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PRESENTATION

Operator

Good afternoon and welcome to the Realogy Holdings Corporation first-quarter 2013 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 tomorrow. A webcast replay will also be made available on the Company's website until May 15. At this time, I would like to the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corporation - SVP*

Thank you. Good afternoon and welcome to Realogy's first-quarter 2013 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 a reminder for webcast participants you will need to advance the slides by clicking the forward arrow on the bottom right of the screen beneath the webcast player as we move through today's presentation.

Starting with slide three, I would like to call your attention to two items. First, you should have access to a copy of our financial results press release for the quarter ended March 31, 2013, which we have filed with the Securities and Exchange Commission. The press release is available on the information section of our website as well as a copy of today's webcast slides. Also certain non-GAAP financial measures will be discussed on this call and these measures are defined and reconciled to the most comparable GAAP measures in our press release.

Second, the Company will be making statements about its future results and other forward-looking statements during this call. Statements about future results made during the call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

The Company cautions that these statements are not guarantees of future performance. 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 1, 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, our 2012 Form 10-K, our Form 10-Q filed earlier today and other SEC filings.

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

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Thank you, Alicia, and good afternoon, everyone. We appreciate you joining our call as we report on our first-quarter 2013 financial results and operating performance.

We are pleased with our first-quarter results which, given the seasonality of our business, is our weakest quarter of any year. In looking at two key benchmarks for our performance on slide 4, both net revenue and adjusted EBITDA improved significantly from the same period a year ago. Net revenue for the quarter was $957 million, an $82 million increase or 9% improvement over the first quarter of 2012. Adjusted EBITDA was $71 million which was a gain of 34% versus a year ago. We continue to make solid progress in deleveraging our balance sheet. In the month of April we redeemed a total of approximately (technical difficulty) $330 million of debt which constituted all of our outstanding Senior Subordinated Notes and 12% Senior Notes.

The first-quarter improvements in our financial results were largely due to our operational performance. Specifically the combined sales volume from the franchise and Company real estate services segments increased 14% year over year, which was at the top end of the transaction volume range we provided during our call in February. With one less business day in the first quarter of 2012, our sales volume was adversely affected by about 2 percentage points. By comparison, on slide 5, the National Association of Realtors, we often refer to as NAR, reported an 18% year-over-year increase in sales volume on the same basis for the first quarter of 2013. I would note that NAR has downwardly revised its monthly survey transaction volume figures in 10 of the last 14 months.

As we have discussed on previous occasions, over the longer horizon we expect Realogy's actual results to be more in line with NAR's survey results. However, over the short term, our results may vary based largely on the difference in the mix of business and the market concentrations of our Company-owned offices.

For instance, if you consider the last 12 months for the period ending March 2013, our volume increase of sides times price was 19%, more closely aligned with NAR's 18% volume increase during that same period.

Despite low inventory levels in the first quarter, transaction volume growth was strong. We are seeing strong demand and exceptional affordability, which is driving higher home sales and higher average home sale prices.

Another factor that had an impact on the first quarter was the delayed closings of many of our open transactions. We believe this is just a timing issue, though because our Company-owned offices reported historically low cancellation rates of approximately 9% in the first quarter, which is the lowest rate we have experienced during the first quarter in the past 10 years. Clearly, with the demand for higher -- with demand for inventory so high in many markets at certain price points, buyers are reluctant to walk away from contracts, given their concern about finding an alternative home to buy.

Another indication of the strength of the market is the percentage of home sale transactions we are involved in that included multiple offers. Multiple offers appear to be predominantly associated with higher priced homes. NRT, which has an average sell price of approximately twice the national average, reports that year-to-date through March, 47% of its transactions involved multiple offers.

Now moving to slide 6, our business units and the Company performed well against our strategic objectives. The first-quarter 2013 highlights included the following accomplishment. RFG, our franchise side, generated new franchise sales and sales associates totaling $68 million in gross commission income or GCI, which was an increase of 42% over the first quarter of last year.

Our luxury real estate brands, Sotheby's International Realty, recently won Franchise Business Review's best in category award for real state franchisee satisfaction for the sixth year in a row and ranked overall among all large franchises.

In an annual study conducted by a global market research firm, consumers identified CENTURY 21 as the most respected brand in the real estate industry. CENTURY 21 achieved 96% aided brand awareness, maintaining a lead it has held since 1999.

Coldwell Banker earned distinction for its agent training platform, ranking third overall and No. 1 among real estate companies on the Training Magazine Top 125 list of best training organizations. Cartus and CENTURY 21 also earned top honors.

Earlier today, NRT was ranked as the No. 1 residential real estate brokerage firm in the nation by REAL Trends for the 16th consecutive year, ranking highest by sales volume and closed transaction sides. NRT's 2012 sales volume of $128.7 billion pro forma for acquisitions is three times higher than the next largest brokerage firm.

In late March and early April, NRT completed three accretive tuck-in acquisitions in Florida. These acquisitions enabled NRT to expand its footprint into two new markets.

Turning to slide 7, Cartus signed 32 new clients for the first quarter and also expanded the scope of services provided for 84 of its existing clients, the impact of which is expected to benefit future quarters.

TRG's title and settlement capture rates on NRT home sales improved to 41% in the first quarter. That is up from 39% in the first quarter of last year. TRG's underwriter reported a 22% increase in first-quarter net premiums year over year and its underwriting claims experience for the quarter was less than 1%, which continues to substantially outperform the industry average loss ratio.

