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Realogy Holdings Corp. (RLGY)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Realogy Holdings Corp. Third Quarter 2020 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.

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

Alicia Swift
Senior Vice President-Financial Planning & Investor Relations, Realogy Holdings Corp.

Thank you, Kristy. Good morning and welcome to Realogy's third quarter 2020 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Charlotte Simonelli.

As shown on slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management, including any statements we make related to expectations with respect to the ongoing COVID-19 crisis. 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, October 29, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings.

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

Now, I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider

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

Good morning and thank you for joining us today.

Q3 was a tremendous quarter for Realogy. The strategic and technology progress we have been driving combined with the strong housing market came together to drive huge earnings delivery, substantial transaction volume growth, market share gains in the prior quarter and material debt paydown. Our growth continues to look good based on our preliminary volume data through most of October and we like our momentum.

Realogy delivered $309 million of operating EBITDA from continuing operations in the quarter, $103 million above 2019 powered by substantial revenue growth and our cost actions. And excitingly, we are leading the strategic race to capture the integrated real estate transaction economics with nearly a third of the operating EBITDA we delivered in the quarter from our title and mortgage businesses. Revenue growth was driven by 28% closed transaction volume growth versus a year ago. This volume growth momentum improved each month in the quarter. July was plus 15% year-over-year, August was plus 22% year-over-year, and September was plus 50% year-over-year. It was about equally driven by increased transaction units and by increased price.

Franchise was up 31% and brokerage was up 22% with the delta continuing to be driven by geographic differences like the brokerage headwinds in New York City. Our volume results in the quarter demonstrated market share gain, not just stabilization, but gain when compared to NAR's plus 23% Q3 data. This is incredibly exciting for us, because we faced market share headwinds for over a year. To see us move to positive share gain in the quarter is a very powerful testament to what we are building and delivering.

We believe this success is happening from the strategic and technology progress we have been delivering combined with consumer behavior changes, housing market strength and digital acceleration in the past months. Specifically, we are seeing our growth initiatives mature. Our consistent brokerage agent growth over the past year and improved agent retention, both drove more volume in Q3.

Our franchise business is very powerful. We really like the performance of our great brands, especially our Sotheby's International Realty brand, which really stood out in Q3 with its substantial growth in both transaction units and price. And we are excited by our strategic franchise growth initiatives, especially Corcoran, which recently expanded to new markets in California, New York, Hawaii, Colorado and Arizona. And our technology efforts to digitize and virtualize the real estate transaction gained traction, as the world changed in the past six months. Adoption of our digital and virtual products is up dramatically. And we believe these Realogy-driven digital and virtual products are helping agents win more business, close more transactions and gain share. Well, many companies talk about digitizing the real estate transactions someday, we are living it, and it's showing up in our financial results.

Finally, we remain very strong believers in the value of great agents and they are demonstrating it during this turbulent year. We believe the combination of great agents and technology is accelerating our momentum. And it's not lost on us that others have realized the need to partner with or hire agents, whereas we start with the industry-leading agent base across multiple great brands.

Shifting to our balance sheet, we made substantial progress on our leverage in Q3. We generated $344 million in free cash flow from continuing operations, reduced our net debt by $276 million versus a year ago, and ended the quarter with 4.2 times net leverage. In October, we have already paid off all of our revolver borrowings. So, our revolver balance is now zero. And as our momentum going into Q4, we like the trajectory of our deleveraging.

So, looking ahead, preliminary Realogy closed transaction volume data through most of October is up approximately 35% versus 2019 in both franchise and brokerage, with half or even more of that growth driven by more unit sales. And Realogy open volume through most of October is even better. It's up approximately 55% year-over-year, with half or more of that growth also driven by more unit sales.

So, based on that preliminary October data, combined with our continued cost focus, strategic progress and market share momentum, we believe we're on track for a very strong Q4, subject to the macro, COVID and competitive uncertainties. And we expect this momentum to continue as we enter 2021 with strong volume trends and positive consumer trends, I will discuss later, low mortgage rates and continued cost discipline.

