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Realogy Holdings Corp. (RLGY)

Moodys US Housing and Housing Finance Executive Series

CORPORATE PARTICIPANTS

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

OTHER PARTICIPANTS

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good afternoon. Well, now, I would like to invite Ed DeForest, our Vice President and Senior Credit Officer of our Corporate Finance Team; and Ryan Schneider, who is the CEO and President of Realogy Holdings.

Edmond DeForest

Analyst, Moody's Investors Service, Inc.

[ph] Christina (00:00:21), thank you. And again, I'm Edmond DeForest, I'm Senior Vice President of our Corporate Finance Team, covering a portfolio of business and consumer services companies, including Realogy. And we're joined today – I'm joined today by Ryan Schneider, who is the Chief Executive Officer of Realogy.

As the leading and most integrated provider of US residential real estate services and conversing franchise, brokerage, relocation, title and settlement as well as a mortgage joint venture, Realogy's moving real estate to what's next. The company's diverse brand portfolio includes Better Homes and Gardens, Century 21, Coldwell Banker, Coldwell Banker Commercial, Corcoran, ERA, Sotheby's International Realogy (sic) [Sotheby's International Realty] (00:01:08) among others.

Realogy has approximately 190,000 independent sales agents in the US and more than 135,000 independent sales agents in 117 other countries. Ryan joins Realogy in 2017, after nearly 15 years of senior leadership experience at Capital One Financial Corporation. Under his leadership, Realogy has been on a journey of transformation. Through this transformation, the company has better leveraged the power of its full service and integrated model, unmatched scale and size and technology investments to drive stronger operational and financial performance, cementing its position as the market leader in an evolving industry.

Now as a reminder, we do want this to be an interactive discussion, and would ask that you please submit your questions in the Q&A box on your screen below me. And we'll be able to sort through them and, hopefully, be able to spend some time on participant questions.

Good afternoon, Ryan, and thanks again for joining us today.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Well, Ed, thank you so much for having us. Really excited to be here.

QUESTION AND ANSWER SECTION

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Ryan, the post-COVID housing boom is pretty well seasoned at this point. A lot has been written about remote work driving a demand shift toward larger homes. further from urban centers. What are the preference changes that you're seeing from home buyers? So how else – what else has the buyer changed coming out of the pandemic?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah, Ed, that's a great question to start with. But before I even get to that question, let me just share a few things. I really appreciate you having us. This is a special time for Realogy. We're benefiting from our leadership position in the market in owned and franchised brokerage, not just with the strong housing market, but we're driving above-market growth, especially in luxury. We've got technology progress driving results. We're creating a really interesting integrated transaction experience that's driving a lot of title and mortgage earnings for us. And we've got real improvement in our balance sheet over the last 12 months that we're excited about. And all that comes together around our talent. LinkedIn just proactively named us to the top 50 companies for talent list recently. So we're so excited to be here.

Now, part of that excitement is the really strong housing market that you were asking about, right? And the first thing I would say, Ed, is, we're seeing a shift, right? People are working and living differently. And that's quite good for those of us in the housing industry, because it's really generating higher demand, right? Remote work is a force that we believe is here to stay. And we're seeing really substantial demographic – or excuse me, geographic shift because of that. The acceleration of people to some of the attractive tax and weather destinations is quite impressive. We have huge businesses in the Floridas and Texas' of the world. And the acceleration to the suburbs is also driving a very strong housing market right now.

But we also have two other things going on, right? We've got the demographic shifts of the millennials being in their prime home buying years. And frankly, the past 12 months has kind of catalyzed that population to grow their home ownership. And we see that in the data. And then, [indiscernible] (00:04:28), we're living in a record low interest rate time that is very helpful for people to navigate in this very high housing demand market, and be able to afford houses even as prices have been going up. So, we really see some sustained increase in demand in the housing market for those three reasons. We like it and then, as I said in my opening, we're very well positioned to capture that with our market leadership in owned and franchised brokerage, what we do with luxury leadership and some of the things we're doing to help these customers, make these transactions and these transitions in our lives more and more seamlessly.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

So is the – what are the benefits of your full service model in the evolved market today? What does it take to build that model at scale?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Well, I think there's a huge benefit to a full service model, given where the world is going, right? Customers want and I think will benefit from simpler, more integrated transaction experiences. While it's a really rare transaction, it is a complex one. And anything we can do to simplify that for a customer is important. And the way you simplify the transaction is to make all the pieces of it integrate and be easier, not just the buying or selling of the home, but the title part, the mortgage part, all the different pieces on it.