And we are extremely proud to have been named one of the Worlds Most Ethical Companies for the second consecutive year by Ethisphere Institute, a leading international business ethics think tank.

So now let's move on to the current operating environment on slide eight, specifically the industry forecast for the remainder of 2013.

Consistent with our results in the first quarter, NAR is forecasting a 15% increase in sales volume for full-year 2013. That is made up of a 7% increase in existing home sale units to 5 million units for the year and an 8% increase in median homesale price to $190,100. Fannie Mae is forecasting a 12% increase in 2013 sales volume. That is comprised of a 7% improvement in existing homesales to 5 million units and a 5% increase in median sale price to $186,000.

Remember, in a steady state, for every 1% increase or decrease in homesale transaction sides or average sales price, there was a corresponding $12 million impact on Realogy's EBITDA in 2012. As the housing market continues to improve, we expect this sensitivity to increase.

NAR's most recent report showed March inventory at 1.93 million units, which is 17% lower than a year ago, and equates to a 4.7 months' supply, a 24% decrease from the same period a year ago, but a 9% increase from January to March. We are also seeing increases in the majority of our markets and we expect inventory levels to continue to increase in the second quarter.

There are two other factors that should contribute to improved inventory levels -- rising home prices and new home construction. CoreLogic reported that 1.7 million homes regained positive equity in 2012 and projects that an additional 1.8 million homes will regain positive equity if home prices rise by another 5%. We believe it is reasonable to expect previously underwater homeowners to move back into the market as sellers. In its April release, the US Census Bureau reported single-family housing starts at a seasonally adjusted annual rate of 619,000 units in March. That is a 29% increase from March 2012 levels.

In addition, new single-family home sales were at a seasonally adjusted annual rate of 417,000 units for March of 2013. That is an 18% increase from a year ago. New home buyers are generally move-up buyers and when they purchase a new home, they add their previous home to the existing home inventory.

According to NAR, in 2012 there were 20 million renters whose income was above the level necessary to qualify to purchase the median home with a 20% down payment. And despite rising home prices, the most recent data from Trulia shows that buying a home is now more affordable than renting in all 100 of America's 100 largest metropolitan areas. Affordability is driving higher demand for housing, which, in turn, is leading to higher near-term price gains. On that point, the latest S&P/Case-Shiller Home Price Index released yesterday showed home price increases of 9.3% in February from a year ago, its largest growth rate in nearly 7 years. In addition all 20 cities in the index posted an increase in prices versus one year ago for the second straight month, the first time that has happened since 2005.

On the regulatory front, there is little news. The most pressing near-term issue is the Consumer Financial Protection Bureau's final definition of a Qualified Residential Mortgage or QRM. The previously announced Qualified Mortgage definition was not as onerous as some expected, which may indicate similar intentions with respect to QRM. Once the underwriting rules are established and understood, we believe the letters will gradually normalize mortgage underwriting standards, which should make it possible for more creditworthy borrowers to enter the housing market.

As we report today, the future direction of both Fannie Mae and Freddie Mac remains unclear and we do not see any near-term urgency from Congress or the Administration to tackle what clearly will be a long-term issue. In the interim, both are more profitable and in the near term represent less of a burden on the American taxpayer. Although we believe substantive and well-considered proposals have been presented, the Bipartisan Policy Center policy proposal of February 25, as an example, we do not expect material near-term changes in how Fannie and Freddie operate.

And on a final note, in June we announced that Realogy will host the FWD -- or Forward -- Innovation Summit, an invitation-only event designed to attract the best new real estate related products, technologies and services to compete for top honors as judged by a panel of real estate experts from the Realogy operating companies. The top honorees will have broad exposure to the Realogy real estate companies, which could accelerate the adoption rate of their service, technology or product. Approximately 20 emerging technology companies are expected to compete for top honors.

In closing, I want to reiterate our belief in the strength of the housing recovery. The trends we saw develop in the second quarter of last year were strengthened by the market conditions of both the third and fourth quarters and continued into 2013, contributing to the results we are reporting today. We continue to be bullish on the recovery and the long-term prospects for housing.

So with that, I will turn the call over to Tony.

Tony Hull - *Realogy Holdings Corporation - CFO*

Thank you, Richard. Let me make some brief comments on slide 9 before I discuss the results for the first quarter of 2013 in detail.

For the first quarter of 2013, Realogy's net revenue was $957 million, a 9% increase compared to the first quarter of 2012 and adjusted EBITDA was $71 million, an increase of 34% year over year.

Revenue increased 9% compared to volume increases of 14%. Revenue increases did not align and certainly did not align in the first quarter with volume increases because, first of all, NRT volume and revenue increased 11%, and it has the biggest impact on our revenue number. Second, Cartus revenue was flat in the quarter versus last year. RFG's net effective rate declined versus Q1 2012 and that put modest pressure on revenue compared to volume as well.

The adjusted EBITDA margin improved 100 basis points from the first quarter a year ago and incremental margins were 22% on the $82 million revenue increase. The first-quarter EBITDA of every year is historically the smallest contributor to the four quarters due to seasonality. In 2012, Q1 represented only 18% of volume and revenue and 8% of adjusted EBITDA for the full-year 2012. Fixed costs adversely of the business were spread evenly throughout the year.