Having said that, we also expect there will be headwinds in 2021 from the absence of the temporary cost savings and significant continued COVID, competitive and macro uncertainties, including how long these housing and consumer trends will last. But, overall, we are very excited about our progress and position. Finally, our capital allocation priorities remain unchanged. We plan to invest in the business and continue to de-lever.

With that, I'm going to turn the call over to Charlotte to review the third quarter financial performance in greater detail.

Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Thank you, Ryan. Good morning, everyone. Realogy continued to execute from a position of strength in the third quarter. We demonstrated the power of our brands and delivered exceptional top line and bottom line growth, taking advantage of our strong foundation of virtual capabilities. We drove market share gains in the third quarter relative to NAR, improved operating margins, and made significant progress on debt paydown and deleveraging our business.

Turning to our outstanding third quarter highlights. Q3 revenue was $1.9 billion, up 20% year-over-year and our biggest Q3 by far on record. Revenue growth was predominantly due to higher transaction volume growth across the brokerage, franchise and title businesses. Operating from continuing operations increased $103 million year-over-year to $309 million in the quarter. We also significantly expanded margins in the third quarter at 335 points year-over-year on a continuing op basis. Strong volume growth in brokerage and franchise, robust earnings in mortgage and title, temporary cost actions and ongoing cost management, all contributed meaningfully to our profitability.

We realized an even greater share of real estate transaction economics with our mortgage JV and title businesses. Our mortgage business continued its strong momentum and contributed $51 million in operating EBITDA in the quarter, up $46 million versus last year. Additionally, our title business contributed $44 million in operating EBITDA, up $18 million versus last year. As you know, we have invested in these businesses over the past few years and our investment has clearly paid off in this current market environment. We also continued to execute on our strategy to both virtualize and more fully integrate these products to get more of the transaction economics. Lastly, our relocation business, which is reported in discontinued operations, generated $4 million of operating EBITDA in the quarter.

We have kept a laser focus on lowering our cost base and simplifying the business, despite the significant revenue growth in the quarter and remain focused on driving further efficiencies across the business. Let me take a minute to recap what we have already accomplished on cost savings before moving on to what we expect to do in 2021.

In 2020, we expect to deliver approximately $80 million of permanent savings with approximately $60 million already delivered September year-to-date. Additionally, we executed approximately $40 million in temporary savings in Q3. Given the big rebound in transaction volume, we have pulled back the remainder of the temporary cost actions and only expect permanent cost reductions to affect Q4. We are working to action additional cost efficiencies for 2021 and currently expect to deliver permanent savings similar to what we delivered in 2020.

We now expect to reduce annual administrative lease expense by approximately $20 million in 2021, above the $10 million to $15 million I previously communicated. We expect to drive ongoing efficiencies in travel, entertainment, meetings and conferences and other operating expenses as we look to convert some portion of our temporary expense reductions to permanent reductions.

Commission splits increased 293 basis points year-over-year, largely due to the significant volume growth in the quarter. This is higher than previous trends, but we believe this is a worthwhile trade as you can see in our third quarter results. Also, if you remember, we have experienced a highly competitive environment over the past few years and we have been more aggressive on the recruiting and retention side. We grew brokerage agents 2% year-over-year in the quarter. And our agent retention metrics have improved each quarter since Q3 last year. We are excited to get the volume pay off now from our efforts.

Lastly, we saw about a 50-basis point hit from the loss of the affinity business, primarily USAA that we communicated a year ago. While splits remain a critical issue, we like the overall P&L and growth in profit we delivered even with the pressure on this metric.

Moving on to capital structure, we have shown we are willing to change our business mix and are working to optimize our capital structure. In October, we announced the sale of our rental property management business in an effort to further simplify and refocus capital deployment. We will continue to remain proactive on this front, as we explore incremental ways to extract greater value and simplify our business to drive continued improvements in operating performance and leverage.

