The New York Times
nytimes.com

October 16, 2005

Chasing Ground

By JON GERTNER

Back in the mid-1990's, when home prices were just beginning to climb and 8 percent interest rates seemed like a get-'em-while-you-can phenomenon - back, back, way back when the average two-bedroom apartment in Manhattan had not yet reached $1.5 million and investors were not yet speculating in unbuilt condos near Miami and no one had yet envisioned how popular interest-only mortgages would be - a business executive named Bob Toll was already thinking seriously about how big a home-building company like his could get. At the time, Toll Brothers was infamous for what Toll refers to as "the estate home" but what critics have, much to his dismay, tagged "the McMansion." Toll's company, which he started with his younger brother, Bruce, in 1967 and took public in 1986, had spent the better part of the 1980's and early 1990's building thousands of these houses, princely abodes configured in a market-tested pattern of meandering streets and cul-de-sacs with names (the Glen at Hurley Ridge) meant to evoke afternoon teas and fox hunts. Once the boom was under way, however, Toll Brothers began to try new things. It broadened its product line by building more condominium units and retirement communities. More significant, it scouted property far from its traditional base in the Northeast. By the late 1990's, Toll Brothers possessed land in 18 states. The company purchased expensive urban sites in Jersey City and Manhattan; it even bought the hulking Maxwell House factory on the Hoboken waterfront, across the Hudson River from Midtown Manhattan, in partnership with another firm, in order to demolish the industrial shell and transform the site into a gigantic condominium complex. According to Bob Toll, he came to see his company as one that could build any kind of luxury home, in any style, in any place where there was opportunity. And to him, that opportunity to sell luxury properties to Americans seemed immense.

Toll spends every Monday poring over prospective land deals in his firm's headquarters, a nondescript three-story building in a Horsham, Pa., office park located about 30 minutes northwest of Philadelphia. For the head of a company known for the cut-glass chandeliers and double-height foyers in its signature mansions, his office is a strikingly déclassé affair. (Bruce Toll is vice chairman of the board and an active adviser but plays no daily management role.) The ceilings are low, the lighting is harsh, the air-conditioning is on the blink. Toll's shares in his company are now worth more than a half-billion dollars, yet he does his business on the cheap: a glass-topped table surrounded by dining-room chairs in fuzzy orange fabric that were salvaged from a bankrupt company years ago. One after another, his deputies visit his office on Monday nights, sometimes past midnight, to submit parcels for consideration. A $30 million deal for a piece of property is common these days, and a $150 million deal is not unheard of. If the price is right and the ground is good - no one at the company calls it land - Toll wants it before the competition. In fact, when he hears about good ground in a town with a strong real-estate market and jobs nearby, Toll gets visibly excited. He gently claps his hands together and rubs his palms. Then he will give a green light to lock up the parcel for development. "Now we're cooking," he says. "What's next?"

From the time I first visited the Toll Brothers offices last winter - and through all my visits to its projects around the New York region, where I watched workers bulldoze lots and pour concrete

foundations and frame one new house after another - my hope was that I would get a picture of how rapidly, and toward what end, land is being bought and consumed for residential development in this country. I may as well admit that I also imagined I might get a firsthand look at how deep the trouble could be when (and not necessarily if) the air begins to rush out of this real-estate market. But winter turned to spring, and spring turned to summer. The strong sales for houses and condominiums on both coasts, even in cities like Las Vegas and Phoenix, continued apace. Sales figures for existing homes broke records. Sales figures for new homes broke records. Sales of Toll Brothers homes broke records. At one of the company's developments, the Estates at Princeton Junction, a half-built community of houses and apartments outside of Princeton, N.J., I watched as steadily rising prices met little resistance. By midsummer, big houses that were selling for $560,000 when they first hit the market 24 months earlier were now going for at least $935,000. "Some people here have already made $200,000 or $300,000" in appreciation, Tom Gestite, who is managing the project for Toll Brothers, told me one day last July as we strolled through a half-finished mini-mansion. In Gestite's view - one that seemed to prevail throughout the company - developments like Princeton Junction would be a sure bet if the market paused to catch its breath.

Even as housing sales slowed in late summer, it remained clear that the idea of a bubble wasn't really worrying the people at Toll Brothers like it was the rest of us. But why? Bob Toll conceded to me that Alan Greenspan, chairman of the Federal Reserve, had a good point: some housing markets were frothy and infested with speculators. Toll agreed that the mortgage industry needed to tighten up its lending practices and stop pushing interest-only loans to high-risk clients. In midsummer, he predicted that some metropolitan areas - "New York and Washington and Phoenix and San Fran and L.A. and Las Vegas and Naples and Boca" - were about to slow down painfully. "Investors will get creamed, and they'll get out of the deals," he said, noting that a subsequent recovery would take anywhere from 3 to 10 months. But beyond that - a catastrophic crash? "Why can't real estate just have a boom like every other industry?" Toll asked in complaint. "Why do we have to have a bubble and then a pop?"