And we have all those parts of our company already and we have been investing in digital technology to better integrate those things and leverage that combination to both make it a better customer experience, but also drive better financial results, whether it's in the share gain side or the substantial increase in both our title and our mortgage economics over the last kind of 15 months.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.
Q

Okay. That was the – maybe from the from the sale side of the existing home sale market, how are things changing? We're hearing a lot about supply shortages? Is there really a supply shortage? What else has changed for the seller?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

So, the biggest thing that's changed is just how much demand is up, right? Between the remote work, the geographic changes people are doing millennials, low interest rates, demand is up dramatically. Supply actually does not seem to be a shortage. Now, if we have more houses, we could sell them. But we're still taking more listings or as many listings as we took two years ago. Last year is a weird year to compare against. If you go back to 2019, we're taking as many or more listings as we did two years ago, but the demand means they are selling faster. And so the actual inventory numbers look lower.

And I think as a country, we're in – we all benefit if we can have more housing supply, right? And I'm rooting for the builders as much as we can. But I guess what I would say is, there's less to me of a supply shortage than much more just the demand is so much higher. And there's nothing magical about inventory, lots of businesses run with more kind of just in time inventory. But that's really the dynamic we see, because again the amount of supply coming to the market is as big or bigger than it was a couple of years ago, and there's more transactions.

What is interesting though is to watch what happens at the different price points. The biggest inventory challenges are in the lowest price points. The inventory at $250,000 and below or $500,000 and below price points is down dramatically, whereas the inventory in the $750,000 and up or $1 million and up areas is down, but down somewhat much more muted. And our leadership position in our business skews a little more on the luxury side. So we may feel a little less of that pressure every day than the broader market. But we still like the listings quantity we're seeing, even if it's this very high demand, making those listings move faster.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.
Q

Right. It sounds like a yet another industry that maybe has been disrupted somewhat by technology. And how – what is technology's role in the changing real estate landscape?

Ryan M. Schneider A
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Well, it's phenomenal to watch how many customers continue to use agents, and in fact, use them even more in 2020 than in previous years as I think there is real value added to people having a trusted advisor taking them through what for most people is the largest financial transaction of their life and where a huge amount of wealth is concentrated. So, we really think there is a good future for agents in our industry, because they show the value and customers actually appreciate it.

Where I think the technologies have the biggest impact is how do you help those agents be much more successful, whether it's productivity, efficiency, et cetera, and how it makes the customers' life easier. And I'll give you a real example, Ed. In 2018, we invested in a digital notarization process. So you don't have to go meet a notary and sign papers at the closing table. You can do it all virtually. And in 2018, nobody used it. Now, 2020 hits, COVID comes, and you've got massive acceleration for the health and safety side. But then agents and customers saw, well, that's actually a better customer experience than the other way of doing it. And so, we've seen phenomenal growth in it, 15 times usage growth compared to 2019. And we really like it.

We saw the same thing on our digital mortgage closing product. And to me, that is where technologies have the biggest impact in this industry, which is to simplify and make better and integrate the actual experiences that customers and agents use. And so, it's been less about the industry being displaced by technology, I would say, and more about the industry being augmented by technology. We like how our investments have translated into actual results in that area, especially when you look at our title and mortgage lines of our P&L.

Edmond DeForest Q
Analyst, Moody's Investors Service, Inc.

Okay. There's another evolution in the market place has been the rise of iBuyers and non-traditional homebuyers. How do you think about the competitive landscape in iBuying today?

Ryan M. Schneider A
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah, that's a great question, Ed. The change is substantial, and I predict it's going to continue to be substantial and primarily because of just how much capital has flowed into the industry, whether it's to the companies doing iBuying or trying to help customers swap from one home to their next home. And we've recognized for a couple of years that this has the potential to change how customers interact and do the real estate transaction.