Finally, I am excited by the improving strength of our balance sheet. We generated free cash flow of $344 million from continuing operations in the quarter and have reduced net debt by $276 million since Q3 last year. We exited the quarter with $380 million in cash and cash equivalents including restricted cash and only $140 million in revolver borrowings.

Our total net leverage ratio was 4.2 times and the senior secured leverage ratio was 2.29 times as of September 30, 2020. Also, as of October 27, we have fully repaid the $140 million balance on the revolver, which is now at zero. Lastly, as a reminder, with our refinancing last quarter, we have no maturities until 2023 and our balance sheet and leverage ratio are clearly in a much stronger place than they were a year ago.

Wrapping up, I am very pleased with the resiliency and performance of Realogy over the past several quarters. We continue to execute on our strategy and have proven our ability to deliver growth, profitability and free cash flow while accelerating debt reduction and investing in the business. Our financial profile is much stronger today and I remain increasingly optimistic for the future of our business.

Now, I will turn it back to Ryan.

Ryan M. Schneider

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

Thanks, Charlotte. I want to touch on a few strategic issues before we take your questions. Let me start with what we're seeing in the housing market. In some ways, the US housing market has been stuck for several years with retail transactions hovering between 5 million and 5.5 million units per year since about 2013, even with population growth, household formation and GDP increasing. But in the last five months, we've seen the combination of very low mortgage rates and a number of social shifts increasingly unlocked both housing supply and demand, putting the market on pace for 6 million plus annualized housing unit sales.

While it was early last quarter when we first discussed these consumer shifts, they've gained momentum in the past three months. In particular, we are absolutely seeing consumers migrate from urban to suburban markets. We are seeing consumers rotating within suburban markets to find houses that better meet their needs driven by work from home, and we are seeing consumers accelerating their journey to attractive tax and weather geographies, including the continuation of more second home purchases.

We saw these trends clearly in our Q3 results and they are definitely continuing in October. As I told you, preliminary Realogy closed transaction volume data through most of October is up approximately 35% versus 2019, with half or more of the growth driven by more unit sales. And Realogy open volume through most of October is even better, up approximately 55% year-over-year, with half or more of the growth also driven by more unit sales. Those are incredibly strong results for Realogy as we continue our Q3 momentum.

More broadly, NAR is currently forecasting growth in both units and price for 2021. While the world clearly has more uncertainty than usual lately, given the Q4 numbers we are seeing, the long-term loan mortgage rates and the potential continuation of these above consumer trends I mentioned, we believe we stand to benefit substantially from a growing transaction market in 2021, especially given our market share improvement in the third quarter.

Second, I'd like to expand a bit on my opening remarks about what we're strategically building and delivering across Realogy, especially in relation to some of the big strategic issues that get substantial focus in our industry. I've always believed the combined power of Realogy's scale, technology, data potential, great brands and agent-centric brokerage model and you saw those strengths at work in our results this quarter. And while there is a lot of industry noise from other players, both old and new, about what they're going to do and what economics they are going to deliver in the future, we have the proven delivery and scale to really capitalize on how the world is actually moving toward us. And let me give you three examples.

So, much of the world is talking about someday capturing the integrated real estate transaction economics. We are doing it at scale and at unprecedented levels. You're seeing this in the third quarter, given $95 million of our operating EBITDA was driven by title and mortgage. We're benefiting from strategic initiatives like our new mortgage joint venture and our technology successes, digitizing both title and mortgage closings. We continue to invest and expand our efforts to capture an even greater share of real estate transaction economics in the future.

Second, we've created greater integrated and digital/virtual experiences for the consumer and the agent with our technology and data innovations. We benefited substantially from the acceleration of digital adoption, driven by COVID in the last six months. And we continue our work to reinvent the transaction, taking the learnings from this year as both agent and consumers became more comfortable using digital and virtual technologies throughout the transaction process.

