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# EDITED TRANSCRIPT

RLGY - Q3 2014 Realogy Holdings Corp Earnings Call

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**Stephen Kim** *Barclays Capital - Analyst*

**Brandon Dobell** *William Blair & Company - Analyst*

**Adam Rudiger** *Wells Fargo Securities, LLC - Analyst*

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## PRESENTATION

**Operator**

Good morning. And welcome to the Realogy Holdings Corporation third quarter 2014 earnings conference call via Webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the Company's website later today.

A webcast replay will also be made available on the Company's website until November 19. At this time, I would like to turn the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

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**Alicia Swift** - *Realogy Holdings Corporation - SVP*

Thank you, Laurie. Good morning and welcome to Realogy's third quarter 2014 earnings conference call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith, and Chief Financial Officer, Tony Hull.

As shown on slide 3 of the presentation, the Company will be making statements about its future results and other forward-looking statements during this call. These statements are based on current expectations in the current economic environment.

Forward-looking statements and projections are inherently subject to significant economic, competitive, and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, November 5, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call and these measures are defined and reconciled to their most comparable GAAP measure in our press release. Now I will turn the call over to our Chairman, CEO and President, Richard Smith.

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

Thank you, Alicia and good morning. We appreciate you joining our call. We are pleased with our results for the third quarter as we continue to execute on the strategic initiatives we have discussed throughout the year, while simultaneously achieving the near-term goals important to our continued success.

The quarter produced strong cash flow, in part, due to our continued investment in growth and lower interest expense. As you will recall, during our second quarter earnings call, we provided a third quarter forecast for home sale transaction volume in a range of down 2% to plus 2% as compared to the prior year's results, which you will also recall was an exceptionally strong quarter in 2013.

We are pleased to report that our transaction volume for the third quarter this year was at the high end of the guidance, up 2% year over year on a combined basis for our Company-owned and franchise business segments.

As you can see in slide 4, Realogy Franchise Group, which we refer to as RFG, volume increased plus 3% compared to the National Association of Realtors, which was down 1% versus the third quarter of last year. On a component basis, RFG had an average sales price increase of 6% that was offset by a 3% decrease in transaction size.

NRT volume was up 1%, with price gains of 5%, partially offset by a 4% decline in size which included the positive impact of ZipRealty. We think it is impressive that our third quarter home sale transaction size were only modestly below the same period last year even in the face of difficult comparisons from the same quarter last year, which we believe was bolstered by accelerated home closings and a rising mortgage rate environment.

As we anticipated, home values, on a national basis, have recovered nicely since 2012. In the near term, we believe home prices will continue to appreciate year over year on a national basis but at a more moderate pace.

Regional performance varied widely, as one would expect to see in a recovering housing market. The south and west regions were the strongest with Realogy combined volume up 5%, whereas the Midwest was down 1% and the Northeast was down 3%.

Our free cash flow for the quarter was strong and is expected to continue through year end. And as we stated in the second quarter call, we expect to be well-positioned to retire the remaining 7 7/8% debt early next year, which is approximately $330 million. Again, a strong statement to the strength of the free cash flow characteristics of our business model, which we will discuss in detail during our Investor Day presentation which is currently scheduled for March of next year.

Now let me make some operational comments before I turn the call over to Tony. Turn to slide 5. As you will recall, we acquired ZipRealty for its innovative technology platform as well as its unique brokerage model, both of which offer us competitive advantages.

Our strategy is to customize the technology to the look and feel of each of our individual franchise brands and to expand and grow the ZipRealty owned and operated brokerage model. The customization of the technology is well underway and we expect to start deploying turnkey technology solutions to our franchisees in the middle of next year.

A broad range of our franchisees have already been exposed to the technology platform and the ground swell of interest strongly confirms our strategic premise. The brokerage operation and its 1,700 agents have been integrated into our Company-owned operating unit, and you'll recall is called NRT.

Plans are well underway to begin expanding the Zip brokerage operations early next year. Thus far, we are very pleased with our progress. Lanny Baker, the CEO of ZipRealty and his team are terrific additions to our Company. We continue to be excited about the strategic opportunities available to us as a result of this transaction.

On slide 6, RFG franchise sales were strong, posting a 20% gain September year to date with the addition of new domestic franchisees and sales associates with approximately $216 million in gross commission income, or GCI. NRT continued its successful acquisition strategy, completing four tuck-in acquisitions in California, Florida, Texas and Long Island, that added about $11 million in new GCI.