The second and third quarters are Realogy's largest EBITDA contributors. Also average sales price is typically the lowest in the first quarter of every year and, sequentially, you will see declines in average sales price from Q4 of the previous year into the first quarter.

Finally, Realogy's net debt at March 31 was $4.1 billion and the Company had 145.4 million shares outstanding.

Next I will discuss our key revenue drivers from slide 10.

RFG homesale sides increased 6% year over year in Q1 and average homesale price increased 9%. RFG's price increase was influenced by the mix of Sotheby's International Realty where sides increased 19% from Q1 2012 to Q1 2013. The increase in sides would have been 8% with the same number of business days in 2012 equal to NAR's reported Q1 increase.

NRT homesale sides increased 5% year over year in Q1 compared with 2012. 7% on the same number of business days basis. And its average homesale price increased 6%. The greatest growth in unit sales occurred in NRT's lower-priced markets. Salt Lake City, Columbus, Cincinnati, Philadelphia, and Denver all experienced sides increases between 20% and 35%, with price increases ranging from flat to the high single digits.

California where inventory levels are substantially lower than a year ago, is seeing sharp increases in average sales price. Northern California saw units decline of 1%, but average sales price increase 16% and Southern California saw sides increased 5% and average sale price increase of 18%.

NRT's New York City operations experienced an average sale price decline due to the absence of a $126 million sale that closed in the first quarter of 2012 and a shift in mix as low interest rates and high rental rates created additional demand at the lower end of that market. Sales of homes priced under $1 million grew 9% in New York City, while homesales over $1 million grew by only 3%. These last items dampened NRT's overall price gains for the first quarter.

Just as an aside, Connecticut, Westchester, Dallas, Chicago, and Atlanta for NRT also experienced a 20% plus volume gains combined sides and price.

For the second quarter of 2013, based on April results as well as what we are seeing in our pending contracts, we expect to see between a 7% and 9% increase in transaction sides year over year for RFG and NRT combined. Average sales price looks like it will increase between 7% and 8% on a combined basis. As a result, Q2 transaction volume is expected to be up between 14% and 17% on a combined basis.

Average broker commission rates for Q1 2013 increased one basis point for NRT to 2.52% and were flat at 2.56% for RFG year over year, both despite increasing average sales price. Also, the Realogy Franchise Group's net effective royalty rate declined 18 basis points to 4.57% as its larger affiliates continued to achieve incentives for higher volume levels. RFG's top 250 companies represented 58% of total franchisee revenue in Q1 2013 versus 55% in 2012. The net effect of royalty rate should be looked at sequentially, and we expect that the net effective rate will remain at this approximate level during 2013.

Cartus referrals for Q1 increased 10% and relocation initiations decreased 4%. We are seeing a modest shift from traditional relocation activity to stronger results from referrals. As the year progresses, increased relocation activity from our existing and new clients should lead to incremental relocation revenue. Our current expectations for Cartus revenue in the second quarter is that it will be flat to a slight increase.

At TRG, Q1 2013 purchase unit volume increased 5%, which was consistent with NRT homesale gains. TRG's refinance units increased 11% in Q1 2013 compared to 2012.

Now let's look at revenue and EBITDA by business unit for Q1 2013 as shown on slide 11.

Total revenue at RFG increased $6 million in Q1 2013 versus 2012, while EBITDA increased $11 million. The 5% revenue increase was due to the increase in homesale sides and average price, partially offset by a decrease in the net effective royalty rate discussed earlier. RFG's EBITDA margin increased to 53% from 40% -- from 47% in Q1 of 2012, driven by the revenue increase combined with lower legal expenses and employee-related costs.

Revenue at NRT increased $69 million or 11% due to increased homesale transaction volume. NRT EBITDA was up $9 million and its margin improved by 200 basis points year over year. As we said before, NRT EBITDA in the first quarter has historically been negative as we generate our lowest revenue during the quarter, whereas our fixed operating costs are spread evenly throughout the year. Commission splits increased 83 basis points to 67% in Q1 year over year. NRT has been trending toward adjusting agent splits on anniversary dates rather than all at the beginning of the year for competitive reasons. So you'll see less variability during the year.

At Cartus, revenue was down $1 million year over year while EBITDA increased $6 million. Revenue decreased because of lower relocation volume partially offset by higher referrals. The referral business generally produces higher margins. Also positively impacting EBITDA were lower employee-related costs and favorable currency exchange rate gains. As a result margins increased to 11% in the first quarter from 5% in the first quarter of 2012.

At TRG, revenue increased $12 million or 14% as a result of increases in resale and refinance units and underwriter revenue. EBITDA increased $2 million and its margin increased 200 basis points to 4% due to higher volume.

Turning to other items on slide 12. With the $500 million financing we completed last week and the proceeds being used to redeem our 11.5% notes in May, cash interest should be about $300 million in 2013.

Capital expenditures will be about $55 million to $60 million for the year; cash taxes will be approximately $15 million to $20 million. This relates to foreign, state and alternative minimum taxes. Cash legacy payments will be about $10 million to $20 million, and working capital is expected to be a use of $25 million to $35 million in 2013.

In conjunction with the secondary offering, 62% of the Phantom Value Plan became payable in the second quarter. The eight senior executives who participated all elected to take stock in lieu of cash. These payments will have no effect on adjusted EBITDA, but will be reflected as compensation expense in EBITDA. We expect our shares outstanding in the second quarter to be approximately 146 million after reflecting this transaction.