And finally, the future of the agent continues to be brighter than people have been saying. We expect the market data will show that agents are being used more than ever both during COVID and during this recovery. And we are very excited to see the power of agents versus other models in Q3. We remain focused on supporting the great agents who continue to be central to this very personal, very infrequent, and very large financial transaction for the typical consumer. Many of the disruptive models now realize the agent centrality in the transaction and/or customers and increasingly are moving to partner with or hire agents. And Realogy clearly has a big advantage here, given the size and scale of our great agent base across our brands.

Finally, I would be remiss if I didn't discuss iBuying, given the substantial capital flowing into that business model. iBuying simplifies the transaction experience. But we don't believe it's actually a great for consumers, since they pay substantially higher fees and get below market prices for their homes. But the competition is here to stay and we believe we have actually a better way.

Our RealSure program lets agents offer consumers a guaranteed cash offer to buy their house for 45 days, while our agent works to sell their home to achieve an even higher sale price with all the upside going the consumer. And our RealSure program provides our agents with a differentiated offering to help them win listings. Our goal is not to put our capital at risk buying and selling houses, but to support our agents with products that help them stand out from the competition.

We liked what we have seen from RealSure in our dozen pilot markets and we have formalized a joint venture with Home Partners of America, a company with deep experience buying and selling homes at scale in multiple geographies with over 15,000 homes in their existing portfolio. This joint venture is focused on growing our RealSure program together and we are very excited to expand to a substantial number of new markets next year. This approach leverages the home buying and capital markets expertise of Home Partners of America combined with the power of Realogy's great agent network and distribution capabilities in a capital-light way for Realogy.

So pulling way up and putting this all together. With three quarters of the year behind us, we've earned $518 million in operating EBITDA from continuing operations and substantially improved our leverage ratio, all in the midst of a global health crisis and while taking care of agents and customers safely.

In Q1, Realogy demonstrated both growth and bottom line performance improvement, generating over $30 million greater EBITDA than 2019. In Q2, Realogy confronted a huge drop in housing demand by moving aggressively on cost, while continuing to invest in technology and accelerating our digital adoption to still deliver substantial economics in the quarter. And Q3 was a tremendous quarter for Realogy, huge earnings delivery, substantial transaction volume growth, market share gain from the prior quarter and material debt paydown. Our Q3 volume results got better each month during the quarter. Our growth continues to look good based on our preliminary October volume data, and we like our momentum.

So, in closing, I'm incredibly proud of what our team has achieved so far in 2020. And I hope you are as excited as I am about our progress, our results, and our future.

With that, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Stephen Kim with Evercore ISI.

Stephen Kim
Analyst, Evercore ISI

Q

I see you've already participated here in the surge in price and volume in the industry. I wanted to ask you a question about your split. Knowing the splits rose here because of the volume, and that's obviously a very happy trade-off that you'd be willing to take anytime. But I was curious if we had seen volumes flat, if you sort of look deeply into your data, would it have been down year-over-year if the volume had been flat, or would it have been up?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Yeah. So what we still have impacting us is that agent mix that we told you about in the previous two quarters, so on average in splits, overall, the trends on mix, our agent mix are still similar to what we saw in the past. And the main driver of what the increases is sort of the affinity USAA and some other stuff. So yes, we still would have seen commissions would go up due to the agent mix with those higher producing agents delivering more of the transactions.

Stephen Kim
Analyst, Evercore ISI

Q

Yeah. And I think you said the affinity was about 60 bps, right, from the USAA.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

50 bps, I said.

Stephen Kim
Analyst, Evercore ISI

Q

Was that all of...

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Yes.

Stephen Kim
Analyst, Evercore ISI

Q

Five-zero?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Yes.

Stephen Kim
Analyst, Evercore ISI

Q

Okay. Got it. Sorry. And then, as we look ahead into next year, I'm trying to figure out how the current explosive growth that you're seeing in transaction volume is going to or likely to influence negotiations for splits for next year. In general, is there – it is – is it reasonable to think that in a period of time like this where you see growth in the industry at exceptionally strong levels and likely anticipated to carry into next year that we would probably see a split thresholds negotiated a bit higher year-over-year, what's kind of normal and if you could talk to us a little bit about your thought process there?