So, about 18 months ago, we launched a different approach, that's a model where we actually give the customer a guaranteed offer on their house. But we actually make it good for like 45 days, and then we try to sell the house in the 45 days, the customer keeps the extra money, they pay a lower fee, and we think it's a better economic thing for them. But we're still giving them the assurance of a guarantee that their house is going to be able to sell. And we've really like what we've seen on that in the market. I told the world on my last earnings call, that we're going to invest much more in that. Since that call, we've already expanded from 11 to 21 markets, really excited by that expansion. And we're starting to go direct to consumer in our marketing that product, which will be a great complement to the agent and distribution we already have as you cited in your opening about our company.

So, we think there is change coming from the capital flowing into that iBuying phenomenon. We embrace it, and we think we're in actually a position to do well with that to help us win more listings and sell more homes for customers, while still providing them that backstop that can make the product attractive.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.
Q

Okay. Well, I'm going to take a question from the audience. And with average home prices in the US increasing over 10% over the last 12 months, there's a lot of concern about a scenario, where price rises can't be sustained and that, in fact, could lead to a reversal and some severe price declines. How do you think about the pricing trends? And is there a risk that there's a there's a balloon that's going to pop?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Well, I would say two things. One is, part of the reason that the – obviously, the pricing increases are happening is the massively higher demand. And I'm a believer in market forces. And we are seeing literally more transactions happening than in previous years. So you can envision a supply and demand curves moving up into the right in a powerful way for our industry. And we're obviously getting a lot of benefits from that.

And the fact that interest rates are at historic lows helps these price increases disproportionately be absorbable in a way that they wouldn't be in a bunch of other interest environment. So we have a good environment for that right now. I absolutely also share your worry about price rises at some point slowing down the housing demand, if there ever does become an affordability challenge or if rates go up substantially, but I guess I would say what we've never seen or in my time and looking back haven't seen is price rises then leading to price declines.

We've seen the same kind of price rise in certain geographies. So for example, you go back to parts of 2018 and 2019, Northern California had the same kind of double-digit price increases. And while it eventually slowed down the number of transactions in Northern California, we really didn't see housing prices ever retreat, frankly. So I'm more worried about the slowdown the price rises could drive than I am about it causing a retreat in housing prices. But we watch it closely. And again, we're in a very high demand world and that tends to be good for us and the fact that it's paired with a low rate environment is clearly making this more tolerable than it would be in a bunch of other environments.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.
Q

Okay. Our one of the other trends that's been written about is the rise of the proportion of especially what might have been traditionally first time homebuyers struggling to find financing and competing with some of these non-traditional buyers [indiscernible] (00:15:33) business models taking or growing fundamentally fairly modest share of market. And Realogy has responded to some those trends, including by offering rental in your suite of products. How do you see the mix of rent and buying, are there – is there a preference for new buyers to rent? Or is that more a function of financing availability and affordability?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Yeah. So for me it's coming down to actually in this area particularly frankly in inventory, right? I mean I think the fact that there are a lot of first-time buyers both from the millennial population and other populations is a good thing. It's a subset of the higher housing demand point that we're talking about. But unfortunately, the first-time buyer point is where the inventory is the lowest, right. Inventory for $250,000 homes is literally down 50% versus a year ago. So, the hardest place to make a transaction work is unfortunately at kind of the first time buyer entry.

And I think that force is much bigger than any of the things like the SFR companies buying some of those homes and things like that. I haven't seen credit be really the constraint. It has been more of an inventory constraint and then a little bit again of competition from other buyers, including the SFR folks. So, we want people in homes. We prefer a purchase over rental for our business sake, obviously. We try to help people in any scenario. But because our – most of our business skews higher end, our average price point, our own brokerage is like $600,000 compared to a $300,000 or $342,000 kind of US average, we don't have that first-time buyer lower price point constraint hitting our company as strong maybe as it hits the home market. But we do worry about it. And we watch on it. And again, we are rooting for as much new housing stock as can be built at all price levels in this country, because again it is the first-time buyer at the lower end of the price point, where the barriers at the moment are the hardest.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Okay. Is the – how do you feel about the potential for further regulatory developments that might address some of the – either the supply shortages or the difficulties that first-time homebuyers have? Is there – do you think the new administration might be more active than that it's been the case for the last couple of years?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. So, one of the things that we provide we think is part of the value of Realogy is the largest [indiscernible] (00:18:30) industry is we have a important presence in Washington D.C. We work directly with members of Congress and administrations of all parties, on anything that's for housing, we find the Chamber of Commerce to be a powerful partner. And we did a number of things at the start of COVID to try to help franchisees and independent contractors have the right access to government relief and we're really proud of that.

