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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SASA TANASKOVIC, *Plaintiff*, -v.- REALOGY HOLDINGS CORP., *et al.*, *Defendants*.	Civil Action No. 2:19-cv-15053-SRC-CLW **ORAL ARGUMENT REQUESTED** Motion Day: November 16, 2020

NOTICE OF DEFENDANTS' MOTION TO
DISMISS THE AMENDED CLASS ACTION COMPLAINT

PLEASE TAKE NOTICE that Defendants Realogy Holdings Corp., Richard A. Smith, Ryan M. Schneider, Anthony E. Hull, and Timothy B. Gustavson (collectively, "Defendants") will move before the Honorable Stanley R. Chesler, United States District Judge, at the Martin Luther King Building & United States Courthouse, 50 Walnut Street, Newark, New Jersey 07102, at 10:00 in the forenoon on November 16, 2020, or at such other time as the Court shall establish, for an Order (i) dismissing the Amended Class Action Complaint with prejudice pursuant to Federal Rules of Civil Procedure 8(a), 9(b) and 12(b)(6) and the Private Securities Litigation Reform Act, 15 U.S.C. § 78u-4; and (ii) granting such other and further relief as the Court may deem just and proper.

PLEASE TAKE FURTHER NOTICE that in support of their motion, Defendants will rely upon the accompanying Memorandum of Law; the accompanying Declaration of James W. Brown, dated August 3, 2020, and the exhibits annexed thereto; and all prior papers and proceedings herein.

PLEASE TAKE FURTHER NOTICE that annexed hereto is a proposed form of Order.

PLEASE TAKE FURTHER NOTICE that answering and reply papers shall be presented according to the Court's prior Orders relating to this application (ECF Nos. 10, 23, 33, & 35).

PLEASE TAKE FURTHER NOTICE that Defendants respectfully request oral argument on their motion.

Dated: August, 3, 2020

/s/ James W. Brown
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CERTIFICATE OF SERVICE

I hereby certify that on the 3rd day of August, 2020, I electronically filed the foregoing with the Clerk of Court through the CM/ECF system which will send a notice of electronic filing to all persons electronically noticed.

/s/ James W. Brown

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SASA TANASKOVIC, *Plaintiff*, -v.- REALOGY HOLDINGS CORP., *et al.*, *Defendants*.	Civil Action No. 2:19-cv-15053-SRC-CLW Motion Day: November 16, 2020

MEMORANDUM OF LAW IN SUPPORT OF DEFENDANTS'
<u>MOTION TO DISMISS THE AMENDED CLASS ACTION COMPLAINT</u>

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Ryan M. Schneider,
Anthony E. Hull, and
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B.	Q3 2017 Realogy Earnings Call Transcript (Nov. 3, 2017)	AC ¶¶ 7, 61, 73, 151-60, 272, 291
C.	Q4 2016 Realogy Earnings Call Transcript (Feb. 24, 2017)	AC ¶¶ 53-54, 80, 99-104
D.	Q1 2017 Realogy Earnings Call Transcript (May 4, 2017)	AC ¶¶ 56, 113-20
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K.	Q1 2019 Realogy Earnings Call Transcript (May 2, 2019)	AC ¶¶ 240-43, 274
L.	Realogy's Annual Report on Form 10-K for Fiscal Year 2016 (Feb. 24, 2017) (excerpts)	AC ¶¶ 73, 105-108, 110, 121, 137

[1] Exhibits cited herein are attached to the accompanying Declaration of James W. Brown dated August 3, 2020.

Exhibit	Document	Amended Complaint Reference
M.	Realogy's Quarterly Report on Form 10-Q for Quarterly Period ended March 31, 2019 (May 2, 2019)(excerpts)	AC ¶¶ 244-46
N.	Keefe, Bruyette, & Woods, Mortgage Finance & Asset Management Conference Transcript (May 30, 2019)	AC ¶¶ 95, 251, 277-79
O.	Q3 2018 Realogy Earnings Release (Nov. 2, 2018)	AC ¶¶ 11, 81, 208-10, 294
P.	Realogy's Annual Report on Form 10-K for Fiscal Year 2017 (Feb. 27, 2018) (excerpts)	AC ¶¶ 177-79, 181, 318
Q.	Realogy's Quarterly Report on Form 10-Q for Quarterly Period ended June 30, 2018 (Aug. 3, 2018) (excerpts)	AC ¶¶ 204-05

Realogy Holdings Corp. ("Realogy" or the "Company"), and Richard A. Smith, Ryan M. Schneider, Anthony E. Hull, and Timothy B. Gustavson (collectively, the "Individual Defendants") respectfully submit this memorandum in support of their motion to dismiss the Amended Complaint (ECF 27, "AC" or "Complaint").

PRELIMINARY STATEMENT

This action was commenced in July 2019 with a bare-bones claim that Realogy was implicated by an investigation of an alleged industry-wide conspiracy to set real estate commissions, and the failure to disclose that purported conspiracy supposedly harmed Realogy's investors (the "Antitrust Claim"). The Plaintiff Fund (defined below) then replaced Mr. Tanaskovic as Lead Plaintiff, and was given six months to file an amended complaint. Despite that opportunity, Plaintiff was unable to offer even one allegation based on a confidential witness, an internal document, or any well-pled allegation that any Defendant had any motive to commit fraud. Plaintiff instead conjured a variety of new factual allegations and scattered alternative theories – all premised on nothing more than Realogy's negative financial results and volatility in the real estate market.

The Complaint is precisely what the PSLRA was designed to prevent: claims "based on nothing more than a company's announcement of bad news, not evidence of fraud."

S. Rep. No. 104-98, at 4 (1995). Lacking a single well-pled fact contradicting Defendants' disclosures or providing an inference of scienter, the Complaint tellingly opens with a naked plea for discovery (AC at 1) with the hope that it can continue to fish for a theory or coerce a settlement — practices that the PSLRA also bars. *See* H.R. Conf. Rep. No. 104-369, at 31 (1995). Specifically, this "fraud by hindsight" Complaint ought to be dismissed for several, independent reasons.

First, Plaintiff fails to identify any statement or omission that was false or misleading. Plaintiff cobbles together four unconnected theories — including a narrative that Defendants' statements regarding Realogy's plans for commission splits (the division of commissions between broker and agent) were supposedly false because Defendants purportedly downplayed the length of time over which the splits would increase and overplayed the extent to which that initiative might lead to future growth. But Plaintiff fails to specify any facts suggesting that Defendants' statements were false, especially where Realogy's actual disclosures — most ignored by the Complaint — demonstrate that these statements were accurate. And while the Complaint contains some vague vestiges of the Antitrust Claim — it fails even to allege that Realogy participated in any purported antitrust conspiracy.

Second, Plaintiff leans heavily on statements and opinions projecting Realogy's prospects for success and expressions of optimism. But these statements are non-actionable because such forward-looking statements and puffery are protected as a matter of law, particularly where, as here, Realogy partnered them with targeted risk factors. And although Plaintiff is obligated to allege with particularity that opinion statements were both objectively and subjectively false, Plaintiff pleads neither.

Third, Plaintiff fails to identify any purported omissions that render any of the affirmative statements misleading, nor can Plaintiff point to any duty requiring further disclosure. Instead, Plaintiff invokes disclosure based on Item 303, notwithstanding that the Third Circuit has unequivocally held that Item 303 cannot be the basis of a Rule 10b-5 claim.

Fourth, Plaintiff fails to plead scienter with the requisite particularity. Plaintiff's naked claim that Defendants intended to hide negative information about Realogy's performance is undone by Defendants' detailed disclosures updating investors about the progress of its initiatives every quarter and twice revised its quarterly guidance downward.

Fifth, the Complaint fails to plead loss causation because it does not point to any truly corrective disclosure, and fails to credibly link any purported false statement or omission to any decline in Realogy's share price.

Sixth, Plaintiff's newly-minted claims that Realogy misstated its guidance about the duration and impact of rising commission splits is time-barred, because Plaintiff alleges the claim was discovered by the market more than two years before Lead Plaintiff's Complaint was filed, and the claim does not relate back to anything in Mr. Tanaskovic's initial complaint.

Accordingly, the Complaint ought to be dismissed in its entirety.

STATEMENT OF FACTS[2]

A. The Amended Complaint

Through dunning cut-and-paste repetition to create a false illusion of weight, the Complaint is swollen to 338 paragraphs spanning 159 pages. However, the allegations describe only four discrete categories of supposed misstatements and omissions:

1. Commission Splits: Defendants allegedly downplayed the duration of commission split increases and the extent to which they would hamper Realogy's financials. (AC ¶¶53-54, 56-58, 61-62, 66-68, 70-71, 81, 85-86, 91, 98-102, 105-06, 112-19, 121-22, 126-33, 137-38, 142, 144, 148-59, 161-62, 167, 169, 171-75, 178, 183-88, 194-204, 210-14, 221-29, 241-42, 269, 272, 274, 291, 299.)

2. Tuck-in acquisitions: Defendants supposedly misrepresented the extent to which synergies would be realized following the acquisition of other brokerages. (*Id.* ¶¶73, 82, 92,

[2] The facts herein are drawn from the Complaint, together with those documents incorporated therein by reference and matters of which the Court may take judicial notice. *See, e.g.*, *In re NAHC, Inc. Sec. Litig.*, 306 F.3d 1314, 1331 (3d Cir. 2002) (district court can take judicial notice of documents relied on in complaint, SEC filings and stock price data).

98, 103, 107, 113, 115, 120, 129, 134, 143, 160, 177, 209, 243.)

3. Investments in technology: Defendants purportedly misled investors about the extent to which Realogy was investing in technology and how those investments would drive growth. (*Id.* ¶¶ 58, 67, 90, 136, 167-68, 170-71, 173, 183, 199, 224, 242, 274.)

4. Average Broker Commission Rate ("ABCR"): Defendants purportedly emphasized the stability of the ABCR, but neglected to disclose that its stability was allegedly a product of an antitrust conspiracy. (*Id.* ¶¶80, 104, 108, 123, 135, 139, 145, 163, 176, 179, 189-90, 205, 215, 230-31, 244, 288.)

However, as shown below, each of these allegations are foreclosed by the actual, complete disclosures.

B. Realogy and the Individual Defendants

Realogy "is the largest residential real estate brokerage in the country." (AC ¶2.) Realogy operates through four divisions, one of which is its Company Owned Real Estate Brokerage Services ("NRT"), which consists of brokerages operating under the brand names Corcoran, Coldwell Banker and Sotheby's International Realty. (Ex. A at 31.)[3] During the class period, NRT accounted for approximately 76% of Realogy's total revenue. (AC ¶2.)

Defendant Richard A. Smith served as Realogy's Chief Executive Officer ("CEO") and President from 2007 until he retired on December 31, 2017. (*Id.* ¶23.) Defendant Ryan

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[3] NRT has since been renamed Realogy Brokerage Group.

Schneider has served as Realogy's CEO since Smith retired, the transition of which was announced in November 2017 following a "comprehensive" "leadership transition plan." (Ex. B at 3.) Defendant Anthony E. Hull served as Realogy's Chief Financial Officer ("CFO") and Treasurer from 2006 until he retired in November 2018. (AC ¶25.) Hull transitioned into a senior adviser role at Realogy and Defendant Timothy B. Gustavson was appointed interim CFO. (*Id.* ¶26.) Non-Defendant Charlotte Simonelli was appointed to that role on March 25, 2019. (*Id.*)

Serial-Plaintiff Locals 302 and 612 of the International Union of Operating Engineers-Employers Construction Industry Retirement Trust ("Plaintiff" or the "Fund") (ECF 13, Ex. B) allegedly transacted in Realogy's stock between February 24, 2017, and May 22, 2019 (the "Class Period").

C. Overview of Real Estate Transactions

When a home is sold, the buyer and/or seller pay the real estate brokerage a commission reflecting a percentage of the sale price, often tracked as the national Average Broker Commission Rate ("ABCR"). (AC ¶34.) The broker then splits that commission with the agent. (*Id.* ¶¶33, 35.)

Brokers, including Realogy, compete in recruiting and retaining talented agents, which often takes the form of offering agents a higher split of the total commission from a home sale. (*Id.* ¶35.) The commission split Realogy offers agents depends on several factors, including "the volume of business the agent brings in ... and by region." (*Id.*)

D. Realogy Faced Stiff Competition

As the Class Period approached, Realogy faced "increased competition from brokerages pursuing non-traditional methods of marketing real estate, such as Internet-based brokerage[s] or brokers who discount their commissions." (*Id.* ¶4.) Realogy began cautioning investors that "competition for more productive sales associates ... will continue to impact the ability of our company owned brokerage business and our affiliated franchisees to attract and retain independent sales associates ... and will result in continuing pressure on the commission split rates paid by our company owned brokerages and our affiliated franchisees." (Ex. A at 2.) In addition to facing "strong competition for sales agents," Realogy also faced several other headwinds: "soft demand at the high end of the housing market," which uniquely affected Realogy due to NRT's "geographic concentration in the higher-priced coastal markets,"(Ex. C at 3); "persistently low inventory" of high-priced homes; and natural disasters that "constrained the level of transactions." (Ex. B at 3.)

Realogy thus embarked on several initiatives, including increasing commissions splits, investing in technology, and shifting its growth strategy away from acquisitions in favor of organic growth through enhanced agent recruitment.

E. Realogy's Commission Split Strategy

In 2016, Realogy launched a plan to increase commission splits to attract and recruit agents. At that time, Realogy cautioned investors that while this initiative would hamper near-term performance, it was hopeful for recruiting gains, and repeated this cautious projection every quarter. (AC ¶¶53-54, 56-57, 100-02, 105-06, 112, 114, 117, 121-22, 128, 130, 137.) Despite Plaintiff's effort to conjure a misstatement, that was exactly what happened: increasing splits pressured Realogy's financials for the next 15 months, and improved agent recruitment to historic levels.

1. 2016: Realogy Announces Increased Commission Splits

At the close of 2016, Defendants reported that NRT's EBITDA had declined the past two quarters and forecasted that it would likely continue downward, due to higher commission splits and other macroeconomic conditions. (Ex. C at 5-6.) In explaining the purposeful initiative to increase commission splits to enhance recruiting, Smith stressed that "our investments in these initiatives will result in near-term moderate pressure on margins, [but] we anticipate that over the medium term, this will be mitigated by revenue and earnings...." (Ex. C at 3.)

2. 2017 and the First Quarter of 2018: Commission Splits Climb and Put Pressure on Financials as Forecasted

On May 4, 2017, Realogy reported that its commission splits had increased by 100 basis points from the prior quarter, resulting in NRT retaining agents at rates "now approaching 94%." (Ex. D at 3.) Although revenue had increased by 6%, "EBITDA was [down to] $61 million" as forecasted as Realogy "expected operating EBITDA to be down year-over-year due to higher sales [and] agent commission splits." (Ex. D at 4.)

In the second quarter of 2017, Hull reported that "NRT commission splits increased approximately 150 basis points year-over-year," which "was a result of several factors[:] higher transaction volume," "the change to the geographical mix of business and the impact of heightened retention recruiting efforts." (Ex. E at 6.) Hull projected he "expect[s] that splits will be approximately 70% for the full year 2017." (*Id.*)

For the third quarter of 2017, Hull announced that "NRT commission splits increased approximately 209 basis points" (Ex. B at 6), which "were higher than we anticipated for 3 reasons: relatively high growth in NRT volume in its higher-split West Coast operations, NRT's successful recruiting and retention efforts and the incremental transaction volume from acquisitions." (*Id.* at 3.) Increasing commission splits yielded results as agent retention rates rose to a "historical high watermark." (*Id.* at 4.) Smith relayed that "in 2018, NRT management has the goal and objective of slowing the rate of growth and stabilizing the agent split." (*Id.* at 8.)

Realogy also disclosed that it was revising its operating EBITDA guidance downward by $35 million, "reflect[ing] higher commission splits due to greater relative volume in NRT's West Coast operations [and] anticipated initiatives designed to attract and retain agents." (*Id.* at 5.) Hull "estimated" that $12 million of the reduction in EBITDA guidance was "due to natural disasters in the third and fourth quarters...." (*Id.*) "In response ... the price of Realogy stock fell 12% to close at $26.77 per share on November 3, 2017." (AC ¶7.)

For the fourth quarter of 2017, new-CEO Schneider reported that "average commission rates are up about 204 basis points for Q4 '17 ...." (Ex. F at 6.) As his predecessor had previewed, Schneider predicted that, although "there will still be upward pressure on agent commission rates," Realogy "expect[s] year-over-year rate increases will substantially moderate after Q1 of '18." (*Id.* at 3.) Despite lower than expected financial results due to hurricanes and "persistently low inventory," (Ex. B at 3), Realogy observed that revenue increased by 5% compared to 2016. (Ex. F at 4.)

During the first quarter of 2018, Schneider disclosed that "Q1 commission rates were up 284 basis points year-over-year, with approximately 65 basis points of that increase from fewer new development transactions." (Ex. G at 3.) Schneider recapped the successes of the initiative, stating that "[t]he recruiting we did ... was quite powerful" as Realogy was "up by about 2,000 agents...." (*Id.* at 7.) Looking ahead, Schneider stated that "[c]onsistent with what we said last quarter, while we expect continued upward pressure on agent commission rates, we expect the quarterly year-over-year increases will substantially moderate over the rest of 2018." (*Id.* at 3.)

3. The Last Three Quarters of 2018 and the First Quarter of 2019: Commission Splits Moderate as Forecasted

As projected, while commission splits "increased 209 basis points year-over-year," this was less than the "284 basis point increase year-over-year in the first quarter [of 2018]." (Ex. H at 3.) Hull reported that "NRT operating EBITDA ... decrease[d] [by] $17 million, $9 million of which was due to lower new development activity." (*Id.* at 5.)

Moving to the third quarter of 2018, Schneider disclosed that "commission split increases are moderating as expected" with third quarter splits "up 143 basis points, lower than Q1's increase of 284 basis points and lower than Q2's increase of 209 basis points." (Ex. I at 3.) Despite this moderation, "operating EBITDA was ... down $16 million from Q3 2017," mostly attributed to "the absence of the $12 million gain from the PHH

Home Loans JV in 2017." (*Id.*) Realogy was also negatively impacted by "transaction declines" as "homesale transaction[s] were down 3%...." (*Id.*) As a result, Realogy lowered its operating EBITDA guidance and warned that it could be lowered again "given the volatility ... in the housing market." (*Id.* at 4.) "In response ... the price of Realogy stock declined 11.5% to a close of $17.76 per share...." (AC ¶11.)

In the fourth quarter of 2018, Schneider explained that "[a]s we signaled throughout the year, the upward pressure on commission costs moderated each quarter in 2018...." (Ex. J at 3.) Schneider, however, explained that operating EBITDA had decreased compared to 2017 and was "driven by Q4 transaction volume down 5% during the very challenging ... market." (*Id.*) During the first quarter of 2019, Schneider reported that "Q1 2019 agent commission splits were ... 31 basis points lower than the increase we saw in Q4 2018...." (Ex. K at 4.) But Realogy reported negative operating EBITDA due to "another tough quarter for the housing market...." (*Id.* at 3.) "On this news, the price of Realogy's stock dropped another 21% to close at $14.14 per share." (AC ¶12.)

F. Realogy's Growth by Acquisition Strategy

Realogy became a market-leader through "both tuck-in acquisitions and organic growth through agent recruitment and retention." (AC ¶72.) Realogy explained "tuck-in" acquisitions as folding newly-acquired brokerages "into its existing operations, intending to reduce or eliminate duplicate costs." (*Id.*) Realogy told investors that "[f]ollowing the completion of an acquisition, we consolidate the newly acquired operations with our existing operations [to] reduce or eliminate duplicative costs, such as ... administrative support." (Ex. L at 12.) But Realogy also warned that its performance could be hindered by its "inability to realize the benefits from acquisitions due to the ... possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all." (Ex. L at 2.)

At the start of 2018, Realogy disclosed that it was "going to be better for us on the organic growth side ... as opposed to acquisitions ... because some of the pricing [of acquisition targets] we see out there in the market is a lot higher than it's been in the past...." (Ex. F at 8; *see also* AC ¶74.)

G. Realogy's Investments in Technology

One of Smith's focuses as CEO was "agent productivity," and one way in which Realogy was furthering that focus was a "fairly substantial investment in technology." (AC ¶67.) When Schneider became CEO, he noted that Realogy had invested "over $200 million annually on technology" and "has the opportunity to better leverage technology and data to help our agents succeed...." (Ex. F at 3.) Despite the promise of new technology, Realogy cautioned that its performance could suffer due to its "inability to successfully develop or procure technology that supports our strategy to grow the base of independent sales agents at our company owned and franchisee real estate brokerages." (Ex. M at 2.)

H. The ABCR

Most homes are sold by being listed "on the Multiple Listing Service, or MLS, which is a database of properties listed for sale in a particular geographic region." (AC ¶77.) Brokers must list a property for sale on an MLS "to effectively market that property to prospective buyers." (*Id.*) MLSs belong to local National Association of Realtors ("NAR") associations, and each broker typically agrees to follow "rules set forth in NAR's Handbook on Multiple Listing Policy." (*Id.* ¶78.) NAR's rules supposedly impose the requirement that a broker (or agent) make a non-negotiable offer of buyer broker compensation, which allegedly incentivizes "higher commission[s]" because "most agents will not show homes to their clients where the seller is offering a lower broker commission." (*Id.* ¶78.)

According to Plaintiff, NAR's rule is allegedly "anticompetitive" as it helped "keep the ABCR artificially inflated" and "subjected Realogy to a heightened risk of regulatory scrutiny and litigation." (*Id.* ¶80.) In the spring of 2019, two virtually identical class actions were "filed against NAR and several real estate brokerages, including Realogy, alleging that [the industry] was violating federal antitrust laws by requiring home sellers to pay buyer's broker's commissions at inflated rates." (*Id.* ¶88.) Plaintiff also alleges that the Department of Justice ("DOJ") "had initiated an investigation into potentially anti-competitive practices in the residential real estate brokerage business...." (*Id.* ¶94.)

ARGUMENT

To plead a securities fraud claim, Plaintiff must "establish the following six elements: (1) a material misrepresentation or omission; (2) scienter ...; (3) a connection with the purchase or sale of a security; (4) reliance ...; (5) economic loss; and (6) loss causation ...." *Goldsmith v. Weibo Corp.*, No. 17-CV-4728 (SRC), 2018 WL 2733694, at *8 (D.N.J. June 7, 2018) (Chesler, J.). These elements are further "subject to certain heightened pleading requirements under the PSLRA" and Rule 9(b). *Id.* at *7. These pleading standards demand at a minimum, that plaintiffs support their allegations of securities fraud with all of the essential factual background that would accompany "'the first paragraph of any newspaper story'" — that is, the "'who, what, when, where and how'" of the events at issue. *OFI Asset Mgmt. v. Cooper Tire & Rubber*, 834 F.3d 481, 490 (3d Cir. 2016) (quoting *Institutional Inv'rs Grp. v. Avaya, Inc.*, 564 F.3d 242, 253 (3d

Cir. 2009)). "It is axiomatic that, when analyzing whether a complaint sets forth misleading statement or omission actionable under Section 10(b) and Rule 10b-5, a court must 'examine statements in the full context of the documents of which they are part.'" *Weibo*, 2018 WL 2733694, at *10 (citation omitted).

Plaintiff falls far short of pleading falsity, scienter or loss causation, and its Complaint ought to be dismissed.

I. PLAINTIFF FAILS TO ALLEGE ANY ACTIONABLE MISSTATEMENT

A. The Complaint Fails to Specify Any Misstatement

The PSLRA "places the burden on a securities fraud plaintiff 'to specify ... the reason or reasons why the statement is misleading.'" *Id.* at *11 (quoting 15 U.S.C. § 78u-4(b)(1)). "In evaluating the sufficiency of Plaintiff's allegations as to how and why Defendants' statements are misleading, the Court must examine the various reasons provided by Plaintiff and the 'true facts' alleged, which 'are of paramount importance in this inquiry because they provide the exclusive basis for [Plaintiff's] claims that the various statements made throughout the Class Period were materially false and misleading.'" *In re Incyte S'holder Litig.*, No. 13-CV-365, 2014 WL 707207, at *6 (D. Del. Feb. 21, 2014) (quoting *CALPERs v. Chubb Corp.*, 394 F.3d 126, 145 (3d Cir. 2004)).

The Complaint here fails that test because the only way it purports to plead falsity is to point to stock price declines in response to negative performance. For instance, the Complaint does not allege that Realogy ever falsely reported any metric — not commission splits, its operating EBITDA — not ***anything***.

1. The Complaint Fails to Specify Any Misstatement Relating to Commission Splits

The crux of the Complaint is that, to increase agent recruitment and retention, Realogy increased commission splits but falsely downplayed the risks of this strategy by expressing the view that these initiatives will result in "near-term moderate pressure on margins" – when these splits supposedly placed long-term pressure on financials.[4] (AC ¶54.) Related disclosures that Plaintiff challenges include:

- "I think we've pretty much right-sized the commissions and we're competitive in the markets that we serve. Some of - in terms of the recruiting efforts, that's going to put a little bit of pressure on splits and that's built into that forecast" (Ex. C at 11, excerpted at AC ¶¶54, 102);

- Although "our investments in these initiatives will result in near-term moderate pressure on margins, we anticipate that over the medium-term, this will be mitigated by revenue and earnings at NRT" (*id.* at 3, excerpted at AC ¶¶53, 100) and;

- "While we continue to face upward pressure on commission rates in 2018, we expect year-over-year rate increases will substantially moderate after Q1 of '18." (Ex. F at 3, excerpted at AC ¶¶173).

[4] The Complaint quotes this statement or materially identical versions of it <u>seventeen times</u>. (AC ¶¶53-54, 56-57, 100-02, 105-06, 112, 114, 117, 121-22, 128, 130, 137.)

There are two fundamental flaws with these allegations. First, Plaintiff fails to specify a single fact that renders these disclosures false. Indeed, the Complaint "make[s] no mention of any confidential or other personal sources" and "do[es] not identify [any] specific documents that would contain facts or figures indicating that any of the 'undisclosed true facts' were true...." *Clark v. Comcast Corp.*, 582 F. Supp. 2d 692, 704-05 (E.D. Pa. 2008); *see also In re Party City Sec. Litig.*, 147 F. Supp. 2d 282, 308-09 (D.N.J. 2001). Instead, the ***only*** basis by which Plaintiff claims that any statement Defendants made was false is subsequent "report[s] of negative financial results" that caused Realogy's stock price to decline. (*E.g.*, AC ¶12.) But relying upon "'later ... disclosures that things are less than rosy'" is a textbook example of "fraud by hindsight" that the Third Circuit has "long rejected." *Chubb*, 394 F.3d at 158 (citation omitted).

Second, Realogy's disclosures demonstrate that forecasts that commission splits would place "near-term" pressure on financials ***were accurate:*** after allowing its commission splits to begin rising in the fourth quarter of 2016, leading to "historical" recruiting success (Ex. B at 4), Realogy began "moderating" them in 2018 – exactly as forecast. (Ex. J at 3.) Indeed, Plaintiff does not assert that Schneider's statement, that "the upward pressure on commission costs moderated each quarter in 2018" (*id.*), was false. Nor does Plaintiff quote a single statement where Defendants provided a concrete date when agent splits would "moderate" before Smith announced that stabilizing rates was a goal for 2018. Instead Plaintiff distorts Defendants' statements to create the illusion that they said negative pressure on financials would be limited to some specific time period before 2018. (*E.g.*, AC ¶61 (claiming "Defendants stated 'that any negative pressure' from competition would be limited to 1Q17 and 2Q17" – even though defendants never said this); *id.* ¶¶164, 291.) *See also e.g.*, *In re Lincoln Educ. Servs. Corp. Sec. Litig.*, No. 10-CV-460 (SRC), 2011 WL 3912832, at *11 (D.N.J. Sept. 6, 2011) (Chesler, J.) ("Plaintiff cannot salvage this action by snipping selective words from conference calls and manipulating them in a way that would suggest that a material falsehood was communicated to investors.").

Plaintiff's Complaint bears a striking resemblance to the "fraud by hindsight" complaint that the Third Circuit dismissed in *Chubb*. 394 F.3d at 156-58. There, the plaintiff alleged that Chubb had embarked on an initiative to stabilize its commercial insurance division by increasing premiums and challenged statements such as the "magnitude of rate increases ... [was] moderate." *Id.* at 138. The Third Circuit found these allegations were "utterly without merit, as ...

Defendants fully disclosed before and throughout the Class Period that the initiative was expected to and was indeed causing the loss of profitable business." *Id.* at 156.

This Court should hold the same because Defendants accurately reported their commission splits each quarter. And Defendants accurately predicted that commission splits would put "moderate" pressure on financials in the "near term" because they began declining after only 15 months. As the Third Circuit in *Chubb* held, these statements are not rendered false merely because the Company subsequently reported negative results.

2. The Complaint Fails to Specify Any Misstatement About Tuck-in Acquisitions or Technology Investments

Plaintiff criticizes several Realogy statements relating to tuck-in acquisitions and technology investments (AC ¶¶36, 58), but does not identify a single such statement that is false or misleading. Instead, Plaintiff relies solely upon Realogy's stock price decline and post-Class Period statements announcing plans to move more "aggressively" in investing in technologies and finding efficiencies within Realogy to create more growth in response to losses. (Ex. K at 2, 5.) At best, the use of these post-hoc statements are "unacceptable attempt[s] to plead fraud by hindsight." *Chubb*, 394 F.3d at 158 & n.20.

3. The Complaint Fails to Specify Any Misstatement Relating to the ABCR

Plaintiff's challenge to Defendants' ABCR statements rests on the premise that "Defendants knew and/or recklessly disregarded" that the ABCR's historic stability was the product of an antitrust conspiracy, but neglected to disclose that to investors. (AC ¶¶30, 50, 75-80.) But where a complaint "claims that statements were rendered false or misleading through the non-disclosure of illegal activity, the facts of the underlying illegal acts must also be pleaded with particularity, in accordance with the heightened pleading requirement of Rule 9(b) and the PSLRA." *Gamm v. Sanderson Farms Inc.*, 944 F.3d 455, 465 (2d Cir. 2019); *see also Pelletier v. Endo Int'l PLC*, 439 F. Supp. 3d 450, 463 (E.D. Pa. Feb. 14, 2020) ("[G]iven the requirements that Rule 9(b) and the [PSLRA] impose on complaints, Lead Plaintiff's price-fixing allegations ... must be set forth in some detail and with specificity."). "Until and unless [plaintiffs] provide particularized facts about the underlying conspiracy [their] complaint[s] ha[ve] not met the burden of explaining what rendered the statements materially false or misleading." *Gamm*, 944 F.3d at 463.

Where, as here, the plaintiff claims that the underlying undisclosed conduct violated Section 1 of the Sherman Act, the plaintiff must satisfy Rule 9(b) by alleging: (1) "[t]he existence of an agreement" and (2) "that the conspiracy to which the defendant was a party imposed an unreasonable restraint on trade." *In re Ins. Brokerage Antitrust Litig.*, 618 F.3d 300, 315 (3d Cir. 2010) (citations omitted). Plaintiff fails to plead either element.

In attempting to plead an agreement among Realogy and its competitors, "[a]lthough [Plaintiff] do[es] allege that [Realogy] engaged in 'anticompetitive' conduct, there is virtually no explanation as to how that collusive conduct occurred, and whether and how it affected trade." *Gamm*, 944 F.3d at 465. Indeed, all that Plaintiff alleges about the purported agreement is that: (1) the ABCR has been "very stable" (AC ¶34); (2) NAR "adopt[ed] and implement[ed]" a rule "restrain[ing] broker's price competition" (*id.* ¶78); (3) the DOJ "initiated an investigation into potentially anticompetitive practices in the residential real estate brokerage business" (*id.* ¶94); and (4) private plaintiffs have commenced two identical lawsuits (*id.* ¶88). Those allegations are nothing more than "conclusory allegation[s] of agreement at some unidentified point," which comes nowhere near "supply[ing] facts adequate to show illegality." *Ins. Brokerage Antitrust*, 618 F.3d at 320 (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 557 (2007)).[5]

Moreover, if Plaintiff's theory is that Realogy conspired with other brokerages because the brokerages that Realogy owns are members of NAR and NAR adopted a rule purportedly restraining competition among brokerages, that claim is foreclosed by settled Third Circuit precedent. To illustrate, in *In re Insurance Brokerage Antitrust Litigation*, the plaintiffs claimed that insurance brokers fixed commissions by alleging that: (1) the brokers were members of the Council of Insurance Agents & Brokers ("CIAB") and (2) the CIAB "adopt[ed] collective policies" that supposedly inflated commission rates. *Id.* at 313. The Third Circuit held that allegations that brokers were members of CIAB and followed its rules were insufficient to plead an unlawful agreement among the brokers. *Id.* at 349; *see also Kendall v. Visa U.S.A., Inc.*, 518 F.3d 1042, 1048 (9th Cir. 2008) ("[M]embership in an association does not render an association's members automatically liable for antitrust violations committed by the association.").[6] Thus, because Plaintiff failed to plead "the

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[5] The alleged existence of an amorphous DOJ investigation provides no heft to any suggestion that Realogy joined a purported conspiracy. *See In re Musical Instruments & Equip. Antitrust Litig.*, 798 F.3d 1186, 1196 (9th Cir. 2015).

[6] Plaintiff's attempt to plead the second element of an antitrust claim fares no better because the Complaint is

underlying illegal acts ... with particularity in accordance with the requirements of Rule 9 and the PSLRA," *Gamm*, 944 F.3d at 466–67, it has failed to adequately plead that any statement Defendants made relating to the ABCR was false or misleading.

B. The PSLRA Safe Harbor Forecloses Liability

The PSLRA "provides two distinct entrances to the safe harbor." *OFI Asset Mgmt.*, 834 F.3d at 491. First, statements are not actionable when they are "identified as a forward-looking statement," and "accompanied by meaningful cautionary statements." 15 U.S.C. § 78u-5(c)(1)(A)(i). Second, forward-looking statements are not actionable unless Plaintiff alleges sufficiently that the statement was "made with actual knowledge by that person that the statement was false or misleading." 15 U.S.C. § 78u-5(c)(1)(B)(i). Forward-looking statements include, among other things, "projections of future financial and economic performance, plans and objectives for future operations and assumptions underlying statements about future financial, economic or operational performance." *Martin v. GNC Holdings, Inc.*, No. 15-CV-01522 (MRH), 2017 WL 3974002, at *8 (W.D. Pa. Sept. 8, 2017), *aff'd*, 757 F. App'x 151 (3d Cir. 2018). Part of Congress's purpose in enacting the safe

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entirely silent about whether the purported agreement was an unreasonable restraint. *See Gamm*, 944 F.3d at 466 ("The complaint is entirely silent as to whether the supply reductions ... unreasonably restrained trade.").

harbor provision was to encourage disclosure of the kind of guidance at issue here. *See e.g.*, 17 C.F.R. 229.10(b) ("[The SEC] encourages the use ... of management's projections of future economic performance.").

1. Most challenged statements are forward-looking

***Commission Splits*:** Plaintiff challenges statements regarding agent commission splits and their impact on performance — including that "[w]e expect that splits will be approximately 70% for the full year 2017 as we continue to strategically invest in productive sales agents" (Ex. E at 6, excerpted at AC ¶¶57, 130), the "current estimate for 2017 is that splits will ... put near-term pressure on NRT's margins" (Ex. C at 5, excerpted at AC ¶¶54, 101-02), and "[w]e believe we're pretty comfortable with the guidance we have given on the split ... we see no reason to think it's any higher than that" (Ex. D at 14, excerpted at AC ¶¶119; *see also* AC ¶¶53-54, 56-57, 61-62, 66-68, 70-71, 81, 85-86, 91, 98-99, 101-02, 105-06, 112-18, 121-22, 126-33, 137-38, 142, 149-53, 157-59, 161-62, 167, 171-74, 178, 183-88, 195-96, 198-99, 200, 202-04, 210-11, 213-14, 222, 227-29, 241-42, 269, 274, 299).

However, these statements are protected by the safe harbor because they "plainly discuss future performance" by projecting the rate into the future, and the projected duration of both their rise and exertion of pressure on Realogy's financials.

See In re Hertz Glob. Holdings, Inc. Sec. Litig., No. 13-CV-7050 (MCA), 2017 WL 1536223, at *13 (D.N.J. Apr. 27, 2017) (holding that executive's statement that the company was "very confident the story is intact" was forward looking), *aff'd sub nom.* 905 F.3d 106 (3d Cir. 2018); *Avaya*, 564 F.3d at 256 (expressing comfort with projections "does not transform the statements ... into non-forward-looking assertions outside of the Safe Harbor").

Moreover, many of them bear two further unmistakable hallmarks of forward-looking statements. First, Defendants judiciously used the phrase "near-term moderate pressure" when discussing commission splits — the imprecision of which signaled that they could not be certain about both the extent of that pressure or its precise duration. *See Lincoln*, vcx, at *8 (finding statements puffery where "Plaintiff does not allege that Defendants communicated any concrete information about the expected increase[s]."); *In re NutriSystem, Inc. Sec. Litig.*, 653 F. Supp. 2d 563, 580 (E.D. Pa. 2009) ("[S]tatements characterizing [the program's] impact as ... a 'near-term hiccup' ... are forward-looking statements protected by the PSLRA Safe Harbor."). Second, Defendants prefaced many statements with words such as they "believed" and "expected" that splits would moderate (*see* Ex. D, excerpted at AC ¶¶56, 113-17), both of which signaled that they could not be more certain of the projections, *see NutriSystem*, 653 F. Supp. 2d at 579 ("The comment was both preceded and followed by 'we believe,' rendering it well within the [safe harbor].").

<u>Acquisitions</u>: Plaintiff challenges statements that communicated Realogy's ongoing and future plans to integrate tuck-in acquisitions – including that "[f]ollowing the completion of an acquisition, we tend to consolidate the newly acquired operations with our existing operations ... reduc[ing] or eliminat[ing] duplicative costs" (Ex. L at 12, excerpted at AC ¶¶73, 107, 177), and that unspecified acquisitions were "very synergistic" (Ex. B at 15, excerpted at AC ¶¶160; *see also* AC ¶¶73, 82, 92, 103, 107, 113, 115, 120, 177, 209, 243). These statements, however, merely project potential synergies gained through acquisitions, which are paradigmatic examples of forward-looking statements protected by the safe harbor. *E.g.*, *Okla. Firefighters Pension & Ret. Sys. v. Xerox Corp.*, 300 F. Supp. 3d 551, 578-79 (S.D.N.Y. 2018) (statements describing expected benefits of an acquisition were protected by the PSLRA), *aff'd sub nom. Ark. Pub. Emps.' Ret. Sys. v. Xerox Corp.*, 771 F. App'x 51 (2d Cir. 2019).

<u>Technology</u>: Plaintiff challenges statements indicating that Realogy was investing in technology to augment the tools it offered agents, including that Realogy was "enhancing our value proposition for agents by producing new technology and data products" (Ex. F at 3, excerpted at AC ¶173), and "we expect to benefit increasingly over 2018 from ... planned and executed operating efficiencies and improving agent productivity from new data and technology products over time." (*Id.* at 4, excerpted at AC ¶171; *see also id.* ¶¶67, 90, 167-78, 173, 183, 199, 242). These statements — all of which are couched in the future conditional tense — are forward-looking because they concern progress toward enhancement of production from new technologies. *See e.g.*, *In re Heartland Payment Sys., Inc. Sec. Litig.*, No. 09-CV-1043 (AET), 2009 WL 4798148, at *6 (D.N.J. Dec. 7, 2009) ("[I]ndications that Heartland was going to adopt new technology ... [are] forward-looking statements."); *see also Norfolk Cnty. Ret. Sys. v. Solazyme, Inc.*, No. 15-CV-02938 (HSG), 2018 WL 3126393, at *3 (N.D. Cal. June 26, 2018) (statement that company was "in good shape to bring full production online" was forward-looking).

2. The disclosures included meaningful risk factors

Realogy partnered these statements with meaningful cautionary language. Realogy's press releases and SEC filings provided that forward-looking statements "are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements" (Ex. P at 1.), enumerated specific risks, and referred investors to the "risks set forth under the headings 'Forward-Looking Statements' and 'Risk Factors' in our filings with the Securities and Exchange Commission" (Ex. O at 3). Likewise, each earnings call began by "remind[ing] all listeners" about these risks, and similarly referred investors to its "annual and quarterly SEC filing[s]" containing "[i]mportant assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements [that] are specified in our earnings release issued today...." (*See, e.g.*, Ex. J at 2.)

Moreover, Realogy disclosed the very risks of the result Plaintiff alleges occurred. For instance, each earnings release stated that results could suffer from "continuing pressure on the share of gross commission income paid by our company owned brokerages and our affiliated franchisees to their independent affiliated sales agents" (Ex. O at 3), and Realogy's SEC filings similarly cautioned that "[c]ompetition ... will continue to impact the ability of our company ... to attract and retain independent sales agents ... and will result in continuing pressure on the [commission split rates]" (Ex. P at 1; Ex. A at 2).

Realogy released similarly targeted disclosures for the risks relating to tuck-in acquisition and technology strategies.

For instance, Realogy warned that its performance might suffer from its "inability to realize the benefits from acquisitions due to the ... possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all." (Ex. P at 2.) And Realogy advised investors that its performance could decline if it was unable "to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems." (Ex. A at 2.)

These targeted disclosures foreclose Plaintiff's claim because they speak precisely to the risks that Plaintiff contends materialized. *See, e.g., Avaya*, 564 F.3d at 257 ("Avaya included in a list of these 'risks and uncertainties' the very 'price and product competition' that [the plaintiffs] assert was responsible for Avaya's missing its projections."); *In re Hertz Glob. Holdings, Inc. Sec. Litig.*, No. 13-CV-7050, (MCA) 2015 WL 4469143, at *12 (D.N.J. July 22, 2015) (dismissing §10(b) claims because "sufficient cautionary language 'renders the alleged omissions or misrepresentations immaterial as a matter of law'" (citation omitted)), *aff'd sub nom.*, 905 F.3d 106 (3d Cir. 2018).[7]

[7] As explained in Point II, *infra*, Plaintiff's boilerplate recitations that Defendants "knew" that their projections were

C. Many Statements Are Nonactionable Because They Are Sincerely Held Opinions

As this Court has recognized, "[i]n *Omnicare, Inc. v. Laborers Dist. Council Constr. Indus. Pension Fund*, [575 U.S. 175 (2015),] the Supreme Court held that a sincere statement of pure opinion does not constitute an actionable misrepresentation or omission of fact, even if the belief is later proved to be wrong." *Weibo*, 2018 WL 2733694, at *12. Opinions are actionable only if (1) the speaker did not actually hold the stated belief at the time made; (2) the opinion contains "embedded statements of fact" that were untrue; or (3) the speaker omitted known material facts that "conflict with what a reasonable investor would take from the statement itself." *Omnicare*, 575 U.S. at 189.[8] *Omnicare*'s "rigorous benchmark" for meeting the omissions prong, *Jaroslawicz v. M&T Bank Corp.*, 2020 WL 3278679, at *11 (3d Cir. June 18, 2020), obligates plaintiffs to "identify particular (and material)

false (*e.g.*, AC ¶265) fail to plead recklessness, much less actual knowledge of falsity. *See Advanta*, 180 F.3d at 535-36 ("[P]laintiffs' catch-all allegation that all speakers knew their statements were false when made is too broad.").

[8] "Although *Omnicare* concerned Section 11 claims," most other courts have "conclude[d] that the Supreme Court's reasoning is equally applicable to Section 10(b) and Rule 10b-5 claims." *City of Dearborn Heights v. Align Tech., Inc.*, 856 F.3d 605, 616 (9th Cir. 2017); *Weibo*, 2018 WL 2733694, at *12; *see also, e.g.*, *Tongue v. Sanofi*, 816 F.3d 199, 211–12 (2d Cir. 2016). To the extent the Third Circuit's more rigorous pre-*Omnicare* test for opinions has applicability, the Complaint also fails that test.

facts going to the basis for the issuer's opinion—facts about the inquiry the issuer did or did not conduct or the knowledge it did or did not have—whose omission makes the opinion statement at issue misleading," *Tongue v. Sanofi*, 816 F.3d 199, 209 (2d Cir. 2016) (quoting *Omnicare*, 575 U.S. at 194).

Here, the Complaint challenges many opinion statements:

- "We **believe** we're pretty comfortable with the guidance we have given on the [commission] split ... we see no reason to **think** it's any higher than that." (Ex. D at 14, excerpted at AC ¶119) (emphasis added);

- "We **believe** our adoption of a more data-driven strategy, together with strong product and services offerings, will further sharpen our productivity, recruitment and retention objectives" (Ex. Q at 30; excerpted at AC ¶204) (emphasis added); and

- "I **think** we've pretty much right-sized the commissions" (Ex. C at 11, excerpted at AC ¶¶54, 102 (emphasis added); *see also* AC ¶¶53-54, 56-58, 61-62, 66-68, 71, 80-82, 86, 90-92, 98, 101-06, 112, 117-19, 121-22, 126-28, 130-33, 137-38, 149-50, 152-53, 157-59, 161-62, 171-73, 175, 178, 183-85, 188, 195-96, 198, 200, 202-04, 209, 211, 213-14, 227, 229, 241-43, 268-69, 274, 299).

But Plaintiff neither adequately alleges that Defendants did not actually hold these beliefs nor that the "supporting facts" underlying Defendants' beliefs were inaccurate. Instead, Plaintiff mostly offers conclusory allegations that Defendants "knew... that ... [Realogy] was unable to generate sustainable ... earnings or EBITDA growth at commission split levels necessary to increase agent recruitment and retention...." (*Id.* ¶¶48-49.) But it "is insufficient" to merely allege "that Defendants did not actually believe" what they said, and Plaintiff's failure to specify any facts supporting these conclusions is dispositive. *Lefkowitz v. Synacor, Inc.*, 2019 WL 4053956, at *7 (S.D.N.Y. 2091), appeal filed, No. 19-CV-4232 (S.D.N.Y. Dec 17, 2019).

Plaintiff offers only two other wholly insufficient contentions. First, Plaintiff alleges that Defendants' opinions were inaccurate because Realogy's stock price continued its decline, but this is just more fraud by hindsight that has been widely rejected. *See Jaroslawicz*, 2020 WL 3278679, at *11. Second, Plaintiff claims that Defendants had "significant access to data" demonstrating their statements were inaccurate, but "plaintiffs must do more than show that the speaker knew or had access to countervailing information: they must show that the speaker's opinion did not 'fairly align[ ]' with all the information that was then available." *In re Pretium Res. Inc. Sec. Litig.*, No. 18-CV-8199 (LAP), 2020 WL 953609, at *5 (S.D.N.Y. Feb. 27, 2020) (alteration in original) (quoting *Omnicare*, 575 U.S. at 189). Because Plaintiff makes no effort to even identify what that countervailing information was — much less allege that it did not fairly align with Defendants' statements — Plaintiff's claim based upon Defendants' opinion statements should be dismissed.

D. Many Statements Are Inactionable Puffery

"[V]ague and non-specific expressions of corporate optimism" are not actionable because "reasonable investors would not have relied" on such statements. *In re Aetna, Inc. Sec. Litig.*, 617 F.3d 272, 284 (3d Cir. 2010). Courts therefore routinely dismiss securities fraud claims based on "statements of subjective analysis" or other "[g]eneral, non-specific statements of optimism or hope." *In re Nice Sys., Ltd. Sec. Litig.*, 135 F. Supp. 2d 551, 579 (D.N.J. 2001) (citation omitted).

Commission Splits: Many statements concerning commission splits were inactionable, vague expressions of hope:

- "Realogy was better 'positioned to weather' market shifts than its competitors" (AC ¶82);
- "Smith highlighted the 'great progress' of its NRT '***recruiting programs and strengthening the agent value proposition***, despite a very competitive market for sales agents'" (AC ¶114); and
- "[W]e continued to make progress on our strategic initiatives, including on our agent recruiting efforts, as evidenced by our strong retention rate and growing agent count" (AC ¶150).

These are precisely the types of statements expressing vague, unquantifiable progress on initiatives that are non-actionable puffery. *See In re Advanta Corp. Sec. Litig.*, 180 F.3d 525, 529, 538 (3d Cir. 1999)(holding statements about "management's confidence in the company's earnings momentum," were puffery even when the company "lacked adequate ... capability to support [its] expansion") (citation omitted); *In re Merck & Co., Sec., Derivative & Erisa Litig.*, No. 05-CV-1151 (SRC), 2012 WL 3779309, at *5 (D.N.J. Aug. 29, 2012).

<u>Acquisitions</u>: Plaintiff's challenges to statements about Realogy's effort to "integrate" tuck-in acquisitions and the potential "synergies" Realogy could derive from them (AC ¶¶73, 92, 134, 160, 177), fails because "[v]ague and non-specific pronouncements on the success of integrating acquisitions are inactionable puffery," *In re Royal Bank of Scot. Group PLC Sec. Litig.*, No. 09-CV-300 (DAB), 2012 WL 3826261, at *10 (S.D.N.Y. Sept. 4, 2012), *aff'd sub nom.* 540 F. App'x 33 (2d Cir. 2013); *Glover v. DeLuca*, No. 03-CV-0288 (DWA), 2006 WL 2850448, at *31 (W.D. Pa. Sept. 29, 2006) (statements that presented the integration of a merged company as successful were puffery).

<u>Technology</u>: Plaintiff challenges statements relating to investments in technology, such as "Realogy's 'fairly substantial investment in technology'" (AC ¶58), and "that Realogy was 'enhancing our value proposition for agents by producing new technology and data products'" (*id.* ¶67; *see also id.* ¶¶ 70, 187). However, these statements are quintessential examples of puffery that are not actionable under the securities laws because their vagueness would not invite reliance. *Hughes v. Panasonic Consumer, Elecs. Co.*, No. 10-CV-846 (SDW), 2011 WL 2976839, at *12 (D.N.J. July 21, 2011) (holding statements that technology could render images "the way the director intended" by producing "breathtaking" colors are non-actionable puffery); *In re Datatec Sys., Inc. Sec. Litig.*, No. 04-CV-525 (GEB), 2006 WL 3095951, at *17 (D.N.J. Oct. 30, 2006) (holding that statements that the company would "rapidly and efficiently deliver high quality and cost effective large-scale technology" was puffery) (citation omitted).

E. Plaintiff Fails to Plead Fraud-by-Omission

Plaintiff challenges Realogy's forms 10-Q and 10-K during the class period based solely on the assertion that they violated Item 303 of Regulation S-K (AC ¶¶110, 124, 141, 166, 181, 192, 207, 218, 233, 257-66), which "requires a company to include in its SEC filings a discussion of 'any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.'" *Oran v. Stafford*, 226 F.3d 275, 287 (3d Circ. 2000) (citation omitted).

However, the Third Circuit has held squarely that alleged violations of Item 303 do not give rise to Rule 10b-5 claims. *Oran*, 226 F.3d at 288. Writing for the court, then Judge Alito reasoned that "[b]ecause the materiality standards for Rule 10b-5 and SK-303 differ significantly, the demonstration of a violation of the disclosure requirements of Item 303 does not lead inevitably to the conclusion that such disclosure would be required under Rule 10b-5." *Id.* Accordingly, Plaintiff's claim relating to these filings should be dismissed. *See Oran*, 226 F.3d at 288 ("Because plaintiffs have failed to plead any actionable misrepresentation or omission under Rule [10b-5], SK-303 cannot provide a basis for liability.").

Even if Plaintiff could somehow bootstrap a 10b-5 claim from a purported Item 303 non-disclosure, such an effort is doomed because, as detailed below (Point II, *infra*), Plaintiff has not pled that any of the Defendants acted with scienter. *See, e.g., Stratte-McClure v. Morgan Stanley*, 776 F.3d 94, 106 (2d Cir. 2015) (Under Item 303, "Plaintiffs were required adequately to plead each element of a 10b-5 securities fraud claim[, including scienter.]"). And Defendants either disclosed the risks (*see* Point I.B, *supra*), or the risks were not required to be disclosed as a matter of law. *City of Pontiac Policemen's & Firemen's Ret. Sys. v. UBS AG*, 752 F.3d 173, 184 (2d Cir. 2014) ("[C]ompanies do not have a duty 'to disclose uncharged, unadjudicated wrongdoing.'") (quoting *Ciresi v. Citicorp*, 782 F.Supp. 918, 823 (S.D.N.Y. 1991).

F. Claims Relating to Commission-Splits Are Time-Barred

Plaintiff's claims are time-barred if not commenced within two years of discovery of facts constituting the violation.

28 U.S.C. § 1658(b). Because Lead Plaintiff's Complaint was filed on March 6, 2020, claims which do not "relate-back" to the initial Tanaskovic Complaint are time barred if discovered before March 6, 2018. Plaintiffs assert that the market discovered on November 3, 2017, that Realogy had misstated its guidance about the duration and impact of rising commission splits:

> The truth began to emerge before the market opened on November 3, 2017.
>
> * * * *
>
> On news of the Company reporting decreased EBITDA from "higher commission splits" and increasing commission split guidance despite Defendants' previous assurances to investors over the prior two quarters that the 2017 commission split guidance was "right-sized" and that any "negative pressure" would be limited to 1Q17 and 2Q17, and that Realogy was lowering its 2017 outlook, the price of Realogy common stock dropped, falling 12%, or $3.62 per share, to close at $26.77 on November 3, 2017....

(*Id.* ¶¶ 291, 164.)

Plaintiff's claims of misleading guidance about commission splits do not relate back to Mr. Tanaskovic's initial complaint, as they have nothing to do with the Antitrust Claim and were never even hinted at in the initial complaint. *Glover v. F.D.I.C.*, 698 F.3d 139, 47 (3d Cir. 2012) ("[A]ctual overlap alone is not enough, because the original complaint must have given fair notice of the amended claim to qualify for relation back under Rule 15(c)."). Accordingly, they ought to be dismissed.

II. THE COMPLAINT FAILS TO ALLEGE SCIENTER

The PSLRA requires Plaintiff to plead "with particularity" facts giving rise to a "strong inference" that each Defendant acted with scienter, 15 U.S.C. § 78u-4(b)(2), "a mental state embracing intent to deceive, manipulate or defraud," *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976). A plaintiff may establish the requisite strong inference of fraudulent intent by alleging facts either: (1) "to show that defendants had both **motive and opportunity** to commit fraud"; or (2) "by alleging facts that constitute strong circumstantial evidence of **conscious misbehavior or recklessness.**" *In re Suprema Specialties, Inc. Sec. Litig.*, 438 F.3d 256, 276 (3d Cir. 2006) (emphasis added) (citation omitted), *abrogated on other grounds by Tellabs, Inc. v. Makor Issuers & Rights, Ltd.*, 551 U.S. 302 (2007). Under either prong, the "inference of scienter must be ... cogent and at least as compelling as any opposing inference of nonfraudulent intent." *Tellabs*, 551 U.S. at 314. "[S]uch inferences are not to be made lightly," and "may be made only when the fact pattern *unambiguously indicates* that the defendant was acting with the requisite state of mind." *In re Synchronoss Sec. Litig.*, 705 F. Supp. 2d 367, 399 (D.N.J. 2010). All scienter allegations must be supported with the "who, what, when, where and how" of the events at issue. *GSC Partners CDO Fund v.*

Washington, 368 F.3d 228, 239 (3d Cir. 2004). Plaintiff fails to satisfy this standard.

A. The Complaint Fails to Allege Motive and Opportunity

The Complaint lacks any allegations that Realogy or any Individual Defendant had both the motive and opportunity to commit fraud, such as a "concrete and personal benefit ... resulting from [the] fraud." *Id.* at 237. There are simply no allegations that any Individual Defendant profited from any misconduct. *See id.* Nor are there any allegations describing any contemporaneous documents or confidential witnesses (*i.e.*, former employees), that contradict Defendants' public statements. *Avaya*, 564 F.3d at 261 (noting importance of "documentary evidence such as internal memoranda," and where plaintiffs lack such evidence, "reliance on confidential sources to supply the requisite particularity ... assumes a heightened importance"); *Rahman v. Kid Brands, Inc.*, No. 11-CV-1624 (JLL), 2012 WL 762311, at *23 (D.N.J. Mar. 8, 2012).

B. The Complaint Fails to Allege Conscious Misbehavior or Recklessness

Plaintiff's failure to point to any contemporaneous documents or witnesses requires that the strength of the circumstantial allegations of conscious misbehavior or recklessness "must be correspondingly greater." *Kalnit v. Eichler*, 264 F.3d 131, 142 (2d Cir. 2001) (citation omitted).

Plaintiff must plead "facts that constitute strong circumstantial evidence" of either "conscious misbehavior" or, at the very least, "recklessness." *Suprema Specialties*, 438 F.3d at 276 (quoting *In re Burlington Coat Factory Sec. Litig.*, 114 F.3d 1410, 1418 (3d Cir. 1997)). To allege conscious misbehavior Plaintiff must plead particularized facts "giving rise to a strong inference of ... intentional fraud or other deliberate illegal behavior." *Advanta*, 180 F.3d at 535. Where recklessness is premised upon allegations of non-disclosure, "a securities plaintiff must demonstrate that the defendant: (1) knew of the potentially material fact, and (2) acted with scienter by failing to disclose the fact." *In re Intelligroup*, Sec. Litig., 527 F. Supp. 2d 262, 375 (D.N.J. 2007).

Plaintiff attempts to allege scienter through: (1) the core operations doctrine and the nature of Individual Defendants' executive positions; (2) Individual Defendants' access to facts supposedly contradicting their statements; (3) two Individual Defendants' retirement; and (4) statements made after the Class Period. Each of these efforts is insufficient.

1. Scienter Cannot Be Inferred From the Core Operations Doctrine or Individual Defendants' Positions

Plaintiff alleges that the Individual Defendants must have known about the alleged fraud relating to agent split rates because "NRT and Realogy were heavily dependent on Realogy's most productive agents [and] Defendants closely monitored and routinely discussed the competitive market for agents, and productive agent attrition." (AC ¶¶268-70.) In other words, Defendants must have known that increases to commission splits would affect Realogy's financial performance for longer because it concerned a "core operation" of the Company. Second, the Complaint asserts that Individual Defendants must have known given their high-level positions and because Defendants Smith, Hull, and Gustavson were industry veterans, and because Schneider had "substantial experience in ... technology, and regulatory affairs." (*Id.* ¶¶271-73.)

The Third Circuit, however, has held that both of these allegations are deficient. At the outset, corporate management's general awareness of the workings of a company's core business operations does not establish scienter "absent some additional allegation of specific information conveyed to management and related to the fraud." *Avaya*, 564 F.3d at 270 (internal quotation marks and citation omitted). And the Complaint fails to allege that specific information was conveyed to Realogy's management demonstrating the purported fraud.

As to Plaintiff's reliance on the Individual Defendants' corporate positions, those allegations are precluded by firmly-established precedent holding that alleging "[t]hat Defendants were in top positions ... is not enough." *Fain v. USA Techs. Inc.*, 707 F. App'x 91, 96 (3d Cir. 2017).

2. The Complaint Fails to Allege Adequately That Defendants Had Access to Contradictory Facts

"[W]here plaintiffs contend defendants had access to contrary facts, they must specifically identify the reports or statements containing this information." *Intelligroup*, 527 F. Supp. 2d at 286 (quoting *Novak v. Kasaks*, 216 F.3d 300, 309 (2d Cir. 2000)). The Complaint fails that test.

Commission splits: Plaintiff alleges that "Defendants closely monitored and routinely discussed the competitive market for agents" (AC ¶269), that Realogy had a "huge quantity and quality of historical data," and "'more national data' than [its] competitors," and "had real-time access to data that [was] used to evaluate the success of Realogy's products on agent retention through the use of test markets" (AC ¶¶274-75). However, courts routinely dismiss securities fraud complaints predicated on these types of vague references to the existence of internal reports containing allegedly contradictory facts. *See, e.g., Chubb,* 394 F.3d at 147 ("Plaintiffs fail to identify who authored the alleged report ... who reviewed the report, and what data its conclusions were based upon."). Plaintiff's allegations are particularly deficient because they do not even allege the contents of any specific report, much less that such reports contained "contrary facts" that would have alerted Defendants that their statements could be misleading.

In re Incyte Shareholder Litig., 2014 WL 707207, at *11.

ABCR: Plaintiff alleges Realogy was aware that "the DOJ and the FTC have monitored and scrutinized the anti-competitive effect of NAR's MLS services for over a decade" (AC ¶287), and that regulators "held a joint public workshop to discuss competition issues in the real estate brokerage industry, including ... whether ABCRs were too high," that was attended by a non-Defendant executive from Realogy. (AC ¶¶287-88.) Plaintiff also alleges that Schneider told investors that "the Company tracks ABCR 'pretty closely.'" (AC ¶288.)

However, "it is well-established that an investigation that has not resulted in charges or any finding of wrongdoing does not support an inference of scienter." *Teamsters Local 456 Pension Fund v. Universal Health Servs.*, 396 F. Supp. 3d 413, 469 (E.D. Pa. 2019) (internal quotes and citation omitted), *appeal filed*, No. 20-2094 (3d Cir. June 1, 2020). Such an investigation "is not evidence of fraud, or even negligence...." *Se. Pa. Transp. Auth. v. Orrstown Fin. Servs., Inc.*, No. 12-CV-00993 (YK), 2016 WL 7117455, at *11 (M.D. Pa. Dec. 7, 2016); *see also Utesch v. Lannett Co.*, 316 F. Supp. 3d 895, 903-04 (E.D. Pa. 2018) (a government inquiry is insufficient to raise a strong inference of scienter). Here, absent allegations that regulators have proved Realogy engaged in wrongdoing, the strongest inference that legitimately can be drawn from certain employees attending a regulatory conference is that Realogy sought to keep abreast of regulatory developments — the very opposite of a fraudulent intent.

3. Retirements Do Not Give Rise to a Strong Inference of Scienter

Allegations that Smith and Hull retired "before the Company reported negative ... financial results" (AC ¶¶280-82, 286), does not give rise to a "strong inference" of scienter. "[P]leading scienter requires more than pleading a link between bad news and an executive's resignation [because] [c]hanges in leadership are only to be expected when leadership fails. That is not, in itself, a symbol of fraud." *In re Hertz Glob. Holdings Inc.*, 905 F.3d 106, 119 (3d Cir. 2018). For departures to be probative, "there must be particularized allegations connecting the departures to the alleged fraud," *id.* at 118, such as a "contemporaneous and public firing ... accompanied by extreme corporate punishment such as the denial of previously accrued benefits," *Fain*, 707 F. App'x at 96 n.5, 97.

The Complaint not only fails to show any link between these retirements and any fraud, the specific allegations of the Complaint ***negate*** any inference of fraud. The Complaint alleges that Smith's retirement was part of a "Board initiated ...

leadership succession plan" that took a year to implement (AC ¶281), and that after Hull retired he "remained employed ... by Realogy as a 'senior advisor'" (AC ¶286). This is the exact opposite of departures that are "unusual" or "accompanied by extreme corporate punishment."

4. Post-Class Period Statements Are Yet Another Impermissible Effort to Plead Fraud by Hindsight

Plaintiff relies upon a handful of statements Realogy executives made after the Class Period regarding technology and the integration of tuck-in acquisitions, including Schneider's statement that artificial intelligence is "part of what you need to be doing to make your agent more productive and efficient.... [W]e are a big company, but I feel like we're a diesel engine kind of building momentum with these things, and we look forward to getting up to a very fast speed." (AC ¶¶90, 242.) And they include a few statements by non-defendant Simonelli comparing the efficiencies she saw in her past career in the packaged goods industry with the real estate industry, and "that some of the [efficiencies] that were low-hanging fruit to [the packaged goods industry] 20 years ago have not yet happened in this industry...." (Ex. N at 7, excerpted at AC ¶252.)

At most, these post-hoc statements illustrate another impermissible attempt by Plaintiff to plead fraud by hindsight. *See Advanta*, 180 F.3d at 536 n.9, 538; *see also Wallace v. Sys.*

& Comput. Tech. Corp., No. 95-CV-6303 (JLM), 1997 WL 602808, at *15 (E.D. Pa. Sept. 23, 1997). In fact, of the post-Class Period statements on which Plaintiff relies, two of them are from Simonelli (AC ¶¶278-79), who was not even employed by Realogy during most of the Class Period (AC ¶26), and reflect only her comparison between the real estate industry and the consumer packaged goods industry (AC ¶252) – providing no insight into how Realogy was managed during the Class Period. For the other statements, Plaintiff distorts Schneider's remarks about Realogy "building momentum" to adopt new artificial intelligence and that Realogy was "looking forward to getting up to a very fast speed" to make it appear as if he were reflecting upon prior shortcomings. Those statements, however, do not even rise to the level of "post-hoc, speculative explanation" that courts routinely reject, because Plaintiff fails to allege that this technology was even available during the Class Period. *Hertz*, 2015 WL 4469143, at *19.

C. The Only Compelling Inference is that Defendants Acted in Good Faith

The only compelling inference here is that Defendants believed in good faith that the commission splits, tuck-in acquisitions and technology initiative could counteract the internet start-ups "offering [agents] grossly inflated compensation." (AC ¶43.) This good faith belief is supported by Realogy's disclosures that Plaintiff ignores, including that Realogy reported record agent recruitment and retention rates, Defendants voluntary revised guidance downward twice, and that Defendants provided detailed updates on the challenges that these initiatives faced every quarter — hardly consistent with a protracted scheme to conceal that Realogy's results would be disappointing. *In re Nokia Corp. Sec. Litig.*, No. 96-CV-3752 (DC), 1998 U.S. Dist. LEXIS 19897, at *15 (S.D.N.Y. Dec. 21, 1998) (noting "voluntary, early disclosure" of negative information undercuts inference of scienter).

III. PLAINTIFF FAILS TO PLEAD LOSS CAUSATION

A plaintiff "[t]ypically shows loss causation by pleading that a company's stock price dropped in response to a 'corrective disclosure' of new information that directly demonstrates that the defendant's representations were false." *456 Fund*, 396 F. Supp. at 477.[9] Plaintiff does not allege a corrective disclosure - unless Plaintiff intends to rely upon Realogy's November 3, 2017, disclosures about commission splits as "corrective," whereupon all claims discovered upon reading

[9] Pleading loss causation "requires a §10(b) plaintiff to allege 'that the misstatement or omission concealed something from the market that, when disclosed, negatively affected the value of the security.'" *In re Merck & Co., Sec. Deriv. & ERISA Litig.*, No. 05-CV-1151(SRC), 2013 WL 2395035, at *3 (D.N.J. May 29, 2013) (quoting *Lentell v. Merrill Lynch & Co.*, 396 F.3d 161, 173 (2d Cir. 2005)).

that disclosure are time-barred. (*Supra* § I.F.) Plaintiff alleges that Defendants "shocked" investors with "negative financial results" (AC ¶297), or news of the antitrust class actions (*id.* ¶300). But these are not corrective disclosures. *See, e.g.*, *Martin*, 2017 WL 3974002, at *19 ("disappointing earnings ... is not a corrective disclosure") and *18 (news of other cases is "not a corrective disclosure").

Causation may not be inferred from a drop in stock price because a change in "price may reflect, not the earlier misrepresentation, but changed economic circumstances, changed investor expectations ... which taken separately or together account for some or all of that lower price." *Dura Pharms., Inc. v. Broudo*, 544 U.S. 336, 343 (2005). Both the Complaint and Realogy's disclosures identify many completely unrelated causes of any stock price decline, including the competitive market (AC ¶43), an unpopular lawsuit Realogy filed against a competitor (AC ¶254-55), "soft demand at the high end of the housing market" (Ex. C at 3), and "persistently low inventory" of high-priced homes (Ex. B at 3). Because these other disclosures, unaddressed by Plaintiff, could also have been the cause of "the drop[s] in ... stock prices," *In re Intelligroup Sec. Litig.*, 468 F. Supp. 2d 670, 702 (D.N.J. Dec. 20, 2006), Plaintiff has failed to plead loss causation.

IV. PLAINTIFF FAILS TO STATE A SECTION 20(a) CLAIM

"[B]ecause the Complaint fails to state an actionable §10(b) violation, the control person claim [against the Individual Defendants] necessarily fails to state a claim upon which relief may be granted." *Weibo*, 2018 WL 2733694, at *13. Accordingly, claims under § 20(a) against the Individual Defendants should be dismissed.

CONCLUSION

For the foregoing reasons, the Complaint should be dismissed with prejudice in its entirety.

Dated: New York, New York
August 3, 2020

Respectfully submitted,

/s/ James W. Brown
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Attorneys for Defendants

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SASA TANASKOVIC, *Plaintiff*, -v.- REALOGY HOLDINGS CORP., *et al.*, *Defendants*.	Civil Action No. 2:19-cv-15053-SRC-CLW

DECLARATION OF JAMES W. BROWN IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS THE AMENDED CLASS ACTION COMPLAINT

JAMES W. BROWN, for his declaration pursuant to 28 U.S.C. 1746, states as follows:

1. I am a member of the bar of this Court and Counsel at the firm Skadden, Arps, Slate, Meagher & Flom LLP, attorneys for Defendants Realogy Holdings Corp., Richard A. Smith, Ryan M. Schneider, Anthony E. Hull, and Timothy B. Gustavson.

