations in mountains and valleys. But I don't think we create destinations in cities.

**WSJ:** Do you see other cities coming back?

**Mr. Toll:** It's going to happen in such strange places as Newark [N.J.]. Newark is going to slowly gather its excitement.

**WSJ:** Detroit?

**Mr. Toll:** I don't see it because the economy is so ripped. There is a downturn, but you wouldn't go there.

**WSJ:** How long will it take for this housing slowdown to work itself out?

**Mr. Toll:** We are bouncing along the bottom. I would expect the inventory overhang, which is what is killing the confidence level, to be absorbed during the first several months of the next buying season. If that inventory is eaten up, and I expect it will be, then I think you will see an alarming rate of change in the supply-demand equation in house pricing. I think what we are in right now is an artificial inversion. To a large extent, it all depends on our perception of ourselves. It has a lot to do with politics.

**WSJ:** Politics?

**Mr. Toll:** We actually saw, and this could be a coincidental juxtaposition of happenstance, but we actually saw a bounce the weekend after the change in control of the House and Senate.

I think that the country went into a funk after Katrina when we looked like Bangladesh in a storm—bodies floating upside down, the government seemingly unable to do anything about it. That was the turning point from those glorious days of yesterday when we said we can't go wrong buying this house with 5% down and selling it for \$100,000 more in six months. I think with Katrina, we lost confidence in ourselves and said maybe we should take our chips off the table and sell now, and everybody went to the window at the same time.

How much worse will it get in Washington or how much better will it get to impact the perception that we are in control of our destiny and things are going



(Above) One building in Toll Brothers' Maxwell Place in Hoboken, N.J., which will include as many as 800 condos when completed. (Below) The Hampton, a popular Toll Brothers model starting at 4,800 square feet, in East Greenwich, R.I.

to be better than they have been? We are focused on this war in Iraq, and if we can bring that focus back home that might make a difference. Reagan figured out what to do in the Middle East. We had a presence in Lebanon. We had 250 guys that got killed, and Reagan said call the boats, get us out, that's it. We lose, you win. Goodbye. It didn't wreck his presidency. It didn't wreck the nation.

**WSJ:** But the stock market didn't suffer as a result of Katrina or the Iraq war, so what is different about homes?

**Mr. Toll:** I don't know. It's a different kind of investment. Historically it's been [someone's] largest investment.

**WSJ:** How have American home buying habits changed in the time that you've been building and selling homes.

**Mr. Toll:** Much larger homes are being purchased for much more money. There was a reticence in the '60s and '70s to display wealth. Today, no one thinks it's a negative. No one says, 'Should I be a little bit embarrassed about buying what the custom-home builders are building?' I think that has to do

with an acceptance in society of separation of the very wealthy and the not-so-wealthy. As a country, we used to think, 'If we all get better, we all get better,' as opposed to 'Let's give it to the top 1%, and it will trickle down.' The me-first aspect of society represents a change in America.

**WSJ:** You've been doing some traveling recently. What did you find?

**Mr. Toll:** We went to Shanghai. It's beyond belief that they built all of these buildings in the last 20 years.

**WSJ:** Would Toll Brothers ever build in Shanghai?

**Mr. Toll:** I have no piece of ground I'm looking at. We're just in conversation with locals.

**WSJ:** Given the emerging sense of wealth and status in China, would a luxury, brand-name home builder like Toll do well there?

**Mr. Toll:** Yes, it would. They are 100 times more brand conscious than we are, to the point of silliness. The Chinese have to buy the brand.

Their kitchens, by the way, are better looking than ours. Don't think 'made in China' is like we used to think. The kitchen cabinets are phenomenal—the hardware, the doors, the floors. 'Where did you get this floor,' says I. Says he back to me: 'Oh, we import this from Germany.' Really, you go to Germany to get floors? It's a white oak from Germany.

The Chinese sales people are coming to us and trying to sell us, 'Don't buy Kohler. Don't buy GE. We can get this stuff made in China and ship it to you for half the price.' Now I know the nail is in the coffin for that [made-in-China] industry, because they won't cutting it to themselves.