One of the acquisitions was a property management company in Dallas, Texas, which is the first acquisition for the new NRT Property Management Services division. Currently, we manage approximately 20,000 residential properties. As you may recall, property management is one of the growth initiatives we discussed during Investor Day last May.

NRT's technology initiatives, namely the consumer-facing lead generation projects, are progressing on schedule. Our test website went online in August and will be in a soft launch mode through the middle of next year. The site will market listings specific to the approximately 100 MLSs in which NRT currently operates and is intended to generate incremental buy-side leads through organic search.

Also, so far this near, NRT has been yet again successful in retaining well over 90% of its top producing sales associates. In October, Cartus was named the Relocation Management Company of the Year at the Asia Expat Management and Mobility Awards Ceremony held in Singapore. This is the third consecutive year in which Cartus has won this prestigious award.

Now as to the fourth quarter, we are expecting home sale volume to be in the range of plus 4% to plus 8% for the quarter, which reflects favorable comparisons against a weak fourth quarter in 2013. The range is comprised of transaction site increases of plus 1% to plus 3% for RFG and NRT combined and average sale price increases of plus 3% to plus 5%.

The fourth quarter will mark the first time this year we expect to see a year-over-year increase in transaction size. The moderating rate of price growth is consistent with the higher transaction side growth forecast.

As for next year, the more prominent forecasters of our industry are pointing to the continuation of the recovery into 2015, which you will see on slide 7. They are currently forecasting an average sales volume increase of 8% which we expect will be refined later in the fourth quarter.

Now as to the mortgage lending, we are encouraged by the news from both the FHFA and HUD that housing policy makers are focused on expanding credit availability. Director Watt of FHFA, HUD Secretary Castro's comments before the Mortgage Bankers Association Annual Convention made it clear that expanding the credit box is a high priority.

The final regulations pertaining to QM and QRM are a substance to next step in furthering that priority. The impact of these decisions will not be immediate but directionally are very positive for housing.

In summary, we are pleased with our progress against both our short and long-term goals. We completed the ZipRealty acquisition and its integration is proceeding as planned. The acquisition pipeline is robust and we believe the strategic investments we are making in our business will have long-term benefits and the free cash flow characteristics of our business remain very strong.

As the housing market recovery continues, we expect our substantial free cash flow will accrue to the benefit of our shareholders as we continue to delever our balance sheet. With that, I'll turn the call over to Tony and following Tony's comments, we'll be very pleased to take any questions you may have. Tony?

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Thank you, Richard. Turning to slide 8, let me make some comments about the third quarter. Revenue of $1.5 billion was down 1% compared to the same period in 2013, driven by expected lower refinanced buyers at TRG, partially offset by higher transaction volume at RFG.

Adjusted EBITDA was $287 million, slightly above last year's levels. This is a good outcome given the challenging comparisons against the strong third quarter 2013 results. Net income was $100 million in the quarter which is net of $71 million of GAAP income tax expense, $54 million of interest expense, $48 million of depreciation and amortization, and $6 million of ZipRealty-related transaction and integration costs.

The Company generated $234 million of free cash flow during the quarter, or $1.60 per share, an increase of 17% over the third quarter of 2013. Lastly, our net debt to adjusted EBITDA ratio was 4.8 times at September 30, 2014.

Next, I will discuss our key revenue drivers for the quarter on slide 9. RFG homesale sides decreased 3% year over year in the third quarter and average home sale price increased 6%. NRT homesale sides decreased 4% year over year compared to 2013 and its average home sale price improved 5%.

Average broker commission rate, or ABCR, decreased 2 basis points for RFG and 3 basis points for NRT in the quarter primarily due to the strong increase in average home sale prices we've experienced during the past several years. NRT specifically had several large home sale price transactions close in the third quarter, which affected its ABCR including two $70 million transactions in Southern California and New York City.

And a total of five $50 million transactions in Hawaii, New York City and the Hamptons. The high end continues to outperform the lower price segments as first time buyer activity is still below historical averages. Homes with price points above $750,000 represented 23% of the home sale volume at RFG, up from 20% in the prior year period. At NRT, those homes represented 50% of home sale volume, up from 47% in the prior year.