I'm excited anytime someone talks to me about something we can partner with them on to help first-time homebuyers. We've had conversations with national folks. I spoke to Governor Murphy here in New Jersey about potentially a first-time homebuyer program and we'll continue to talk with him and his administration about that. And we're rooting for all administrations to do more and more pro housing things definitely with first-time homebuyers. we also don't wade into it the same way. But we tend to again be very supportive of anything that will help just drive more housing stock in America, that's not just good for our business, We think it tends to be good – it's just good for society, especially when we see some of the pressures that we talk about here and even some of the fair housing things that we're a big supporter of. Greater housing stock will help with some of those issues.

So, that's a sense of – we're engaged in both federal and state on first-time homebuyer things as we speak. And we are using our position as the largest player in our industry to tell the story of what America needs in housing as much as possible to all the different constituents at both the federal and the state level.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Okay. There's kind of a follow-up question here on a rental from the audience. Is there – do you see a trend toward increases in leased single family housing? Is it more than the apartment complexes? And maybe, again, deeper into the lifecycle of single families, is it just the new buyer who maybe is choosing to lease or is it a trend you're seeing back in other cohorts, older population?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. We've not seen a big difference in rental trend among new rental – people moving in from homeowners to renters. We have not seen that. And we probably see the same data you do on single family rental companies and some of the private equity investments in housing stocks. But I think to steal your word at earlier, those are relatively modest, right? I mean when you talk about 6 million housing transactions a year and whatever 80 million single family homes or whatever the number is in the US right now, somebody buying 50,000 or 100,000 of those it's not nothing, but it's a really, really small share. And it's not the predominant trend, unlike either some of the demographic millennial stuff of just the higher demand from a remote work or the lower interest rates. So, we have not seen some big shift to people from homeowners to renters.

We are excited that the homeownership rates at least with demand is trying to go up, right? It kind of always hangs out around 65%. But it dipped for a little while after the Great Recession. It's now back to about 65% and we see the millennial group pushing that up. So, we root for more housing. But there's no real rental trend to us that we're seeing in the homeowner population that would defer than history at this point.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Okay. What are some of the other macroeconomic trends that that you're really watching as providing – you talked about supported financing conditions? And what are some of the other key drivers that are behind the strong market rate?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Well, look, I think the low rates is the biggest one, and to translate that into our reality, we have really gotten great results from building a new mortgage joint venture. Two or three years ago, we started a new mortgage joint venture. We didn't make any money on it right out of the gate. But we've got a great partner and guaranteed rate. We have massively grown our business in terms of covering our brokerage business, which gives us a great home field advantage. And then, the combination of low rates and their strong refi market combined with our strategic expansion has moved this from $15 million to 1-5 million to a $100-plus million business for us over the last couple years.

And we think that is a incredibly critical part of the integrated value proposition that we can provide kind of uniquely in this industry. And you compare our results to anybody else's on that, I think we've proved that. But, Ed, to your question, part of why we are getting that benefit is not just our strategic work, but the fact that the macro conditions have been favorable, especially around interest rates. And so we're excited about both our strategic progress and mortgage with some of our digital technology, our partnership and our geographic and loan officer coverage expansion. But we also have been and hope to continue to benefit from a strong rate environment that's good for housing, that's good for brokers, who have large scale mortgage businesses. And again, we're pretty unique in that regard.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Okay. Yeah, we've spoken a little bit now about maybe the entry level in the market, but as you pointed out, Ryan, you've got a real focus on the luxury end of the market. And any kind of trends that are maybe different or specifically important to that high-end market buyer, things like maybe foreign currency? Are you seeing changes in mix between US and non-US buyers in the US market?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

That's a great question, and a couple of things. So, we are the leading luxury player. We sell the most million-dollar-plus homes. Our Sotheby's International Realty brand is iconic and stands out there. Our Corcoran business, especially in the New York and Florida, Long Island area stands out there. And our Coldwell Banker business does a huge number of luxury things across its national and kind of global footprint. So, we really like the business.