2. I submit this Declaration in support of Defendants' Motion to Dismiss the Amended Class Action Complaint and to place before the Court true and accurate copies of the following documents:

Exhibit	Document
A.	Realogy's Quarterly Report on Form 10-Q for Quarterly Period ended September 30, 2017 (dated November 3, 2017) (excerpts), available in full at: https://www.sec.gov/Archives/edgar/data/1355001/000139898717000214/realogy10-q.htm
B.	Q3 2017 Realogy Earnings Call Transcript (dated November 3, 2017)
C.	Q4 2016 Realogy Earnings Call Transcript (dated February 24, 2017)
D.	Q1 2017 Realogy Earnings Call Transcript (dated May 4, 2017)
E.	Q2 2017 Realogy Earnings Call Transcript (dated August 3, 2017)
F.	Q4 2017 Realogy Earnings Call Transcript (dated February 27, 2018)
G.	Q1 2018 Realogy Earnings Call Transcript (dated May 3, 2018)
H.	Q2 2018 Realogy Earnings Call Transcript (dated August 3, 2018)
I.	Q3 2018 Realogy Earnings Call Transcript (dated November 2, 2018)
J.	Q4 2018 Realogy Earnings Call Transcript (dated February 26, 2019)
K.	Q1 2019 Realogy Earnings Call Transcript (dated May 2, 2019)
L.	Realogy's Annual Report on Form 10-K for Fiscal Year 2016 (dated February 24, 2017) (excerpts), available in full at: https://www.sec.gov/Archives/edgar/data/1355001/000139898717000015/r10-k.htm
M.	Realogy's Quarterly Report on Form 10-Q for Quarterly Period ended March 31, 2019 (dated May 2, 2019) (excerpts), available in full at: https://www.sec.gov/ix?doc=/Archives/edgar/data/1355001/000139898719000113/realogy10-q033119.htm
N.	Keefe, Bruyette, & Woods ("KBW") Mortgage Finance & Asset Management Conference Transcript (dated May 30, 2019)
O.	Q3 2018 Realogy Earnings Release (dated November 2, 2018)
P.	Realogy's Annual Report on Form 10-K for Fiscal Year 2017 (dated February 27, 2018) (excerpts), available in full at: https://www.sec.gov/Archives/edgar/data/1355001/000139898718000017/r10-k.htm

Exhibit	Document
Q.	Realogy's Quarterly Report on Form 10-Q for Quarterly Period ended June 30, 2018 (dated August 3, 2018) (excerpts), available in full at: https://www.sec.gov/Archives/edgar/data/1355001/000139898718000176/r10-q.htm

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 3rd day of August, 2020.

/s/ James W. Brown
James W. Brown

Exhibit A

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2017
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 001-35674

REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)

Commission File No. 333-148153

REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)

Delaware
(State or other jurisdiction of incorporation or organization)

175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files).

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies, or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
Realogy Holdings Corp.	☑	☐	☐	☐	☐
Realogy Group LLC	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).

Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☐ No ☑

There were 134,616,566 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of November 1, 2017.

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INTRODUCTORY NOTE

Except as otherwise indicated or unless the context otherwise requires, the terms "we," "us," "our," "our company," "Realogy," "Realogy Holdings" and the "Company" refer to Realogy Holdings Corp., a Delaware corporation, and its consolidated subsidiaries, including Realogy Intermediate Holdings LLC, a Delaware limited liability company ("Realogy Intermediate"), and Realogy Group LLC, a Delaware limited liability company ("Realogy Group"). Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

Realogy Holdings is not a party to the Senior Secured Credit Facility and Term Loan A Facility and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the Senior Secured Credit Facility and Term Loan A Facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this report and our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:
  - a lack of improvement or a decline in the number of homesales, stagnant or declining home prices and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate;
  - increasing mortgage rates and/or constraints on the availability of mortgage financing;
  - insufficient or excessive home inventory levels by market and price point;
  - a decrease in consumer confidence;
  - the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system, disruptions in a major geoeconomic region, or equity or commodity markets and high levels of unemployment in the U.S. and abroad, which may impact all or a portion of the housing markets in which we and our franchisees operate;
  - legislative, tax or regulatory changes (including changes in regulatory interpretations or enforcement practices) that would adversely impact the residential real estate market, including changes relating to the Real Estate Settlement Procedures Act ("RESPA"), potential reforms of Fannie Mae and Freddie Mac, immigration reform, and potential tax code reform (including reforms related to the deductibility of home mortgage interest or state, local and property taxes);
  - a decrease in housing affordability due to higher mortgage rates and increases in average homesale prices;
  - high levels of foreclosure activity;
  - changing attitudes towards home ownership, particularly among potential first-time homebuyers who may delay, or decide not to, purchase a home, as well as the potential impact of decisions to rent versus purchase a home; and

  - the inability or unwillingness of current homeowners to purchase their next home due to various factors, including limited or negative equity in their current home, difficult mortgage underwriting standards, attractive rates on existing mortgages and the lack of available inventory in their market;

- increased competition whether through traditional competitors, other industry participants or competitors with alternative business models (such as flat fee, capped fee or desk fee models) including companies employing technologies intended to disrupt the traditional brokerage model, as well as eliminating brokers or agents from, or minimizing the role they play in, the homesale transaction, such as reducing brokerage commissions, and companies otherwise competing for a portion of gross commission income;
- competition for more productive sales associates, sales associate teams, and manager talent will continue to impact the ability of our company owned brokerage business and our affiliated franchisees to attract and retain independent sales associates, either individually or as members of a team, and will result in continuing pressure on the commission split rates paid by our company owned brokerages and our affiliated franchisees;
- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations;
- our inability to enter into franchise agreements with new franchisees at current net effective royalty rates, or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements at current net effective royalty rates or without increasing the amount and prevalence of non-standard incentives, or to maintain or enhance our value proposition to franchisees;
- the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations, including the impact of lower average broker commission rates;
- disputes or issues with entities that license us their tradenames for use in our business or events that negatively impact their brands that could impede our franchising of those brands;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees, controversies with our franchisees or actions against us by their independent sales associates or employees or third parties with which our franchisees have business relationships;
- loss, attrition or changes among our senior executives, other key employees or our inability to recruit top talent;
- our inability to achieve or maintain cost savings and other benefits from our restructuring activities;
- our inability to realize the benefits from acquisitions due to the loss of key personnel or productive agents of the acquired companies, as well as the possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes in laws and regulations or stricter interpretations of regulatory requirements, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales associates to employee status, (2) RESPA or state consumer protection or similar laws and (3) privacy or data security laws and regulations;
- any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards as well as any adverse impact of decisions to voluntarily modify business arrangements or enter into settlement agreements to avoid the risk of protracted and costly litigation or other proceedings;
- our inability to obtain new technologies and systems, to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems;
- risks and growing costs related to cybersecurity threats to our data and customer, franchisee, employee and independent sales associate data, including but not limited to:
  - the failure or significant disruption of our operations from various causes, including human error, computer malware, ransomware, insecure software, zero day threats, or other events related to our critical information technologies and systems;
  - the increasing level and sophistication of cybersecurity attacks, including distributed denial of service attacks, data exfiltration, fraud or malicious acts on the part of trusted insiders, social engineering, or other unlawful tactics aimed at compromising the systems and data of our officers, employees and franchisee and company owned brokerage sales associates and their customers (including via systems not directly controlled by us); and

  - the reputational or financial risks associated with a loss of data or material data breach (including unauthorized access to our proprietary business information or personal information of our customers, employees and independent sales associates), the transmission of computer malware, or the diversion of homesale transaction closing funds;

- risks related to our international operations, including compliance with the Foreign Corrupt Practices Act and similar anti-corruption laws as well as risks relating to the master franchisor model that we deploy internationally;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt;
- risks relating to our ability to refinance or repay our indebtedness, incur additional indebtedness or return capital to stockholders;
- changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits or the loss of one or more significant affinity clients;
- an increase in the claims rate of our title underwriter and an increase in mortgage rates could adversely impact the revenue of our title and settlement services segment;
- our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;
- risks that could materially adversely impact our equity investment in our mortgage origination joint venture, including increases in mortgage rates, the impact of joint venture operational or liquidity risks, the impact of a transition from our current joint venture to our new joint venture, regulatory changes, litigation, investigations and inquiries or any termination of the venture;
- risks relating to the unfavorable impact on homesale activity due to severe weather events or natural disasters;
- any remaining resolutions or outcomes with respect to contingent liabilities of our former parent, Cendant Corporation ("Cendant"), under the Separation and Distribution Agreement and the Tax Sharing Agreement (each as described in our Annual Report on Form 10-K for the year ended December 31, 2016, the "2016 Form 10-K"), including any adverse impact on our future cash flows; and
- new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under the headings "Forward-Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2016 Form 10-K, filed with the Securities and Exchange Commission ("SEC"), may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in this Report, our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Pages Omitted From Excerpt

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and accompanying notes thereto included elsewhere herein and with our Consolidated Financial Statements and accompanying notes included in the 2016 Form 10-K. Unless otherwise noted, all dollar amounts in tables are in millions. Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the condensed consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same. This Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements. See "Forward-Looking Statements" in this report and "Forward-Looking Statements" and "Risk Factors" in our 2016 Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements.

OVERVIEW

We are a global provider of real estate and relocation services and report our operations in the following four segments:

- **Real Estate Franchise Services** (known as Realogy Franchise Group or RFG)—franchises the Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, ERA®, Sotheby's International Realty® and Better Homes and Gardens® Real Estate brand names. As of September 30, 2017, our franchise systems had approximately 14,450 franchised and company owned offices and approximately 286,500 independent sales associates operating under our franchise and proprietary brands in the U.S. and 113 other countries and territories around the world, which included more than 780 of our company owned and operated brokerage offices with more than 50,000 independent sales associates.

  Our wholly-owned subsidiary, ZapLabs LLC (which changed its name from ZipRealty LLC in 2016), is the developer of our proprietary technology platform for the real estate brokerages and independent sales associates in our franchise system as well as their customers. We believe the Zap technology platform will increase the value proposition to franchisees, independent sales associates and customers as well as improve the productivity of independent sales associates.
- **Company Owned Real Estate Brokerage Services** (known as NRT)—operates a full-service real estate brokerage business with more than 780 owned and operated brokerage offices with more than 50,000 independent sales associates principally under the Coldwell Banker®, Corcoran®, Sotheby's International Realty®, ZipRealty® and Citi Habitats℠ brand names in more than 50 of the 100 largest metropolitan areas in the U.S. This segment also includes the Company's share of earnings for our PHH Home Loans venture, which is in the process of winding down as we transition to our new mortgage origination joint venture with Guaranteed Rate Affinity.
- **Relocation Services** (known as Cartus®)—primarily offers clients employee relocation services such as homesale assistance, providing home equity advances to transferees (generally guaranteed by the individual's employer), home finding and other destination services, expense processing, relocation policy counseling and consulting services, arranging household goods moving services, coordinating visa and immigration support, intercultural and language training and group move management services. In addition, we provide home buying and selling assistance to members of affinity clients.
- **Title and Settlement Services** (known as Title Resource Group or TRG)—provides full-service title and settlement services to real estate companies, affinity groups, corporations and financial institutions with many of these services provided in connection with the Company's real estate brokerage and relocation services business. This segment also includes the Company's share of earnings, including start-up costs, for our Guaranteed Rate Affinity venture.

RECENT DEVELOPMENTS

Leadership Succession Plan

On October 23, 2017, the Company announced that Ryan Schneider has been named President and Chief Operating Officer of the Company and appointed to the Board of Directors. Mr. Schneider is expected to be named Chief Executive Officer of the Company by December 31, 2017. Upon the appointment of Mr. Schneider as CEO on or before December 31, 2017, Richard Smith, the Company's Chairman and Chief Executive Officer, will retire from the Company. The Company anticipates that Michael Williams, the Company's Lead Independent Director, will be named Chairman of the Board upon the appointment of Mr. Schneider as CEO.

Pages Omitted From Excerpt

Exhibit B

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q3 2017 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2017 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Alicia Swift *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

Anthony E. Hull *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Richard A. Smith *Realogy Holdings Corp. - Chairman & CEO*

Ryan M. Schneider *Realogy Holdings Corp. - President, COO & Director*

CONFERENCE CALL PARTICIPANTS

Bose Thomas George *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Brandon Burke Dobell *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

David Emerson Ridley-Lane *BofA Merrill Lynch, Research Division - VP*

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation Third Quarter 2017 Earnings Conference Call via webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

Thank you, Amy. Good morning, and welcome to Realogy's Third Quarter 2017 Earnings Conference Call. On the call with me today are Realogy's Chairman and CEO, Richard Smith; President and Chief Operating Officer, Ryan Schneider; and Chief Financial Officer, Tony Hull.

As shown on Slide 3 of the presentation the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to the rebroadcast of this presentation, we remind you that remarks made herein or as of today, November 3 and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on the call per SEC rule. Important information regarding these non-GAAP financial measures are included in our earnings press release.

Now I will turn the call over to our Chairman and CEO, Richard Smith.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Thank you, Alicia, and good morning, everyone, and thank you for joining us this morning. Before I delve into the third quarter results, I'd like to recap the news we announced 2 weeks ago regarding our leadership transition plan. Following a comprehensive search, we are very pleased to announce that Ryan Schneider has joined us as President and Chief Operating Officer. And upon my retirement effective December 31, Ryan will be appointed CEO. Ryan joins Realogy after nearly 15 years of senior leadership experience at Capital One. He most recently served as President of the Card Division, its largest business, and drove its growth and success. He brings a wealth of experience in leveraging big data, rigorous analytics and new technology, all of which will bring a new perspective to our industry and company. The transition to Ryan is well under way with the 4 primary business units now reporting directly to Ryan and the balance of the transition will occur by December 31. So let me turn it over to Ryan. Ryan?

Ryan M. Schneider - *Realogy Holdings Corp. - President, COO & Director*

Thank you, Richard. Let me start by saying that I am both humbled and excited about joining Realogy. I see incredible potential to drive Realogy's growth with exciting new ways to use data, analytics and technology to enhance our primary strategy of serving agents. Realogy's scale and resources are unmatched in the industry. That's a credit to Richard and the senior management team who have built this company to be the industry leader for residential real estate services in the United States. I'm incredibly excited to hit the ground running and work alongside a great team of business leaders and talented employees who are committed to serving Realogy's affiliated real estate agents, franchisees customers and clients. Together, I know we will drive results.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Thank you, Ryan, and now let's turn to the third quarter. I'd like to provide you with a summary of the items we're going to highlight on today's call. We faced a number of challenges in the quarter. Our revenue growth of 2% was affected by the continuation of persistently low inventory and the hurricanes that constrained the level of transactions, and our operating EBITDA was adversely affected by higher commission cost at NRT and lower employee relocation volume at Cartus.

Having said that, the combined homesale transaction volume was up 4% for the quarter. It's approximately 170 basis points higher than the statistics reported by the National Association of Realtors. This improvement over NAR is a result of our progress on the strategic initiatives we discussed on Investor Day, which we believe will drive higher absolute revenue and profitability over the next several years.

In particular, we have seen solid progress in agent recruiting and agent retention, especially at the top 2 quartiles of our company. In contrary to what we experienced in the third quarter, in October, we saw strong open contract activity at both NRT and RFG, indicating the potential for improved transaction volume trends in the final quarter of this year.

Now let's address some of the puts and takes that we saw in the quarter. Combined volume growth at NRT and RFG came in at the low end of guidance, and NRT volume growth was 1 percentage point below the low end of our guidance. The lower volume is attributed to the effects of the hurricanes, particularly as it relates to our large NRT operations in Houston and Florida and the persistently low inventory which is limiting growth in transaction volume.

Commission splits in the quarter were higher than we anticipated for 3 reasons: relatively high growth in NRT volume in its higher-split West Coast operations, NRT's successful recruiting and retention efforts and the incremental transaction volume from acquisitions. With significant operations in Florida and Houston, TRG also felt the effects of the hurricanes, and Cartus continues to face the challenge of declining employee relocation activity as an increasing number of its largest corporate clients initiate fewer international and domestic employee relocation assignments.

Of the primary contributors, we are pleased demand has returned to pre-storm levels in the affected markets we serve for NRT and TRG. The overall increased commission splits were a result of intentional efforts by NRT to be more competitive for the best talent as we focused on gains and market share. And greater-than-expected volume growth in NRT's West Coast operations was encouraging, although it pushed overall commission splits up slightly more than expected as West Coast agent splits are higher than the East Coast. And the across-the-board slowdown in Cartus' core business will be addressed in 2018 as we expect to take steps to align Cartus' cost structure with a new level of relocation activity.

If you recall from Investor Day, we made it clear that we are focused on strategies that increase company-generated leads, and that work is progressing nicely. We also continue to work on strengthening our technology and marketing tools for agents and building a world-class training program, all of which are designed to increase the long-term productivity of our existing agents and attract new agents by strengthening the sales agent value proposition. Over the last several quarters, we committed to a strategy of improving our share in key markets through targeted agent recruiting, and we are delivering on that commitment.

The success of our recruiting efforts can be measured in 2 key metrics: agent count and agent retention. NRT's agent count grew 4.5% in the last 12 months to more than 50,000 agents. The retention rate of NRT's first and second quartile sales agents slightly exceeded 94% at the end of the third quarter, which is at our historical high watermark.

While we are successfully addressing the market share concerns, which we pointed out late last year, the cost of doing so, especially when compounded by the geographic mix being skewed toward the West Coast, the splits increased slightly more than anticipated. For the year, we estimate that NRT's commission splits will be in the range of 70.25% to 70.5% as NRT field management balances trade-off between market share and split rating.

In 2018, NRT management is tasked with the objective of slowing the rate of increase in commission splits and agent productivity gains, which are compensated at a much more favorable split to the company in the third and fourth quartile of our agent population.

On the franchise side of our business, we continue to use technology to enhance our value proposition. The Zap platform is at the forefront of our efforts to help our franchisees and agents improve their performance. Zap will be deployed to substantially all eligible franchisees by year-end. We continue to see an uplift in productivity from agents who are actively engaged in using the Zap integrated application suite, and thus our shift from deployment to training and engagement.

In franchise sales, our team continues to build our base of brokerage and agents, adding approximately 92 million in gross commission income in the third quarter and $265 million year-to-date from new franchisee sales and related agent recruitment initiatives.

In our relocation and affinity businesses, a key contributor to our lead generation strategy, Cartus, generated referral opportunities that resulted in approximately 24,000 homesale closings in the quarter.

In addition to welcoming Ryan Schneider to our senior leadership team, we continued our focus on adding depth and strength to our executive ranks. In August, we appointed Nick Bailey as President and CEO of CENTURY 21 Real Estate. Nick most recently served as the Vice President of broker relations with the Zillow Group and has extensive real estate experience as a leader in franchising, brokerage, management and technology.

Also in August, Roger Favano was named as NRT's Chief Financial Officer. He brings more than 25 years of financial leadership experience mainly at General Electric Capital. In Cartus, appointed Mark Sonders as the Senior Vice President of Global Sales and Marketing. He joins the company with over 20 years in B2B sales and strategic business development roles.

While operating EBITDA underperformed compared to the same period last year, we continue to invest in the growth of the company. We are making solid progress on our strategic initiatives and agent recruiting efforts, as evidenced by our strong retention and growing agent count. We are steadfast in our focus on our strategic goals, namely to drive sustainable organic growth in each of our business units by strengthening the services we provide to our affiliated agents which, long term, we believe will result in improved agent productivity and higher volume and revenue growth across Realogy.

I'd like to highlight the tremendous cash flow characteristics of our business. Year-to-date, we have generated $406 million of free cash flow, of which we returned $215 million to stockholders in the form of share repurchases and dividends. Since the inception of our share repurchase program in February of 2016, we have repurchased a total of 13.5 million of our outstanding shares for $394 million in the aggregate, bringing our total share count to 134.6 million shares and that's as of November 1.

Before we move on to Tony's report, permit me to comment on the GOP tax plan. That Tax Cuts and Jobs Act, introduced yesterday by the House Ways and Means Committee, is the first of many steps expected in reaching an agreement on tax reform that will create economic growth for our nation. As written, the industry, at large, is opposed to the bill's treatment of the mortgage interest deduction and state local taxes.

That said, we're optimistic that a compromised position can be reached that keeps the value of the home ownership strong, while also contributing to a stronger economy. Although much work remains, we're pleased to see the House Ways and Means Committee hard at work on this important piece of legislation, and we fully expect to be deeply engaged in the work that should result in legislation that both Realogy and the industry will support.

With that commentary on the GOP tax legislation, let me turn it over to Tony.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Thanks, Richard. Before I discuss the Q3 results, let me address the changes to our guidance for 2017. Our 2017 operating EBITDA is now expected to be in the range of $725 million and $735 million, which reflects higher commission splits due to greater relative volume in NRT's West Coast operations as well as anticipated initiatives designed to attract and retain agents in the impact of lower global relocation volume on Cartus. An estimated $12 million reduction in EBITDA is due to natural disasters in the third and fourth quarters, and estimated $8 million charge related to changes to our senior leadership.

This guidance incorporates the fourth quarter transaction volume on Slide 5, which shows Realogy's Q4 combined homesale transaction volume, is expected to increase in the range of 4% to 6% year-over-year with sides between flat and up 1% and 4% to 5% coming from price growth. Broken down by business, we expect 3% to 5% transaction volume growth at RFG and 7% to 9% growth at NRT.

On Slide 9, for the full year, we currently expect that Realogy's combined homesale transaction volume will increase in the range of 6% to 7% year-over-year. And by business unit, we expect RFG to have 5% to 6% transaction growth and -- transaction volume growth and NRT to grow between 7% and 8% in 2017. At those volume levels, full year revenue is expected to be between $6.1 billion and $6.15 billion, and free cash flow is forecasted to be between $505 million and $520 million.

Turning to Slide 7, I will review our third quarter 2017 results in greater detail. Revenue of $1.7 billion is up 2% compared to the third quarter of 2016. Operating EBITDA was $258 million. The combined effects from hurricanes in Texas and Florida impacted results by approximately $7 million, mostly at NRT and TRG. Net income for the quarter was $95 million compared to $106 million last year due to lower operating EBITDA. Adjusted net income per share was $0.71 compared to 75% -- $0.75 in the third quarter of 2016.

Turning to Slide 8 for a discussion of the drivers of our business. Our overall homesale transaction volume growth was 4% year-over-year in the third quarter. RFG's transaction volume increased by 5% with a 1 point decline in sides being offset by 6 points of growth in average sales price. The hurricanes had about 0.5% impact to sides at RFG. The third quarter also had one less business day than the same period last year, which equates to a 1% reduction in sides. Excluding these 2 factor sides, growth would have been up 1% at RFG during the quarter, which reflects continued inventory constraints across most price points.

On a geographic basis, for RFG, volume gains in the West were the strongest at 8% followed by the Northeast being up 6% due to price. Volume in the South increased 2% and included a gain of 3% in Texas and 2% loss in Florida for the quarter. Volume in the Midwest increased 1%.

NRT finished the quarter up 4% in transaction volume due to an increase in average sales price. The hurricanes had a more noticeable impact at NRT during the quarter, accounting for a 1% impact to sides, mostly in Florida markets, where NRT derives about 8% of its revenue during this time of year. Excluding the hurricanes, we estimate volume would've been up 5% at NRT.

The high end recovered to the first half of the year and has stabilized in the third quarter. NRT's volume in the $2.5 million and above price segment grew 4% year-over-year, which consists of a 12% increase in sides offset by an 8% decrease in average sales price. The strongest geographic market for NRT in terms of volume growth was the West with 11% growth, driven by strong California growth. Volume in the Midwest region increased 2%. The South region was flat on volume, which included a 2% decline in Houston. The Northeast region was down about 1% in volume.

Turning to other drivers. Average broker commission rate, or ABCR, at RFG was down 1 basis point to 2.49%, and ABCR at NRT was down 1 basis point to 2.45%. Net effective royalty rate for RFG was 4.42%, down 8 basis points for the quarter and in line with our previous estimates, which continues to reflect the success of our top 250 franchisees who pay net royalty rates below 6%. For full year 2017, we continue to expect the royalty rate to be approximately 4.40%.

NRT commission splits increased approximately 209 basis points year-over-year to 71.0%. The increase in Q3 split rate was a result of higher transaction volume and geographic mix of business skewed towards markets like California, which command higher splits, and the impact of heightened retention and recruiting efforts.

Turning to Slide 9. Let's talk about business unit operating performance in detail. At RFG, revenue increased 4%. The growth was from higher net domestic affiliate royalties, increased royalties from NRT and greater international revenues. RFG's operating EBITDA increased to $5 million principally due to the higher revenues.

NRT revenue increased 3% to $36 million in Q3 of 2017, about half of which was due to the year-over-year impact of acquisitions. NRT operating EBITDA decreased $16 million to $64 million, primarily due to $53 million of increased commission expense which more than offset the increase in revenue.

Breaking down the $53 million, higher split rates due to targeted recruiting and retention efforts resulted in $25 million of increase. Higher volume drove $16 million of the increase and acquisitions completed since the second quarter of 2016 added $12 million to the total. Looking at commission expense change in another way, regionally the 11% increase in volume in the West was associated with 70% of the $53 million increase in commission expense.

Cartus revenue decreased $5 million in Q3 primarily due to a decrease in international and other revenue. Operating EBITDA decreased $4 million as a result of lower revenue, partially offset by a $1 million decrease in employee-related costs.

TRG's revenue decreased $10 million and operating EBITDA was lower by $3 million year-over-year. The revenue decrease was driven by reduced refinance activity including the impact on its underwriter, partially offset by higher resell revenue. EBITDA includes $2 million of costs associated with the startup of operations of the Guaranteed Rate affinity joint venture. And as a reminder, the Guaranteed Rate venture will be included in TRG's EBITDA, whereas the PHH joint venture numbers are reported at RFG.

Corporate expense before restructuring legacy and early extinguishment of debt in the third quarter was $3 million greater than the third quarter of last year due to higher expenses relating to investments in technology development, professional fees supporting strategic initiatives and higher employee incentive compensation accruals relative to last year.

With regard to our joint venture, the company has completed the first 3 out of 5 phases of the sale of PHH Home Loans assets to Guaranteed Rate affinity. The remaining 2 phases are expected to be completed in the fourth quarter. After giving effect to the establishment of Guaranteed Rate affinity and the liquidation of Realogy's interest in PHH Home Loans in early 2018, the company expects to realize net cash proceeds of approximately $20 million.

Slide 10 provides guidance for specific cash items below operating EBITDA. In particular, corporate cash interest expense for the year is expected to be approximately $165 million. Cash taxes are expected to be between $10 million and $15 million and full year capital expenditures between $95 million and $100 million.

Finally, working capital is expected to be a contributor of cash between $55 million and $60 million, which includes dividends of approximately $30 million and a wind down of the PHH Home Loans joint venture in the third and fourth quarters.

Based on the expected operating EBITDA range for the year, we expect that the company will generate between $505 million and $520 million in 2017. We intend to use a significant portion of our $0.5 billion of expected free cash flow this year to return capital to our shareholders, predominantly through share repurchases, because we believe Realogy remains a great investment and we have great confidence in our plan, opportunities in the market and our ability to execute.

Lastly, as you know, Richard will be retiring at the end of the year and this will be his last appearance on our quarterly calls. I want to take this opportunity to personally acknowledge Richard Smith for his strong and ethical leadership of our company for the last 20-plus years. During the toughest times of the financial downturn, Richard was at his finest, working tirelessly to bring our company through the storm and back on solid footing to position us for our IPO 5 years ago.

It is largely due to his vision execution and resolve that Realogy has grown into the great company that we are today. Richard, you've established a culture of accountability and respect and built a strong foundation upon which we are well positioned for continued growth and success. On behalf of all the Realogy employees, we thank you for your leadership through the years and all the best in the future.

Now we'll move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of David Ridley-Lane with Bank of America Merrill Lynch.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Appreciate the detail on NRT agent growth. Wondering if it would be fair to think that the productivity of those net adds are close to the overall average of NRT? Or could the revenue contribution be a bit higher if you're targeting more productive agents?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

David, these are agents that are at the high end of their game. So they are very productive to begin with, but we fully expect that they will be more productive with us. So you're correct in your assessment.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

And then I know it's early in your planning, but any thoughts on the trend of commission split in 2018?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

So the way we look at this, we -- as you know, we played catch up. We were, I think, in that regard underperforming the market because we are working very, very hard to keep the agent splits as favorable to us as possible for about 3 years. So this year, we've been playing catch up. We fully expect that to start stabilizing. And as you've heard me say, in 2018, NRT management has the goal and objective of slowing the rate of growth and stabilizing the agent split. And I think we're to do that principally through increasing the productivity of the agents in the third and fourth quartile. We have good experience in that regard and we have a high degree of confidence in our ability to make them work productive, thus offsetting the increase in split rates.

Operator

Your next question comes from the line of John Campbell.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

First off, Richard, it was great getting to know you over the years, and congrats on a long and storied career. And then Ryan, welcome, and looking forward to working with you. Richard or maybe Tony, it sounds like the Cartus business, it sounds like that's facing a bit of, I guess, a sustained headwind and you guys could be looking at rightsizing that business next year. Am I drawing the right conclusion from that commentary?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

No. You heard me say almost that exactly. We don't know if the volume is just seasonal, cyclical, but it's there. So we're to do adjusted cost structure. One of the principal advantages we all have, and we're fully engaged in this, is we think technologies could have a big impact on Cartus' service delivery. There's a project underway to determine to what extent that technology can sort of smooth out the experience to reduce cost. So it's a big project for '18. Senior management of both Realogy and Cartus are fully engaged and we will address it just as we said we would.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

I'd also add to that, that one of the very critical functions of Cartus within our business is delivering leads that are -- have a 70%-plus chance of converting to the agents of our franchisees and NRT's agents. And the goal is to increase that amount. Those don't -- those come out partially from corporate clients, but most of those leads come from our large affinity clients. And we think there's a great opportunity to increase that number substantially that come from our affinity clients, and that really adds to the retention and recruiting of agents because those leads are highly sought after. They're obviously, much more effective and profitable than leads you get through any source on the Internet. So that's really the reason for the integration of that company in our business. It's incredibly effective in that regard to gain franchisees and to attract agents, and we have a great opportunity to increase that in the future.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Let me just -- Tony is absolutely right. Let me just make one additional point. That is a critical component of our sort of tool of assets that helps us recruit agents, retain agents. It also helps us recruit and renew franchisees. So it's -- we're just going to rightsize the cost structure to be more flexible going forward. And then, I think, that's going to be an accomplished by Tony's right to underscore the importance of Cartus as one of our key assets in our toolkit.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay. And then I know it's probably pretty early in that assessment, but I mean if you ran the first 9 months of Cartus revenue at the same margin of the first 9 months last year, I think that equates to about $7 million or so of additional EBITDA this year -- I guess of EBITDA headwind. That business has ran at close to 25-or-so percent margins in the past, it looks like it's probably closing in at 22%, 23% this year. Do you think that, just off the top of your heads, that you get back to kind of that margin level? Is that a good way to think about it next year?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Yes. No, I think you're right in that assessment. It's been pretty predictable over the past 5 years. I mean we've looked at the trends. It's reliable, predictable. It's been a solid contributor to both revenue and EBITDA in spite of the downturn. So we can definitely improve in this. As I said, it's going to be through better technology and that's well under way.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay. And then just quickly on this. Tony, there's a lot of moving pieces to the EBITDA this quarter and then, I guess, was implied in 4Q guidance. I'm sure I can get to this conclusion eventually, but maybe if you could help us just kind of shortcut it in here's an idea about what is kind of truly onetime that doesn't rollover next year. I know you've got the $8 million of the legal settlement last quarter. It sounds like there's $8 million of CEO transition costs. There's the $12 million of hurricane activity. Anything else I'm missing there as we get into next year?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

I think there's some benefit from the wind down of the PHH joint venture in the fourth quarter, but we feel very good about that that's going to be replaced next year from earnings from our guaranteed rate affinity joint venture. So I think -- I guess that's not onetime as a result of that comment, but it may be a little more squished into Q4 this year then we'll see more spread out next year. But again, that's ramping up next year, so probably the best results will be in the third and fourth quarter of 2018 for that joint venture. So I think those 2 things are -- I think you're right, those 2 things are the largest items of note in the fourth quarter in the forecast in the $12 million, yes.

Operator

Your next question comes from the line of Jason Deleeuw with Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

And Ryan, I want to offer my congrats and looking forward to working with you. And Richard, it's been nice working with you and I just want to wish you all the best. The first question is on the -- I guess the -- when I look at the NRT, RFG combined results, the operating EBITDA declined 5% year-over-year this quarter. So it had been growing even with the ramp-up in commission split. So I guess what's kind of the thinking on kind of looking at the segments combined? I mean, can we expect to get back to EBITDA growth as we kind of recalibrate the commission splits? Just kind of your thoughts like are those 2 segments combined, is that still how we should kind of be looking at the business in kind of assessing the strategy here for the recruitment?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. It is. I think I know what happened in the third quarter is we -- our success in recruiting happened to benefit the West Coast more than anywhere else. We were up 11% on the West Coast this year, and the rest of the markets -- I mean forgetting the South for a second because there was a hurricane impact, the Midwest was flat, New England was flat. We actually -- in terms of sides at NRT, we actually outperformed the NAR numbers in both of those. But it's -- we're talking about they reported minus 1% to 2%, NRT was up 1% or 2% in those markets. So we definitely -- we outperformed but we did substantially better in the West Coast than we had anticipated. So again, of that $53 million increase in splits, $37 million or 70% was due to the West Coast being up 11% and kind of flattish for the rest of the country. So another way of looking at it is, if the West Coast had been up 6%, which would have been nice, still, and the rest of the country had been up 6%, you would not have seen -- you would have seen a much more attractive kind of combined EBITDA growth on the revenue growth than we saw. It's just that the West Coast really outperformed, which is a great new story. I think, going forward, I'd like it to continue at 11%. But I think in the future, we'd probably see growth in other areas that have a more favorable splits sort of catching up to the West Coast and that would be something that could potentially take pressure off of splits going forward. But for the quarter, it was very -- the West Coast strength really kind of skewed the results which, again, it's -- I don't want to say a high-class problem, but it's great to see that we're really making huge strides on the West Coast and we expect to play catch up elsewhere and that will be great for the combined growth.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Got it. And then just thinking about the split strategy, is there going to be any recalibration in terms of the split levels being offered? Or any change in kind of which geographies or parts of the country you want to target.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

It's a good question. We think we've accomplished what we intended to accomplish, and personally I remarkably served. So that balancing act between market share gains and splits, for the most part, has been accomplished. Now we'll be very selective as to which markets we want to grow. We'd like all the above, but the focus, clearly, will be on the most profitable markets from a split perspective. So you'll have to monitor our performance turn in 2018, but I assure you we are focused on the most profitable components of those markets.

Operator

Your next question comes from the line Trey Marsh with Evercore ISI.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Steve Kim, over at Evercore ISI. And let me also add my congratulations and also a farewell to you, Richard. My first question relates to the splits, and I wanted to make sure I got this right. We know that there's naturally a bit of seasonality to your splits. For example, your splits have never gone down sequentially into 4Q at least as far as I can tell. I think some of that relates to the timing of the year when your splits -- or sort of when the clock starts, so to speak, on the commissions and so forth. But I was wondering if you could just help me understand, is there anything in the hiring process that you recently underwent with these very productive agents that is going to make the split trajectory, as we'll see it on the P&L, perhaps more stable through the year? Or is it going to continue to be seasonally weighted through the back?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Again, we expect splits to be 70.25% to 70.5% for the year, and that's reflecting our latest forecast. I think some of the back-end increases that you note, or back half increases that you note, are due to the fact that certain agents get split improvements as they do more volume during the year. So you sort of see that we don't try to predict and smooth out that effect. So you see that in -- that's why you see this trend of increases. But again, the full year, based on what we see today, we expect the commission splits to be 70.25% to 70.5% for the year.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Got it. Okay. So that sounds like this dynamic is going to continue next year, and that's what I was just trying to clarify. Second question relates to some numbers. I apologize if I didn't quite catch all of this quick. But the change in your EBITDA guidance from where it was last quarter I believe is roughly $35 million. I think you -- correct me if I'm wrong here, but I think you indicated $12 million was due to natural disasters, $8 million for the management transition costs, and that would leave about $15 million, I assume from sort of the recruitment efforts and the higher splits and that sort of thing. And then parsing that $15 million, I think you had indicated there was a higher -- just naturally higher volumes, I guess, than you expected last quarter. Your recruitment efforts in the Western markets, I think, you said was 70% of the commission cost. So I just want to make sure that I got those pieces right, $12 million from national disasters, $8 million from management transition, $15 million for higher splits, and then within the $15 million, 70% of that was due to the Western markets. Do I have that right?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. So the $15 million was mainly due to the shift in -- that we saw in the third quarter to more West Coast volume, and so you're exactly right on that. And then the other factor was some of the activity we're seeing -- the reduced activity we're seeing from Cartus' clients, pretty much across the board, especially on the international front, they just seem to be on pause for this year to see how things shake out in Washington and for whatever reasons. But I think -- I believe it's temporary and I think that, that was the other thing that contributed to that decline.

Operator

Your next question comes from the line of Mike Dahl with Barclays.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Richard, I'll add my congrats as well.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Thank you.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Tony, sorry, but I guess I'll keep beating the horse a little bit here on the splits in the West Coast. I think what I'm still struggling to understand is, if you think about the shift to the West, clearly, it's a higher split rate, but the compensation is higher average price. And so I guess my perception had been it's still an EBITDA positive transaction in terms of the dollar value that goes to you even if it's lower margin percentage. So is this truly something where you're now losing money on these West Coast transactions? Or you're saying this is relative to where you thought the volume would come from that this is -- that's the change? Because I think that's what is not really adding up, why it would actually be a negative and not absolute terms.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

It's the latter. I mean, it's a combination -- it's really the geographic mix at the same shift, at the same time as we put in place retention and recruiting efforts. So it's a combination of those things kind of have the overall effect of sort of not having the desired results. But again, the positive news is that we have completely -- maybe completely is too strong a word, but the issue that we were concerned about last year, which was market share attrition, is largely behind us. And I think we've gotten the plane stabilized and ready to start gaining altitude. And there's going to be some bumps along the road in that effort, but I think we're well on our way to our ultimate goal of increasing overall revenue and profitability of the company. So I don't think -- this will only just sort of have a double -- 2 impacts at once. And the one we didn't expect is that the West Coast would grow 11% and the rest of the country, because of inventory constraints, would be sort of as -- the rest of the country, forget the hurricanes, was soft. Look at the national statistics, it was just -- this inventory constrained thing, finally, really caught up to us in the third quarter. So again, if we've seen a different picture in the Midwest and the East, the Northeast, the results would have been very different for the quarter, but we didn't. And it happened when we've been successfully improving by leaps and bounds our market position and our retention of agents. So to me, it's like a onetime glitch and it's -- but we're heading in the absolute right direction to increase revenue and EBITDA levels.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Let me add one. Tony is absolutely correct in that his assessment. And one additional comment I would make in this sort of a holistic view we have of the West Coast operations. You got to remember, in absolute dollars, there've been a substantial contribution to the franchise side of our business through royalty payments. And it also happens to be one of our most profitable title in closing this for services markets, and the higher cost agents on the West Coast our material contributors to that as well. So if take all that into account, California is a very profitable market for us, but Tony's right to point out that the mix of business was much stronger to the West Coast than we anticipated.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Right. Got it. And that's what I thought regarding California being profitable, which is why I didn't understand the change in the guide related to that part, but I think that is helpful. It also leads to my next question. When you talk about kind of stabilizing the plane and setting it to gain altitude here, and to the extent that you've been successful on some of these recruiting initiatives, what are you seeing in terms of competitive response? Because clearly, and we've talked about this in the past, there's -- you're responding to what some competitors were doing. Over the past couple of years, you've been successful, now what are you seeing from those same competitors?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

From what I've heard from NRT management, there has been very selective and spotty reaction to us doing this and there's nothing large scale that any of our competitors are doing or honestly can do. We have -- again, this is all about using data to attract, to go after the best agents and it's not just -- and then giving them a very small or relatively small transition payment to get them through the pain of going from their old brokerages to NRT, but it's really hit a nerve and it was incredibly successful. We doubled -- we more than doubled our recruiting in this past 12 months versus a year earlier, so we've gone from like our normal recruiting of about $250 million a year of GCI, we're going to be almost $600 million of GCI and recruiting this year. So with very minimal outlays relative to our overall capital structure and our abilities. And we get the agents -- we have an agreement with the agents to stay with us for 3 years, so it's very sticky and it's been just very successful. It's, again, the numbers are -- it's a 1-year payback on this upfront investment. We, obviously, amortized it over 3 years during the life of their contract. But this recruiting -- this sort of targeted recruiting effort has been just very, very successful and it really has shown that the NRT management can -- we reversed the problem and we'd like to get some credit for it. We took a problem that was very severe a year ago and it's -- we turned it around. NRT management turned it around in 1 year. And I think that, to me, gives me a lot of confidence. And when we need to tweak things and fine-tune things, and as Richard mentioned, focus on things that take some pressure off splits for 2018 and beyond, they are the team to do it. And they've proven themselves able to do it and to turn on a dime, so I think it's been a really impressive effort by management in NRT.

Operator

Your next question comes from the line of Kevin McVeigh with Deutsche Bank.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

Can you give us a sense of what would cause EBITDA to come in at the low versus the high end of the range, what the factors there are?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

What would cause the low end is if NRT transaction volume for the fourth quarter is forecast to be between 7% and 9%. And I think if we came in at the low end of that 7% to 9%, that would probably be the most impactful in terms of hitting the low end. Right now, we don't see that. We see -- we feel pretty confident about the mid to upper end of that. And the opens we saw in October, to me, it was almost lights on lights off looking at the opens between a kind of sleepy third quarter. And all of a sudden, in October, in terms of the opens we see, it was a lights on situation, so it's just a big shift. In NRT -- I mean, NRT saw a lot of the same trends in terms of things really just kind of revving up in the third quarter, so -- I mean in October. So I don't know how that's going to play out in November and December and what's going to close and what's not going to close. Our cancellation rates are extremely low. So again, I think it's -- that bounds the range of guidance.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

Would you -- and obviously, the bill only came out yesterday issue, but would you expect a spike in activity given the uncertainty around any changes in tax law to the extent they would take effect in '18? Or is this not factored into this guidance?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Listen, we have no idea what's going to happen as a result of the tax laws, except that what's been proposed is not going to get passed into law. The industry is not supportive and I think it's going to be almost impossible to get the vote out of the house, so we'd be supportive of the legislation as it's written. So let's assume for a moment that it becomes far more favorable to the industry and also to the national economy, I don't think the market is going to suddenly spike. I don't think anything is waiting on this. I think some may have hit the pause button, so we need to wait and see. I think the markets completely overreacted to proposed legislation, and we'll see how it plays out. But we spend a lot of time in this issue, we fully appreciate the process and I don't see a spike one way or the other in response to this until something becomes law.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

Super. And then just, Richard or Tony, can you remind us when can you be back in the market from a buyback perspective?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

In a week.

Operator

Your next question comes from the line of Bose George with KBW.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Can you give us any updated thoughts on how you think the market, overall, is positioned for next year? You noted positive trends in October and you want to have it continued?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Well, the -- we put in the -- on Page 17 of our earnings deck, we put in the 5 forecasters' view as of October of what next year looks like. The average was a 7% growth in volume. So that's pretty much sort of same as we saw -- this year, obviously, we would expect strongly that we are going to outperform because we're continuing to do the targeted recruiting, which was very favorable to NRT this year in terms of their volume increases. And RFG is -- our franchisees, we've launched the program with them to sort of mimic that program, so we'd expect to see some of the benefits of that in terms of agent growth. And obviously, everything we're doing on value proposition in terms of learning and technology is rolling out both to NRT and to our franchisees, so we would expect that, also, to help us exceed whatever happens in the market just like we exceeded in the third quarter by 170 basis points.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Great. And if you just -- in terms of the inventory constraints that you noted, it has been limiting the activity in '17 over '16. Do you feel like some of these forecasts might be positive in terms of overcoming that? Because it does seem like '18 over '17 expectations in the forecasts are pretty strong.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I would say from our discussions with some of these economists that what they see for next year -- and again, I'm not smart enough, they're economists and I'm not, so I will take -- this is what they're thinking about. They view that there is still a significant amount of pent-up demand. They view that with the wealth in the stock market, the consumer confidence at all-time level -- all-time high levels and we're starting to see some wage growth across the board. I think that makes them positive on a little bit of -- more upside on the unit side of the equation next year than this year and price because the supply demand dynamic is so skewed towards the salary, I guess, in most of the market. There's a lot of demand and not enough supply. That, obviously, will help continue price to go up next year. So I think that's kind of their outlook. Obviously, they understand the inventory constraints, but it's just -- they feel positive about next year.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And actually just one company-specific one. In terms of -- to your excess, uses of excess cash, how does the debt side, paying down the debt or playing to that, do you have a target for leverage?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. Our target for leverage is to get down to 3x. We're currently at 3.9x net debt to operating EBITDA or I guess that's adjusted EBITDA or now at -- we don't use that anymore. It's EBITDA as calculated under our credit agreement. So we are 3.9x and we are targeting to go down to 3x. So to the extent, for this year, we're going to generate more than $0.5 billion of free cash flow. About $300 million of that is going to go towards share repurchases and dividends and about 50 for M&A, at this point, and then we're reinvesting in the new joint venture, so that's going to require about a $55 million investment. But everything left over, which is over $100 million, will be used to pay down debt.

Operator

Your next question comes from the line of Brandon Dobell with William Blair.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

My congratulations and well wishes as well. I guess, first question, relative to the net royalty rate. You talked a lot about factors that you think can change commission splits, but how do we think about the puts and takes on that royalty right now given how the market is progressing and the concentration of market share? Is there any or other tactics or opportunities to reverse that trend in the near term? And if so, how do we think about the magnitude of what you're going to do there?

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

This is Richard, and thanks for your comment. You got to look at the net effective royalty rate in a slightly different fashion. Remember, that's how we incentivize our franchisees to outperform. The stronger their performance, the lower their royalty rate, which we view as a positive not a negative. So that said, what would skew that one way or the other is your top 250 or top 300 franchisees. If they outperform everything in the market and grow much faster than we anticipate, then you're going to see downward pressure on the net effective rate but you've got absolute growth at the top end. So we wouldn't view that as a negative. And now in the other offset, as you add franchisees and smaller franchisees become more productive, then you see the mix change a little bit. But those are the 2 variables we think about when we think about net effective royalty rate.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Brandon, the point is that we raised kind of the thresholds every year in terms of what qualifies for a rebate. So that's sort of an annual kind of reset, so that helps as well.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

Got it. Okay. And then, I guess, final one. As you think about all these dynamics going on with commission splits and geographic exposures, et cetera, does it change, I guess, your -- not change your M&A strategy, but maybe within that, what kinds of companies you're more apt to take a look at? Maybe it's a particular geographic region or a price point or something like that just to maybe offset some of the trends that are going on or to maybe amplify some of the efforts that you're making to drive the splits in your direction.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

So as you know, we've -- we're well-versed in tuck-in acquisitions, so we'll continue doing that. We announced a couple this week. They're very synergistic. We have a very high threshold for return on invested capital. We can do that in our sleep. We continue to focus on those tuck-ins. I don't think you will see us -- although we look at everything, you don't see us doing anything in a material way that would not be synergistic. So as long as we continue to stay the course on tuck-ins that are very attractive, a lot of leverage, they look great, they operate great, you'll see us continuing that in 2018.

Operator

Your next question comes from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

And congratulations, Richard and Ryan. Two questions. On the commission split, I guess, framing it a bit differently. Tony, you mentioned, this year, you're likely to add about $600 million of incremental GCI from the targeted recruitment. And when I weighed that against the commentary on the goal of slowing the rate of increase in split next year, do you anticipate the recruitment efforts continuing at kind of the same pace of saying that $600 million that will be added this year? Can you give any sense of -- if you think that's something that continues into next year or if you slightly pull back on the recruitment efforts to mitigate the split increasing further?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

No. I think we have a program that is highly successful and we're going to continue doing it. There's a very large pool of agents we would love to have join our ranks, and we're going to continue to attempt to attract them.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

Got it. And one more on the West, I know it's been asked a lot, but maybe another way to frame it. On California, obviously, the volume gains are encouraging. But at the same time, we know it's a very competitive market with many other competitors expanding there, doing acquisitions and things of that nature. So curious if you can give a sense of how the actual split within California this year compares to last year to try to parse out the mix versus the absolute split actually moving up in that market?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. We don't break it up that way. Obviously, we're very focused on it, but we don't break it up publicly for competitive reasons exactly.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

I guess would it be fair to say that it's directionally similar, higher or lower? Is there any sense that way versus the company total split?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Well, it's higher than the company overall split. And in terms of the impact of the recruiting and retention efforts, the increase in commission split on the West Coast was pretty much dead on with the increase in every other market. So it didn't require any more increase to have the 11% growth in the West Coast versus what we are providing in other regions.

Operator

Your final question comes from the line of Will Randow with Citigroup.

Will Randow - *Citigroup Inc, Research Division - Director*

And let me start by saying, Richard, you will be very missed, while we look forward to working with Ryan.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Thanks. I appreciate that.

Will Randow - *Citigroup Inc, Research Division - Director*

I guess, I'll join everyone else in beating a dead horse. You guys have taken a $15 million hit, apparently, on split. So California, at least nationally speaking, didn't grossly outperform. I guess, the real question is, is that $15 million going to hit you next year, too, when the same thing happens? Because inventory aren't loosening up and if you take the other side of that, what gives you confidence?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Well, again, we are -- I guess, your question is why do you think the rate of increase will decrease next year versus this year. Is that your question?

Will Randow - *Citigroup Inc, Research Division - Director*

Yes. I mean that $50 million hit that you didn't expect incrementally, either that's driven by your spending more on retaining and gaining, if you will, of agents. Or -- and the question is, if it's a 3-year amortization, why doesn't it hit next year? In addition, I mean, tight inventories are tight inventories. We've been talking about this for years now.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I mean, part of it is, this year, as we've introduced the targeted recruiting effort is that we start amortizing the transition payment that we make to agents before the revenue starts to kick in. So I think it sort of made it a little more impactful this year than you'll see next year when we were just running on -- so we're just sort of building on an existing program. And also, again, to the extent that there's a more balanced growth in the various geographic regions, that would sort of automatically take pressure off of splits. And then the efforts that are -- in terms of strategic initiatives, in terms of getting the third and fourth quartile agents across the country to be more productive, it's kind of the first big program that we're looking at. And also, the overall value proposition refinement and focus and improvement that we're offering to all of our agents should make -- I think, should make the economics less of a factor and really kind of be more productive. If I can do -- if I'm paying a slightly higher split -- or I'm getting a slightly lower split, but I can do 2 or 3 more transactions than I would have working for the guy down the street without any of these tools, any of this coaching and any of that, I think that agents are going to see very quickly that being part of NRT is much more profitable for them than they'd otherwise earn.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

So Will, think about this. NRT management turned around the market share issue that had been building for several years in the context of 1 year -- 12 calendar months so -- which is remarkable by any definition. That same sort of energy has been shifted to now making the third and fourth quartiles far more productive than they are now. That's a fairly significant offset to paying higher splits to the first and second quartiles. So we're very encouraged. We think the model works quite well and they'll execute against our strategy next year and we have a high degree of confidence in our ability to do that.

Will Randow - *Citigroup Inc, Research Division - Director*

And Ryan, if they'll allow me, I'm sure one of the questions Richard asked you when you guys were talking about taking the seat, what your strategic vision was. Now you highlighted on the call very briefly, you have an analytics to drive growth. Can you get any more specific? And how long do you think it will take you to ramp in the new role? And again, congratulations.

Ryan M. Schneider - *Realogy Holdings Corp. - President, COO & Director*

Well, thank you. Look, first off, Richard has just been incredibly instrumental in growing and leading this company, for making Realogy the foremost platform for residential real estate in the U.S., and so I echo all of Tony's comments and all of you and other analyst comments here. Look, I'm on my second week here. I'm incredibly excited to be here. I've hit the ground running, diving in on strategy, technology in all of our businesses. And as I said in my opening, I really think there's opportunities to use data, technology and analytics to build on what's been done here to really drive growth. And so I'm incredibly focused in all those areas as well as, most importantly, meeting and getting to know the great talent at Realogy. And so I look forward to sharing more strategic thoughts with you and others in 2018, and I'm incredibly excited to be here.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

So he doesn't get the last word on my last earnings call. That's going to be left up to me, unless you have another question. But let me say this, this company is uniquely positioned to capitalize on an enormous store of data in a way that other people haven't even contemplated because, in part, they don't have the data, they don't have the sophistication, they don't have the reach, they didn't spend billions of dollars building the largest real estate company in the world. We've been able to use all that to attract someone of the caliber of Ryan. So this is critically important. It's a transformative event for our industry and for our company. So in his hands, we're putting a company with a new approach to data, a new approach to technology and just a different thought process, and we think the upside to us is substantial. So we welcome Ryan and his expertise to the company. Again, I believe it's going to change how this industry thinks of itself and we'll be at the lead of that.

Will Randow - *Citigroup Inc, Research Division - Director*

Well, thanks again guys and particularly to you, Richard, who have spent over 2 decades of building this business.

Richard A. Smith - *Realogy Holdings Corp. - Chairman & CEO*

Thank you very much.

Operator

This concludes our question-and-answer session. I will now turn the call back over to Alicia Swift for closing remarks.

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

Great. Thank you for joining the call today and we look forward to talking to you over the coming quarter. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

Exhibit C

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q4 2016 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 24, 2017 / 1:30PM GMT

THOMSON REUTERS

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David Ridley-Lane *BofA Merrill Lynch - Analyst*

Ryan McKeveny *Zelman & Associates - Analyst*

Kevin McVeigh *Deutsche Bank - Analyst*

Brandon Dobell *William Blair - Analyst*

Stephen Kim *Barclays Capital - Analyst*

Anthony Trainor *Credit Suisse - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Realogy Holdings Corporation full-year 2016 earnings conference call via webcast. Today's call is being recorded and a written transcript will be made available in the investor information section of the Company's website later today. A webcast replay will also be made available on the Company's website.

At this time I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corp - SVP, IR*

Thank you. Good morning and welcome to Realogy's full year 2016 earnings conference call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith, and Chief Financial Officer, Tony Hull. As shown on slide 3 of the presentation, the Company will be making statements about its future results and other forward-looking statements during this call.

These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, February 24, and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings. Also, certain non-GAAP financial measures will be discussed on this call and, per SEC rules, important information regarding these non-GAAP measures is included in our earnings press release.

Now we'll turn the call over to our Chairman, CEO and President, Richard Smith.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Thank you, Alicia, and good morning, everyone. Today I'm going to highlight our important accomplishments in 2016 and provide you with an update on our strategic priorities for this year and beyond. So turning to slide 4, in 2016, we achieved revenue of $5.8 billion and operating EBITDA of $770 million. Our results continue to reflect the operating challenges of strong competition for sales agents and soft demand at the high end of the housing market for NRT. While we still have work to do, we are making good progress.

We continue to execute on our commitment to delivering value to shareholders, returning a total of total of $240 million through a combination of share repurchases and dividends as of yesterday. Thus far, we have repurchased 5% of our outstanding shares to date. Based on the strong free cash flow characteristics of our business, our Board has authorized a new share repurchase program of $300 million. This is in addition to the $61 million remaining under our existing 275 million share repurchase authorization, which as you know, we announced in February of last year.

Our strategic priorities are to continue strengthening our core businesses while further investing capital to drive future growth. We are confident that over the long-term we are well-positioned to capitalize unfavorable demand conditions and existing home sale volume growth. As we have previously indicated, US housing in 2016 was a tale of two markets with the dividing line drawn between the lower and mid-priced home segments versus the high end price segment.

Demand in entry and move-up levels continues to be healthy and inventory continues to be low by historic standards. By contrast, in higher-priced markets in 2016, a pronounced gap developed between sellers' asking price and what buyers were willing to pay, leading to a softening of transaction volume and a growing inventory of unsold properties. This presented some near-term challenges for Realogy during the year, particularly at NRT because of its geographic concentration in the higher-priced coastal markets. And, as we discussed over the last several quarters, it continues to be a very competitive market for productive agents.

As we look forward, we are focused on strengthening our core businesses while making strategic investments to drive future growth. To that end, in the second half of 2016, we developed and launched new programs at NRT designed to increase our recruitment of productive, independent sales agents and to increase the productivity of its existing agents. This new program is intended to complement NRT's existing agent retention and productivity initiatives. Peter Sobeck, our recently appointed Chief Recruiting Officer, and NRT management are executing on an aggressive campaign to increase our recruitment of productive, independent sales agents and agent teams.

As a result of this new initiative, the program has recruited agents who generated about $120 million in revenue during the last 12 months for brokerage firms with which they were previously affiliated. Based on the metrics we monitor to evaluate the effectiveness of these initiatives, we are seeing encouraging signs of improvement at NRT. Specifically, the stabilization of the first and second quartile agent retention rate, which increased to 93%, an increase of 100 basis points through 2016. And as indicated on prior calls, while our investments in these initiatives will result in near-term moderate pressure on margins, we anticipate that over the medium-term, this will be mitigated by revenue and earnings at NRT as well as other Realty business units that benefit directly from NRT's transaction volume.

To attract and retain the best talent in the industry we are constantly evaluating and enhancing our agent value proposition. Earlier this year, we formalized plans for an integrated learning institute aimed at increasing sales agent, office manager and broker productivity. This institute will offer customized learning opportunities to new and experienced sales agents as well as brokerage managers, both at NRT and RFG.

Last week, Realogy agreed to form a new mortgage origination joint venture with Guaranteed Rate, one of the largest independent retail mortgage companies in the United States. Mortgage financing is a service that we provided for more than 20 years and we are delighted to embark on this new relationship that will enhance our NRT sales agent value proposition and strengthen our service offerings to our home buyers. We believe Guaranteed Rate is the right strategic partner to help our company-owned brokerage business and its sales agents offer an innovative and streamlined mortgage process, built on best in class technology.

As the franchisor of five of the most prominent brands in our industry, we are continually evaluating and enhancing our value proposition to both our franchisees and prospective franchisees. Our Zap technology platform is proving to be one of the strongest enhancements to our franchisee value proposition. By year end 2016, RFG deployed our Zap technology platform to 1500 franchisees and we are well on our way to reaching the majority of our remaining franchisees this year.

With respect to productivity gains related to Zap, agents who use the platform even moderately are outperforming NAR's 4% existing home sales growth rate for 2016. We are encouraged by these early results and look forward to reporting the relevant performance metrics later this year when the platform is substantially deployed. As a result of these and related efforts, RFG achieved a second straight year of strong franchise sales growth adding $378 million in new franchisee and sales production gross commission income in 2016.

Yesterday we announced our leadership succession plans for RFG with the promotion of John Peyton to President and CEO effective April of this year. John joined RFG last October as President and Chief Operating Officer and has brought a fresh perspective to our Company, leveraging his tenure as a global branding leader in the hospitality industry. During his nearly two decades with Starwood Hotels & Resorts Worldwide, where he most recently served as Chief Marketing Officer, he applied his expertise in global operations and brand building to drive innovation and build loyalty for the company's leading hotel brands. We're confident that John is the right business leader to focus our efforts and execute our plans for continued strategic growth and innovation at RFG.

Alex Perriello will now serve in a senior advisory capacity at the Company, as role as Chairman Emeritus of the Realogy Franchise Group. Over the long-term, we maintain a positive view of the housing market. We believe that the housing recovery will continue as the demographics and characteristics of housing are compelling. The industry continues to benefit from attractive mortgage rates and healthy demand at the entry and move-up segments. More importantly, we believe that the actions we are taking to improve our performance are on a very positive track.

In 2017, we will continue to measure ourselves against our strategic objectives to improve our competitive position, optimize and streamline our business and deploy our capital to the best and highest use to enhance shareholder value. We are confident that as we continue to successfully execute our strategy, we are well positioned to capitalize on long-term strength of the housing market and, of course, with one primary objective, to create value for our shareholders.

So with that I'll turn this call over to Tony. Tony?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Thanks, Richard. In 2016, Realogy generated strong free cash flow of $457 million, a $14 million increase from full-year 2015 and slightly above the guidance we gave in November. We also reduced our run rate annual corporate interest expense to $165 million in early 2017, pushed out the staging of the maturities on our debt to 2023 and increased our revolver capacity to $1,000,000,050. With strong cash flow generation and an optimized capital structure, we were able to commence a meaningful stock repurchase program in 2016 and commence paying a dividend.

Our leverage at the end of the year was 3.8 times and our goal remains to achieve a three times net debt to EBITDA leverage ratio, which we believe is the optimal long-term level to run the business based on our weighted average cost of capital and the cyclical nature of housing. We will continue to maintain a disciplined approach to capital allocation, balanced between returning cash to shareholders, deleveraging and the ability to invest in strategic opportunities to drive growth.

In 2016 we initiated a host of business optimization improvements targeted at savings across the organization. In the end, we expect to realize approximately $70 million in annualized savings, of which about half is reflected in our 2016 results. We expect most of the remainder to be realized this year. The initiatives include creating centers of excellence at both NRT and RFG. Specifically at NRT, these actions were aimed at centralizing back-office functions and enabling brokerage office managers to focus more on recruiting and retaining agents. We also streamlined and consolidated a number of common functions across the organization to leverage our size and scale with the goal of achieving better customer service.

With that backdrop let's turn to slide 5 to review our full-year 2016 results in greater detail. Revenue of $5.8 billion was up 2% compared to 2015. Operating EBITDA was $770 million, a $1 million increase from the prior year and at the high end of the guidance range we gave in November. As a reminder, operating EBITDA is EBITDA before restructuring costs, early extinguishment of debt and former parent legacy items.

Adjusted basic earnings per share was $1.65 an increase of 9% over the prior year. Before the mark-to-market adjustments for our interest rate swaps, book interest expense decreased by $43 million to $168 million in 2016 as a result of a reduction in total outstanding indebtedness and a lower weighted average interest rate. At year end, our NOL, net operating loss, was $1.3 billion, which we expect will allow us to continue to pay minimal cash taxes in 2018.

Turning to slide 6 for a discussion of the drivers of our business, our overall home sale transaction volume growth was approximately 4% year-over-year, which was at the high end of the guidance range of 3% to 4% that we provided in November. RFG's transaction volume increased by 6% with half of the increase coming from higher transaction sides and the remainder from greater average sales price. NRT finished the year flat year-over-year on both sides and price because of the macro high-end housing trends in some of its markets as well as competitive pressures we experienced throughout the year which Richard just reviewed and that we are addressing.

Average broker commission rate, ABCR, at RFG was down one basis point to 2.50% and ABCR at NRT was flat at 2.46%. We are frequently asked about the resiliency of the average broker commission rate. A real estate transaction is complicated, inefficient from a price discovery and liquidity standpoint and highly emotional. Human interaction and professional expertise is critical in a real estate transaction. As such, the ABCR has been remarkably strong and stable over time and, given the valuations provided to their customers, we continue to believe that any decline will be limited to a few basis points per year.

We've added a slide in the appendix to show a steady this metric has been over time. The net effective royalty rate fluctuates by quarter at RFG. On a quarter to quarter basis but for the full year, this figure was 4.46% down 2 basis points from 2015. This is primarily due to the effect of the strength of our largest franchisees who earn larger volume rebates. Our aim is to maintain a relatively steady royalty rate on the franchisee portfolio. NRT commission split increased 48 basis points in 2016, which is about 10 basis points higher than we expected during our last call due to our ongoing campaign to more aggressively recruit and retain a select group of strong agents.

The increase is the partial year impact of these efforts, so in 2017, aggregate splits will be higher than the 68.9% for the full year in 2016. Our current estimate for 2017 is that splits will be in the range of 69.5% to 70%. While we expect this increase will put near-term pressure on NRT's margins, the benefit of these growth initiatives will be immediately realized in RFG's results due to the expected higher resulting royalty revenue it will learn from NRT.

Now turning to slide 7, let's talk about performance by business unit for the year. At RFG, revenue increased $26 million and was driven by a $19 million increase in domestic royalty revenue due to RFG's 6% increase in transaction volume. Excluding restructuring costs, RFG's operating EBITDA increased $25 million. NRT revenue was flat in 2016 due to $109 million or 2.5% decrease in organic revenue. That was offset by $109 million earned in revenues from acquisitions. Base revenues were negatively impacted by factors we discussed earlier as well as inventory shortages in the mid and lower-priced homes in many of the markets served by NRT.

Excluding restructuring costs, NRT's operating EBITDA decreased $45 million primarily due to the lower base revenue I just mentioned, a net $14 million increase in commission expense primarily driven by acquisitions, the addition of $25 million of costs associated with acquisitions and a $6 million decrease in earnings from our mortgage joint venture.

Getting more granular on NRT's revenue in 2016, total sales volume for transactions completed by NRT was down less than 1% from 2015. In NRT's highest priced segments, Sotheby's and Corcoran, total sales volume was down 7%. This decline was driven by softness at the high end of the market. Turning to our NRT Coldwell Banker operations in our Western region, which is heavily influenced by California, NRT experienced a 2% decline in sales volume which was a combination of market share attrition and, to a lesser degree, high end softness.

The Southeast, which is largely driven by Florida, saw a 2% reduction in sales volume from the same combination of factors. The NRT Coldwell Banker Midwest and Northeast regions saw mid-single digit increases in sales volume. Cartus revenue decreased $10 million and operating EBITDA decreased $6 million in 2016. The decline in revenue is due to fewer broker to broker referrals, the absence of a large group move which occurred in 2015 and lower relocation referral volume.

TRG's revenue increased $86 million and operating EBITDA increased $15 million in 2016. Half of the operating EBITDA improvement was due to higher purchase refinancing and underwriting volume and the remainder from its acquisitions of TitleOne and Independence Title. Based on current market conditions we expect a slowdown in refinance volume to be a headwind for TRG in 2017, but we should see overall growth in our Title and Settlement Services Segment.

Corporate expense in 2017 is expected to be approximately $22 million per quarter compared to $18 million per quarter in 2016. The 2016 quarterly corporate expense was lower than normal due to the Company not achieving certain performance compensation goals during the year. In 2017, if performance goals are achieved, quarterly corporate expense is expected to be consistent with 2015 levels.

As you are aware, since November, mortgage rates have increased about 75 basis points. So far this year, however, we have not seen a discernible impact on home sales. While mortgage rate increases impact housing demand, overall home affordability remains at attractive levels relative to historical data. And based on industry forecast from NAR and others, 2017 home sale transaction volume is expected to increase between 5% and 7%.

Turning to slide 8, looking at our expectation for the first quarter of 2017, we forecast that Realogy's combined home sale transaction volume will increase in the range of 2% to 5% year-over-year, with sides contributing between 0% and 2% of that increase and 2% to 3% of the increase coming from average -- higher average sales price. Broken down by business unit we expect 4% to 6% transaction volume growth at RFG and 1% to 3% growth at NRT.

Despite higher revenue in the period relative to last year, first-quarter operating EBITDA is likely to be down year-over-year due to our actions at NRT resulting in higher agent commission splits and the impact on operating costs of acquisitions completed after Q1 of last year along with unfavorable comparisons at Cartus. It is important to note that the first-quarter results are not indicative of our full-year earnings given that it is our smallest quarter in terms of revenue generation and transaction volume against a fixed cost base that is spread rapidly throughout the year.

On our next call, we will have better visibility into the spring selling season which will be reflected in our transaction volume guidance for the second quarter. Slide 9 provides guidance for specific cash flow items below operating EBITDA for 2017. In particular, corporate cash interest expense for the year is expected to be approximately $165 million which incorporates the effect of lower interest costs due to our recent Term Loan B refinancing and that our debt is approximately 85% protected against increases in LIBOR.

Capital expenditures for the years are forecasted to be between $90 million and $100 million. M&A investment is forecasted at approximately $75 million which includes $25 million of expected earnouts due in 2017 from prior year acquisitions. In addition, once the mortgage JV transactions are complete, the Company expects to realize approximately $30 million of net cash.

In summary, in 2016 we continued to make progress on our key strategic initiatives and executed decisive actions to enhance our competitive position in the marketplace. We also undertook a holistic and extensive review of our operations implementing process improvements while realizing significant savings. Ultimately, Realogy achieved important milestones as we returned substantial capital to shareholders with the initiation of a share repurchase program and the establishment of a quarterly cash dividend. With that we will open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Campbell, Stephens.

John Campbell - *Stephens Inc - Analyst*

Hey, guys. Good morning. Congrats on a great quarter. Just want to dig in a little bit on the retention efforts. You guys said 100 bps improvement in retention and I think you might have said a mix between Tier 1 and Tier 2. Can you break that -- give a little bit more color as to where you are seeing the better improvement across Tier 1 and Tier 2?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Sure, it's literally across-the-board. I mean as you know, Tier 1 and Tier 2 -- we call them quartile one and quartile two -- represent the lion's share of our revenues so it was incumbent upon us to stabilize that group in its entirety and we've done that fairly well. It continues to improve. We don't think 100 basis points alone is the complete upside. We think there's a lot more there to be achieved, but again, we -- our focus is on both the first and second quartile.

John Campbell - *Stephens Inc - Analyst*

Okay, and then we dug in a good deal on the -- I guess some of the attrition that you guys have seen in some of the larger scale markets but can you help us identify maybe what the run rate of attrition run is going to be for 2017 versus what you guys have already seen?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

I think I would take our lead at the 93% sort of range and we expect to improve that.