Looking at the other side of the coin, across RFG, the volume of home sales at price points under $300,000 in the third quarter of 2014 decreased to 42% of total home sale volume versus 45% in the previous year. We believe that both net effective royalty rate and split rate have stabilized around current level. RFG's net effective royalty rate is running at 4.48% year to date and continues to reflect the strong performance of our larger affiliates.

NRT's commission split was 68.4% for the quarter, which was an increase of 20 basis points compared to 2013 as the top two quartile sales associates continue to generate 90% of its gross commission income.

Now let's look at revenue and EBITDA for the third quarter of 2014 compared to the same period in 2013, as shown on slide 10. Revenue was down about 1%, primarily due to lower TRG revenue which declined 17% year over year due to a 63% decrease in refinanced units.

RFG EBITDA increased $3 million, primarily due to higher domestic franchisee transaction volume. NRT EBITDA increased $2 million on flat revenue, primarily due to a net decrease in management incentive accruals compared to last year and despite a $10 million increase in operating expenses from acquisitions made over the last 12 months.

Cartus EBITDA increased $2 million primarily due to the net impact of foreign currency exchange rate gains in the third quarter of 2014 compared to net losses in the third quarter of 2013. Finally, TRG EBITDA decreased $2 million, again, primarily due to lower refinanced-related earnings.

The income tax expense rate for the quarter was approximately 41%, calculated as income tax divided by income before taxes on P&L. Remember that the PHH Home Loans joint venture earnings are pre-tax earnings and should be included in income before taxes when calculating GAAP taxes.

Earnings per share in the fourth quarter could be positively impacted by certain discrete tax-related items and potentially impacted by non-cash mark-to-market adjustments on our interest rate swaps. The Company generated $234 million of free cash flow during the quarter and we anticipate that cash and cash equivalents will be about $400 million at year end.

Slide 11 provides additional cash flow guidance for 2014, including our estimate for the year of CapEx of $70 million to $75 million, cash interest of $230 million, working capital use of $25 million to $35 million, and then finally, cash taxes are expected to total $12 million to $15 million for 2014.

Based on the plus 4% to plus 8% volume guidance for the fourth quarter, shown on slide 12, we currently expect full year 2014 adjusted EBITDA to be between $765 million and $775 million. This implies Q4 adjusted EBITDA of between $155 million and $165 million, or 3% to 9% above Q4 2013 adjusted EBITDA.

The full-year adjusted EBITDA range is consistent with the margin guidance that we gave during our Investor Day in May. As you will recall, we indicated that overall adjusted EBITDA margins for the Company would be in the low to mid-14% range. When we gave the full-year margin guidance, it did not include the impact of ZipRealty but we expect to absorb the impact of that acquisition within that margin guidance for the year.

To summarize, we are pleased with our performance this quarter despite difficult comparisons. As shown on slide 13, while 2014 volume growth is expected to be muted relative to the previous two years, we have seen healthy improvement in seasonally adjusted annualized home sale transaction rate during the year.

The first quarter SAAR was 4.6 million homes. It rebounded to 4.9 million homes in the second quarter and reached 5.1 million homes in the third quarter of 2014, all according to NAR. Beyond that, while we don't have a crystal ball, especially as it relates to winter weather and the twists and turns of the economy, we believe that certain factors are lining up for us to see favorable transaction side comparisons in at least the first half of next year. These factors include an improving employment picture, growing home inventory, moderating price increases, and the unanticipated drop in mortgage rates we've seen over the last month or so.

Industry forecasts for the full year 2015 for existing home sale unit and median price indicate an average of 8% transaction volume growth. At that level of high-end gains, when added to our multi-pronged strategic initiatives, we expect to continue to generate strong free cash flow.

In addition, cash flow in future periods will be enhanced by our substantial NOL balance and related minimal cash taxes as well as declining cash interest requirements. We intend to use our free cash flow primarily to retire debt and invest in the growth of our business.

With that, I'll turn it over to the operator who will open this call for Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Your first question comes from Will Randow from Citigroup. Your line is open.

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**Will Randow** - *Citigroup - Analyst*

Good morning and thanks for taking my question.

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

Hey, Will.

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**Will Randow** - *Citigroup - Analyst*

In terms of thinking about NRT operating leverage into the fourth quarter on an incremental EBITDA basis, excluding PHH, how should we think about the ebbs and flows in regards to -- it's pretty easy year-on-year comps. Just want to get a sense of how you think about the year-over-year walk there?