As to the near term based on the visibility we have into the coming months, we anticipate overall transaction volume to gain 14% to 17% in the second quarter of 2013 on a combined basis compared to Q2 of 2012. As the market improves, we continue to stay focused on keeping expenses under control, growing profitable market share and de-leveraging with our free cash flow.

With that I will turn it over to the operator who will open up the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Adam.

Adam Rudiger - *BofA Merrill Lynch - Analyst*

Can you hear me?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

We can. Go ahead.

Adam Rudiger - *BofA Merrill Lynch - Analyst*

Sorry, it was silent for a little bit there. Thanks for taking my question. First I was, Tony, you mentioned the 67% commissions as a percentage of the expenses was supposed to moderate a little bit and you -- I didn't quite understand the explanation about the anniversarying of things. And last quarter I think when we talked, you alluded to that was somewhat of an issue you were working on because last quarter was around 69%. So could you just talk about what transpired to lead to the sequential change?

Tony Hull - *Realogy Holdings Corporation - CFO*

Sure. The -- we were just -- I think the increase looks much larger if you compare the first quarter of last year to the first quarter of this year, and one of the reasons for that is there was a lot of volatility last year. We went up pretty significantly as the year progressed.

And one change we made last year is in a lot of the markets, a lot of the agents reset on January 1 every year. That became a (technical difficulty) issue because all of our competitors knew that the agents were vulnerable on the first day of the year. So we moved a lot of those markets to anniversary of the agents' employment or excuse me, not employment, but the agent working with one of our brokers, and so that is going to spread. The resets instead of happening all on January 1, they are going to be spread during the year. So you'll see a much more stable split rate as the year progresses. As opposed to going from 64% in the first quarter up to 69% in the fourth quarter, should stay more equal during the year as a result of that change.

Adam Rudiger - *BofA Merrill Lynch - Analyst*

And the net effect of royalty rate just to make sure we understand, was the decline -- is it just purely the top producers getting their incentives and their rebates? And was there anything else at RFG that impacted the disconnect between the volume and the revenue growth?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Well, the only other thing that created disconnect which is I didn't mention, but the marketing revenue that's recognized is equivalent to the marketing expense we spent in the quarter. This is the advertising funds we have on behalf of our various brands. So we spent -- we just, because of the brands' marketing plans, we spent less in the first quarter of this year than we did in the first quarter of last year. So consequently we recognize less revenue in the first quarter this year than we -- versus last year. So that also had -- that on top of the net effect of royalty rate dampened the RFG revenue versus the volume.

Adam Rudiger - *BofA Merrill Lynch - Analyst*

And then was the decline in the royalty rates just the incentives and the larger producers?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

It is really just the fact that the top 250 continued to outperform. Again as I mentioned, the top 250 represented 58% of our -- of the revenue that we earn royalties on versus 55% a year ago.

Adam Rudiger - *BofA Merrill Lynch - Analyst*

Thanks for taking my questions.

Operator

Tony Paolone, JPMorgan.

Tony Paolone - *JPMorgan Chase & Co. - Analyst*

If we look at the NAR data for the -- or their projection for the full year, it seems like sides and price, up about 15, and that is kind of the ZIP code of where you guys were in the first quarter and where you seem to be trending for the second quarter. So it suggests that to hit those types of numbers, the second half will look pretty similar to the first half in terms of growth. And so my question is what type of macro backdrop do you think we need to see as we go into the back Of the year to support this continuation of this sort of midteens volume growth?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

I think a continuation of what we are seeing now. As you know, we don't spend a lot of time factoring in GDP growth, inflation, unemployment rates, et cetera. We tend to look at the raw operating data. So we see nothing but a continuation of what we have now because that is essentially what NAR is doing. I think Fannie Mae does that to some degree. I think we should see that Fannie Mae is accurately forecasting the year.

We may vary as you well know, based on the data we have provided, but it's sort of a continuation of what we see now. We are not expecting unemployment rates to change. We are settled into where we are and we don't see a lot of changing so -- and that's good. We are also not considering any particular change in the regulatory environment. So I think all things being equal, steady as she goes, this current environment should produce what both NAR and Fannie Mae are forecasting.

Tony Paolone - *JPMorgan Chase & Co. - Analyst*

And then, Tony, on the subject of incremental margins, just doing the math in the first quarter it was about 22%, but I know that's one quarter and it's based on the adjusted numbers. How should we look at that as we go into 2Q and 3Q just because they are meatier quarters and I know that the rule of thumb, the $12 million is kind of an annual number. I'm just trying to get a little bit more precision in the second and third quarters.

Tony Hull - *Realogy Holdings Corporation - CFO*

There is no precise science to this, but the first quarter sensitivity is a little bit lighter than the full year, and it is sort of made up in the second and third quarter. So, obviously, we didn't get the full benefit of it.

Last year I think it was $10 million in the first quarter versus $12 million for the first year for the full year of 2012. So it should be a little more robust in second, third quarter and probably a little bit lower in the fourth quarter. So it is probably, don't hold me to this, but it's 10, 13, 13, 11 or 12 would be the quarterly. Then you would have to divide all of those numbers by four, obviously, but that is the spread across the year.