John Campbell - *Stephens Inc - Analyst*

Okay, that's helpful. And then as you think about some M&A, it looks like you guys have done a handful -- I guess you had from Climb from San Francisco and then I saw the DelMar acquisition you guys did where you are back in that market. But can you talk about what you are expecting for the year and maybe to fill some of the holes of some of the attrition that you guys saw already?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

The size and scale of the Company makes it very attractive to us to focus on tuck-in acquisitions. I would not expect that we're going to do anything sizable this year. So I think for your purposes, you should think about these very accretive, fairly small by comparison, tuck-in acquisitions in the markets where we currently operate. A lot of -- they are very synergistic, very attractive and readily available. So the key is to be strategic in that regard and we are, but I would not expect to see sizable acquisitions in 2017.

John Campbell - *Stephens Inc - Analyst*

Okay, and then last one for me. It looks like January existing home sales were pretty good. What are you guys seeing thus far in February? Is it kind of modestly up and to the right?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

We very much appreciated what we heard from NAR for January and as you know, we're reluctant to say where we are now. Actually, February is not the month you should think about when you think about the quarter. Most of the production occurs in March. So most of the closings occur in March. So news at 11 as they say but the NAR January data was very encouraging.

John Campbell - *Stephens Inc - Analyst*

Okay, excellent. Thanks again, guys.

Operator

Bose George, KBW.

Bose George - *KBW - Analyst*

Hey, good morning. Can you remind us of your target for leverage, given the likely buybacks this year do you see that number changing much from the 3.8 at year end?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Our goal is to get to three times leverage, even with returning capital to shareholders. The timing of that is going to be dependent on how much we do in terms of return of capital, how much debt we repay and what our EBITDA growth looks like, which is, obviously, tough to predict all those things. But our goal was always to get to -- has always been since the IPO to get to three times leverage.

The one thing that has definitely changed since the IPO is our -- the interest coverage is much higher because of all the refinancing we been able to do. Our interest coverage is much higher than we ever anticipated, so although we could live with a higher leverage level, our goal is still to get to three times.

Bose George - *KBW - Analyst*

Okay, no, that makes sense. Thanks. And then actually just going back to the acquisition question, just a little more -- can you give color on trends there? Are you seeing any increased competition in terms of acquisitions or pretty similar to what you have seen over the last year?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

This is Richard. No, it's fairly similar. I mean we're very selective, as you know. We target markets where -- markets that are attractive to us for a variety of reasons. We rarely enter a new market where we have no presence; those are not as synergistic. But, listen, there is a wealth of opportunity. The key is to be strategic and selective and to buy them at our price. And we've been doing that for a long time and we expect to continue doing that in 2017.

Bose George - *KBW - Analyst*

Okay, great. Thanks.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray - Analyst*

Thank you and good morning. Question with the commission splits expected to step up to 69.5% to 70%. Just wondering, when can we see the volume growth at NRT improve? Is there any sense you can help us -- you can give us on when we think we're going to see an inflection in the volume growth at NRT?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it really is going to depend on how the year shapes up, how volume for the year shapes up and so it's a little early to call that. I do -- to the extent that we see the benefits of -- from the enhanced recruiting efforts and from better retention of the first and second quartile. I think we will immediately, as I said in the script, we will immediately see the benefits of that at RFG for the 6% that's paid over to -- that is reflected in the RFG segments.

So, for instance, on the $120 million of production that Richard mentioned that we've gotten to date on our enhanced recruiting program, there will be $7 million or $8 million of the benefit of that shown at RFG on the 6% of that gross number. But to whether it filters through to NRT in terms of margins and overall profitability improvement will depend on really the macro -- what's going on in the macro, what's going on in the high end, etc. So that's sort of out of our control, but we -- I think we are well-positioned to benefit immediately and you will see those results at RFG.

Jason Deleeuw - *Piper Jaffray - Analyst*

Got it. And if you could just breakout how much of the NRT performance versus industry average right now is the high-end market trends versus the agent retention? And then last quarter you gave us high-end inventory days. If you could just kind of update us on some of the key metrics you are seeing on the high-end homes -- I think you had $2.5 million price plus price point. Just any sense for are things really improving there? Are there any metrics you can give us? That would be helpful.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

The high-end inventory levels continue to be an issue. We pointed that out last year. The media routinely points that out this year. It's too early to tell, certainly not in the first quarter are you going to see much of a change in the high-end inventory. Although I will say this, as the high -- we don't think the high inventory levels are going to get worse; we think they get better and there are a lot of reasons to believe that. It has an outsized impact on NRT given its geographic concentration in the coastal markets which happen to be the highest priced markets in the country, which would include Florida.

So we were watching it very carefully. We expect it to improve over time and, again, it has a pretty big impact on NRT's results. I don't -- it's too early now to say whether that $2.5 million price-up inventory level is materially changing. Once we get into the second quarter, which as you know is beginning of our season, we'll have a better view of what's happening to the highest priced markets.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

I would just add to that that the change we're seeing, and actually in the Wall Street Journal today, they highlight this, and this is more at the ultra high-end, not at the sort of everyday high-end but you can see that one of the things that was slowing down the high-end last year was sellers not realizing that it was a buyers' market. And I think is the chosen the Wall Street Journal today, they are finally realizing that and they are cutting their prices to be more realistic about the environment. So I think that's probably the most positive thing that's starting to resonate within the high-end.

But, Jason, just in terms of specific -- for NRT at $2.5 million and above, for 2016 it was 17% of their volume and it was 19% in 2015, so that was kind of a high watermark. But, we think -- and then on a quarterly basis, it was only down a point, so in the fourth quarter of 2015, it was 18%. In the fourth quarter of 2016, it was 17%, so I think that it's narrowing, so we're feeling okay about the high-end. But it still, obviously, with five years of inventory, it's still a buyers' market, so it's very different than the rest of the market.

Jason Deleeuw - *Piper Jaffray - Analyst*

Okay. Thank you very much.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Hey, good morning, guys, and thanks for taking my questions. Could you discuss some of the regional trends you're seeing, particularly in California, Florida and New York City as well as whether you believe you're tracking, I I'll call it in line from a share position, feel like you are picking up a little bit overall, in those three markets in particular?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, as I mentioned in the script, the -- in terms of the high-end which Corcoran and Sotheby's, that was obviously under pressure last year. Their volume was down 7%. For Corcoran specifically, they maintain a very -- that was clearly market-driven; they maintain a very strong market share, particularly in New York City and Long Island where they serve. So there -- that's all about the high-end.

Florida was soft last year for us. From a Coldwell Banker standpoint on the owned operations, but I think that was driven by a combination of attrition issues and -- which we're addressing and the high-end softness and obviously the foreign buyer was sort of still shocked in 2016 by the dollar improvement that occurred at the end of 2015. So I think as that consumer gets used to where the dollar is and -- and we feel good that will firm up the high-end there. So -- and California is a combination of the two, but again it's hard to predict where that's going -- this early in the year where that's going to go, but we're much better positioned than we were.

Will Randow - *Citigroup - Analyst*

Thanks for that. And then in terms of your guidance for 2% transaction volume growth for the first quarter of 2017, I was hoping you could provide a little bit more detail in terms of -- do you think with that level of growth you should see EBITDA flat or improve? And will that be the case for 2017 as well if we get some level of transaction volume growth?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

You're talking about the first quarter guidance?

Will Randow - *Citigroup - Analyst*

Correct.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, again the first quarter is not going to be indicative of the year; we'll have much better visibility on that in May. So it's really hard to speculate on that at this point.

Will Randow - *Citigroup - Analyst*

But specifically, should we see EBITDA kind of flattish for the first quarter of 2017 with this type of transaction volume growth or improvement?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, as we mentioned, we think revenue will be up, but there are some headwinds on expenses. So as I mentioned in the script, we think that first-quarter EBITDA could be a little softer than last year.

Will Randow - *Citigroup - Analyst*

Got it. Thanks.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

But again, that's like very small percentage of our overall annual EBITDA, so it doesn't really move the needle.

Will Randow - *Citigroup - Analyst*

I apologize -- the implication for 2017? There is none or -- is what you are saying?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

It will be very difficult to extrapolate from the first quarter what the year is going to look like.

Will Randow - *Citigroup - Analyst*

Okay, all right. Thanks, guys.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Thanks. Good morning. On the splits, the 69.5% to 70%, does that reflect like mostly having gone through and adjusted them already and just seeing the full year impact or is there still a lot to go in terms of working that through the system and the adjustments you all are making there?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We've pretty much -- I think we've pretty much right-sized the commissions and we're competitive in the markets that we serve. Some of -- in terms of the recruiting efforts, that's going to put a little bit of pressure on splits and that's built into that forecast.

Anthony Paolone - *JPMorgan - Analyst*

Okay, and then in terms of just those recruiting initiatives, should we expect additional costs outside of the split impact, like whether it's new marketing or office cost or anything else you might be doing in 2017?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

No, I wouldn't view it that way. Hiring an agent, adding that agent to an office, there are de minimis, if any, incremental costs related to that. So our office space can be even more efficient than it is today, and so I wouldn't view it that way. But I also think that there is a start and finish to our recruiting efforts; this is going to continue. We're turning this Company into a recording machine and that's not going to stop. But Tony was right in his assessment of the splits and the impact on the year.

Anthony Paolone - *JPMorgan - Analyst*

Okay, so then outside of that then just cost-wise, I think there was like another $16 million left on your savings initiatives that I guess happened in 2017, and then is there anything else like on that -- on the learning offering that you are uppng there? Just trying to understand (multiple speakers) we should be watching cost-wise?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

No, the learning is really just a reprocessing or rejiggering of what we have today. So the cost -- the money will be better spent than it was in the past.

Anthony Paolone - *JPMorgan - Analyst*

Okay, got it. And then, Richard, with the change in Washington, any items you are particularly watching as it relates to housing that we should be thinking about the next 12 months?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, if I've learned anything recently, it's not to speculate about what may be happening in Washington, DC. That said, any change to the regulatory environment that would be helpful to housing, we strongly support. Obviously, the ones we pay attention to are generally Dodd-Frank related but they also pertain to the governance of FHA and Fannie and Freddie. But listen, we are actively involved and we look forward to a better regulatory environment for housing.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then last question, just more nuanced. On interest expense, did something unwind or anything happen in the fourth quarter, to just look at the prior three quarters, reported interest expense versus the year? It would have seemed to drop.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, the mark-to-market went way in our favor in the fourth quarter. So I think our net interest expense is like $5 million on the books. But it was really the fact that the 10-year treasury popped, whatever it was, 50 basis points, 60 basis points, caused a positive mark-to-market on our swaps. So that reduced the interest expense on the GAAP savings, which is why we sort of negate those effects when we show adjusted net income and that's why we do that because we want to show it without those fluctuations.

Anthony Paolone - *JPMorgan - Analyst*

Got it. Okay, thank you.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Sure, so as you've gone through the process of adjusting commission splits market by market and agent by agent, have you just moved to the current market rate for splits? I guess said differently, has market-wide commission splits really increased about 200 basis points over the last two years?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, I think it's not quite as black and white as that; it's much more nuanced and it's based on local customs and practices and it depends on what the broker offers. We offer a full service value proposition, where as some of our competitors offer more a la carte pricing, so it's really what the agent is comfortable with and thinks they can be most productive, which program they can be most productive under. So again it's pretty nuanced in how it's managed by our 800 managers and senior management NRT. So it's just -- we're just very aware that -- we're just very aware that we want to be competitive in the market and we want to encourage agents to take advantage of all that we offer so that they can be more productive.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Okay. And in the franchise segment, the $378 million of added gross commission income, that's a pretty healthy increase overall, essentially most of your growth in that franchise segment is the hard work you are doing in adding franchises. If you look to 2017, would you expect the Zap rollout to start meaningfully increasing the underlying trends among your franchisees?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

We believe that has already begun, so it has proven to be a particularly attractive enhancement to the franchise to prospective franchisees, and we expect that to continue. We believe it's a very important enhancement -- performance enhancement to our existing franchisees. It's just a little early to look at those operating metrics in the public format. We're working hard to make sure that the metrics we follow will demonstrate the value that we have created through this platform.

So as I indicated, sometime later this year we're going to have a full set of metrics that we'll start reporting on a public basis but we're very encouraged by what we see right now and our franchisees are also very encouraged by what they are seeing.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

All right. Thank you very much.

Operator

Ryan McKeveny, Zelman & Associates.

Ryan McKeveny - *Zelman & Associates - Analyst*

Hi, thank you and good morning. On the guidance, the RFG for 4% to 6%, that would be a slight deceleration from the 8% you did this quarter, and you mentioned you are not seeing much of an impact of rates thus far which we're not seeing as well. So just curious if you can give any color on the trends you are seeing you there and, maybe specifically the breakdown of what you are expecting for sides versus price within that piece of the business.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

I think -- forgetting RFG for a second, just looking at the NAR report, we were looking at this -- we were analyzing this and they were up 6%. The sides were up 6% in the January -- actual sides were up 6% in January 2017. We looked back at what happened back in 2013 and 2014, so obviously in 2013, rates went up about 100 basis points, and it turned out that January of 2014 was down like 5% on volumes so again we're encouraged that because of overall favorable affordability metrics that the housing market is not being negatively impacted by higher mortgage rates this time around like it was back in 2013. And obviously 2014, which was a flat year for the industry.

But our guidance ranges -- what we see today based on our closes and our opens and that's one factor. The other thing is when you look back, we still had some TRID impact in the first quarter of 2016 which we don't have today because there was a lot of catch-up ball being played from stuff that didn't close in the fourth quarter because of TRID or the last six weeks of the fourth quarter because of TRID. So I think those two things are impacting our volume range for RFG.

Ryan McKeveny - *Zelman & Associates - Analyst*

Got it, thanks. And on the acquisition side, any breakdown you are thinking about between brokerage versus title acquisitions? and it does seem like the amount you've alluded to, the $75 million, is a little below what you've been running at so is that just a function of, Richard, what you were talking about where it is more tuck-ins, maybe less of the bigger guys out there? Any comments on that?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Nothing really enhances what I said previously. We'll continue to focus on tuck-in acquisitions were it makes sense. TRG has done a terrific job of acquiring very attractive companies. They are really working hard to ensure that the acquisitions that have occurred up to this point are synergized, fully operating within the guidelines that we've established for that type of acquisition and, they will be very selective as well. But there is no particular breakdown in that $75 million between the two business units.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay, thank you. Got it. Thanks.

Operator

Kevin McVeigh, Deutsche Bank.

Kevin McVeigh - *Deutsche Bank - Analyst*

Great, thank you. Hey, is there any way to think about on the higher-end as the shift in sentiment goes from sellers to buyers' kind of market? How quickly that price equilibrium should happen?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

What -- it's very nuanced discussion and what's interesting and encouraging to us is that the buyers are there. But as Tony pointed out, it's a buyers' market. We know the sellers are there, given the inventory levels. There's just a disconnect between what the seller believes she needs and what the buyer believes he is willing to pay. We do see, when they come together, the transactions are occuring, so that's a good sign. The demand is there but there's much discussion about the price.

So, listen, over time, that will -- they will figure that out and there will be a coming together of the price-value proposition and we see that as an encouraging sign. We just don't know when it's actually going to break and become more robust.

Kevin McVeigh - *Deutsche Bank - Analyst*

Got it. And the market rally, has that spurred any demand as well?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's hard to say. Certainly one would think that that's been helpful as certainly is not a negative; it should be, by any standard, a positive.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it definitely helps confidence across the spectrum, so it's not a bad -- it's better than the alternative.

Will Randow - *Citigroup - Analyst*

Yes, for sure. Then just real quick on the buyback, the $300 million any way to think about the cadence on that over the course of 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We're at a cadence of $60 million to $65 million a quarter.

Kevin McVeigh - *Deutsche Bank - Analyst*

Thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair - Analyst*

Thanks. Focusing on NRT, the recruitment and retention efforts, any noticeable, I guess, gap between maybe people that are returning to one of the brands that you guys run versus people that have never been a part of NRT? I guess I'm just trying to get a sense of how many people you are re-attracting versus recruiting greenfield?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's a great question. The majority of the newly recruited agents through the NRT initiative are from independent brokers. They are literally from Richard Smith Realty somewhere. Second to that would be competing brands, certainly not from our own brands, just to be very straightforward. The bulk are coming from independent brokers; that's a good sign. Then the next level is from competing brands and rarely does NRT recruit from our own franchisees; it is extremely rare.

Brandon Dobell - *William Blair - Analyst*

Okay. Is there any, I guess, regional concentration or market type concentration where you are seeing more success or less success?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

No, the NRT program is -- I won't call it ingenious, but it's very smart and we literally recruit individual agents we know. We know her production, we know how long she's been in the business. Our access to data is terrific, so we use that to our advantage and it generally is across-the-board in every market.

Brandon Dobell - *William Blair - Analyst*

Okay, and then just a quick one on Cartus. I know it's been a little bit of a tough run here the last couple, three quarters. How do you view the -- I guess the progress internally on getting that business to turn the corner? How should we think about the cadence of that for 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, Cartus earns about $100 million a year and is an incredibly integral to the rest of the Company in terms of feeding title business to TRG. It's about 100,000 leads it feeds to the family at RFG and NRT. So it's earning a lot of cash and EBITDA for us. At the same time it serving a very important purpose. I think on a strategic basis they've done a lot on the cost side. They've really done some reprocessing on costs that are going to be helpful over time. And I think they are starting to look at investments in technology that will make them a more compelling competitive choice in the industry. So I think that will play out over the next several years. So I think a lot of potential there but in the meantime, they are obviously serving a very critical purpose for the Company.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, let me just add to Tony's comments. Cartus -- the Cartus lead generation -- these are highly qualified real estate transaction leads that are generated to both NRT, our Company operations, and our franchisees are extremely important to the franchise community, very important to NRT. Now that said, they have to be very good at relocation, which they are. The corporate clients are tending to move fewer and fewer employees; we don't know if that is bottomed yet, but at some point it well.

The affinity program that Cartus is developing is one we've had for a number of years. We're expanding it, that will increase the highly valued the generation back to our franchisees as well as our NRT operations. So as Tony points out, we consistently produce about $100 million in EBITDA so it's a good cash generator and it's in a very important generator of incremental business to our franchisees and NRT.

Brandon Dobell - *William Blair - Analyst*

Okay, and then final one for me. With the new Guaranteed Rate agreement, how do we -- I guess more from a presentation and accounting perspective, how is it going to look going forward relative to what you've presented historically with the PHH joint venture?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, let me just emphasize one thing is from the wind down of the PHH JV and the reinvestment in the new JV, we expect to generate $30 million of net cash from that in 2017, so that's very helpful for us. We can deploy that capital, obviously, to repurchase shares, etc., so that's a great thing. I think right now it's a segment within -- it's part of NRT's earnings, just the JV part of it. It's in their earnings, so I don't -- that could change in the future but right now I don't see that changing.

I think 2017 is going to be a transition year. This transition is going to take -- pretty much it's going to be done region by region over the year and it's going to take a while to execute. But we are highly confident that when the dust settles, it's going to be a great partnership for the next 10 years or longer if we hit the milestones that are in our agreement. So we're really, really excited about being in business with Guaranteed Rate.

Brandon Dobell - *William Blair - Analyst*

Okay, great. Thank you.

Operator

Stephen Kim, Evercore ISI.

Stephen Kim - *Barclays Capital - Analyst*

Thanks very much, guys, and thanks for taking my questions. I guess my first question was related to your productivity -- your business optimization. I think you talked about $33 million realized in savings in 2016. I was curious as to how those savings broke down over the years? How much was in the fourth quarter, for example? And is there a way of telling us roughly what the benefit was in RFG versus NRT from those business optimization programs?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, most of it is -- most of the entire savings is an NRT. That is sort of number one. Number two is Cartus, number, three is RFG and number four is TRG. And in the fourth quarter, I don't know specifically what the number was, but again we expect about half of the savings were embedded in the 2016 results, and another half will be in the 2017 results.

Stephen Kim - *Barclays Capital - Analyst*

Is it fair to say, though, it was probably a fair amount -- maybe half of it was in the fourth quarter? Would that be a crazy (multiple speakers) --?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

No, no, it was probably -- it wasn't -- it was probably more like 30% or something like that.

Stephen Kim - *Barclays Capital - Analyst*

30%? Okay, that's fine. It's still a good number. And the reason that I was particularly interested in that was because we noticed, obviously, that your splits picked up in the fourth quarter and yet it looked like the impact to adjusted EBITDA was insulated by the productivity you generated in the quarter and some of these savings which, obviously, was great to see. And so I was -- I'm thinking about your split range of 69.5% to 70% as you go forward. I'm curious as to how you are thinking about whether you see more potential to drive margin improvement or just greater profitability through cost-cutting? Or if the productivity opportunities you see are more skewed towards programs that are about leveraging volume.

So in other words, if it turns out that you have to pay higher splits to get the agents or to retain the agents or to achieve the volume growth you are targeting, is it looking like you're going to have to pay a higher split level then you really wanted to, are you more inclined to stay within your split range? Maybe have some lower revenue growth but implement a more aggressive cost program? Or alternatively would you see it as an investment you just have to make but it would quickly pay you back because you have all these productivity initiatives that are dependent on volume? Is that clear?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We take -- well, we're always managing costs carefully so -- and I think the optimization programs -- there are still some things that we have on the docket for that. I think they will be less significant than what we did in 2016 going forward and I think where we're positioning the Company is much more of a sales focused organization where we want to up the number of agents and up the productivity of our agents and invest whatever it takes to do that. So that overall our profitability will improve because of revenue not because of cost savings in the future.

Stephen Kim - *Barclays Capital - Analyst*

Yes, that's exactly what I was thinking, particularly since you did such a great job cutting costs several years back. Okay, and then your royalty rate, you mentioned that you expect it to be stable going forward. You talked about the fact that it was driven this quarter by the fact you had a fair amount of large franchisees who obviously pay a lower rate, but we really didn't see that number move a lot in the last few quarters.

This was the first quarter that we saw particularly noticeable drop in that royalty rate and I was curious if you could just tell us, was there anything unusual that happened this quarter? Were any deferred payments or anything like that that drove that? And when you mean stable going forward did you mean the rate for the whole year that you averaged or did you mean what you are doing in the fourth quarter?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

It's really hard to look at it on a quarterly basis. In the fourth quarter, there was some outperformance by our larger franchisee so we had some catch up to do on -- because of the mix of business and so that was kind of a one-time event in the quarter. You've got to look at it -- you don't have to, but we look at it on an annual basis and make sure we're staying within the metrics we're comfortable with and that's how we manage the business.

It's not in the fourth quarter you are going to get some true-ups and that sort of thing and you can't really predict those. But we look at it for the year because it's -- that's how we manage through the -- manage that number.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, I agree with Tony. It's not really -- the quarter is not a good predictive index for that net effect of royalty rate. It's better to look at it on the year.

Stephen Kim - *Barclays Capital - Analyst*

Yes, that makes sense. The last question for me is on the RFG Zap commentary. You said that the agents were closing more than the agents that were non-Zap or not using Zap. I was curious as to if you could give us a sense for -- as you've been rolling this out, did you see that the productivity improved with time? So the ones that were early adopters they showed greater improvements than ones that have been picking it up more recently?

Is it more productive in certain geographies? Are there certain types of brokerages where it works better than others as far as you can tell right now?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It improves with usage, so --.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it's all about usage. And engagement.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's synonymous -- engagement, it's engagement, engagement, engagement. So it's like any new productivity tool because that's what this is. With usage you get more proficient and more productive. So that's why we need more time to mature this to prove our thesis, but literally it's all about engagement.

Stephen Kim - *Barclays Capital - Analyst*

Got it. That's very helpful. Thanks very much, guys.

Operator

Mike Dahl, Barclays.

Anthony Trainor - *Credit Suisse - Analyst*

Hi, this is Anthony Trainor filling in for Mike this morning. Thanks for taking my question. So first, a couple of quick follow-up questions on the NRT agent commission splits. First, how does the incremental competition compare regionally or by price point?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

You know, it just -- recruiting an agent is often very nuanced, it's very peculiar to the circumstances, to the geography, to the market. In New York City it could be the distance between one block and another. So our goal is not to go head-to-head with the competition. We don't believe the competition offers the value proposition we do. Our very strong and compelling value proposition is complemented by what we believe is a market sensitive rate discussion.

So we take it agent by agent, so the competition may or may not be able to compete against us based on our value proposition. We think in overwhelming instances they can't. If you are just throwing dollar at the agent relationship, that's not sustainable. We elected to do both, so we're going to offer compensation that we think is in keeping with our goals and we also believe that's in keeping with the agent's goals, but our value proposition is what's also most important.

Anthony Trainor - *Credit Suisse - Analyst*

Appreciate that. And then second on the commission splits, I was wondering if you could comment on if the incremental agent costs are also being felt by your franchisees as well? And to the extent if -- I mean the broader thing I'm trying to understand is was NRT trying to catch up to the market or is this a broader market issue and if competitors have been responding to your actions on the NRT side in recent quarters.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, NRT is reacting to the markets in which it operates. Our franchisees have a much broader perspective. They also have to deal with similar issues in the markets in which they operate. They have a great deal more flexibility. They can be far more nimble and reactive and we believe they follow a very similar format, a strong value proposition with a competitive split relationship with the agent.

Anthony Trainor - *Credit Suisse - Analyst*

Great, thanks. And then one last quick one. In the past I think you bucketed out what part of -- how much of your operating costs are going to be impacted by inflation. Do you have that figure for 2016 and how should we be thinking about the inflation here in 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well a good chunk of the inflationary cost pressures were offset by our cost improvements in 2016 and we expect that to occur in 2017, maybe to a little lesser degree because it's more of the tail end of some of these savings but we're looking at others that we're going to initiate. But overall we've mitigated a lot of the inflation in 2016 and we are going to keep looking for mitigation in the future.

Anthony Trainor - *Credit Suisse - Analyst*

Great, thanks.

Operator

And there are no further questions in the queue.

Alicia Swift - *Realogy Holdings Corp - SVP, IR*

Thank you for joining us on the call today. We look forward to talking with you over the quarter.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Thank you, everybody. Bye-bye.

Operator

This concludes today's conference call. You may now disconnect.

Exhibit D

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q1 2017 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: MAY 04, 2017 / 12:30PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. First Quarter 2017 Earnings Conference Call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A website replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift

Thank you, Shannon. Good morning, and welcome to Realogy's First Quarter 2017 Earnings Conference Call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith; and Chief Financial Officer, Tony Hull. As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on current expectations in the current economic environment.

Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management.

Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, May 4, and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call, and as per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to our Chairman, CEO and President, Richard Smith.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Thank you, Alicia, and good morning, everyone. Today, I'll review our first quarter 2017 results and offer our perspectives on the start of the spring selling season. So you turn to Slide 4, you see the context of our comments. The housing market outperformed our expectations during the quarter, driven by strong performance in March. On a combined basis, our franchise and company-owned brokerage segments experienced a 9% year-over-year gain in homesale transaction volume.

While we believe some of the volume increase was a pull-forward from April, the overall improvements we have seen bode well for the spring housing season. We also saw early signs of stabilization in the high end with transaction volume at NRT in the over $2.5 million price segment, increasing 10% year-over-year. At NRT, we continue to make great progress on our recruiting programs and strengthening the agent value proposition, despite a very competitive market for sales agents. In addition to our core recruiting, the new initiatives that we discussed last quarter enabled us to add agents, who in the aggregate generated approximately $180 million in revenue over the past 12 months at their previous brokerage firms, and we expect them to produce similar results at NRT. We've also seen further gains in the retention rate of NRT's first and second-quartile sales agents, which is now approaching 94%. While these recruiting and retention initiatives have increased our commission expenses as expected and will result in near-term moderate pressure on NRT margins, we are improving our market share trends compared with last year.

We anticipate that our focused initiatives will result in higher royalties at RFG, increased transactions at TRG in the near term and higher earnings at NRT over the long term.

As we have indicated in prior earnings calls, our company-owned operation will continue to selectively pursue tuck-in acquisitions that are accretive to earnings. The most recent example of this occurred in April when NRT's Coldwell Banker residential brokerage acquired a nonagent firm in the Greater New Haven area, which strengthens our existing Connecticut operations.

On the franchise side of our business, our Zap technology platform continues to enhance the value proposition of our brands for our affiliated brokers and sales agents. As most of you know, Zap and its CRM technology is predictive analytics to help Realogy brand-affiliated sales agents increase their productivity. The Zap platform represents a significant investment in the success of our affiliated sales agents and is at the forefront of our efforts to help our franchisees increase the profitability of their respective companies. Approximately 70% of our eligible franchisees have launched the Zap platform, and we expect to complete the roll out to the majority of our remaining franchisees this year.

We plan to report performance metrics on Zap in the second half of this year. A key strategic initiative we outlined on our last earnings call is the development of a comprehensive education platform for sales agents and sales office managers, both affiliated with our franchisees as well as our company-owned operations, the purpose of which is to increase agent productivity and recruiting.

We have made solid progress in a relatively short period of time and expect to begin rolling out the first programs that are available to our franchisees and company-owned operations later this year. We continue to maintain a long-term positive view in the housing market. The industry is benefiting from attractive mortgage rates and healthy demand at the entry and move-up segments, and we believe the actions we are taking to improve performance are on the right track.

According to The Wall Street Journal, for the first time in a decade, more new U.S. households in the first quarter choose to buy homes than rent. Census Bureau data shows that approximately 850,000, of the $1.2 million new households formed during the first 3 months of the year, were attributed to homeowners. More than double to 365,000 new renter households formed during the first quarter. Mortgage rates, on a 30-year fixed commercial loan, are close to 4% today. The outlook for rising wages and strong consumer confidence are contributing to stronger demand and higher existing homesale volume growth.

As reported by NAR, the National Association of Realtors, the Housing Affordability Index continues to be at historically favorable levels. Partially offsetting the positive impact of low mortgage rates are low housing inventory levels. The inventory of existing homes for sale in the U.S. were 1.8 million units at the end of March of this year, that's down from 2 million units in March of 2016. The current inventory represents a 3.8-month national average supply, which is well below the 25-year average of 6.1 months. This low level of supply, along with continued challenging mortgage underwriting criteria, continued to be 2 of the most challenging headwinds to the industry.

That said, we believe the mainstream existing homesale market is healthy. Looking ahead to the second quarter of this year, we expect the continuation of the current trends, and we are forecasting that Realogy's combined homesale transaction volume will increase in the range of 5% to 8% in the second quarter.

Now let me take time to acknowledge 2 important recognitions that we received during the quarter. In a recent third quarter survey of international relocation managers, Cartus ranked #1 and overall satisfaction amongst large size relocation management companies. Cartus also ranked #1 in 5 of the 9 customer satisfaction performance categories, including responsiveness, the supplier management, value for price paid, cost management and country coverage.

Also we are very pleased to announce that Realogy was named by Ethisphere Institute as one of the World's Most Ethical Companies for 2017. This is the sixth consecutive year, which we have received this honor, and we are proud to be recognized for integrity and commitment to ethics and business.

Realogy is the only residential real estate company on the list. Companywide, we are encouraged by our progress as the team executes on our long-term strategic growth initiatives. As you'll hear, throughout the year, we have invested a great deal of time and resources, sharpening our strategic focus and improving operating performance.

We look forward to a robust discussion of these activities on our Investor Day, which will host at our headquarters in Madison, New Jersey, on August 10.

As we think about our capital allocation priorities, we remain focused on strategically deploying capital to enhance shareholder value. We are committed to a balanced approach between returning capital through buybacks and dividends, paying down debt and investing in growth. As to our investments in growth, our strategy has focused on accretive tuck-in acquisitions, the strategy we expect to continue, enhanced through investments and strong agent recruiting programs, agent productivity and a stronger agent value proposition. In addition, other opportunities that enhance shareholder value will be considered in the proper context.

Since the inception of our share repurchase program in February of last year, we have repurchased a total of 10 million of our outstanding shares for $279 million in aggregate value, bringing our total share count to 138 million shares as of today. Since our IPO in October 2012, we have used approximately $1 billion of our free cash flow to retire debt, to purchase shares and pay dividends to our shareholders.

With that, I'll conclude my comments and turn this over to Tony Hull, our CFO. Tony?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Thanks, Richard. Turning to Slide 5, I'll review our first quarter 2017 results in greater detail. Revenue of $1.2 billion is up 6% compared to 2016. Operating EBITDA was $61 million, down $4 million in the prior year. You'll recall on last quarter's call, we said that we expected operating EBITDA to be down year-over-year due to higher sales, agent commission split at NRT, the impact on operating costs of acquisition completed after Q1 of last year, along with unfavorable comparisons to Cartus.

Adjusted net loss was $23 million compared with adjusted net loss of $17 million in the first quarter of 2016. We typically have a net loss in the first quarter of every year, since transaction volume is at its annual low and revenue generated is insufficient to offset the fixed operating cost of our businesses as well as depreciation, amortization and interest expense in a more evenly spread over the full year.

Before the mark-to-market adjustments for interest rate swaps, booked interest expense decreased $2 million to $40 million, as a result of reduction in total outstanding indebtedness and a lower weighted average interest rate. The business authorization initiatives we began in the fourth quarter of 2015 will largely be completed by mid-2017. This year, we expect to incur an additional $11 million of restructuring costs, which would result in total restructuring cost of approximately $65 million. We expect to get $70 million of annual run rate savings from these initiatives, which were designed to improve operating efficiency and offset a portion of annual inflationary cost increases. Approximately $33 million was realized in 2016, $29 million is expected to be realized in 2017.

From January 1 of this year through May 2, we repurchased approximately 3 million shares. Giving effect to these repurchases, all the remaining capacity under the February 2016 program has been utilized. And as of May 2, 2017, we had approximately $296 million remaining authorized under the February 2017 repurchase program.

In the first quarter, our effective tax rate was 24% due to a discrete item related to equity awards. We expect full year 2017 effective tax rate to be 41%.

Turning to Slide 6 for a discussion of drivers of our business. Our overall homesale transaction volume growth was 9% year-over-year in the first quarter. Transaction volume was higher than our previously guided 2% to 5% due to stronger-than-expected activity in the month of March. Typically, March represents about 70% of first quarter EBITDA, but represented almost 80% in Q1 2017. We believe this was partially due to (inaudible) transactions into March due to the timing of holidays in March versus April last year and the impact of which was greater than we had modeled.

Transaction volume at the high end was also stronger than we anticipated for both NRT and RFG. RFG's transaction volume increased by 10% with 3 percentage points of the increase coming from higher transaction sides and 6 percentage points from greater average sales price.

Sites growth in the $2.5 million and above price range was 21%, which is -- which positively impacted the overall average sales price at RFG. Volume in the Midwest, South and West regions all grew by 10% or more, and the Northeast grew at 8%. NRT finished up the quarter of 7% in transaction volume with 4% of the growth coming from sites and 3% coming from average sales price.

Factors driving growth in the quarter included our successful recruiting and retention efforts; improvement in the high-end market segment, as evidenced by the strength and energies average sales price of $509,000; and approximately 2 percentage points from the impact of acquisitions completed since the beginning of last year.

Focusing on the high-end volume in the $2.5 million and above range price segment grew 10% year-over-year, half from sites and half from price. That price segment represented 20% of NRT's first quarter volume. The strongest geographic markets for NRT were in the South and Northeast, which had -- both had volume increases of 8%. The Midwest and West had volume increases of 6% and 5%, respectively.

Turning to other drivers. Average broker commission rate at RFG was down 1 basis point to 2.50%, and average broker commission rate at NRT was also down 1 basis point at 2.45%. Given the increases in average sales price, the most pressure on ABCR was to be expected. Net effect of royalty rate for the RFG fluctuates, on a quarter-to-quarter basis, was 4.44% or down 7 basis points for the quarter. Our top 250 franchisees were generally paying net royalty rates below 6%, continued to perform well and increased their percentage of RFG revenues. This group generated 63% of its revenues in Q1 of 2017 compared with 62% in the first quarter of 2016.

Downward movement in the net effective royalty rate is modestly dilutive to overall revenue growth at RFG. For full year 2017, we currently expect the net effective royalty rates to decline by approximately 5 basis points compared to last year.

NRT commission splits increased to 112 basis points year-over-year as we stated on our year-end call. Our current estimate for 2017 is that splits will increase to between 69.5% and 70%, as we continue to strategically invest in strong sales agents. While we expect this increase will put near-term pressure on NRT's margins, the benefit of these in other growth initiatives will be immediately realized in RFG's results due to the expected higher resulting revenue -- royalty revenue at NRT. As a point of reference, Slide 7 shows our RFG and NRT's combined operating performance in the quarter. So for the quarter, combined revenues were up 7% and EBITDA was up 11%.

Turning to Slide 8, let's talk about business unit operating performance in more detail. At RFG, revenue increased 8% and was driven by the 10% increase in transaction volume. RFG revenue growth lagged its transaction volume growth, primarily due to NRT royalties. You'll recall that NRT pays RFG royalty fee, which makes up a substantial portion of RFG revenue. In 2016, those royalty payments represented approximately 40% of RFG's revenue. Because NRT's transaction volume growth in the quarter was 7% and below RFG's 10% transaction volume growth, that had the effect of dampening RFG's overall revenue growth.

NRT revenue increased 7% in the first quarter of 2017, comprised of $38 million increase in organic revenue and $18 million earned from acquisitions. NRT operating EBITDA decreased $2 million, primarily due to a $4 million reduction in PHH Home Loans earnings. We expect a similar decline in JV earnings in the second quarter, as the venture continues to wind down and transition to our new mortgage joint venture. Excluding the joint venture, NRT operating EBITDA in the first quarter increased $2 million. This was driven by the $56 million revenue increase, offset by a $47 million increase in commission expense as well as $9 million in higher operating expenses related to acquisitions, offset by $4 million of unrealized cost savings. We continue to invest in NRT sales agents, which, as a short term, results in higher commission expense, but over the longer term, is expected to be a positive impact on revenue and EBITDA levels.

Cartus revenue and operating EBITDA decreased $6 million in the first quarter. The decline in revenue was due to a $3 million decrease in international revenue, including the impact of foreign exchange rates and a $3 million decrease in other revenue due to lower volume. As a reminder, an important incremental value of Cartus within our company is the transaction leads it provides to our sales agents.

Over the last 12 months, approximately 86,000 closed transaction sites resulted from Cartus referrals, primarily involving Realogy's network of affiliated sales agents.

TRG's revenues increased $9 million and operating EBITDA increased $2 million in the first quarter. Corporate expenses before restructuring legacy and early extinguishing of debt in the first quarter was -- were $8 million higher than in Q1 of 2016, due to employee expenses, including investments in technology development as well as professional fees and occupancy costs.

Turning to Slide 9. Looking at our expectation for the second quarter of 2017, we forecast that Realogy's combined homesale transaction volume will increase in the range of 5% to 8% year-over-year, the sites contributing 2% to 3% and 3% to 5% coming from price. Broken down by business unit, we expect a 5% to 8% transaction volume growth at RFG and 4% to 7% that NRT. Similar to Q1, despite an expectation of higher revenue relative to last year, second quarter operating EBITDA is likely to be down year-over-year, due in part to the investments we are making to increase the number of NRT sales agents and other strategic initiatives as well as unfavorable foreign exchange comparisons at Cartus.

Slide 10 provides guidance for specific cash flow items. Operating EBITDA -- the low operating EBITDA, in particular corporate cash interest expense for the year, is expected to be approximately $165 million, cash taxes of $20 million to $25 million are forecast for 2017. Capital expenditures for the year are forecasted to be between $90 million and $100 million. Ordinary course M&A investment will be approximately $60 million, half of which is expected earn-outs from prior year acquisitions as well as several relatively small potential NRT and TRG acquisitions.

In addition, while there will be volatility in the quarterly contributions from mortgage saving, as discussed earlier, once the transition is complete, the company expects to realize approximately $25 million of net cash on an aggregate basis.

In summary, we are off to a good start in 2017. We anticipate that the increases in revenue due to a solid housing market growth and continuous stabilization of the high end, along with benefits from our business optimization and growth initiatives will position us to continue to generate significant free cash flow in 2017.

With that, we will open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of David Ridley-Lane from Bank of America.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Sure. Looks like the recruiting program for NRT gained further traction in the first quarter. The agent additions are $180 million. Is this program close to your run rate level that you are expecting? Or are you -- could you see the revenue benefits start to build further?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, the revenue we shared with you is $180 million and that was what the agents that we recruited earned in the -- at the former broker. We expect to meet or exceed that number with these agents, in our -- as they work with us because of the greater productivity tools we offer. And so far, based on what we see in the first quarter, that appears to be the case.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

David, this is Richard. So an important and very relevant reply to your question is that the agents we're recruiting on the program are productive agents, with much higher site production than you might expect or consider. Many of our competitors are recruiting entry-level agents with no production. These are people who have a proven track record. So when we referenced the $180 million in revenue that they produce with their previous broker, we expect them to do that or even better through their affiliation with us.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And look forward to getting the operating metrics on the Zap rollout in the second half. I was wondering, if -- maybe anecdotally, in the recent wins that you've had among franchisees, if the Zap platform was a meaningful driver of why the firm choose to affiliate with a Realogy brand?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Yes, it's a great question. It is in fact an enhancement to the value proposition. It's -- as you know, it's structural. So we're deploying plumbing, if you will, that's going to be very important to just about every technology product or service we bring to the market. So in that regard, it's moving along quite well. We said 70% of the eligible franchisees. Sotheby's is excluded from that group, so that will occur over time because they have very special needs and desires. But it is best for our proving to be a very important franchise sales tool and important franchise renewal tool. And we believe it's starting to show, and we will elaborate on this on Investor Day. The increased productivity that we expected -- what's important is the franchisee is properly trained, the agents are trained and they become far more productive as a result of that training and the system. So early results were very promising. We are encouraged.

Operator

Your next question comes from the line of Ryan McKeveny from Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

One similar question on the commission split side of things. Can you walk through how you think about, I guess, the normal seasonality of how that might typically play out through the year and given kind of the current efforts on the recruiting and retention side? How that might bridge from where we are in 1Q to the full year guidance of the 69.5% to 70%?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, the -- I guess, it's not so much seasonality this year. It's more implementation of some of the recruiting and retention efforts we put in place. So the increase year-over-year is going to be more prominent in the first half, and then we expect it to taper off in the back half, as we sort of start to lap some of these initiatives that we've -- and investments we have made. So that's the basis of our 69.5% to 70% estimate for the full year.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

Okay. And then one on the AFP for NRT, obviously, very strongest quarter. And what we're picking up is similar improvement in stabilization at the high end, but in some markets, this seems to be a bit at the expense of price, where you have sellers becoming a bit more realistic. So it's good to see you are capturing that ASP increasing, but just curious, on the dynamics of that, because of it seem -- it's partly mix related and just curious when you think about the ASP in that business going forward, is there potential that the price side of that comes under pressure alongside higher unit volume? Or are you seeing an up-strength where that ASP can stabilize around here, even improve?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

We expect to continue seeing strength in that segment, although it's very difficult to predict. And it should be driven principally by the seller's willingness to reduce their ask price. That is apparent in markets that have excess inventory with price adjustments with buyers there. So we are very encouraged by the buyer interest, but only at a price point that makes sense to them. This is something it's been in the making for some time. And it's nice to start to see the market sort of frame the seller's expectations and the buyer's need. So I -- we are encouraged. But you are right, it's going to require price adjustments and the volume will follow, but you need to see price adjustments, and we're encouraged by what we see now.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

Got it. And just to be clear, so the 1Q number -- is there any meaningful, I guess, benefit to that from whether it's New York City or markets that have some of the maybe new development product that flow through to closing this quarter? I guess, I'm just thinking about that mix of maybe that potential impact that 1Q had?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It was across the board.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Yes. No, it's...

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It was across the board, and it was very consistent across all of our markets, at all of NRT's markets.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

An exception to that roll is New York City, where new construction continues to outpace expectations, both on price and units. So new product in New York City continues to be particularly strong.

Operator

(Operator Instructions) Your next question comes from the line of Kevin McVeigh from Deutsche Bank.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

In terms of -- can you help us directionally with the year-on-year decline in EBITDA -- and is part of that due to kind of the pull-forward or some of that EBITDA from Q2 to Q1, in terms of the size and the decline? It sounds like the contribution was outsized in Q1. Does that contribute to the year-on-year decline in Q2? And any sense of where that is directionally?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes. I think the pull-forward will most likely work itself out during the second quarter. It may affect April a little bit, but I think it will balance out in May and June based on what we are seeing. And the real -- the decline -- again, we indicated in our last call that EBITDA would be down. But of the decline, the 2 major -- 2 of the major contributors were PHH, the joint venture being -- having a loss of $4 million versus being breakeven last year, just because of the transition going on there from the old JV to the new JV and some costs that are there incurring to make that transition and so we're recording our share of those costs. And again, we expect that to continue in the second quarter and -- but net-net, when all said and done with the transition from PHH to the Guaranteed Rate affinity joint venture, we expect to generate $25 million of cash from that exercise, which we will most likely get all of the share, but there may be a little bit slips into 2018. So that was one -- PHH was one factor. The other factor was the impact of higher splits on the sort of overall volume. So that was about a $9 million bad guy for the quarter. But we feel very strongly that the increase in agent count and the royalties, that the revenue they produce, that are shown over RFG will be a net positive over the medium term. So the other one is -- the other negative was Cartus, which really just -- their seasonality differs from the rest of the company. Their seasonality is -- most of their EBITDA is earned in the third and fourth quarter. So any sort of fluctuation in revenue in the first quarter drops pretty significantly to the bottom line, which is what we saw. But for -- on the full year basis, we expect to make some -- good chunk of that out.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

Great job. And then just real quick on the retention rate, you're almost progressing at 94%. Any sense of where the goal is on that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Higher is good. So we don't know where it's going to end up. It's been pretty predictable up to this point. We know what the low was, and we sort of know what the high end of the range is. You know what, we're yet to get too high, however. So I want to make sure that we have a clear understanding that there is a cost to those high retention rates. So we manage in the context of the return on that investment, and we're pretty comfortable where we are right now, but it could slightly go up higher. So...

Operator

Your next question comes from the line of Michael Dahl from Barclays.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

I wanted to follow up on that question from Kevin. I'm not sure if I heard the answer or not, but just in terms of 2Q margin expectations to just obviously have that continued transition with PHH, but given the -- just given the transaction volume guide, just how you're thinking about kind of core ex-PHH EBITDA year-on-year? And any margin guidance that you can give us?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, we don't give -- we're not giving margin. We indicated that we think EBITDA is going to be down year-over-year in the second quarter. And I think a lot of the things you saw in the first quarter are going to be continued in the second quarter. And as I said, the split gap is probably highest in the first quarter. It comes down in the second quarter. And then in the third and fourth quarter, it brings you down to get to that 69.50% to 70% split, as we start lapping the higher splits we started to pay in the third and fourth quarter of last year. So again, in the second quarter, we expect EBITDA to be down and revenue to be up. But longer term, obviously, this investment and the recruiting and retention efforts that NRT is making, we think -- I guess, the way I would put it is that a year ago, if you looked at the number of the KPIs, they were flashing yellow or red and most are flashing green, maybe some yellow at this point. So it's a huge sea change from a year ago based on the great work that the team at NRT has done. And again, as you know and you pointed out, a lot of that benefit shows up in the 6% royalty increase. So for every $100 million of increased NRT revenue, you're going to see $6 million of that EBITDA over at RFG. So you won't necessarily immediately see it at NRT, but you'll see it companywide and that's why we made the point that if in the first quarter, if you combine NRT and RFG results and sort of eliminate that in our company issue, revenue was up 7%, EBITDA was up 11%. So we feel great about the direction that NRT is going.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Let me just enhance the comment that Tony made. The investment we have elected to make in agent productivity, agent recruiting and the profitability of those agents, will take a few quarters to get that to where we think needs to be on a run-rate basis. So it is exactly following the track we expected, and that's going to continue in the second quarter of this year.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Okay. And Richard, I guess, just following on that one, I think, it's clearly helpful to provide the context, the $100 million -- the $180 million of the productivity from the agents that you've brought on to the platform. And you've done a better job getting that retention rate up as you've already discussed. Can you help us frame, kind of, the kind of the net of how much GCI you've added with the new agents, relative to how much that 6% attrition rate that's out to? And just help us understand the productivity of the agents, who have left the platform versus who you've brought on to the platform?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Yes. So there is 2 considerations. You have your core recruiting, which is a very substantial number year-over-year. The recruiting that we are referencing now is incremental to that. The agents we're bringing on are, in our view, incremental agents outside of the core recruiting. So this is a new program having few year-over-year benchmarks, but why it's important is that by design, the program is going after productive agents. These are agents doing 10 or more transactions a year. Many of our competitors are going after entry-level agents with no production or a very little production. So the distinct advantage we have is our program is targeting productive agents, who will be productive with us, much faster than agents with a competitor having little of any production. So you can consider the revenue that those agents produced, as we referenced, has been incremental to us.

Operator

Your next question comes from the line of Stephen Kim from Evercore.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

I just wanted to ask a few questions. One on royalty rates and then other just on the affect of Easter. I guess, first, on royalty, I was curious as to whether or not, you thought that the royalty rate decline that you are witnessing here has a secular component at work? Because I know, cyclically, you described in the past that in weaker times that the larger entities tend to gain share and so forth, that happens at the agent level and I assume that happens at the brokerage level, too. But as I get further into the cycle, I was just curious at what point you would expect maybe that to go the other way? So I was just -- if you could talk about the cyclicality or secular dynamics that may be at work behind the royalty rate trend? And then with respect to royalty rates, also, you gave a guide of 5 basis point decline for the year. I was curious as to whether you thought this year that royalty rates would be smoother through the quarters than they were last year?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Now let me just comment and then, Tony can fill in where if I left up -- left out something of relevance. Listen, the largest franchisees will always outperform their smaller counterparts, that's just the nature of the business. But the volume of the business will make it possible for smaller franchisees to perform at a higher performance level. So you need to see in which we -- I think we're starting to see a stronger housing market, which will make it possible for the small- to medium-size franchisees to perform better than they would have otherwise. But it is always the case that the largest franchises, always is a big word, but it's generally always the case that the largest franchisees will outperform just about everybody, that's the nature of the business. They are very capable, very confident. I actually view that as a good thing. I like to see higher performance achievement on the part of the largest franchisees, speaks to the strength of the housing market. But to your point, we need to see the small- to medium-size brokers rise to the occasion, but it's going to take stronger housing volume to help accomplish that.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

I would just add to that, that first of all, Steven, the outlook right now is a pretty smooth rollout of the net effect of royalty rate over the year. There is no big bleeps quarter-by-quarter. And -- but I think one of the benefits that we will see, not immediately but as we continue to roll out the Zap platform, the most eager users of our -- of the Zap platform are the smaller franchisees. Because they don't -- this technology for them is light-years ahead of what they've had in the past or what they could cobble together. They are great at being franchisees and being running an office, but they are not Google employees or anything like that. So having us delivered that to them and seeing the productivity enhancements we are seeing should help either stabilize or improve the net effect of royalty rate. Obviously, the yin and the yang is that as our larger franchisees grow faster than the overall, it puts pressure, but if we can get our -- the full range of our franchisees to start to grow at the same rate because of the technology enhancements we get in them, we should see that stabilize; if not, get a little better, but we're not counting on that. But stabilization should be an output of the roll out of the technology that we've done, that's unique to us and nobody else has ever done before. They probably will try in the future, but we're favorably ahead of them.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Steven, let me just -- Tony made an excellent point and that is Zap, by design, is going to sort of level the playing field and make it possible for smaller- to medium-size franchisees to see greater productivity gains, based on a much better technology platform. So over time, that nuance, that we just discussed, should be minimalized at some point, because we think the technology is going to increase our productivity by a measurable amount.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Yes. Right. That's exactly right. Okay. So regarding Easter, I would think that, by now, with April being done, we could sort of look back and see what margin April combined look like. And so when you made your comment about how you thought that the pull-forward -- I guess, you were trying to talk about the -- what you thought the size of the pull-forward was in April? Do you feel confident from what you've seen from March and April combined that essentially the trends that were in place in January, February just kind of continued? It's just that -- it's the way the calendar fell? Or do you not have enough resolution at this point yet to be able to make that statement?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

I mean our leverage, would speak a second, because my view is that we are confident in the guidance range. So we gave 5% to 8% for the quarter. We haven't really looked at this March, April kind of aggregated. It's just on a natural exercise for us. But certainly, the holiday period caused some softness. But towards the end of the month, it was -- things were back on track. So it's -- so again, we are confident in our guidance to date.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Yes, I have nothing to add to that. That's right.

Operator

Your next question comes from the line of John Campbell from Stephens.

John Robert Campbell - *Stephens Inc., Research Division - Research Analyst*

On the $180 million in run-rate rev, the new agent rev you guys talked about, just wanted to clarify a few things. I know the new agents that usually come over have to give their existing listings back to their past broker. Just curious about the $180 million, kind of what you are seeing now versus how much you expect to come maybe in the back half?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

So you recall the context on my comments pertained to our expectation that they would perform on a similar basis with us. So that takes into consideration what we've seen out of them in the short period of time they've been with us. So we're encouraged by that.

John Robert Campbell - *Stephens Inc., Research Division - Research Analyst*

Okay. And then -- I mean, I'm assuming that, at some rate, they did a $180 million or so last year and then you got to gross that up or you've got to accelerate that a little bit with the volume gains. But -- I don't know, Tony, maybe if you can help us little bit on the back half? Maybe what you're expecting as far as the guidance is concerned?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, I mean, we gave guidance for the second quarter, and it is a 90-day ramp up for those new agents. So just logic would indicate that we'll see more than less in the back half because the program ended at the end of March. But we'll have a lot more -- we'll have a better view and be more explicit on the year and that sort of thing on Investor Day. So...

John Robert Campbell - *Stephens Inc., Research Division - Research Analyst*

Okay, that's helpful. And then back to the question about the retention rate, 94% in the top quartile. Can you guys let us know what that was? Maybe several years ago, and then, maybe how low it got in the trough over the last year too? Just trying to gauge the extent of the rebound there.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, we are at the high. It's really been 94% to -- it's.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

92%.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It's 92% to 94%. So we're at the high-end level at this point.

John Robert Campbell - *Stephens Inc., Research Division - Research Analyst*

Okay. And then one last question. How much remains on the share repurchase authorization?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It's $297 million, I think, on the February 2017 authorization.

John Robert Campbell - *Stephens Inc., Research Division - Research Analyst*

Okay. Is it fair to say that you guys maybe lean a little bit more to the buybacks with the stock at these levels, relative to debt reduction?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

I mean, I think, as long as we believe that we are looking for whatever we think is the most accretive. And we think that at this stock price, certainly relative to our intrinsic value, we are leaning heavily on the share repurchase side versus paying down debt that costs us 4% and 4.5%. So that's -- but we are -- our dual goal is, obviously, to use that authorization as long as we think that it's value -- the value is there versus our intrinsic value, but also we want to delever the balance sheet. Our goal is still to get a 3x leverage. So we'll do both and a balance where we certainly -- we have a minimum of $42 million of accretion -- of amortization we have on our Term Loan As and our Term Loan B, but we would expect, just like we did last year, to do more than that.

Operator

Your next question comes from the line of Jason Deleeuw from Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Question on the commission splits. The higher splits seem to be doing their job, but are they now at a level that NRT can hit and maintain the (inaudible) retention in recruiting targets? Or are they going to have to keep moving higher, after they kind of slide higher on this latest move?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

So that's an important question. We believe we're pretty comfortable with the guidance we have given on the split. It's going to be necessary to achieve our goals this year. And we see no reason to think it's any higher than that. So the early indications are that the guidance we've given on the split is appropriate and correct.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Good. That's great to hear. And then, thanks for that slide showing the combined RFG, NRT EBITDA and the revenue growth versus the EBITDA growth. And we're getting a little bit of margin expansion here with what we did in the first quarter. And I'm just wondering with the expected commission split step up that's going to happen as the year progresses, can we still get combined 2 segments, those 2 segments combined, can we still get margin expansion?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Again, I think, we'll talk about that in August at Investor Day.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Okay. But I guess, the first quarter -- it seems like trend so far just felt -- the start to year are pretty positive in the terms of expectation there?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, I think the important thing is that, for Investors, they need to sort of -- and the reason we showed that slide is because -- you look at RFG and see, they have 70%, 80%, 90% pull-through of revenue and EBITDA, and you're looking at NRT, and it's a different story, especially in this time of investment. But I think, to your point is, it is very important to look at them combined, because, again, for every $100 million of higher revenue at NRT, $6 million is showing up at RFG. So that's why, I think, it's -- you cant just look at NRT in a vacuum to see the success where the progress we are making on these programs, you have to look at it on a combined basis. So we are encouraged that we've really been trying to emphasize that because we think it's important. Because at the end of the day, it's cash flow for us, and it's greater cash flow. And we think that's how you measure the progress of these programs.

Operator

Your next question comes from the line of Jason Weaver from Wedbush Securities.

Jason Price Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

On the last call, I think, the remark was made that you were seeing markets beginning to come in -- on frozen in the high end. Any update to that view?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, the high end -- as we've talked about, the high end was up 10% for NRT, and it was 20% of their volume for the first quarter. So we think -- at this point, we are not ready to call that it's starting to rebound, but we certainly -- because you can't really -- the first quarter is not a good quarter to make a judgment about the market. But we think that -- we think it's encouraging and it's stabilizing, and obviously, the -- that's better than the alternative, and it's certainly in a much better place that we were a year ago. And so -- anyway, that's it.

Jason Price Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

Sure. And then on the M&A front, just given the environment, are you focusing more on looking at tuck-in acquisition or new technology?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

It's principally tuck-in acquisitions. That's been a strategy for some time. They are and they have been very attractive for a variety of different reasons. Technology, as you know, continues to be an important part of our value proposition, Zap is a great example of that. We continue to make investments in Zap and the next version of Zap and the roll out of Zap. So it's a combination of initiatives on our part, but it creates same value. At the end of the day, it creates stronger shareholder value.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

And you're seeing some of that investment in the corporate overhead increase year-over-year. So that's where our -- that's where we have some of the costs the Zap labs, for their developers and the projects that we're working on for not just RFG, but they are working on projects for some of our clients, and they are working for projects -- our biggest client, which is NRT.

Operator

Your next question comes from the line of Anthony Paolone from JPMorgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I think you covered most of what I had. My only question really was, as -- you addressed the splits in terms of the recruiting effort, but is there anything else that you find that you need to do in the recruiting efforts in NRT, such as picking up more advertising or spending for guarantee positions on the online listings? Anything else that you are doing to kind of drive that besides just the split?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

It's a great question, Anthony. Thank you. We have come to the conclusion appropriately so that more support to the agent is a better value proposition. So in our effort to increase the strength of the value proposition, we are increasing at certain levels in certain markets because it's not the same in every market. Support that may be in a form of better improved marketing, better technology, just better values. But the most important one that's on the horizon is our new education platform, which we have every reasonably will contribute to increase productivity on the part of not only new entry-level agents but productive agents. So that's going to roll out later this year. We are very encouraged by it. On a piecemeal basis, we are increasing support levels, but we have done it in the context of all the guidance that we have given thus far. So we're encouraged by the early indications of increased productivity based on the strength of our value proposition.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got it. And as it relates to just the agent spending money out of pocket on their own, listing advertising, and so forth and the online efforts, how is that changed over time when it comes to working out of split with them? Do they bring up, "We're spending more over here, so we want greater split." Or is that just moved from paper to online and there hasn't been a change on that element of the negotiation?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Yes, I don't think technology spends now is not necessarily what's driving split discussions with agents. It's based on their production. More often than not it's their marketing support, administrative support. Technology has displaced the sort of old-line approach to marketing, thankfully so. It's far more efficient, far more effective. The online versions of what used to be offline are driving productivity at every level. And it's a better consumer experience, better agent experience. They've become sort of used to that. I don't think that's what's driving our recruiting discussions. Recruiting discussions are more around -- marketing support, administrative support and their production levels. So higher production level, the higher the expectation at the LC higher splits. That's what we negotiated on a one-off basis, and thus far, in our guidance, we have done a pretty good job with that.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, just the marketing -- just to be clear, the marketing increase -- that you -- on the P&L in the first quarter was all related to RFG, brand marketing funds. NRT's marketing spend itself was flat year-over-year. So it was generally -- and that's really just sort of the timing, as you know, with the brand marketing fund. It's really timing of the spend throughout the year. It's not -- and it's in and out, that we recognize the same revenue as expense, but it's not great for margin, but it does move a little bit quarter-over-quarter.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Anthony, always take in the consideration that marketing on the brand side of RFG is sort of brand equity marketing on the NRT side, it's transactional. It's -- we're literally marketing to sell a house as opposed to building the brand.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Operator?

Operator

Your next question -- today's final question comes from the line of Josh Lamers from William Blair.

Joshua Lamers

Most of what I had has been covered. So maybe just a quick couple of questions and some bigger picture items. Just wondering if -- given kind of the supply shortage that we're seeing in the market and the number of days that homes are on the market. Near term, that's good for productivity, but just wondering what your thoughts are if you harbor any concern about longer term if that were to continue?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

Well, we're certainly not happy with inventory levels. There are a number of issues contributing to low inventory levels. We would've expected at this point that we would see an improvement in inventory. That may very well be on the horizon. We just have no way of knowing right now. I think, what's important is and in spite of all of that, we have -- our guidance has been right on the mark, and we've done reasonably well, if not, very well. In light of lower inventory levels, I would attribute much of that, not all of that, but much of that to the builders and their need to ramp up new construction. We've got sort of a pipeline issue here. I can sell my house, I have -- it's very difficult for me to move up, if I move-up buyer. So I can quickly sell, but I just have nowhere to go, so I'm holding. And we see that in a number of markets. So we need to credit underwriting standards to abate and not be onerous as they are today. So we need greater credit availability. We need more new construction. And listen, this will correct itself over time. It's just taking longer than we anticipated, and I think longer than the industry anticipated.

Joshua Lamers

Sure. That makes sense. And then I'm wondering if you have any insight into the imbalance that you are seeing on either the low or high end, essentially meaning how many bids are there for a property on the low end versus the high end?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO, President, Chairman of Realogy Corporation, Chairman of Domus Intermediate Holdings Corp, CEO of Domus Intermediate Holdings Corp, CEO of Realogy Corporation, President of Domus Intermediate Holdings Corp and President of Realogy Corporation*

So I won't use New York City as an example, but in a recent discussion with our President of New York City market, she referenced that's a low-end $1 million, 1 bedroom -- I don't see it's 1 bedroom or studio, had 200 showings in an open house and 25 bids and they outstripped the listing price by about 20%. So well -- listen, we don't see that play out in every market. We see -- the good news is, when something is priced right, be it at the entry-level or the high end of the market, it's selling. So the buyers are there, but they have very specific expectations as to what they are willing to pay. So that's starting to come together as little better, and it's reflecting in all of our guidance.

Alicia Swift

Great. That wraps up our call. We thank you for joining us today, and we look forward to talking with you over the coming quarter.

Operator

This concludes today's conference call. You may now disconnect.

THOMSON REUTERS

Exhibit E

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q2 2017 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation Second Quarter 2017 Earnings Conference Call via webcast. Today's call is being recorded, and a written transcript will be made available in the investor information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift

Thank you, Jennifer. Good morning, and welcome to Realogy's Second Quarter 2017 Earnings Conference Call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith; and Chief Financial Officer, Tony Hull.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statement during the call. These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, August 3, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also certain non-GAAP financial measures will be discussed on this call per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to our Chairman, CEO and President, Richard Smith.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Thank you, Alicia, and good morning, everyone, and thank you for joining us today.

Commencing over a year ago, the company embarked on a series of initiatives focused on sales agents, including targeted recruiting strategies, best-in-class agent retention practices and organizational changes with new centers of excellence to enhance support for services, such as marketing and education for our agents. These initiatives became the foundation for broader strategy work in the fall, during which we initiated a comprehensive review of strategy for our entire enterprise.

That body of work has led us to a refined strategic plan that we believe will manifest itself in a variety of ways from improved lead generation capabilities, to strengthened technology and marketing tools for agents, to enhanced coaching and training for agents to drive improved results, all of which are designed to increase the productivity of our existing agents and attract new agents.

In addition, our newly created and staffed strategy office will manage our strategic initiatives and enable innovations in our businesses that will help to strengthen our value proposition. We are excited by the plans already underway with more to come, and look forward to discussing our growth strategy and related initiatives with you in more detail on Investor Day, which as you know we will host at our headquarters next week on August 10. While it is still very early in the process, we are starting to see results, which Tony and I will describe as we walk you through the quarter.

So let's turn to Slide 4. Our residential real estate business outperformed our expectations for the quarter, primarily due to early progress on several key strategic initiatives and increased homesale pricing. Home prices continue to increase due to low inventory levels and stronger demand in high-end markets.

Our franchise and company-owned brokerage segments experienced a combined 9% year-over-year increase in homesale transaction volume. NRT, our company-owned brokerage segment led the way with a 12% year-over-year gain in homesale volume.

This strong performance was attributable to accelerating strength at the high-end of the housing market, coupled with the success of NRT's agent recruiting and other organic growth initiatives.

RFG homesale volume increased 7% as compared to the second quarter last year, again driven largely by price gains, achieving the high-end of the range we had anticipated for our franchised operations.

At NRT, we continue to make meaningful progress on our growth initiatives, specifically our recruiting programs and the focus on strengthening the sales agent value proposition.

In addition to our core recruiting, the new targeted recruiting initiatives that we have discussed in each of the past 2 quarters have so far enabled us to add a significant number of agents. These agents in the aggregate generated approximately $250 million in revenue over the past 12 months for their previous brokerage firms, and that's averaging about 13 sides per agent.

Our retention rate of NRT's first and second quartile sales agents has returned to levels approaching 94%, our historical high watermark. While these recruiting and retention initiatives have increased our commission expense as expected and will result in near-term moderate pressure on margins, we're starting to see the positive impact on overall revenue and increases in EBITDA at RFG from royalties it receives from NRT.

A key strategic initiative we outlined on our last earnings call is the development of a comprehensive education platform for sales agents and sales office managers, for both our franchisees and our company-owned operations. The purpose of which is to increase sales agent productivity and strengthen our value proposition. We have made solid progress in a relatively short period of time and expect to begin rolling out the improved training programs later this year.

On the franchise side of our business, our Zap technology platform continues to enhance the value proposition of our brands for our affiliated brokers and sales agents. As we have previously discussed, Zap and its CRM technology use predictive analytics to help Realogy brand-affiliated sales agents increase their productivity.

The Zap platform represents a significant investment in the success of our affiliated sales agents, and is at the forefront of our efforts to help our franchisees improve the performance of their companies. Approximately 75% of our eligible franchisees have installed the Zap platform, and we expect to complete the rollout to the majority of our remaining eligible franchisees this year.

It will take time and effective training to fully capitalize on the benefits of this program. At our Investor Day, we will report on a number of key metrics related to Zap including agent productivity, increases in online traffic and active users. Our focus on providing unrivaled service and support to sales agents continues to pay dividends.

According to a REAL Trends, Wall Street Journal report issued in June, Realogy brand affiliated agents and teams led the nation, with 26% of the top agents and teams as ranked by sales volume and homesale transaction sides, and 36% of the top agents and teams ranked by average sales price. Most notably, NRT accounted for 24% of the nation's top individual agents based on sales volume, including 11 of the top 30.

In a separate report issued by the National Association of Hispanic Real Estate Professionals, CENTURY 21 had the #1 Latino agents in terms of sales volume and 3 agents in the top 10. When ranked by total number of transactions in 2016, CENTURY 21 had 31 of the top 250 Latino agents and teams nationwide.

In early July, Title Resources Group established a commercial title division. This included the acquisition of EAM Land Services, a prominent Manhattan-based title company, offering a full range of title services, which expands the scope of TRG's title operations in Manhattan and Long Island, key markets for us.

Our domestic franchise sales team continues to build our base of brokers and agents with RFG adding approximately $100 million in new franchisees and sales agent production gross commission income in the second quarter, and $173 million in GCI year-to-date.

Cartus is a global leader in employee relocation for corporate clients. This is also very integral to Realogy's emphasis on improving our sales agents' productivity. Last year, it provided referrals that resulted in approximately 80,000 homesale closing transactions for agents affiliated with NRT and RFG.

And last, but certainly not least, we want to acknowledge that during the second quarter, Realogy was named to the Fortune 500 for the 4th consecutive year. Once again, we are the only residential real estate franchise or a brokerage firm recognized in this prestigious ranking of America's leading corporations.

Let's move to macro trends. For the second consecutive quarter and only the second time in a decade, more new U.S. households chose to buy homes than to rent. Census Bureau data reports that there was a gain of 1.2 million owner occupied homes, which was offset by decrease of 700,000 renter-occupied households during the quarter. This resulted in 560,000 net new households formed during the quarter and reflects a positive trend for growth in owner-occupied households.

As a result, there was an increase in the homeownership rate in the second quarter to 63.7% over the prior year rate of 62.9%. We believe this is a very positive sign for the housing market as more millennials begin to move from renting into homeownership.

The inventory of existing homes for sale in the U.S. was 2.0 million units at the end of June of this year, that's down 5% from a year ago. The current inventory of homes for sale represents a 4.3 million -- 4.3-month national average supply, which is well below the 25-year average of 6.1 months. This low level of supply along with continued challenging mortgage underwriting criteria, remain 2 of the most challenging headwinds to the industry.

Related to inventory, the Commerce Department reported that housing starts increased 8.3% from May to June, to a seasonally adjusted annual rate of 1.2 million, which is 2% above the prior year. Two encouraging notes in this data were that housing starts for single-family residences rose 10% year-over-year, and single-family housing completions increased 5% from June of last year to June of this year.