I would say two things to your questions. One is, there is talk that a lot of the recovery post-COVID has been K-shaped. And luxury has probably had just proportionate benefits in many places. You've all seen the newspaper articles of how can the stock market be so strong and the rest of the economy be not as strong. The same thing happening at housing, right, luxury is the place. When we talk about remote work, that's mostly for white collar workers, right, who can live in different places, so the demand from that group of people skews luxury. And we benefit [indiscernible] (00:25:58). We really like that.

The second thing I would say is we are seeing New York City started to come back. It had the roughest ride through COVID. It's our second biggest market, and it's now moved to kind of positive volume growth compared to 2019 for the last few months and we really like it. And the most interesting thing there, Ed, to your question is, we have not yet seen the foreign buyers coming back. And that's a market where we typically have a big piece of our business from foreign buyers. But I was talking to my – the CEO of our Corcoran Brokerage yesterday, and she reiterated the strength we're seeing in New York both with existing condos and with new development condos that we have – and apartments that we do is coming domestically. And we've yet to have the foreign buyer come back. So that could be some more upside for the future.

So, we're excited about what we're seeing in luxury in part because this whole recovery is frankly skewed white collar and higher end. And it's showing up in all of our markets, but especially New York City, where again we usually have a lot of international buyers, but most of the recovery has been driven by domestic buyers, not international ones coming back yet.

Edmond DeForest
Analyst, Moody's Investors Service, Inc.

Q

Okay. Well, it's really interesting picture, it's still rapidly evolving. And always a really interesting space. Maybe I can conclude with one question just about the broker. A large driver a large driver of growth in your business is to be able to grow the number of agents and expansion of your existing brands, how is the broker change? Is it – I would assume from our emphasis that – in our discussion today about technology and integration that – maybe it's not the same kind of property focused individual that might have had in the past, but somebody who can really deliver a full suite of services and savvy about information. How is the broker evolving?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. So, if you're starting with the broker [indiscernible] (00:28:11) brokerage, right? Our value proposition to both agents and to our franchise owners continues to shift increasingly toward things like technology, things like that chance to create and integrate a transaction experience, to help make our brokerage partners and our agents more successful. If you talk about the agent as the broker in the New York City market, agents are known as brokers, the most important thing remains the customer relationship and the ability of the agent to drive business to them and for us to support them in doing that. Our job is to make them more successful by making their life easier by providing lead generation, by creating opportunities to get more productivity done. And we're focused on doing that both for our own agents as well as our franchisee's agents nationally and we like our progress and we think it's really shown up in our above market results. And we look forward to continue with it.

Edmond DeForest

Analyst, Moody's Investors Service, Inc.

Okay. Well, that's a – really appreciate you're spending some time with us today, Ryan. And always insightful hearing what's going on right on the ground in your brokerage offices at the moment. And thank you again for joining us on the call.

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Ed, thank you for having me. Hope you guys have a rest of the great afternoon.

Edmond DeForest

Analyst, Moody's Investors Service, Inc.

So, thank you. Thanks again, Ryan. And with that, we're out of our time and we'll conclude the webinar here. I want to thank all our speakers today and all of you for joining what we think has been a fantastic series, and a great webinar today.

The next installation of the US Housing and Housing Finance series will take place on June 17, day after tomorrow, where we will be joined by Thomas Toomey, the Chairman and CEO of UDR; and RuthAnne Visnauskas, the Commissioner and CEO of New York State Homes. If you haven't already done so, go register, you can click on your screen below. A reminder that there is also a survey on your screen, if you – we would appreciate it, if you would take a minute to complete this and let us know how we can continue to improve these webinars. And then finally, a webinar replay will be made available on a few business days for playback.

With that, thank you again, and have a great day.