Tony Paolone - *JPMorgan Chase & Co. - Analyst*

But for the full year you guys have talked about I think 25%, 30%, sort of incremental margins and that is still something you still feel pretty good about?

Tony Hull - *Realogy Holdings Corporation - CFO*

Yes, we don't give forecasts, so if you're trying to get a forecast out of me 00 but I guess, we sort of know -- I mean I think the first quarter gave you a good sense of expenses for the year because it cleans out the [Apollo] management fee and the retention that we had last year was not in the first quarter. So it gives you a good basis to reflect the full year fixed costs. Then it really is a factor of is NAR right or Fannie Mae right for the remainder of the year.

Tony Paolone - *JPMorgan Chase & Co. - Analyst*

And last question on the net effective royalty rates, what do the conditions need to be for the sort of, I guess -- are there types of offices with the lower producers, if you will, to start kicking in here and averaging that number up? And I guess along the same lines what -- is there a difference in the profile of those types of offices at this point? Either regionally or size that's driving (technical difficulty)?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Great question. I don't think it's at all dependent on the profile of the offices. It is really dependent on timing in the year. So the first quarter is not the best quarter to judge that. The second, third quarter becomes a far more robust quarter from that perspective. So more of the Tier 3 and 4 agents now participate (multiple speakers) so, franchisees. So you'll see that that will occur in the second and third quarters and become less pronounced, again, in the fourth quarter.

But again, I think it is not going to happen. As I say we gave you guidance, we didn't sort of, we gave you guidance on where we expect the net effect of royalty rate to be for the year. So we would not expect -- it is going to take a few years. It is not so much a quarterly thing, it is going to take a few years for smaller franchisees to play catch-up. So, at some point the larger franchisees will have grown so much that sort of naturally limited to the market growth at that point, the NAR growth at that point. And the other ones, that is when they will play catch-up and a few years out you'll start -- I think it will take a few years to see some improvement in the effect of royalty rate. It won't be second, third quarter, it'll be 14, 15 type of thing.

It does -- it is a ship that turns slowly.

Tony Paolone - *JPMorgan Chase & Co. - Analyst*

Got you. Thank you.

Operator

Dave Katz, JPMorgan.

David Katz - *JPMorgan - Analyst*

Two quick questions. The first was I know you don't provide guidance, but given that the 14% to 17% transaction volume, prior to that you had said mid, low to mid teens. Putting the numbers behind it, does that really indicate any change in thoughts on the second quarter?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

No, I think when we gave the -- whatever we said in the flesh, low to mid teens or whatever, it was still -- it was just early. We didn't have April, opens in April results, so now we do. So we have just much better clarity into the second quarter than we did even three weeks ago or four weeks ago, whenever we gave that guidance. So we said then we are going to refine the number and this is the refinement of the number.

David Katz - *JPMorgan - Analyst*

Okay, that makes sense. Then, secondly, given that the Company is now able and is generating strong free cash flow and following your newly proven ability to refinance at low coupon levels, what is the Company's thoughts on tendering for the 1.5 lien given that their expense of debt within the next year. And do you have any thoughts on paying down the term loan here early?

Tony Hull - *Realogy Holdings Corporation - CFO*

I think we would go after whether it is some of that 1.5 lien, debt becomes callable early 2015. We could tender forward, obviously we are always looking as I think we proved by what we just did last week. We are always looking to figure out ways to get our interest expense down as quickly as possible. And we will continue to do that. Whether -- how we do it is [TBD], average, have to think about all those things. But I think paying down the term loan is probably last on the list even though it is more expensive than the two-year deal we did last week. But still, so it is probably the lowest priority on our list of what we would go after.

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

I really like the way you are thinking, however.

David Katz - *JPMorgan - Analyst*

But to clarify, no plans to go after the 1.5 lien until they become officially callable?

Tony Hull - *Realogy Holdings Corporation - CFO*

I didn't say that.

David Katz - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Steven Kent, Goldman Sachs.

Steven Kent - *Goldman Sachs - Analyst*

Good afternoon. Could you talk a little bit more about why there's not more flow-through on the owned real estate broker offices especially given the very dramatic expense reductions? Is this just a quarter impact? Q1 is a light quarter for you and we really should be thinking about this over a 12-month period or is there something else here? And should we expect to see much greater flow-through over the next several quarters?

And finally, we are seeing many articles written about the lack of inventory in the market but why don't you think there has been more coming on to the inventory -- coming on to the market and why does inventory remain so low? Is there anything you can do as agents, brokers to accelerate that?

Tony Hull - *Realogy Holdings Corporation - CFO*

Well, two things on the flow-through. Of the $12 million -- 12 million per point, 10 million relates to NRT and 2 million relates to RFG. NRT was up 11% in the first quarter. So and as I mentioned earlier that $12 million number however you split it between NRT and -- it's not quite that high in the first quarter. So you put all those things together you can't -- it is going to be hard to do that calculation for just the first quarter.

But probably in the future even on an annual basis, it is probably helpful to think about the $12 million in its two pieces which is $10 million for NRT and $2 million for RFG. So I -- there's nothing that changes our view on that number. Obviously as we always say that number is all other things remain constant like an effective royalty rate and splits and all that kind of stuff.

So but the $12 million was good -- was a good number for 2012 and as we said, we expect that number to improve just because of operating leverage as the market continues to improve and there's nothing on an annual basis and there's nothing that would make us think that that number is going to go anywhere but flat or up depending on -- I mean if the market goes flat or up. So I am not concerned about flow-through. Richard is going to address the inventory.

