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CORPORATE PARTICIPANTS

Alicia Swift *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*
Ryan M. Schneider *Realogy Holdings Corp. - CEO, President & Director*
Timothy B. Gustavson *Realogy Holdings Corp. - Senior VP, Interim CFO, CAO, Controller & Treasurer*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JP Morgan Chase & Co, Research Division - Senior Analyst*
Carter Andrew Trent *Stephens Inc., Research Division - Associate*
Edward Christopher Gamaitoni *Compass Point Research & Trading, LLC, Research Division - MD & Assistant Director of Research*
Jason Scott Deleeuw *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*
John Gregory Micenko *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*
Matthew Adrien Bouley *Barclays Bank PLC, Research Division - VP*
Ryan McKeveny *Zelman & Associates LLC - Director of Research*
Stephen Kim *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team*
Thomas Patrick Mcjoynt-Griffith *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

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.