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Home construction execs build big nest eggs

Reuters, 04.01.04, 2:51 PM ET

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(This story is one of a series on executive compensation.)

By Ilaina Jonas

NEW YORK (Reuters) - Last year, more Americans than ever were able to scrape together enough cash to finance their own American Dream -- a home of their own.

In many cases, they also made bigger dreams come true for homebuilders' chief executives -- as salaries, bonuses and other pay packages remained frothy, and sometimes doubled, reaching into the tens of millions of dollars.

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The impressive compensation packages were often tied to profits - before taxes and often before subtracting for the big awards and one-time charges.

The packages often include not just CEO salaries, usually about \$1 million, but also multimillion-dollar bonuses, stock options, restricted stock, retirement plans, tax preparation, health plans and personal use of corporate aircraft.

Nearly all of the top 10 home builders' chief executives saw their compensation rise as the sector as a whole rose.

"The reason they've behaved so well over the last two years has been very specific economic reasons, primarily low interest -- economic reasons for which none of them is responsible," said Paul Hodgson, executive and director of compensation for The Corporate Library, a governance research body. "Shouldn't some of this be going to Alan Greenspan?"

Lennar Corp. Chief Executive Stuart Miller said criticism is unjust because the executive is paid to shepherd the company through all environmental conditions.

"One would have to wonder, would it also be criticized that when when housing market goes down for factors beyond our control that the lowering compensation is also inappropriate?" Miller asked. "I don't think so."



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Miller earned a \$12 million bonus in fiscal 2003 and about \$16 million in total compensation, compared with \$9.5 million the previous fiscal year. The figures do not include some of Lennar's premium options, a small percentage of options granted in those years.

"A significant part of it is you want to do peer group analysis, said Tim Ranzetta, president and chief operating officer of Equilar Inc., a compensation research firm.

Hovnanian Enterprises Inc. CEO Ara Hovnanian saw his compensation, excluding stock options, rise to \$11.2 million from \$6.7 million. With options, the pay package rose to \$14.4 million in 2003 from \$7.7 million the prior year.

The dollar amount of the options uses a rule of thumb employed by compensation consultants. It values the options at about one-third of the exercise price.

Toll Brother Inc.'s CEO Robert Toll earned a \$20.3 million bonus, which accounted for much of his \$23.3 million total compensation, up from \$14.8 million the year earlier.

M.D.C. Holdings Inc. boss Larry Mizel received a \$10.8 million bonus, bringing his total fiscal 2003 compensation to \$16.4 million, up from \$12 million.

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D.R. Horton, with \$8.7 billion in revenue last year, has asked shareholders to allow the company to change its method of compensation to the 2 percent pretax income model. Their executives' top bonuses blew past the \$2 million limit that would have allowed the company to deduct the compensation from its taxes, by more than \$3 million.

For fiscal 2003, Horton CEO Donald Tomnitz received a performance bonus of about \$5.5 million and earned a total of \$5.84 million, up from \$4.1 million.

Behind much of the success of the group has been the low interest rates that have brought 30-year mortgage rates down to the lowest in a generation.

The number of new homes built in 2003 rose 11 percent to about 1.09 million from an already strong 2002, according to U.S. Census figures. The median price of a home rose 3 percent, to \$191,500.

"This is the problem with having absolute performance targets, like stock price, or earnings, without any relationship to the rest of the sector or potentially to the economy as a whole," Hodgson said.

Still, many investors aren't complaining.

"If the company is doing well and the shareholders are doing well, they're less likely to object to the compensation," said David Larrabee, Pitcairn Trust vice president and portfolio manager. "I don't think it's reached the stage of being abusive."

Pitcairn Trust, which has more than \$2 billion in assets, has holdings in Toll Brothers and Pulte Homes.

Many of the companies' stock prices rose even more than compensation. Lennar's stock increased 85 percent, while its CEO's pay rose 68 percent. Home Depot's stock rose 117 percent, compared with the 67 percent rise in its CEO's compensation.

"We're very quick to reward our actresses, our actors, sports celebrities and singers," Lennar's

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CEO said. "Yet the people who go to work early in the morning and leave late at night, somehow we feel its important to malign them."

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