That said, the industry continues to benefit from attractive mortgage rates of approximately 4% as of today. The outlook for rising wages and strong consumer confidence is also contributing to favorable demand and higher existing homesale volume growth.

On the litigation front, in the quarter, we reached an agreement in principle to settle the outstanding Strader matter for $8 million, which remained subject to court approval. We elected to settle the matter to avoid the cost of continued litigation.

We're proud to report on our efforts to return capital to our shareholders. Since the inception of our share repurchase program in February of 2016, we have repurchased a total of 11.7 million of our outstanding shares for $334 million in the aggregate, bringing our total share count to 136 million shares as of today.

Company-wide, we are highly energized by our progress as we execute on our long-term strategic growth initiatives. As you will hear throughout the year, we have invested a great deal of time and resources sharpening our strategic focus and improving the operating performance of our business units. We look forward to a robust discussion of these activities during next week's Investor Day.

So with that, I'll turn the call over to Tony, our CFO. Tony?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Thanks, Richard. Turning to Slide 5, I will review our second quarter 2017 results in greater detail.

Revenue of $1.8 billion was up 8% compared to the second quarter of 2016. Operating EBITDA, including the Strader settlement reserve, was $269 million, a decrease of $6 million from the prior year. If not for the Strader reserve, operating EBITDA would have been $2 million higher compared to last year.

Free cash flow for the quarter was $229 million compared with $209 million in the second quarter of 2016, an increase of $20 million. Year-to-date free cash flow was $157 million, up from $96 million in the first half of 2016.

Net income for the quarter was $109 million compared to $92 million last year. Last year's second quarter results included a greater mark-to-market, interest rate swap expenses and higher restructuring charges. Adjusted net income per share was $0.78 compared to $0.74 in the second quarter of 2016.

In the second quarter, we repurchased 1.9 million shares of common stock. From January 1 through August 1, 2017, we repurchased approximately 4.6 million shares for a total of $135 million. Giving effect to these repurchases, as of August 1 of 2017, we had approximately $241 million remaining -- authorized under the February 2017 repurchase program.

Turning to Slide 6 for a discussion of drivers of our business. Our overall homesale transaction volume growth is 9% year-over-year in the second quarter. This was above the guidance range we gave of 5% to 8% due to greater-than-expected strength and average sales price at both NRT and RFG.

RFG's transaction volume increased by 7%, with 1 point of increase coming from higher transaction sides and 6 points from greater average sales price. RFG transaction volume growth in the $2.5 million and above price category grew 21% in the second quarter. That segment represented 7% of RFG's Q2 volume compared with 6% in 2016.

Overall, volume gains in the West were the strongest at 11%, the Northeast and South had volume increases of 7% and 6% respectively, and the Midwest grew 3%.

NRT finished the quarter up 12% in transaction volume, with 3% growth in sides and 9% growth in price. Factors driving that growth in the quarter included our successful recruiting and retention efforts, improvement in the high-end market segment and approximately 2 percentage points from the impact of acquisitions completed since March of last year.

Focusing on the high-end, NRT's volume in the $2.5 million and above category grew 29% in the quarter, with about 2/3 coming from sides and the remainder from price. That price segment represented 18% of NRT's Q2 volume compared with 16% in Q2 of 2016. The strongest geographic markets for NRT in terms of volume growth were the Northeast at 18%, the West at 11%, and South at 10%. The Midwest had a volume increase of 3%.

Turning to other drivers. Average broker commission rate, or ABCR, at RFG was down 1 basis point to 2.50%; and ABCR at NRT was down 5 basis points at 2.44%. Some pressure is expected given historical inverse relationship between ABCR and average price, although the full year commission rate at NRT is expected to be flat to last year's level.

Net effect of royalty rate for RFG was 4.41%, down 8 basis points for the quarter. Our top 250 franchisees who paid net royalty rates below 6% continue to perform well. This group generated 64% of RFG affiliates' gross commission income in Q2 of 2017 compared with 63% in Q2 of 2016. Downward movement in the net effective royalty rate is modestly diluted to overall revenue growth at RFG. For full year 2017, we currently expect the net effective royalty rate will be approximately 4.40%.

NRT commission splits increased approximately 150 basis points year-over-year to 70.6%. The increase in Q2 commission rate was a result of several factors, higher transaction volume was one, the change to the geographical mix of business and the impact of heightened retention recruiting efforts. We expect that splits will be approximately 70% for the full year 2017 as we continue to strategically invest in productive sales agents.

While we expect these recruiting efforts will put near-term pressure on NRT's margins, the benefit of these and other growth initiatives is being immediately realized in RFG's results due to the higher resulting royalty revenue it earns from NRT.

On Slide 7, we demonstrate this point. As you can see for the second quarter 2017, combined NRT and RFG revenue was up 9%. And despite the headwind of higher splits, we are able to grow absolute levels of EBITDA by 3% from the prior year.

Turning to Slide 8, let's talk about business unit operating performance in detail. At RFG, revenue increased 7%. Two main factors contributed to the $16 million improvement. First, RFG's net domestic affiliate royalties increased $6 million due to its franchisee's 7% growth in transaction volume. Second, NRT contributed $7 million to the increase in the form of intercompany royalties paid to RFG due to its 12% volume gain. Operating EBITDA was up $15 million, principally due to higher revenues.

NRT revenue increased 10% or $124 million into the second quarter of 2017, 75% of which was organic growth and 25% from acquisitions. NRT operating EBITDA decreased $7 million to $78 million. About $3 million of the decline was due to a reduction in PHH Home Loans earnings as it winds down and transitions to the new -- and we transition to a new mortgage joint venture with Guaranteed Rate. The remaining decline in EBITDA was primarily driven by the increase in revenue being more than offset by $106 million of higher commission expense.

Other factors included $9 million of acquisition-related expenses, higher incentive compensation and other expenses of $6 million, and $7 million of higher royalties paid to RFG. The increase in commission expense can be broken down into 3 categories: $66 million was due to higher organic homesale transaction volume; $22 million was due to higher split rates relative to last year, partially due to higher transaction volume in California; and $18 million related to acquisitions completed since last March.

Year-to-date earnings from our current mortgage origination joint venture with PHH declined $7 million compared to last year. The results are mainly due to lower origination volume, compressed industry margins and the inevitable impact of the wind down process. The first phase of the transition to our new mortgage JV with our partner Guaranteed Rate will begin in August, and the remaining phases are expected to be completed by year-end 2017.

As we get further into the transition, there will be more PHH JV wind down cost reflected in NRT's numbers, offset by gains on the sale of the venture's assets to our new joint venture. Assuming the phases are completed in 2017, full year earnings from the joint venture, including the impact of wind down costs, gains on sale of the venture and startup costs of the new JV are expected to total approximately $20 million.

The company also expects to receive approximately $20 million in net cash proceeds in early 2018, once the wind down of the old joint venture is completed. The Guaranteed Rate JV will be reported in the financial results of our TRG business segment rather than NRT.

Cartus revenue decreased $7 million in the second quarter of 2017, primarily due to $5 million decrease in international revenue. Operating EBITDA decreased $3 million as a result of the decrease in revenues, partially offset by a $2 million decrease in employee related costs. TRG's revenues increased $8 million and operating EBITDA was flat year-over-year as purchase volume increases were offset by lower refinance volume.

Corporate expense before restructuring legacy and early extinguishment of debt in the second quarter of '17 was $11 million higher than in Q2 of '16, due to the Strader settlement reserve of $8 million as well as higher expenses relating to investments in technology development, professional fees supporting strategic initiatives and higher employee incentive compensation accruals relative to last year.

Turning to Slide 9. Looking at our expectations for the third quarter of 2017, we forecast that Realogy's combined homesale transaction volume will increase in the range of 4% to 7% year-over-year, with sides contributing between 0% and 2%, and 4% to 5% coming from price growth. Broken down by business unit, we expect 4% to 7% transaction volume growth at RFG and 5% to 7% growth at NRT.

On Slide 10, for the full year, we currently expect that revenue will be between $6.1 billion and $6.2 billion. Operating EBITDA between $760 million and $770 million, and that is net of the $8 million Strader settlement. And it also reflects management's current view of commission splits and the modest investments in strategic initiatives, along with anticipated gain on sale on the PHH mortgage JV.

Realogy's combined homesale transaction volume is forecast to increase in the range of 5% to 7% year-over-year. And by business unit, we expect RFG to have 5% to 7% of transaction volume growth and NRT to grow transaction volume between 6% and 8% in 2017.

Slide 11 provides guidance for specific cash flow items below operating EBITDA. In particular, corporate cash interest expense for the year is expected to be approximately $165 million, cash taxes of $20 million to $25 million are forecasted for the year. Capital expenditures in 2017 are forecasted to be between $95 million and $100 million. Finally, working capital is expected to be a contributor of cash of between $25 million and $45 million.

Based on the expected operating EBITDA range noted above, this is expected to result in the company generating free cash flow of between $500 million and $530 million in 2017. As mentioned above, we expect to allocate the bulk of our free cash for repurchasing shares, paying quarterly dividends and repaying debt. Ordinary course M&A investment is forecasted to total approximately $50 million, of which half is for earn outs related to prior year acquisitions. Through June 30, we have expended $8 million between acquisitions and earn outs.

As the premier company for real estate agents, we intend to drive sustainable organic growth in each of our business units by strengthening the services we provide to affiliated agents. Solid execution of these initiatives together with the anticipated improvement in the high-end market is translating into higher volume and revenue across Realogy.

These factors, along with the benefits from our business optimization initiatives, are expected to position us to generate more than $500 million of free cash flow, and between $760 million and $770 million of operating EBITDA in 2017.

With that, we will open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of John Campbell with Stephens.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

On the splits, I think there's a good bit of seasonality in that line. But I think you guys have said in the past that 2Q is typically the highest. But how does that trend in 3Q and 4Q? Just for modeling purposes, are we basically holding that flat at 70%?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, for the year, we expected to be 70%. So that depends on how your model works. But certainly, the increases in Q3 are expected to be less than the increases we saw in Q2 year-over-year. And then they really drop off -- the increase really drops off in Q4 because we started to have some of the higher split numbers start showing in our numbers in Q4 of last year from some of our targeted recruiting efforts and retention efforts. So it sort of trails off pretty significantly in Q4.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay, that's helpful. And you guys are putting up, I mean, I think very much improved results. So I hate to shift the focus away from you. But Richard, I'm just dying to get your thoughts on Redfin. I'm sure you guys love the multiples those guys are getting. But just curious about your views about the sustainability of that model, and then whether they're putting much pressure on you guys today?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Well, certainly there is no pressure. We, as you know, we have been in the business for a long time. We have seen any number of models come to market. We bought one, ZipRealty, came to market in a very similar fashion. We followed it for number of years and acquired it for a fraction of its original valuation. So we're -- there's a lot of business out there and there's a wealth of opportunity for new and innovative ideas. We can all argue about whether they're sustainable or not. We believe that our focus is the right focus. We believe that an absolute focus on the productivity of the agent and the productivity of our franchisees at the end of the day, coupled with our fairly substantial investment in technology, best positions us to capitalize on the market in ways small startups just cannot possibly capitalize. So it's generally how we feel about competing interests in our business.

Operator

Your next question comes from the line of Brandon Dobell with William Blair.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Given what feels like some decent success so far in the agent recruiting and retention program, maybe the thought process around why you wouldn't accelerate that or why wouldn't push it harder or push it for longer? Given what seems like recovery and retention rates, et cetera, what's the thinking behind, I guess, the go forward in that initiative from here?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

You're absolutely right. It will be pushed harder and it will be pushed longer. We are well ahead of plan. We're very pleased with the results thus far. It has been exceptional actually. And we expect that to continue. We're not slowing down at all. We're using our size and scale, which nobody else in our business has, to substantially capitalize on that opportunity. So news at 11, but it's going quite well.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

And then maybe as a tangential question, as you look at the NRT footprint across the country, how should we think about some of the cities that maybe 5 or 10 years ago didn't seem attractive, but now given either companies relocating there, population dynamic, et cetera, may seem like a more attractive market but maybe cannot support a full office footprint? So maybe taking up a pseudo virtual model, where you have got agents but not the typical NRT office footprint. How do you think about that as an option for the strategy?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Well, as you properly point out, we're students of the business. So we're very careful to watch any number of metrics that encourage us to move into markets we've ignored over the past decades. We particularly liked the strengths of the Southeast and Southwest. We think there is a wealth of opportunity. We've moved into those markets in ways that well establish us to be a meaningful competitor in those markets, and we think that will continue to be the case. So the Southeast and Southwest are very appealing to us.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Okay. And then final one from me. The CapEx guide for the year, Tony, how much of that should we expect is going to be, let's call it, pure technology or capitalized R&D investments versus kind of traditional furniture and fixture kind of stuff?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It's about half and half. Maybe a little more towards technology.

Operator

Your next question comes from the line of Tony Paolone with JP Morgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

First, on the splits. You mentioned 70% for the full year. And so if you think back at kind of how this played out in '16 and '17, you talked about seeing the full impact of the initiatives in '17 and then kind of that would be the new level. Given that that's bumped up a little bit, does it go up 'further in '18, given that you guys are continuing with these initiatives? Or is 70% kind of the level and we'll just keep it there?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, first of all, I think the fact that we went from a range of 69.50% to 70% to just 70% is driven by the great success of our agents in California. Because California is an 80-20 market and it's a bad split market, but it's a great ancillary business market, so that's good for TRG and other pieces of our business. But that's really the change is that California, and specifically Southern California, really strengthened in the second quarter, and we expect that to continue. So that's why we sort of went from a range to 70%. We've always said that this is a business that there's going to be pressure. We never said this would be -- and there's going to be pressure on splits, it's just the nature of the market. It so happens that the pressure we saw in '16 -- '15 and '16 was extreme, and we're not seeing that right now as much. It's still -- it's sort of a normal pressure that we see, but it's not the extreme competitive pressures that we saw in '15 and '16 from a couple of people coming into the market on economic levels. So we expect that to continue now because we don't see -- we're just not seeing signs of that kind of extreme pressure anymore. So I think that's going to -- so I think will splits be under pressure? Yes. But do we have ways to offset that through more companies enter business? Yes. But certainly, the rate of increase is going to be nowhere near what we saw in '15 and '16 and so far this year.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay, Got it. And then whether it's Redfin or any other competitor for that matter, in markets where folks like that try to cut commission rates and have some meaningful presence, do you see that? Is it noticeable in your system and having to compete against that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

No. No, [we haven't].

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes. We haven't seen this -- if you look at the statistics for not just us, we play in 99.5% of the market. So I think it's a pretty significant -- that's not just us, obviously, but it's the majority of the market 99.5% is the reality of the market. And that's what we focus on and that's where we're focusing our agent productivity and strategy on. Because they are the bulk of the market, and they are the bulk of the market, they are the vast, vast majority of the market for the foreseeable future. Commission rates have not moved 1 basis point. So if you compare what they were last year -- this is not our data, this is the data from REAL Trends, they're exactly the same in 2002 as they were last year, 5.12%. So we just don't see any movement and we, in fact, see that the usage of agents from the buyer's perspective and the seller's perspective has increased during that same period from sort of mid-to-high 70s to 88%. So we just -- we think the model that -- the world we play in, the real world we play in is very stable and sustainable for the foreseeable future.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And you show in your slide deck how stable the commission rates have been really for the last 15-plus years, as you just mentioned. In the '90s, it dropped over the course of 10 years from 6% to 5%. What drove -- what prompted that move?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, that's why we overlay on that chart, Tony, the average sales price. So you can see that average sales price really bummed up during that period. So there's an inverse relationship between average sales price and commission rate. And that's really the major driver of changes. Again, we've always said that we think because average sales price is increasing, that there will be a point or 2 of deterioration in average broker commission rate. But again, in the 99.5% world that we play in, that's not a huge change, and it's what we sort of expect to happen.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then just last question from me. On the technology side, is there a way you can characterize or quantify just kind of where your total tax spend is these days? And also maybe add a little bit of color on kind of how you think of the capabilities you get from that. So do you have the ability to incubate new products or new concepts or brands and so forth into the market and just how you're funding that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Tony, that's why we organized Zap labs. It's our sort of innovation hub, if you will. Not only are they responsible for launching Zap platform to all of our franchisees, they're also responsible for innovative products that are fundamentally focused on agent productivity and broker productivity. We are going to a great deal of detail on Investor Day as to where we're spending and investing and why. So I think you'll be very pleased with the focus of our technology spend.

Operator

Your next question comes from the line of Jason Deleeuw with Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Question on the RFG-NRT EBITDA margins combined. We got a lot of moving parts here with the higher commission splits, but the volume is ramping up and that's benefiting both segments. So how should we think about the EBITDA margins that combined RFG-NRT EBITDA margins going forward? It would seem, at some point, the volume gains should outstrip kind of the higher commission split costs and we should start to get margin expansion again on the combined segments. Is that a fair way to think about it or not?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

No, it's totally fair. I think that -- our objective that we've been talking about for the last 2 quarters is to increase absolute levels of revenue and EBITDA, less focus on the margin, but get those numbers up. And we did that in the second quarter on a combined basis, obviously, and we expect to continue to do that. And I think as some of these -- we really haven't seen the benefit of a lot of the target recruiting agents that we did in the last 9 months really kick in terms of sides. So I think that as we get more of that flow through, it should be beneficial to the margins of those 2 combined.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Got it. And then on the unit sides growth. It seemed a little soft, with the guidance, and it was -- in RFG for the franchises. It seemed a little soft in the quarter and then it seems like the guide's a little soft too. What are the drivers? Anything to call out there on the sides?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

I think it's inventory. It's funny because we have that discussion. But if you look at the NAR sides growth, which is -- it's probably the best benchmark for RFG because it's -- they're both national footprints, they were up 1.6% in the second quarter. And not to get into too much [weeds], but the RFG was up 1.4%. So those are some hard rounds. So we think we certainly kept up with the NAR numbers in terms of overall transaction volume market share in the second quarter. And we were little better because of our focus on the high-end, even with Sotheby's within the RFG mix on price, and we were again 0.2 point weaker on sides. So we -- it's just that market. And I think that the inventory issue is reflected in our full year guidance on sides. That's -- we're definitely making up in price and we've seen this play out now for the last 18 months or so in terms of low inventory. So we're -- we get paid on sides and price, so we'd rather it be sides than price. But right now, there's -- and presumably the way economics works is if price continues to go up at the rate it's going up, then it's going to release some inventory. Because we'll get to prices that are interesting to sellers, and obviously, there are 20 other things that have to happen. But we think that this is sort of where we are right now. And that's why we're -- that's why we gave the guidance for the rest of the year, that sides are going to be -- I think we said 0% to 2% for the full year, and that's reflective of that low inventory situation.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Got it. And then just last one. Thoughts on M&A going forward. M&A as a strategy, is it still -- is the thesis still as strong as it used to be? Or have things changed and how you're kind of viewing M&A going forward? Just like to get you thoughts there.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Jason, we'll continue tuck-in acquisitions. You're correct in pointing out that it seems a bit slower. We're being far more selective than we have been over the past, say, 5 or more years. So we don't think that's going to change, we think there's still opportunity. There are still very attractive tuck-in acquisitions. They're going to be principally in markets where we have high synergies. So you could expect -- Tony gave guidance as to amount of capital that will be deployed for M&A, that's probably going to be about the case through the balance of this year and it may very well move into next year. We have found that our agent recruiting is extraordinarily attractive and a good use of capital. So that's -- our shift to that is showing up in our results. So a little bit of both, less M&A, very strong agent recruiting.

Operator

Your next question comes from the line of Stephen Kim with Evercore ISI.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

I guess, Richard and Tony, I guess you both sort of addressed the high end being a contributor to your stronger results on -- particularly on the price side. And I guess you alluded to some of the strength you're seeing in California, but what I was curious if we could give some hard numbers maybe on how much you think the geographic split or geographic distribution contributed to your price performance? And then how much do you think of the remainder, do you think, was just sort of the market improving versus your strategy and actually positioning yourself or doing things to sort of go after that market in a more pointed way?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, it's all of the above. I mean, I think the high -- just the high end was not just limited -- the high-end strength was not limited to California. I mean, that was -- the strength in California was among -- the entire market was strong. But the high end in New York was up very similar to the overall 29% I mentioned at the $2.5 million and above. Florida at the high end was very strong. So it's really -- it's pervasive around the markets that NRT serves. It wasn't -- it didn't standout in one market or the other, so we're very encouraged by that. And obviously, we were seeing the exact opposite a year ago. So we're very happy to be in the place we're in now. I think the initiatives -- I think the average sales price on some of the target recruiting was probably not dissimilar from our overall. It doesn't really moved that much, it's just rising with the overall average sales price rising, as you'd expect, that's really driving more units given the agents that we brought on. And again, we haven't seen -- we've just seen sort of the beginning of that trend, and we'll see more of that benefit on the sides side of equation at NRT in the back half of the year.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Great. So that's great. It sounds like it's really a lot of the market that is improving at the high end. Kind of like you alluded to last quarter, it sounds like it's beginning to extend here in 2Q. So that's great. Talking -- staying on geography a little bit, you mentioned that, obviously, in California you get higher splits and so forth. But again, just wanted to be clear, how much do you think that impacted your splits this quarter? If you can give us some sense maybe of the basis point impact of that?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Sure. Sure. So -- well, I'll give you a number. How about if I give you a number? So the rate -- okay, the rate increase was 22 -- the impact of the rate increase -- so we separate rate from volume. It was $22 million of a headwind during the quarter. And about third of that was from the mix shift in geography from -- into California, and the rest was just the overall retention and recruiting efforts that we've had in NRT.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Awesome. That's very helpful. Next question I had was regarding the -- your new construction share. I know it's not super big important part of your business. But I was curious, have we seen that rise at all over the last year? Or can you just talk about anything with respect to the new construction or the builder side of your business?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

We don't think there's any share gain there on our part. We...

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Except in New York City maybe.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Except New York, which is, as you know, Corcoran Sunshine on site, that's been -- that's gone remarkably well. We're very, very encouraged by what we see there and what it says about the market. We mentioned new construction because it's a very important contributor to inventory gains. So we, over time, [listings] marginally will increase our share along with everybody else. But we're just very encouraged that builders are building more inventory because, as you know, that's going to be an important factor in increasing the inventory levels.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Sure, absolutely. And then last for me, in New York city, I think recently there were some effort to create some version -- some sort of retaliation against Zillow, and I think I read that Corcoran didn't participate in it. I was just wondering to the degree you can just sort of comment on sort of how you think about initiatives like that and maybe just reiterate how you position yourself relative to Zillow I think that would be helpful.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Yes. No, I don't think it's necessarily a dispute with Zillow. Zillow is an important media channel for us, and I don't expect that to change. I think the issue that you point out pertains to how listings are displayed and where and who pays for it. So at the end of the day, it's an agent expense. It doesn't have to be a broker expense. And our job is to make sure the agents get the tools they need to be productive. And if there's a certain approach in New York City market that's unique to the balance of the country, which it is, because there's no MLS, you often have to go about the display of rental listings or for sell listings a little differently than you would the balance of the country. But we think we and others are well positioned to capitalize on the opportunity that Zillow represents to us in New York, and I don't expect that to change. We can argue about who pays for it, that's a different discussion altogether. But we think it's -- we're well positioned to capitalize on their unique marketing approach to the New York market.

Operator

Your next question comes from the line of Mike Dahl with Barclays.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

A couple of questions to start on some of the recruitment efforts. And Tony, I'm curious to hear, and I think you commented, it's not quite the extreme environment that we saw even though there's still some pressure. And I guess, I'd like to hear a little bit more about why you think that is. Because there certainly seems to be kind of a few larger platforms that are still making fairly aggressive pushes in either New York or California. One of your big competitors just made -- one of your New York competitors just made an acquisition in California. So just curious to hear kind of why you think the competitive environment has started to stabilize?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

With respect to agent recruiting, it's probably increasingly difficult for people to compete against us on the same basis. This is why we're using our size, scale and leverage to substantially enhance our agent recruiting and also agent retention. So it's showing up in the numbers. I don't think that's making it easier for the competition. So I think that's probably part of it. We're very formidable in that regard. We're getting increasingly so, and that's -- I think that's probably tough to compete against.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Got it. And then, I guess, if we look at the quarter kind of going back to your answer to Steve Kim's question on kind of market versus your own efforts. If I look at a selection of kind of your local MLS data from those markets, it looks like sides were up about 3% in a lot of these markets. Do you think that's fair that you kind of kept pace with your markets in NRT in the second quarter? Or do you think these recruitment efforts have actually led you to already gain share? You may just have a more complete data set that we often have.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes. I think the results of target recruiting have not yet shown up, maybe a little bit in market share data, but there's a lot more to come on that. And I think the bottom line is, a year ago, we were concerned about 2 things, not to bring up the pain from the past, but we were concerned about the high end being extremely soft last year. So it seems to be recovering. So check, that's great. And then retention of our top 2 quartile agents, which, as you know, generate 90% of our NRT's revenue, because of the severe recruiting, was down in the 92% range and we're back to our targeted 94% range. So we've made progress on that. So I think the 2 things we're very focused on, one was in our control and one was out of our control, but they're both definitely moving in the right direction.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Got it. And then last couple of quick ones on the guidance for me. Just as it relates to the third quarter. Could you break down the NRT expectations, what sides and price are within that? And then I know it's early and you probably don't have a ton of backlog for fourth quarter, but if I look at your comments for transaction volume for the full year and take the midpoint of 3Q, it seems to suggest a very flat environment for 4Q. So just curious to get your thoughts on how much of that is, at this point, you just being conservative versus something that you're seeing out there already in some of the opens that don't close until 4Q?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

The only thing I would say is, again, that the -- I think we don't break down business units by sides and price. But I think from the overall, you can see, since RFG is sort of the driver of that statistic because it has so much more volume related to it. As I said earlier, the sides, because of inventory and that sort of thing, we think sides are going to be softer in the 0% to 2%, as we said. I think at NRT, again, it's going to be a little more -- it's going to be more balanced because we'll see the full kind of inclusion of all the targeted recruiting efforts really kick in, in the third and fourth quarter. So it's going to be a little more balanced for them.

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Operator

Your next question comes from the line of Kevin McVeigh with Deutsche Bank.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

If I have it right, it looks like the agent production came in at about $250 million in Q2 versus $180 million in Q1. Is there any way to think about how that should come in over the balance of '17 into '18?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

What do you mean by agent production?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

I think it's recruiting.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Oh, recruiting?

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

The recruiting, yes.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Oh, so those are kind of apples and oranges numbers. The $180 million is a combination, I think last year, of especially normal recruiting, and the $250 million we mentioned was the revenue that the agents that we recruited in our targeted recruiting effort made in 12 months prior to joining us. So it's a little bit of apples and oranges there. But anyway, so that's one way to look at it. The other thing is maybe comparing where we were in the last quarter, we were at $180 million from those agents that we had targeted recruiting. Now we're at $250 million, and that's really the result of someone's earlier question, that we just -- we did -- we were so successful in the first effort that we did it again in the second quarter and it was very successful. So that's going to continue. If someone asked, obviously this is working. So we're going to continue to do it.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Kevin, the way to think about that, the $250 million is what they produced at the previous place of employment. We expect that they'll do that or better with us. It just takes time to mature it. But -- so that'll be layered in over the next 12 months or so.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

It's super helpful. And then just on NRT, you know the 12% transactions, it seems like price and sides both came in better than expected. On the pricing, is that -- because if some of the higher end comes down, you'd see more transactions. Is it just that $2.5 million has been so strong and that's helping to offset maybe some of the lower-price points at super high end? Or is there is any way to just put some context around that 9%?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, I think the pricing increase was driven by, obviously, the [$2.5 million] and above being much stronger [pretty nicely]. But it's also, in the mainstream market, it's lack of inventory. So it's really -- it's a combination of those 2 things. So it's strong across the board. There's no real distinction between the 2. It's just very strong this year because, again, at the low -- at the mainstream market it's because of the low inventory in rest of the market it's because it's picked up at the high end.

Operator

Your next question comes from the line of Ryan McKeveny with Zelman.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

Wanted to dig in a bit more on the high-end trends in NRT and certainly a lot of discussion on the call about the acceleration in the high-end demand, which we agree with, and the benefit that you're seeing from the recruiting efforts. But when I look at the sides growth of 3%, still relatively modest and clearly benefiting more so on the price side of things. So really trying to understand, when you think about NRT as market share today in terms of unit activity, is that 3% percent growth in sides that they're seeing, do you think that's what the market at high end is up at this point in the year? Just really trying to think how you think about the market share where we are today.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, again, in the mainstream market, there's an inventory constraint. So that's hurting growth. It's actually probably negative at NRT. And then the high end is very strong. So the balance of those is 3%. So we're very happy with that result.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

And I guess just following up on market share dynamic. Does that play into the commission split in the sense that when you look at things like how your market share is stacking up, ultimately, how you -- how aggressive you want to be on splits? And if market share was to be worse than you expected, then maybe splits would end up being higher or vice versa? If market share gains improve, then maybe the split pressure eases? Just wondering how you think about that dynamic.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Again, we look at the -- what is the revenue and EBITDA impact to the company. So whatever we can do to accelerate our revenue and that also accelerates -- increases our EBITDA is what we're going to do. If -- obviously, it's a balance. If we think that the revenue is going to come at too high a cost, we're not going to go there. So it's really just a balance.

Operator

Your next question comes from the line of David Ridley-Lane with Bank of America.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Sure. Wanted to ask how you think the inventory situation will improve? NAR's traffic index suggests that when buyer traffic is up, the potential seller traffic is still ticking down. Do you have a sense on what level of price increase would be needed to get more listings?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

David, no, we do not. I mean, this is just an adjustment that's going to correct itself over time. It's going to be any number of variables, you probably know them as well as I do. Builders are here to contribute in a meaningful way. Underwater equities got to improve, and it is improving dramatically because the average sell price is increasing so dramatically. Listen, people eventually discover that their home is worth more than they thought previously. And it'll get to the point where it's attractive, they'll enter the market as new inventory. The early really encouraging sign is the high-end market, which has robust inventory levels, is finally starting to correct. So we view that very positively. We think, over time, the mainstream inventory levels will increase given any number of those dynamics. So we don't see -- this is not a [permanent] issue, this is a timing issue. And we're encouraged by the early indications that it is, in fact, starting to correct.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And then wanted to ask on 2 potential risk here. One is that we've heard anecdotally that appraisal delays are becoming a problem. Are you seeing any delays within open order book? And then, secondly, given the business -- the hike interest rates by the Fed, did you see any pull forward from people trying to close deals ahead of that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

No. I mean, we -- there's no indication of that as of yet. And as to the contract delays or cancellation rates, our cancellation rate is at extremely low level. Maybe even at historical levels. So we're seeing no indication of that at all.

Operator

And we have no further questions in queue at this time. And I would like to turn the call back over to Alicia.

Alicia Swift

Great. Thank you for joining our call today, and we look forward to talking with you over the coming quarter.

Operator

Thank you for your participation. This does conclude today's conference call and you may now disconnect.

Exhibit F

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FINAL TRANSCRIPT

Q4 2017 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation's full year 2017 earnings conference call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

Thank you, Jack. Good morning, and welcome to Realogy's full year 2017 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Tony Hull. As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during the call. These statements are based on the current expectations and the current economic environment.

Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today February 27, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings. Also certain non-GAAP financial measures will be discussed in this call, and as per SEC rules, important information regarding these non-GAAP financial measures is included in earnings press release.

Now I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Alicia, and good morning, everyone. Thank you for joining us. So this is my first webcast as Realogy's CEO. Let me share a few thoughts before we discuss our 2017 results.

I'm excited to be at Realogy because I believe it has a combination of critical and unique advantages that make it well positioned to be successful in that attractive $70 billion-plus U.S. residential real estate market.

First, Realogy has national scale and an industry leading market position, with 15.9% market share of transaction volume in 2017, up from

15.7% in 2016. Competitors are spending millions of dollars trying to replicate Realogy's national scale only to achieve a fraction of our market share. I love starting from a position of scale.

Second, Realogy has well-known and established brands, a competitive advantage versus having to spend substantially to build brands.

Third, Realogy has technology and data scale. We spend over $200 million annually on technology. And Realogy has access to nearly all MLS data and a huge portfolio of historical data including robust information on millions of homesale transactions in which we have been involved. Realogy has the opportunity to better leverage technology and data to help our agents succeed, to develop new products, to drive growth and to operate more efficiently as a company in ways we believe our competition, who have neither the technology, scale nor the same data access cannot do.

Fourth, Realogy has a powerful financial engine. We have generated $1.5 billion in free cash flow in the past 3 years, and our balance sheet is strong with little exposure to rising interest rates or near-term debt maturities and $1.4 billion of revolver capacity. While residential real estate is an intensely competitive market, I am convinced the best place to compete is from Realogy's position of strength.

Success for Realogy and our shareholders, however, clearly requires better business results. Here is what you should expect to be different going forward. First is our speed of execution. Realogy will move faster. We quickly made leadership changes in both early January and February and we quickly recruited technology leadership from outside the industry. We have already executed restructuring and other cost-saving initiatives in early 2018, which we expect to create approximately $50 million in annualized savings to make us more efficient and to create funding for additional agent, technology and strategic investments.

Second, we will be shifting our capital allocation away from M&A, which has been approximately $300 million over the past 3 years, to increasingly focus on organic growth and on returning capital to shareholders through additional share buybacks. Our board has just authorized a $350 million share buyback program. While we still look at acquisitions, you should expect a lower M&A run rate.

Third, we will be enhancing our value proposition for agents by producing new technology and data products. Our goal will be to quickly develop and test products in the market. You should expect to see us disclose our new product releases including beta products and for that to be an increasing part of our conversation of how we drive value for agents and for Realogy.

Fourth is our strategy around agent commission rate economics. You have seen our agent commission rates rise substantially over the past 15 months. While we are subject to competitive market forces, we will use a different approach to this issue in 2018 including providing new, great strategic clarity and the implications of ours choices.

Let me talk more about 2018 with more detail on the agent commission point I just mentioned. From 2014 to late 2016, Realogy held agent commission rates mostly constant while losing 1 percentage point of market share from 16.7% to 15.7%. Starting in Q4 of '16, Realogy shifted growing market share at 15.9% last year but with substantially increased agent commission rates that you've seen in our numbers. 2017 rates are up 173 basis points year-over-year and Q4 2017 rates are up 204 basis points year-over-year. While we continue to face upward pressure on commission rates in 2018, we expect year-over-year rate increases will substantially moderate after Q1 of '18.

In the short term, however, the impact of this strategic approach will substantially affect our Q1 2018 results. We currently expect Q1 2018 operating EBITDA to be about half of Q1 2017 operating EBITDA which was $61 million. 1/3 of the impact comes from rising agent commission rates and 1/3 comes from the lower closing volume in our new development business, which is a very long cycle times with inherently irregular project completion timing. Both of these factors will show in our Q1 year-over-year comparative commission rate figures.

As you know, our Q1 outlook is not often indicative of our full year outlook. I wish I could give you a certain forecast for the full year, but macroeconomic factors and housing market uncertainty make that hard to do this early in the year. That said, it would be a mistake to extrapolate our full year 2018 results from Q1 2018 for the following reasons: The headwinds of significant rise in agent commission rates in Q1 will substantially moderate over the rest of 2018. While there will still be upward pressure on agent commission rates, we expect the magnitude to be less than you've seen the last 2 quarters and you'll see in Q1 2018; the negative impact from the new development business in Q1 will also exist in Q2 at about the same magnitude but will then have less effect in Q3 and Q4; we expect to benefit increasingly over 2018 from continued organic growth through recruiting success, realization of already planned and executed operating efficiencies and improving agent productivity from new data and technology products over time; and as you know, from prior years Q1 is by far, our smallest quarter.

So pulling up, Q1 2018 should not be used to extrapolate full year 2018 results. Based on what we know today, and subject to macro uncertainty, we expect our operating EBITDA for the balance of the year following Q1, to be in line or better than the same period last year. We believe our overall trajectory for the remainder of 2008 (sic) will be positive as the Q1 headwinds moderate and we build momentum into 2019 and beyond.

While I'll come back at the end of the call to summarize my thoughts, now let me turn over to Tony to discuss our full year 2017 results.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thank you, Ryan. Turning to Slide 5 for the full year 2017 results, revenue of $6.1 billion was up 5% compared to full year 2016. This growth was directly attributable to the combined increase in homesale transaction volume in NRT and RFG. Our operating EBITDA of $732 million was down modestly by approximately 5%. This was due to higher commission rates and reduced earnings at Cartus along with hurricane impacts, litigation settlement and CEO transition charges, partially offset by the revenue increases. Free cash flow grew by 23% to $559 million. Net income increased to $431 million.

The 2017 Tax Cuts and Jobs Act is of significant benefit to Realogy. Our 2017 earnings reflect a onetime increase of $216 million, mostly from our reduced deferred tax liability resulting from the change in the U.S. corporate tax rate. The economic benefit of our estimated effective tax rate going from 41% to 29% is dramatic when we look to becoming a cash taxpayer in 2020. The new tax rate would reduce our cash taxes by approximately $50 million per year at our current earnings level, and have even greater impact as our earnings increase.

Adjusted net income per share was $1.59 compared to $1.64 in 2016. At year-end our NOL was $1 billion which we expect to allow us to continue to pay minimal cash taxes through 2019.

Turning to Slide 6 for a discussion of the full year drivers of our business. Our overall homesale transaction volume growth was 7% year-over-year. RFG's transaction volume increased by 7% with a 1% increase in size and a 6% increase in average sales price. NRT finished the year up 8% in transaction volume with a 3% increase in size and 5% growth in average sales price.

Slide 7 provides information about our business unit operating performance in 2017. At RFG, revenue increased 6%. The growth was mainly from higher net domestic affiliate royalties and increased royalties from NRT. RFG's operating EBITDA increased $40 million against the $46 million or $47 million revenue increase principally due to higher revenues. NRT revenue increased 7% or $299 million in 2017 due to its transaction volume increase driven by both higher average sales price in our recruiting and organic growth of focus. NRT operating EBITDA decreased $24 million to $135 million as greater revenue was more than offset by $285 million of increased agent commission expense of which $79 million was due to higher commission rates and $44 million was due to acquisitions as well as $70 million of higher royalties paid to RFG and increases in other operating expenses. The wind down of our PHH mortgage joint venture was also contributed about $12 million of incremental EBITDA last year.

If you look at NRT and RFG in the aggregate, their combined revenue increase 7% and operating EBITDA excluding the impact of PHH JV, improved by $2 million in the year, rebuilding market share. As we continued to grow NRT's revenue through recruiting and agent productivity, we expect to see the combined results to deliver improved EBITDA growth for the company as a whole. Although much of the progress will be apparent in that RFG segment results in the near term.

Cartus revenue decreased $23 million in 2017 primarily due to lower international revenue and reduced fees per move. Operating EBITDA decreased $15 million as a result of lower revenue partially offset by an $8 million reduction employee-related costs. Cartus also affected targeted cost reductions in the first quarter of 2018, which were aligned with the broader company-wide business optimization efforts mentioned earlier.

TRG's revenue increased $3 million and operating million dollars decreased a $4 million year-over-year. The revenue decrease was impacted by a 44% decline in refinance activity partially offset by higher resale revenue. Operating EBITDA also includes a $5 million decrease in earnings from costs related to our share of a start-up of operations of our mortgage joint venture Guaranteed Rate Affinity.

Corporate expenses before restructuring legacy and extinguishment of debt in 2017 was $35 million greater than 2016 due to higher expenses relating to investments in technology development, professional fees, supporting strategic initiatives as well as an $8 million legal settlement and an $8 million in CEO transition costs.

Now I'd like to make some broader comments. First the company generated $559 million of free cash flow in 2017, which represents a 76% conversion of operating EBITDA to free cash flow. More importantly this is how we allocated that free cash flow. As part of our capital management strategy, we use the majority to repurchase shares and to reduce debt. Specifically because of our strong cash flow, the company was able to return $325 million of capital to shareholders through share repurchases and dividends in 2017.

Our 2017 free cash flow benefited from the wind down of the PHH joint venture and other favorable working capital movements that we don't expect to be prevalent in 2018. This year, we would expect to see conversion from operating EBITDA to free cash flow closer to the 2015 rate of approximately 60%. We have a strong balance sheet. Our debt has decreased from $3.9 billion at the end of 2013 to $3.3 billion at the end of 2017, and our weighted average interest rate declined by approximately 200 basis points due to our constant efforts to strengthen our balance sheet.

In the beginning of February, we completed the refinancing of our term loan facilities including the extension of their maturities to 2023 and 2025, and also increased our revolver capacity to $1.4 billion. The extension of maturities has furthered execution of our capital structure strategy of creating a staggered maturity profile on our debt.

Ryan discussed the EBITDA outlook for the first quarter. Looking at our expectation for transaction volume in the period, we forecast that Realogy's combined homesale transaction volume will increase in the range of 2% to 5% year-over-year with sides contributing between flat and up 2%, and 2% to 3% growth coming from price. Broken down by business unit we expect 4% to 6% transaction volume growth at RFG and flat to 2% growth at NRT in the first quarter.

Although we've yet to enter the prime period for housing activity this year, many forecasters are calling for existing homesale transaction volume to grow between 3% and 8% in 2018. While we are optimistic on our prospects for 2018, there are both opportunities and challenges for the year ahead, which are evident in the wideband of forecast for the year.

The 3 macro factors being faced by the industry are the impact of the 2017 Tax Act on consumers, rising mortgage rates and suppressed inventory levels. These could be positive influences or challenges to the housing market in 2018 and beyond but are difficult to predict at this point. Regardless, the current housing environment wherein the mainstream market demand for existing homesales far outstrips supply and home purchase affordability remains at elevated level is a constructive backdrop against which to evaluate these factors on consumer behavior.

In addition there was a net gain of 1.4 million U.S. households formed in 2017, which was entirely attributable to home purchases not rentals. This marks a huge change from what we saw from 2008 to 2016 and as an encouraging trend. Longer term we expect that the industry will benefit from positive demographic trends as millennials improved their current homeownership rate of 36% toward parity with the overall 64% U.S. homeownership rate.

While we cannot control the macro environment, we believe there is positive momentum related to the drivers we do control such as improvement in profitable market share and enhanced agent value proposition and cost containment, and those are among the many reasons why we're optimistic about the coming years.

Now, let me turn it over to Ryan for some closing remarks.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Tony. Pulling way up, so after 2 months in this role, I am working this than ever that the best place to compete is from Realogy's positions of strength. A few market observations to share with you from these early days. First, I am actually really excited by how much to agent remains at a center of the homebuying process across our industry. I'm encouraged by how little [traction] disruptors have gotten by attacking the average broker commission rate over the years. I am surprised by how much competitors are spending, both overall and individual offers to agents, to capture a pretty small share of the market. And potentially most importantly I am excited about the demographic trends Tony spoke about in favor of strong housing market over the longer term.

As I said in my opening remarks, Realogy is well positioned to succeed with its industry-leading national market position, great brands and technology and data scale. Our powerful financial engine generates significant free cash flow, the balance sheet is strong and we are returning substantial capital to shareholders. We do expect Q1 2018 will be challenging, likely delivering half of Q1 2017 operating EBITDA, and our view is that Q1 2018 should not be used to extrapolate full year 2018 financial results.

As I said earlier based on what we know today and subject to macro uncertainty, we expect our operating EBITDA for the balance of the year after Q1 to be in line with or better than that same period last year. We believe our overall trajectory for the remainder of 2018 will be positive as the Q1 headwinds moderate and we build momentum into 2019 and beyond.

Finally, let me hang out our shingle on what would be different. You will see us strive to execute more quickly, return more capital to shareholders, make agents more successful by improving our value proposition through technology and data products, and provide you greater clarity about our agent commission rate strategy. Success requires that we deliver better business results, and we are moving rapidly to drive change.

With that, we will open the phone lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Kevin McVeigh with Deutsche Bank.

Kevin Damien McVeigh ***Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research***

Welcome aboard, Ryan. Can you just help us get a better sense of kind of the strategic clarity on the commissions. And how that kind of spans the enterprise from kind of your top-quartile agents all the way down. And as you leverage technology more or less how we get those rates as they start to come down over the balance of '18.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. It's a great question, Kevin. Let me step back a little bit and just talk about it. So as I said on the call, Kevin, our average commission rates are up about 173 basis points in '17 on a year-over-year basis. And average commission rates are up about 204 basis points for Q4 '17 also on a year-over-year basis. And you saw, reasonably, similar large increases in a few of the earlier quarters in 2017. And as I said in the call, you're going to see another kind of similar year-over-year increase in Q1 '18, all from the kind of strategic shift I highlighted at the end of '16.

But I did tell you that I expect the year-over-year increases to substantially moderate in 2018 after Q1. And here is why I believe that and then to get to the strategic answer to your question, Kevin. So first off, looking back on it. 2017 was obviously, in some ways, kind of a reset year on Realogy's price out there with agents and commissions. And while the increases were substantial, the other data that we have actually implies to me that the reset actually work. So for example, in our top 2 quartile of agents, we are at an all-time high of retention rate. We're retaining about 95% of our agents in our top 2 quartiles after kind of doing the reset that has led to the commission rate increases that you're seeing, versus the scenario in kind of '14 through part of '16 where we're actually losing agents at a much higher rates among that kind of top 2 quartile demographic, which is the most important one.

And second thing is we have a lot of success with recruiting in this new environment with the kind of how your agent commission rates, and we grew agent count at NRT by about 2,700 agents. So I look at that data, Kevin, and think, okay, this -- we kind of caught up to the market. We are still subject to market forces on however our commission rate works, but we kind of caught up and we kind of reset our price effectively.

So what do we do from here going forward? Well, the first answer is we don't just let inertia kind of carry us or let the market forces kind of carry us. I think there is 3 things that we actually start doing differently. So the first is we need to keep enhancing our value proposition to agents pretty substantially. We've got a real opportunity both with the assets we have and with some of the things that we haven't delivered to agents yet, to actually use whether it's technology products or data projects -- products, excuse me, to better support agents out there. And whether it's making agents more efficient helping them prioritize their time, helping them focus on the highest priority leads. We actually have the technology and data to enable that for our agents.

We can also, by the way, provide them more high quality leads even then we are today that I don't think anybody else in the industry can replicate when you think about our affiliate network and some other unique things that we have. And if we can keep adding to read value proposition, Kevin, both on the tech and data side, the lead side, et cetera, that will give us the ability to kind of give more value to the agents and actually get a better price for that, which translates to -- in a lower commission rates over time hopefully.

The second thing we can do differently is take a much more data-driven approach to how we do commissions with our agents. If you think about our agent population, we have 50,000 agents in our own brokerage area, 50,000-plus. Each of them is unique. Each has their own set of data, they are in different markets, they have different place in their clear direct -- trajectory, they're having different results each year, they have different commission dynamics and there is a massive set of data there that we can actually -- we can and should be doing more with to effectively leverage our scale and make more targeted "pricing decisions" and almost go to kind of much greater price segmentation in that population, and we think there's some real opportunity there that we have yet to explore.

And then third what will be different going forward is the management team has spoken to you before about some targeted recruiting that we've done over the last kind of 15 months, and I think it's been very successful, and you can see the agents growth that I described earlier. But we've, in the last kind of couple of months, been looking at the data in a different way and we actually think we can change how we do our targeted recruiting profile in a way that will help us on the agents split dynamics while still giving us the kind of GCI and agent growth that we're trying to get there. And so those are 3 different things that we can be and are going to be doing differently that will hopefully change our dynamic around this now that we've kind of done our market reset.

And again while still subject to competitive market forces here, we're not just going to let those forces carry us wherever they take us, we are going to use these kind of things plus other things we have in the hopper that aren't ready for prime time yet to actually take a different strategic approach to this part of the market.

Kevin Damien McVeigh ***Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research***

That's super helpful. And then just one quick follow-up and again very helpful. The $50 million in cost savings, do we get that all in '18? Or is that partially '18 and then somewhere into '19? And is there any sense on how that comes in over the course of the year?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Many of the actions have been taken already so we should get the bulk of it during the year. But I think we'll see it more prominently I think in the second, third, fourth quarter, I guess if I have to guess. But I think we'll get the full $50 million for the year.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. The important thing for me there, Kevin, is we move very quickly, we took the action, literally, in the first kind of 6 weeks of the year with a goal to get as much as we can in '18. I totally agree with Tony's answer, but I wanted you to focus on the pace as much as the numbers itself.

Operator

Your next question comes from the line of Bose George with KBW.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

I just wanted to clarify on the split. So going into 2018, are the splits stabled and is just the increase really just reflecting what you've done towards year-end and that's kind of rolling over year-over-year? Or are you still expected some increases over the course of '18.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

So as I said in my remarks, you're going to see a large year-over-year increase in Q1 when you look at the Q1 quarter numbers. It will be consistent with the what you've seen in the last couple of quarters, and so you're going to see that. There will still be upward pressure after that, so it's not like it's going to start going down or anything but that upward pressure will bluntly -- as the words I chose were substantially moderate. And there's always uncertainty because of the market forces, and this is kind of a hard business to forecast in the longer term. But you should expect a large increase in Q1 in split rates year-over-year and then substantial moderation from there.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Okay, great. And then actually just in terms of the competitive landscape, can you sort of characterize that is it being driven by multiple competitors, feuds? Just any color there would be great.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Look, I think the -- look, this is an intensely competitive business and there is no 1 competitor who is driving the intense competition, really it's everybody. It's an incredibly intense market. And whether you're talking about the big name kind of regional and national brokers or hyper-local brokers and only kind of 1 city, the competitive intensity is across the board and it comes from all of them.

People often ask us, "where do we lose our most agents to?" and the answer is, actually, we lose most of our agents when they leave to other, which is often those small kind of hyper local ones. That category is incredibly competitive part of the market. But I would say it's equal across all parts of the market and geographies.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Okay. And then just one more from me. The change in focus in terms of capital return over M&A, how much of that is sort of what's out there in the market versus an internal decision to sort of change the focus?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Look, these things are always a mix. And like I said, we'll still look at things but I do expect the run rate to be lower. I mean I think if I step back, we got a national scale position, we don't need acquisitions to kind of enter markets or bolster our share in a lot of the markets around the U.S. and so we got that kind of going for us.

Second, we're seeing that the returns, we think, are going to be better for us on the organic growth side with recruiting for, example, as opposed to acquisitions in some of that because some of the pricing we see out there in the market is a lot higher than it's been in the past when we get a sense of what the multiples of things are trading at compared to what they used to trade at. We like the old multiples a lot better than the current ones. So this is all on evolution but I would say while most are look at things you should expect that we focus more on the organic growth side, and we think that's the way to actually best use our capital along with returning it to shareholders.

Operator

Your next question comes from the line of Anthony Paolone with JPMorgan.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Can you give us a sense as to the $200 million in technology spending whether you think that's enough, too little, just right or what's happening on that front? can you spend a lot of time talking about that as being the core to some of your initiatives?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So Realogy as I understand it, if I got that history right, disclosed the $200 million technology spending at our Investor Day last year. And my view is that's an awesome asset for the company in the sense that it truly shows that technology scale that the place has and the potential it has. I personally think that will be enough. But as you probably expect, I think there'll be 2 different changes that'll happen. One is where we spend that in the future is likely to be different than in the past both given how the world is changing and some of the strategic priorities I'm laying out. And so I think there will be opportunities for us to reallocate some of that money.

And then second as I mentioned when I talked about our cost reduction, I do think one trend happening in companies across America is how do you find ways to reduce costs in other parts of your business so you can invest more in technology. And so I think if there are incremental technology dollars that will come from us being more efficient in other places, I don't think we'll be taking just our free cash flow and diverting it to more technology spend in and of itself. I think it will be a reallocation of what we spent today with occasionally some efficiency plays to try to find more money to reinvest for the long term.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay and then my second question is you spent some time talking about Realogy's positioning and being excited about that. Can you maybe give us a sense as you get into the real estate business here and what your initial views are on things like any other emerging technologies you see out there as being interesting, things like the commission rates on selling homes and where that goes over time? How teams of agents have become more robust some of those hot buttons are on the industry and where you think those might go over several years?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

That's both -- that could be a whole call by itself, and it also is part of the subject to some of the strategy work that we've kicked off and that we are working on here in the near term. Look, let me just say I think this is a phenomenally exciting industry. I do think it is an industry as a whole that has more opportunity for technology change than both the industry I came from financial services, which I think is further along in the technology change as well as some others. And so I think a lot of the trends that you see other industries go through on the technology side, there are still a lot of opportunities for the real estate industry to go through those. I think that's where a lot of my focus is going to be and my excitement. And so I've probably spent disproportionate time thinking about that and how we can change. As part of our goal is to be one of the players in the industry that leads that journey because we have the scale to do it. And if we do it, we have just tens of thousands and hundreds of thousands of agents in our franchise business, in our own brokerage business that can benefit from those things when we do it.

So of all the things you said that's the place I've been spending most of my strategic time thinking. While I have thoughts on the others, I think I should either defer those to a time when we have a longer time period one-on-one or another invent kind of presentation forum.

Operator

Your next question comes from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

On the tech and data focus side of things, as it relates to the brokerage industries, you have Zap on the franchise side and obviously, kind of more control over the NRT piece of the business. So any additional color on just kind of the initial emphasis around tech and data? And where that might show up in the brokerage segments of the business?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, thanks for your question, Ryan. Today, in our owner brokerage area, we support both a number of products and we deliver directly to our own brokerages, but we also use and enable a lot of third-party products and part of that is because we need to meet the agent wherever they are, and make sure they got what they need to be successful because we're only going to be successful if they're successful.

And so I don't think our future is necessarily going to be different than that, e.g. it's not going to be a Realogy-only technology solutions get provided. What I think we are going to have to do is make sure we are incredibly easy for agents to both use our technology, not just what we have today but new things that we develop to help make them successful, but also we're going to have an open environment where it's incredibly easy to plug in any of the third-party products that an agent wants to use. And that's really kind of that standard journey from building kind of close software to using APIs to build much more open and easily integratable software and things like that. That's an example of place where I think the industry hasn't done as much as some other industries and I think Realogy has room to change in that dimension. And so that's likely what we're going to be doing from a kind of a strategic standpoint in that dimension.

And then we've got to take on where can we build great products whether they're technology products are data products that we can then deliver to our agents and our franchisees are going to help them be successful. Those could spend a lot of different parts of the value chain. They don't have to be delivered in a massive, integrated system many can be delivered on kind of an individual basis and, again, just kind of plugged into the agents ecosystem. We got some of those started but we'll wait to talk about them when they actually hit the market.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Ryan, the one thing I would just supplement to Ryan's answer with, because I think you raised a really good point in your question, which is it's one thing to do it with your own brokerage and really influence the agents' productivity and it's a whole another challenge when you're going through a franchise network to, a, get the franchisees to change and then affect that change with their agents. So I think that's something our competitors sort of do out there is, "We'll just do this, that and and the other thing and it'll magically happened." It's not easy and we have like a 3-year head start on anybody on doing that through our Zap rollout, and we have so many learnings from that, that I just think we are just much better prepared to when you sort of -- when you're -- we're effectively a third party trying to influence our franchisees and then their agents, I think we're much better at that now than any of our competitors. So we have a lot of experience in that area.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

That's really helpful. And one on the commission splits. So is the way to think about that in the sense of the recruiting effort that have been happening, is it that we should may be a step back in terms of some of the things like recruitment bonuses, and some of those 2- or 3-year agreements? Or is it kind of what you mentioned the shift in the recruiting where if I read kind of between the lines may be instead of going after for instance one super high producing agent that's extremely high split, maybe you get that same volume by recruiting 2 agents that are slightly lower volume but in aggregate the same and a lower average split? So any additional color on kind of how that trends to get the moderation and the splits going forward?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, Ryan, I don't want to say too much on that one partly just for competitive reasons, but your latter answer is closer to kind of what our thinking is likely to be in the future on that one. And I'll just leave it at that.

Operator

Your next question comes from the line of Will Randow with Citigroup.

Will Randow ***Citigroup Inc, Research Division - Director***

I guess that the increased focus on capital returns, is that tied to your stock price, richness of M&A multiples? And while I definitely agree with a greater focus on returning capital to shareholders, looking forward, can you walk us through how you got to that thought process? And any underpinning precedent you might have or analytics?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

I think it's a combination of the 2, Will. Clearly, we believe and the board believes that our stock is significantly undervalued. So we can buy our stock at a much lower multiple than we can do acquisitions at in the current environment, so -- and without the risk attendant to doing acquisitions, so not to cause to disruptions and other things. So we just think it's the best -- it's the most accretive use of our capital if you compare it to M&A or even debt retirement and repurchasing shares is the best allocation right now.

Will Randow ***Citigroup Inc, Research Division - Director***

Understood. And Ryan, you compared real estate services to financial services, and I agree there is definitely room for efficiency gains. But I mean the one issue you're dealing with in the financial services is commissions overall have compressed. Can you talk us through that thought process. And if you believe that precedent is going to look like we're going to see in real estate services over the next 10 years.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So, Will, thanks for the question. That was actually not the analogy I was trying to draw partly because my financial services background is more in the direct-to-consumer and some business-to-business credit card kind of stuff, not working with anything in kind of the brokerage or financial advisor side of the financial services. So I was not trying to draw that analogy at all, so please don't assume that, that was what I was thinking.

The analogy I was trying to draw was on the pace of utilization of new technologies and then the delivery of those to create great experiences, whether it's for agents or customers. And that I thought financial services may be a bit ahead of the real estate industry is one of my observations joining here, which is really exciting because then that means there's opportunity especially for a company with Realogy's scale and kind of throw weight in the technology and data area. So that was the analogy I was trying to draw. I was not at all trying to draw competitive analogy around commissions.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

And I would just add to that, that commission rates have remained very stable. They remained to be stable in 2017 on an industry-wide basis not just Realogy. So it requires speculation to think that's going to change in the future, and we don't like to speculate. And there's really no evidence of that.

In fact, our competitors who offer -- some more competitors who offer kind of teaser rates to build market share aren't getting any -- don't seem to be getting any traction on that. So I think it's really -- at the end of the day, it's the value provided by our great agents that justifies and maintains the pricing that they charge consumers. So we don't see any change to that. And as time goes on, we think the value of the agent grows and grows given just the complexity of the real estate transaction.

Operator

Your next question comes from the line of David Ridley-Lane with Bank of America.

David Emerson Ridley-Lane ***BofA Merrill Lynch, Research Division - VP***

Sure. I'm wondering if you've seen any early signs of the impact of tax reform particularly in the higher state and local tax areas. I know you're over indexed in NRT to those areas, do you think there would be or have you seen signs of pressure on pricing or potentially sides.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Hey, David, thanks for the question. So one thing I want to reiterate is that the change in the tax law is very beneficial to Realogy as I pointed in my prepared remarks. And just overall in the first 2 months of the year, I guess for 7 weeks of the year, we have not seen anything in our opens that would indicate it's having an impact. So, so far, it's really early. So it's too early to make any adjustments, but so far we don't see any impact from it.

But it's difficult to predict the impact of the new tax provisions and what impact it'll have on homesale transactions or home prices. Everyone looks at the negatives, potential negatives but they forget to look at the positives. And on the positive side, individual tax rates are now lower for most families and individuals. They have more take-home pay available, and we think customers will have greater funds to put towards the home purchase down payment, so those are the positives.

On the unknown side, it's the impact of caps on deductions on a sliver of mortgage principal and on property taxes and what impact that will have on transactions. If nothing else along with higher standard deductions, these could reduce the financial incentives to own a home but we don't believe this is a major driver for families to become or remain homeowners.

Since you brought it up as it relates to caps on state and local tax deduction, caps on state and local taxes, it's complicated by a number of factors. First and foremost the provision impacts all families living in high tax states, renters and homeowners alike, so it's not a thing that affects our business. It affects all families that live in high-tax states.

So I guess a family would have to uproot themselves from their jobs, their schools, their community to move to a lower tax rate in order to avoid that increase. We view that change as resulting -- the change in the tax law in state and local side to result in a trickle of activity rather than anything on the grand scale. And then the other thing that folks need to consider when they're thinking about this is alternative minimum taxes. Those were already in place under the old tax law and they were already capping a number -- for a number of families property tax deductions and tax -- state tax deductions. So if that doesn't change materially, preimpose the tax law, it lessens the impact of this cap on state and local tax deduction. So anyway it's early to tell we haven't seen anything yet but we think we'll keep watching it carefully.

David Emerson Ridley-Lane ***BofA Merrill Lynch, Research Division - VP***

Great and then just click will follow up. On the NRT recruiting, I think in 2016, your recruited agents that had $212 million in gross commission income. Do you have the comparable period for where you ended the year in 2017?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

I think the total recruiting we've done is about just over $400 million of revenue over the last 15 months.

David Emerson Ridley-Lane ***BofA Merrill Lynch, Research Division - VP***

And those agents will become productive over the last 12 to 18 months, something in that time line?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

We'd expect them to become productive as soon as they begin with us within -- it probably takes probably 3 months or so to get up and running. But we're definitely seeing in our results the positive impact of the recruiting we did last year and the recruiting we're doing currently.

Operator

Your next question comes from the line of John Campbell with Stephens.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

First, this is a two-part question. Ryan, back to the $50 million cost saves. I guess first, it sounds like you've already taken a lot of actions you needed through the first 6 weeks of the year. But can you walk back through what you did and kind of where those savings came from?

And then secondly just curious, $50 million is that a net expense run rate reduction? Or are you investing some of that back in the business and back to technology.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So let me start on the second thing and I tried to say this in the remarks. So 2 goals here, one is be more efficient; second goal is create some funds to kind of reinvest in technology in our agents and strategy initiatives. So it's a mix of those 2 things is the purpose. We move pretty -- try to move pretty quickly for the $50 million, so we could capture as much of it within 2018. It really it hit every part of the company. The big 3 buckets were people reductions, real estate, primarily office closings for example, and then some things with different vendors and procurement. Those were the 3 big buckets. There's a reasonable tail of smaller things that's just not worth going into, but those are the 3 big things that I have you focused on.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

Okay. That's helpful and then as a follow-up to that maybe this is for Tony, but out of NRT cost, any idea how much of that is kind of location or facility costs? And then maybe if you could provide kind of what percent occupancy? Or what type of saturation you have across your NRT office footprint today?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Saturation in terms of utilization of the office space? Or saturation...

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

That's right.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

I don't think it's change materially. It's probably up 1 point or 2 but it's 65% capacity utilization. So I think it's -- obviously, with adding agents last year, that improved because we didn't have offices. So that's an area longer term not -- I don't think we'll see it short term, but longer term that's a source of operating leverage. But if we can place more agents in our current footprint, then obviously, is beneficial.

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Operator

Our next question comes from the line of Jason Deleeuw with Piper Jaffray.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

Just wondering on the market share trends that we should expect given the strategic shift with the agent recruitment and the commission splits, the guidance for the first quarter, NRT guidance volume looked a little soft. And so I'm just wondering what we should be expecting market share trends? Or is there just more of an overall industry market impact in terms of kind of the first quarter guidance.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, being much longer term than first quarter, I would say that we want to air on the side of gaining market share given the incredible demographics so they're coming down the line that are known. So we don't want air on the side of the more market share rather than less. And in terms of the NRT numbers in the first quarter, Ryan referenced some new development headwinds in the first quarter. And that's taking NRT's volume in the first quarter because it's such a small quarter, and the new developments are pretty high average sales price. It's about 3% offset to NRT. So without that headwind NRT, it would up 5% for the -- in the first quarter, so it's really that new development in which again, Jason, is very episodic and it really depends on when the projects are closing and we had a number close in '16, a good number close in '17, we have a great pipeline that'll start close within '19, so it's just a pause in '18.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

Good. And then just other question is on the technology investments and thinking about agent recruitment and retention, I mean how important is technology for recruitment and retention, is it becoming more important? And is the technology going to be -- is it more important on the lead generation site? Or is it more on kind of managing the relationship in the transaction process?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

So my view after a couple of months is it's amazingly important and it's only going to become more important both as kind of the world changes on technology but also as that, plus the data side of it that we have access to can be an increasing key to make people more successful. I think both technology and leads are important. I mean anything we can do to help an agent close one more deal a year, I think is incredibly powerful both the loyalty to us, the economics to us et cetera. And you can see past helping agents make that happen both through higher quality leads that only we can provide. You can also see past that's happening to technology and data products and hopefully with our scale. We are more uniquely also position to provide. So I think both are going to be I think the overall topics are incredibly important in the future even more than in the past, and both pasts that you laid out can and should be part of how we improve our value and keep enhancing our value proposition to our agents.

Operator

The last question comes from the line of Mike Dahl with Barclays.

Michael Glaser Dahl ***Barclays Bank PLC, Research Division - Research Analyst***

I wanted to focus -- two-part question, just around some of the comments on the guide. So first part is if I think about the 1Q guide, and on the comments of balance of the year in line with or better, simple math is that's around $700 million for the full year. And so I guess, a, is that really the ballpark that you want us all to be thinking about? And then, b, hoping you could give us a bit more of a bridge to get there because I understand and appreciate the comments around split rates starting to moderate a bit, but if I look at that number including the restructuring benefits as well, it seems to me that it still implies split rates for the year are up north of 100 bps. So any other puts and takes we should be thinking about in the balance of the year comments?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

A couple of things. We said that we think the balance of the year will be equal to or greater than, and the reason was said that was because -- so you took that equal to as opposed to the greater-than approach. So the reason we say that is because it's early in the year in terms of what the spring selling season is going to be like and you have that wide range of forecast for the year of 3% to 8%, for the total volume. So I think that's one thing.

And yes, we said that the split increase are going to moderate, but we could to get expect them to be up year-over-year and it's kind of early to give you sort of a range on that but we still think it'll be a headwind for 2018 overall.

Michael Glaser Dahl ***Barclays Bank PLC, Research Division - Research Analyst***

And I guess just on the other buckets, fair enough on taking the equal versus the greater than, but you still have the equal as part of the commentary out there. So I guess still with the -- even if we take up more positive approach to greater than, are there additional buckets of spend? I know you talked about the tax spend, but it sounds like that's going to be flatter. I'm just trying to understand if there other -- even beyond the kind of core transaction or split side, if there's anything in kind of TRG or Cartus that we should be thinking about that are kind of headwinds in '18 relative to '17.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Sure, sure. Well the first headwind is inflation, which is something we -- what we use cost savings to offset. The second one that Ryan, specifically, pointed to is new development, which is sort of $10 million to $11 million in each headwind in each of the first 2 quarters. So that one is obviously, a major headwind. And then we've benefited last year from taking our asset the PHH joint venture and liquidating it, so there was a gain of $20 million on that. And then we're replacing it with a new joint venture, which is just in a ramp-up stage. So I think those are the major headwinds for the year, in addition to the one you brought u,p, which is splits.

Operator

This concludes the Realogy 2017 Earnings Conference Call. We thank you all for your participation. You may now disconnect.

Exhibit G

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q1 2018 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 12:30PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation First Quarter 2018 Earnings Conference Call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift

Thank you, Shelby. Good morning, and welcome to Realogy's First Quarter 2018 Conference Call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Tony Hull.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment.

Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, May 3, and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call. And per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to CEO and President, Ryan Schneider.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Alicia. As I shared with you last quarter, I was attracted to Realogy because of its powerful strengths, industry-leading market position, great brands, strong cash flow, and especially close to my heart, technology and data scale.

I'm excited to compete from a position of leadership in this attractive and growing $70 billion plus residential real estate market, especially given the positive demographic trends that bode well for housing in the future.

Before I discuss our Q1 results, let me share a few strategic thoughts. First, it is great to see the number of players in and out of this industry, who see this as an attractive market. For example, we are seeing other large brokerage players excited about the market, with Berkshire Hathaway the most prominent example.

Outside capital continues to invest in traditional brokerage models. Outside capital continues to invest in new models meant to disrupt the current market. And outside capital continues to invest in services like lead generation and curation meant to capitalize on this attractive market. We share the excitement about the market and are encouraged that in this highly competitive environment, we once again grew our revenue and transaction volume in Q1.

Second, as the long-term industry leader in both owned brokerage and franchise brokerage, we like our position and would not trade it. Industry leaders like us in increasingly competitive markets typically go down 1 of 2 paths, a long-term defensive battle or they go on offense, using their scale as the foundation for growth and success. We clearly plan on the latter. We believe our scale, true national footprint, our 190,000-plus U.S.-based agents, industry-leading data quantity and technology reach will be critical to winning over time.

For example, as we develop data insights, technology products and even stronger lead generation engine, we have unique power to distribute these across our industry-leading network, which we believe will have unmatched economic impact.

Similarly, we should be able to best access any opportunity requiring national scale given our unique geographic reach.

Third, we need to move quickly to leverage our strengths. I know shareholders expect better results. While the results trajectory will not change overnight, we are committed to demonstrating a fast pace of change and improving profitability over time.

With that, let me discuss what we saw in the first quarter.

Q1 2018 operating EBITDA was $34 million, in line with our guidance of about half of Q1 2017. Based on what we know today and subject to macro uncertainty, we continue to expect the aggregate Q2 to Q4 operating EBITDA to be in line with or better than the same period in 2017 as we said on our last call.

As we said in February, we expected Q1 commission rates to be up substantially year-over-year, including the impact of fewer transactions in our new development business. Q1 commission rates were up 284 basis points year-over-year, with approximately 65 basis points of that increase from fewer new development transactions. This upward commission rate explains the lion's share of the change in operating EBITDA in Q1 of 2018 versus Q1 2017. Consistent with what we said last quarter, while we expect continued upward pressure on agent commission rates, we expect the quarterly year-over-year increases will substantially moderate over the rest of 2018.