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Well, we said on Investor Day, we expect the margins to be about 4.5% for this year. There may be a tiny bit of upside to that, that's built in for the full year. We haven't broken down by quarter but we think that Investor Day range that we gave is still relevant.

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**Will Randow** - *Citigroup - Analyst*

Got it. And Richard, your comments on the FHFA in terms of potential for overlays to drop or that credit box to open a bit, the recent Senior Loan Officer Survey about two days back showed some loosening in terms of overlays or loosening in terms of prime mortgage credit availability. Do you think that's kind of the first steps and you see it incremental, call it, loosening of credit and what's the time frame you think on that?

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

I do, Will. I think it's a first step. It's going to be a slow process because lenders are fundamentally not sure about the need to strip away many of the overlays that exist today.

Our own joint venture with PHH, they've stripped away a fair number of overlays and gotten comfortable with that. So they just need to stick their toe in the water and get it a little wet and I think they're doing that. So it's an incremental process. It will take a couple years.

But the good news is, it's started. So there -- and I don't see anything that happened last night that's going to fundamentally change that. So I think the lenders will get more comfortable and we'll see more and more of this credit overlay stripped away and a more favorable lending environment.

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**Will Randow** - *Citigroup - Analyst*

Thanks for that. And congrats on the quarter, guys.

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

Thank you very much.

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**Operator**

Your next question comes from the line of Stephen Kim of Barclays. Your line is open.

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**Stephen Kim** - *Barclays Capital - Analyst*

Thanks very much, guys. Good job on the quarter. I was wondering if you could talk a little bit more about some of the regionality of your prospects across the country.

We began hearing a little bit about the West Coast being a little softer. Was wondering if you could talk a little about the trends you're all seeing in New York City in Corcoran's business. And maybe if you could throw in there also how you're seeing your recently acquired operations contributing to your overall picture. Thanks.

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

For NRT, the three major acquisitions, which would have been Martha Turner, Frank Howard Allen and Zip, they added about 2.5% to 3% to the sides factor in the third quarter. So obviously helpful on that front.

The EBITDA from those acquisitions in the third quarter between what's recorded at RFG and what's recorded at NRT, so RFG's royalty and RFG's core operating EBITDA was about $5 million. So obviously, they're contributing nicely to NRT's bottom line.

In terms of regionality, what we saw for RFG was a little different than we saw for NRT but I'll just go through. The west region for RFG was the strongest. It was up 9%.

And the weakest for RFG was the Northeast which was down 4%. I'm talking volume size times price there. For NRT, their -- as opposed to the west region, their strongest region was the south. That was -- I would factor -- that's factoring in some Martha Turner helping us out. But they were up 10% in volume in the south.

And then actually, the west region was sort of flattish to up a couple points and then the Midwest and Northeast were actually each down a couple points. I think one thing we saw in the opens in October for NRT is pretty interesting, I think, which as opposed to what I just said about weakest in Northeast, we probably saw -- they were one of our strongest regions in October in terms of growth.

And the other sort of flip-flop we saw that we've been talking about all year was Northern California was flattish and Southern California, again, for the first time we've seen in probably two years which is obviously primarily Los Angeles, was actually stronger, was pretty strong for open.

It's nice to see some of those areas that have been historically a little bit on the weak side turning the corner and becoming stronger. So I think that -- we'd like to see that trend continue, obviously. So anyway, that's a lot of information but that's sort of what we're seeing.

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**Stephen Kim** - *Barclays Capital - Analyst*

Interesting. Okay. So quite a bit of a mixture there. Okay. Thanks for that, Tony. That's helpful. Second question I had related to the segment. I know you touched a little bit on it with the prognosis for opening or widening the credit box.

But can you talk about anything you've seen in terms of the entry level activity across the country? Have you begun to see any material or any real trend that you trust, indicating that there's been improvement at the lower end of the market?

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

There's been a marginal improvement. There's a lot of theories out there about the first time buyer. Fundamentally, we've been spending a lot of time in DC to encourage the FHA to strip away some of these very onerous fees.

If you think about it, you can get into a -- typical first time buyer can buy an FHA loan with about a 3.5% down payment and their closing fees are going to run 3%, which is difficult for most. They've been favorably inclined and to do something with the fees is going to take time as everything in DC takes time.