Perhaps this was a reasonable question. A number of companies like Toll's have, over the past few years, transformed the American home into a corporate product - probably the last item in our $11 trillion economy that has yet to be marketed and branded on a national scale to consumers. At the moment, one in four new homes in the United States is built by a large publicly traded home builder, but this ratio will probably change significantly. Several Wall Street analysts and most of the big home builders seem confident that their companies will be responsible for half of all new homes in the United States within 10 years and perhaps more (as the industry consolidates). In the meantime, as builders like Toll consider the effects of a cooling real-estate market, they remain students of the steady, inexorable force of America's population growth. Where (and how) will the next generation of Americans live? And how much will they pay? The big builders need to know, because they intend to build those places. A look at their land reserves gives you a sense of their grand intentions. At the moment, Toll controls enough land for nearly 80,000 houses. Its competitors, which tend to build lower-priced houses on smaller lots, have even larger accumulations. K. Hovnanian has land for more than 100,000 houses. Pulte Homes holds 350,000 sites. Still others - Lennar, Centex Homes, D. R. Horton, KB Home - control hundreds of thousands as well. And all of them are in ferocious pursuit of more.

Builders by their very nature are optimistic, and to regard the real-estate market as they do is to see a future that depends not on the short-term fate of the Florida and California condominium markets but on the long-term supply of land. That supply shapes the priorities of businessmen like Toll. They ponder where it will lead them to build in 5 or 10 years. And they consider the relationship between supply and the latest home-building statistics and economic indicators. Right now, there are about 34

million rented apartments and 74 million owner-occupied homes in the U.S. Enormous as these numbers may appear, in many metro areas, not just Las Vegas, the turnover of existing stock has not been able to accommodate the demand from immigrants, arrivals from out-of-state, expanding families and Americans in search of a second home for vacation or retirement. For the past few years, nearly 20 percent of single-family-home buyers have been purchasing newly constructed houses. Some builders turned to infill housing, looking to old industrial spaces or unused urban lots to satisfy demand. For the most part, though, they have plotted new communities farther and farther outside of cities, their handiwork visible in the archipelagoes of freshly minted neighborhoods that have arisen along the traffic corridors on both coasts and now ring the outskirts of every thriving city in the United States.

All told, the home-building industry has constructed about 13.5 million single-family homes since the mid-1990's; last year alone, single-family "starts" numbered about 1.6 million, a new record. In historical terms, our recent boom rivals, and in many regards outpaces, the frenzied building of the early 1950's. David Seiders, the chief economist for the National Association of Home Builders, told me in early October that the industry still expects to set another record this year, even as the industry begins to hit "the plateau we've been watching and waiting for." Next year, Seiders said, he projects 1.58 million single-family-home starts.

As Bob Toll would say, builders need an awful lot of ground to plot so much housing. And if there is a simple mathematical equation that defines this work, it's that newly bought land plus a plan for development equals some amount of resistance in the form of political opposition. In recent years, the difficulty of getting things built has made business harder for small, local builders and easier for big companies, with their greater resources, to gain control of the housing market. "The large builders have taken the position: we're just going to fight," Chris Mayer, a housing economist at Columbia University's business school, says. " 'We have lawyers, we have experts, we have money, we're going to buy these tracts of land and fight it out' " - that, according to Mayer, is their position. "That has proven very time-consuming. But the local builder who used to have the benefit of knowing the local people - that has become far less important than the ability of the big builders to fight the current regulatory environment." As Mayer points out, virtually every state in the country now has policies to restrain developers. No matter the region, he says, the small developer is at a tremendous disadvantage. And in buying local building companies, many big builders have found a simple and unobtrusive way to enter into new regions and metro areas.

Toll Brothers is a creature of this revolution. "We intended always to expand out of the Philadelphia suburbs and into New Jersey and into New York and Connecticut and Rhode Island and Massachusetts," Toll said. He never imagined, however, that he would be able to expand nationwide as quickly as he has. In his early days, he told me, if he wanted to build a few hundred homes in Pennsylvania, he could get a parcel of land through the approval process in a year or two. Now it's up to five years. He estimates that New York, California and Massachusetts take a similar amount of time. Even Florida and Virginia - traditionally easy places to build - can require a year or two. "This business was made for us to a large extent by Nimby politics," Toll said, referring to Not in My Backyard objections. "I don't denigrate Nimby, by the way. I just deal with it. It is. It's human nature. You don't want to see anything built behind where you live."

His experience with Nimby opposition, Toll added, leads him to believe that the political resistance to land development around the country will get more intense in the coming years. When I spoke with him in September, he noted that a drop in consumer confidence in the wake of Hurricane Katrina was not a good sign for an economy "that runs on confidence." Still, he said, the fundamentals were the same as before: the supply of developable acreage in many markets would remain limited, ensuring big

profits. Indeed, Toll seemed certain that firms like his - with an expertise at finding and developing land - would become increasingly successful. The company expects to grow by 20 percent for the next two years and then will strive for 15 percent annually after that. Those estimates suggest that the company's expected production of around 8,600 houses this year will expand to at least 15,000 houses by 2010. Individual Toll developments now range in size from a few dozen to 3,000 houses.