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Yes, the inventory, you are right. There's pressure on inventory that's been demonstrated by just about everybody who follows the business. We mentioned the two incremental contributors to improved inventory. That materializes over time, both the underwater equity homes now coming into the money and, respectively, come back to the market as new inventory. The builders have to build new inventory so that the first-time homeowner can trade up. The move-out market is very important to increased inventory levels. We are also seeing as I indicated in our comments that we are seeing an improvement in our inventory levels in the various markets in which we operate.

So much of the media that we have seen up to now is sort of old news, it's not reflecting what people are seeing today. On a real-time basis, inventory levels are improving. Now the real question is by what margin are they going to improve. Early indications right now on a weekly basis because we monitor this weekly is we are seeing good high single-digit improvements in inventory levels. So we expect that to continue to build into the second quarter.

Hopefully that was responsive to your question.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Good evening. Maybe some color on the expected contribution in the second quarter from the recent acquisitions and then, also, if you could address how the retention of gross commission income has gone or how it is trending these days. I mean, you mentioned obviously (technical difficulty) are looking at some of your agents. Trying to get a feel about how you think about holding onto your people these days.

Tony Hull - *Realogy Holdings Corporation - CFO*

The retention of GCI continues to be strong and I think agent -- we are very focused on agent recruitment. So I think that's -- when you have 42,000 agents, you are going to lose some and you're going to gain some, but the bottom line is NRT is very focused on having a net pickup in not only number of agents but the revenue those agents produce. So, nothing has changed in those two categories.

The acquisitions we did in Florida will add about $20 million of revenue to NRT and about $1 million of EBITDA and those will start -- so it is not a huge -- obviously it is not a huge number. But we paid about four times run rate EBITDA for those. So obviously good return on investment and very accretive but not big enough to move the needle that much, unfortunately. But important to NRT and definitely local Florida company because it got them in two markets and they are fantastic acquisitions for them for the local operators in Florida.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then, maybe if you could address the volumes within TRG relative to volumes across the broader business from a purchase point of view. Should -- overall multiple quarter point of view, should we expect TRG volumes to track pretty close to the number of sides or is there some kind of market share dynamics going on?

Tony Hull - *Realogy Holdings Corporation - CFO*

The only things that they can capture, they being TRG can capture of NRT business, which is all they do capture because they don't work with our franchisees. They just work with NRT. Obviously, when someone is buying a home that is when they need the title and closing services. The seller is not involved in that. But having said that, assuming an equal buyer and seller universe at NRT, you would expect that their capture -- their volumes should go -- their purchase volumes should go up equivalently to NRT's transaction volume. And that is what we have seen.

The only thing is their capture rate, that is where they are really working hard to grow faster than NRT. Their capture rate was at 41% of that transaction universe that they are eligible to be involved in. It's 41% versus 39% in the first quarter last year. So they are making good inroads into improving that capture rate just probably due to rounding or whatever. It doesn't quite move the percentages, but it should be, the percentages should be a little -- if they are continuing to [incrue] their capture rate the percentage should be a little bit higher than the percentage growth of their purchase transaction should be a little bit higher than NRT's growth and sides.

Brandon Dobell - *William Blair & Company - Analyst*

Makes sense. Appreciate it. Thanks a lot.

Operator

Dan Oppenheim, Credit Suisse.

Dan Oppenheim - *Credit Suisse - Analyst*

One quick question. In terms of the agents that you are seeing, given the improvement in the market are you seeing more -- some new agents come into it which could essentially help your splits, your agents split over time in the NRT business?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Yes, you are very intuitive. As the market improves people who have shied away from the business get back into the business. NRT in particular has a very concerted effort to recruit, continue recruiting top-producing agents and also entry level agents for the obvious reasons. The splits are far more attractive as they start producing that, that has the expected impact on our retained dollar. Not only are we doing that, but our franchisees start doing the exact same thing on their own, independent of us.

So they are recruiting aggressively now. Listen, it is what the market will bear. So they will recruit agents as long as the volume is there and the upside is there. So we see that developing, it will continue into the -- deep into the second and third quarter. So we welcome that and that's a very good question.

Tony Hull - *Realogy Holdings Corporation - CFO*

Yes and as we have talked about before, the footprint for NRT's offices is about a 60% capacity utilization. So we can do a lot of recruiting and not have incremental fixed costs.

Dan Oppenheim - *Credit Suisse - Analyst*

Great. And --

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Our franchisees are pretty much in the same boat. They can accommodate the same kind of growth.

Dan Oppenheim - *Credit Suisse - Analyst*

Thanks, and in terms of the PHH business. Is there any color in terms of the numbers? Obviously if we think about the refi environment and such going down a bit, how should we think about that business in terms of the results there as you look at that moving forward?

Tony Hull - *Realogy Holdings Corporation - CFO*

It was pretty flat. I think it was down $1 million in the first quarter. So refi volume that obviously helped -- you saw that TRG's refi volume was up 11%. So despite the gloom and doom forecasts from all the experts on the refi volume, it continues to be very strong. So it is outperforming what the forecasts were. So that is a good thing. So it is holding up better than we thought and expect that to continue throughout the year.

Dan Oppenheim - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

David Ridley-Lane, Merrill Lynch.