We outperformed the market on transaction volume in Q1, while delivering on our guidance for the quarter. RFG transaction volume was up 5%, relative to NAR up 2%. NRT transaction volume for the quarter increased 2%, even with a 2% headwind from fewer new development transactions.

Let me provide you some geographic color for NRT.

First, we saw strength in the West, up 13% in volume; and the South, up 10% in volume, driven by both sides growth and price growth in each of those markets. Second, the Midwest was up 5% in volume, driven by price growth. Third, if you exclude New York City and the Hamptons, the Northeast was up 4% in volume with equal growth in both sides and price. However, as you've probably read, the New York City market is challenging right now. When New York City and the Hamptons are included in the overall numbers, NRT's Northeast volume was actually down 9%.

Pulling up on the broader market in Q1, inventory remains our greatest concern. While we're closely watching for the impact from mortgage rates and tax reform, what we are seeing in the mainstream market is that there just isn't housing supply to meet the demand. That appears to be the dominant issue. Inventory is currently hovering near 3 months, close to all-time lows. And while this has a positive effect on price, it is not healthy from a supply perspective and make sides growth harder.

Before I turn it over to Tony, I want to share a few thoughts on strategic areas I mentioned in our last call. First, our capital allocation strategy remains the same. We are deemphasizing M&A to focus on organic growth. We returned $99 million to shareholders through share buybacks and another $12 million in dividends during the first quarter, and we expect to repurchase approximately $100 million in shares in the second quarter subject to market conditions.

While we know our leverage ratio increased in the first quarter, we generally do not intend to increase leverage to buy back stock. We will reevaluate our share buyback run rate for the balance of the year after Q2 based on the outlook for the year, our leverage ratio and our stock price.

Second, we are incredibly focused on enhancing our agent value proposition by producing new technology and data products. To that end, I'm excited to share that in the past 75 days, our new technology and business leaders developed 4 new beta products meant to increase agent productivity and efficiency. We've also established an enterprise data platform that will accelerate our ability to generate and implement better data insights.

Success with good technology and data product development will be increasingly important in how we drive value for agents and for Realogy.

While I'll come back at the end of the call to summarize my thoughts, now let me turn it over to Tony to discuss our Q1 2018 results in more detail.

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Thank you, Ryan. Turning to Slide 6 in the earnings presentation for the first quarter of 2018 results. Revenue of $1.22 billion was up 2% compared to Q1 2017. This growth was attributable to an increase in homesale transaction volume and NRT and RFG.

Our operating EBITDA of $34 million was in line with what we had guided to on our last earnings call. The year-over-year change of $27 million was largely due to a $24 million decline in NRT. This was the result of rising agent commission rates and tough year-over-year comparisons in our new development business, as Ryan discussed.

We are on track to achieve approximately $50 million this year from restructuring and other cost-saving initiatives. Restructuring charges relating to these initiatives were $30 million during the quarter, consisting of $23 million from personnel and facilities actions, and a $7 million impairment in software development as we quickly shift our technology approach.

Adjusted net loss was $49 million or $0.38 per share compared with an adjusted net loss of $23 million or $0.16 per share in the first quarter of 2017.

We had a use of free cash flow of $166 million. This is typical of our seasonal cash trends as the first quarter is the lowest in terms of our EBITDA generation. It is also the quarter during which our securitization obligations are paid down and we compensate our franchisees with volume rebates on royalties earned in prior periods.

We generate the bulk of our free cash flow in Q2-Q4. For 2018 as a whole, we continue to expect conversion from operating EBITDA to free cash flow to be at a rate of 60%.

Our net debt leverage ratio was 4.3x at March 31. We expect this to moderate by year -- by the end of the year. As a reminder, we expect corporate cash interest expense to be approximately $170 million this year.

Slides 7 and 8 provide information about our business unit operating performance in the first quarter of '18. RFG improved revenue and operating EBITDA in the quarter with revenue growth of 4% due to higher net domestic affiliate and NRT royalties. RFG's operating EBITDA increased $3 million principally due to higher revenues.

NRT saw revenue growth, but agent commission splits continue to be challenged. Its revenue increased $20 million in Q1 2018 due to transaction volume that was driven by higher average sales price. NRT operating EBITDA decreased $24 million to negative $45 million as the increase in revenues was more than offset by $40 million of increased agent commission expense.

Of the $40 million increase, approximately 1/3 was due to volume growth, about 1/2 from agent retention and recruiting and the remainder was due to new development activity.

Just a reminder, in our last call, we told you that our NRT numbers will include a negative impact from lower new development business in Q2, similar to that in Q1, of approximately $10 million of EBITDA, but then less effect in Q3 and Q4. In Q2, this will show up in both the agent commission split rate and transaction volume.

NRT's first quarter operating EBITDA benefited $4 million in the absence of the PHH Home Loans JV loss last year. In the second half of 2018, the one-time gains realized in the NRT segment from the wind down of this JV last year will be a headwind.

Cartus revenue increased $2 million in the first quarter, primarily due to an increase in affinity and other revenue. Operating EBITDA decreased $2 million because of exchange rate fluctuations.

TRG had a number of items in the first quarter that we don't expect will continue for the remainder of the year. Its revenue is flat and operating EBITDA decreased $8 million. Resale revenue growth partially offset a 37% decline in refinance activity. Refi will be less of a factor going forward. TRG's operating EBITDA was also impacted by a $3 million decrease in earnings from equity investments related to the ramp-up costs for our mortgage joint venture Guaranteed Rate Affinity. It's now beginning to show a profit.

Corporate operating EBITDA in the first quarter was $4 million better than the first quarter of 2017.

As Ryan mentioned, the most pressing factor faced today is limited inventory, which slows transaction sides growth, but has been more than offset by price appreciation.

Moving to our transaction volume guidance for the second quarter. On Slide 9, we forecast that Realogy's combined homesale transaction volume will increase in the range of 2% to 5% year-over-year with sides down 2% to flat and 4% to 5% growth coming from price. Broken down by business unit, we expect 3% to 5% transaction volume growth at RFG and 1% to 3% growth at NRT.

Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Tony. Pulling way up, after 4 months, I continue to be incredibly excited by Realogy's strengths and look forward to leveraging our market leadership, geographic reach, data and technology scale to improve profitability over time.

While our results trajectory will not change overnight, I feel good about our pace of change. I am confident that we are headed in the right direction. We are growing revenue and volume in a competitive market, while we continue to recalibrate our agent commission approach. We are quickly producing multiple technology and data beta products to enhance our value proposition. We are driving efficiencies in our cost structure, and we are returning substantial capital to shareholders.

With that, Tony and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) your first question comes from Matthew Bouley of Barclays.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

I wanted to start out with a question on the commission splits here moving into the second quarter. Just thinking on normal seasonality, you typically see a step-up sequentially, which off of that first quarter level would potentially still leave a significant year-over-year headwind on EBITDA. So -- and obviously, as you just called out, you still have this mix shift away from new development. So just wanted to get some more clarity on how we should think about near-term splits.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So thank you, Matthew, for the question. Look, we looked at a lot of -- we've looked at a lot of scenarios for the second quarter incorporating the seasonality trends you described, the new development headwinds. And bluntly, they all had a substantial moderation in the year-over-year increase. There's still upward pressure and so you should expect that there will still be year-over-year increase in the second quarter. But compared to the 209 basis point increase you saw in the third quarter, the 204 basis point increase you saw in the fourth quarter and the 284 basis point increase or 219 if you want to subtract out the 65 basis points from new development, compared to those range, we expect it to be substantially moderate in Q2 and in Q3 and Q4. So I don't want you to lose the fact that there is still upward pressure, but the moderation should be substantial even taking your seasonal point into account.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

Okay, understood. And then second question, and I guess, just taking a step back. Ryan, now that you have been in the seat for a few months, I'd be curious to just kind of hear your broader thoughts on thinking about brand and the value of Realogy's brands. And more specifically, how that pertains to kind of agent switching costs? Just given kind of an environment where there is a lot more information readily available and lead generation is something that has been kind of spread out, just how do you think about Realogy's ability to kind of boost retention in an environment where switching costs maybe diminishing?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes, so a couple of thoughts on that. Look, I think brands matter. And I think they matter for consumers from a legitimacy standpoint for brokerage. But for agents, the brands can really stand for something in terms of what the brand delivers in terms of their support, what the brand can deliver in terms of leads. And we've got the advantage with our Cartus relocation and affinity business of delivering kind of 75,000 closed transactions to people across our different brands. So there's a lot of power in that as we grow that. I do think, going forward, kind of using the technology data, kind of innovations and delivery to agents in all the different brands that we have, it can be a powerful part of the future of making people more sticky with the brands, both in terms of giving them things that's going to make them more productive, that's going to make them want -- make it harder for them to leave. But also, if we can create an easy operating environment for them with technology, it raises the bar kind of in terms of switching costs a bit. And so we want to keep building our brands. We will not be building a Realogy brand. The brands we need to invest in are our agent-facing brands. But we want to do that not just by putting money against those brands, but against delivering things for agents that help their productivity that can be part of not just retaining people into those brands, but attracting them to it. And so I'm excited that Realogy has got great brands. We want to keep building off them, especially from an agent retention and recruiting standpoint.

Operator

Your next question comes from Jason Deleeuw of Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

I believe there was mention of recalibrating the commission split approach. I was just hoping to get more details on how you're thinking of handling the commission split strategy going forward.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So great question, Jason. I talked a little bit about this on the last call, and there are some things that wouldn't be appropriate to share publicly just for kind of competitive reasons. But let me just give you kind of 3 different themes that I believe are going to be part of the future on this. So one is, I talked before a little bit in the answer to Matthew's question, the more we can enhance our value proposition, especially with technology and data products to support agents, the more we can continue to build on our strong lead generation engine that we already have today and deliver more value to agents. That's going to help us vis-à-vis agent commissions just by delivering more value and making them more productive. Second, we have a big opportunity to take a more data-driven approach around agent commissions, and frankly, start to make some of the decisioning around individual agent commission decisions more driven by analytic insights and frameworks in, kind of, call it the home office as opposed to kind of the individual negotiation in the field, which is a little more how the business kind of works today. We -- I talked last time, we started to do some analytics around commissions. I won't share the insights yet, but we're starting to build our muscles using a more data -- much more data-driven approach to that to take more of that ownership into kind of the analytics decision-making being done in the home office. And then third, and I mentioned this last time a bit, is changing our target recruiting profile, again, through a different use of analytics. Over the first quarter, we actually did some pretty good analytic work, I think, as a company using some different AI tools and things like that, that really said, "Hey, there is a different profile of recruiting that we can target." The recruiting we did in 2016 and '17 was quite powerful. We're net up by about 2,000 agents in our team. We like those agents. Their productivity has been good. And so that was all good things to do. But you'll notice we took a little bit of a pause in that right now, and our next generation that's probably going to be more of -- a little more analytically driven, likely targeting a slightly different mix that has some impact on the commission dynamics. So we need to make some changes in all 3 of those kind of areas, I believe, over time, both to make our agents more productive, which helps on this topic, but also to recalibrate the approach that we've been using a bit.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Great. And then the -- in the press release, there's talk about the improving profitability over time, which obviously is a key thing here, while trying to manage the agent recruitment efforts and the market share trends, just given the competitive environment for agents. So I guess, what's kind of the high-level goal here? Is the goal to maintain and grow market share going forward, while also improving profitability? Is that achievable? Is that the goal for Realogy at this point?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

So Jason, the goal is to improve profitability. There's a lot of different things we can talk about. We can talk about margins, we can talk about operating leverage, et cetera, et cetera. There's a lot of different choices we kind of have here to kind of look at how we would judge, kind of what's most important. But given kind of the history of the company over time and kind of just listening to our investors, I think it's relatively easy that the goal actually just needs to come straight down to can we show and drive EBITDA growth. Period. That's the goal. What we have learned a little bit, and as I look back in history is, if you go back to 2016 when Realogy was kind of off the fairway in terms of commission rates, we were losing agents and losing market share. And on an integrated basis across NRT and RFG, we were losing some of that transition we think we lost like $14 million going through that -- a bit of that transition. Whereas in '17, even though the commission split violence was painful on the P&L, on a net basis, we actually on an integrated basis made $2 million. And so there is no magic market share number, but I think we realized with the scale that we've got and the benefits of that, that we're probably better off being on market on commissions and trying to grow our market share, both because the integrated economics have looked better for us versus the alternative in the past, but also because we're actually bullish about the future of this market. I mentioned in my comments, I think there's some real good demographic trends for housing. We've got about 5.9% share of the market at NRT. RFG covers another kind of 10% of the market, so there's a huge amount out there. And if we can profitably grow it, I think we'd rather have more than less because we believe in the demographics and we believe in the power of it. But at the end of the day, we -- I feel we're going to be judged purely on can we improve our profitability, and so that's what we are focused on. At the moment, we do like kind of growing market share because we think that's going to be part of improving our profitability given our scale, but there's nothing magical about that -- about the market share targets or statements. Though again, we are biased for more because we believe in the future and the demographic trends I mentioned.

Operator

Your next question comes from John Campbell of Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

So thanks for the color around the NRT regional trends. As best you guys could kind of hash out, what are the splits look like across the 4 regions? I'm guessing the West region is a little bit higher than others. Is that right?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes, I'd say the West stands out just because of the tradition of those markets where marketing costs are borne by agents versus broker paid. And then -- so yes, they are. And the sort of great strength we saw in California contributed a little bit, not (inaudible) for me, but a little bit to the split pressure. But the gross profit was definitely up year-over-year nicely, and we're very happy with our performance in California, especially versus the market as a whole. So we are encouraged by that trend.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay. And then in the industry, obviously, there was some pretty big news with Zillow moving into the iBuying. It looks like you guys are going to partner with them. So maybe if you could shed a little bit of light on -- your thoughts on the Zillow move. And then whether that relationship could be additive to you guys, can actually move the needle over time?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So we've got a long relationship with Zillow, and we're here to do whatever we can do to make our agents successful. We serve agents. If our agents succeed, we succeed. And Zillow offers many things that are helping our agents succeed, and so we've got a long partnership there. We continue to do that. We watch -- kind of strategically, if I step back, we are watching the iBuyer phenomenon relatively closely. So far, it's been confined to a very few cities, very narrow price bands. Only certain kinds of constructions in the cities. So it hasn't really kind of hit any sort of size, radar screens that would change anything that we're doing, yes. But we are watching it closely. And look, we love the fact that Zillow has been innovative. We love the fact that they are choosing to partner with one of our most important franchisees. So in Las Vegas, their partner is one of our most important franchisees, and we are excited about that. We are also excited about the fact that they are keeping agents at the center of the transaction process, which, again, is good for their agent customers. It's good for our agents. And so obviously, you should direct your specific questions about it to them, but we're -- we look forward to continuing our partnership there and are very excited that they chose to work with one of our most important franchisees in their Las Vegas launch.

Operator

Your next question comes from David Ridley-Lane of Bank of America Merrill Lynch.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Decline in days on the market metrics, it's pretty fresh inventory. It's good inventory. It's coming on.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

David, I'm sorry. David, can I interrupt you? We did not hear the start of your question. You loaded a little bit late, at least on our side. Would you like to repeat your question for me?

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Sure. So a lot has been made of the inventory declines, but the decline in days on the market metric, this is fresh inventory that's coming on. It's good inventory that's coming on. And there's also at least an argument to be made that technology should increase the speed of the transactions. So I'm wondering, how much of an impact are you seeing on inventory? And do you buy any of those arguments that the decline in days on the market and potentially technology is making it less of an issue for the market?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

I mean, inventory is the most pressing issue, David. I agree with you that absorption rates are improving, but it's still the main driver of sort of sides being sort of flat and price being up significantly. And if you look at some of the NAR data from March, you can see most of the sides decline were in sort of the [2 50] and below. I mean, it was really some sort of mid-teens type unit declines in that price point -- whereas 750,000 and above price point, where there's more and more inventory as you go up. It was actually up pretty significantly to get to their overall number. So inventory is definitely the most relevant factor affecting us more than taxes, more than mortgage rates, more than weather, more than Wall Street, stock market volatility. So it's definitely inventory. In Massachusetts, right, sitting here today, going into their spring season has 2 months of inventory, if you go to the Massachusetts Association of Realtors' website. So -- for Massachusetts -- I expect that in San Francisco, but not Massachusetts and it's really an issue.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Okay. And then on NRT, I hear you the goal here is to grow EBITDA. Wondering if there are further costs that could come out in that segment either on a per office basis or is this all going to be about commission splits?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Well, commission splits is the dominant thing at the moment just because that's where kind of the violence in the P&L has been. But cost and changing the cost base there is absolutely going to be part of the future, and that can happen in multiple ways. So for example, we've got a lot of 5,000 square foot offices right now. We got to be in exploring what the 2,000 square foot office looks like and how does that -- can we deliver something great to help agents with that, but that actually changes the cost base. So we've got to hit NRT not just on the agent commission side, we've got to hit it on the cost side. We've got to deliver data and technology products to help make people more productive. We want to up our lead generation and delivering more and more close leads into NRT. And so there's no one silver bullet for a business with this much competition and this much intensity right at the moment. And we are focused on multiple levers there. Giving you transparency on splits has been the most important thing for me because that is where most of the violence has come from recently, and it's an incredibly important market factor that we are all going to have to keep watching and confronting. So that maybe why I probably overemphasized that a little more than cost, even though cost has got to be part of our future on this.

Operator

Your next question comes from Ryan McKeveny of Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

So Ryan, you mentioned the -- just at the beginning of your prepared remarks the competitive environment, kind of the money flowing into the sector and some of the "disruptors". And it seems several of the newer entrants are focused on the commission rates, so actually what consumers are kind of paying to agents. So obviously, good to see that your commission rate for both RFG and NRT was flat year-over-year. But just curious if you can give some big picture thoughts on what you're thinking about for the commission rate moving forward because it's obviously a point of discussion in the industry over whether there could be pressure into the future. I'm -- so just would be curious what you are seeing on that front, if you do have any maybe markets where you do hear about some pressures versus others may be less so. And ultimately, you just said kind of value proposition between your agents and the actual consumers.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. Great question, Ryan. Both coming into this role and being here now for -- in this role for 4 months, the stability of the ABCR has been both a pleasant surprise, but also one that has made me want to kind of scratch my head strategically and make sure we really understand it. And so that's something we are watching pretty closely. The thing that I probably most struck by is if you go back to those places, I talked about competition. If you look at what's happening with traditional brokers, I called out Berkshire. If you look at the people investing in traditional brokerage and you look at the people who are investing in the services that are meant to target this market like lead generation or lead curation, the amount of money flowing into that is phenomenally larger than the amount of money flowing into things that are trying to target the ABCR. And so the competition around the rest of the business is just incredibly intense, as we've been talking about, and that we're doing well in, by the way. And so I find that to be an interesting thing strategically. And then on the ABCR, look, Redfin has been around for a decade going after this -- going after that. And they've had whatever success -- you want to judge that they've had, but we (inaudible) them for a long time. And while ABCR moves down a point or 2 a year maybe, if you look kind of across markets and some are a little lower than others, its stability has been pretty impressive. And interestingly, consumer price of housing during that time has gone up pretty dramatically. And so the actual total return from the transaction, ABCR x price, has actually grown pretty substantially. So -- it's -- to me, it comes back just to the value that an agent delivers for what is the most important financial transaction for like 95% of people in their life, basically, right? And at the end of the day, what I'm increasingly coming to believe is that: a, agents deliver real value of getting people the best price and helping them navigate this kind of incredibly important financial transaction; and b, people are not necessarily willing to trade a discount on the commission side for the chance that they may not get the best price and the guidance from someone that can truly shepherd them through the whole process, which is why I think the strategy we have of serving agents and kind of betting on agents just like Berkshire is doing, just like all the outside capital and best in traditional brokerage is doing is actually going to be the right one over time.

Ryan McKeveny - *Zelman & Associates LLC - VP of Research*

Got it. That's very helpful. And Tony, 2 for you. One, on the debt side of things to the leverage at 4.3x, I guess, just how you envision that moving forward? I think you did make a comment about by the end of the year, but my phone cut out for a second. But just curious because there has always been this thought around long-term target of more like 3x. So just moving later in the cycle, kind of, how you view that? And then the second question for you would be just any updated thoughts on tax reform? You made some very helpful comments last quarter when it was kind of a newer thing, but any updated thoughts there on kind of what you are seeing related to tax reform?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Sure. So the leverage increased in the first quarter because of a combination of the normal use of free cash flow in the quarter that we see every year and the fact that we continued our return of capital cadence because we think the stock is a good value. So we think by year-end, we'll be at least back to where we were at year-end in 2017. And our goal remains unchanged longer term to continue to chip away that to get it to the lower numbers. I think in terms of I think a big help to that would be what Ryan talked about, which is our goal is really to get -- improve our EBITDA levels on an absolute basis, and obviously, that would help that ratio. So I think we still intend to decrease that leverage ratio over time. And just -- I also pointed out that regardless of the ratio, our interest expenses -- our annual burn rate on interest is $170 million. So it's -- relative to our EBITDA up, down, sideways, it's -- the coverage is very strong and we pushed out all the maturities on our debt. So -- But anyways, it's still our intention to delever over time. On tax reform, again, I think the -- what we are seeing and the data suggests is that inventory is the most pressing issue and the sides declines, as I mentioned earlier. In March, we're much more at the lower end and they were much higher at the higher end, so you'd expect -- if tax reform were affecting that, you wouldn't see such a big sort of disconnect between those 2. It's really inventory is kind of swamping all other factors. So it's not just tax reform, it's also same thing with mortgage rates. Even -- the only thing we could sort of see in the first quarter was -- and we didn't really want to call it out because it always happens, was weather. Because, obviously, the Northeast, the 4% -- being 4% up before New York City, some of that was weather impacted. But having said that, it's still -- its inventory is the #1 factor here.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

If I can just add on that, Ryan, just to give you -- just so you get to hear from me, too. I've been -- look, we're watching tax reform closely. We're watching mortgage closely. I'm 100% with Tony. It's all inventory. I was struck by our numbers. And it's part of the reason I want to give you guys some geographic color, which is you look out West in the high tax states and they had both strong sides and price growth even with tax reform kind of having happened. You look at the Northeast, and if you exclude New York, the rest of the Northeast, which have some pretty high tax states, also had like a couple of percent side growth and a couple of percent price growth, which that was interesting to me. And then New York City, obviously, went the opposite way. There's a tax component to that. We are clearly seeing some big disconnects there between buyers and sellers, especially at the high end of the market. So -- but it's just -- a lot of the places we expected to probably see some tax reform impact, the data just didn't show it yet and that's why I want to call out some of that geographic color. It doesn't mean we are not going to watch it. It doesn't mean it couldn't be there. It doesn't mean it couldn't be a piece of the puzzle in New York City or something, but it was quite interesting to see the strength in a bunch of the higher tax regions of the country.

Operator

Your next question comes from Stephen Kim of Evercore ISI.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team & Fundamental Research Analyst*

I had a couple of questions related to your commentary about data development or data mining. You said you had 2 new -- 4 new beta products to aid agent productivity and efficiency. I guess, pulling it back a little bit, I was curious if you could help us think about what you think are the key attributes of the unique data that Realogy has that are therefore uniquely valuable. And I was wondering if it was possible to break down these attributes or these types of data maybe between data that's particularly relevant for agency and brokerage versus data that might be more broadly applicable. So for instance, again, it started -- you had mentioned, I think, thus far that from a brokerage perspective, you have data around agent productivity and data that would be helpful in commission negotiation. I assume you meant the ABCR there. And then beyond brokerage, I know - I would think that your data is probably more timely and more accurate perhaps than other folks may have access to. But I was wondering if you could sort of continue that along. And what are the other things that you think you have access to, data wise, that others don't?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Sure. So a couple of things. The commission thing I mentioned, by the way, was agent commissions, not ABCR. Just -- sorry, my mistake on that one. But that's what I intended to communicate on that. Look, I think there are 2 ways you can kind of go at it in terms of kind of what we have and what we have that might be unique. One way is just the scale way, right? So with 6% of the market NRT, with 10% of the market at RFG, with a title business that does a lot of transactions not just for our agents, but for nonaffiliated to us agents out there. And then our geographic reach -- if you just look at even just the number of MLSs we accessed the data from and the number of transactions we see, et cetera, et cetera, from that scale stuff, there's kind of a quantity of data differentiation thing that I believe Realogy has. A lot of that benefit is going to be in what we as Realogy can use to mine that data, get insights from it and then give that -- those insights either out to agents or franchisees or use them in our commission negotiations or our recruiting tactics or whatever. So I think there's just a scale access thing that is one vector of that, basically, right? The second thing, which you touched on a little bit is can we deliver a lot of these things to customer -- to our agents, for example, in real time? And that's a little harder on the franchise side because we have to work through the franchisee there. But again, for NRT, which is where most of our economics come from, right, we have the ability in real time to get our -- get any of these data insights to the biggest owned brokerage business with 50,000 agents. And by the way, we have the ability to see and test how those 50,000 agents use that data differently and who succeeds and who doesn't. And so what do we do the next time we learn from that? And so I think there is a scale aspect just to the amount of data that we can actually use to generate insights for ourselves, for our agents and for our brokers and then distribute to them. But then there's like a real time and a testing kind of component to that, that we could also do. And I think it's got insights on how we negotiate and pay commissions for agents, which is a big, obviously, part of our P&L that we talk a lot about. I think there are recruiting aspects to it. I think there is lead generation versions of this, both within our company's network but also as we expand that. And then I think there are things that can be helpful to those agents in being productive with their customers winning listings and things like that. So the scale thing and the real time thing are probably the 2 ways I kind of come at it. And I'm happy to go deeper in it because I'm a geek on this stuff off line, Stephen, but that's where I'll probably start.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team & Fundamental Research Analyst*

That's really helpful. And you talked on this call and many others have talked on other calls about the fact that the inventory shortage across the market is very different at the lower end, much more severe at the low end than it is at the high end. I was curious as to whether you thought -- I assume you think that that's going to be a somewhat intractable force here for a fairly long period of time. But even if you don't, I'm curious as to whether you think that the data that you have access to and the things you can do with it would be more valuable at sort of improving efficiency and productivity at the higher end than at the lower end? Or if the data is actually more skewed to the lower end?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

That's a great question. I haven't thought about it that way very often. Look, in the current market, you -- I think you're totally right because in a world where the mainstream inventory is that kind of 3 months or 2 months in Massachusetts thing and where inventory in the couple of million dollar range is more like north of a year, right? You've got more opportunity to have impact in the upper end. So you're right about that. Over time, I think as the market normalizes, there's value across the spectrum on this stuff. But you're probably right that in today's environment, if it persists, it's going to be -- there will be more insight into the higher end, which only probably plays to our strength because we've got NRT architected to be in more of the higher end markets. We got a much higher average price point, et cetera. So that would be good for us. But that's a good question. Those are just immediate reactions, not something I'd spend a ton of time thinking about.

Operator

Your next question comes from Anthony Paolone of J.P. Morgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Can you talk specifically like -- an example you gave about the venture you have with Zillow in Las Vegas. Whether that cuts into the typical 5% ABCR to kind of make the principal risk they are taking work? Or how does the transaction work?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

So our partnership with them in Vegas is actually of one of our franchisees. So it's not an owned brokerage thing. And so you're going to need to direct the specifics of that one of how they're structuring it to Zillow. We are excited though that they are keeping agents in the transaction, so -- which, again, they make most of their economics from agents. So I'm excited they're keeping agents in the transaction. That will benefit our agents. And I'm excited that they thought that our brokerage was the best one in Las Vegas to partner with or our franchise in Las Vegas was the best one to partner with. (inaudible) who leads that and his wife, Molly, they're just incredibly successful, good franchisee. We're incredibly lucky to have them. So we're excited about the agent component. We're excited that they want to work with one of our franchisees. How they're doing their economics and what the choices they're making around ABCR, you're going to have to ask them. I don't know the answer to that.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. Do you see that as being a broader issue? I mean, you talked about ABCR being (inaudible) factor than splits at the moment. But when you get whether it's open door there that might be taking principal risk. Do you see them using that $70 billion pot, if you will, as the area to kind of cushion for profits on that?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Well, I mean, look, there's -- yes, they're clearly trying to shift some of that money from agents and brokerage -- agents and brokers and folks like us to them. I find it interesting. Again, it's been a (inaudible) a narrow market thing. They're taking principal risk and they're doing it at a time when, per Stephen's question, your inventory is so tight that homes just sell incredibly quickly. I'm -- as we do our strategic thinking on this, Anthony, I'm really focused on kind of what's going to happen in those models at a more normal inventory level or even through a downturn. Look, the reality is from the data that we can see, obviously, they charge a service fee that's equivalent to the agent commission or more, right? And the price at which they buy a bunch of these houses, in one man's opinion, it looks like they're at a discount, given what they sell them at a few months later. And so there is -- looks like there is a subset of consumers who need the liquidity, who will take a pretty big haircut on their house to avoid the transaction. How much of the market that puts at risk over time I think is TBD and Zillow showing, or at least trying, a different way that keeps the agent in the transaction. And they obviously must believe the economics can work for that. So I'm curious to watch how these different models actually play out, and this is on our strategic radar screen, even if I don't have any news to share specifically about it at this point yet.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. Got it. And then just a question maybe for Tony. You mentioned I think $23 million of the $30 million in restructuring charges in the first quarter it looks like was cash. Do you have an estimate what cash restructuring might look like for the full year?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

I believe it's $36 million in restructuring costs for the full year. It's in the 10-Q. There's a schedule on there what we spend today and what we are going to spend. $36 million is the number that I recall.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. If I could sneak one more, last one in. Just curious, you guys had not mentioned Zap in a while. Is that still something you're investing in?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes, we're really excited. We're glad we've got Zap at the platform. We got about -- I think it's 100,000 agents or -- the platform's deployed 100,000 agents who are using it. While the data is not as tight as we'd like it to be, we actually believe the data we have shows that agents who are using it are more productive, which is great. And the reality is it's a technology platform we offer to our franchisees for free that others in the industry don't. So we like it and we're glad it's there. But in the spirit of driving improved profitability, we've got to really expand our technology and data product development and delivery outside of just the franchise network, which Zap has been focused on, and really make sure we are doing great not just with our franchises, but with NRT, given the economic leverage there. And so that's why you hear me even on this call talk about, "Hey, we can -- we have shown we can do a few things in 75 days that we hope will help drive some agent productivity at NRT and efficiency." And so don't think that we're not excited about Zap or proud of it or that it's going to be a -- it's not going to be an important part of our future. It will be, but there needs to be more than that. There needs to be substantial use of our technology and data scale, especially with NRT, right, to help agents be more productive, just like we need to use data also to have better insights, so we can make better business decisions on commissions, on recruiting, et cetera. And all of that plus Zap is kind of the technology journey and data journey we need to be going on and we are going on in 2018. But that's why you probably heard a little less about it because I think the challenge is frankly much broader than just succeeding with that product.

Operator

Your final question comes from Bose George of KBW.

Unidentified Analyst

This is [Tom Allen] for Bose. Just quickly, back to the restructuring costs for this year. Could you just remind us like the breakdown of the -- kind of the segment and initiatives that that's really focused on? And then the $36 million that you pointed for the full year, is that really just heavy in the second quarter? Or does that kind of get spread out evenly throughout the rest of the year?

Anthony E. Hull - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

So the total is $41 million, I have been corrected, for the year and we spent $30 million in the first quarter. So of the remaining $12 million or so, it will mostly be in this quarter -- in the second quarter. And it, again, is mostly facility rationalization and HR rationalization for those -- for that spend.

Unidentified Analyst

Okay. And with the high level that your capital return is coming in at, is it fair to say that kind of the flip side of that is that you see pretty limited acquisition opportunities in the market whether it's due to not seeing something you like or just the price not being there?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Well, there's a couple of different versions of that. So one is you mentioned pricing. Pricing has been going up. Realogy's history is kind of doing deals that are kind of 5 to 6 multiple after synergies. And at least from the market intel we've had, there have been a lot of deals trading at much higher levels than that in the last kind of 15 months. So definitely, there are some things that are less attractive on price. More strategically, I just have an incredibly strong belief that Realogy has massive scale, right? It's not like we need acquisitions to enter almost any new markets. Maybe the Carolinas we could go a little -- we could -- we'd like to be bigger in. But in general, we don't need acquisitions to be in the markets we want to be in. And that we think with some of the recruiting success the team had in 2017, that the returns are just higher for organic growth. And given that kind of an acquisition-heavy approach (inaudible) hasn't translated into the improved profitability that you demand and that we expect to deliver, right? I come from much more of a power of organic growth background, and I'm really excited to go on that journey. So we'll still look at things on occasion. There'll still be probably really small things that will happen, but I think our -- the philosophy around our use of capital is we want to invest for organic growth. We want to return capital to shareholders. We want to keep our kind of leverage ratio about where it's been and chip away out of it over time. And you shouldn't expect that we're going to use our capital for kind of material acquisitions.

Operator

There are no other questions in queue.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Shelby.

Alicia Swift

Thank you, Shelby. This concludes our call, and we look forward to speaking with you over the coming quarter.

Operator

This concludes today's conference call. You may now disconnect.

Exhibit H

THOMSON REUTERS

EDITED TRANSCRIPT

Q2 2018 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. second quarter 2018 earnings call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

Thank you, Natalia. Good morning, and welcome to Realogy's Second Quarter 2018 Earnings Call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Tony Hull.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to a rebroadcast of this presentation, we remind you that the remarks made herein are as of today, August 3, and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed in this call. And per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thanks, Alicia. As you may recall from our call last quarter, I told you I was excited to compete for a position of leadership in the attractive and growing $70 billion residential real estate market, especially given the growth we expect in this large addressable market over the next several years. Nothing has changed in that regard. Realogy has powerful strengths, industry-leading market position, great brands, strong cash flow, and something you will continue to hear me talk about, technology and data scale.

In the short term, the most pressing issue facing the industry is an inventory shortage in the mainstream market versus robust demand. This is resulting in slightly lower homesale transactions, offset by strong increases in the average home prices, which results in increased volume that is beneficial to us. While NAR and others are starting to point to modest inventory increases, we are not planning for dramatic inventory improvement at this time.

Despite the challenging inventory environment, we are moving faster. I'm excited that some of our earlier 2018 efforts are starting to drive results. We outperformed the market on transaction volume. We began to see the expense benefits from our expanded focus on operating efficiency, and our Q2 2018 operating EBITDA outperformed Q2 2017.

With that, let me discuss what we saw in the second quarter. Q2 2018 operating EBITDA was $276 million, up $7 million from Q2 2017. We delivered on our transaction volume guidance. Our 3% volume growth outperformed the market for Q2, with NAR reporting 1% volume growth. RFG transaction volume was up 4%, driven by 7% price growth. NRT volume was up 1%, with sides flat in a quarter where NAR reported sides down 2%.

Moving to our guidance for the third quarter. We forecast that Realogy's combined transaction volume will increase in the range of 3% to 6% year-over-year with sides contributing between -1% to +1% and 4% to 5% coming from price. Broken down by business unit, we expect 4% to 6% transaction volume growth at RFG and 3% to 5% growth at NRT. Based on what we know today and subject to macro uncertainty, we continue to expect that aggregate Q2 to Q4 operating EBITDA will be in line with or better than the same period in 2017, as we have said on our last two calls.

Now let me talk more about NRT. In Q2, the West, South and Midwest regions all saw single-digit volume growth. The West was up 6%. South was up 4%, and Midwest was up 3%, all driven by price. The Northeast was up 5% in volume, with growth in sides and price, excluding New York City and the Hamptons. Including those markets, NRT's Northeast volume was down 5%.

NRT commission rates in Q2 increased 209 basis points year-over-year, which included approximately 45 basis points new development impact. This compares to a 284 basis point increase year-over-year in the first quarter, which included approximately 65 basis points new development impact. Consistent with what we said in the last two quarters, while we expect continued upward pressure on agent commission rates, overall we do expect further year-over-year split increase moderation in the second half of 2018.

Shifting gears. I want to share a few thoughts on our strategic direction as the year evolves. First, while I've not spent much time talking about our franchise business in the last two earnings calls, I really love this business. It is hard not to love RFG's $560 million of 2017 operating EBITDA. We have a very strong group of nearly 2,500 franchisees, and we are focused on helping them grow. And with approximately half of the agents in the market today still with independent companies, not affiliated with national brands or major regional players, we believe we have unexplored opportunities to attract those agents to our franchisees.

To drive substantial agent growth in our franchise business, we'll be making a number of strategic changes at RFG in 2018 and 2019. First, we are going to launch at least one new franchise brand in 2019. Second, we are expanding our franchise business by now supporting multi-brand franchisees and start-up brokerage companies, things we have not done traditionally. And third, we are expanding the capital programs available to franchisees to help recruit new agents and complete M&A transactions. Additionally, we are continuing to invest in our franchise technology offerings that are today deployed to over 100,000 affiliated agents.

Second, we love our owned brokerage business at NRT. We especially like its contribution to our franchise earnings. Remember, NRT contributed approximately $300 million of intercompany royalties through RFG Operating EBITDA in 2017. That said, while we're intent on helping our agents grow their businesses, we are clearly not satisfied with NRT's recent direct financial results. This business should be - and we are working hard to make it - the largest source of operating leverage for our company.

To change this financial trend, we need to expand our base of productive agents faster than our recent past and provide our existing and new agents compelling data and technology products and services to make them more productive and their businesses more profitable. We will be making a number of strategic changes at NRT in 2018 and 2019. First, we are simplifying and standardizing our agent commission pricing to drive growth. Keep in mind that NRT was built by combining hundreds of brokerages, each with different commission plans and legacy branch-level variations that often continue in some form or another to this day. We are moving to consistent commission plans in each market, with less branch-level variation and more central decision-making, driven by greater data analytics. These changes will create clearer and simpler messaging around our value proposition to drive growth by improved agent recruiting and retention.

We are also changing our products. As we've discussed previously, we are adding new products to our agent value proposition to enhance recruiting, retention and to drive agent productivity. For certain select new products, we will charge fees. In some cases, those fees will be because we've created something that drives exceptional value. In other cases, the fees will offset the cost to deliver the new products. This move to charge fees expands the universe of products that we can offer our agents.

We're moving quickly to drive these changes, given our need to alter NRT's financial trajectory. For example, we are in a process of simplifying and standardizing our pricing in California today to accelerate growth, and we are testing pricing variations in several other markets this year. We have also introduced a few high-value, fee-based products already in California and other select markets, and we are seeing encouragingly high take rates from our agents. We believe these changes will drive our agent recruiting and retention, agent productivity and our commission income growth over time.

While I've just shared with you some strategy changes at NRT and RFG, we're not going to be able to give you as many specifics today as I know you would like for both competitive reasons and because we are still early in these changes. However, we do want you to know the strategic direction that we are headed, and we look forward to updating you as 2018 and 2019 progress.

Third, we remain focused on enhancing our agent value proposition through new technology and data products. This is part of delivering more value to agents to help drive better recruiting and retention results. Last quarter, I described a few agent-focused beta technology products we produced. This quarter, I want to highlight two investments in other technologies we made to help our agents. First, we invested in OJO, an artificial intelligence start-up focused on enhancing real estate leads. Together, our goal is to provide additional high-quality leads to our industry-leading network of more than 190,000 U.S. agents. Second, we also invested in Notarize, a platform that enables remote notarization. We want to be on our front foot helping agents and their customers as the real estate transaction becomes increasingly digital.

Finally, our capital strategy remains unchanged. We returned $101 million to shareholders through share buybacks and another $11 million in dividends during the second quarter. As I've shared multiple times, we are deemphasizing brokerage M&A to focus on organic growth. We expect to repurchase an additional $200 million of shares over the back half of 2018, which we believe continues to be the best use of our capital, given our current stock price. With this level of stock repurchase, we expect our leverage ratio to be a bit above 4x at the end of 2018.

In closing, I want to emphasize that we're focused on moving quickly. I know shareholders expect better results. While we're in the early innings and while our results trajectory will not change overnight, we are beginning to see the impact of some actions we took earlier in the year. We remain committed to demonstrating a fast pace of change and improving profitability over time.

While I will come back at the end of the call to summarize my thoughts, now let me turn it over to Tony to discuss our Q2 2018 results in more detail.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thank you, Ryan. Turning to Slide 6 for the second quarter 2018 results. Revenue of $1.8 billion was up 2% compared to Q2 2017. This growth was attributable to an increase in homesale transaction volume at NRT and RFG. Our operating EBITDA of $276 million increased 3% compared to Q2 2017. The year-over-year increase of $7 million was largely due to revenue increases and operating expense favorability across the company. We remain on track to achieve approximately $50 million on an annual run rate basis from restructuring and other cost-savings initiatives, which more than offset some inflationary pressures. Adjusted net income was $127 million or $1.00 per share compared to adjusted net income of $107 million or $0.78 per share in Q2 2017. We generated free cash flow of $192 million in the quarter. For full year 2018, we continue to expect conversion from operating EBITDA to free cash flow at a rate of approximately 60%.

Slide 7 provides information about our business unit operating performance in the second quarter. RFG's operating EBITDA increased $6 million, principally due to growth in the franchise royalty revenue as well as decrease in employee-related costs. RFG's Q2 reported revenue was flat as revenue -- as higher net domestic affiliate royalties were offset by lower recognized brand marketing on revenues due to the timing of spending. This had no impact on operating EBITDA due to an offsetting decrease in expenses. The growth in domestic royalties was 4%, driven by higher average sales price as royalty per side reached $336, up by 6%. Net effective royalty rate was slightly improved at 4.42%, up 1 basis point from the Q2 2017.

NRT operating EBITDA was $61 million. This was a decrease of $17 million, $9 million of which was due to lower new development activity. A revenue increase of $16 million and a $5 million decrease in operating expenses were more than offset by $39 million of greater agent commission expense. NRT also contributed $89 million of intercompany royalties, which are in RFG's results for the quarter. As a reminder, we exited the PHH Home Loans joint venture in 2017. Equity earnings in the NRT segment from the wind down of this JV will be a $26 million headwind in the second half 2018.

Cartus operating EBITDA increased $7 million in the second quarter due to a combination of higher revenue and the impact of expense-reduction initiatives. Revenue increased $3 million primarily due to higher affinity and international revenues.

TRG revenue and operating EBITDA each increased by $5 million as a result of higher underwriting revenue, lower employee-related expenses and a $2 million increase in earnings, primarily related to our mortgage joint venture, Guaranteed Rate Affinity.

Shifting to the bigger picture. There's currently a lot of speculation and static surrounding the health of the existing homesale market and its future prospects. In the short term, limited inventory in the mainstream market continues to be the major constraint, and it fuels other concerns about affordability, mortgage rates and the impact of tax law changes. But the fact is that demand outstrips supply, and that has kept homesale transaction volume on a positive trajectory. Looking longer term, demographic trends are compelling. We are already seeing growth in a number of households who own homes rather than rent. There were 1.8 million new homeowners added over the last 12 months, according to the latest Census Bureau report. And Millennials are the most important factor driving the increase. There's clearly a demographic shift on the horizon that we believe will be a meaningful tailwind for the housing market and Realogy for years to come.

Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Tony. Before we turn to your questions, I'd like to take a moment to highlight a leadership addition at Realogy. In July, Katrina Helmkamp joined as President and CEO of Cartus. An experienced CEO, who was built her career leading companies through transformations, Katrina is well positioned to drive performance at Cartus and lead its technology and process transformation.

Pulling way up, we're increasingly making changes meant to improve profitability over time. I'm confident that we're headed in the right direction. In this quarter, we outgrew the market. We're seeing the benefits from our focus on driving efficiencies in our cost structure, and we grew our operating EBITDA over last year. We're making strategy changes at both RFG and NRT designed to substantially grow our productive agent population. Our technology and data focus - all to help our agents succeed continues. We're returning substantial capital to shareholders, given our robust free cash flow. And finally, we continue to make talent moves across the company as well as bringing outside talent. Both are critical to executing our strategy and delivering better results.

With that, Tony and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Bose George of KBW.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Actually, can you start with just an update on the competitive landscape for agents? And last quarter, you said that you expect the pressure on splits to largely moderate year-over-year. And I wasn't sure if in your commentary, you repeated that. So could you just address that as well.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, we haven't changed our commentary on splits. While we still think there will be upward pressure, the kind of year-over-year increases we're seeing each quarter, we signaled and believe are going to moderate. We saw that in this quarter between the 284 to the 209 as an example of that. So nothing's changed on that.

Look, the competitive environment is pretty intense. I mean it's -- there's no question that a lot of people think this is a really attractive market, just like we do. We like that. We like our industry-leading position in that, but the competition from traditional brokerages remains strong, right. There's a lot of outside capital coming in, both in the traditional brokerage and into some of the disruptive models trying to target the same economics as ours. And so I would say it's just as competitive now as it was last quarter and the quarter before. The lack of inventory makes it even tougher out there because you've got the agents competing for a relatively limited number of listings. And so if there was more inventory, I think there'd be a little more dynamism in the market. So that makes it a bit difficult also, but it hasn't changed in our eyes over time here recently.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Great, great. In terms of the new brand, the franchise brand you think you're introducing, can you just talk about the drivers? Is there sort of a market niche that you feel provides an opportunity? Or Any color there.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Absolutely. And obviously, I can't share the name. We want to launch it in the right way, and the right way wouldn't be on an earnings call. But -- so we're looking actually at more than one. I said at least one. So we're looking at more than one. We think there's at least -- there's a couple of niches in the market that are both a little bit underserved overall and a little bit -- and underserved by Realogy. And we think we got access to the kind of brands that could actually fill those niches. We've got -- we're doing the work to really make sure it's the best thing for our owners and our company, but I'm incredibly confident that we got one of those niches that we're definitely going to launch, which is why I said we have at least one. And we're actually looking at more than one.

It is still at an incredibly fragmented market, and we've had a lot of success in the past introducing new brands. And so we think there's a real opportunity here, and we look forward to telling you more after we launch it more in a kind of press PR kind of way. And at that point, we'll be able to give you more details on financials and stuff like that as we work that through, but there's some opportunities in the brand spectrum. We've got great brands today. Each of our brands create unique value, but there are some segments that we think are actually right for us to look really hard at. And at minimum, it's going to be one.

Operator

Your next question is from the line of Anthony Paolone with JPMorgan.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

In terms of the splits and you going through the process of streamlining that, it sounds like you've done some over there already. Can you just talk to whether -- I guess, I mean -- and if there's going to have to be an average split, and curious as to whether or not that's, on average, higher or lower than what the agents are getting today.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So it's too early from the stuff that we've rolled out to actually say if it's higher or lower. So again, the market pressure on splits is upward, not downwards. So we just all need to keep that in mind. The thing I'd love to pivot to, though is, the real reason to do it, Anthony, is not to try to get to some target number on splits. It's really actually about driving growth, right, and kind of getting to the right integrated economics. If we can get enough growth with simpler, clearer, more data-driven commission plans, we'll take higher splits if that's what it takes to get a lot more growth because the economics on an integrated basis would be better. And that growth has got to come from more recruiting. And so we had some success with that, but you can look at a bunch of our competitors who's had a lot more success on recruiting than we had.

And the way our company has evolved with those hundreds of brokerages, we've got these kind of complex and inconsistent plans out there. And they make it really hard, actually, to explain to potential agents both what our pricing really is and what our value proposition really is. And we think if we can do better to simplify and standardize, have a much clearer and more consistent message, we can actually get a lot more growth with recruiting. And that's going to be the real leverage in this.

There'll be a set of integrated economics, we believe, are going to be better than today if we get that outcome. Whether splits are higher or lower on average or what the distribution on that looks like, that's still little bit TBD in it. But the goal is to drive growth and drive better integrated economics more than it is to try to get to a certain split target.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And then just on your marketing cost and your G&A in the quarter, at least relative to where we were, those seem to come in lower and really were pretty helpful. Can you just talk about anything behind those 2 items and perhaps kind of what they might look like going forward?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, the marketing, at least from the RFG point of view, is more of timing. So I think that will come back a bit in the third quarter. In terms of the other costs, we reduced our headcount significantly compared to year-end and the year ago, as we said we would in our restructuring, and we reduced our office footprint. So those 2 things have contributed to that.

Obviously, Cartus did a fairly major reset on their cost base. So we're happy to see the benefit of all that hitting in the second quarter and expect that probably to still to continue for the year. And it's kind of our normal operating procedure from now on.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

So -- and I guess we only had $364 million of G&A I think in 2017, I mean any ability to kind of give some brackets on what that might look like for full year '18? Like, does it really stay down at these levels for the next couple of quarters?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I mean we don't -- we gave the guidance we gave. But obviously, we're really pleased with the cost savings flowing through to the bottom line.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. I'll add to that, Anthony. That's one of the things in my comments. What we want to show you is that some of the stuff that we started earlier in the year is actually starting to pay off. This is one of those examples. And so obviously, we plan to continue on that trend -- trajectory, as Tony talked about. But I agree with Tony. We don't have guidance to give on that specific line item.

Operator

Your next question is from the line of Stephen Kim with Evercore ISI.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

I guess my first question touches on the question you -- or the issue you raised about technology. You gave us 2 examples, I think, in artificial intelligence, start-up to identify leads, I think, and the Notarize platform. I was curious, first of all, what inning you think we are in terms of Realogy embracing some of the new technologies that are available? Will they -- will you be rolling these things out in a brand-specific manner? And then as you talk about launching new brands, I was curious if any of the motivations or the niches were actually built around some of the things you're finding in terms of technology opportunities.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Great, great questions. Thank you, Stephen. So I think this industry as a whole is actually still in the early innings around technology relative to some of the other industries out there. And I -- Realogy is also in the early innings on technology, though Realogy did do one thing that no one else in this business did, which is Realogy provides the Zap technology to its franchisees, which I don't believe any other franchise would provide something of that size and scale the way Realogy does. But I think, overall, the industry and Realogy are more in the early innings in this area. And what I'm trying to demonstrate to you as we have these conversations in each quarter is the different vectors that we're actually engaged in.

So for example, last quarter, I talked about stuff we developed and some beta products we put out in the market that are out there being tested as we speak right now. This quarter, here's some places we made some investments to roll those products out to have products for agents that we can then distribute to 190,000 agents that we've got and leverage our scale. So it's early innings, but I want you to know we're incredibly focused on this and moving fast.

What I didn't talk about that I'm really passionate about is we just did a kind of non-Realogy agent predictive analytics productivity analysis with MLS data and stuff. And we found that, using kind of the machine learning, we found that 5 of the 10 most important explanatory variables for predicting agents that we should be recruiting isn't actually agent characteristics, it's actually Realogy data and Realogy-only information, which is kind of a nice competitive advantage given our scale and our data scale. So we're in the early innings, but in each of these kind of areas, building, buying using machine learning on stuff, we're starting to actually produce some insights that we're going to drive into the market.

Some things, I think, will be done at the brand level, and some things will be done across the company. I think over time, you'll see more of this stuff done across the company, but we do have a few examples, even this year. Sotheby's did something really nice, I thought, with augmented reality as part of their virtual listings basically. But I think most of what we're going to be doing will be meant to be out there to leverage the scale we have with our 190,000 agents and give the -- any technology we buy, build, develop, et cetera, data insights out as much as possible. Because I think that's part of our competitive advantage, which is if we come up with a good insight or a good product, we can get it to 16% of the market. And so let's do that overall, even though there will still be some brand-specific things.

On the new brands, technology, I do not actually think is the core thing that actually determines some of these potentially open or underserved segments of where we've got new brands. Though technology, making a decision of how you're going -- how to support these new brands with technology is actually one of the most challenging things we're trying to work through now, because we need to set a really high bar for that and have it be great. But I don't think you'll see a new franchise brand built around a technology as much as about maybe a different operating model, if that makes any sense in terms of different physical presence or different kind of customer segment targeting.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Great. That's, yes, that's a very full response and very helpful. My second question relates to your comment about simplifying and standardizing the agent pricing model. It seems like a very significant move by the company to change something that seems like it's been fairly deeply ingrained. So I just wanted to explore that a bit. I guess what I heard you say was that you were employing data analytics to determine better ways to recruit and also to provide a more clear value proposition or at least a financial projection model that an agent could use than before. Seems very reasonable. Seems like that should be clear and transparent. However, I'm imagining there must be some reasons why that system was in place to begin with and allowed to perpetuate for as long as it did. And the changing it is going to be somewhat jarring for the existing professionals, particularly your most productive agents. And so I was wondering if you could talk about how you see that implementation of a more simplified centralized model sort of balancing the change effects on your business and perhaps alienating some folks that liked the existing platform, and the kinds of things that you are seeing in terms of the potential for a simplified program that make you say that this is worth doing at this time.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So great, great question. And look, there's no -- companies evolve with their history, and just because something changes now doesn't mean it was not the right thing to be doing in the past. Let me start back with Realogy. Literally, I think if I count it out, there was somewhere between 400 and 500 brokerages came together to form NRT over time. I mean, that's a phenomenal number. And even today, the legacy of that massive amount of companies coming together still exist, Stephen. In many, many places, how we do -- we have all kinds of variation in terms of commission processing and activities that are done very different in different geographies. Because with that number of companies coming together, there was never -- it was just a Herculean effort to kind of continually get closer to kind of single ways of doing things on almost any dimension, including pricing. So you just got that legacy history.

But I think we're at a point where, given the challenges that you're challenging us with in terms of improving our performance, we can't just keep going the way that we're going. And one of -- and the thing that, I think, haunts us the most is because of that fragmentation and the branch-level variation in pricing, choices and stuff like that is, we actually have a really hard time communicating our value proposition as powerfully as we should be able to, including the pricing part of it. And if you actually Google our marketing materials versus some of our competitors', you'll see they can actually communicate their value proposition in terms of pricing incredibly clearly with clear headline pricing. And for us, it's a much longer kind of all-in integrated conversation. It's just harder. And so the change is more actually to drive new agents to us and, hopefully, help us recruit new agents.

Now part of the reason that I talked about -- that we're doing this in California right now. I also mentioned we're testing in most other market is, we actually do know that because each market's different, we're going to have differences in each market. But we also have to actually, like, learn from the early experiments of doing this, right. So Sacramento's actually going quite well, and we've learned a lot from doing it there. But we're going to do testing in different markets on the East Coast. And the -- how far we move from where we are today to the other end of the spectrum around consistency and pure data analytic-driven will likely be a function of what we learn during these tests and how we confront some of those existing agent issues that you talk about. But the power of it is less about what happens to the existing agent. The power of it is, if we're going to succeed and deliver the kind of results you want us to deliver, we actually need to drive more productive agent growth. And we have to do more recruiting than we're doing today. And you can see that when you benchmark us against the competition. And so we're designing this as much or more to recruit talent and agent -- to recruit agents than as it is to try to just change the mix of what people are having today. A lot of people don't understand is what they're on today is actually what we do for the people who are going to be new is where the power really is.

Operator

Your next question is from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

The first question on NRT. I wanted to focus a bit on the EBITDA margin there. So we talked a lot about commission splits over the last year plus. And obviously, that's been a headwind. But I'm just thinking about the actual EBITDA margin and kind of what else can be done from a cost perspective within the NRT side. I know you've called out some efficiency gains and restructuring efforts related to headcount and such. The topic I'm focused on is kind of the office side of things, where you have a lot of offices across the country. I'm guess I'm wondering, is there opportunity for any consolidation there as kind of an expense reduction, assuming maybe the commission split, let's say, trends continually slightly higher to offset these pressures? Can you get to a point where you see the EBITDA margin in that business stabilize after seeing a few years of declines? Just any context around that and maybe some of the other factors outside of just the split that could help benefit the margin in NRT going forward.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. Look, great question. And I think may have mentioned it the last call. We're doing some work around the office of the future. We're not blind to the things that -- the E*TRADEs and the Schwabs and the others have done to really change how physical presence can work for different kind of businesses. And look, today, we cover our operating markets, but we are continuing to look for opportunities there. And some of the restructuring and some of the cost benefits that Tony talked about did come from that.

So I agree with your premise. And I think you should know we do think there is some opportunity there. But I will say -- just I don't want to mislead you on this one. I don't think it's going to be the most -- the biggest driver of a change -- any sort of change in our trajectory in the future, right. The much bigger driver -- back to the recruiting question, is literally how do we do a better job of -- whether our office size is what it is today or 2/3 of it or whatever, how do we do a much better job of leveraging that fixed-cost base by having more recruiting success and driving kind of more operating leverage through that business? And so we are looking at it in those kind of ways that I talked about. But just like office consolidation alone and things like that won't change our long-term trajectory in a way that's going to excite you. Whereas, we will do some moves in that area paired with more success on the recruiting side, you can see the combination being much more powerful down the road.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

Got it. Very helpful. And I guess somewhat interrelated with the whole concept of recruitment and competition in the industry. I guess it's interesting to hear about the tools and products that you think you can kind of charge agents for. So I'm just wondering if you could give some additional thoughts around any trade-offs that you need to think about there, just given such a kind of competitive environment. I think the naysayer would say it must be tough to charge anything additional to agents when other companies are expanding and trying to do what they can do with tech, recruiting their way. So I guess, what gives you the confidence that you can kind of charge sort of premiums for some of these tools? Is it just the nature of them are so good that it is what it is? Just any additional thoughts there would be helpful.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

That's a great question, Ryan. So first off, remember, a ton of people in our industry are charging for a huge amount of things today, right. Our value proposition has been kind of all-in pricing, right? So further split, we kind of give everything. But we do live in a world where a lot of agents -- most agents, I would predict, are used to be in charge for a lot of things.

However, to your competition point, here's the reality in our view, we believe. Look, our goal of all of our value proposition changes is actually growth, right. We're not -- we're in this to actually drive as much more recruiting as we can, and we want to have the best kind of product set that we can. We think we have a good one today that's compelling. And we've given you our retention stats and the fact that we are 2% kind of up year-over-year on agents. So we're getting some recruiting and stuff.

But in terms of charging for things, let me give you the 2 kind of scenarios where we actually feel really good about this. And in fact, we have actual evidence that it's happening. So one is, if we put a product out there that is just above and beyond kind of our normal value proposition, and it's optional and agents want to use it and charge for it. Because it creates exceptional value, we think they'll go for it. We have one of those right now. It's called Listing Concierge. It's live in California and Denver and a few other smaller places. And this is a product, Ryan, where an agent can basically purchase marketing support from Realogy from Coldwell Banker for -- in NRT for a listing. And it kind of gives white-glove service on the marketing. We do the professional photography, HD, aerial, video, all that stuff, professional copywriting. We produce spots and put them in newspapers and magazines and online. We do some targeted and boosted social media placements, et cetera. And we charge for this product per listing, right. And so agents don't have to pay it. They can all do this themselves. But if they want this kind of above-and-beyond thing that we've just started offering, they pay us a fee for it for each listing. And our take rates on this thing have been incredibly good in these markets that we've rolled it out.

So that's an example to me of a kind of high-value thing that we could actually charge fees for doing it. It's getting good results. If we put more of those in the markets, some we may want to put into our core value proposition, but others we may want to charge for, like what we're doing with Listing Concierge.

There's another dynamic, Ryan, that being an all-in pricing player creates, which is we got 50,000-ish, plus or minus, agents in NRT. Imagine if there's a product that like 2,000 of those agents want to use, but the other 48,000 don't. It's probably going to be, in today's world, not feasible for us to provide that product to 50,000 agents if only 2,000 are going to use it. Because it's going to be really expensive to us, and there's just not going to be that much value because 48,000 people don't want it.

But there's another scenario where in that world, we can say, look, we're going to put that product out there for the small subset of agents who want it. We'll charge enough to those agents to cover our cost of it, and it let's expand the universe of products we offer, which again gets back to the reason to do this, which is actually to have the best value proposition of there, the best options, so that we can drive better recruiting and drive more people and higher retention.

So those are 2 different ways that this charging fees, I think, can be very helpful to us. It's obviously effective. It's optional for agents, but a lot of agents are used to paying fees. But if we don't have real value in these products, they're not going to opt in to them. But I wanted to give you that sense, there's still the all-in value proposition that we offer, that we're going to continue to offer. But hopefully, that helps tell you a bit how we're thinking about this and why it expands the universe of things we can do to offer our agents that help also drive recruitment.

Operator

Your next question is from the line of John Campbell with Stephens Inc.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

You talked a lot about some of the changes under way. That's definitely encouraging to hear. But back to RFG with the planned launch of, I think, you guys said at least one brand, it sounds like that's more of an organic effort. But could that also include M&A? And if so, how big could your appetite be there?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, I -- you could assume it's going to be organic. We're really not very focused on M&A at all in the brokerage area. I just don't -- there's such a long, great history of the company doing that, and we've come so far on that path. I think, at this point, there's a real focus on trying to drive organic growth, both in NRT and RFG. And when we're able to share with you the brand and kind of what we plan for it, at least the one and maybe more than one, hopefully, you'll see that we feel like we've got the equity and the ability to organically get off to a really good start with the new brand. So you shouldn't assume there'll be M&A as part of that.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

Okay. And then on the facility cost, you guys are, I guess, at the mid-60% or so occupancy rate a couple of quarters ago. First, has that moved at all of late? And then second, I know you guys have several long-term commitments to work through there. But what could that look like a few years down the road?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, our -- the one way to sort of capture that, John, is the agents per office. That went from sort of 63 agents per office in the second quarter '17. It went to 66 in the second quarter of '18. So I think we're -- that indicates that we're using the offices more efficiently, and that's obviously goal of some of our efforts to streamline our real estate costs. But that's a continuing effort, and the long-term leases become much shorter term as time goes on. Time is our friend on that one. So the number of opportunities continues to roll as time progresses, so it's something that we're just continually focused on and being pretty aggressive on.

Operator

Your next question is from the line of Matt Bouley with Barclays.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Just following up on the operating cost question. In NRT specifically, it looked like lower incentive accruals was a big driver of the lower employee cost this quarter, which did serve as an offset to the split increase. So is that specifically a onetime benefit? Or does that persist here?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I mean, incentive payment, we had about $18 million of lower employee costs during the quarter. And about half of them were headcount -- the result of headcount, about half were lower incentive payments. But that one -- I guess, the incentive payment is permanent or flexible based on what goals we set in the future, but it certainly benefits shareholders this year by having lower incentive payments.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Okay. Understood. And then secondly, just the commentary earlier around using higher splits to drive growth. When you look at the data, whether it's the national data or local NRT markets, you've seen some slowdown or choppiness on sides growth. So if this is the market backdrop at this point in the cycle, why do think that the strategy of investing in higher splits is still the right one in this type of environment there? Does that strategy still depend on seeing a step-up in market growth?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So Matt, thanks for your questions. So first off, I apologize if you heard me either say or imply kind of higher splits to drive growth. That was actually not my intention. The changes we're making, like aren't about any sort of split kind of target higher or lower. Again, I think the market pressure is moving splits up, and we've said that for multiple quarters. But what we're trying to get to is less about any sort of a split number and more about driving growth with the right integrated economics. And again, that comes out in more recruiting success, hopefully, which again our competitors have had some more compared to us. And our -- and the issue is not that our -- the issue

I'm trying to solve is actually not the split level we have today. It's the complexity and inconsistency and lack of data-drivenness in a lot of our commission plans that makes it really hard to explain our value proposition, makes it hard to kind of compare our kind of all-in pricing with someone else's all-in pricing. And so the more we can simplify and standardize that, I think we can get a lot more growth. And then the split dynamics will be what the split dynamics are going to be, both because of the industry and based on how these plans kind of work out. So that's what I'm going for here.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes, I'd just like to add, Matt. We have a much more positive long-term view than it seems you do on the housing market. I mean, there are 1.8 million households who own a home added in the second quarter. A year ago, that was 1.2 million. In '16, it was minus 22 million. In '15, it was minus 400 million. In '14, it was minus 76 million. 1.8 million were added. That is just the tip of the iceberg of what's coming in this business, and the $70 billion in addressable market is going to go a lot higher despite whatever the next 2 quarters are doing. We're in this for a much longer game. And the demographics are very compelling in what's happening, and we want to be well positioned. And we're still growing market share in this market, and we want to continue to grow profitable market share. So it's -- the outlook is very positive.

Operator

Your final question is from the line of Jason Deleeuw with Piper.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

And it's good to see the solid second quarter results, and I think that gives you a firm base to make some of the strategic changes. But I'm wondering how investors should track the progress of some of these new strategic direction and the commission split strategy. And should we be looking for EBITDA growth? And do you think margins can still expand -- EBITDA margins can still expand on this strategy? It might be a little early on this, but is there anything you can help us in terms of tracking the progress of the strategy?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure. Yes, a couple of different things, Jason. Thanks for the question. So look, first off, on splits, we've kind of given you the same guidance this quarter we had for the last 2 of how we expect this year to play out. Obviously, with some of the strategic changes we're literally doing in California as we speak, we're testing in 4 or so markets in the East, to move our whole number over time is going to -- we're going to have to have this rolled out more nationally kind of thing. So I predict this year's numbers will stay with the guidance and the direction that we've given you. Even though there is the upward pressure, we do think there's going to be more of the moderation that you saw in the second quarter on the year-over-year increases. And then obviously, in '19, hopefully, we have more direction for you of how some of these things are actually working out.

But second, hopefully, one of the things is helpful to you guys is, part of the reason I'm telling you this now, even though it's early, and I can't tell you some of the stuff I'd like to tell you because I just can't put it out there for the competitors to hear. It would really be malpractice to share some of our pricing details on the earnings call, is that, hopefully, the consistency in these calls, us being consistent about updating you on what we're doing basically. I've been trying to do that for all 3 other calls this year. And part of the reason I put this out is because now, beginning in future calls, let me tell you where we're at with launching a new brand. Or we've gone past California, and we're now doing more standardized commission price and other things. Or we've got Listing Concierge in California and in Denver, and Listing Concierge is now going to be on the East Coast kind of thing.

So I think there's some verbal stuff you'll again hear. From a financial standpoint, you're going to have to wait for kind of the '19 to roll around just because of the time it takes to get some of the stuff implemented. But I do -- I wanted to tell you strategically where we were going, so you knew our direction even it was in the early days. And then look, our core focus is the EBITDA trajectory, right. And so we want and need to make progress on that. We've given you guidance for this year on that. Obviously, the first quarter was pretty different than last year, but we gave you the guidance on the rest of the year. But going into '19 and beyond, I'd want you to focus most on the EBITDA growth because that's what we, as a management team, are most focused on at the moment.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

That's very helpful. And then for NRT, the growth was 1 -- the volume growth was 1% in the second quarter and expected to be 3% to 5%, I believe, in the third quarter. And so we got an acceleration there. And just seeing some of the volume trends in some of your key markets for NRT, they've been on the softer side. So can you just help us kind of understand what's driving that expected acceleration in NRT volume growth? Is it the recruitment efforts so far are helping? Is it mostly home price-driven? Just any color that you could give us there.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Sure. I'd say that the biggest thing is -- the biggest driver of what we gave as guidance was our open activity in July, so that -- and then our closed activity as well that we've seen, it's not completely done yet. So the opens clearly give us really good guidance into the next 2 months. So I think it's -- that was the major driver of our decision. We obviously took into consideration, as you point out, the success we've had on target recruiting and the impact that's had. We've way outperformed the market in terms of sides growth this year. And that's due to recruiting -- the targeted recruiting we did, so that's bearing fruit. And so -- and price is definitely impacted by what we see in New York City, and what we see in California and other markets. Sp anyway, it's a combination of all that. But really, it's data-driven by the opens and the closes we had in July.

Operator

There are no further questions. Are there any closing remarks?

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

No. We thank you for joining us on the call today, and we look forward to talking to you over the coming quarter. Thank you.

Operator

This concludes today's earnings call. You may now disconnect.

Exhibit I

THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2018 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2018 / 12:30PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. Third Quarter 2018 Earnings Conference Call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I would like to turn the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

Thank you, Laurie. Good morning, and welcome to Realogy's third quarter 2018 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Tony Hull.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks are made herein as of this today, November 2, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also certain non-GAAP financial measures will be discussed on this call, and per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Good morning. First, I'd like to share a few thoughts regarding our announcement this morning about Tony's retirement. Since I joined Realogy, Tony and I have had ongoing discussions about his long-term plans for the broader Realogy finance organization. And as the new CEO, I incredibly appreciate Tony is working closely with me in my first year. I benefited substantially from his partnership and learnings. Tony is a strategic and valued partner to all of our business leaders, leaving the company with a healthy balance sheet. And I've asked him to stay on as a senior adviser through March of 2019 to support the transition. Over his 15-year tenure at Realogy, Tony has brought a disciplined and principal approach to financial management. He led the company through the Great Recession. He led our successful IPO in 2012. And since then, he had strategically reshaped our balance sheet as a public company, continually driven financial improvements to deliver results.

And one of Tony's legacies at Realogy will be the deep bench of financial talent he has helped develop within the organization. That brings me great confidence that I've appointed Tim Gustavson to serve as interim CFO and Treasurer, in addition to his responsibilities as Realogy's Chief Accounting Officer and Corporate Controller. I believe we are in capable hands with Tim and the rest of the finance team, as I begin the search for a permanent CFO.

With that, let's turn to earnings. I continue to be excited to compete from a position of leadership in the attractive residential real estate market. We are driving our strategy forward, most recently with the launch of 2 new franchise brands to continue to capitalize on Realogy's strengths, industry-leading market position, great brands, strong cash flow and technology and data scale.