Of course, there's more to the economics of the housing market than the supply of land. Demand can be influenced by everything from higher interest rates, which can disqualify hundreds of thousands of potential home buyers, to a region's rate of job creation, which can determine the pool of potential buyers. Regional wage growth - are workers' salaries rising in step with house prices? - still matters. Serendipity can play a part, too. The slackening demand for homes in autumn would drop more drastically if the larger economy were to slip into a recession. Or it could drop, as the Yale economist Robert Shiller has pointed out, if investors lose their "irrationally exuberant" conviction (unjustified by historical data, in his view) that their homes will undoubtedly appreciate for the foreseeable future. Demand could also weaken in the wake of a large terrorist attack. And what if the price of gas, already reaching record levels after Katrina, hits $8 a gallon? Will anyone still want to live in a new development 50 miles from his job?

None of these contingencies shake the faith of the big, publicly held builders. Indeed, many are adamant that the tightening supply of land in many metro areas, as well as long-term demographic trends, augur an American future that works to their advantage. Recently, the Joint Center for Housing Studies at Harvard suggested that a large influx of immigrants and a longer-living population will combine in the next 10 years to create the highest levels of household growth since the boomers entered the housing market in the 1970's. Toll Brothers, which has a specific niche in the luxury market, sees additional opportunity in the wealth of many next-generation homeowners. In conversation, Bob Toll laments a government that seems intent on "the creation of more wealth for the wealthy"; he even calls attention to a rising American "oligopoly." Yet his company, whose average home now sells for $665,000 - more than twice what any other national home builder gets - owes much to the growth of the affluent class. The company's promotional literature calls attention to the fact that the number of households with incomes of more than $100,000 is growing six times as fast as that of all U.S. households. Toll Brothers doesn't merely profit from the growing income gap; it owes its very existence to it.

In the past couple of years, Toll and his deputies have begun analyzing European housing data to see if they hold any lessons for a maturing American housing market. Toll has been talking up the research to stock analysts and the financial press for the past year. His conclusions carry a whiff of new-paradigm thinking, but he nevertheless seems convinced that Europe's present-day reality is America's destiny. I asked Toll what our children - my kids are both under 8, I told him - would be paying when they're ready to buy. "They're going to live with us until they're 40," Toll said matter-of-factly. "And when they have their second kid, then we'll finally kick them out and make them pay for the house that we paid for. And that house will cost them 45 to 50 percent of their income."

I grew alarmed. Was he kidding? He assured me he was not. "It's all just logic," Toll said. "In Britain you pay seven times your annual income for a home; in the U.S. you pay three and a half." The British get 330 square feet, per person, in their homes; in the U.S., we get 750 square feet. Not only does Toll say he believes the next generation of buyers will be paying twice as much of their annual incomes; in terms of space, he also seems to think they're going to get only half as much. "And that average, million-dollar insane home in the burbs? It's going to be $4 million."

On a scorching afternoon this past summer, I watched as Zvi Barzilay, the president of Toll Brothers and Bob Toll's right-hand man, convened a weekly meeting of a dozen senior executives at Toll company headquarters. Barzilay checks in regularly with the men to see if they've encountered construction or operational problems at any of the current 230 Toll developments they oversee; he also uses the meetings to encourage these managers to exchange information. The average customer spends $103,000 on special extras like additional bathrooms and prime locations, and Barzilay is mindful of the possibility that a new brass faucet that succeeds in Arizona can succeed in Michigan. Basement recreation rooms migrated from the Northeast down to Dallas; second staircases have gone from Pennsylvania to Maryland; capacious "bonus rooms" above or abutting the garage have moved from Charlotte, N.C., where they were common, to communities north of the Mason-Dixon and west of the Mississippi. "It was thought for a time that you couldn't sell a house with a master bedroom suite on the first floor in the Philadelphia area," Joel Rassman, the Toll Brothers C.F.O., told me one day in the company cafeteria. "We tried it and found that just was not true."

Barzilay finished the meeting by insisting that the men work harder chasing ground. The reigning philosophy at Toll seems to be that the company needs to step up its land acquisitions, even though its current reserves should be enough for six or seven years of building. Barzilay insists that his vice presidents do anything necessary to find acreage, even examine satellite photography (using Google Earth, for example).