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

Now that you have seen the price trends both first quarter and fourth quarter of last year, what do you estimate the mix, the tax related mix impact on price was in the fourth quarter?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Thought about that for a while. It was probably -- our guess is it probably added about $10 million or $15 million of EBITDA in the fourth -- I mean, sort of bringing it down to that level to the fourth quarter. That may be what you are getting at, but I will say it anyway is that is going to be somewhat -- that's something we have to overcome obviously in the fourth quarter of this year and that will be particularly at NRT. Their price is -- their average sales price is going to come under some pressure in the fourth quarter because it is a tough comp. Because most of those homes were $5 million plus homes that had $500,000 or more gain in them and that sort of thing. So I think that is where you're going to see the impact the most is on average sales price for NRT in the fourth quarter.

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

Got it. And when would you expect in this broader discussion on inventory, I didn't hear it, you mentioned bank-owned inventory starting to reappear on the market. Is that something you would expect? And (multiple speakers).

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

We do expect it. We keep expecting it and the folks who run our REO asset management business in Florida keep being told by their clients that it is coming, but we just have not seen it. It is surprising to me because all the legal issues are behind them and the challenges are behind them and there is a lot of -- there is a ton of inventory at the lower price point that would sell very vigorously. So it's -- at a price is much higher than they have on their books, I'm sure. But it is not there. It is still trickling, it is trickling in. It is aimed at proving very modestly, but it is not certainly not a deluge, and we would hope to get see that pick up during the year. But right now it is just modestly up.

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

Got it. And is the $26 million -- I was reading in the 10-Q, $26 million charge for the [same] stock. Where will that be in the P&L in the second quarter?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

It will be in G&A.

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

Got it. Thank you very much.

Operator

Michael Kim, CRT.

Michael Kim - *CRT Capital Group - Analyst*

First question is on M&A and noticed that you made a couple of acquisitions in Florida during the quarter. What are you seeing in terms of M&A opportunities right now? Are you focus on any particular geographies or do you get the sense that there's a lot of undercapitalized operators out there still with some sort of motivation to sell? Also if you could maybe comment on any opportunities in international markets, if any.

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Sure. As you know we have been very acquisitive over the years, principally small tuck-in acquisitions. We continue to be acquisitive. We are also very opportunistic.

I think you are coming out of the period where most independent operators have been through a very difficult period so a multiple of nothing is nothing. They need to get to the point where they actually have EBITDA positive so they can get back to some value creation for themselves. So we see that playing out in the few acquisitions that we have completed so far.

We have a very robust pipeline. These are typically very accretive tuck-in acquisitions. We are paying 4 and 5 multiple presynergy. We get 1 point, 2 point synergies and as you know we don't buy the brick and mortar. We just collapse the business into our existing footprint. So the pipeline is building. It is pretty attractive. It represents a number of opportunities in our markets where we clearly need to operate where we don't principally in the Southeast and Southwest. So those are attractive market targets for us. We think they represent a lot of upside from a real estate perspective.

But that is a skill set we know very well. We acquire well, we synergize the acquisitions extremely well. So that is news at 11. It is a strong and growing pipeline and we are very encouraged by what we see up to this point.

As for the international markets, we have no current plan to be an owner operator internationally. We think we need to continue down the path of growing our master franchise extension into those markets, watch and observe for the next 10, 15 years, and maybe some point -- at some point we become an acquirer, but there are no near-term plans to acquire internationally.

Michael Kim - *CRT Capital Group - Analyst*

Understood. I appreciate that, thank you. Next question is probably better suited for Tony, but based on any recent conversations with the rating agencies, have they provided any sort of guidance on metrics that they are focused on for further ratings upgrades? You know, obviously going to be de-leveraging pretty heavily over the next few years, but just curious as to what metrics they might be focused on for upgrades over the near term and perhaps credit metrics that they are focused on for investment grade ratings.

Tony Hull - *Realogy Holdings Corporation - CFO*

Well, the two metrics that they are very focused on are debt to EBITDA in their bizarre calculation of such things (multiple speakers) treat leases and stuff like that. And interest coverage ratios. And I think the difference, the difference between the two is I think S&P is -- seems to be more forward-looking and gives us credit for having $300 million of interest expense this year and Moody's doesn't. They are just much more conservative and they are still looking at 2012 debt as if we didn't pay off $330 million of debt and we are not about to pay off swap debt that costs 11.5 for debt that costs 3 3/8. So it's a constant challenge with them. But we keep fighting the fight. I think S&P is more forward-looking.

Michael Kim - *CRT Capital Group - Analyst*

Lastly just to follow up on the second-quarter guidance question, was there anything in particular during April that positively impacted the guidance range? Was there more volume or price or any sort of impact from mix between RFG or (multiple speakers)?

Tony Hull - *Realogy Holdings Corporation - CFO*

In this market it's very market specific. We are seeing a continuation of the trends that we went into detail on for NRT in the first quarter. The west, i.e., northern, southern California it is inventory constrained, very strong on price, whereas in the -- and in terms of this trend, we have been seeing it because of affordability for like six quarters at this point.

But in the Midwest and some of our lower-priced markets it is more about sides. The only difference is, I think, the Northeast is showing some more strength on sides than we have seen in April maybe because they -- I don't like to blame things on the weather, but they did have a terrible loss and obviously had a terrible winter. But we are seeing some good size growth there. And Florida, Atlanta, etc. -- Atlanta is probably our -- which had been one of our most challenged markets for many years is really strengthening. And Florida continues to see growth on both sides and price. So a little relief on inventory in Florida. We are seeing some good sides growth as well as price growth. So it is really market-specific.

