

Toll Brothers says home building still sliding

Luxury home builder Toll Brothers Inc. (NYSE:TOL - news) on Wednesday said new orders and revenue fell in the quarter just ended, prompting the company to slash for the fourth time the number of homes it expects to build this year, as the U.S. housing market continued its slide.

Preliminary numbers show that new orders fell 47 percent, to 1,443, in the fiscal third quarter ended July 31 from the same period last year, Toll said. The value of the contracts fell 45 percent, to \$1.05 billion from \$1.92 billion.

Investors sent shares down 4.5 percent in premarket activity on the Inet electronic brokerage system, where Toll shares traded at \$25.36 from their Tuesday close of \$26.58.

"This is worse than we expected," said Majestic Research analyst John Tomlinson. "I don't think we've quite reached the bottom."

Building revenue during the quarter slipped to \$1.53 billion from \$1.54 billion, and its backlog of homes on order but not yet constructed tumbled 13 percent to \$5.59 billion from \$6.43 billion.

The company, based in Horsham, Pennsylvania, attributed the weakness to an oversupply of homes on the market, as speculators try to unload their investments and potential buyers sit on the sidelines waiting for better deals. Toll said cancellation rates ran high during the quarter, especially in last year's hot markets of Orlando, Florida; Las Vegas, Nevada; Phoenix, Arizona; and Palm Springs and Northern California.

As a result of the slower demand and building pace, Toll said it expects to walk away from land options set to expire, and announce a write-down when it reports its results August 22 if it can't renegotiate the price

Toll said it expects to close on sales of 2,500 to 2,800 homes in the fourth quarter ending October 31, down from an earlier prediction of 2,900 to 3,300. It also slashed its forecast for the number of homes it expects to sell in the year to a range of 8,600 to 8,900 from an earlier reduced forecast of 9,000 to 9,700 homes.

It was the fourth time since November that Toll had cut its forecast for the number of homes it expects to sell.

Since July, shares of Toll Brothers have lost more than half their value, while the Dow Jones U.S. Home Construction Index

(^DJUSHB - news), a yardstick used to measure home builder performance, was down 44 percent.

Toll's forecast came a week after Hovnanian Enterprises Inc. (NYSE:HOV - news), also in the luxury home market, slashed its forecast and reported greater cancellations. The pain is not limited to the luxury market. In a filing on Tuesday D.R. Horton Inc. (NYSE:DHI - news), the largest U.S. home builder, said the decline in new orders in July was worse than June and that cancellations were higher.