Let me quickly highlight our third quarter performance. We were involved in approximately 400,000 homesale transactions in the quarter, which generated $1.7 billion in revenue in Q3 2018, in line with Q3 2017. Q3 2018 operating EBITDA was $242 million, down $16 million from Q3 2017. Most of the decline was due to the absence of the $12 million gain from the PHH Home Loans JV in 2017. And the remainder was primarily due to commission split increases. Our commission split increases are moderating as expected. Q3 was up 143 basis points, lower than Q1's increase of 284 basis points and lower than Q2's increase of 209 basis points. We continue to expect further moderation in Q4.

Before I review our guidance and progress on our strategic initiatives, let me step back for a broader look at the housing market. We have talked with you for 3 quarters about how low inventory has been the most troubling issue, even as rising prices were helping drive increases in overall transaction volume. This low inventory continues to be a concern. However, in Q3, we saw affordability issues and rising mortgage rates create an environment where some consumers stayed on the sidelines in many markets, especially in September. NAR reported that year-over-year homesale transactions increased in July, were close to flat in August, but declined substantially in September. This transaction data is in line with our performance and our reports from our franchisees and agents, but it marks a big departure from the win the industry saw in the first half of the year.

The market is changing as affordability becomes stretched and inventory levels are beginning to rise. According to NAR, inventory was about 4.5 months in September 2018, up from about 3.5 months in January 2018. When we look at the MLS market-level data, it was striking to us in September to see inventory rise by double-digit percentages West of the Rockies, where it has been most constrained. East of the Rockies, however, inventory remained flat to down. Overall, while the higher national number is still below a healthy inventory level, the demand still exceeds supply. The slowdown in September transactions, combined with the increase in inventory, may be the start of a transition to a more balanced environment that would be positive for the housing market.

So let me turn to our guidance. First, we based our Q3 guidance in part on a strong July. Both our company-owned brokerage and our franchisees saw softness in August and then transaction declines in September, in line with market trends. For the quarter, Realogy homesale transaction sides were down 3%, with average homesale price up 4%. So the overall transaction volume for the quarter was up 1%, consistent with NAR, but this was 2 percentage points below the low end of our guidance range that we provided at the beginning of August. We're encouraged that even with these market challenges, we held revenue flat at $1.7 billion for the quarter and maintained our market share.

To dive into our own brokerage regional results for Q3 versus last year, the West experienced the greatest market deterioration. Remember that the West had a 13% transaction volume increase for us in Q1 and 6% in Q2. In Q3, transaction volume in the West declined 2%, driven by the substantial 6% drop in sides year-over-year. The Northeast was also down 1%, driven by the decline in the New York City region, but that was actually a bit better than Q1 and Q2 results, which were down 9% and 5%, respectively. For the first time this year, Midwest transaction sides were down slightly, although overall volume increased 1%, and the South had positive transaction volume of 6%.

Now let me look at ahead to Q4. We are clearly in a volatile period for the housing market, and there are many different views as to what will happen going forward and why. In the spirit of transparency, I thought I would share some of what we are already seeing in Q4. Based on actual closed transaction data through most of October, compared to the same period of October 2017, we are seeing homesale transactions down around 6%, with price up around 5%.

Across the other data we track in our national footprint, we are seeing mixed signals. While we don't have a definitive answer to how the housing market will play out this quarter, based on what we know today, we are modeling overall around flat homesale transaction volume in Q4.

On operating EBITDA, as we consistently shared in our last 3 earnings calls, we have been guiding you that, subject to macro uncertainty and what we knew at that time, operating EBITDA for 2018 Q2 to Q4 would be at or above 2017 Q2 to Q4. This equated to $705-plus million in earnings -- in operating EBITDA for full year 2018.

You've seen the housing market statistics and commentary and the macro shift in the latter part of Q3, so we are changing our guidance. Based on our Q3 results and our flat Q4 volume outlook, we are lowering our operating EBITDA guidance for the year to approximately $660 million to $670 million, though the variance could be wider than usual this time of year given the volatility we're all seeing in the housing market.

Finally, let me update you on some of the strategic initiatives we are pursuing to drive growth. First, in our last earnings call, I reminded you how much we love our franchise business. We make -- we made $560 million last year from our franchise business and have operating EBITDA margins over 65%. We want to grow this business and make it a bigger part of Realogy. Last week, we announced that we're launching 2 new franchise brands in 2019, Corcoran and Climb.

Corcoran is one of the top brokerages in New York City, the Hamptons and Palm Beach, with an incredibly strong brand name and a large international client base. We see a big opportunity to leverage its reputation to grow in the high-end markets abroad and here in the U.S.

Climb, mobile-first flexible approach, will appeal to the next generation of agents and consumers who are the future of U.S. homesales. Climb gives us additional opportunity to grow, especially in dynamic urban markets.

As the market leader, remember, our business covers about 16% of the U.S. residential real estate market today based on transaction volume, and we believe these new franchise brands will help us profitably capture more of that remaining 84%.

Second, in our own brokerage business, we continue to move quickly on new commission pricing designed to attract faster-growing and higher-producing agents. I told you last quarter that we had rolled out these new plans in much of California. We are now also rolled out in Texas and Colorado. We're piloting new commission plans in 3 other markets and anticipate launching an additional pilot in more than a dozen markets before the year-end. This initiative is all about growth. We are leveraging these new plans to attract more agents quickly, while allowing our existing agents to continue on their existing plans or explore the new plans where appropriate.

Related to our new commission plan, I told you last quarter, we would also begin charging fees for select high-value products we provide. I told you about Listing Concierge, a product helping agents win and market listings. This project is now available across almost all of California, Colorado and Texas. And agents in those markets are electing Listing Concierge packages on more than 1/3 of all listings. We now have other additional live products agents can purchase as we continue to grow these high-value products.

Third, 2 quarters ago, I told you about our new technology products we were developing to help our agents. Last quarter, I highlighted investments in new technologies we made to help our agents. This quarter, I want to describe a new partnership that enables us to deliver more value to our agents. In September, we announced a partnership with Home Partners of America, which arms Realogy agents with the ability to provide their listing clients with an immediate cash offer. Our program, called cataLIST, is designed from start to finish to keep our real estate agents in the transaction and equip them with another product to ensure that they can serve all potential customer needs. The program is launched in Dallas, and we're launching later this month in Atlanta, then in Tampa. In this pilot, Home Partners is providing the capital to purchase the home and using our industry-leading agents in both the purchase and sale.

While I'll come back at the end of the call to summarize my thoughts, now let me turn it over to Tony to discuss our Q3 2018 results in more detail.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thank you, Ryan. Before I dig into the results, I want to share that I take great pride in the past 15 years at Realogy. We've been through many cycles together. And stepping away from my role during this time of exciting change for the company did not come without much thought. I built a really great team, and I have every confidence in Tim and the entire organization. I look forward to my continued involvement with the company over the coming months as a strategic adviser and to following Realogy's success for years to come.

Turning to Slide 7 for third quarter 2018 results. Q3 revenue of $1.7 billion was flat compared to last year. Operating EBITDA was $242 million, a decrease of $16 million, including the absence of a $12 million gain on the wind-down of our PHH Home Loans joint venture last year. Operating and G&A expenses were down in the quarter. Adjusted net income was $104 million or $0.85 per share compared with an adjusted net income of $97 million or $0.71 per share in Q3 of 2017. Adjusted earnings per share increased 20%year-over-year due to the combined impacts of our share repurchases and lower corporate tax rate. We generated free cash flow of $194 million in the quarter. For the full year 2018, we expect operating EBITDA to free cash flow conversion rate in the mid-50% range.

Our capital allocation strategy remains unchanged. We returned $102 million to shareholders through share buybacks and another $11 million in dividends during the third quarter. We expect to repurchase approximately $100 million of shares over the fourth quarter. We expect our leverage ratio to be a bit above 4x at the end of 2018, and we will revisit our capital allocation strategy in the beginning of 2019.

Slide 8 provides information about our business unit operating performance in Q3 2018 versus Q3 2017. RFG's operating EBITDA increased $2 million, principally due to a decrease in employee-related cost, partially offset by lower NRT intercompany revenues. RFG's Q3 revenue decreased by $3 million, primarily due to the timing of brand conferences in Q3. This had no impact on operating EBITDA due to the offset in decrease in expenses. Royalty per side reached $322, up by 2%. Net effective royalty rate declined to 4.39%, down 3 basis points from Q3 of 2017.

NRT operating EBITDA was $43 million. This was a decrease of $21 million. The largest contributor to the decline was the absence of the PHH Home Loans JV gain recorded in 2017. On an operating basis, greater agent commission expense more than offset a decrease in employee-related costs. NRT also contributed $80 million of intercompany royalties, which are in RFG's results for the quarter.

As a reminder, we exited the PHH Home Loans JV in 2017. Earnings in the NRT segment from the wind-down of this JV will be a further $14 million headwind in the fourth quarter.

Cartus operating EBITDA increased $2 million in the third quarter due to expense reduction initiatives and positive foreign exchange impacts.

TRG operating EBITDA decreased $1 million, as lower title closing revenue due to lower refinance unit volumes was partially offset by a higher average fee per transaction.

The shift in the market in August and September was a combination of a number of factors: higher mortgage rates; limited inventory; and affordability concern due to increasing home prices, especially at mainstream price points. We are in a transitional period for residential real estate as consumers adjust to these new dynamics. Over time, we believe that strong housing demand, supported by increasing inventory, strong economic fundamentals and demographic tailwinds should propel growth.

Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Tony. We are committed to moving quickly, staying focused on executing. We realize there's uncertainty about the near-term housing market right now. As you would expect, we are focused on that every day. We are the market leader in a cyclical business, and we believe we're well positioned to capitalize, even in the challenging parts of the cycle. We have a very strong balance sheet with staggered debt maturity schedule. We have deep liquidity with a $1.4 billion revolver. We have the size and scale to weather market changes that may cause many of our competitors to struggle. And we have the earnings and free cash flow to invest for growth throughout the cycle.

In that latter spirit, the past few months have been through slower growth in housing, and we'll see how the next few months evolve. We will continue to move quickly to make changes on how we run the business and to make proactive investments to drive top and bottom line growth in the future. We are launching new franchise brands to grow our franchise revenue, creating multiple new products to enhance our value proposition to agents, using technology and data to improve our results, staying on track with our cost reductions, and we continue to return capital to shareholders. We are excited about the future.

With that, Tony and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of John Campbell of Stephens Inc.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

And Tony, it was great working with you. And we wish you the best wherever life takes you next.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thanks.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

So we've heard several players in the space and, I guess, a few different economists or forecasters calling this -- the slowdown more of a kind of temporary event versus the start of, I guess, a sharper downturn. Just interested to get your take on what you view this pause as. Is this signaling a further slowdown in the months ahead? Just any rough thoughts there.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Well, look, we told you what we were forecasting for our outlook, which is flat transaction volume. And we gave you a little bit of literally what we're seeing in October in terms of the size and price mix. I actually started my career trained as an economist. And I think we're in the same boat of hoping that this is just a temporary slowdown. It doesn't feel at all like a decade ago, frankly, to me. But as I said in my closing remarks, we're going to be watching for whatever this cycle looks like. And I think we're well positioned to make it through whatever cycle is in a successful way, especially relative to a lot of the competition. But we are heartened by the increase in inventory, which we've told you, again, for 3 quarters in a row is by far the biggest issue. And I think if we can get to a little more balanced inventory price dynamics, that will be good for the housing market over time, much more healthy than what we had the first half of the year with incredibly constrained inventory, even if we were making it up on price.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

Okay. Makes sense. And then for 2019, for EBITDA, I mean, clearly, you guys won't give us guidance, I guess, middle -- towards the middle part of next year. But just if you guys can help us think about what the kind of net headwind or tailwind is as far as the JV transition for next year relative to '18 and then also maybe the new development business, if you can.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

On the JV, I think we launched a new JV with Guaranteed Rate late last year, and this has been sort of the first full year it's running. Unfortunately, the mortgage market has been quite challenged this year because of lower spreads on the originated loans to servicers and that sort of thing. So I think what happens with that next year is going to have a lot to do with what happens to the competitive environment for the mortgage business, but we're really happy with the partnership. And I think our agents are getting a lot of great benefit from -- our NRT agents are getting a lot of great benefit from having that to offer to their clients, to their buyers. And then on --

definitely, a pause this year on the new development business, so that is -- there's a number of projects that are going to get to their closing. They're already open. We already have deposits on them. So it's just a question of when the construction is completed. And we think that's going to start to really ramp up next year.

Operator

Your next question comes from the line of Matthew Bouley of Barclays.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

I guess, I wanted to start out asking around the standardization of agent commissions that, Ryan, you were mentioning. So I mean, of the markets where you've rolled it out, it sounds like you're planning a dozen or so this year. So any color you can give on kind of where you're seeing this working better or worse? What has been the agent response to fees, so far? And any detail that you can give on progress around both recruitment and retention?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure. Yes. So Matthew, on retention, it's actually a pretty easy answer, which is our retention kind of stays right out where we want it to be. Our top 2 quartile retention across the whole business remains around 94%. That's a very healthy place. We're pretty happy with that. And in the markets where we've done these rollouts, we haven't seen any step-back in retention, so we feel really good about that. On recruiting, it's pretty early. We're seeing positive -- I would say, we're seeing more positive signs in the cities in Texas, San Diego, Sacramento. San Francisco, we have not seen positive signs yet, but that is for a number of competitive reasons just turned into an incredibly competitive market, even more so than normal. So we see a bunch of green shoots in 6 or 7 of the bigger cities where we've already got this rolled out. We've got one city where we haven't seen the green shoots yet. And then we're excited kind of to do the next dozen kind of between now and the end of the year. Still too early to tell you how it's going to translate into financials in '19 and '20 and '21. But we like the direction and we're learning from each pilot we do to make the next city's rollout even better. So we like what we're doing and we're going to stick with it.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Okay. Appreciate that color. And then secondly, I wanted to ask about the updated operating EBITDA guidance and the implications for the fourth quarter, I guess, given what you've guided to on transaction value. And you mentioned the expectation for further moderation and splits. It just seems that the bridge to that EBITDA number in the fourth quarter, there would still need to be more, I don't know, significant cost inflation somewhere else. So I guess, what exactly can you point to within the components of that bridge?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I think the biggest thing is Guaranteed Rate versus our expectations because of the competition in the mortgage market. I think that's probably a $10 million kind of delta from what we had thought earlier in August. So -- and then the rest is really just sort of a 4 to 5 point reduction in volume, a little more heavily weighted towards NRT, which obviously has a bigger impact.

Operator

Your next question comes from the line of Ryan McKeveny of Zelman & Associates.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

And congratulations and good luck on the future endeavors, Tony. So I have 2 questions on the franchise.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Ryan, can I interrupt you? Can you speak up? You're difficult for us to hear your. I apologize for interrupting you.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

No. I apologize. Is this better, guys?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

That's much better. Thank you so much.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

Okay. So 2 on the franchise side and then 1 on just the leverage and capital allocation. So on the franchise side of things, I guess, thinking about the quarter, this quarter itself seems like most of the down side was kind of on the NRT side of the business. Assumingly, that's kind of the fourth quarter as well. So broadly speaking, we've seen the franchise business doing well, high margins, expanding margins. NRT has, obviously, been the drag. And I guess, with the expansion of the franchise business going forward, I guess, what are you thinking on the future of the NRT business? Is this something where -- I know there's always kind of chatter out in the market, could you spin off the NRT business? Could you franchise those offices? Is there any indication underlying what's going on where you're kind of stepping back from the NRT business given the challenges that, that has had and really kind of incrementally relying on the franchise side? And even things like, over time, obviously, NRT has acquired some franchise offices, but is there any potential or thoughts around actually franchising off some of the company-owned stores? That's the first one.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure. So look, there's a lot in that question Ryan. Let me hit a bunch of things. Start out with: a, we love the franchise business, as I talked about. The earnings, the margins, it's great. And we think Climb and Corcoran are going to be able to really help us grow those as they're both -- they both have kind of a -- Corcoran is really iconic in the markets it's in and has such a strong international client base. We believe there's going to be very high demand for that. And then Climb is just targeting this new set of consumers in a mobile-first kind of tech-enabled way that we think will really help kind of in the future, especially in a lot of the most dynamic kind of urban markets in the U.S. So we totally want to grow that. We like it. Remember, though, that a lot of that franchise revenue does come from our own brokerage business, right? Literally, about half of that comes from the franchise fees that we charge ourselves. And we charge them at a rate that's above our franchise kind of average net effective royalty rate. So if you switch over to their own business, we've looked at every kind of possible options as kind of you've described there. The reality, Ryan, is 2 things. One is that business can and should be a much bigger source of operating leverage for us, right? And so in many ways, changing some of our company trajectory financially is actually about how do we operate that business with much better kind of operating leverage, right? So that's the first thing. Second, there -- while we -- while -- there's -- if you want to talk about franchising our owned business or something like that, there's a lot of challenges with that. We've looked at it every way from Sunday. We think the right answer is to drive that business to better performance and get the operating leverage I described. Third thing, and final thing, because your question had a lot to it, is, remember, from a capital allocation standpoint, we're kind of out of the acquisition business, right? We're going to be about organic growth on the franchise side with these new brands as examples. We're going to be about organic growth on the own side with the kind of commission pricing and new product changes that I've described. So the days of us like buying our franchisees and bringing them into our owned business and changing that dynamic, you shouldn't assume we'll have the going forward.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

Okay. That's very helpful. And the second one on the franchise side, I guess, just how do you balance the growth potential against the potential of kind of cannibalizing against existing franchise offices or agents at those other offices? Can you strategically position kind of geographies to avoid that potential cannibalization? I'm just curious because we know it's a competitive environment for, obviously, agents, but also new brands, new franchise models, et cetera. So any thoughts you can share around just how you plan to do that kind of balancing act and ultimately get the incremental 1 plus 1 equals closer to 2 as opposed to 1.5?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure, yes. And look, frankly, we want to make it 1 plus 1 equals 3 kind of thing wherever we can. Look, let me give you 2 answers. Let me start with the strategic answer that I would want you to know about how we're operating the company, and I say this to our employees also, which is we could make the choice and not launch new franchise brands because of the cannibalization risk that you're talking about, Ryan. But what I find, especially for market leaders across all industries, is one path to market leaders kind of declining from being market leaders is you spend most of your time worrying about defending what you have, not about growing for the future, right? And so we need to take this kind of risk of let's put Corcoran and Climb out there, even if it has a little bit of the cannibalization risk you described, Ryan, because we cover 16% of the market. I want to focus more on how do we get the other 84% with these new brands that I want to worry about will we cannibalize a little bit what we have. So it's a philosophical and kind of strategic approach there that is what we're taking for the future that makes us excited to launch these. Second, we look at a lot of different ways to do this with different brands, and we came to these 2 because we actually think they can be additive in the 1 plus 1 equals 2 way. So Climb is a very different thing than many of our other brands. It's mobile first. It's targeted to, frankly, a younger kind of demographic on both the agent and the consumer side. It's targeted kind of in urban markets. It was kind of -- its history starts in kind of downtown San Francisco and kind of was built there in Silicon Valley, and so it targets more those kind of markets. And you see less of our traditional franchisees in those kind of markets. Similarly, Corcoran is just a very different kind of high-end brand, and I mentioned its international focus and international client base. It has a different kind of international appeal, we believe, than a lot of our -- some of our other brands do. And so we're excited about that. And we think we've chosen these because they can be additive, even if there's a little bit of cannibalization risk. But we've got to focus on how do we get more of the 84% and not be afraid of, oh, will we cannibalize a few existing franchise opportunities here. So that's the philosophy. And then we chose these 2 because we think they are different and that we can drive real growth with them in that attractive franchise business.

Ryan McKeveny *Zelman & Associates LLC - VP of Research*

That's very helpful. And a quick one on the leverage. So just the tougher market conditions, obviously, reduced level of EBITDA. Just curious of the changes you're thinking at all about kind of deleveraging versus stock buybacks going forward. I think maybe, Tony, you alluded to that a little bit, but just curious for your updated thoughts on that.

Ryan M. Schneider *Realogy Holdings Corp. - CEO, President & Director*

Yes. Look, it doesn't change it for right now. We're going to go ahead and continue what we started. We're going to buy back $100 million shares here in the fourth quarter. We're committed to that. We've told you about that. We're going to fulfill on that commitment. But as Tony said, we're going to step back at Q1 and then answer the question that you're asking right now. And look, we're -- I think we're in this time, for the earlier question that we got of there is more uncertainty about what's going to happen in housing, right? And so I think the question will be at that time is kind of what have we learned in the last 3 months on the trajectory of housing for '19 and '20. And that, obviously, we'll go into that decision. But just like I told you, we were going to step back in the middle of the year, look at our capital allocation. We did. We decided to continue with a strong buyback pace. We thought getting capital back to you that way was the best thing to do. We're going to continue through this year and then we're going to take that look again really to make sure we internalize whatever we all together learned in the macro in the next few months of the year.

Operator

Your next question comes from the line of Stephen Kim of Evercore ISI.

Stephen Kim *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team*

And again, Tony, good luck with everything. And we appreciate all the help over the years. I wanted to ask you a couple of questions regarding your guide and then a bigger picture question. So with respect to your guide, one of the important variables, I imagine, would probably be the split that we see in the -- in 4Q. And generally, in a situation where the market slows later in the year in terms of transaction volume, typically, what I would expect that to correlate with would be a reduced split, as folks, agents generally don't do as well maybe in the year as they might otherwise had if the market was very strong. And I was curious as to whether or not, based on that, we are -- is it reasonable to think that you might see the split maybe move sideways here in the fourth quarter or if you still think that you're going to see a meaningful increase?

Ryan M. Schneider *Realogy Holdings Corp. - CEO, President & Director*

Yes. Look, we're -- so great, great questions. So look, we've been, all year, telling you that we think the increases are going to moderate kind of quarter-to-quarter. It happened 3 quarters in a row. I told you it was going to happen again in the fourth quarter. That's what we strongly believe. And that was -- and all those, by the way, were when volumes were kind of forecast a little bit higher, right? How big the effect you're describing of kind of lesser productivity, for example, driving people down their rate tables a bit, people doing less, right, there could be some of that if the market continues to struggle. The 2 things I'd say to you is I think there's still going to be some upward pressure. And as I talked about, though, it is moderating. And some of that because of we have -- some of our recruiting payments that we amortized are still built into this thing no matter what. The other thing you have to remember, Q4 tends to be relatively small on volume compared to Q1 and -- or Q2 and Q3. And so it's not like agents make a lot of big moves in their split table in the fourth quarter. They've done the majority of volume per year. So the thing you're talking about would be a bigger impact if we were to start at the second quarter. But I would want you to think, as we've said before, that there's still a bit of upward pressure. It's moderating. Will it moderate a little more than what we've got maybe in our model? That -- that's kind of one of those kind of silver linings you may not wish for if the market goes south because you don't want the market to go south, but there is some potential for that. But I -- I'm still in the directional guidance on that, that we've been giving you.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Yes. That's fair. Okay. And then one thing that I was also thinking about was, perhaps, if you could comment on what you're seeing, specifically on the upper end of the market, maybe the top 1/3 or so or even top quarter of the price point listings in the various markets. One of the things that we've been seeing, I'm sitting here in Westchester County in New York, is a fair amount of activity in terms of capitulation on pricing as you get into October and the fall as people are sort of anticipating that there's going to be a surge of inventory put on the market in February and March of next year as people's tax pictures come more into view. I was curious if -- number one, if you track pooled listings. In other words, listings that are on, but they don't transact, and so those listings get pooled. If you track that and if you've seen any trends, whether or not -- and then secondly, whether you have seen any indication of reduced prices or asking prices that is different this October versus what you've seen in the past. If you have that kind of granularity, that would be very interesting to hear you talk about that.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I think one of the interesting things about Q3 and, really, the trends we've seen this year is that the -- for NRT, for their transactions to average sell price of $2.5 million or greater is actually up 4% year-over-year, the volume on those deals. So -- and that's -- you've got to take into consideration what's going on in New York City and California, but it was still up 4%. So I think the high end is kind of performing very differently than other parts of the market, it seems. And if you look at all the NAR statistics in the back of their data, the best-performing segment is, really, the $1 million-plus segment for the year compared to the under $500,000, which is where you see the inventory constraint. So the high end seems pretty healthy. And on a sequential basis, the Northeast, which includes New York, is -- went from -- like we said in the script, went from sort of minus 9% in volume at NRT to only down 1% in the latest -- from the first quarter to third quarter. So it's -- I think the healthy consumer and the demographic trends are boding well for that segment right now.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. Steve, we obviously track a lot of stuff, including the many things you said. I'm sharing a page right now that I found interesting for this call. It's September and it's not our data. It's market data for September compared to last year, as we look across the MLSs. And as the national player we are, we have kind of national MLS access. But it's incredibly striking, and this is something on the inventory side, the place where listings and closings are down the most, September of '18 versus '17, in every region, it's in the low end, right? And so the inventory issues that we talk about that haven't actually fully gone away at all, and in fact, there's still a bunch of ways to go is, by far, the most acute at the kind of low end of the market, whether you want to call that $300,000 and below or $500,000 and below. And in every single region of the country that I'm looking at here, and what I'm looking at covers the whole country, active listings into September closings in the low end are down more than anything else on -- in any region. And so it's where I worry more even then at the high end where, depending on the market, you do see different levels of softness. But anyway, so -- we -- those are a few thoughts from me.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Yes. We track that data, too. And we've seen it, as well. And obviously, there's things like inflation, quality-adjusted inflation that could pull homes out of one price category in to another and -- but -- and there's also inventory issues that you talked about. I just want to make clear, I mean, my commentary about the capitulation at the high end of the market would actually be a good thing for real estate agents because it essentially means that there's a -- there had been a big gap between the buy and the ask, and that is narrowing effectively, which would be good for agents because these homes I would think to transact. And it sounds like you're basically saying you're seeing that. But I didn't hear you say that you saw an acceleration in that sort of capitulation activity. Is that data that you actually have seen asking price reductions? Or is that not something that you're able to -- just to comment on?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

I don't -- it doesn't seem -- I don't think we have the decimal point data that let us say it the way you're looking for us to say it. I will say, when I talk to the folks who run, say, our New York City business, they talk about the capitulation that you're describing as definitely going on and a positive absolutely for agents. So I think your thesis is right. Even if the kind of the way the data gets captured industry-wide or internally isn't as easy to do the math on that. But that is what we hear, and we do agree it's a positive for the market.

Operator

Your next question comes from the line of Jason Deleeuw of Piper Jaffray.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

On the commission split, further moderation in the fourth quarter and just the trend that we saw in the third quarter. I believe there was some -- there's different splits in different geographies. So how much of the moderation is from the geographic mix shifting? And then how much is coming from kind of the new Realogy recruitment strategy or just the overall kind of competitive environment?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

With the shift in geography from out of California, that was worth about 10 basis points of split to the good, so that's -- that had some piece of it. But obviously, given -- going from 209 to 143 basis points, it was not a big piece of it, but it was incremental. In terms of the other pieces, we've said that the on-site -- having lower on-site business, having a pause in that activity, given their commission structure, has been about probably a 40 basis point sort of bad guy this year. But as that business improves next year, that should be a tailwind for next year. So -- and then we're kind of getting to sort of a steady state on the recruiting piece because the amortization is going on and it's kind of closer to steady state than it's been in the past. As you know, it's ramping up. So those are the big pieces. And clearly, the interesting thing on -- the last piece of it is retention. The -- we're kind of lapping a lot of the adjustments made for our great agents through '17 and '18. And so the sort of year-over-year changes for that are going to be much less going forward because, even though there'll still be pressure on that, I mean, that's not going away, but -- because there's a lot of competition out there. But it's -- I think the impact of that is going to start lapping, and so it will be less and less, which is what -- part of the moderation.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

And Jason, just to take on your question about kind of some of the new commission plans directive, the one thing I'd love you to anchor to is the goal of new commission plans is not to try to, like, push splits to a certain number. The goal of commission -- new commission plans is to drive a lot more success at recruiting and growth. And a lot of the recruiting plans are very aspirational in that they're driven -- they're productivity aspirational. And what I mean by that is we're actually -- for really high productivity, we're willing to pay maybe more than the average today, but it's contingent on much higher productivity. And so it's a growth-driven thing we're trying to drive, not a reduced split thing we're trying to drive. Our goal, obviously, is to keep splits as good as we can. But it's really about driving recruiting success and growth, and it's meant to be productivity aspirational almost, if that word matter -- if that -- those words make sense to you. So that's the thing I want to focus on the most as I -- when I talk about whether those things that we're changing in California, Texas and Colorado, or the other 12 pilots market we're about to do or doing or about to do. As I give you how they're going, I'm going to be talking about overall improvement in the top and bottom line, not like a split-driven component to it.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

That's all very helpful, and I appreciate all the detail. And then just a second question on the iBuyer initiative that was announced. Any -- I know it's early, but any details on kind of the broker commission rate? Or is the commission rate you're going to charge to home seller? Any details on what the agent -- the Realogy agent can earn? Just any kind of details on some of the dynamics of that initiative.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. We're piloting in Dallas. 2 other pilots are ready to roll out. One of the things you do in pilot is you actually test some different things, so we're going to test some different things there. The thing I'd want you to know is 2 things for us that we -- I can't tell you now. One is the Realogy agent will be doing 2 transactions. They'd be buying that, working with Home Partners of America, and the client and the customer to buy the house. And then our agent would sell that house. So we've got 2 transactions that are happening. And the commission across those 2 will be pretty attractive to the agent and then, obviously, to our economics also. We are testing different things in those 3 markets on those. And what we end up doing more broadly will be partly a function of those tests. But those were a couple of pieces of the way you should think about it and our agent role, agent economics and our role and our economics on it.

Operator

Your next question comes from Anthony Paolone of JPMorgan.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

First question is on the cost side. Can you give us a sense as to what the system-wide fixed costs are now as we look into 2019 and how to think about opportunities or risks there if the backdrop remains pretty soft?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, we're in budget season, so that will be TBD. I mean, the goal that everyone's focused on is to keep the fixed cost base as flat as possible through efficiencies and footprint changes on the office side and that sort of thing. So the goal, as we go in, is to keep it as flat as possible. So I think that should not be a headwind if we do that correctly.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

And one of the nice things about the company, I obviously didn't have the experience, but I know that the subject matter of efficiency here is this company has actually shown and we -- is that during a -- if there's a deeper downturn that's really traumatic, we are actually able to adjust that base faster. There's options and some -- there's some negatives that come out of doing that, but we know we can do that. That's a little bit of my -- this is a company that can, I think, adjust to the cycle and do well through it. But Tony is right. Our current focus is how do we make sure we kind of fight off inflation. And again, if we drive -- can drive growth on the franchise side with the owned brokerage, et cetera, get better bottom line results going into '19 and '20.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And so the goal there will be to be flat. Even with rolling out the 2 new franchise brands, I guess, that -- those costs can be absorbed.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Flat inflation, I think one of the things I've got to decide if I can -- if I should share with you at the start of the year is what the investment will be and whether it's those 2 things or other things. As Tony said, we're in budget season right now. There's a lot of things that we're going to want -- we are investing to drive growth. The question on the iBuyer thing just came up. We've got some new product set for agents that we're continuing to do. So we're going to have a bunch of places where we're going to invest to drive growth. I'll have to decide if there's -- if how much -- if there's incremental cost there that's worth giving you transparency on, but please do let -- we need to get through the budget kind of season and figure some of that out before we'll be in a good place to give you guidance on that, Anthony.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Got it. Fair enough. And then second question is just on the fourth quarter volume. And you mentioned the October number, and it didn't seem to be particularly good, but you're still going with flat. Just curious like what gives you comfort that flat is the way to go.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Well, look -- look, I mean, the blunt -- the one answer does start with -- I think -- as I said, I think there's a wider variance right now as we all try to figure out what's happening with housing. And you can look at external forecast that have some pretty wide range on them. The October stuff that I gave you is kind of through a certain number of closed days. And a couple of things to keep in mind. One is we look at a lot of other metrics besides the one that I gave you. So we have a lot of other things we look at when we forecast. We look at opens. We look at some of the things that we're asked about of listings that have been pulled, all those kind of trends. The other thing just -- and this is a little geeky, but I think it's important, just the October thing is that results up to a certain point -- October will actually be better than what I told you because there's actually an extra day in October. I wasn't going to get into day count when I was trying to give you what we're seeing. I just gave you for the first blank business days of October, sides are down 6 and price is up 5, right? October will be a little better than that because there was an extra day, but there's a lot of things we use to forecast. And I think it's overall flat, but you should put your own range around that. And there -- there's nuances of our business versus some of the forecast in terms of where we have NRT versus the national stuff. So I don't -- you shouldn't anchor that we can guarantee that's going to come to fruition as much as when we look at everything we look at, that's kind of where we came out. And what we want to do is make sure you knew that, so you knew how kind of we -- that translated then to some of the EBITDA changes at the earlier question asked. Both came from volume, but then also they came with a big one that -- from the mortgage side that was probably a little bigger than -- made the number a little bigger than many people would have thought. So just a bunch of color there for you, Anthony. And hopefully, it's helpful for you knowing what's in our head when we share that and why we did.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And best of luck Tony, and appreciate all the help.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thanks.

Operator

Your next question comes from the line of Bose George of KBW.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Actually, most of mine have been answered, but just one more follow-up on the question about the bridge of the 4Q EBITDA. Are there going to be onetime or unusual charges at guaranteed mortgage? Or is it just really operating weakness that's going to drive the quarter?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

I think it's just the environment, the competitive environment. I think in terms of -- they have -- they're really recruiting a lot strong mortgage brokers, and they're in our offices at NRT. So I think, from an operating standpoint, they're definitely making huge strides. So it's really about the overall competitive -- the mortgage market right now that has its own cycles, as you know.

Operator

That does conclude the Realogy Holdings Corp. third quarter 2018 earnings conference call. You may now disconnect.

Exhibit J

THOMSON REUTERS

EDITED TRANSCRIPT

Q4 2018 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation Full Year 2018 Earnings Conference Call via webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A website replay will also be made available on the company's website.

At this time, I'd like to turn the conference over to the Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

Thank you, Christa. Good morning, and welcome to Realogy's Full Year 2018 Earnings Conference Call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and interim Chief Financial Officer, Tim Gustavson. As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on current expectations and the current economic environment.

Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to a rebroadcast of this presentation, we remind you that the remarks are made herein as of today, February 26, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call, and per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Now I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Alicia. I've now been in the CEO role here at Realogy for a year. It's been an incredibly exciting time. Exciting because the residential housing business is fascinating. Exciting because the opportunity for technology and data-driven innovation is there for the taking in this industry. Exciting because Realogy has amazing potential given our market leadership, great brands, technology and data scale and cash flow generation. And exciting, because I get to interact with our great agents and franchisees.

We are driving substantial changes at Realogy: culture changes, strategy changes, product changes, value proposition changes and talent changes, just to name a few. We are more agile. We're using data better and we're delivering better technology. And we're making all these changes at a time when the housing market has been pretty tough.

2018 was a challenging year in housing because of the headwinds in the latter half of the year. But even with those 2018 challenges, we entered 2019 with more optimism than you might expect. Our changes are making a big difference inside the company and for our agents and franchisees.

We're seeing some wins in the market from strategic initiatives we launched in 2018. We're seeing less upward pressure from agent commission costs. And finally, I'll tell you our view of the housing market for 2019 and what that means for our near-term financial results and our capital allocation.

Pulling way up, we are focused on driving organic growth using technology and data innovation to improve our value proposition, recruit more agents and enhance agent productivity.

In a world where agent commission costs are rising, we must drive incremental volume to change the result trajectory of our company. I can see the path where growth from our strategic investments will give us the opportunity to exceed market growth going forward.

So let me start by closing out 2018. 2018 turned out to be a tough year for residential housing. Industry transaction volume was basically flat compared to plus 6% in 2017 according to NAR. Most of the challenge in the 2018 housing market showed up in the last 4 months of the year. Industry transaction volume was down 7% in September, down 4% in Q4 and ended the year with an especially down month, minus 10% in December.

The topics we've been talking about throughout 2018: low inventory levels, affordability challenges and higher mortgage rates, combined to drive the big transaction volume declines in late 2018.

For Realogy, in 2018, we participated in 1.4 million housing transaction sites, generated $6.1 billion of revenue and modestly expanded our market share to 16.1% from 15.9% in 2017. Q4 operating EBITDA was $106 million, down $38 million from 2017. The decline is primarily driven by Q4 transaction volume down 5% during the very challenging end of the year market.

2018 operating EBITDA was $658 million, $74 million below 2017. Three main issues drove this decline. First, agent commission costs rose $52 million. Second, with only 1% transaction volume growth, we did not have revenue growth to offset the commission pressure. As we signaled throughout the year, the upward pressure on commission costs moderated each quarter in 2018, with Q4 up 111 basis points compared to 181 basis points for the full year 2018.

Third, 2018 did not have the onetime $22 million gain on sale from our 2017 former mortgage joint venture closeout.

Now I want to look forward to 2019 and touch on 3 big topics: our current view of 2019 housing market, progress on our strategic initiatives and important takeaways for 2019's earnings, commissions and capital allocation.

While we can't predict the future, we think it's helpful for you to know how we view the 2019 housing market. Our current view is that the first half of the year is likely to have negative transaction volume growth, with Q1 especially weak, before shifting to positive transaction volume growth in the second half of the year.

So why do we think the first half of the year may be negative? The housing market entered 2019 on a very tough trajectory, as I mentioned, with transaction volume down 4% in Q4 and December transaction volume down 10%.

The January data also shows transaction volume down. Our proprietary MLS analysis showed national transaction volume down 9% in January. NAR just reported January transaction volume down 8%, and our January actual transaction volume was also down 8%.

The fundamentals that made 2018 a challenging year: low inventory, rising mortgage rates and affordability issues, were really present at the end of 2018 and were still having a big impact, which is what affects the early 2019 closings.

And finally, while the numbers vary, most forecasters are also predicting a challenging first half of the year. So for example, NAR's forecasting volume, down 5% in Q1 and down 2% in Q2. However, like most forecasters, we believe there's substantial potential for the second half of the year to be quite positive for transaction volume.

So first, the fundamentals are improving, which should have a positive impact as we go in later into 2019. We believe consumer demand is very strong and those fundamentals that really held the consumer back, especially in the back half of '18, are easy. So mortgage rates are down about 60 basis points from November to about 4.3% right now as we enter the start of the selling season. This improves not only actual affordability but also consumer sentiment about affordability.

Inventory has been rising year-over-year. Our January national MLS analysis shows it's up about 6%, and is up more than 20% in the major cities west of the Rockies. We believe the more attractive available inventory should continue to unlock the pent-up consumer demand. And the positive macro outlook for the U.S., including low unemployment, low inflation, wage growth and stable interest rates, should all help housing. And so while the numbers vary, most forecasters are also predicting a positive second half of the year, for example, NAR's forecasting volume up 3% in Q3 and up 8% in Q4.

Now let me update you on our strategic initiatives. While we cannot control the housing market, we won't settle for performance simply in line with the market. First, we expect to drive incremental revenue in 2019 as our strategic initiatives begin to show results. We've changed many aspects of our business to improve our value proposition and drive growth, via both greater agent recruiting and greater productivity.

While I can't share too much for competitive reasons, let me give you some examples. First, we are piloting new commission plans in most of our markets already today to drive recruiting and revenue growth. We like the early results. We now have multiple examples of 5-plus percent net agent growth compared to 2018's flat net agent growth across the whole business. And our machine learning analytics are helping us better identify high-potential agents and prioritize them in recruiting.

We are also rolling out new marketing, technology and lead generation products to enhance our agent value proposition. We like our pace of change, and our new products are having a positive impact. One, the Listing Concierge product I mentioned on our last call, where agents purchased an enhanced listing marketing package, continues to expand across our own brokerage footprint. Agents are using this product to win more listings. More interestingly, agents using Listing Concierge are getting higher commission rates from home sellers compared to agents who don't use the product in the same market across every price band. We like the impact of this new product for the agent's economics, for recruiting and is a real example of enhancing our value proposition.

Another, one of our recent technology products, [Desk], allows agents to access our technology offerings and to access third-party technology offerings in a seamless way. This product symbolizes much of what we're trying to deliver for agents, an open architecture, easy to use, driving greater agent efficiency and greater productivity. And even though Desk has only been in the market for a few months, it's already been adopted by approximately 20,000 agents in our owned operations, and this is a really exciting adoption rate for this industry.

As one more example, we like the early results of cataLIST, our iBuying product with Home Partners of America. We are live in 3 cities, and we plan to expand. Unlike most other iBuying products, with cataLIST, our agents are kept with a similar transaction, participating in both the purchase and the sale of the property. Data from agents are showing that cataLIST is helping agents get listing appointments and win listings they otherwise would likely not have gotten.

Second, on the strategic side. We are proactively investing in the business to strengthen our position over the medium term. Some examples of our new investments in 2019 include: launching Corcoran in early 2019 as a franchise brand, investing in new technology and data products for both agents and franchisees, starting new lead generation partnerships, and expanding our suite of new marketing products to enhance our agent value proposition.

Third, we are reducing our facilities and back-office operations costs. We expect to create approximately $70 million in cost savings this year from these specific areas. Similar to last year, you should think of these reductions as partially offsetting inflation and other costs.

Finally, let me share some important takeaways for 2019 earnings commission and capital allocation. On earnings, reflecting the broader market trends, we're modeling negative transaction volume growth in the first half of the year and positive transaction volume growth in the second half of the year. We are also including some additional upside in the back half of the year as our strategic initiatives roll out more broadly. Q1 has always our weakest quarter seasonally by far, and this year, that Q1 seasonal weakness, compounded by negative transaction volume and agent commission cost headwinds, does lead us to expect negative Q1 operating EBITDA.

On commissions, as you saw in 2018, without volume growth, the upward pressure on agent commissions has a substantial negative impact on our P&L. We expect upward pressure on agent commission rates in 2019, but we do not expect that pressure to look anything like what we saw for the full years 2017 and 2018. This continued upward pressure is a major reason why our strategic initiatives are so focused on how to drive above-market organic growth in the future.

Finally, on capital allocation. Our most important priority has always to invest in the business. And while we do that every year, I've shared some additional investments we'll be making this year to protect and enhance our market-leading position with new technology, brands, products and partnerships. I feel good being at a company that generates cash flow to invest in the future even in a tough housing market. We ended the year at a 4.6x leverage ratio, and we face an uncertain housing market. Remember that Q1 is always cash flow negative, and we expect our leverage ratio to be above 5 given that cash flow seasonality.

Given this, in the first half of the year, you will see us focus on debt paydown. We will be watching closely how the macro environment evolves. You should expect the weaker the housing market, the more we look to debt paydown. The stronger the housing market, the more we look to share repurchases.

Now let me turn over to Tim to discuss our financial results in more detail.

Timothy B. Gustavson ***Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer***

Thank you, Ryan. Turning to Slides 5 and 6. For 2018, revenue was $6.1 billion, which was $35 million less than 2017, due to lower revenue at NRT.

Our overall homesale transaction volume growth was 1% year-over-year, driven by a 4% increase in price, mostly offset by a 3% decrease in sides.

Operating EBITDA was $658 million, a decline of $74 million from 2017. 2018 net income was $137 million compared to $431 million in 2017. The 2017 net income included a tax benefit of $216 million, resulting from the change in the U.S. corporate tax rates. Adjusted net income per share was $1.52 compared to $1.59 in 2017.

In the fourth quarter of 2018, revenue of $1.4 billion declined $90 million versus the fourth quarter of 2017, largely due to lower transaction volume at NRT.

Q4 operating EBITDA of $106 million declined $38 million in the quarter due to a 5% decline in homesale transaction volume and the absence of $14 million of net earnings related to the sale of our former mortgage joint venture. The company generated free cash flow of $325 million in 2018 and returned $447 million in share repurchases and dividends to investors during 2018.

Over the past 3 years, the company has returned approximately $1 billion to investors through share repurchases of $896 million and dividends of $120 million.

Slides 7 and 8 provide information about our business unit operating performance in 2018 versus 2017. RFG revenue decreased $10 million year-over-year, largely due to a decrease in royalties from NRT and the increase in sales incentives. RFG operating EBITDA increased $4 million to $564 million as the reduction in employee cost and other expenses more than offset the reduction in revenue.

NRT revenue decreased $36 million in 2018, largely due to lower gross commission income associated with the lower transaction volume. Operating EBITDA decreased $91 million to $44 million due to lower revenue, higher agent commission splits and the absence of $22 million of net earnings related to the sale of our former mortgage joint venture, partially offset by lower employee costs.

If you look at NRT, including the royalties that pays to RFG, NRT contributed $350 million of the company's $658 million of operating EBITDA for 2018.

Cartus revenue decreased $4 million in 2018, primarily due to a decrease in international revenue. Operating EBITDA increased $1 million to $86 million as cost-saving initiatives more than offset the decline in revenue.

TRG revenue for the underwriting business increased $20 million, with $19 million of variable underwriting cost, resulting in an incremental EBITDA of $1 million.

TRG core title business revenue was down $8 million, driven by a decline in refinancing revenue. Overall operating EBITDA for TRG was down $10 million to $49 million from the refinancing revenue decline plus other operating expenses.

Corporate expenses decreased $22 million in 2018, largely due to the absence of an $8 million legal settlement and $8 million related to the transition of the CEO, which occurred in 2017.

Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Tim. As I shared in my opening remarks, the past year has been an exciting and challenging time at Realogy and in the housing market. We are driving substantial change and believe that many of our organic growth-focused initiatives are beginning to get traction.

While we're in the midst of a tough housing market, the changes we've driven so far given the early confidence that we can change results trajectory of our company, which we are dedicated to doing.

With that, Tim and I will (inaudible) to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jason DeLeeuw from Piper Jaffray.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

The first is on the cost saves, the $70 million of cost saves. It sounds like we should expect cost inflation, other cost to partially offset that. But can we think of like net EBITDA gains, net $70 million as we think about the full year benefit to Realogy?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

I wouldn't go that far until you see how the volume comes out, Jason. The biggest place we're likely to get some -- hopefully, get some cost inflation relative to 2018 is actually volume, hopefully, being up, as a lot of people are forecasting, especially in the back half of the year. So depending on what happens with volume, it could end up being -- there may be less inflation on that front. But there's some volume inflation in a few other places. We are making some investments that I talked about that have some cost uptick to them. So I wouldn't go so far as to make it a net EBITDA gain at this point until we see a little more how the year plays out, but we wanted to give you a sense of the magnitude of the cost takeout we're doing to offset, both, some of the investments we talked about, but more importantly, hopefully, some of the volume-driven costs that would come with a much higher volume year than '18 was.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

Great. And then for the second question, just an update on the agent recruitment strategy. Just looking for a little bit more in terms of how we should think about the organic agent growth for the year and then relative to EBITDA growth because it's not like you're making some gains with the markets you piloted these new commission plans on. But then we've got the pressure from the commission split. So is there any help you can give us in thinking about organic agent growth and how that's going to translate in the EBITDA growth for the year?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

I think, probably, the easiest way -- a couple of things to think about. So we were flat on agent growth in 2018, but as we started doing our pilots in kind of the middle of the year, we now have these many different multiple markets where we actually in those markets start to show what the new commission plan is for some of the new products. We were like 5% and up, so that's great for what we're trying to drive. The economics of that stuff typically has a lag, if you know, 6 to 12 months both as people come over to you but also as they then kind of build their business. And the more that we -- a certain amount of doing that offsets whatever agent commission pressure there is, we tend to look at it, like, for every 30 basis points of upward pressure on agent commissions, you want to kind of drive a point of volume to stay kind of even. And so the more growth we can get on the agent side, independent of what happens to the market, the easier is to kind of offset that kind of upward pressure. And, again, that ignores any market volume growth and benefit that may be out there for the year. So I can't give you the -- probably the specific guidance you're looking for, but if we can drive that kind of recruiting growth, it's going to pay off on an EBITDA basis because, again, you can -- you kind of hold your own. We're just kind of growing with the market a bit, if the market grows a few percent. But we're shooting for above market and we've got some early evidence that we can do that. So we're -- that's actually why we got more optimism than you might expect even in a -- what's been a pretty tough last 4 or 5 months for housing.

Operator

Your next question comes from the line of Matt Bouley from Barclays.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

So Ryan, you mentioned upside, some of your strategic initiatives in the second half of the year. I was wondering if you can elaborate a bit on what you mean by that. Is that a comment on moderating commission splits? Or are you speaking about an ability to kind of take more market share? Just any additional detail there on what you meant by that.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. I think it's a little more on the latter. Commission splits are obviously going to -- as I have just said, they're going to be a lot less of an increase in pressure point than they've been in the last couple of years, and there's a whole story there if you want me to go into that. But so that makes me feel good because it's still upward pressure, but it's a lot less upward pressure and that's a lot easier to fight against. The biggest thing is, can we get traction on the recruiting, as Jason's question asked, and can some of those new products that I talked about drive value for agents that either helps on their productivity or like on the Listing Concierge one helps on their commission economics that they get from the home seller. And we got enough evidence from these early pilots that we've got to think, hey, if these things -- if we can scale these things much -- across our whole footprint, we could drive some incremental volume that would show up and taking a little bit of share. And that would really help to build on top whatever market volume there is in helping our bottom line, both in the year and especially in future years. One of the nice things about this business back to the recruiting side is that it is a compounding thing. The economics of a great recruiting year in 2019, a little bit of them show up in '19, but the real power of them is in '20 and '21. So we think we've got some early things that this is really the first call where we're giving you some actual examples with a few numbers associated with them that are actually making a difference, that if they rollout more broadly over the course of this year could make that kind of difference. So that's why we're pretty explicit that we are -- we think in the back half of the year, we're going to have some incremental revenue on top of whatever happens in the market. And that's -- because we've got that early confidence that these things are starting to get traction.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Okay. I appreciate that detail. And then I guess, along the lines of what you started off saying, you mentioned kind of the lessening of upward pressure this year on the split side. So -- and obviously, there are some puts and takes in there. You're lapping some of the retention efforts. Perhaps there's some geographic mix in there, with California being a bit weak. I know, obviously, you've got the new strategy. So is there any additional color you can give on how to think ballpark the trend of commission splits in 2019?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure. Yes. So the first thing I'd say is, I'd basically say, ignore the geography. Yes. There's always a little bit of that around, but it's just not a material thing when you look at kind of our last couple of years or even what we're forecasting for '19. The biggest thing, is, in 2017 and '18, our splits were up like 180 basis points a year, right? And that's a huge headwind, right, that we obviously were dealing with. And -- but remember, that comes off like 3 years of holding splits flat. And so as I think -- I said, and as Richard had said, there was a version of that, where not only were we dealing with the market forces of upward pressure, but we were dealing with our personal Realogy catch-up. I believe the personal Realogy catch-up is actually now over and we're now much more going to be a function of just what happens with kind of the market price out there. And so we think 2019 will be -- won't look anything like that pressure in '17, '18. We think it'll look much more like the fourth quarter of '18 and better -- and/or better kind of on a full year basis. So the fourth quarter is about 111 basis points. Quarterly, it may move around because of mix or whatever happens with volume and stuff, but we think the whole year, the pressure will be -- we'll feel, like, half of the pressure plus or minus that we felt in 2017 and '18. And -- well, that's still a pressure we've got to deal with, that's a much easier challenge to confront when you're trying to drive growth to offset that and actually improve your bottom line than when you're confronting 180 and the catch-up, and the kind of Realogy unique stuff. So again, maybe more optimistic than you would think. Still a big issue, still an important thing to deal with, still a critical issue in our industry. But man, it feels great to think that this is what we're facing for the year, not what we faced in '17 and '18.

Operator

Your next question comes from the line of Stephen Kim from Evercore ISI.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Ryan, just to follow up on the questions on commission splits here. Just -- I thought you did a really good job with that answer. But just to clarify a little bit, when you acquire agents, are they excluded or included in the split calculation for the first year? And could you give us a sense for the degree to which you think 4Q splits may have been weighed down by the slower housing market that you've experienced, particularly in the fourth quarter?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So on the first question, when we acquire someone, they're included. So it's an all-in kind of thing. Anybody's on the books, they're included, so there's that. I've actually -- even though the housing market in Q4 was down 4% for the industry, we were down 5%. We did not see in our data that there's a huge change in splits in that. In the past calls, Stephen, I have told you that a bad that housing market has a little bit of a split silver lining that you pay a little less than splits because people work -- they work their way less far up the rebate tables basically, or they earn -- they don't work the way up to earning the highest split kind of thing. But the fourth quarter is not the biggest quarter in housing, right? It's the third largest of the 4. And by the time you're at the fourth quarter, people have got most of the year behind them. They kind of mostly work their way up to the higher parts of the split table. So when we ask ourselves that same question, we actually didn't think that the fourth quarter was really a function of the weaker market and a little more of just kind of the market forces. In a real down housing year and last year was flat, in a real down housing year, there may be some -- there will be probably some silver lining on splits. But we don't think we experienced it in the fourth quarter, which is why I think when we think about '19, we think the fourth quarter or better is kind of representative of what the market forces are going to be for the year.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Got it. And Ryan, just to clarify, when you mean by better and relative to the fourth quarter, you were talking about the year over growth -- year-over-year growth in splits. So to put a finer point on it, you're looking for something like a [73.5] is kind of like the range we're talking about for '19, right, on the split?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Look, I think about it in the upward trend -- look I said -- the same message I've always tried to say is, there's still going to be upward pressure. So where the upward pressure is 180 basis points the last 2 years, the signaling I just trying to give you was, think of the '19 upward pressure as like the fourth quarter or better, so something like that.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Yes. That's what I thought. Okay. Second question I had relates to some of the initiatives you've done. And you talked about some exciting stuff here. You talked about the agent concierge results, and you talked about cataLIST, agents winning listings, they otherwise wouldn't have gotten and kind of thing. So on the agent concierge, you talked about a higher commission rates that the agents are getting versus those that aren't using this software. I just want to make sure, you're talking about an improvement in their commission rate, correct, for these agents?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

I'm talking about an improvement in the average broker commission rate that the seller pays them. So not the commission we pay but the negotiation they do with the seller. When we analyze our data, and we got thousands of listings and execute transactions to look at, when you look at the market different agents use in Listing Concierge versus the ones who don't, same markets, same price band, the average broker commission rate is higher for the people using Listing Concierge than our agents who do not. And we've -- we didn't do it because we expected that. But anecdotally, now when I talk to the agents, they say that not only does it help them win the listing, but when the customer tries to negotiate a lower commission, one of their responses is, well, no, I'm trying to deliver real value and my commission lets me do things like this marketing plan I just showed you. And they're winning more of them at higher average broker commission rates. And this is across thousands of examples when you have the statistics. I've heard the anecdotes individually from agents, but it's been -- it's a nice value proposition addition that we didn't actually necessarily expect, but we think is kind of fascinating. And it's the exact kind of thing where we can deliver more value to agents. It's going to help on recruiting and can help on the agent bottom line, which is a way potentially to offset split pressure over time is help them on productivity.

Operator

Your next question comes from the line of Ryan McKeveny from Zelman and Associates.

Ryan McKeveny ***Zelman & Associates LLC - Director of Research***

A couple of higher-level questions, one on RFG and one on NRT. So RFG first. So year-over-year, the margin has continued to expand. That's been for the last few years, a nice trend. I'm thinking about the moving pieces going forward. Specifically, we've obviously seen the pressures at NRT, so I'm curious. First, if you can comment on the strength of the actual franchise owners in your network, if they're feeling those same pressures, just how you think about the strength of the actual franchisees. And secondarily, in the sense of just thinking about franchises that may have started up since the recovery, let's say, over the last 7-plus years. I guess, I'm assuming that there's more franchise agreements starting to come to you now than maybe in the past few years. So any pluses and minus as you can call out on retention efforts with franchises that might be coming due and/or incremental growth with franchises sales that you could talk to?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

So a lot in that, Ryan. Let me just hit a couple. So we don't have some like big cycle of new franchisees that started in 2009 and '10, coming due in '19 and '20. So pretty smooth and kind of even. There's no big spike of that, just to knock that one out. Look, I think our franchise feel the same market forces we feel. And many of them are incredibly good operators. And to be blunt, most -- more of our market share growth came from the franchise side than it came from the owned side in the past year and that's a good thing. But I'd be remiss if I didn't remind you something I've said in previous calls, which is we've gone over the past few years from like 3,000 franchise to 2,500, not because they leave us for other people, but because the smaller ones who are struggling with technology and things like that are being consolidated by some of our bigger stronger ones. So we've got a lot of franchisees with a lot of strength who are driving growth. Our top-10 franchisees have gone from, in the high 50% to now like 66% of our franchise mix -- the top 250, excuse me. And so they're subject to the same pressures we are but there's a lot of good performance out there. And people who are struggling tend to get consolidated offer within our franchise. We had a lot of interest in our Corcoran franchise, which we're launching here in early 2019 for franchise sales. We had a all-time high year for franchises sales in 2018. And so we feel good about the franchise sales side, but we know also to keep driving that. We've got to deliver good technology, lead generation, et cetera, for our franchisees to help them deal with the market pressure. So there's a lot in your question I covered a lot in the answer, and I'm happy to take more in a follow up.

Ryan McKeveny ***Zelman & Associates LLC - Director of Research***

Yes. You did. Ryan, so the question on NRT then is -- I hear you on the concierge listings in the better rates, they're as good to hear. But if we look at the average for the fourth quarter, 2.42% on the ABCR, I think that's the lowest we've seen on a quarterly basis in at least the history of public data. So I'm just curious, are you starting to see pressure from whether disruptors, or discounters, however we want to call it? And ultimately, how do you think about the sustainability of that broker commission rate moving forward?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. No. That's a great question. Yes. And First off, the Listing Concierge thing is only probably in about 1/3 of our owned markets today. And so I wouldn't expect it to change the overall trajectory. That's an example of something that we've got to roll out more broadly, which is why we think it's more as a second half of the year that we can drive more results. Look, on ABCR, we looked at the data pretty closely. It's been dropping kind of 1 to 2 points a year for the last 8 or 9 years basically. And -- but a lot of that drop, remember, is mix. When you look at it on a price band basis, the ABCR today in the $250,000 to $500,000 or $500,000 to $1 million is basically the same as it was in like 2011. And what's really driven most of the drop is the continued price depreciation, moving people into higher categories of price. And so we watch that closely. We haven't seen the disruption thing at all move it down, and we've done that analysis in redfin markets versus non-redfin markets, et cetera, et cetera. And so we watch it pretty closely. But I still think that kind of 1 to 2 basis point decline is -- over the last 7 or 8 years is probably something we all need to be thinking about. But do remember, and I'm happy to share more detail, it's mostly been driven by this mix phenomenon of higher-priced homes due just have a lower ABCR, both historically and today. And so when we looked at our fourth quarter stuff, we didn't see anything different in disruption affecting that. There's a little bit of the mixed thing, but those are my kind of more macro thoughts on ABCR.

Operator

Your next question comes from the line of Jack Micenko from SIG.

John Gregory Micenko ***Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research***

I wonder if you can touch on the leverage ratio comments and looking to move that number down. I know it's dependent on the market, and anybody's view at point is as good as anybody else's. But if we think about the 4.6 at the end of the year, how should we think about that in sort of -- I don't know, if '19 is a down 5 flat plus 5, how would that number change? How do we think about that? Looking at the debt going forward.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Well, look, I mean I think there's -- let me go back to some previous calls, Jack. Also -- look, I think the 2 things obviously drive that. One is how we've used our free cash flow. And the other is, what happens with our bottom line. And the stronger the housing year, the better the bottom line is just kind of by definition. And so we're watching kind of both those things. I've said in calls before that given the strength of our balance sheet, how our maturities are spread out, the size of our revolver, that I was fine with our leverage ratio kind of in the 4s. And so I'm not stressed out over the 4.6, but I've also said in calls that I think when you get up to the 5-plus range, that's a little bit of a different animal for our company. And so we pretty explicitly tried to say for the first half of the year, you are going to see us focus on debt paydown, we're just trying to kind of -- as we get through the seasonality of cash flow, at least hang out in that same range. And then look, the stronger the housing market is, the more I'd rather return capital to shareholders through share repurchases. But the weaker the market is, whether it's flat or negative, and those both are kind of weak markets in my view, the more we probably want to stick with more debt paydown to try to kind of hold that leverage in the 4s as opposed to letting it run too far away. But just go back to the first half of the year, focus on debt paydown. And then weaker housing market, more debt paydown, stronger housing market, more share repurchases. And I tried to -- you kind of just gave me the balance of kind of where I think the leverage ratio may float as those things move.

John Gregory Micenko ***Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research***

Okay. That's helpful. And then on Cartus, it looks like the initiations are up nicely now, 2 quarters in a row. Is that business -- are the improvements that you made to that -- the change you made to that business kicking in? Or is that business less, I guess, maybe impactful to shorter-term moves and rates because it's more of a corporate relo job health sort of decision?

Timothy B. Gustavson ***Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer***

Yes. I think some of the initiatives that we were -- that we've put into place are definitely taking a hold. So initiations are up about 6% year-over-year. And the affinity business is doing well. Cartus, as you know, it continues to be a very valuable part of our value proposition, bringing qualified leads to our network of affiliate agents at NRT and RFG.

Operator

Your next question comes from the line of John Campbell from Stephens.

Carter Andrew Trent ***Stephens Inc., Research Division - Associate***

This is Carter Trent taking the place of John. More on the Corcoran client franchises. What is the average upfront sales price for each? And from an accounting standpoint, obviously the Remax has been recognizing franchise sales revenue for over a deferred period. Are you guys doing the same? And if so, how much of revenue property impact does that to you have in '18?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Tim, do you want to take the deferred revenue on the franchise sales question?

Timothy B. Gustavson ***Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer***

Can you repeat that one more time?

Carter Andrew Trent ***Stephens Inc., Research Division - Associate***

Yes. So Remax has been recognizing franchise sales revenue over a deferred period. And I was just wondering if you guys are doing the same?

Timothy B. Gustavson ***Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer***

No. We're not.

Carter Andrew Trent ***Stephens Inc., Research Division - Associate***

Okay.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

So on climb, climb really hasn't launched. We didn't even file the FDDs. So the question you're asking there isn't public, we can't really talk about it yet. So we'll hold up on that. Climb's always been planned to launch later. Corcoran's where kind of the most interest in the -- is more ready to launch given the massive brand name and success that it has as a company. Look, our franchise fees kind of start out there kind of 35,000 kind of initial franchise fee, 10,000 per branch and a couple grand for a limited purpose kind of thing. And then we have a royalty scale that's public. This is a more premium brand. And so its was royalty rate, even at the top end is kind of north of 4%. So those are some of the economics around that kind of franchise. And does that get to your question?

Carter Andrew Trent ***Stephens Inc., Research Division - Associate***

No. That's perfect. Yes, that answers it. And on the cataLIST iBuying program, can you expand a bit more on the expectations for that? Do you know what percentage your 4Q transaction volume, if any, came from that? And what are your expectations are for '19?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. Look, it's really small in Q4. I mean, we were literally in 3 cities and we launched all 3 cities effectively in those last kind of 3 or 4 months of the year. We're probably not in a position yet to share what we think for '19. Given that unlike some other people who do this stuff, like we're already in 1.4 billion home sale transactions, even if we grew it massively, it would still be a very small piece of what we do, but we're really excited about it. We've got a partner who -- their business is not flipping houses. Their business is buying houses, renting them, selling them and we bring our agent network and distribution to that. It's very capital-light, because we have a partner who that's again what they do for their business. So it's capital-light for us. But we love adding it to our value proposition for agents. And most of the time, people say no to the offer, but then we keep the listing. And so we really like the value proposition here in the 3 cities that we've piloted in the last kind of 5 months. And we're definitely going to be expanding it. We can't tell you where and when yet, but we look forward to sharing that. Because again, we're the 1 iBuying thing where the agent really is at the center of the transaction still. And we think that's powerful for the seller of the house. We think it's powerful for the offer of iBuying and we think it's obviously powerful for our agents. So we're excited about it, but in a 1.4 million, transaction business, it's very small so far. And we'll keep you posted if it -- as it expands.

Operator

Your next question comes from the line of Bose George from KBW.

Thomas Patrick Mcjoynt-Griffith ***Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst***

This is Tommy Mcjoynt on for Bose. Given the slight underperformance that you guys reported in transaction volumes relative to the NAR or national average, would you attribute that more to maybe certain geographic exposures or higher average price point or anything else?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thanks for joining, Tommy. Look, we're putting that one pretty much all on geography at this point. New York remains pretty weak in Q4. California in Q4 was incredibly weak, and we have over -- we're overweighted in both of those relative to NAR and to our competitors. So that's really the difference in our mind between the 5 and the 4 kind of thing. And you hit it off at that.

Thomas Patrick Mcjoynt-Griffith ***Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst***

Okay. And then separately, remind me, the earnings from Guaranteed Rate JV, is that flowing through earnings? And what was the contribution in 4Q and then for full year 2018?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. That is flowing through our equity earnings lines. So that was about -- we lost about $2 million more this year than last year. As you know, 2018 was really the startup year. So we do expect profitability in 2019. But it was more of a ramp-up year. And mortgage business in 2018 had a lot of margin compression. It was tough for the industry kind of given the rates movement.

Operator

Your next question comes from the line of Chris Gamaitoni from Compass Point.

Edward Christopher Gamaitoni ***Compass Point Research & Trading, LLC, Research Division - MD & Assistant Director of Research***

Can you give a good an outlook on what your cash interest expense is for next year and your free cash flow conversion of EBITDA?

Timothy B. Gustavson ***Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer***

From a cash interest perspective, and I think it's probably around $195 million or so for next year. From a free cash flow perspective, we're not at a point at this time that we'll disclose that number. For right now, we had $325 million for last year. Q1, we've already expressed there's going to be some pressure from the numbers perspective, and we'll see how the year develops as far as disclosing that later on.

Edward Christopher Gamaitoni ***Compass Point Research & Trading, LLC, Research Division - MD & Assistant Director of Research***

Okay. Higher level, when -- with your new strategies to recruit agents, what is your value proposition versus their existing brokerage or another brokerage? What are you leading with? Why are they changing? Just so we can have a better understanding of if these programs will be successful or not as heading into the back half of the year.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So look, we've always had a good value proposition I think across all the different brands in our ecosystem, whether it's on the franchise side or on the owned side. If you talk about the owned side in particular, where most of the economic leverages -- our core value proposition is kind of an all-in package of dedicated support, marketing, brand, technology, lead generation from Cartus and other places, et cetera, with competitive comparative commission split, hopefully. And that value proposition has done quite well over a very long period of time, though under -- though recently a little more under pressure with the agent commission stuff. Most of what we're trying to change has 2 or 3 aspects to it. One is, for new recruits, we're not forcing our existing agents to change, but we're setting up these new commission plans for new recruits that are very aspirational that can really incent them to shoot for a lot of growth and will pay them for a lot of growth but only for a lot of growth. And so we're trying to be much more aspirational on those commission plans as one component. As another component, is to improve the value proposition around technology, marketing, lead generation and partnerships to add value to agents, to help their productivity and bottom line beyond what they can get at other brokerages, either because we can invest more in technology than the next person. We can develop better technology. We have better data to do more data analytics to help them be successful or because of our national presence, we can set up national partnerships or do things at scale, like the iBuying thing I mentioned, that a small, medium or even some of our even bigger brokered competitors haven't been able to actually do. And so there's a lot of aspirational pricing to drive new recruiting, but there's also a lot of, how do you just deliver a lot more value to make them more successful and productive, that makes us a more exciting place for agents to be. Because of our size and scale, we should be able to do some unique things that small and medium brokers definitely can't do and that even a lot of our largest competitors are not doing. And we have some early wins that give me early confidence. But we got to roll these things out nationwide. We got to make them work nationally, but we've on this consistent theme here for multiple quarters with you. And each quarter, I'm been trying to give you more evidence of where we've been having success for reasons to believe. And in a world where there's less commission pressure on us now than there was over in the last 2 years, I like our odds in that environment. No matter what happens with the housing market, we can't control that. We can definitely try to control how we perform on a relative basis.

Edward Christopher Gamaitoni ***Compass Point Research & Trading, LLC, Research Division - MD & Assistant Director of Research***

Right. Now I guess, that gets me to my final question is, operating EBITDA margin is down to 1% NRT. Is there a cost curve or kind of a business reimagination you can do to change that outlook? Or at this point, is it really a volume game, whether your initiatives or the overall market?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

I think it's mostly a volume gain, but we have not given up at all on the cost side. I talked about what we're doing from the facilities and a back office standpoint. And in both those places, we have some reimagining going on. I don't want to get into too many details to get too far ahead of what I've told my own teams. But we're reimagining our offices, both their footprint and their design to really take a lot of that money out. We're reimagining how we do a lot of the back office support if you think about processing commissions and all the other kind of costs that go with the brokerage in ways that are pretty different than before. And so we're trying to do that. But I would say, most of our focus is on making agents more productive and more recruiting because the volume part has the bigger leverage in terms of really changing the trajectory, even in a world where margins have been compressed like they have been in the last 3 or 4 years.