And I think that's one of the gates that could be opened that will make it easier for the first time buyer to transact. I think there are a number of other issues and there's a lot of discussion about the demographics and student debt and I think there's a combination of a lot of things.

But fundamentally, people still want to own and will, given the right circumstances. So we see a marginal improvement.

It needs to be far more robust and with stronger economic growth, I'm sure that will continue to be the case. The good news is, it's not going down. It is marginally improving.

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**Stephen Kim** - *Barclays Capital - Analyst*

Got it. Okay. Great. Thanks very much. We'll keep our fingers crossed.

**Operator**

Your next question is from Brandon Dobell of William Blair. Your line is open.

**Brandon Dobell** - *William Blair & Company - Analyst*

Thanks. Sticking with the entry level or first time buyers, should we expect when that eventual impact comes home to roost for you guys that, that should be a tailwind for some of the key metrics like commissions and that royalty rates for you or is it not big enough to make a difference? I'm obviously thinking about kind of over a longer-term perspective here.

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

No, it's a very large component of the prospective buying population. You traditionally would see a much stronger showing of first time buyers. This is one of those unusual housing recoveries where the first time buyer is sitting on the sidelines for all the reasons we just discussed. So absolutely without a doubt, this is a strong tailwind when they actually figure it out and become more active.

**Tony Hull** - *Realogy Holdings Corporation - CFO*

And then it should -- sorry, and it should, Brandon, it should take pressure off splits and net effective royalty rate to a modest degree. So I think it definitely helps units.

They're lower priced units so it helps ABCR. It's probably business transacted more via our web initiatives and those are better splits on the buy side. So I think overall, it's a positive for some of those metrics.

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

And we just think this is timing. Nothing -- we don't believe anything structural has changed. Look at all the data surveys of prospective first time buyers, clearly the intent is still there to own as opposed to rent. Just going to be a matter of time.

**Brandon Dobell** - *William Blair & Company - Analyst*

Got it. Okay. I think segueing from that on to technology initiatives, any sense now that you've had Zip for a little bit here how we should think about the pace of, I guess call it, technology spending from a broad perspective, whether internal technologies or spinning on technology-driven marketing? Just trying to get a better sense how the dollars should flow as we move into 2015 from a tech or IT perspective for you guys.

**Tony Hull** - *Realogy Holdings Corporation - CFO*

We've talked about that Zip will add about -- the technology piece of Zip will add about $10 million to our corporate overhead. That number is unchanged.

I think the most important thing is for us to get the platform ready for primetime with our -- with the bulk of our franchisees and that's being worked on very diligently and aggressively right now so we can really start to roll it out as early as next year as we can. So I think the spending is not as important as getting the platform out and we think the spending is well within what we thought it was going to be.

So that's not a concern. The real key is to get it rolled out to our franchisees as quickly as possible because there's -- as Richard said, there's a lot of interest and demand from our franchisees to get that platform.

**Brandon Dobell** - *William Blair & Company - Analyst*

Got it. And then final small one, the impact of those -- the handful of large transactions, so was that measured in a single digit basis points relative to commission splits for you guys in the quarter? Or was it a bigger impact than that on the --?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

And I'd say if it was one or two -- I'd be surprised. Really, at this point it's -- because Martha Turner, we're comparable splits and so was Frank Howard Allen, so it's really Zip has slower commission splits and we only owned that for like six weeks. So if it was 1 basis point or 2 basis points, I'd be comfortable with that kind of estimate.

**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. Great. Thanks a lot.

**Operator**

Your next question comes from the line of Adam Rudiger of Wells Fargo Securities. Your line is open.

**Adam Rudiger** - *Wells Fargo Securities, LLC - Analyst*

Hi. Thank you. I wanted to ask you a couple questions about the PHH venture. The first, I guess was a little bit of an increase in income year over year. I was wondering how much of that was impacted by just expenses versus any kind of improvement you've seen in refinancing given lower rates and really what your outlook was for that entity given the lower rate environment?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

It's the same. We haven't changed it. We haven't changed our guidance on that for the year. I mean, I think -- I don't think, most of the benefit year over year was in the third quarter last year. They were kind of bracing for the re-fi drop so there were some expenses there.

This quarter they benefited from some of those expense initiatives they've taken over the last 12 months, plus gain on sale on purchase was a little bit better in terms of profitability. So I think it's a combination of those two things.