Michael Kim - *CRT Capital Group - Analyst*

That's great color. Thank you very much.

Operator

Stephen Kim, Barclays.

Freda Zhuo - *Barclays Capital - Analyst*

This is actually Freda Zhuo on for Stephen. Just another follow-up on M&A. So how would you think about the opportunities for M&A versus just expanding organically and hiring new agents?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

Response to that, great question. We do all of the above and we always have. As you know the acquisitions are not in terms of the size and scale are not large acquisitions, but in the aggregate they are very meaningful and very impactful. So we will continue doing that. Those are we call them tuck-in acquisitions. Given our footprint it makes it possible for us to acquire on a very attractive basis, others not so because they don't have the existing operations in which to collapse the acquired assets. So those are very accretive, very attractive, and we have done them since '96, we are going to continue doing that. Large regional acquisitions are few and far between. But over the next several years, we expect that some of those will develop as well.

As to the balance of -- we naturally in the business we grow by recruiting agents. We do that on the franchise size, we sell franchises. We help our franchisees grow. We help them recruit agents and that is all good old-fashioned pure organic growth, very little if any cost in any of that. So the margins are very attractive. On the NRT side, we do the same. NRT, just think of it as one of our franchisees. They grow through acquisitions. They grow by moving into new markets on through acquisitions and they grow by recruiting agents and making them less Tier 3 and Tier 4 agents more productive than they would have been otherwise.

So the answer to your question is we have to do all of those and we have historically and will continue doing that.

Freda Zhuo - *Barclays Capital - Analyst*

Great. And turning our attention to Cartus. In the fourth quarter you mentioned that the decline initiations was largely due to concerns in Washington. Is this still the case? Any movement on that front? Any additional color on that and why initiations have continued to decline? We greatly appreciate it.

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

There are a lot of concerns about Washington but we [can't attribute] all those to the concerns at Cartus. Cartus, I think, that reflects the environment. Businesses are less apt to commit capital in a way of human capital resources from one city to another or one market to another until they know what is on the horizon. So I think corporate America is being hesitant and cautious. They are still relocating employees, but perhaps not as robustly as they would otherwise.

So they are waiting for the horizon to shape up a little bit and they are in sort of the wait and see status. And I don't see any immediate change in that. So I think there's a lot of hesitancy on the part of our clients and as you know, we represent a substantial portion of the Fortune 50. So they are being cautious in their commitment of benefit dollars to move employees between their various locations. We'll see what that looks like in the second quarter. Some of those -- that hesitancy in the fourth quarter continued into the first quarter.

Freda Zhuo - *Barclays Capital - Analyst*

And are you expecting that to continue into the second quarter and beyond?

Tony Hull - *Realogy Holdings Corporation - CFO*

Well, I think what you are going to see later in the year is some of the -- they've a very robust pipeline of new clients and expanding services with existing clients. So I think what we're going to see is the impact of that as the year progresses.

Freda Zhuo - *Barclays Capital - Analyst*

Great. Thanks so much.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Good afternoon and thanks for putting me in. Most of my company's specific questions have been answered so I guess how do you think about rising home prices in an environment in which appraisals might somewhat lag that or hold back price appreciation and then lock in negative equity? What are you seeing on the ground in this regard?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

That is a great question. We see that playing out in virtually every market and it is catching up to the current pricing environment. Appraisers, as you know, are very reluctant. They are being told by their lender clients to be very reluctant to price the market but they are, they are being forced into that because the rising price environment.

So we see a spread between what appraisers are saying, that a home's value is in a variety of different markets. That was a major issue in terms of getting loans approved. So the agents, the brokers are spending a lot of time handholding to get -- keep those deals together and get them closed. Coming a little less of an issue and as prices continue to increase, our view based on the markets in which we operate is that we will start to improve.

So that is not a permanent issue at all. That is a natural adjustment, just it will take time. And it will -- time will probably this year maybe a little bit in the next year. But we already see evidence of that and we are encouraged by that.

Will Randow - *Citigroup - Analyst*

Thanks for that and one follow-up on the Rio discussion just a few minutes ago. Seems like there may be an opportunity to broker institutional usual pools of homes in the near future as people flip and take the price appreciation. Are you finding a way to harness that activity from a corporate level and also are you seeing that in any specific markets?

Richard Smith - *Realogy Holdings Corporation - Chairman, CEO and President*

I think the way I would address that is that there is only one broker in the United States with size of scale large enough to deliver that service in every market in which they are currently investing. So listen, I wish them all well. They will all move into the market, they will all get their appreciated value on those assets. They are all going to exit at some point and we prospectively could be that turnkey provider. So again we are opportunistic.

We stay very focused on those kind of market trends and we are more than capable and certainly willing to assist them when they decide to exit those investments.

Will Randow - *Citigroup - Analyst*

I appreciate that. Thanks again.

Operator

There are no further questions in queue.

Alicia Swift - *Realogy Holdings Corporation - SVP*

Great. We thank you for taking the time to join us on the call and we look forward to speaking to you over the next quarter. Thank you.

Operator

Thank you for today's participation. This does conclude today's conference call. You may now disconnect.