Operator

Your last question comes from the line of Anthony Paolone from JPMorgan.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

I know we've talked a lot about this already. But can you maybe comment, given the comfort level of split pressures using in 2019, kind of why you don't expect the competitive landscape to potentially keep pushing further? It seems when you read the trade rags and things, it seems like the larger competitors still have pretty robust growth mandates? And just what are some of the things that you just feel comfortable but you're not going to see another kind of step up on that front?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Well, look, we aren't discounting the competition at all here. And we still think there will be upward pressure, and we talked about that and kind of some of the magnitude of that. But we are -- we also think that part of the reason our numbers were so big in '17 and '18 was us having to catch up from that 3-year period of flat. And as we told you last year, at the start of the year, we did expect that moderation every single quarter. Because we thought it was the Realogy-specific part that was going to begin to disappear. And what we were going to be left with is the market forces. And that moderation did actually occur every single quarter and kind of got us from the over 200 in Q1 to that 111 in Q4. So look, we can't predict exactly -- we can't predict exactly where it's going to go but based of everything we have saw at the end of '18, and what we're seeing in '19. And where we know we are relative to the market now, compared to where we used to be relative to the market. We just think we're subject to market forces, and that we think '19 will be a lot more like the fourth quarter of '18 or slightly better compared to what it was in '17 and '18. If competition fundamentally changes or triples down in some ways that drive that higher, then we're going to have deal with that or it will show up in the numbers. And we'll have to back to talk to you about what's changed in that. But we don't have any assumptions of less competition or anybody shutting down or anything like that when we make that statement. But it's also -- it's probably the biggest issue in the industry. And we just want to share our best thinking with you as we started this year.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And then in the past, Ryan, you kind of mentioned how if you think about Zillow, they tend to control the consumer experience. And when you hear about your initiatives in your business, it's about sort of the agent focus, and that's where the resources are. How do you think about you taking that path versus shifting resources and initiatives towards directly to the consumer and in initiatives to have more control over that end market?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. That's a great strategic question. And we've looked at it, and I think we'll probably keep looking at it. At least given where we are now and where we think the biggest leverage is to change our company's operating performance, we do believe it is focused on the agent. And so you're likely to see us stick with that. We -- it doesn't mean we have no focus on the consumer. I mean, if you look at kind of the lead generation we get from our consumer-facing website and add it up, it's actually the same as what redfin gets in total. And I think they have the best consumer-facing kind of website in our industry. But we kind of equal them if you add up all of our brand stuff. And so it's not like we don't put the effort into it. But I think where we are, the agent focus will be the thing for the near term. We may come back -- we will be coming back to ourselves and asking that question on a regular basis. I would say we ask it to ourselves every quarter already. But we keep coming back to the leverage of the agent. And Zillow is a really impressive company. It's got a lot of stuff. They sure made a lot of news in the past week. There's a lot to digest with that. But we've got to stay very focused on executing our strategy, along with watching those competitive moves. And we're trying to do both pretty thoroughly.

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

That concludes our call. I want to thank you all for joining us today and look forward to speaking with you over the coming quarter.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect. Have a great day.

Exhibit K

THOMSON REUTERS STREETEVENTS

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. First Quarter 2019 Earnings Conference Call via webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website. At this time, I would like to turn the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

Thank you, Natalya. Good morning, and welcome to the Realogy's first quarter 2019 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; Chief Financial Officer, Charlotte Simonelli; and Chief Accounting Officer, Tim Gustavson.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially for those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of May 2 and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call and, per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release. Now I will turn it over to our CEO and President, Ryan Schneider.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Alicia. Good morning, everyone. We have a lot to cover today. The most important thing to start with is that we are moving aggressively in our strategy execution and on streamlining our operations. I'd like to start by introducing Charlotte Simonelli, Realogy's new Chief Financial

Officer. Charlotte joined us in late March from Johnson & Johnson and has been quickly getting up to speed. Now that Charlotte's here, let me take a minute and share with you what I was looking for in our next CFO.

Given the housing market and competitive challenges we face, my highest priority was to find a partner who would be world-class at driving operating performance with a special strength and track record around reimagining and reengineering the expense side of large businesses. Both are increasingly critical for us to unlock here additional shareholder value. I am excited Charlotte's here and I look forward to working closely with her.

Shifting to housing. We are encouraged by some of the recent things happening in the macro environment. Mortgage rates are down a bit. Inventory is up in some of the most constrained markets and both GDP and low unemployment bode well for the health of the economy. Anecdotally, we're hearing more positive feedback from our agents and franchisees than we have heard in a while. And it goes without saying, given how much the housing market impacts our P&L, we are excited for improvement. We have a strong company foundation, a market-leading position, great brands, technology and data scale and the free cash flow to invest in the business. We are driving substantial change in the company to better leverage those strengths to improve financial performance in the future.

With that setup, let me cover some Q1 financial highlights. As we all experienced together, we entered 2019 coming off a very challenging Q4 2018 with industry transaction volume down 4% year-over-year in the quarter. In fact, 2018 overall was a pretty challenging year for the housing industry with no growth in home sale transaction volume and the number of industry housing transactions actually down compared to previous years.

Realogy's Q1 2019 operating EBITDA was negative $4 million in what was another tough quarter for the housing market. A 9% transaction volume decline drove our revenue decline in the quarter. In Q1, we made substantial progress and started to get the benefits from the expected $70 million in cost reductions for the year that we shared with you in the last call. We are not resting and continue to look for more efficiencies.

Our volume was lower than NAR's, which was down 4% year-over-year, and our variance was driven primarily by 2 factors. First, geographic mix. Industry volume in California was down significantly more than the national average, and we have a very high concentration in California. It makes up over 25% of NRT's volume. Second, an even greater increase in the competitive environment that began in late 2018, especially in a few specific markets.

For the full year 2019, we still agree with forecasters that industry transaction volume will likely improve sequentially each quarter. We told you last quarter we expect the first half of 2019 for us to have negative transaction volume growth in each quarter with Q2 better than Q1 before shifting to positive transaction volume growth in the second half of the year. We also expect the geographic mix pressure at NRT to persist in the near term. Given the environment, we must keep investing to improve our value proposition to create even more and even better offerings to attract and retain our agents and franchisees, and we're doing this at a faster pace than ever. We continue to expand initiatives we've previously told you about, such as our new commission plans are now live or in pilot in nearly all of our markets nationally. They're incredibly important for us to deliver greater recruiting success going forward to grow our business. Listing Concierge has now expanded to about half the country and we'll be fully national later this year. This product is a good example of leveraging our scale to deliver a great marketing product to our agents. It continues to help our agents win listings and earn higher commission rates from customers than agents in the same market who are not using the product.

Finally, we've told you before about our emerging partnership with Facebook and Instagram, and in Q1 of 2019, together, we delivered a new product, Social Ad Engine, that lets agents do an automated marketing campaign on Instagram and Facebook in about 3 minutes that leverages Facebook's marketing best practices and Realogy's AI technology. We launched at our annual conference in March and already have close to 7,000 agents connected to the program.

In terms of new products, nearly 11,000 of our agents and franchisees gathered in March for our annual conference. At that event, we shared new lead generation products and new technology offerings. Delivering this volume of new products quickly demonstrates our commitment to moving faster on our value proposition to increasingly attract and retain agents and franchisees and to help them close more transactions.

Finally, our iBuying product cataLIST is part of our agent value proposition today in 3 cities in a capital-light way in partnership with Home Partners of America. At our March event, we announced that in Q2, we will expand the cataLIST product to our franchisees in those 3 cities, and we will expand cataLIST to new cities later in the year. We are moving faster than ever to bring more value to both our agents and our franchisees while we continue to drive efficiencies through the business. So let me now turn the floor over to Charlotte to review our financial results.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Thank you, Ryan. Good morning, everyone. I am excited to be here at Realogy and look forward to working with Ryan and the team to drive improved business performance. The competitive environment continues to evolve, and we are further leveraging technology and data to win in the marketplace. I am energized by the challenges, the opportunities and the great team we have in place to tackle both.

Let's get right into Q1 2019 operating performance, starting with our consolidated results on Slide 5. Total net revenue in the first quarter was $1.1 billion, a decline of $115 million or 9% below Q1 2018 primarily due to lower NRT revenue. Operating EBITDA was negative $4 million, a decline of $38 million from Q1 2018 and in line with our expectations for the quarter. Expenses decreased by $74 million due to the lower overall commissions and operating costs.

Q1 2019 net loss was $99 million compared to a net loss of $67 million in Q1 2018, due predominantly to the decline in transaction volumes and an increase in interest expense of $30 million. The interest expense increase was driven by a $26 million swing in the mark-to-market on our interest rate swaps.

In Q1 2019, we experienced a $14 million mark-to-market loss on our interest rate swaps versus a $12 million gain in Q1 2018. The Q1 2019 net loss was partially offset by lower expenses driven by commissions and the carryforward benefit from restructuring programs. Adjusted net loss per share was $0.67 compared to an adjusted net loss of $0.38 in Q1 2018.

Now let's turn to cash flow and the balance sheet. Free cash flow was negative $172 million in the quarter, typical for Q1 due to the seasonal trough. During the quarter, we raised $550 million of 9.375% senior notes with an 8-year term. For the year, with the new senior notes, we expect cash interest expense to be approximately $200 million. Our leverage increased to 5.2x in Q1 2019 from 4.6x at year-end 2018. As you know, Q1 is always our smallest quarter with negative free cash flow. The second to fourth quarters are expected to generate positive free cash flow. Our balance sheet continues to provide us with financial flexibility and we will prioritize investing in the business and reducing leverage until we achieve leverage below 4x.

Now let's move into a Q1 2019 year-over-year review of segment operating performance on Slides 6 and 7. RFG revenue declined $13 million, largely due to a decrease in intercompany royalties from NRT and domestic royalties driven by lower volumes. RFG revenue includes intercompany royalties received from NRT of $53 million. RFG operating EBITDA was $90 million, a decrease of $15 million due predominantly to the reduction in revenue. NRT revenue decreased $101 million largely due to lower transaction volume. Operating EBITDA was negative $62 million, a decrease of $17 million due to lower revenue and higher agent commission splits, partially offset by lower employee costs.

Q1 2019 agent commission splits were up 45 basis points year-over-year. On a like-for-like basis, splits were up 80 basis points, which is 31 basis points lower than the increase we saw in Q4 2018 due predominantly to geographic mix and improvement in our new development business. The 45 basis points year-over-year increase was affected by the increasing rollout of our new commission plans over the last 6 months. Remember that these new commission plans are meant to have more aspirational pricing to incent higher productivity and include charging additional fees. Given our rollout progress, these fees are becoming a more meaningful part of our agent economics and are recorded as a contra commission expense. This explains the 35 basis point difference between the 80 basis points like-for-like and the actual result of 45 basis points. You should assume the impact of these fees will be less than 35 basis points in higher volume quarters, but this is expected to continue to be a part of our agent commission expense story.

Cartus revenue decreased $3 million primarily due to a decrease in referral revenue. Operating EBITDA was $2 million, an increase of $3 million year-over-year as cost savings more than offset the decline in revenue. TRG revenue decreased $6 million primarily due to lower resale revenue. Operating EBITDA for TRG was negative $9 million, down $3 million due to the decline in resell revenue, partially offset by an increase of $3 million in GRA mortgage JV earnings. We continue to expect the GRA mortgage JV to modestly contribute to profitability for the remainder of 2019.

Turning to Slide 8. During the quarter, we incurred $12 million of restructuring costs associated with our cost savings initiatives. We expect approximately $53 million of restructuring costs through 2019 to contribute to approximately $70 million in cost savings in the year. We are aggressively pursuing even more cost efficiencies throughout the business.

Wrapping up, I am excited to be here at Realogy, an industry leader with unmatched scale and substantial cash flow generation in both good and tough housing markets. To reiterate, I look forward to working with the team to leverage the company's resources including technology and data analytics to drive improved business results going forward. I am moving quickly to explore further operational efficiencies and simplification to drive improved shareholder value. Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Charlotte. So let me step back for a minute and talk about strategy. It was about a year ago when we began to share our current strategy with you. Our current strategy is focused on organic growth and is based on using technology and data to enhance our value proposition for current and potential agents and franchisees. It also includes more aspirational commission plans to drive recruiting and productivity, making strides on cost and changing how we run the company to move much faster.

Shifting to execution. We've demonstrated substantial progress. We're excited about many new things we're doing and we get good feedback on our pace of change. However, while we're working to change our financial trajectory, it has not happened yet. The housing market being down the past few quarters hasn't helped. And equally important, the competitive environment has gotten even tougher recently especially from a few companies who seem fine losing money.

Given all that there's four things I wanted to share. First, we must stay incredibly focused on executing what we're doing strategically in the market. Improving our value proposition, driving more transactions, lowering our cost and moving faster are all needed to compete today given the dynamics in the market. Second, we need to do more and we need to do it rapidly. So for example, at our March conference, we shared it with our agents a bold new effort we call FastTrack to reinvent the transaction process. FastTrack will leverage our industry-leading agent scale, national title business, mortgage expertise and our partner Home Partners of America's homebuying capabilities to see if we can shorten the transaction process from months to something like a week. By doing the mortgage and title work specific to the house in advance, with Home Partners of America's homebuying as a backstop, we believe we can substantially shorten the closing time frame and increase the certainty of close. Many competitors talk about making money from ancillary services like title and mortgage. We actually do that today. Many competitors talk about reinventing the transaction process. We actually have the business components to do it. And so while it's early, if we can make FastTrack work it would be really impactful for consumers, for agents and for us. It would create a much better customer experience. It would help us capture more transactions and generate more ancillary services revenue. And that is also the kind of unique product Realogy could provide its agents, creating beneficial differentiation helping us recruit and retain. It's an opportunity to leverage Realogy's strengths to think bigger and drive more results.

Third, we're not only going to execute on the cost opportunities we shared in the last quarter, but with Charlotte's leadership, we are looking to be even more aggressive streamlining our operations.

Finally, I am on the hunt for new and bigger ideas that can change our company and even the industry. I know we have to keep thinking bigger given the industry dynamics and our need to create more shareholder value. With that Charlotte and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Jason Deleeuw with Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Just looking for a little color on RFG, it seemed a little weaker than what we would have thought with the sites. And just wondering if there's any franchisee switching around there or is there any competitive environment impact on the RFG part of the business.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Great question. The biggest thing that we've talked about was what was happening with California and then a few specific cities, which is a little more talking about what's concentrated in NRT. RFG being a little below NAR was a little bit more of a mix of cats and dogs. So we were actually overweight in California in RFG also, nowhere near as much as NRT but we are overweight there. That had a bit of an impact. There were a couple of other geographies that had some impact. It wasn't a switching or terminations or anything like that. It was more of a cats and dogs kind of thing, and our franchisee health remains good. We're watching days of sales outstanding, which is kind of the delinquency metric we track. It's not really moving or anything. So that one was more of a cats and dogs thing, though both the California thing and a little bit a competitive thing swept RFG in, but neither one's extreme as on the NRT side.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

And then I'm just looking for additional color on the net agent growth last quarter. The piloted markets, I believe you were seeing 5% net agent growth. And I'm just wondering as it continues to roll out what are you seeing the net agent growth? And are you comfortable with the strategy as is? Or have you made tweaks? Or how are you thinking about the strategy going forward?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. We're always evolving both on like individual strategies kind of at the market level as well as kind of some of the stuff I closed at in terms of trying to think bigger. The reality is our net agent growth if you look year-over-year is basically flat. We have some markets that are up very substantially that we're a little excited about. But there have also been a few markets, there's like 4 in particular that I kind of referenced in the -- when I talked about some of the -- what happened in the kind of Q4 competitively, where it's -- the competitive intensity changed pretty dramatically when the housing market kind of had a bad patch. And then those markets, it's gone in the other direction. So overall, it's been about flat. We've got a lot of markets we like the results in, but we definitely have some where it's been more challenging. I think our agents are liking the new products that we're putting out there in the market, having cataLIST in some cities, listing Concierge and our commission rollout is pretty much national now. So that's a little more color on that.

Operator

Our next question comes from the line of Jack Micenko with SIG.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Charlotte, welcome. I guess my first question, for you. On the expense side, given Ryan's prepared comments, maybe an unfair question, but talking about the $70 million remaining on track this year, clearly looking for more. If the revenue trends this year continue at a slower clip, I mean how quickly can we expect to hear more on the expense side from you? And are you looking at it in the context of absolute dollars? Or are you looking at it more in terms of positive operating leverage or at least matching the leverage if revenue were to slow further? Just some thoughts on what you think we can expect from that in the next couple of quarters.

THOMSON REUTERS

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. Well, as you pointed out, it's still early days, but what I can say is in the early days that I have been here, I do see opportunities to drive additional efficiencies in-year but also for future years to come. There's things that we're going to do that will impact this year and also set us up for the future. So I do feel very good about the $70 million that's already there, and I'm definitely optimistic there's more that we're going to deliver this year.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

So do you think there's upside to $70 million in 2019?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

I do.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Okay. Okay. Great. And then Ryan, on cataLIST, I know you're in the 3 markets, sounds like you're moving -- expanding into the franchisee side. Any plans to take that to other brands? And can you share with us the markets you think you're looking at and to expand to from here?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So we're in Atlanta, Tampa and Dallas, and we're going to take it to our franchise brand in those geographies. We've announced that. We've told those franchisees that, that'll be something their agents can use as part of their toolkit to win more listings, something those franchises can use to recruit agents. We've announced to our whole network that we're going to go into more cities. We have not named the cities yet, and we're going to name them later this quarter. But since we publicly told everybody we are going into more cities I felt fine sharing that with this group today, but we'll announce the additional cities later in the quarter.

Operator

Your next question is from the line of Anthony Paolone of JPMorgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

You mentioned the competitive landscape and some of the competitors willing to operate at losses. Can you just talk a bit more about what you're seeing out there that doesn't either feel rational or what you're fighting against these days outside of say, over the last year or 2? It seemed to be very split-driven. Is there anything else that competitors are doing that you're saying that you have to match or that's on your mind?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. No. It's -- when we talk about some of the competitive challenges and people willing to operate at a loss and basically operate at a loss, it effectively shows up in one place, which is the agent commission area in terms of having real impact. A lot of people talk about attacking the average broker commission rate that customers pay, but there's been very little traction on that when you look at the numbers either regionally or nationally, whereas there are people out there who will make offers that are literally underwater, and we've seen that. And we actually -- part of the reason we saw what happened is the ramp-up in Q4 is in a few cities, when the markets got really tough, we saw people making even more aggressive offers to agents. And so who knows if people have a path to make money in the future? Some have said they don't have a path even to that point, but that's a little bit of what we're dealing with is it is a geographic thing. And I called out there were 4 cities, Chicago, San Francisco, San Diego and L.A., where the real violence was on that in the fourth quarter, but there's other geographies where that's not anywhere near as big of an issue, and those are some of the geographies for the first question I got where we see a lot more growth and we're a lot more excited. But we've got to -- we compete in all these places and we've got to deal with all of them. So that's a little bit more color.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And then my second question, just to better understand I think an earlier question on recruiting efforts and NRT. When I think about the goals you set for I think it was in last quarter, was 2,000, 3,000 I think it was something in that order of magnitude to add. Is that still something you think likely you'll hit by the end of this year?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

I don't think we ever put out a specific number on that, but we're still positive on our progress. We have a lot of markets where we feel good and we have the kind of growth that you would want us to have. There have been in these few that have been pretty tough in the last kind of 3 to 6 months that showed up in some of the results here, but that's exactly what we're focused on, working on and driving toward and continue to enhance our value proposition, provide more things to recruit people with. Listing Concierge, cataLIST, us and our franchisees is just an important thing. This is a -- there is a -- the value proposition that we offer is at the end of the day what everyone is going to compete on out there in the industry, and we have a lot of things that can really enhance ours on a relative basis. We think it can pay off in a lot more recruiting success over time and we've got to stay focused on it no matter what others are doing.

Operator

Your next question is from the line of John Campbell with Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Nice work against a pretty tough backdrop. It seems like you guys are ahead of schedule on the cost saves and you have a better grip on the splits. But if you guys can -- I'm just wondering just kind of high level, if you can keep both of these on schedule and it sounds like there's even upside to the $70 million in cost saves you've kind of outlined and then you get back to kind of positive transaction volume growth by, I don't know, call it 4Q. Would that be enough of a formula to get you back to kind of the year-over-year EBITDA growth by the end of the year?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Look, we are -- given how crazy the housing market's been and this -- the big shifts at the end of last year and the start of this year, we're out of the annual EBITDA guidance business just because of how it is. But look, I'd go one notch further than what you did, which is we still think we get the positive transaction volume growth in Q3 and Q4, not just waiting until kind of Q4. And so it kind of depends on how much positive growth we get, the market gets, et cetera. But that is what we're still kind of anchored to that it'll be positive transaction volume growth in the second half of the year, cost plus additional stuff. We like some of the emerging macro trends. Our April numbers so far are better than the first quarter. Our opens are better, and opens today are things that closed in the second half of the year. So we're probably more optimistic on that than waiting until the fourth quarter, but it's a pretty balanced housing market, so we'll see.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Yes, understood. It seems like you guys are on track. And then lastly, on the RGX conference, just given all the brands, and then hosting that in Vegas, I'm guessing that was definitely a step-up in cost. Could you guys talk about how much of a headwind that was in the quarter and whether that's pulling forward and then maybe the conference-related expense throughout the remainder of the year?

THOMSON REUTERS

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So it was a time -- I view it as a timing thing. We spent about as much for this conference as we would have spent for the 5 conferences that we didn't do that we brought together all at once. Now it all happened now in 1 quarter instead of being spread out. But we did -- instead of doing an ERA, Better Homes and Gardens, Coldwell Banker, Century 21 and Cartus broker network individually, we did it all as one. And going into it and coming out of it, the net expenses of it were what it would have been on the 5. So a little bit of timing and it all happened in 1 quarter. But on an annual basis, it's a wash.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. And is that -- just order of magnitude, is that $1 million swing? Is that a handful of million? Just any kind of sense for that?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Somewhere in between.

Operator

Your next question is from the line of Chris Gamaitoni with Compass Point.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Could you give us some clarity on the decline of the net royalty per site at RFG here year-over-year? Your average price was up, it just seemed like a pretty big effective percentage decline.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Hi, Chris. Thanks for the question. Yes, so the non-effective -- the royalty per site is a little bit of 2 factors. There's less price appreciation. It's less than it's been historically and there's a bit of amortization of the incentives. They're fixed and the units in the quarter are pretty low. So it's a bit of those 2 factors.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay. I mean it was the lowest that I can calculate on a whole price basis in a long time. Did you have an impact of like the amortization delta year-over-year?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

So the pricing was definitely the bigger factor.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Right. Pricing was up 2% year-over-year, though.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Versus 6% last year.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

It was up 6% last year.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

All right.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

The incentive bidding -- the impact of the incentives bidding -- the impact of the incentive did increase year-over-year, but the pricing was definitely the more material factor.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay. Charlotte, I have a question for you on finding additional cost saves. Could you give us a sense of like the categories of what you're looking at? Is it real estate efficiencies? Is it back office? Is it consolidating vendors? Just anything high level but tangible that we can kind of sink our teeth into.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes, yes and yes. It's a little bit of all of those. I think also we really have a great opportunity on the data and the tech side to be a lot more efficient but also to use the data in a better way. So it's a little bit of all of those things.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

All right. Do you have an outlook that you can provide, I don't know if you can, for CapEx for the year?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. So we're still revisiting the CapEx number. It will have a bit of a swing because of some of the restructuring that we're doing, but that's still being fine tuned.

Operator

Your next question is from the line of Bose George with KBW.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

This is Tommy on for Bose. I just wanted to clarify your comments on the commission split. So it increased 46 basis points year-over-year, and can you just clarify, is that a good run rate base? Or was there something unique this quarter?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

So the unique thing that we called out earlier in the call was there was a bit of a rollout of our commission plans, which it impacted how we report the expenses. So they're now a contra commission expense. So on a like-for-like basis, that's really 80 basis points versus what we saw in the fourth quarter, which was 111 basis points. So yes it did improve from 111 in the fourth quarter to 80 on a like-for-like basis. But to get to the 45, there's a bit of a reclass of some of the new ways that we're rolling out our commission plans, and it's really -- geography drives a lot of that. The difference between the 111 and the 80, there's a bit -- the geography is driving a lot of that.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

Got it. And just with the whole new rollout of the commission framework, how are agents responding? Are you seeing some agents leaving? Is anything kind of -- has anything changed as those plans have rolled out?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Look, in a bunch of geographies it's actually been helpful to both attract new agents, which is the lion's share of the focus of it. We're not forcing agents to move to the new plans. So it's not like we're creating breakage and just driving people away if they don't like it. But the goal is to recruit. We've had a bunch of markets with some success on that, but on a net basis we are flat on agent count as there's been a few challenging markets that I highlighted on the call.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

Did you say that you're not requiring agents to change? Can you like say like what percentage or how much like adoption has been?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

It's hard to give one number, because we've been rolling this out kind of across the country, so everybody's at a different stage. The two things I'd give you is one, the new things are all focused on recruiting more than the current, but if current people want to move we let them. From our history of a few kind of natural experiments on this, it takes about 3 years for the most people to want to move to the new thing when we tried this kind of more aspirational plan, and we're kind of in year 1 of that. So that gives you a sense of my guess of what will happen but we don't have -- everything is in too much of a different stage to give you just a single number.

Operator

The next question is from the line of Matthew Bouley with Barclays.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

I wanted to ask about the performance versus the market on transaction volumes but focusing on NRT because, obviously, you saw some of the progress on commission splits this quarter. So I mean just going forward, is it as simple as thinking about splits versus market share, I don't know, offsetting for the next couple of quarters at least? But how do you think about that balance this year? And I guess how long do you expect this performance versus the market or I guess underperformance like this to persist?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. Thanks, Matt. Good question. I'm not sure it's splits versus market share. I mean if you look at -- we like what happened with splits this quarter for a couple of reasons. One -- and this was our strategy, along with rolling out kind of more aspirational higher approach to the commission plan, we told you multiple quarters ago that we were going to start having more fees as part of our proposition, which is a benefit to us on the split thing and you saw that kind of for the first time as we kind of got the things to a certain scale show up in our numbers. So we like that, and then we had a little bit better quarter on splits. Some of that was just geographic mix and some was the comeback of our new development business, which we like. So the trade-off for us is not typically market share. It's market share versus bottom line. We can keep market share. We matched or exceeded some offers that were negative economics for us, either the people make it to our agents so that we would have to make it to other people. We typically have chosen not to do that. In fact, not typically. We don't do that, effectively. But we're going to -- we still think there'll be some upward pressure on the splits, but we're going to keep watching it. I think the biggest thing, and it's what I led with, is just the geographic mix, right? I mean California last year in Q1 was up or the West was up like double digits and it was down double digits this year in Q1. And we are pretty heavily weighted out there, especially California in NRT and even in RFG a little bit. And so I'm more thinking about the market share versus profit trade-off than market share versus split. So anyway, that's a lot of thoughts and I should just probably stop there.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

Okay. And then I guess secondly, maybe at a higher level, obviously, Ryan, you've enacted multiple different kind of strategic changes here, changes to product, et cetera. So it'll be great to hear kind of what you think has worked. And honestly it'd be interesting to hear what you think has perhaps not worked. And I just ask because there have been a lot of different areas you've attacked and it would be great to kind of hear where, among all of these changes you're making, where you're seeing the greatest promise and where you can, I don't know, perhaps step up on the gas, so to speak.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. That's a great question. So look, we like a lot of the things we've done and we've gotten good feedback on them, especially if you want to compare it to the hypothetical universe of us not doing a bunch of this stuff, which is a little hypothetical in general. But look, the new product I think helped a lot. Changing our commission approach to be more competitive in the market for recruiting helps a lot, and we've paid this off either by some regional results we feel good about or by kind of more, call it, flat agent results in the world where before we were on a negative trajectory kind of thing. So that's great, but as I acknowledged we haven't changed the financial trajectory of the company. So we've got to move fast. I think we've got to do more on the cost side than I articulated a year ago. Hopefully, you heard a little bit of that in the February call and even more today and, frankly, what I was looking for when I went through the process to find Charlotte. So that's something where I think we got to step on the gas more. And the industry dynamics here are driving pretty fast pace of change, and the kind of 3 or so kind of not so good housing market quarters kind of haven't helped. So those are a few thoughts. I think if we don't stay focused on improving our value proposition, I think we're in the lot of risk for regression. So we've got to do that, but I am also still in the hunt for the bigger ideas that we could potentially do that would change our trajectory, change the industry and reimagine our company a little bit in some different ways. So those are a few things I feel good about and a few things that we should put a little more effort into, especially the cost and some of the hunt for bigger basically, given the industry dynamics both housing market and competitive.

Operator

Your next question is from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

Welcome, Charlotte. So I have a twofold question about consolidation, one from an industry perspective and one from a kind of company-specific perspective. So on the industry side, so it's obviously a challenging business for most brokers. Margins are pressured. That's a pretty common theme across the industry. There's a need to invest in the value proposition, technology, et cetera, a lot of the things where you at Realogy can invest. And then I'm just curious if your view around M&A opportunity has shifted at all. We've obviously all seen Compass gaining a lot of shares through acquiring and I know that's kind of Realogy and NRT's historic one, and I know you've shifted away from that. But I'm curious with the challenges out there, if there is a competitive or a compelling company that you are looking at, are you simply trying to maybe make that person become a franchise? Or is there just -- any update on just the M&A thought process that you guys go through in this environment?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Sure. Great question, Ryan. Let me just give you my current thoughts. So one of the reasons, about a year ago we wanted to make more of our investments closer to organic growth as opposed to M&A, was 2 things that we saw happening, right? One was when you look at the M&A that had been happening in our industry, and this is true for Realogy and it's true for a few of our competitors if you look. Even if they're not public, there's a few. You can see some of their numbers. There's a lot of M&A happening that increase people's top line but did not change the bottom line, right? And that happened for us. That happened for others and that happened for others and that still happening for others in a few companies that you can see some of their numbers out, and that's not a great outcome. The other thing that has happened kind of when I first got here was that the multiples for M&A before the housing market kind of went south here in the last few quarters had actually gotten much higher than the historical multiples that Realogy was kind of used to paying whether on a pre or a post interview basis. So you look at those 2 things, you see where the organic opportunities are and we articulate. Let me tell you the 2 things that might have changed a little bit my view, and when we said we were not going to do M&A I said you never say never, but it was not going to be our core strategy. I think there's 2 things that have changed that could change our view on that at some point. We're not there today, but it could change our view. One is if in the tough housing market, if people's expectations on the actual prices at which these things trade drop a lot, that's an interesting thing. The other is, I'm still very, very skeptical on buying other brokerages for their revenue because again, whether it's our experience or what's happening even in 2018 with some of our competitors, you can just see that they actually don't translate to the bottom line. But it could be a more interesting, especially if the multiples are different, where it's not about the revenue side, but it's about the cost takeout side. And in that scenario, it's not expanding into new geographies through acquisition. It's water companies that you have 100% overlap on your footprint with, and if the economics align and the price aligns, could you do it more for a cost takeout reason? So that's higher on my radar than it's been. We're not -- I got nothing to announce. I got no deals that we're -- that we're going to be talking about anytime soon and we did no M&A in the last quarter, but that is the thing that's going on there. Our priority is to invest in the business and that could be one version of that. And then we go to deleveraging in terms of free cash flow. But for now you should assume we're sticking with the organic growth thing and our investment in the business is more around our value proposition, our technology and our data. But those are my thoughts, and if that ever does -- if the world changes that way, I'd come back and talk in more detail. But that is what could be different than what it was a year or so ago.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

That's very helpful. And then the second part of that is, within NRTs, we've heard some chatter that in some markets, there's been some kind of office consolidation, some changes in just the office space dynamic. And then I saw this quarter, there was that $1 million lease asset impairment. I wonder if that relates to that. And is this maybe a broader strategy happening within NRT to kind of reconfigure the office side to get efficiencies? Anything you can share there?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. That is part of the restructuring program, and, we're constantly evaluating our space. There's places where we have overlap and offices are very closely located. I think in today's environment, people like to work more remotely and more mobile. There's different offerings that we're giving our agents in that regard. So yes, it is definitely part of the restructuring program and it's intentional but it's not designed to do anything other than create like a new office of today. But there will be savings. And on a square footage ratio per agent, that will definitely go down in the future.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

Okay. Got it. And very last one, and I apologize if I missed this, are you giving any guidance on either transaction volume, EBITDA for the second quarter at least directionally? And I apologize if I missed that.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

No. We want to stay with the statement we used before. We think Q2 will be negative transaction volume. That's what we said last quarter, so we think it will be better than Q1 and I just gave you a little bit about April and then shifting to positive transaction volume in the second half of the year. And so we're staying consistent with what we said last time we talked.

Operator

Your final question is from the line of Stephen Kim with Evercore ISI.

Unidentified Analyst

This is actually Chris on for Steve. So with your cataLIST program with HPA, have you disclosed how many homes you've bid on or bought so far? And then also, what do your conversion rates look like compared to other iBuys?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

So 2 things, we haven't disclosed it and we're not planning to. It's not a huge number. We're in this for the learning more than when you've got $6 billion of revenue, starting something like this isn't going to change our company in the near term. And then our conversion rates are -- have been a little bit higher than our competitors. Part of that is -- by the way, is because our partner, Home Partners of America, we're not in the business they're not in the business of buying houses just to flip them like iBuyers are. Home Partners of America has a business around buying houses to rent or lease them back. So we actually may want to buy a few more houses here than some of the competitors who, frankly, often bid incredibly low and kind of look for desperation and have massively -- kind of massive decline rates. But most of this is about what we can do for our agent value proposition. This can be a unique thing we can offer. Most brokerages don't have something like this and it also helps our agents win more listings. Even if people don't want the iBuy -- the cataLIST offer, right, we get the listing the lion's share of the time. And when we don't get the listing it's usually because people choose not to list their house, not that they get it from someone else, so keeping the agent at the center of this thing and learning on this is a big part of what we're doing here and it's a small thing but meaningful in terms of our agent value proposition, and we're excited to expand it.

Unidentified Analyst

And then I guess I'll turn to the balance sheet. Have you put out I guess a time frame for your deleveraging process?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

No.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

We have not put out a time frame, but we're trying to be consistent in both written and verbal statements. Priority one is invest in the business in different ways and then put our free cash flow toward deleveraging. And the time frame in many ways will be driven by the market, the housing market and how that impacts our business as much as any of our individual actions. So we'll keep you posted.

Operator

There are no further questions. Are there any closing remarks?

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

No. We thank you for joining us on the call today, and we look forward to talking to you over the coming quarter. Thank you.

Operator

This concludes today's first quarter 2019 earnings conference call. Thank you for your participation. You may now disconnect.

Exhibit L

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2016
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 001-35674

REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)

Commission File No. 333-148153

REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)

Delaware
(State or other jurisdiction of incorporation or organization)
175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
Realogy Holdings Corp.	Common Stock, par value $0.01 per share	New York Stock Exchange
Realogy Group LLC	None	None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Realogy Holdings Corp. ☑ Realogy Group LLC ☑

Indicate by check mark whether the Registrant is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Realogy Holdings Corp.	☑	☐	☐	☐
Realogy Group LLC	☐	☐	☑	☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity of Realogy Holdings Corp. held by non-affiliates as of the close of business on June 30, 2016 was $4.2 billion. There were 139,617,861 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of February 21, 2017.

Realogy Group LLC meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to Realogy Group LLC.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement prepared for the Annual Meeting of Stockholders to be held May 3, 2017 are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this Annual Report and our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:
  - a lack of improvement or a decline in the number of homesales, stagnant or declining home prices and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate;
  - increasing mortgage rates and/or constraints on the availability of mortgage financing;
  - insufficient or excessive home inventory levels by market and price point;
  - a decrease in consumer confidence;
  - the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system, disruptions in a major geoeconomic region, or equity or commodity markets and high levels of unemployment in the U.S. and abroad, which may impact all or a portion of the housing markets in which we and our franchisees operate;
  - legislative, tax or regulatory changes (including changes in regulatory interpretations or enforcement practices) that would adversely impact the residential real estate market, including changes relating to the Real Estate Settlement Procedures Act ("RESPA"), potential reforms of Fannie Mae and Freddie Mac, and potential tax code reform;
  - a decrease in housing affordability;
  - high levels of foreclosure activity;
  - changing attitudes towards home ownership, particularly among potential first-time homebuyers who may delay, or decide not to, purchase a home, as well as the potential impact of decisions to rent versus purchase a home; and
  - the inability or unwillingness of current homeowners to purchase their next home due to various factors, including limited or negative equity in their current home, difficult mortgage underwriting standards, attractive rates on existing mortgages and the lack of available inventory in their market;
- increased competition whether through traditional competitors or competitors with alternative business models, including companies employing technologies intended to disrupt the traditional brokerage model, as well as eliminating brokers or agents from, or minimizing the role they play in, the homesale transaction;
- competition for more productive sales associates, sales associate teams, and manager talent may continue to impact the ability of our company owned brokerage business and our affiliated franchisees to attract and retain independent sales associates, either individually or as members of a team, without significantly impacting the commission split rates currently paid by our company owned brokerages and our affiliated franchisees;
- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations;
- our inability to enter into franchise agreements with new franchisees at current net effective royalty rates, or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements at current net effective royalty rates or without increasing the amount and prevalence of non-standard incentives, or to maintain or enhance our value proposition to franchisees;

- the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations, including the impact of lower average broker commission rates;
- disputes or issues with entities that license us their tradenames for use in our business that could impede our franchising of those brands;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees, controversies with our franchisees or actions against us by their independent sales associates or employees or third parties with which our franchisees have business relationships;
- loss or attrition among our senior executives, other key employees or our inability to recruit top talent;
- our inability to achieve or maintain cost savings and other benefits from our restructuring activities;
- our inability to realize the benefits from acquisitions due to the loss of key personnel or productive agents of the acquired companies, as well as the possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes in laws and regulations or stricter interpretations of regulatory requirements, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales associates to employee status, (2) RESPA or state consumer protection or similar laws and (3) privacy or data security laws and regulations;
- any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards as well as any adverse impact of decisions to voluntarily modify business arrangements or enter into settlement agreements to avoid the risk of protracted and costly litigation or other proceedings;
- our inability to obtain new technologies and systems, to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems;
- the failure or significant disruption of our operations from various causes related to our critical information technologies and systems including cybersecurity threats to our data and customer, franchisee and independent sales associate data as well as reputational or financial risks associated with a loss of any such data;
- risks related to our international operations, including compliance with the Foreign Corrupt Practices Act and similar anti-corruption laws as well as risks relating to the master franchisor model that we deploy internationally;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt;
- risks relating to our ability to refinance or repay our indebtedness, incur additional indebtedness or return capital to stockholders;
- changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits or the loss of one or more significant affinity clients;
- an increase in the claims rate of our title underwriter and an increase in mortgage rates could adversely impact the revenue of our title and settlement services segment;
- our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;
- risks that could materially adversely impact our equity investment in our mortgage origination joint venture, including increases in mortgage rates, the impact of joint venture operational or liquidity risks, the impact of a transition from our current joint venture to our new joint venture, regulatory changes, litigation, investigations and inquiries or any termination of the venture;
- any remaining resolutions or outcomes with respect to contingent liabilities of our former parent, Cendant Corporation ("Cendant"), under the Separation and Distribution Agreement and the Tax Sharing Agreement (described elsewhere in this Annual Report and incorporated by reference as exhibits to this Annual Report), including any adverse impact on our future cash flows; and
- new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under "Item 1A.—Risk Factors" and "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in this Annual Report, our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

TRADEMARKS AND SERVICE MARKS

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this Annual Report include the CENTURY 21®, COLDWELL BANKER®, ERA®, CORCORAN®, COLDWELL BANKER COMMERCIAL®, SOTHEBY'S INTERNATIONAL REALTY®, BETTER HOMES AND GARDENS®, ZIPREALTY® and ZAPLABS℠ marks, which are registered in the United States and/or registered or pending registration in other jurisdictions, as appropriate to the needs of our relevant business. Each trademark, trade name or service mark of any other company appearing in this Annual Report is owned by such company.

MARKET AND INDUSTRY DATA AND FORECASTS

This Annual Report includes data, forecasts and information obtained from independent trade associations, industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. As noted in this Annual Report, the National Association of Realtors ("NAR"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") were the primary sources for third-party industry data and forecasts. While data provided by NAR and Fannie Mae are two indicators of the direction of the residential housing market, we believe that homesale statistics will continue to vary between us and NAR and Fannie Mae because:

- they use survey data and estimates in their historical reports and forecasting models, which are subject to sampling error, whereas we use data based on actual reported results;
- there are geographical differences and concentrations in the markets in which we operate versus the national market. For example, many of our company owned brokerage offices are geographically located where average homesale prices are generally higher than the national average and therefore NAR survey data will not correlate with NRT's results;
- comparability is also impaired due to NAR's utilization of seasonally adjusted annualized rates whereas we report actual period-over-period changes and their use of median price for their forecasts compared to our average price;
- NAR historical data is subject to periodic review and revision and these revisions have been and could be material in the future; and
- NAR and Fannie Mae generally update their forecasts on a monthly basis and a subsequent forecast may change materially from a forecast that was previously issued.

While we believe that the industry data presented herein is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone.

Forecasts regarding rates of home ownership, median sales price, volume of homesales, and other metrics included in this Annual Report to describe the housing industry are inherently uncertain or speculative in nature and actual results for any period could materially differ. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on market data currently available to us. While we are not aware of any misstatements regarding industry data provided herein, our estimates involve risks and uncertainties and are subject to change based upon various factors, including those discussed under the headings "Risk Factors" and "Forward-Looking Statements." Similarly, we believe our internal research is reliable, even though such research has not been verified by any independent sources.

Pages Omitted From Excerpt

Services Segment attributable to franchisees affiliated with the Sotheby's International Realty® brand, including our company owned offices.

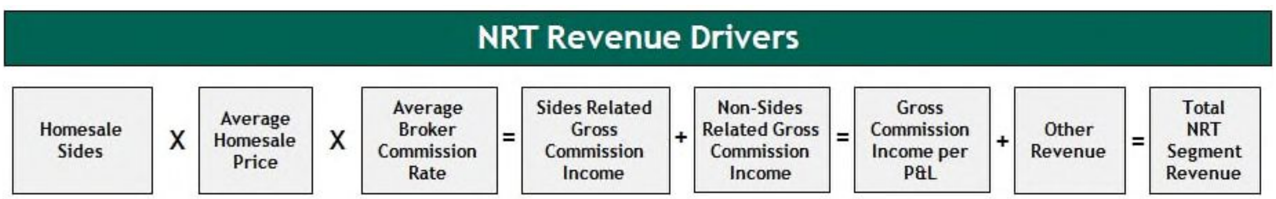
In October 2007, we entered into a long-term license agreement to own, operate and franchise the Better Homes and Gardens® Real Estate brand from Meredith. The license agreement between Realogy and Meredith is for a 50-year term, with a renewal option for another 50 years at our option. We pay a licensing fee to Meridith for the use of the Better Homes and Gardens® Real Estate brand name equal to 9.0% of the net royalties earned by our Real Estate Franchise Services Segment, subject to a minimum annual licensing fee.

Each of our brands has a consumer website that offers real estate listings, contacts and services. Century21.com, coldwellbanker.com, coldwellbankercommercial.com, sothebysrealty.com, era.com and bhgrealestate.com are the official websites for the Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, Sotheby's International Realty®, ERA® and Better Homes and Gardens® Real Estate franchise systems, respectively. The contents of these websites are not incorporated by reference herein or otherwise a part of this Annual Report.

Company Owned Real Estate Brokerage Services

Through our subsidiary, NRT, we own and operate a full-service real estate brokerage business in more than 50 of the 100 largest metropolitan areas in the U.S. Our company owned real estate brokerage business operates under the Coldwell Banker® and Sotheby's International Realty® franchised brands as well as proprietary brands that we own, but do not currently franchise, such as Corcoran®, ZipRealty® and Citi Habitats℠. As of December 31, 2016, we had approximately 790 company owned brokerage offices, approximately 5,200 employees and approximately 47,500 independent sales associates working with these company owned offices.

Our company owned real estate brokerage business derives revenue primarily from gross commission income received serving as the broker at the closing of real estate transactions. For the year ended December 31, 2016, our average homesale broker commission rate was 2.46% which represents the average commission rate earned on either the "buy" side or the "sell" side of a homesale transaction. Gross commission income is also earned on non-sale transactions such as home rentals. NRT, as a franchisee of RFG, pays a royalty fee of 6% per transaction to RFG from the commission earned on a real estate transaction. The following chart illustrates the key drivers for revenue earned by NRT:



In addition, as a full-service real estate brokerage company, we promote the complementary services of our relocation and title and settlement services businesses, as well as PHH Home Loans. We believe we provide integrated services that enhance the customer experience.

When we assist the seller in a real estate transaction, independent sales associates generally provide the seller with a full-service marketing program, which may include developing a direct marketing plan for the property, assisting the seller in pricing the property and preparing it for sale, listing it on multiple listing services, advertising the property (including on websites), showing the property to prospective buyers, assisting the seller in sale negotiations, and assisting the seller in preparing for closing the transaction. When we assist the buyer in a real estate transaction, independent sales associates generally help the buyer in locating specific properties that meet the buyer's personal and financial specifications, show properties to the buyer, assist the buyer in negotiating (where permissible) and preparing for closing the transaction.

At December 31, 2016, we operated approximately 90% of our offices under the Coldwell Banker® brand name, 5% of our offices under the Sotheby's International Realty® brand name and 5% of our offices under the Corcoran®, Citi Habitats℠ and ZipRealty® brand names combined. Our offices are geographically diverse with a strong presence in the east and west coast areas, where home prices are generally higher. We operate our Coldwell Banker® offices in numerous regions throughout the U.S., our Sotheby's International Realty® offices in several regions throughout the U.S, and Corcoran® offices in New York City, the Hamptons (New York), and Palm Beach, Florida.

We intend to grow our business both organically and through strategic acquisitions. To grow organically, we will focus on working with office managers to attract, retain and effectively coordinate with independent sales associates who can successfully engage and promote transactions from new and existing clients. To complement our residential brokerage services, NRT offers home ownership services that include comprehensive single-family residential property management in many of the nation's largest rental markets.

We are continuously evaluating acquisitions that will allow us to enter into new markets and to profitably expand our existing markets through "tuck-in" acquisitions. Following the completion of an acquisition, we tend to consolidate the newly acquired operations with our existing operations. By consolidating operations, we reduce or eliminate duplicative costs, such as advertising, rent and administrative support. By utilizing our existing infrastructure to coordinate with a broader network of independent sales associates and revenue base, we can enhance the profitability of our operations. We also seek to enhance the profitability of newly acquired operations by strategies that increase the productivity of the newly affiliated independent sales associates. We offer these independent sales associates supplemental tools and marketing information that are often unavailable at smaller firms, such as access to sophisticated information technology and ongoing technical support, increased brand advertising and brand marketing support, relocation referrals, and a wide offering of brokerage-related services.

Our real estate brokerage business has a contract with Cartus under which the brokerage business provides brokerage services to relocating employees of the clients of Cartus. When receiving a referral from Cartus, our brokerage business seeks to assist the relocating employee in completing a homesale or home purchase. Upon completion of a homesale or home purchase, our brokerage business receives a commission on the purchase or sale of the property and is obligated to pay Cartus a portion of such commission as a referral fee. We believe that these fees are comparable to the fees charged by other relocation companies.

PHH Home Loans, our home mortgage venture with PHH, a publicly traded company, has a 50-year term, subject to earlier termination. We own 49.9% of the home mortgage venture and PHH owns the remaining 50.1%. All mortgage loans originated by the venture are sold to PHH or other third-party investors after a hold period, and PHH Home Loans does not hold any mortgage loans for investment purposes or perform servicing functions for any loans it originates. Accordingly, we have no mortgage servicing rights asset risk. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Recent Developments" for information regarding the formation of our new mortgage origination joint venture.

Relocation Services

Through our subsidiary, Cartus, we are a leading global provider of outsourced employee relocation services. We primarily offer corporate clients employee relocation services, such as:

- homesale assistance, including:
    - the valuation, inspection, purchasing and selling of a transferee's home;
    - the issuance of home equity advances to transferees permitting them to purchase a new home before selling their current home (these advances are generally guaranteed by the client);
    - certain home management services;
    - assistance in locating a new home; and
    - closing on the sale of the old home, generally at the instruction of the client;
- expense processing, relocation policy counseling, relocation-related accounting, including international assignment compensation services, and other consulting services;
- arranging household goods moving services, approximately 64,000 domestic and international shipments in 2016, and providing support for all aspects of moving a transferee's household goods, including the handling of insurance and claim assistance, invoice auditing and quality control;
- coordinating visa and immigration support, intercultural and language training, and expatriation/repatriation counseling and destination services; and
- group move management services providing coordination for moves involving a large number of transferees to or from a specific regional area over a short period of time.

The wide range of our services allows our Cartus clients to outsource their entire relocation programs to us.

In 2016, we assisted in approximately 163,000 corporate and affinity relocations in nearly 150 countries for approximately 800 active clients, including 56% of the Fortune 50 companies as well as affinity organizations. Cartus has

operations in the U.S. and internationally in the United Kingdom, Canada, Hong Kong, Singapore, China, India, Brazil, Germany, France, Switzerland and the Netherlands.

Substantially all homesale service transactions for clients are classified as "no risk." Under "no risk" business, the client is responsible for reimbursement of all direct expenses associated with the homesale. Such expenses include, but are not limited to, appraisal, inspection and real estate brokerage commissions. The client also bears the risk of loss on the resale of the transferee's home. Clients are responsible for reimbursement of all other direct costs associated with the relocation including, but not limited to, costs to move household goods, mortgage origination points, temporary living and travel expenses. Generally, we fund the direct expenses associated with the homesale as well as those associated with the relocation on behalf of the client and the client then reimburses us for these costs plus interest charges on the advanced funds. This limits our exposure on "no risk" homesale services to the credit risk of our clients rather than to the potential fluctuations in the real estate market or to the creditworthiness of the individual transferring employee. Historically, due to the credit quality of our clients, we have had minimal losses with respect to these "no risk" homesale services.

The "at risk" business that we conduct is minimal. In "at risk" homesale service transactions, we acquire the home being sold by relocating employees, incur the cost for all direct expenses (acquisition, carrying and selling costs) associated with the homesale and bear any loss on the sale of the home.

Substantially all of our contracts with our relocation clients are terminable at any time at the option of the client and are non-exclusive. If a client terminates its contract, we will be compensated for all services performed up to the time of termination and reimbursed for all expenses incurred to the time of termination.

There are a number of different revenue streams associated with relocation services. We earn referral commissions primarily from real estate brokers and household goods moving companies that provide services to the transferee. Clients may also pay transactional fees for the services performed. We also earn net interest income which represents interest earned from clients on the funds we advance on behalf of the transferring employee net of costs associated with the securitization obligations used to finance these payments. Cartus measures operating performance based on initiations, which represent the total number of transferees and affinity members we serve, and referrals, which represent the number of referrals from which we earn revenue from real estate brokers.

About 15% of our relocation revenue in 2016 was derived from our affinity services, which provides real estate services, including home buying and selling assistance, as well as mortgage assistance to organizations such as insurance companies and credit unions that have established members who are buying or selling a home. Often these organizations offer our affinity services to their members at no cost and, where permitted, provide their members with a financial incentive for using these services. These member benefits and services help the organizations attract new members and retain current members.

We also manage the Cartus Broker Network, which is a network of real estate brokers consisting of our company owned brokerage operations, select franchisees and independent real estate brokers who have been approved to become members. Cartus requires experienced brokers and independent sales associates and obtains background checks on all members of the network. Member brokers of the Cartus Broker Network receive referrals from our relocation services, affinity business and each other in exchange for a referral fee. The Cartus Broker Network closed approximately 79,000 real estate transactions in 2016 related to relocation, affinity, and broker-to-broker activity.

The following chart illustrates the key drivers for revenue generated by Cartus:

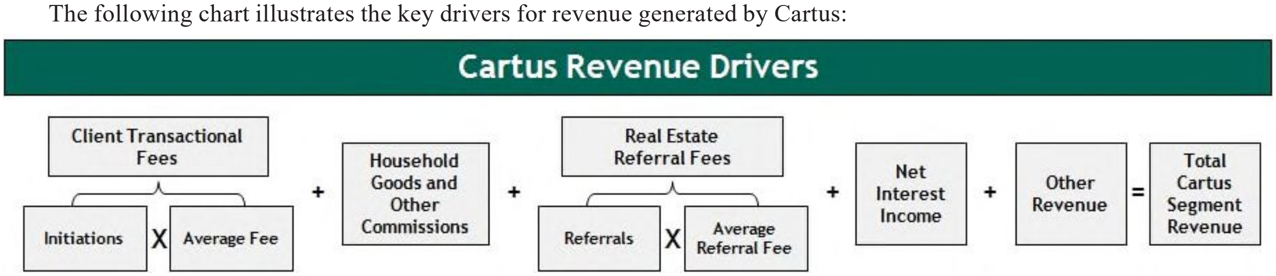


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Exhibit M

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 001-35674	**Commission File No. 333-148153**
REALOGY HOLDINGS CORP.	**REALOGY GROUP LLC**
(Exact name of registrant as specified in its charter)	*(Exact name of registrant as specified in its charter)*
20-8050955	**20-4381990**
(I.R.S. Employer Identification Number)	*(I.R.S. Employer Identification Number)*

Delaware
(State or other jurisdiction of incorporation or organization)
175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark whether the Registrants have submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit such files).

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies, or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
Realogy Holdings Corp.	☑	☐	☐	☐	☐
Realogy Group LLC	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).

Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☐ No ☑

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Realogy Holdings Corp.	Common Stock, par value $0.01 per share	RLGY	New York Stock Exchange
Realogy Group LLC	None	None	None

There were 114,213,121 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of April 30, 2019.

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INTRODUCTORY NOTE

Except as otherwise indicated or unless the context otherwise requires, the terms "we," "us," "our," "our company," "Realogy," "Realogy Holdings" and the "Company" refer to Realogy Holdings Corp., a Delaware corporation, and its consolidated subsidiaries, including Realogy Intermediate Holdings LLC, a Delaware limited liability company ("Realogy Intermediate"), and Realogy Group LLC, a Delaware limited liability company ("Realogy Group"). Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

Realogy Holdings is not a party to the Amended and Restated Credit Agreement dated as of March 5, 2013, as amended, amended and restated, modified or supplemented from time to time (the "Senior Secured Credit Agreement") that governs our senior secured credit facility (the "Senior Secured Credit Facility", which includes our "Revolving Credit Facility" and our "Term Loan B") and the Term Loan A Agreement dated as of October 23, 2015, as amended from time to time (the "Term Loan A Agreement") that governs our senior secured term loan A credit facility (the "Term Loan A Facility") and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the Senior Secured Credit Facility and Term Loan A Facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

As used in this Quarterly Report on Form 10-Q, the terms "5.25% Senior Notes", "4.875% Senior Notes" and "9.375% Senior Notes" refer to our 5.25% Senior Notes due 2021, our 4.875% Senior Notes due 2023, and our 9.375% Senior Notes due 2027, respectively, and are referred to collectively as the "Unsecured Notes." The term "4.50% Senior Notes" refers to our 4.50% Senior Notes due 2019 (paid in full in February 2019).

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "believe," "expect," "anticipate," "intend," "project," "estimate," "plan," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts.

In particular, information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished.

The following include some, but not all, of the factors that could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- adverse developments or the absence of sustained improvement in general business, economic or political conditions or the U.S. residential real estate markets, either regionally or nationally, including but not limited to:
  - a decline or a lack of improvement in the number of homesales;
  - stagnant or declining home prices;
  - a reduction in the affordability of housing;
  - increasing mortgage rates and/or constraints on the availability of mortgage financing;
  - insufficient or excessive home inventory levels by market and price point;
  - a lack of improvement or deceleration in the building of new housing and/or irregular timing or volume of new development closings;
  - the potential negative impact of certain provisions of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) on (i) home values over time in states with high property, sales and state and local income taxes and (ii)

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homeownership rates; and/or
  - the impact of recessions, slow economic growth, or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate whether broadly or by geography and price segments;
- increased competition in the industry and for the affiliation of independent sales agents, including through:
  - competing real estate brokerages, including those seeking to disrupt historic real estate brokerage models;
  - competitors seeking to eliminate brokers or agents from, or minimize the role they play in, the homesale transaction; and
  - other industry participants otherwise competing for a portion of gross commission income;
- continuing pressure on the share of gross commission income paid by our company owned brokerages and affiliated franchisees to affiliated independent sales agents and independent sales agent teams;
- our inability to successfully develop or procure technology that supports our strategy to grow the base of independent sales agents at our company owned and franchisee real estate brokerages;
- our geographic and high-end market concentration, including the heightened competition for independent sales agents in those geographies and price points;
- our inability to enter into franchise agreements with new franchisees or renew existing franchise agreements at current contractual royalty rates without increasing the amount and prevalence of sales incentives;
- the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations or declines in other revenue streams, such as third-party listing fees;
- the loss of a significant affinity client or multiple significant relocation clients or changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits and/or increasing competition in corporate relocation;
- an increase in the experienced claims losses of our title underwriter;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes or stricter interpretations of any of the foregoing (whether through private litigation or governmental action), including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales agents to employee status, (2) privacy

or data security laws and regulations, (3) RESPA or other federal or state consumer protection or similar laws and (4) antitrust laws and regulations;

- risks relating to our ability to return capital to stockholders including, among other risks, the restrictions contained in our debt agreements, in particular the indenture governing the 9.375% Senior Notes;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt and risks relating to our ability to refinance or repay our indebtedness or incur additional indebtedness; and
- risks and growing costs related to both cybersecurity threats to our data and customer, franchisee, employee and independent sales agent data, as well as those related to our compliance with the growing number of laws, regulations and other requirements related to the protection of personal information.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"), particularly under the captions "Forward-Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

All forward-looking statements herein speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. For any forward-looking statement contained in this report, our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Realogy Holdings Corp.

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Holdings Corp. and its subsidiaries (the "Company") as of March 31, 2019, and the related condensed consolidated statements of operations, comprehensive loss and cash flows for the three-month periods ended March 31, 2019 and 2018, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2018, and the related consolidated statements of operations, comprehensive income, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 26, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet information as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Pages Omitted From Excerpt

Exhibit N

S&P Global
Market Intelligence

Realogy Holdings Corp. NYSE:RLGY

Company Conference Presentation

Thursday, May 30, 2019 6:40 PM GMT

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Call Participants

EXECUTIVES

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Ryan M. Schneider
CEO, President & Director

ANALYSTS

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Unknown Analyst

Presentation

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, guys. Let me go ahead and get started here. Next up we have Realogy. Realogy is the largest residential real estate broker in the U.S., involved with approximately 16% of existing home sale transaction volume. The company has both company-owned brokerages through its NRT segment and a real estate franchise group, or RFG, as well as relocation and title and settlement services. You've surely seen some of their brands, including CENTURY 21, Coldwell Banker, ERA and Better Homes and Gardens.

Now joining us from Realogy today is Ryan Schneider to my left, CEO and President; and next to him is Charlotte Simonelli, CFO. Thanks for joining us, guys.

Ryan M. Schneider
*CEO, President & Director*Great to be here, Tommy.

Question and Answer

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Now Ryan, I actually want to start with you. You actually recently made a large purchase of Realogy stock, and I want to get kind of the reaction from you in terms of what was the reason for that vote of confidence. And what do you think the equity markets have wrong about Realogy at this time?

Ryan M. Schneider
CEO, President & Director

Well, Tommy, I really appreciate the question. I think Realogy is a very good company and a very interesting industry that's got a lot of change potential in it. And we did our Q1 call, and the equity market reaction of the call was definitely more severe than I had predicted going in. And when I talked to people who do your job and I talked to close to a double-digit number, almost to a person, they all thought the reaction was much more severe than they had expected, given the guidance we'd already given about Q1 volumes and Q1 earnings and stuff like that.

And so a day or 2 after the call, when I tried to just step back and actually just look at the underlying fundamentals of the company from like a free cash flow and a yield perspective and tried to contrast that with our view of the future and -- that we talked about on the call and what people must be assuming, I just felt there must be some disconnect going on there. And I thought that given where the price was that it was a good decision for me and my family. And so went ahead and pulled the trigger on it, both because I believed in a lot of the good things that we're doing, some of which have, some of which have not yet shown up in our results, but also because I thought the future valuation of the company and the fundamentals of it may be stronger than some people think. So I feel good.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

That's interesting. Now you closed the first quarter call with kind of a big-picture focus on reinventing the transaction process and you guys are calling it the Fast Track. And obviously, it's still early in that process, but can you kind of give us a sense of sort of what that entails? What efforts are currently underway? And I guess longer term, what are the changes to the industry from that?

Ryan M. Schneider
CEO, President & Director

Sure. If I step back a notch, Tommy, the residential real estate industry and the transaction experience has got a lot of opportunities. It's still done today the way it was done years and years and years ago. And the amount of technology and data innovation in this industry has been a lot less than in a lot of other industries. And in fact, when you look at a lot of the "disruption" in our industry, you can actually see a bunch of financial disruption that people are trying to do, but you don't actually see that much disruption that's making the consumer experience better or changing the agent and franchise experience.

And so a lot of the things that we're trying to do using kind of our industry-leading scale not just in agents and brands, but in technology and data is find what are the things we could do differently to help our agents and franchisees be more productive or efficient with tech and data and/or what can we do to help change that consumer experience.

So Fast Track is an example of something we announced to about 10,000 of our agents and franchisees in March. And the concept which we're piloting starting in June is today, the average kind of home takes about 70 days to close effectively. And we have a title business, we have a mortgage business, a lot of people talk about making money from those things, we already do. But we envision that we could actually do a bunch of the prework on both title and mortgage on a listing we have so that when the buyer is there, that person could step in to a bunch of post-contract work already being done. And we envision, "Hey, let's take that 70-day thing and try to shorten it to 1 week or 2 weeks or 3 weeks to help the seller get their money faster and get the deal closed quicker, to help the buyer get this thing closed quicker." And that's one of like 5 examples of the type of thing we can and should be doing with our size and scale to try to make a better customer experience or make a better agent and franchisee experience.

At the same conference, we announced a partnership thing and we had Facebook on stage with us, where us and Facebook and an AI company together are actually doing a new marketing campaign approach that leverages all 3 of our strengths to provide higher-quality leads to our agents than they get through most of the massive lead-generation channels that are out there. And so bringing AI into this industry is something that's important for us, we think, in the future.

And so there is a whole theme of transformation potential in this industry, but there is no reason Realogy with its scale, cash flow, ability to invest and massive amounts of data shouldn't be a bigger player in. And we're now starting to articulate some of those examples, and even in the example of Facebook and OJO case, delivering those examples to our agents and franchisees. So we're excited about it, it's part of what we think the future of this industry needs to be, and we think we've got a real role to play in driving that change.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Is this something that's unique to Realogy in a sense that you guys have TRG and you have the partnership with Home Partners of America? Is that what makes the unique network...

Ryan M. Schneider
CEO, President & Director

I think a number of the things that we're doing are actually unique to Realogy sometimes because of the businesses we have. A lot of people talk about making money in the title business, we already have a title business that's national and we make money in it. So that's a bit of a head start. But the other advantage that we've got is we are actually truly a national player, both in our own business and with our franchise network. And so when someone wants to do something nationally, which is what a lot of partners want to do, we're one of the few companies in this industry that can legitimately deliver their product nationally.

And so we think we've got some different kind of advantages that we haven't fully leveraged yet in the world but that are out there to be leveraged. And some of that will be in lead generation, some of that will be in technology products, some of that could be in things like a better customer transaction experience, and we want to do more on that. And we think we've got some advantages against the competition on that.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And that's a pilot program that you said you're going to roll out in June sometime...

Ryan M. Schneider
CEO, President & Director

Yes, yes. We're doing our first lot in June on that specific one. And like the Facebook, OJO kind of AI-driven Facebook marketing thing, that's already live. We had thousands of agents signed up for it in March when we first launched it at our conference and thousands more have kind of connected with the program already since then. So we need to put more of these in the market, these are all part of what you need to be doing to make your agent more productive, efficient, that helps drive volume, that helps drive agent retention, agent recruiting. And in a world where there is a lot of competition, that's an increasingly important thing. We are a big company, but I feel like we're a diesel engine kind of building momentum with these things and we look forward to getting up to a very fast speed.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

That's great. Yes, I'm sure, we'll look to get more color on that pilot program come the 2Q call. I want to switch over to some of the cost initiatives that you guys have mentioned. Now Charlotte, you guys are targeting about $70 million in cost saves in 2019. Now how much of that is done so far and how much remains? And then also you talked about how there's potential for the $70 million to kind of be a full number and there would be more beyond that. So could you walk through how you're identifying those kind of coming in with a new set of eyes?

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Sure. Thanks for the questions. So what I can tell you is we're trending ahead of the time elapsed. So of the $70 million, we're slightly ahead of where we should be at this point in the year, which is great. The types of savings that we're getting are coming from a few areas. So our storefronts are a big expense for us, such as basically our brokerage offices. We also have other back-office costs to support those storefronts. And those are the predominant areas that we're getting savings from this year. There's a little bit of procurement, a little bit on the marketing side, but predominantly, it's more the storefronts and the back-office costs.

As far as being new coming in, my background is in consumer packaged goods. And just visually, you can see the difference of how this business is run versus how consumer packaged goods companies are run. And some of the things that were low-hanging fruit to them 20 years ago have not yet happened in this industry, so -- and specifically at Realogy.

So to me, it feels like there is any number of opportunities, you just have to prioritize the ones that are going to have the biggest return, both from a cost-savings perspective but also delivering like a better value proposition to the agents. With -- when you apply automation, technology, they're going to get their commissions faster, there's things that will be doubly beneficial because they'll be happier but we're also going to save money in the process. So I feel good about the $70 million, I feel good about what's next. We'll get some of that probably this year and then more to come in 2020 and beyond.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

It's still early but any sense of given some of the -- any sort of dollar range on how the magnitude of where that kind of above $70 million could go?

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Yes. Internally, we're still working to align on timing and things, so I don't want to put the cart before the horse. But it's not a small number, it's just how do we phase it in.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And you mentioned, so some of these cost cuts are things that they did in other industries 20 years ago and now they are finally catching up. So is it just a matter of Realogy hasn't gotten around to doing them yet? Or what's unique about these opportunities?

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Yes. That's a good question. So let's talk about procurement. For example, in consumer packaged goods, we would have leveraged your scale to consolidate your vendor base and then have better pricing. You actually improve your working capital because usually, you can get slightly longer terms with them as well. I don't know if it's because of the fragmentation of the industry or how this business was built through acquisition, those are usually some reasons why people wouldn't have gone to that in the past. You just have to sort of then put your foot down and say, "We're all going to do things in a more common way and then leverage our scale." That's a big piece of it.

I think also on the back office side of things, same thing, so you have multiple different systems and how businesses operate. That way, it's very inefficient and then you have multiple people that have to do the same work. If you can strive for sort of simplification on the back office as well, that can be a huge saving. So that's still an area of opportunity.

Ryan M. Schneider
CEO, President & Director

Tommy, I'll give you a real one that I saw last year so you know about. I come out of the financial service industry in about, I would say, 4 or 5 years ago. And the part that I worked in, we started using robotics process automation to take a lot of very high-volume tasks and get the humans out of them and actually effectively build the box that could actually do them, including the system checks and going out and getting data and fill it in forms, et cetera. And yesterday, I saw the launch of our first robotics process automation thing at Realogy, where one of our big processes in our title business that requires 9 different checks both of internal systems in our core title processing system but requires you to go outside the company and do an OFAC check, requires you to go to local geographies and make a request for information and then generate letters, that yet has been done manually both at Realogy and I believe in the industry for years.

We've actually recently now built and now launched, and it's now live, it's 100% robotic process automation, it can run 24/7. We have the, obviously, the quality checks and everything behind it, but it all runs on an automated basis now. And that's one process out of a large number of processes that exist in our industry. But actually taking those on, both to make life better for the agents and the franchisees we work with that we can help them, but also making our own company more efficient on those kind of things is, to me, a nice example of something that was 20 years ago but in some industries was 3 or 4 years ago that partly because of the fragmentation, partly because there aren't as many big companies and this industry hasn't made the way to it in the way that it has in say big financial services companies.

And so I got to see that yesterday live and in production and it really excited me to know that we could do something like that because if we can do it once, then we can do it 100 times. It's doing it the first time is when you got to prove you can do something as a company. And that's going to be one of the big keys, I think, to what we do beyond the things we've talked about publicly from a efficiency standpoint.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Now the challenge is when you do these initiatives sort of balancing them with reinvesting back in the business is one thing, but it sounds like some of these are more about just doing things smarter necessarily than taking them out.

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Yes. I see it more like the savings will be an opportunity to spend then more on reinvesting if it comes down to technology and things. So that part of it will drop to the bottom line for sure, but then also on top of that, we can just reallocate spending that we do today because we're spending less like licenses across multiple systems. If you have less systems, you have less licenses, just redirecting sort of today's spend is both.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Because from an agent's perspective, reinvesting back into the business is very important and from the retention and the recruiting standpoint.

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Yes. And that's another space actually, it's on sort of marketing and marketing mix analysis and just trying to drive more ROI for the spend that we have in that space. Again, other industries, I think, are a little bit more sophisticated than this. And so I think there's even further opportunity. You may not spend less but you'd have a better ROI driving sort of better top line.

Ryan M. Schneider
CEO, President & Director

But I don't have, Tommy, any examples of where we're trying to take something away from our agents or franchisees to save us money. I mean our opportunity to be more efficient as a company is actually so we can do more for our agents and franchisees either by us being a little bit faster because we operate as a more automated, more efficient company, or to free up money that we can reinvest in our agents as we've been doing in both 2018 and 2019 as well as our franchisees.