But again, we haven't changed the full year and despite rates coming down to 4% on the 30-year unexpectedly, we monitor it every day but we're not seeing a lot of re-fi pick-up.

So we don't -- we're not counting on that in the fourth quarter in any way or for the year in any way; too soon for that but maybe it will have an impact next year. But it's still steady as she goes on the range that we gave for PHH.

**Adam Rudiger** - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you. The second questions was on the NRT website you've been talking about. I'm just curious, how much of the intent there is to try to help alleviate pressure on splits and how do you expect consumers, or home buyers to become aware of that site, given the strong brand names that are already out there? I guess I'm just wondering, should we expect a big marketing blitz that might impact expenses a bit next year?

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

I think I would -- this is Richard. I think I would look at it in a slightly different fashion. Agents, as you know, as independent contractors. So they generate their own business in the market.

Brokers, astute brokers, generate their business and distribute that business on a different set of economic terms which agents are very comfortable with, have grown accustomed to and that's exactly what our organic effort is all about, to generate our own in-house book of business and then distribute that on the basis that makes more sense to us essentially because we made the investment to generate the business.

And the beauty of organic search is you can generally do it without a lot of marketing spend. So you're not going to see consumer-based brand awareness spending. That would defeat the purpose. You're going to see good old-fashioned, local market organic search.

So the URL we have is so attractive from that perspective. You're not going to see a big increase in marketing spend to generate those organic leads, which again, we'll hand off to agents on a different set of economic terms.

So will it mitigate or enhance the split from our perspective? Sure, but that's what you would expect if you were going to make an investment in that kind of business.

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**Adam Rudiger** - *Wells Fargo Securities, LLC - Analyst*

Okay, so with this -- I'm trying to read between the lines. As you expect -- Would you expect your agents to not use those other aggregator sites as frequently then?

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

No, no, no. They -- listing agents are free spirit, independent contractors. They'll use everything

. So they'll use -- Those agents who are classified by us as e-agents, they're accustomed to and trained and very responsive to organically generated search leads and then there are those agents who will not be interested in it at all.

We have teams of agents who handle web-based leads. They do it quite effectively and they do it on the terms that we've outlined from an economic perspective.

This is a channel that we know well and is -- and we manage quite well. So it's good for the agents. It's good for us.

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**Adam Rudiger** - *Wells Fargo Securities, LLC - Analyst*

Thanks for taking my questions.

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**Operator**

Your next question comes from the line of Michael Dahl of Credit Suisse. Your line is open.

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**Michael Dahl** - *Credit Suisse - Analyst*

Hi. Thanks for taking my questions and for the helpful color. First question, Tony, on the -- I think you made a comment that the acquisitions added 2.5 to 3 points to NRT's 3Q sides. It says you look to the 4Q guidance. What type of impact is -- are acquisitions having if we think about plus 1% to 3% on sides? How --

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Very small, because that's combined NRT and RFG. I bet it's a 0.5 point on that, because RFG is the bulk of our sides in that equation. So it's not going to have a big impact on that 1% to 3%.

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**Michael Dahl** - *Credit Suisse - Analyst*

Was the comment about accelerated closings in 3Q, I'm just trying to reconcile, it's a 1% to 3% on sides seems like the market could end up doing even a bit better than that. So were some of the 4Q closings pulled into 3Q or was that a separate comment?

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Last year, yes, definitely -- or this year, I guess, I think Richard's comment on it.

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

No, not this year. That was last year. So that definitely occurred last year.

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**Michael Dahl** - *Credit Suisse - Analyst*

Okay. Second question on price. You called out some of the high end transactions, so I guess if we think about all the things going on with mix moving forward, you probably won't have that same level of super high-end transaction volume going forward, some things like Zip and the other acquisitions are a bit lower price point.

And to the extent that first time buyer eventually does come back, how do you think about your average price, I guess particularly in the NRT business over the next year, given some of these tough comparisons?

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

Well, you've got to remember, NRT's a collection of strategic acquisitions, specifically, we targeted brokers in various markets that enjoyed very high-end price points and that continues to be the case. I don't see that materially changing.

But as we add acquisitions in key markets that are important to us strategically, such as the Southwest, which we've mentioned a number of times, it's a market that we find very attractive. The volume of that business and the nature of that market will result in lower price points. But on the average, we'll have pulled NRT's average price down a bit. It will.