He and Toll have structured the company in an entrepreneurial fashion - each vice president responsible for building communities in particular territories is also charged with finding more ground. Doug Yearley, for instance, a senior vice president who takes a seat at Barzilay's weekly meeting, oversees Toll developments in New Jersey, South Carolina and several Midwestern states. Yearley is very much a believer that the company can never have too much ground. "In any region, we make sure we're fully connected with all the brokers, with all the planners, with all the lawyers," he told me. "We let them know that we are desperately looking for more land. We put ads in the paper; we have sections in our Web site asking, 'Do you have land?' We assign territories to land-acquisition managers, and that's all they do." If someone on Yearley's land-acquisition team is in charge of three counties, he has to know every piece of land in every desirable town in each of those counties. He has to know every elected official. He has to carry around a color-coded map of every town in his or her area so as to know where sewer lines and power lines run, since both can determine the viability of any potential subdivision. "Every parcel that's more than 50 acres that has not been developed," Yearley added, "has to be identified." In urban areas it can be even smaller.

Toll Brothers usually options a piece of land rather than buying it outright; this enables the company to back out of a deal if a township refuses to provide the clearances needed to build. (Once Toll gets the permits and is ready to break ground, it buys a parcel outright.) But sometimes the firm works in other ways. In the early 1990's, for example, Yearley became aware of defaulted loans being auctioned off by the federal government as a result of widespread savings-and-loan failures. Yearley persuaded Bob Toll to bid for one of the loan packages, which ultimately led to the company's taking control of a few dozen parcels of land in New Jersey. One of them was a 290-acre tract of cornfields in West Windsor, a few miles from Princeton University. West Windsor's biggest claim to fame may be that Orson Welles broadcast his "War of the Worlds" radio show in 1938 from a theater in town. From a developer's standpoint, there were several attractions. The township schools were known to be good, and the Princeton Junction commuter train station, with direct transportation to New York City, was nearby. So were the Route 1 corridor and plenty of good jobs. But what struck Yearley and Bob Toll was that the West Windsor area hadn't had any new home construction in years. The demand was high, the supply low.

If there is a place that predicts the future of American housing development, it would be New Jersey, which happens to be the first state that Toll Brothers expanded into from the Philadelphia environs in the early 1980's. In those days, the permit process in the state - the time it takes a developer to get a parcel approved by a municipality to start building - took about a year or two. It currently takes up to seven or eight. And that's only once Toll can get its hands on a parcel. More and more land in New Jersey is being taken out of the development cycle, placed off-limits to preserve open space and wetlands, for instance, or zoned into seven-acre lots by affluent suburbs in an effort to dissuade builders from constructing subdivisions with any real density (and thus any real profits). "When Levittown was created on Long Island, William Levitt built up thousand-acre parcels," James W. Hughes, dean of planning and public policy at Rutgers University, told me. "That doesn't exist anymore. There aren't even many 200-acre parcels left in New Jersey now." There may be good reason for this, Hughes adds. New Jersey's density is currently 1,165 people per square mile - denser than both India (at 914) and Japan (835). No other state even comes close.

The conventional thinking in planning circles is that New Jersey will be the first state in the U.S. to stop large- and medium-scale development outright. "It may be that New Jersey could be the first fully built-out state in the country in the next 10 or 15 years, under this pattern of growth," says Robert Lang of the Metropolitan Institute at Virginia Tech. The Los Angeles metro area is not far behind. Again, the distinction between these areas and Minneapolis or Phoenix - "places that still have a lot of room to run," according to Lang - is not that every field of wildflowers will be paved into parking lots or built into bungalows for empty nesters. It's that they'll effectively be off-limits to developers. Then, if demand stays steady, that meager land supply will, presumably, steadily drive housing prices up. In the case of West Windsor, this dynamic had already assured Yearley and Toll Brothers of two things. First, they would face an acrimonious dispute before getting any development plan approved. And second, that they would make an extraordinary amount of money once they did.

One idea that shapes the outlook of real-estate economists is the notion that cities, in a rough conceptual sense, are replacements for one another. A city is founded, and residents and industries settle there; over time, that city and its metro area might reach a population of a million residents. As demand to live there increases and the supply of good land diminishes, housing gets more expensive. But lo, another city arises nearby, where land is cheaper and jobs are plentiful. Residents can now leave the first big city, if they choose, and move to the second, smaller city. Until, that is, the second city becomes large and crowded and expensive as well. Then another city grows nearby, and so on. As pressure on prices and land builds, a new city can act as a pressure release.

It's possible that this model has broken down over the past few years. A small cadre of economists, in fact, has begun to ask whether the irrepressible inflation of home values in many coastal metro areas actually reflects a deeper logic based on the straitened land supply in these cities. Boom-time rationalists always run the risk of earning a black mark of infamy like that worn by the Yale professor Irving Fisher. (Just before the 1929 stock-market crash, Fisher declared that stocks had reached "what looks like a permanently high plateau.") And it is virtually impossible to find an economist - or a home builder, for that matter - who thinks the recent growth rates in home prices are sustainable; even the most sanguine among them predict more moderate appreciation over the long run. Yet almost without exception these thinkers, though they come from different political persuasions and even different research specialties, have attributed high home prices to zoning. Further, they have amassed a fair amount of data to support their arguments.