So when we talk about some of the cost efforts that Charlotte described in our last call, we often use the words explicitly non-agent facing because a lot of it is about us as a company and staying focused on making our agents and franchisees successful is an important thing.

And so even some of the office work that we're doing to change our office footprint over time is about creating better, more modern, more kind of attractive offices for our agents. Sometimes that means we take 2 offices and we consolidate to 1 that's even a much better office but maybe half a square foot or the other 2 combined, et cetera, et cetera. But we keep that agent- and franchise-first mindset when we're trying to be more efficient so we can put more money into supporting them.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And so it all does come back down to the agents, and that sort of takes me to the next topic, it's obviously a key point, the level of competition in the space. In terms of -- I just want to get your general views on the competitive pressures and what you're seeing competitors do from the recruiting front. Is it a matter of simply trying to lure agents through generous splits and financial incentives? Or what else are they offering?

Ryan M. Schneider

CEO, President & Director

Well, everybody's got a different value proposition out there, right? We have a different one than some other people have. And at the end of the day, I think agents go with what's best for their business. Sometimes an over-the-top financial offer can kind of trump everything. But I think they also care about the value proposition and do they want to be -- have a lot of support, do they want to be more of an independent operator. So there's always a lot of choices out there and there have been a lot of choices for years. It is a very competitive environment out there. And part of that is we've been in the low-inventory world for a while, so there just have been fewer listings out there for people. So the agents who have them are increasingly valuable. A part of it also is some of the disruptive stuff we talked about, and again, the amount of technology disruption in this industry, which is what's changing most of the world, is actually not very large in my personal view. And there's a real opportunity there.

There is some financial disruption going on that can show up in really aggressive agent recruiting and that's out there in the world, and we just deal with it and got to stay focused on trying to drive our results to be better. But the more good things we can all do for our agents to make them more productive or efficient, the more likely they are to want to be as part of our team. But you can't ignore any of the competitive trends that you talked about.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And you mentioned on the first quarter call that there were really 4 MSAs where things got ultra competitive. Can you talk about specifically what's happening in those markets?

Ryan M. Schneider
CEO, President & Director

Yes. I mean those 4 -- the 4 markets I talked about on the call, I would just say that the competition for agents from a recruiting standpoint and a financial offer standpoint went to a zip code that was even more intense than I thought than it had been earlier in 2018 in a way that I didn't even think could get any higher. And so sometimes, you're faced with a choice in life of do you want to lose money to hold on to market share or are you going to kind of stay focused on your bottom line choices and occasionally that means you have a little bit of market share violence or somebody's going to leave you.

There are some industries where I think losing money temporarily can be the right thing for the long term. In this industry, given agent mobility, it is hard I think to make you an offer, Tommy, that has you losing money for 3 or 4 years under the theory I'm going to make it back from you in years 5, 6, 7 and 8. And so I don't make that choice. And in a few of these markets, the competition has got to such a point where it did actually show up in a negative way in our results and we just try to be transparent about it. And so we'll have to compete and deal with it, but I want you to know the choices that we are and aren't making.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And you mentioned agent mobility, has that sort of changed over the years? Or is that kind of a new...

Ryan M. Schneider
CEO, President & Director

It's not as funny. If you contrast our franchise business and our owned business, they are so polar opposites, and we love our children equally. But the franchise business, in general, is just -- it has been and is and I predict will -- in general, it's just incredibly stable. And it's incredibly stable because you've got 10-year contracts, you're providing a brand, technology, marketing, lead generation, you're providing things that are valuable and are not free to replace. And so there is a stickiness there between those 2 things that actually leads to a good amount of stability in your individual franchisee relationships, where -- and so there's a steadiness there that I think we all benefit from if you are in the franchise business.

When you are in the owned brokerage business, which we also are, we lead the market in both, it's much more of a volatile business because the agent is a free agent, right? And the stickiness of the agent is not something that you can -- you have in the same way you have with the franchise side. And it's always been that way. Competition for agents kind of, I think, ebbs and flows depending on how good the housing market is, how good inventory is, what the financial situation of different companies are, but those 2 businesses have just pretty different dynamics around that.

And so we've got to be focused on supporting our agents every single day because in the owned business, they are truly free agents for the whole industry. And that's partly why if I want to lose money on you for the next 4 years as an agent, I can't guarantee I'm going to get it back in years 5 through 8 because there's no guarantee you're going to be with me in years 5 through 8, no matter what I did in year 1 to 4, because we get to reset our relationship every single day.

So it's a very interesting contrast and it leads to some of the volatility both in good times and bad times. In the weaker housing market we've had recently, you've seen the volatility on the downward side in our owned brokerage business. But if you go back years and look at our results, there were years where there was real upside in the owned business because of the housing market, for example. And you didn't get as much upside in the franchise business, it's the steady thing versus the volatile thing.

But it does come back to that agent relationship, which is why a lot of what we do with both agents and franchisees is just try to be maniacal on how do we deliver the most value in both price and the product that we provide them on a kind of holistic basis. And you got to earn that every day. And you can't take the franchise thing for granted, they just gave a 10-year contract. You got to earn that one every day too because you want to renew, you want to have those big, long-term relationships, and that's typically what happens with us.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. You mentioned the stability of the franchise business, and I think that's something that investors really do place a premium on. Now in 1Q, the RFGs transaction volume underperformed NAR a little bit and some of that was due to the overweight in California similar to NRT, and then there was also a decline in the net effective royalty rate. So could you guys help us think about the future of kind of the RFG franchise and that rate in particular?

Ryan M. Schneider
CEO, President & Director

Yes. We like the future. We don't see a lot of difference in the rate. We look at the health of our franchisees on a lot of metrics, including like days sales outstanding kind of things and their -- and the zip code we like them to be. The big thing on the NAR, there's I think 2 things I'll probably to say on that. One is, that metric has been trending down 1 basis point or 2 a year, kind of year-over-year, and we fully expect that kind of trend to continue. And part of that is just the phenomenon with all the pressure in the industry, there is real consolidation happening among our franchisees.

And we're in a real estate market, brokerage market where the top 10 players on an owned basis only have 15% of the market. This is an incredibly unconsolidated industry. We used to have 3,000 franchisees, we now have 2,500 and the lion's share of that is stronger franchisees absorbing other franchisees. Now what that does do is it makes those bigger franchisees have a lower net effective royalty rate because as you get bigger, you move down our royalty tables, you get bigger rebates. So our top 250 used to be 57% or 58% of our business. That's now our top 250 is 66% so that's been driving it down.

We're going to have about 3 extra basis points of net effective royalty rate pressure down this year beyond that phenomenon because we're in the midst of changing our Better Homes and Gardens model from a traditional 6% headline price, franchise fee, 2% around marketing fund contribution to actually what looks more like a capped fee model. Because it's funny, we go to market with multiple franchise brands and they all have that same price structure. We actually don't have a brand that competes with the capped fee franchise models that are out there.

So last year, we actually experimented with some Better Homes and Gardens companies, implemented that. We liked the growth that we got from that, incremental growth both in franchise sales and in new agents. And so we're going to -- we were actually, and this is all public because we filed the FDDs, we're making that change for our Better Homes and Gardens network over the next couple of years. And that's going to put 3 points pressure downward on NAR this year, which we hope to, obviously, make up with the growth in that business because now we've got an offering to target franchisees who want a capped fee model. And so that will be a little bit of a one-off on terms of it, but the biggest thing is the increasing consolidation has been driving the net effective royalty rate down a point or 2 a year on a year-over-year basis.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And there's no signs of that consolidation flowing? Is that something that's continuing? Obviously...

Ryan M. Schneider
CEO, President & Director

I haven't seen any signs of it slowing. And that march from 58% to 66% of our top 250, it's been a pretty steady march to that. And so I can't predict the future on it, but it's been a pretty steady kind of phenomenon, which is why the kind of year-over-year net effective royalty rate declines have been relatively steady when you look back over time.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And now I want to switch gears into, looking out, obviously, you guys have a nice peek into the spring selling season and how that's going. So any trends that you've seen in April or May that you can share?

Ryan M. Schneider
CEO, President & Director

So April was definitely better than March in Q1. So we like that, that was good and the opens in April were good. We talked about that a little bit before. California is a big focus. We're pretty heavily weighted to California, especially in our owned businesses. It's over 25% of our revenue, but our franchise business is also overweighted there. I spoke to the California Association of Realtors' President last week and he was a little disappointed by the April results for California. He thinks May was going to be better than April and I like hearing that obviously, given our exposure there. But we'll kind of have a better view of the May data here in 4 or 5 days, we did just have some of the biggest closing days of the year. So like last Friday was one of the biggest closing days in the kind of selling season, the Friday before Memorial Day weekend. And that data is kind of still trickling in.

So we still think we're on the trend of both the market improving in terms of volume and our volume improving. We still think we'll be negative year-over-year in Q2, but less than Q1 and the California thing will be a big piece of that. But we like the improving trends we see, we like the lower mortgage rates. We're not ready to -- we don't really try to forecast the industry per se, so we're not ready to pound the table and declare an awesome year for housing but we sure like the trajectory compared to the last 7 or 9 months that we've dealt with.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

And still sticking with the second half of '19 reboundings and showing some growth then?

Ryan M. Schneider
CEO, President & Director

Yes. Absolutely, we think that's definitely true on the market and for us, even if we have some of the headwinds that we saw in Q1. That's kind of our general belief still. And so both because of the market, but also because a number of the things that I talked about to you that we were trying to accomplish out in the world will actually be national by the second half of the year. So we have different things whether they are commission plans, new products that are having positive either ABCR or volume effects for us in certain markets, that today are -- only cover a piece of the country. The majority of those things will then be fully covering the country in the second half of the year.

So we hope to get some Realogy upside on those things. You've got to wait and see what actually comes in and whatever headwinds you have to deal with. But we are more optimistic on the housing market second half of the year and we're more optimistic on us second half of the year compared to the first half. And we try to be consistent with that in our public statements up to this point.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then just last one for me and then I'll open it up to the audience. Last week, the Justice Department, it was announced that they opened an investigative probe looking at compensation of brokers and restrictions to accessed listings. And that came on the heels of some class-action lawsuits filed over the past couple of months against NAR and some of its members. And this seems like a similar story that we've seen in prior years and the industry has been able to really successfully defend itself. Is there anything different about this probe and this investigation? And how do you expect it to play out?

Ryan M. Schneider
CEO, President & Director

Look, there's no -- nothing good for either of us comes from commenting on legal matters beyond basically saying we don't think the class actions have merit. We filed the motion to dismiss along with our corporate -- other corporate defendants, that motion is public, everyone can look at it. And if you look into the new paper, even the plaintiff's lawyer said this will take 5 to 10 years to play out. So we feel good about our position, you can look to NAR for a number of statements they have made that address the question that you're asking. And we'll let our legal filings kind of speak for ourselves on that.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Are there any questions out there? Yes. Go ahead. Awesome. Yes.

Unknown Analyst

Is there any mic or anything?

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

I'll repeat it.

Unknown Analyst

Okay. Just on the U.S. agreement that's been focused and the buybacks [indiscernible] a little bit [indiscernible]. Can you just comment where you are leverage-wise? I guess a little bit color on that.

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Sure, so the Q1 leverage was at 5.2, which was slightly higher. It is our smallest quarter seasonality-wise, and so lowest cash flow generation. What we've said is we're targeting to be at about a 4x leverage and so we're going to work on that towards the balance of this year and then to next year.

Unknown Analyst

And will that come through -- so the buyback coming to production this past quarter...

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

We won't be doing any buybacks for the rest of this year.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. And you had that -- communicated that previously.

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

Yes.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. Any else? Okay. And then just I guess last one, you guys have started to introduce some fee-based products for agents. Now how should we think about the impact on the top line? And then I guess the margin impact, there is a still very kind of a small piece of the story right now.

Charlotte C. Simonelli
Executive VP, CFO & Treasurer

So what happened in the first quarter is on a like-for-like basis, we had a split impact of a negative 80 basis points, which was normalized to 45 basis points because of this fee. It's a big delta between 80 and 45, that's also driven by the fact that Q1 is such a small quarter. And so when you get out broader into the larger quarters, the delta between that is much smaller. And materiality-wise, we've had seen in the past these are some more fees, they are not largely material to our business. But the impact was larger in the first quarter because of the fact that Q1 is so small.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Yes, one more.

Unknown Analyst

I have a question. My dad was a real estate agent at CENTURY 21 back in the '90s, early '90s [indiscernible]. And back then in my hometown, they would do national as well as local advertising. So when it comes to your real estate agent, then you go into those malls where the office were. Today, you don't need to do that because [indiscernible]. So is there even a sense of having -- maybe it's your business, maybe permanently hurt now because you don't need the brand agency anymore, so split could fall to the [indiscernible] or post [indiscernible].

Ryan M. Schneider
CEO, President & Director

I think there's two different questions and it's a great question. For those on the webcast, the first part of the question I think correctly was given how the marketing has changed in the world, there may be less need for the actual brands that agents affiliate with basically kind of thing. And what does that -- and so do agents still need to be affiliated with brokerage was the second question. So maybe the second question first. I think agents need to be affiliated with a broker by law, but they can always choose to go to a nonbranded one if they want.

On the first question, you're totally right, the marketing that gets done, both by the agents and at the brand level has really shifted from even 10 years ago, right, in the industry. And so I mentioned earlier in our franchise pricing, all of our franchisees pay into a brand marketing fund to market and support the brand. Back when your dad was an agent, to your question, that was billboards in town or national, right? Today, what our franchisees are looking for is actually to use that money more to market the CENTURY 21 brand along with their own brand, right, as well as some national marketing but that national marketing has really moved online off of billboards and things like that. And so I still think the power of brand matters. It doesn't matter for the consumer, it matters just for legitimacy, right?

They know CENTURY 21. Part of the reason they'll trust your dad on the first meeting is he's with a brand they know. But the other is each brand actually has a different identity for its agents basically and offers some different things to it. And so I predict everybody's going to still live in a world of wanting good brands in real estate and even some of the newer companies to the industry are trying to build their brands and invest in making sure people, consumers and agents know their brand.

But to your point, I think the days of kind of billboard marketing about CENTURY 21 or any other brand in the industry are pretty much behind us. It's much more targeted how the -- how you want to brand not just the CENTURY 21 brand, but the franchisees' brand along with that. And in that list of things that we provide franchisees that they value, along with technology and having a brand and lead generation and things like that, the marketing is actually something that if we didn't help drive with the scale that we've got, they probably could not do at the same economics that we can do some of it for them. So it is -- you're totally right, it's changed, but I don't think it means that it's not going to be part of the future in terms of marketing for brands.

Unknown Analyst

You said your scale and the fact you had brands for 30 to 40 since they're not very well known, right?

Ryan M. Schneider
CEO, President & Director

Yes.

Unknown Analyst

If at that scale and that level of mind share, would there be possible on the owned broker business, how are these, the love stars, able to come in? And they clearly thought all of that would be going. But like all [indiscernible]. So...

Ryan M. Schneider
CEO, President & Director

So 2 things there. So we're actually incredibly -- we're actually very, very profitable in the owned business, we make over $300 million in our owned business. Some of that get shows up in our franchise revenue because we charge ourselves a franchise fee.

Unknown Analyst

You should.

Ryan M. Schneider
CEO, President & Director

But our owned business makes a lot of money. And then your assumption that startups are profitable is assumption that if you were in my chair and saw the data that I saw, you would not believe necessarily in our industry. And that's true by the way for public company startups in our industry that you can go look at also if you'd like.

But look, I think everybody needs and will try to build brand. And part of what you can't do as a long-standing brand, whether it's CENTURY 21 or Corcoran here in New York City or something like that, is you actually can't rest on your laurels because someone else will come along and either with better service or their own marketing will diminish the quality of your brand. But you are totally right, the way branding supported this industry when your dad was an agent is totally dead, right?

And so part of it is supporting, helping the franchisee build their brand as much as helping the franchise network build its brand. And those 2 things are increasingly linked and is part of why it's hard actually for franchisees to go -- to leave and go off on their own because then they have to start over building a brand in some ways. So there's a lot in your question, those are 3 or 4 different thoughts and it's a great one.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. I think we're out of time. So I appreciate you guys taking the time.

Ryan M. Schneider
CEO, President & Director

Thank you, Tommy. Thank you, Charlotte.

Charlotte C. Simonelli
*Executive VP, CFO & Treasurer*Thank you.

Exhibit O

REALOGY REPORTS FINANCIAL RESULTS FOR THIRD QUARTER 2018

MADISON, N.J. (November 2, 2018) - Realogy Holdings Corp. (NYSE: RLGY), the largest full-service residential real estate services company in the United States, today reported financial results for the third quarter ended September 30, 2018, including the following highlights:

- Revenue was $1.68 billion, an increase of $2 million compared with the third quarter of 2017.
- The Company's combined homesale transaction volume (transaction sides multiplied by average sale price) increased 1% compared with the third quarter of 2017, due to a 1% volume gain at RFG while volume at NRT was flat. For reference, the National Association of Realtors reported a homesale transaction volume increase of 1% in the third quarter of 2018.
- Operating EBITDA was $242 million, a decrease of $16 million compared with the third quarter of 2017. The primary reason for the decline was the absence of the $12 million gain from exiting the PHH Home Loans JV in 2017. (*See Table 4a*)[1]
- Net income was $103 million compared to $95 million in the third quarter of 2017. Basic earnings per share was $0.84 compared to $0.70 in the third quarter of 2017 due to share repurchases and a lower corporate tax rate.
- Adjusted net income per share was $0.85 compared with adjusted net income per share of $0.71 in the third quarter of 2017. *(See Table 1a)*[2]
- Free Cash Flow for the third quarter of 2018 was $194 million. *(See Table 6)*[3]
- In the first nine months of 2018, Realogy returned $336 million of capital to stockholders through share repurchases and dividends.

"This quarter we generated substantial revenue, Operating EBITDA and Free Cash Flow, as well as maintained our market share, all despite the past few months of housing market softness," said Ryan Schneider, Realogy's chief executive officer and president. "We remain optimistic about the future and continue to invest to drive top and bottom line growth. We are launching two new franchise brands to grow our franchise revenue, enhancing our value to agents with new products and expanding our use of technology and data."

"With our size, scale and healthy balance sheet, we believe we are well-positioned to weather shifts in market conditions as we continue to invest in multiple avenues of growth," said Anthony E. Hull, Realogy's executive vice president, chief financial officer and treasurer. "We are on track with our cost reductions and continue to return capital to shareholders."

In the third quarter of 2018, RFG and NRT's 193,600 U.S.-based affiliated independent sales agents helped consumers with approximately 403,000 homesale transaction sides. In aggregate, Realogy achieved homesale transaction volume of approximately $143 billion, an increase of 1% compared with the third quarter of 2017. RFG average homesale price increased 5% and homesale transaction sides decreased 3%. NRT reported an average homesale price increase of 1% and homesale transaction sides decreased 1%.

In the title and settlement services sector, TRG closed 48,000 transactions in the third quarter of 2018 with lower refinance volume leading to an overall decline of 4%. Purchase units were flat compared to the third quarter of 2017. In the relocation segment, Cartus initiations were up 8% and referrals up 10%. Cartus continues to be an important part of the Company's value proposition, generating highly qualified leads for its network of affiliated agents and helping them to build their businesses. Cartus generated referral opportunities to agents that resulted in approximately 76,000 in-network homesale closings for Realogy and its brands in 2017.

Looking Ahead

For the fourth quarter of 2018, Realogy is overall modeling around flat homesale transaction volume compared to the fourth quarter of 2017. Based on this fourth quarter volume outlook and third quarter results, the Company now anticipates full year Operating EBITDA of $660-$670 million, subject to macro uncertainty and current market conditions.

This year, Realogy expects the Operating EBITDA to Free Cash Flow conversion rate to be in the mid-50% range.

Capital Allocation

Since the share repurchase program's inception in February 2016, the Company has repurchased approximately 29 million shares through September 30, 2018 at an average price of $26.74 for $776 million. As a result, Realogy had approximately 120 million shares of common stock outstanding as of September 30, 2018.

Balance Sheet

The Company ended the quarter with cash and cash equivalents of $226 million. Total long-term corporate debt, including the short-term portion, net of cash and cash equivalents (net corporate debt), totaled $3.3 billion at September 30, 2018. The Company's net debt leverage ratio[4] was 4.3 times at September 30, 2018.

A consolidated balance sheet is included as Table 2 of this press release.

Investor Conference Call

Today, November 2, at 8:30 a.m. (EDT), Realogy will hold a conference call via webcast to review its Q3 2018 results. The webcast will be hosted by Ryan Schneider, chief executive officer and president, and Anthony E. Hull, executive vice president, chief financial officer and treasurer, and will conclude with an investor Q&A period with management.

Investors may access the conference call live via webcast at ir.realogy.com or by dialing (888) 895-3527 (toll free); international participants should dial (706) 679-2250. Please dial in at least 5 to 10 minutes prior to start time. A webcast replay also will be available on the website.

About Realogy Holdings Corp.

Realogy Holdings Corp. (NYSE: RLGY) is the leading and most integrated provider of residential real estate services in the U.S. that is focused on empowering independent sales agents to best serve today's consumers. Realogy delivers its services through its well-known industry brands including Better Homes and Gardens® Real Estate, CENTURY 21®, Climb Real Estate®, Coldwell Banker®, Coldwell Banker Commercial®, Corcoran Group®, ERA®, Sotheby's International Realty® as well as NRT, Cartus®, Title Resource Group and ZapLabs®, an in-house innovation and technology development lab. Realogy's fully integrated business model includes brokerage, franchising, relocation, mortgage, and title and settlement services. Realogy provides independent sales agents access to leading technology, best-in-class marketing and learning programs, and support services to help them become more productive and build stronger businesses. Realogy's affiliated brokerages operate around the world with approximately 193,600 independent sales agents in the United States and approximately 106,400 independent sales agents in 112 other countries and territories. Realogy is headquartered in Madison, New Jersey.

Footnotes:

[1] *Operating EBITDA is defined as net income (loss) before depreciation and amortization, interest expense, net (other than relocation services interest for securitization assets and securitization obligations), income taxes, and other items that are not core to the operating activities of the Company such as restructuring charges, former parent legacy items, losses on the early extinguishment of debt, asset impairments, gains or losses on discontinued operations and gains or losses on the sale of investments or other assets.*

[2] *Adjusted net income (loss) is defined as net income (loss) before mark-to-market interest rate swap adjustments, former parent legacy items, restructuring charges, the loss on the early extinguishment of debt, the tax effect of the foregoing adjustments and adjustments to the reserve for uncertain tax positions.*

[3] *Free Cash Flow is defined as net income (loss) attributable to Realogy before income tax expense (benefit), net of payments, net interest expense, cash interest payments, depreciation and amortization, capital expenditures, restructuring costs and former parent legacy costs (benefits), net of payments, loss on the early extinguishment of debt, working capital adjustments and relocation receivables (assets), net of change in securitization obligations.*

[4] *Net corporate debt divided by EBITDA, as defined by the Senior Secured Credit Facility, for the twelve-month period ended September 30, 2018.*

Forward-Looking Statements

Certain statements in this press release constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Realogy Holdings Corp. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements preceded by, followed by or that otherwise include the words "believes", "expects", "anticipates", "intends", "projects", "estimates" and "plans" and similar expressions or future or conditional verbs such as "will", "should", "would", "may" and "could" are generally forward-looking in nature and not historical facts. Any statements that refer to expectations or other characterizations of future events, circumstances or results are forward-looking statements.

Various factors that could cause actual future results and other future events to differ materially from those estimated by management include, but are not limited to: adverse developments or the absence of sustained improvement in general business, economic and political conditions or the residential real estate markets, either regionally or nationally, including but not limited to a decline or a lack of improvement in the number of homesales, stagnant or declining home prices or a reduction in the affordability of housing, increasing mortgage rates and/or constraints on the availability of mortgage financing, insufficient or excessive home inventory levels by market and price point, a lack of improvement or deceleration in the building of new housing and/or irregular timing or volume of new development closings, the potential negative impact of certain provisions of the Tax Cuts and Jobs Act on home values over time in states with high property, sales and state and local income taxes or on homeownership rates, and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate whether broadly or by geography and price segments; increased competition in the industry and for independent sales agents whether through traditional competitors, competitors with alternative business models or other industry participants otherwise competing for a portion of gross commission income; continuing pressure on the share of gross commission income paid by our company owned brokerages and our affiliated franchisees to their independent affiliated sales agents; our geographic and high-end market concentration; our inability to enter into franchise agreements with new franchisees or renew existing franchise agreements at current contractual royalty rates without increasing the amount and prevalence of sales incentives; the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations; changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits, increasing competition in corporate relocation or the loss of one or more significant affinity clients; an increase in the experienced claims losses of our title underwriter; our failure or alleged failure to comply with laws, regulations and regulatory interpretations; risks relating to our ability to return capital to stockholders pursuant to our stock repurchase program; risks and growing costs related to cybersecurity threats to our data and customer, franchisee, employee and independent sales agent data; and risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt.

Consideration should be given to the areas of risk described above, as well as those risks set forth under the headings "Forward-Looking Statements" and "Risk Factors" in our filings with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q for the quarters ended March 31, 2018, June 30, 2018 and September 30, 2018, and our Annual Report on Form 10-K for the year ended December 31, 2017, and our other filings made from time to time, in connection with considering any forward-looking statements that may be made by us and our businesses generally. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

Non-GAAP Financial Measures

This release includes certain non-GAAP financial measures as defined under SEC rules. As required by SEC rules, important information regarding such measures is contained in the Tables attached to this release. See Tables 1a, 7 and 8 for definitions of these non-GAAP financial measures and Tables 1a, 4a, 4b, 5a, 5b, 6 and 7 for reconciliations of the historical non-GAAP financial measures to their most comparable GAAP terms.

Because of the forward-looking nature of the Company's forecasted non-GAAP financial measures, specific quantifications of the amounts that would be required to reconcile forecasted Operating EBITDA to forecasted net income and forecasted Free Cash Flow to forecasted net income are not readily determinable. The Company believes that there is a degree of volatility with respect to certain of the Company's GAAP measures which preclude the Company from providing accurate forecasted GAAP to non-GAAP reconciliations. Based on the above, the Company believes that providing estimates of the amounts that would be required to reconcile the range of the non-GAAP measures to forecasted GAAP measures would imply a degree of precision that would be confusing or misleading to investors for the reasons identified above.

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Table 1

REALOGY HOLDINGS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Gross commission income	$ 1,246	$ 1,250	$ 3,536	$ 3,505
Service revenue	268	261	728	710
Franchise fees	109	111	302	296
Other	53	52	159	159
Net revenues	1,676	1,674	4,725	4,670
Expenses				
Commission and other agent-related costs	902	887	2,556	2,462
Operating	387	394	1,171	1,162
Marketing	63	63	199	195
General and administrative	80	82	244	269
Former parent legacy cost (benefit), net	—	1	—	(10)
Restructuring costs, net	9	2	45	9
Depreciation and amortization	49	50	146	149
Interest expense, net	41	41	120	127
Loss on the early extinguishment of debt	—	1	7	5
Total expenses	1,531	1,521	4,488	4,368
Income before income taxes, equity in (earnings) losses and noncontrolling interests	145	153	237	302
Income tax expense	40	67	73	131
Equity in (earnings) losses of unconsolidated entities	1	(10)	3	(7)
Net income	104	96	161	178
Less: Net income attributable to noncontrolling interests	(1)	(1)	(2)	(2)
Net income attributable to Realogy Holdings	$ 103	$ 95	$ 159	$ 176
Earnings per share attributable to Realogy Holdings:				
Basic earnings per share	$ 0.84	$ 0.70	$ 1.26	$ 1.28
Diluted earnings per share	$ 0.83	$ 0.69	$ 1.25	$ 1.26
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic	122.7	136.1	126.5	137.8
Diluted	123.6	138.1	127.6	139.4
Cash dividends declared per share	$ 0.09	$ 0.09	$ 0.27	$ 0.27

Table 1a

REALOGY HOLDINGS CORP.
NON-GAAP RECONCILIATION
ADJUSTED NET INCOME AND ADJUSTED EARNINGS PER SHARE
(In millions, except per share data)

We present Adjusted net income and Adjusted earnings per share because we believe these measures are useful as supplemental measures in evaluating the performance of our operating businesses and provides greater transparency into our operating results.

Adjusted net income is defined by us as net income before: (a) mark-to-market interest rate swap adjustments, whose fair value is subject to movements in LIBOR and the forward yield curve and therefore are subject to significant fluctuations; (b) former parent legacy items, which pertain to liabilities of the former parent for matters prior to mid-2006 and are non-operational in nature; (c) restructuring charges as a result of the business optimization initiatives currently in progress; (d) the loss on the early extinguishment of debt that results from refinancing and deleveraging debt initiatives; (e) the tax effect of the foregoing adjustments; and (f) adjustments to the reserve for uncertain tax positions. The gross amounts for these items as well as the adjustment for income taxes are shown in the table below.

Adjusted income per share is Adjusted net income divided by the weighted average common and common equivalent shares outstanding.

Set forth in the table below is a reconciliation of Net income to Adjusted net income for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income attributable to Realogy Holdings	$ 103	$ 95	$ 159	$ 176
Addback:				
Mark-to-market interest rate swap (gains) losses	(7)	—	(19)	4
Former parent legacy cost (benefit), net	—	1	—	(10)
Restructuring costs, net	9	2	45	9
Loss on the early extinguishment of debt	—	1	7	5
Adjustments for tax effect (a)	(1)	(2)	(9)	(3)
Adjusted net income attributable to Realogy Holdings	$ 104	$ 97	$ 183	$ 181
Earnings per share				
Basic earnings per share:	$ 0.84	$ 0.70	$ 1.26	$ 1.28
Diluted earnings per share:	$ 0.83	$ 0.69	$ 1.25	$ 1.26
Adjusted earnings per share				
Adjusted basic earnings per share:	$ 0.85	$ 0.71	$ 1.45	$ 1.31
Adjusted diluted earnings per share:	$ 0.84	$ 0.70	$ 1.43	$ 1.30
Weighted average common and common equivalent shares outstanding:				
Basic:	122.7	136.1	126.5	137.8
Diluted:	123.6	138.1	127.6	139.4

(a) Reflects tax effect of adjustments at the Company's blended state and federal statutory rate.

Table 2

REALOGY HOLDINGS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 226	$ 227
Restricted cash	11	7
Trade receivables (net of allowance for doubtful accounts of $9 and $11)	180	153
Relocation receivables	334	223
Other current assets	154	179
Total current assets	905	789
Property and equipment, net	284	289
Goodwill	3,712	3,710
Trademarks	749	749
Franchise agreements, net	1,243	1,294
Other intangibles, net	261	284
Other non-current assets	284	222
Total assets	$ 7,438	$ 7,337
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 181	$ 156
Securitization obligations	264	194
Current portion of long-term debt	727	127
Accrued expenses and other current liabilities	395	478
Total current liabilities	1,567	955
Long-term debt	2,806	3,221
Deferred income taxes	378	327
Other non-current liabilities	244	212
Total liabilities	4,995	4,715
Commitments and contingencies		
Equity:		
Realogy Holdings preferred stock: $.01 par value; 50,000,000 shares authorized, none issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Realogy Holdings common stock: $.01 par value; 400,000,000 shares authorized, 119,932,166 shares issued and outstanding at September 30, 2018 and 131,636,870 shares issued and outstanding at December 31, 2017	1	1
Additional paid-in capital	4,970	5,285
Accumulated deficit	(2,485)	(2,631)
Accumulated other comprehensive loss	(47)	(37)
Total stockholders' equity	2,439	2,618
Noncontrolling interests	4	4
Total equity	2,443	2,622
Total liabilities and equity	$ 7,438	$ 7,337

Table 3a

REALOGY HOLDINGS CORP.
2018 vs. 2017 KEY DRIVERS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
RFG (a)						
Closed homesale sides	308,917	318,961	(3%)	846,185	866,956	(2%)
Average homesale price	$ 305,398	$ 292,000	5%	$ 304,482	$ 287,558	6%
Average homesale broker commission rate	2.47%	2.49%	(2) bps	2.48%	2.50%	(2) bps
Net royalty per side (b)	$ 322	$ 316	2%	$ 324	$ 311	4%
NRT						
Closed homesale sides	94,241	95,236	(1%)	261,083	262,849	(1%)
Average homesale price	$ 513,403	$ 506,418	1%	$ 525,738	$ 515,617	2%
Average homesale broker commission rate	2.44%	2.45%	(1) bps	2.44%	2.45%	(1) bps
Gross commission income per side	$ 13,227	$ 13,142	1%	$ 13,545	$ 13,358	1%
Cartus						
Initiations	42,718	39,608	8%	133,901	126,921	5%
Referrals	26,226	23,905	10%	68,919	64,392	7%
TRG						
Purchase title and closing units	43,836	43,764	—%	121,766	122,069	—%
Refinance title and closing units	4,264	6,513	(35%)	14,456	21,370	(32%)
Average fee per closing unit	$ 2,229	$ 2,115	5%	$ 2,231	$ 2,092	7%

(a) Includes all franchisees except for NRT.

(b) Net royalty per side amounts include the effect of volume incentives and non-standard incentives granted to franchisees. For the three and nine months ended September 30, 2018 the net royalty per side increased 2% and 4%, respectively, while average homesale price increased 5% and 6% for the three and nine months ended September 30, 2018, respectively. The differential between growth in net royalty per side and average homesale price was due to an increase in sales incentives, a decrease in the average broker commission rate and a shift in mix to our top 250 franchisees.

Table 3b

REALOGY HOLDINGS CORP.
2017 KEY DRIVERS

	Quarter Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
RFG (a)					
Closed homesale sides	225,250	322,745	318,961	277,261	1,144,217
Average homesale price	$ 275,828	$ 291,355	$ 292,000	$ 293,216	$ 288,929
Average homesale broker commission rate	2.50%	2.50%	2.49%	2.49%	2.50%
Net royalty per side (b)	$ 298	$ 316	$ 316	$ 316	$ 313
NRT					
Closed homesale sides	66,570	101,043	95,236	81,597	344,446
Average homesale price	$ 509,197	$ 528,518	$ 506,418	$ 511,683	$ 514,685
Average homesale broker commission rate	2.45%	2.44%	2.45%	2.44%	2.44%
Gross commission income per side	$ 13,261	$ 13,625	$ 13,142	$ 13,152	$ 13,309
Cartus					
Initiations	36,515	50,798	39,608	34,834	161,755
Referrals	15,203	25,284	23,905	19,286	83,678
TRG					
Purchase title and closing units (c)	31,297	47,008	43,764	37,044	159,113
Refinance title and closing units (d)	8,533	6,324	6,513	7,194	28,564
Average fee per closing unit	$ 2,001	$ 2,139	$ 2,115	$ 2,092	$ 2,092

(a) Includes all franchisees except for NRT.

(b) Net royalty per side amounts include the effect of volume incentives and non-standard incentives granted to franchisees.

(c) The amounts presented for the year ended December 31, 2017 include 8,351 purchase units as a result of acquisitions.

(d) The amounts presented for the year ended December 31, 2017 include 1,858 refinance units as a result of acquisitions.

Table 4a

REALOGY HOLDINGS CORP.
NON-GAAP RECONCILIATION - OPERATING EBITDA
THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In millions)

Set forth in the table below is a reconciliation of net income to Operating EBITDA for the three-month periods ended September 30, 2018 and 2017:

	Three Months Ended	
	September 30, 2018	September 30, 2017
Net income attributable to Realogy Holdings	$ 103	$ 95
Income tax expense	40	67
Income before income taxes	143	162
Depreciation and amortization	49	51
Interest expense, net	41	41
Restructuring costs, net	9	2
Former parent legacy cost, net	—	1
Loss on the early extinguishment of debt	—	1
Operating EBITDA	$ 242	$ 258

Set forth in the table below is a reconciliation of Operating EBITDA by reportable segments to net income for the three months ended September 30, 2018 and 2017:

	Revenues (a)		$	%	Operating EBITDA		$	%	Operating EBITDA Margin		
	2018	2017	Change	Change	2018	2017	Change	Change	2018	2017	Change
RFG	$ 221	$ 224	$ (3)	(1)%	$ 161	$ 159	$ 2	1 %	73%	71%	2
NRT (b)	1,268	1,267	1	—	43	64	(21)	(33)	3	5	(2)
Cartus	108	111	(3)	(3)	39	37	2	5	36	33	3
TRG	162	154	8	5	20	21	(1)	(5)	12	14	(2)
Corporate and Other	(83)	(82)	(1)	*	(21)	(23)	2	*			
Total Company	$1,676	$1,674	$ 2	— %	$ 242	$ 258	$ (16)	(6%)	14%	15%	(1)
Less: Depreciation and amortization (c)					49	51					
Interest expense, net					41	41					
Income tax expense					40	67					
Restructuring costs, net (d)					9	2					
Former parent legacy cost, net (e)					—	1					
Loss on the early extinguishment of debt (e)					—	1					
Net income attributable to Realogy Holdings					$ 103	$ 95					

* not meaningful.

(a) Includes the elimination of transactions between segments, which consists of intercompany royalties and marketing fees paid by NRT of $83 million and $82 million during the three months ended September 30, 2018 and 2017, respectively.

(b) NRT Operating EBITDA includes $12 million of equity earnings from PHH Home Loans for the three months ended September 30, 2017.

(c) Depreciation and amortization for the three months ended September 30, 2017 includes $1 million of amortization expense related to Guaranteed Rate Affinity's purchase accounting included in the "Equity in (earnings) losses of unconsolidated entities" line on the Condensed Consolidated Statement of Operations.

(d) Restructuring charges incurred for the three months ended September 30, 2018 include $1 million at RFG and $8 million at NRT. Restructuring charges incurred for the three months ended September 30, 2017 include $2 million at NRT.

(e) Former parent legacy items and loss on the early extinguishment of debt are recorded in the Corporate and Other segment.

Table 4b

REALOGY HOLDINGS CORP.
NON-GAAP RECONCILIATION - OPERATING EBITDA
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In millions)

Set forth in the table below is a reconciliation of net income to Operating EBITDA for the nine-month periods ended September 30, 2018 and 2017:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net income attributable to Realogy Holdings	$ 159	$ 176
Income tax expense	73	131
Income before income taxes	232	307
Depreciation and amortization	148	150
Interest expense, net	120	127
Restructuring costs, net	45	9
Former parent legacy benefit, net	—	(10)
Loss on the early extinguishment of debt	7	5
Operating EBITDA	$ 552	$ 588

Set forth in the table below is a reconciliation of Operating EBITDA by reportable segments to net income for the nine months ended September 30, 2018 and 2017:

	Revenues (a)		$ Change	% Change	Operating EBITDA (b)		$ Change	% Change	Operating EBITDA Margin		Change
	2018	2017			2018	2017			2018	2017	
RFG	$ 634	$ 631	$ 3	—%	$ 439	$ 428	$ 11	3 %	69%	68%	1
NRT (c)	3,593	3,556	37	1	59	121	(62)	(51)	2	3	(1)
Cartus	292	290	2	1	72	65	7	11	25	22	3
TRG	444	431	13	3	45	49	(4)	(8)	10	11	(1)
Corporate and Other	(238)	(238)	—	*	(63)	(75)	12	*			
Total Company	$4,725	$4,670	$ 55	1%	$ 552	$ 588	$ (36)	(6%)	12%	13%	(1)
Less: Depreciation and amortization (d)					148	150					
Interest expense, net					120	127					
Income tax expense					73	131					
Restructuring costs, net (e)					45	9					
Former parent legacy benefit, net (f)					—	(10)					
Loss on the early extinguishment of debt (f)					7	5					
Net income attributable to Realogy Holdings					$ 159	$ 176					

* not meaningful.

(a) Includes the elimination of transactions between segments, which consists of intercompany royalties and marketing fees paid by NRT of $238 million during both the nine months ended September 30, 2018 and 2017.

(b) Includes an $8 million expense related to the settlement of the Strader legal matter in the Corporate and Other segment for the nine months ended September 30, 2017.

(c) NRT Operating EBITDA includes $8 million of equity earnings from PHH Home Loans for the nine months ended September 30, 2017.

(d) Depreciation and amortization for the nine months ended September 30, 2018 and 2017 includes $2 million and $1 million, respectively, of amortization expense related to Guaranteed Rate Affinity's purchase accounting included in the "Equity in (earnings) losses of unconsolidated entities" line on the Condensed Consolidated Statement of Operations.

(e) Restructuring charges incurred for the nine months ended September 30, 2018 include $3 million at RFG, $29 million at NRT, $9 million at Cartus, $2 million at TRG and $2 million at Corporate and Other. Restructuring charges incurred for the nine months ended September 30, 2017 include $1 million at RFG and $8 million at NRT.

(f) Former parent legacy items and loss on the early extinguishment of debt are recorded in the Corporate and Other segment.

Table 5a

REALOGY HOLDINGS CORP.
SELECTED 2018 FINANCIAL DATA
(In millions)

	Three Months Ended		
	March 31, 2018	June 30, 2018	September 30, 2018
Net revenues (a)			
Real Estate Franchise Services	$ 176	$ 237	$ 221
Company Owned Real Estate Brokerage Services	917	1,408	1,268
Relocation Services	79	105	108
Title and Settlement Services	120	162	162
Corporate and Other	(63)	(92)	(83)
Total Company	$ 1,229	$ 1,820	$ 1,676
Operating EBITDA			
Real Estate Franchise Services	$ 105	$ 173	$ 161
Company Owned Real Estate Brokerage Services	(45)	61	43
Relocation Services	(1)	34	39
Title and Settlement Services	(6)	31	20
Corporate and Other	(19)	(23)	(21)
Total Company	$ 34	$ 276	$ 242
Non-GAAP Reconciliation - Operating EBITDA			
Total Company Operating EBITDA	$ 34	$ 276	$ 242
Less: Depreciation and amortization (b)	50	49	49
Interest expense, net	33	46	41
Income tax (benefit) expense	(19)	52	40
Restructuring costs, net (c)	30	6	9
Loss on the early extinguishment of debt (d)	7	—	—
Net income (loss) attributable to Realogy Holdings	$ (67)	$ 123	$ 103

(a) Transactions between segments are eliminated in consolidation. Revenues for the Real Estate Franchise Services segment include intercompany royalties and marketing fees paid by the Company Owned Real Estate Brokerage Services segment of $63 million, $92 million and $83 million for the three months ended March 31, 2018, June 30, 2018 and September 30, 2018, respectively. Such amounts are eliminated through the Corporate and Other line.

Revenues for the Relocation Services segment include $8 million, $12 million and $10 million of intercompany referral commissions paid by the Company Owned Real Estate Brokerage Services segment during the three months ended March 31, 2018, June 30, 2018 and September 30, 2018, respectively. Such amounts are recorded as contra-revenues by the Company Owned Real Estate Brokerage Services segment.

(b) Depreciation and amortization for the three months ended March 31, 2018 includes $2 million of amortization expense related to our mortgage origination joint venture Guaranteed Rate Affinity's purchase accounting included in the "Equity in (earnings) losses of unconsolidated entities" line on the Condensed Consolidated Statement of Operations.

(c) Includes restructuring charges broken down by business unit as follows:

	Three Months Ended		
	March 31, 2018	June 30, 2018	September 30, 2018
Real Estate Franchise Services	$ 2	$ —	$ 1
Company Owned Real Estate Brokerage Services	17	4	8
Relocation Services	8	1	—
Title and Settlement Services	1	1	—
Corporate and Other	2	—	—
Total Company	$ 30	$ 6	$ 9

(d) Loss on the early extinguishment of debt is recorded in the Corporate and Other segment.

Table 5b

REALOGY HOLDINGS CORP.
SELECTED 2017 FINANCIAL DATA
(In millions)

	Three Months Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
Net revenues (a)					
Real Estate Franchise Services	$ 170	$ 237	$ 224	$ 199	$ 830
Company Owned Real Estate Brokerage Services	897	1,392	1,267	1,087	4,643
Relocation Services	77	102	111	92	382
Title and Settlement Services	120	157	154	139	570
Corporate and Other	(61)	(95)	(82)	(73)	(311)
Total Company	$ 1,203	$ 1,793	$ 1,674	$ 1,444	$ 6,114
Operating EBITDA (b)					
Real Estate Franchise Services	$ 102	$ 167	$ 159	$ 132	$ 560
Company Owned Real Estate Brokerage Services	(21)	78	64	14	135
Relocation Services	1	27	37	20	85
Title and Settlement Services	2	26	21	10	59
Corporate and Other	(23)	(29)	(23)	(32)	(107)
Total Company	$ 61	$ 269	$ 258	$ 144	$ 732
Non-GAAP Reconciliation - Operating EBITDA					
Total Company Operating EBITDA	61	269	258	144	732
Less: Depreciation and amortization (c)	50	49	51	51	201
Interest expense, net	39	47	41	31	158
Income tax (benefit) expense	(9)	73	67	(196)	(65)
Restructuring costs, net (d)	5	2	2	3	12
Former parent legacy (benefit) cost, net (e)	—	(11)	1	—	(10)
Loss on the early extinguishment of debt (e)	4	—	1	—	5
Net income (loss) attributable to Realogy Holdings	$ (28)	$ 109	$ 95	$ 255	$ 431

(a) Transactions between segments are eliminated in consolidation. Revenues for the Real Estate Franchise Services segment include intercompany royalties and marketing fees paid by the Company Owned Real Estate Brokerage Services segment of $61 million, $95 million, $82 million and $73 million for the three months ended March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017, respectively. Such amounts are eliminated through the Corporate and Other line.

Revenues for the Relocation Services segment include $8 million, $12 million, $11 million and $9 million of intercompany referral commissions paid by the Company Owned Real Estate Brokerage Services segment during the three months ended March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017, respectively. Such amounts are recorded as contra-revenues by the Company Owned Real Estate Brokerage Services segment.

(b) Operating EBITDA includes an $8 million expense related to the settlement of the Strader legal matter for the three months ended June 30, 2017 and an $8 million expense related to the transition of the Company's CEO for the three months ended December 31, 2017. In addition, the Company believes that 2017 Operating EBITDA was also negatively impacted by an estimated $8 million due to natural disasters in the third and fourth quarters.

(c) Depreciation and amortization includes $1 million and $2 million for the three months ended September 30, 2017 and December 31, 2017, respectively, of amortization expense related to our mortgage origination joint venture Guaranteed Rate Affinity's purchase accounting included in the "Equity in earnings of unconsolidated entities" line on the Consolidated Statement of Operations in our Annual Report on Form 10-K for the year ended December 31, 2017.

(d) Includes restructuring charges broken down by business unit as follows:

	Three Months Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
Real Estate Franchise Services	$ —	$ 1	$ —	$ —	$ 1
Company Owned Real Estate Brokerage Services	5	1	2	1	9
Relocation Services	—	—	—	—	—
Title and Settlement Services	—	—	—	1	1
Corporate and Other	—	—	—	1	1
Total Company	$ 5	$ 2	$ 2	$ 3	$ 12

(e) Former parent legacy items and losses on the early extinguishment of debt are recorded in the Corporate and Other segment.

Table 6

REALOGY HOLDINGS CORP.
NON-GAAP RECONCILIATION - FREE CASH FLOW
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In millions)

A reconciliation of net income attributable to Realogy Holdings to Free Cash Flow is set forth in the following table:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income attributable to Realogy Holdings	$ 103	$ 95	$ 159	$ 176
Income tax expense, net of payments	38	65	63	121
Interest expense, net	41	41	120	127
Cash interest payments	(31)	(25)	(118)	(111)
Depreciation and amortization	49	50	146	149
Capital expenditures	(24)	(21)	(73)	(69)
Restructuring costs and former parent legacy items, net of payments	4	(1)	20	(19)
Loss on the early extinguishment of debt	—	1	7	5
Working capital adjustments	9	17	(62)	29
Relocation receivables (assets), net of securitization obligations	5	28	(42)	(1)
Free Cash Flow	$ 194	$ 250	$ 220	$ 407

A reconciliation of net cash provided by operating activities to Free Cash Flow is set forth in the following table:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net cash provided by operating activities	$ 215	$ 259	$ 224	$ 445
Property and equipment additions	(24)	(21)	(73)	(69)
Net change in securitization	3	11	70	29
Effect of exchange rates on cash and cash equivalents	—	1	(1)	2
Free Cash Flow	$ 194	$ 250	$ 220	$ 407
Net cash used in investing activities	$ (15)	$ (43)	$ (60)	$ (99)
Net cash used in financing activities	$ (202)	$ (91)	$ (160)	$ (277)

Table 7

NON-GAAP RECONCILIATION - SENIOR SECURED LEVERAGE RATIO FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018

(In millions)

The senior secured leverage ratio is tested quarterly and may not exceed 4.75 to 1.00. The senior secured leverage ratio is measured by dividing Realogy Group LLC's total senior secured net debt by the trailing twelve-month EBITDA calculated on a Pro Forma Basis, as those terms are defined in the senior secured credit facilities*. Total senior secured net debt does not include unsecured indebtedness, including the Unsecured Notes*, or the securitization obligations. EBITDA calculated on a Pro Forma Basis, as defined in the senior secured credit facilities, includes adjustments to Operating EBITDA for non-cash charges and incremental securitization interest costs, as well as pro forma cost savings for restructuring initiatives, the pro forma effect of business optimization initiatives and the pro forma effect of acquisitions and new franchisees, in each case calculated as of the beginning of the twelve-month period. The Company was in compliance with the senior secured leverage ratio covenant at September 30, 2018 with a ratio of 2.54 to 1.00.

A reconciliation of net income attributable to Realogy Group to Operating EBITDA and EBITDA as defined by the senior secured credit facilities for the twelve months ended September 30, 2018 are set forth in the following table:

		Less	Equals	Plus	Equals
	Year Ended December 31, 2017	Nine Months Ended September 30, 2017	Three Months Ended December 31, 2017	Nine Months Ended September 30, 2018	Twelve Months Ended September 30, 2018
Net income attributable to Realogy Group (a)	$ 431	$ 176	$ 255	$ 159	$ 414
Income tax (benefit) expense	(65)	131	(196)	73	(123)
Income before income taxes	366	307	59	232	291
Depreciation and amortization (b)	201	150	51	148	199
Interest expense, net	158	127	31	120	151
Restructuring costs, net	12	9	3	45	48
Former parent legacy benefit, net	(10)	(10)	—	—	—
Loss on the early extinguishment of debt	5	5	—	7	7
Operating EBITDA (c)	$ 732	$ 588	$ 144	$ 552	696
Bank covenant adjustments:					
Pro forma effect of business optimization initiatives (d)					23
Non-cash charges (e)					45
Pro forma effect of acquisitions and new franchisees (f)					5
Incremental securitization interest costs (g)					3
EBITDA as defined by the Senior Secured Credit Facilities					$ 772
Total senior secured net debt (h)					$ 1,959
Senior secured leverage ratio					**2.54x**

(a) Net income attributable to Realogy consists of: (i) income of $255 million for the fourth quarter of 2017, (ii) loss of $67 million for the first quarter of 2018, (iii) income of $123 million for the second quarter of 2018 and (iv) income of $103 million for the third quarter of 2018.

(b) Depreciation and amortization includes: (i) $2 million for the fourth quarter of 2017 and (ii) $2 million for the first quarter of 2018 of amortization expense related to Guaranteed Rate Affinity's purchase accounting included in the "Equity in (earnings) losses of unconsolidated entities" line on the Condensed Consolidated Statement of Operations.

(c) Operating EBITDA consists of: (i) $144 million for the fourth quarter of 2017, (ii) $34 million for the first quarter of 2018, (iii) $276 million for the second quarter of 2018 and (iv) $242 million for the third quarter of 2018.

(d) Represents the twelve-month pro forma effect of business optimization initiatives.

(e) Represents the elimination of non-cash expenses, including $45 million of stock-based compensation expense and $1 million of other items less $1 million for the change in the allowance for doubtful accounts and notes reserves for the twelve months ended September 30, 2018.

(f) Represents the estimated impact of acquisitions and franchise sales activity, net of brokerages that exited our franchise system as if these changes had occurred on October 1, 2017. Franchisee sales activity is comprised of new franchise agreements as well as growth through acquisitions and independent sales agent recruitment by existing franchisees with our assistance. We have made a number of assumptions in calculating such estimates and there can be no assurance that we would have generated the projected levels of Operating EBITDA had we owned the acquired entities or entered into the franchise contracts as of October 1, 2017.

(g) Incremental borrowing costs incurred as a result of the securitization facilities refinancing for the twelve months ended September 30, 2018.

(h) Represents total borrowings under the senior secured credit facilities and borrowings secured by a first priority lien on our assets of $2,063 million plus $29 million of capital lease obligations less $133 million of readily available cash as of September 30, 2018. Pursuant to the terms of our senior secured credit facilities, total senior secured net debt does not include our securitization obligations or unsecured indebtedness, including the Unsecured Notes.

* Our senior secured credit facilities include the Amended and Restated Credit Agreement dated as of March 5, 2013, as amended from time to time, and the Term Loan A Agreement dated as of October 23, 2015, as amended from time to time. Our Unsecured Notes include our 4.50% Senior Notes due 2019, our 5.25% Senior Notes due 2021 and our 4.875% Senior Notes due 2023.

***

NON-GAAP RECONCILIATION - NET DEBT LEVERAGE RATIO FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2018

(In millions)

Net corporate debt divided by EBITDA, as defined by the senior secured credit facilities, for the twelve-month period ended September 30, 2018 (referred to as net debt leverage ratio) is set forth in the following table:

		As of September 30, 2018
Revolver	$	250
Term Loan A		741
Term Loan B		1,072
4.50% Senior Notes		450
5.25% Senior Notes		550
4.875% Senior Notes		500
Total Debt (excluding securitizations)	$	3,563
Less: Cash and Cash Equivalents		226
Net Corporate Debt	$	3,337
EBITDA as defined by the Senior Secured Credit Facility	$	772
Net Debt Leverage Ratio		**4.3x**

Table 8

Non-GAAP Definitions

Adjusted net income (loss) is defined by us as net income (loss) before mark-to-market interest rate swap adjustments, former parent legacy items, restructuring charges, the loss on the early extinguishment of debt, the tax effect of the foregoing adjustments and adjustments to the reserve for uncertain tax positions. The gross amounts for these items as well as the adjustment for income taxes are presented. Adjusted earnings (loss) per share is Adjusted net income (loss) divided by the weighted average common and common equivalent shares outstanding. We present Adjusted net income (loss) and Adjusted earnings (loss) per share because we believe these measures are useful as supplemental measures in evaluating the performance of our operating businesses and provides greater transparency into our operating results.

Operating EBITDA is defined by us as net income (loss) before depreciation and amortization, interest expense, net (other than relocation services interest for securitization assets and securitization obligations), income taxes, and other items that are not core to the operating activities of the Company such as restructuring charges, former parent legacy items, losses on the early extinguishment of debt, asset impairments, gains or losses on discontinued operations and gains or losses on the sale of investments or other assets. Operating EBITDA is our primary non-GAAP measure.

We present Operating EBITDA because we believe it is useful as a supplemental measure in evaluating the performance of our operating businesses and provides greater transparency into our results of operations. Our management, including our chief operating decision maker, uses Operating EBITDA as a factor in evaluating the performance of our business. Operating EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations data prepared in accordance with GAAP.

We believe Operating EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest expense), taxation, the age and book depreciation of facilities (affecting relative depreciation expense) and the amortization of intangibles, as well as other items that are not core to the operating activities of the Company such as restructuring charges, losses on the early extinguishment of debt, former parent legacy items, asset impairments, gains or losses on discontinued operations and gains or losses on the sale of investments or other assets, which may vary for different companies for reasons unrelated to operating performance. We further believe that Operating EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Operating EBITDA measure when reporting their results.

Operating EBITDA has limitations as an analytical tool, and you should not consider Operating EBITDA either in isolation or as a substitute for analyzing our results as reported under GAAP. Some of these limitations are:

- this measure does not reflect changes in, or cash required for, our working capital needs;
- this measure does not reflect our interest expense (except for interest related to our securitization obligations), or the cash requirements necessary to service interest or principal payments on our debt;
- this measure does not reflect our income tax expense or the cash requirements to pay our taxes;
- this measure does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often require replacement in the future, and this measure does not reflect any cash requirements for such replacements; and
- other companies may calculate this measure differently so they may not be comparable.

Free Cash Flow is defined as net income (loss) attributable to Realogy before income tax expense (benefit), net of payments, interest expense, net, cash interest payments, depreciation and amortization, capital expenditures, restructuring costs and former parent legacy costs (benefits), net of payments, loss on the early extinguishment of debt, working capital adjustments and relocation receivables (assets), net of change in securitization obligations. We use Free Cash Flow in our internal evaluation of operating effectiveness and decisions regarding the allocation of resources, as well as measuring the Company's ability to generate cash. Since Free Cash Flow can be viewed as both a performance measure and a cash flow measure, the Company has provided a reconciliation to both net income attributable to Realogy Holdings and net cash provided by operating activities. Free Cash Flow is not defined by GAAP and should not be considered in isolation or as an alternative to net income (loss), net cash provided by (used in) operating, investing and financing activities or other financial data prepared in accordance with GAAP or as an indicator of the Company's operating performance or liquidity. Free Cash Flow may differ from similarly titled measures presented by other companies.

Exhibit P

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 001-35674
REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)

Commission File No. 333-148153
REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)

Delaware
(State or other jurisdiction of incorporation or organization)
175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
Realogy Holdings Corp.	Common Stock, par value $0.01 per share	New York Stock Exchange
Realogy Group LLC	None	None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Realogy Holdings Corp. ☑ Realogy Group LLC ☑

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
Realogy Holdings Corp.	☑	☐	☐	☐	☐
Realogy Group LLC	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity of Realogy Holdings Corp. held by non-affiliates as of the close of business on June 30, 2017 was $4.4 billion. There were 130,150,797 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of February 23, 2018.

Realogy Group LLC meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to Realogy Group LLC.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement prepared for the Annual Meeting of Stockholders to be held May 2, 2018 are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this Annual Report and our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:
  - a lack of improvement or a decline in the number of homesales, stagnant or declining home prices and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate whether broadly or by geography and price segments;
  - increasing mortgage rates and/or constraints on the availability of mortgage financing;
  - insufficient or excessive home inventory levels by market and price point;
  - deceleration in the building of new housing and/or irregular timing or volume of new development closings;
  - a decrease in consumer confidence;
  - the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system, disruptions in a major geoeconomic region, or equity or commodity markets and high levels of unemployment in the U.S. and abroad, which may impact all or a portion of the housing markets in which we and our franchisees operate;
  - the potential negative impact of certain provisions of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) (i) on home values over time in states with high property, sales and state and local income taxes as the deductibility of such taxes is now capped at $10,000 and (ii) on homeownership rates given a narrowing of potential tax-related advantages to owning compared to renting given higher standard deductions available to all taxpayers;
  - other legislative, tax or regulatory changes (including changes in regulatory interpretations or enforcement practices) that would adversely impact the residential real estate market, including changes relating to the Real Estate Settlement Procedures Act ("RESPA"), potential reforms of Fannie Mae and Freddie Mac, immigration reform, and further potential tax code reform;
  - a decrease in housing affordability due to higher mortgage rates and increases in average homesale prices;
  - high levels of foreclosure activity;
  - changing attitudes toward home ownership compared to renting, including among potential first-time homebuyers who may delay, or decide not to, purchase a home, as well as existing homeowners who may decide to sell their home and rent their next home; and
  - the inability or unwillingness of current homeowners to purchase their next home due to various factors, including limited or negative equity in their current home, difficult mortgage underwriting standards, attractive rates on existing mortgages and the lack of available inventory in their market;
- increased competition whether through traditional competitors, other industry participants or competitors with alternative business models (such as flat fee, capped fee or desk fee models) including companies employing technologies intended to disrupt the traditional brokerage model, as well as eliminating brokers or agents from, or minimizing the role they play in, the homesale transaction, such as reducing brokerage commissions, and companies otherwise competing for a portion of gross commission income;
- competition for more productive sales agents and sales agent teams will continue to impact the ability of our company owned brokerage business and our affiliated franchisees to attract and retain independent sales agents, either individually or as members of a team, and will result in continuing pressure on the share of gross

commission income paid by our company owned brokerages and our affiliated franchisees to their independent affiliated sales agents;

- the failure to attract and retain managers of our company owned brokerage offices who have primary responsibility for the recruitment and retention of independent sales agents for those offices;
- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations, including the impact of the 2017 Tax Act;
- our inability to enter into franchise agreements with new franchisees or renew existing franchise agreements at current contractual royalty rates without increasing the amount and prevalence of sales incentives, including non-standard incentives, to realize royalty revenue growth from them, or to maintain or enhance our value proposition to franchisees;
- the lack of revenue growth or declining profitability of our franchisees and company owned brokerage operations, including the impact of lower average broker commission rates;
- changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits (including the impact from the change in the way home moving expenses are treated for tax purposes under the 2017 Tax Act), increasing competition in corporate relocation or the loss of one or more significant affinity clients;
- an increase in the experienced claims losses of our title underwriter could adversely impact the earnings of our title and settlement services segment;
- our inability to develop or hire skilled executives and other key employees or challenges associated with change management may impact our ability to continue to execute or evolve our strategy;
- our inability to successfully develop or obtain new technologies and systems, to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems;
- our inability to leverage real-time data analytics to support our company owned and franchisee real estate brokerages, affiliated independent sales agents and their customers as well as our relocation and title and settlement services segments;
- disputes or issues with entities that license us their tradenames for use in our business or events that negatively impact their brands that could impede our franchising of those brands;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees, controversies with our franchisees or actions against us by their independent sales agents or employees or third parties with which our franchisees have business relationships;
- our inability to achieve or maintain cost savings and other benefits from our restructuring activities;
- our inability to realize the benefits from acquisitions due to the loss of key personnel or productive agents of the acquired companies, as well as the possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes or stricter interpretations of any of the foregoing, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales agents to employee status, (2) RESPA or state consumer protection or similar laws and (3) privacy or data security laws and regulations;
- any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards as well as any adverse impact of decisions to voluntarily modify business arrangements or enter into settlement agreements to avoid the risk of protracted and costly litigation or other proceedings;
- risks and growing costs related to cybersecurity threats to our data and customer, franchisee, employee and independent sales agent data, including but not limited to the failure or significant disruption of our operations and our obligations with respect to lost data, the increasing level and sophistication of cybersecurity attacks aimed at compromising our systems and data (including via systems not directly controlled by us, such as those maintained by our franchisees, affiliated independent sales agents, joint venture partners and third party service providers, including our third-party relocation service providers), and the reputational or financial risks associated with a loss of data or material data breach or the diversion of homesale transaction closing funds;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt;

- risks relating to our ability to refinance or repay our indebtedness, incur additional indebtedness or return capital to stockholders;
- our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;
- risks that could materially adversely impact our equity investment in our mortgage origination joint venture, including increases in mortgage rates, the impact of the transition from our former joint venture to our new joint venture, or operational or liquidity risks that may be faced by the joint venture, such as, regulatory changes, litigation, investigations and inquiries, or any termination of the venture;
- risks relating to the unfavorable impact on homesale activity due to severe weather events or natural disasters;
- any remaining resolutions or outcomes with respect to contingent liabilities of our former parent, Cendant Corporation ("Cendant"), under the Separation and Distribution Agreement and the Tax Sharing Agreement (described elsewhere in this Annual Report and incorporated by reference as exhibits to this Annual Report), including any adverse impact on our future cash flows; and
- new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under "Item 1A.—Risk Factors" and "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in this Annual Report, our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

TRADEMARKS AND SERVICE MARKS

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this Annual Report include the CENTURY 21®, COLDWELL BANKER®, ERA®, CORCORAN®, COLDWELL BANKER COMMERCIAL®, SOTHEBY'S INTERNATIONAL REALTY®, BETTER HOMES AND GARDENS® Real Estate, CLIMB REAL ESTATE®, CARTUS®, ZIPREALTY® and ZAPLABS® marks, which are registered in the United States and/or registered or pending registration in other jurisdictions, as appropriate to the needs of our relevant business. Each trademark, trade name or service mark of any other company appearing in this Annual Report is owned by such company.

MARKET AND INDUSTRY DATA AND FORECASTS

This Annual Report includes data, forecasts and information obtained from independent trade associations, industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. As noted in this Annual Report, the National Association of Realtors ("NAR"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") were the primary sources for third-party industry data and forecasts. While data provided by NAR and Fannie Mae are two indicators of the direction of the residential housing market, we believe that homesale statistics will continue to vary between us and NAR and Fannie Mae because:

- they use survey data and estimates in their historical reports and forecasting models, which are subject to sampling error, whereas we use data based on actual reported results;
- there are geographical differences and concentrations in the markets in which we operate versus the national market. For example, many of our company owned brokerage offices are geographically located where average homesale prices are generally higher than the national average and therefore NAR survey data will not correlate with NRT's results;
- comparability is also impaired due to NAR's utilization of seasonally adjusted annualized rates whereas we report actual period-over-period changes and their use of median price for their forecasts compared to our average price;

- NAR historical data is subject to periodic review and revision and these revisions have been and could be material in the future; and
- NAR and Fannie Mae generally update their forecasts on a monthly basis and a subsequent forecast may change materially from a forecast that was previously issued.

While we believe that the industry data presented herein is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone.

Forecasts regarding rates of home ownership, median sales price, volume of homesales, and other metrics included in this Annual Report to describe the housing industry are inherently uncertain or speculative in nature and actual results for any period could materially differ. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on market data currently available to us. While we are not aware of any misstatements regarding industry data provided herein, our estimates involve risks and uncertainties and are subject to change based upon various factors, including those discussed under the headings "Risk Factors" and "Forward-Looking Statements." Similarly, we believe our internal research is reliable, even though such research has not been verified by any independent sources.

Pages Omitted From Excerpt

Exhibit Q

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2018
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 001-35674

REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)

Commission File No. 333-148153

REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)

Delaware
(State or other jurisdiction of incorporation or organization)

175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☐ No ☑

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files).

Realogy Holdings Corp. Yes ☑ No ☐ Realogy Group LLC Yes ☑ No ☐

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies, or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
Realogy Holdings Corp.	☑	☐	☐	☐	☐
Realogy Group LLC	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).

Realogy Holdings Corp. Yes ☐ No ☑ Realogy Group LLC Yes ☐ No ☑

There were 124,021,855 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of August 1, 2018.

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RECENT DEVELOPMENTS

Key Strategic Imperatives

The core of our integrated business strategy is aimed at growing the base of productive independent sales agents at our company owned and franchisee brokerages and providing them with compelling data and technology products and services to make them more productive and their businesses more profitable. This strategy seeks to capitalize on the addressable market of commission revenues, which was an estimated $70 billion in 2017, and which we believe will continue to expand over the coming years due to strong demographic tailwinds.

NRT remains focused on the recruitment, retention and development of productive independent sales agents, which we anticipate will be strengthened by our increasing utilization of advanced data analytics. We believe our adoption of a more data-driven strategy, together with strong product and services offerings, will further sharpen our productivity, recruitment and retention objectives. This is intended to allow us to provide more competitive and consistent products, services and pricing to existing and newly recruited independent sales agents, including through the expanded use of service and compensation models other than the traditional model.

In addition, RFG is in the initial stages of implementing strategic initiatives intended to add new franchisees, thereby expanding the base of independent sales agents affiliated with our franchisees. These initiatives are expected to build on our current technology offerings and include greater differentiation of RFG’s brands. We also expect to expand RFG’s historical scope of potential franchisee candidates.

We believe that the successful execution of these strategies and the associated increase in productive independent sales agents and homesale transaction volume will generate Operating EBITDA growth over time.

Leadership Realignment and Other Restructuring Activities

Beginning in the first quarter of 2018, the Company commenced the implementation of a plan to drive our business forward and enhance stockholder value. The key aspects of this plan include senior leadership realignment, an enhanced focus on technology and talent, as well as further attention on office footprint and other operational efficiencies, including the consolidation of certain support services provided to NRT and RFG.

Total expected restructuring costs of approximately $48 million are currently anticipated to be incurred through the end of 2018. As of June 30, 2018, cost savings related to the restructuring activities were estimated to be approximately $50 million on an annual run rate basis.

The following table reflects the total amount of restructuring costs for the Company's restructuring program related to leadership realignment and other restructuring activities by reportable segment:

	Total amount expected to be incurred	Amount incurred to date	Total amount remaining to be incurred
RFG	$ 2	$ 2	$ —
NRT	29	20	9
Cartus	9	9	—
TRG	1	1	—
Corporate and Other	7	2	5
Total	$ 48	$ 34	$ 14

Pages Omitted From Excerpt

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SASA TANASKOVIC, *Plaintiff*, -v.- REALOGY HOLDINGS CORP., *et al.*, *Defendants*.	Civil Action No. 2:19-cv-15053-SRC-CLW

[PROPOSED] ORDER GRANTING MOTION TO DISMISS

This matter comes before the Court on Defendants' Motion to Dismiss the Amended Class Action Complaint pursuant to Rules 8(a), 9(b), and 12(b)(6) of the Federal Rules of Civil Procedure and Section 101(b) of the Private Securities Litigation Reform Act. Having read and considered the motion, the memoranda, all papers filed in support of and in opposition to the motion, and having heard argument of counsel, and for good cause shown,

IT IS on this ______ day __________ , 2020,

ORDERED that the Motion is **GRANTED**; and it is further

ORDERED that the Consolidated Class Action Complaint (ECF No. 27) is **DISMISSED WITH PREJUDICE** in its entirety.

HON. STANLEY R. CHESLER,
UNITED STATES DISTRICT JUDGE

____