But it will be substantially offset by the volume increases from those strategic acquisitions. So I -- listen, the high end of the market continues to be very strong. We don't see anything changing there, probably both on price and most markets' units and I think NRT will continue to enjoy a much higher average sale price than the national average for the industry.

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Just to add, just the on-site business in New York City, a lot of the buildings that have been constructed over -- are being constructed, they're going to be completed next year. So that's going to really help average sales price for the Company as a whole.

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

If you're not familiar with that, as you know, through our Corcoran Sunshine Group in New York City, we are the on-site marketing arm for very substantial vertical developments and a lot of that new inventory is coming into the market next year, 2016 and 2017 and those are at very high average sale prices. That's sort of an incremental offset to some of the price discussion for NRT.

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**Michael Dahl** - *Credit Suisse - Analyst*

Okay. So you think between that business, maybe Southwest drags it down a bit, I guess net, do you still see room for average price growth for next year?

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

Yes, sure, absolutely.

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**Michael Dahl** - *Credit Suisse - Analyst*

Thank you.

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**Operator**

Your next question comes from the line of David Ridley-Lane of the Bank of America Merrill Lynch. Your line is open.

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

Sure. So wanted to get your view on the potential benefits you could see in the marketplace from lower mortgage interest rates, particularly if we hold around the 4% level into next year's selling season.

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

Well, listen, we think about all of those things, mortgage rates in particular when we think about the new year. It's a positive, right? I mean it's -- we don't see it materially going up.

But if it's in that 4% to 4.5% range, it will continue to be a very positive rate environment but I think all that was contemplated by those who are forecasting the year and for those of us who think about the year. I assume that most forecasters next year gave that consideration and they probably don't see a material change in rates.

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

Got it. And then heard you on the rollout of the back office software in Zip, but curious about the web-facing side of that, the Zap technology. Do you plan on implementing that across your Company-owned websites?

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

Actually, what's interesting about that, the 1,700 Zip agents are already embedded in NRT footprint and that technology goes with them. So as we decide to expand that into markets, which you've heard me mention that we intend to expand that into the Company-owned operations, you'll see us opening new markets next year, maybe even little bit before this year closes, and with the expansion of that brokerage model, we'll also go the technology.

That technology has the unique benefit of also being repackaged to be available to our franchisees on a select basis and we absolutely, without a doubt, fully expect to deploy that broadly to the franchise side of our business, which we're in the process of doing. So yes to all of that.

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

Got it. Just one more from me. On the fourth quarter sides guidance, is there a particular bias to a stronger result at either NRT or RFG?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

No, no, I think it's pretty similar for both.

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

So both in the one to three zip code then?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

Yes.

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

Okay, all right. Thank you.

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

You're welcome.

**Operator**

Your next question comes from the line of Eli Hackel of Goldman Sachs. Your line is open.

**Eli Hackel** - *Goldman Sachs - Analyst*

Thanks. Richard, at the beginning, you mentioned about the growth of your home management business. Can you just talk a little bit more about that and maybe the potential where that business has to go or how big it could potentially be?

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

Well, you can look at the size and the scale of some of the institutional property managers now and use that as a possible benchmark. That's a business you can either buy or you can build.

We're in a unique position of already having a core operation, so we fully expect, as we mentioned in our investor call last year, that we think this is an interesting business to build and grow through tuck-in acquisitions, or sort of bolt-on acquisitions. So it seems like a likely extension of what we do for a living and that's managing property for people who eventually not only do they want the income from the rental but they eventually want to sell.

So it's a great lead generator. It's also a very profitable business. I think very attractive margins, as we mentioned last year and we don't see any change to that. So it's an interesting organic grower. It's not going to be substantially material in the near term but eventually it will be one of our more relevant business units.

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**Eli Hackel** - *Goldman Sachs - Analyst*

Got it. And then I know you guys haven't given 2015 guidance or anything of such, but is it your intention just on commission splits and royalty rates, I mean, you went out I guess early -- late last year to say 2014 should be flattish. Is it your goal as you go through the cycle to at least keep those numbers generally flattish?

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

We work very hard every day to not ensure, because we can't guarantee anything, but we work very hard to affect that outcome.

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**Eli Hackel** - *Goldman Sachs - Analyst*

Okay. Thank you.

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

You're welcome.