Bob Toll's opinions about how the American market resembles the European market derive in part from the work of Susan Wachter, a housing economist at the Wharton School at the University of

Pennsylvania, where Toll occasionally drops in to talk to students about real estate. To Wachter, an assistant secretary at the Department of Housing and Urban Development during the Clinton administration, "the fundamentals of supply and demand have shifted in the U.S." Wachter says she believes the widespread adoption of controls on growth and building - beginning in the mid-1990's, just about the time that Toll began to expand nationally - have pushed up prices in so many regions that it is increasingly difficult for one desirable city to relieve the pressure in another. I asked Wachter whether she would, like Toll, equate home prices in popular American cities with prices in Europe. "We're different than Europe," Wachter told me, "but there will be convergence." In her opinion, the U.S. housing market is somewhere between where we used to be before 1995 and "where Europe is right now" - where, that is, a smaller supply of land and a stricter regulatory environment make building significantly more expensive. (European towns also have less incentive to encourage development, Wachter says, because they generally do not, unlike their American equivalents, depend on their local tax base to pay for education and services, which tend to be federalized.) "The fact of the matter is that housing prices are increasing in the U.S., faster than inflation, in ways we haven't seen before," Wachter says. "Ten years running. It's the first time in keeping these numbers that we've ever had a run like that."

Wachter isn't alone in connecting building regulations and prices. Recently, Joe Gyourko, at the Wharton School, and Edward Glaeser, at Harvard University, used sample prices from 25 areas to show that the cost of housing in a metropolitan area appears to be in direct correlation to its degree of zoning ordinances. And in a coming paper, Chris Mayer of Columbia, writing with Gyourko and Todd Sinai at Wharton, calls attention to the pricing patterns in what they call "superstar cities." In metro areas like New York and San Francisco, dynamic and attractive places with limited supplies of land, prices can conceivably go up at above-average rates for a very long time - "basically forever," Mayer says. "When San Francisco gets so expensive that a rich person says: 'You know what? I don't want to pay that much, I'll go look at Chicago instead' - that's what has to stop it ultimately. But there's nothing in our model that says that ever has to happen. Every time we think that housing is ridiculously expensive in the U.S., we should go look at Europe and Asia. Even after 15 years of declines in Tokyo, it's still more expensive than living in Manhattan. There's no natural law that says U.S. housing prices have to stop here. None."

Mayer wonders whether steep appreciation rates will ultimately force some places to reconfigure their zoning in a way that denser development (or more development) increases the housing supply and relieves the pressure on prices. I asked Toll about this: What happens when New Jersey reaches build-out? "We've been trying to build it out, but we can't get our hands on it," he said. "We could sell every square foot that we could build on. I mean, anything within 15 minutes of Interstate 78 could be built and sold. Allentown, Bethlehem, Easton, all the way into New York City. And it's all sitting there." Toll didn't seem to think the situation would change. And the fact that so much is out of reach makes everything within reach all the more precious.

Such high stakes explain his company's aggressiveness as well as its resolve. Toll has estimated that 90 percent of the company's projects in New Jersey involve some sort of legal entanglement. The Princeton Junction project was an exception only in the breadth and duration of the litigation. The township of West Windsor balked at Toll's development plan in the early 1990's, just as it had balked at the previous developer whose defaulted loans Toll assumed. So Toll sued. By invoking something called the Mount Laurel law, named for a township in New Jersey, a builder like Toll can push development forward if its plan includes affordable housing in a township where such a need exists. A judge who recognizes a Mount Laurel claim can impose a settlement, allowing the builder to construct its homes as long as it puts up a smaller number of affordable units.

Toll won its Princeton Junction case in 1997. "Essentially, we were awarded a builder's remedy," Yearley says, which means that the judge agreed that West Windsor needed more affordable housing and that Toll could build. The appeals, which went to the State Supreme Court, took several more years, but by 2002 Toll had won at every level and had a state-approved plan allowing for 1,165 housing units. Of those, 535 would be stand-alone luxury homes and luxury town houses; the other 630 units would be one-, two- and three-bedroom apartments, 175 of which would rent for below-market rates and therefore be designated as affordable housing. It took 10 years from the time Yearley bought the loans for the Princeton Junction land until the company was allowed to break ground. Even before a single bulldozer arrived to clear topsoil, the company's legal bill amounted to $2 million.

In the 1970's and early 1980's, Toll Brothers was known as a custom builder: the company constructed a modest number of houses to the exacting specifications of its wealthy customers, going out of its way to install any type of wainscoting or kitchen appliance a buyer wanted. In the early 1980's, however, Bob Toll asked his C.F.O., Joel Rassman, to take a look at why some developments were proving far more profitable than others. In poring over the books, Rassman discovered something he and Toll didn't believe possible: the developments that offered the greatest number of luxury extras made the least money. "The more options we sold," Rassman told me, "the less we made." Rassman found that it wasn't an option like a whirlpool tub that cut into profits; the problem was managing the option process. Too many choices created too many construction errors, delays and costs. So Toll Brothers quickly whittled down its telephone-directory-size book of options to something more manageable, first to a 120-page list, then something even smaller. The company figured it could satisfy 98 percent of its buyers if it found the right companies to engineer precisely the right products - stoves, windows, fixtures, cabinets - to fit precisely into the right architectural variations. In turn, Toll coined a neologism: in 1985, the company became a "semi-custom" builder. It still offered a lot of expensive extras, but only those that fit into a highly profitable system of luxury mass production. Rassman and the rest of the company had already learned that buyers will choose visible flourishes over pragmatism every time. During the energy crisis of the late 1970's, for instance, one option was a higher grade of insulation. "No one bought it," Barzilay, Toll's president, says. "Everyone spent their extra money on moldings."