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**Operator**

Your next question comes from the line of Jason Weaver of Sterne Agee. Your line is open.

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**Jason Weaver** - *Sterne, Agee & Leach - Analyst*

Good morning. Thanks for taking my question. I just had a few topics on the capital reallocation that you discussed briefly in your comments. First of all, the $300 million that you intend to pay down of the 7 7/8%, can you just clarify exactly what would be the dollar price you would pay that down at, after February 15, I think is the date.

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

It would be -- it's about $3.32 outstanding would be $3.45 with the call premium.

**Jason Weaver** - *Sterne, Agee & Leach - Analyst*

Okay. So it's like a $1.04.

**Tony Hull** - *Realogy Holdings Corporation - CFO*

Exactly.

**Jason Weaver** - *Sterne, Agee & Leach - Analyst*

Fair enough. Subsequent to that, what can you say about future either paydown of debt or otherwise return of capital, what avenues would you look to from that point?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

Well, our senior secured debt is the most restrictive and it also becomes callable, all of it becomes callable by 2016. So I think our first objective would be in terms of wanting to return capital to shareholders and being in a position to do that, would be to retire that debt in the 2015, 2016 time frame. And then the other governor on it is for the bulk of our debt is that we have to be under 4 times leverage.

So we would expect, as we continue to generate free cash flow and our EBITDA goes up and our debt goes down, that we should get towards that 4 times in the not too distant future. We've said repeatedly since the IPO that once we get to 3 times is when we want to start looking at ways to return capital to shareholders.

**Jason Weaver** - *Sterne, Agee & Leach - Analyst*

Fair enough. All right. Thank you. Congratulations on the quarter, guys.

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

Thank you very much.

**Operator**

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

**Jason Deleeuw** - *Piper Jaffray - Analyst*

Thanks and good morning. On the margins, it was good to see the EBITDA margins up and just looking at the guidance for the full year, it seems like -- I would have expected a little bit better fourth quarter implied EBITDA margins, just given the inflection point that we're seeing in the transaction volume and what we're seeing with the title business lapping the re-fi decline for last year.

So is there -- can you just give me the puts and takes for the fourth quarter margins? And then what's kind of the rule of thumb or how should we think about margins as we get into next year if the forecasts are right and we're going to have an acceleration in volume growth?

**Tony Hull** - *Realogy Holdings Corporation - CFO*

We didn't give that much detail on Q4. Again, we expect margins to be within the range that we gave at Investor Day or overall margins. We don't break it down by business unit. We gave 14.2% to 14.6% as the range for Investor Day.

So that will be in the -- that will be factored into the fourth quarter. And we're not giving guidance for next year. Obviously, there is operating leverage in this business, so we would expect margins to improve as the housing market continues to recover.

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**Jason Deleeuw** - *Piper Jaffray - Analyst*

Okay. And then -- thank you for that. And then on the first-time home buyer, we have some tailwinds with employment, the quality of inventory improving a little bit, but in your view, does policy have to change, do the FHA premiums have to change if we're going to really get an improvement in the first time home buyer or can we see that without any major policy change? Thank you.

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

We've seen the housing recovery occur without a lot of help from government, so I assume the first time buyer is going to eventually start improving in spite of the government's inattention to that need. That said, when you have the Director of FHFA and also the HUD Secretary make public pronouncements that their goal is to make the credit box wider, expand it, make it more available to first time buyers, that's a very strong positive.

So FHFA has made it very clear that they intend to revisit the fee structure and make it easier, not easy, but easier from a fee perspective for a first-time buyer to buy. That's -- I'd prefer that over the opposite, which would be a more restrictive credit box and no assistance whatsoever for the first time buyer.

So I'm encouraged. I spend a lot of time there. I think the dialogue is strong and positive and I expect the government to -- in spite of last night, I think either way, however you view it, I think first time buyer will continue to be a focus of government policy makers to ensure that they are more aggressive in the marketplace than they have been over the past five years.

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**Jason Deleeuw** - *Piper Jaffray - Analyst*

Great. Thank you very much.

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**Tony Hull** - *Realogy Holdings Corporation - CFO*

Thank you.

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**Operator**

You have no further audio questions at this time.

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**Alicia Swift** - *Realogy Holdings Corporation - SVP*

We thank you for taking the time to join us on the call and we look forward to speaking with you. Thank you.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.