Wall Street has reluctantly come around to the belief that the big home builders, after years of record earnings, are more financially durable than traditional contractors, whose businesses have lived and died by the boom-bust cycle. Several stock analysts told me that they've become convinced that Toll and its competitors have the resources to survive (perhaps even prosper) during an economic rough patch like the one that may have begun this fall; the analysts have likewise taken note that big builders put up homes only after signing a contract and getting a deposit. (Until recently, most builders built on spec, thus increasing the risk of getting stuck with large stocks of unsold houses in the event of a crash.) Above all, the investment community seems enamored with how executives like Bob Toll have refined production methods over the past decade to push down costs. Toll Brothers uses prebuilt wall panels and roof-truss systems, for instance, shipped from its factories to home sites; Pulte Homes, a competitor, has gone so far as to introduce prefabricated concrete panels (in lieu of site-poured concrete foundations). Such techniques aren't entirely new to house construction. Even before the biblical-scale assembly line of Long Island's Levittown (built in the late 40's and early 50's and still, at 17,000 houses, among the most ambitious residential construction projects in American history), Sears, Roebuck & Company shipped more than 100,000 mass-produced catalog houses to places all over the country. As Bob Toll pointed out, "The ancient Romans had trusses, too." Toll said he doesn't think home construction is much different from 60 years ago, when his father was building houses in suburban Philadelphia.

What's more revolutionary is how Toll, Pulte and the others don't really build anything, at least in a technical sense. All the physical work in a place like Princeton Junction, for example, is contracted or subcontracted to dozens of electrical, framing, roofing, painting, masonry and plumbing companies, many of which follow Toll in itinerant fashion from development to development for years on end. These contractors, not Toll employees, do the actual building, in accordance with Toll's signature designs and management strictures. They answer to a team of Toll executives at every site who are trained to see a community's physical manifestation as part of the larger process of packaging and selling the American dream. "We're really a marketing company that happens to build houses," Doug Yearley told me.

Once efforts to secure a piece of ground are complete, the firm wastes little time in applying the full force of its marketing and design expertise. The density of a Toll community is largely defined by local zoning, which determines the size of housing lots and, to some extent, the layout. So Toll generally works backward from a site: calculating that X number of houses of a certain frontage width can fit within a new piece of ground, then plugging those results into a street pattern that respects geology and geography. Toll Brothers has created more than 800 residential communities over the years, so engineers often model a prospective community on one that has already proved profitable. (Toll often uses geographical attributes - Ridge Road, Lake Drive - as the inspiration for names, although on occasion, contests at the company headquarters end up letting employees name a street in a new development.)

Next come the products, also called houses. The size and style of what to build - stately Colonials, for example, or Mediterranean-style ranches - depend on regional tastes as well as on marketplace data of how much comparable homes in the vicinity, built either by the competition or by Toll itself, have sold for. The company has 971 different floor plans in its repertory, everything from urban-style town houses to steroidal center-hall Colonials, all with a wide array of bump-out and bump-up options. But as Jed Gibson, a vice president who runs Toll's architecture division, explained to me one day, "Our business model is: what's selling out there, and how can we do it better?" Often, that means that his team must respond quickly when an executive like Yearley says that a new house style from a competitor is selling briskly and that Toll needs a competing product with similar features as soon as possible.

Sometimes, one or two of Gibson's architects visit a house they're trying to emulate. "We have something at Toll Brothers I call our special sauce," Gibson said, describing the "lines of sight" and "spacious feel" inside its homes. "So we take the deficiencies of the competition's homes and improve upon them." When he first started at the company in 1993, Gibson recalled, Toll Brothers was following the market trend by replacing 8-foot ceilings on the first floors with 9-foot ones. "By 1997 and 1998, we started offering homes with 9-foot first and second floors. And in January 2002, we started offering 10- foot first floors." In Gibson's view, such modifications are tweaks on the real yeoman's work, which is providing every customer with the essential 4 bedrooms and 2ð bathrooms. Still, the alacrity with which his department can design a new house (one week) and introduce it to potential buyers (a few months) is one reason the American home, at least aesthetically, seems to be undergoing rapid evolutionary change. Gibson's office can also move quickly to create new exteriors as well as interiors when tastes change. Take the Toll product known as the Columbia, which happens to be among Gibson's and Bob Toll's favorites. (Neither Toll nor Gibson owns one, though. Toll lives in an 18th-century farmhouse; Gibson in a 1915 craftsman-style bungalow he's restoring.) I asked Gibson who at Toll actually designed the Columbia. He didn't know. Gibson said that it was originally called the Cornell when it made its debut 17 years ago and has since proved to be the company's best-selling house. "It has 22 exterior looks that we can put on it," he explained, which means the

Cornell/Columbia can hide behind a French provincial in Pennsylvania and a redbrick Colonial face in New England. It can, Gibson said, go anywhere or be anything.

Of course, the Columbia was an option when it came time to sell the Estates at Princeton Junction, a push that began just as the litigation was concluding in late 2002. The company had compiled a list of 4,000 people who had expressed an interest in the development. In January 2003, Toll sent an e-mail message to these potential buyers to say it was organizing informational seminars at a nearby Hyatt hotel, to be followed by a phone lottery the following week. "In a two-week timespan, we had the seminars, phone lottery and the deposits," Tom Gestite, the site's project manager, said. The initial batch of 60 houses was spoken for in about 20 minutes. Since then, the company has periodically put new groups of houses on the market and has sold about 10 to 15 per month. Thanks to the company's automatic price increases - the price of a development's homes might rise by $5,000, say, for every five sold - the more Toll sells, the more Toll's profits expand.

One day last spring, I toured model homes with Gestite. Before the houses were ready to be shown, Gestite told me, he and the Toll sales team got together with a decorator to create detailed, imaginary narratives about the families that "live" in the homes. The team decided the father in one model home attended Princeton (hence an abundance of orange and black pennants). In another, they conjured a child who loves Harry Potter so much his room has a Hogwarts motif. "We always try to have memory points, 'Pirates of the Caribbean' painted on the walls, swashbucklers," Gestite said. "Then Johnny can go home and say to his parents, 'I really like the pirate room.' "

You can see how it adds up in the end: the stealthy land acquisition, the aggressive legal positioning, the meandering street designs, the furiously gabled architecture, the fungible options and home facades, the demographic targets - an entire vertically integrated, highly methodological luxury system. Not long ago, Fortune magazine estimated that the company would make around $100 million on the Estates at Princeton Junction. The company now maintains that the actual number will be higher. Consider a single house, and you can see why. In the part of the development characterized by Heritage Collection houses, the actual cost of building a single 2,700-square-foot home - infrastructure, land, labor and materials, mostly - has changed little over the past two years: it's probably in the vicinity of $300,000. Yet a Heritage-style house went on the market in spring of 2003 at $424,000. It now costs $695,000, extras not included.

Today, the mayor of West Windsor is a former New Jersey state environmental administrator named Shing-Fu Hsueh. He sees the tensions in his town as emblematic of the larger battles being fought around the country between developers and preservation champions. Genial, hard-working and immodest in the way of a small-town politician - "Did I tell you I got over 87 percent of the vote last year?" he asked soon after I met him in the town's municipal offices - Hsueh (pronounced SHAY) is a native of Taiwan who moved to New Jersey in 1969. Toll Brothers and West Windsor seem to have settled into a peaceful coexistence in the two years since the company began building the Estates at Princeton Junction, a truce that has been helped in part by Hsueh's willingness to address land-use issues a little less confrontationally. "I don't think you can stop development," he told me. "If you try to stop something, the courts will make decisions for you, and it will be even worse." What's regrettable, Hsueh said, was not that Toll was allowed by the courts to develop 290 acres or even that it will ultimately build more than a thousand homes here, but that the town didn't work with the company to create more of a mixed-use area - one where offices, stores and homes commingle, for example, or one where a different configuration allows more open land to be preserved. "If I had the opportunity to see it done over again," he said wistfully, "I would have loved to see that."

Hsueh showed me a large map of West Windsor. His town, now with a population of around 25,000, has more than 65 cul-de-sacs, which he regards as a problem accentuated by the Toll layout. The Estates at Princeton Junction, he said, pointing to the area where the new streets hadn't yet been drawn in, will be a big lonely island of suburbia, bound by train tracks on one side and farm fields and woods on the others, a place connected to nothing else in town, leaving its residents largely in thrall to their automobiles. Hsueh then tapped on another part of the map: a 90-acre-or-so parcel of woods and fields wedged between Princeton Junction and the train station. Hsueh sees this as the next major issue the town should take up. He told me he has a vision of the land becoming a "transit village" that mixes residences with shops and offices in a bicycle- and pedestrian-friendly area - a last-chance attempt to create a nucleus for a town that has been sprawling for the past 30 years and now has no center. In his view, the blank space also presents an opportunity to look ahead 10 or 20 years. Hsueh thinks West Windsor will desperately need affordable apartments in the face of prohibitively expensive housing. "Then our children can move back here," he said.

The big builders I spoke with aren't as averse to the prospect of creating traditional, mixed-use neighborhoods as you might expect. At the Toll Brothers offices one recent morning, I sat down with Zvi Barzilay, Toll's president and a former Philadelphia city planner who holds a master's degree in urban planning from Harvard. He is well versed in every kind of design idea. Barzilay, like Bob Toll, seems irritated by the charge that home builders are somehow responsible for sprawl or cookie-cutter developments. In his view, Toll Brothers merely responds to market demand while adhering to zoning ordinances that exclude commercial stores from residential projects and mandate big lots and wide streets. A Toll Brothers development in Virginia recently flaunted urban-style homes, with garages in the back, Barzilay pointed out. And the company is enormously proud of an attractive, high-density condo complex it just built in a San Francisco suburb. "There are some buyers who love to live in this kind of environment, because of the dream of socialization and the next-door neighbor," Barzilay said. "But I think it is only suited for a certain type of buyer and not for others." Most people, he added, would say, "Give me my one acre, and I want to have my privacy." And most counties or towns, Barzilay remarked, seem to show little inclination to alter their zoning rules - the way that Mayor Hsueh intends - to achieve high-density, mixed-use developments. While Barzilay would relish the possibility, both for the sake of company profits and social practicality, of building denser developments, for the most part he said he didn't think it was feasible.

You have to wonder what could change this state of affairs. When New Jersey is closed to new business? When the Los Angeles metro area hits the San Gabriel Mountains and developers no longer have any big parcels left? Robert Lang of Virginia Tech recently took a look at other thriving towns he calls "boomburbs" - places like Scottsdale, Ariz., and North Las Vegas - and predicted that more than half will be built out under the current pattern of land consumption by 2020. Such eventualities don't automatically mean a dismal future. On the contrary, a city bound for build-out might force developers to make better use of its remaining acreage. Or it could encourage developers to use open lots, transform defunct shopping malls, convert old industrial space - typically the case in New York, where Toll happens to be in the process of acquiring several such places - and fill them with housing. Lang predicts some cities (Arlington, Va., for instance, and Lakewood, Colo.) will improve after build-out. "It all depends on how you manage the pattern of growth," he says.

Still, there remains the darker possibility that the current building boom will do many things - or has already - that can't ever be undone. Robert Yaro, president of the New York-based Regional Plan Association, notes that it is enormously difficult to get in front of a boom market and plan intelligently. Development moves too fast; the patchwork of municipalities can't coordinate. Yaro told me he predicts that there will be 18 million more residents in the Northeast by midcentury; the national

population will grow by 140 million. "If we accommodate the next 140 million Americans the way we accommodated the last 20 or 30 million," he says, "we would urbanize three times as much land as we have over the past 200 years. We can't afford to do that."

In many regions of the country, Yaro points out, there exist large-scale plans to shepherd the growth of the megalopolises and the megatraffic that all these new Americans will create. For all his optimism, Bob Toll, for one, has his doubts. He doesn't seem to think that forceful regional plans can be implemented in the current culture of Nimby politics, where townships, especially in the Northeast, have far more authority over development than counties or states. "That is the answer," Toll says, "but it can't be done, unfortunately. In order for you to take power for zoning and planning and put it in a regional council, you would have to take the power from the township. It'd be the last move you ever made in politics." The larger and more powerful the regional council, Toll says, the better it would be. "You would get something that makes a lot more sense" than the development we're getting today. The $4 million house in an older suburb, in other words. Or the newer (and cheaper) one-acre house in the most remote exurbs.

One Monday evening in July, I saw why. As 11 p.m. approached, I sat in Toll's office as he and Barzilay debated whether to bid on some ground that would cost roughly $30 million. It was in the Washington area, but far from the city. Toll studied a list of what comparable houses, built by Toll's competitors, were selling for nearby. "Look at these prices," he exclaimed. "At the end of the world, these prices."

How far was the commute to D.C.?

"An hour and a half," Barzilay replied.

"Yeah, at midnight," Toll said.

Toll took out a local road map and unfolded it on his glass-topped table. He began to trace roads with his finger. He didn't like what he saw. There was only one highway to D.C.; in the other direction, wilderness. Drawing his finger through the Shenandoah Valley, he mused on Robert E. Lee's troop movements. "The only other way out, right into the Shenandoah."

Toll frowned.

If they went ahead with the purchase, you could imagine fairly easily what would take shape a few years from now: an expertly landscaped Toll Brothers development with a thousand well-built, gleaming new homes suitably styled to satisfy regional tastes. There would be meandering streets and cul-de-sacs. The community would be far from the city - indeed, far from anything.

Then again, the land deal was here on Toll's desk, right now, and it might not be available next year. If Toll didn't build it, someone else probably would.

"Let's study it a little more," Toll finally said, staring at the map for a long while. He still had a few days to decide. "It does have possibilities, and this market is so hot. But I need to know a little more."

He looked up and his face brightened. "What do we got next?" he asked Barzilay.

Jon Gertner, a contributing writer, last wrote for the magazine about reduced-risk cigarettes.

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