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

A

Yeah. That's a great question. So, look, we've got 50,000 plus agents in our owned brokerage business and we don't do 50,000 negotiations a year. There's going to be a bit of upward pressure on that just because the way most agreements are written is – most of these things just kind of roll over naturally. But they typically roll over based in some way off the volume you had the year before. So in a really, really high volume year, that lets people often start at a little bit better position than maybe if it had been a low volume year. Though the other side of that, because I don't want to you run away too much with that from a negative standpoint is, remember the mixed things Charlotte was talking about. We've seen a greater kind of concentration of production among our better agents and a lot of them will already be kind of at the top of their table. So there's not like a higher place to roll to in many cases.

So I think this is a place where there is just a little bit of that kind of upward pressure from a market standpoint we've been talking about. There may be a little bit from the phenomenon you're describing, but you shouldn't think of it as like 50,000 negotiations happening. But again, we'll take the trade-off. Now, you got to remember also, it does work the other way too, right, in a – if volumes go way down, then there's a little bit of reset going on in the world on these things too. So we'll totally take the trade here. And we took the trade in the first quarter also when we grew our bottom line by $30 million, the second quarter a bit of anomaly. But that's a little bit more color on it and hopefully, it's helpful.

Stephen Kim
Analyst, Evercore ISI

Q

Yeah. Absolutely. Last question I had related to the brokerage ASP lagging franchise, you obviously called out the presence in New York City and things like that, which makes a lot of sense. But I was curious as to whether you also think maybe there was a geographical aspect, even in the suburb portion of the business, where some of the regions where you have a big presence in the brokerage business maybe they've got hit for longer, people kind of hunkered down for a little longer, and then maybe there's a lag effect that you maybe saw in the quarter, because that would suggest that the gap between the ASP growth, between brokerage and franchise may narrow despite the ongoing lingering effect of the New York City business.

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

A

So let me take you actually to our October stuff. The gap has narrowed.

Stephen Kim
Analyst, Evercore ISI

Q

Got it.

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

A

The 35% closed transaction volume for October that we've seen so far, it's the same in brokerage and franchise. They're both right around 35%, plus or minus a point or two. And the same on the open. The plus 55% is actually, plus or minus a point or two, basically the same in the owned and franchise. So whatever was driving that gap – and again, half of that is size or more than half of that size actually in October and the rest is price. But whatever was driving that gap including like that New York City headwind has, at least, for October totally closed up, your hypothesis maybe one of the reasons there. When you look at the Q3 data itself, New York still being weaker is the biggest driver of it and that's the one we focused on probably the most. But we were so excited to see this October data look, effectively not just how the strong the numbers were, but to look the same across both of our businesses and to be more driven by units than price in October so far.

Stephen Kim
Analyst, Evercore ISI

Q

Okay. Great. Thank you very much, guys.

Operator: Your next question will be from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Hey. Thank you and good morning. Congratulations on the quarter. Ryan and Charlotte, I wanted to ask on the mortgage and title side of things. So last quarter you also called out and obviously, posted strength within those businesses. I'm curious if you can talk to some of the operational or strategic efforts you've put in there. Obviously, the mortgage space is booming for everybody. So just trying to think through kind of what you guys have been doing behind the scenes on the operations or strategic side of things compared with just the overall industry dynamic of this kind of mortgage boom that we're seeing?

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

A

Yeah. So I'll say there's two things, and let me hit mortgage and title kind of together. So the first is the digital acceleration. We've been investing both in title and with our mortgage partner, in digital/virtual tools, remote notarization, Guaranteed Rate Affinity, FlashClose products, things that are to make the transaction much easier for the consumer to close and much more digital and virtual. And what's happened in the last six months, we think we've got a lot of acceleration for that stuff. We've seen a couple of mortgage competitors come out with press releases about stuff they're doing. And our team kind of does the self-assessment, says, hey, we've actually already got that in more and that's why we're capturing more purchase and refis, an easy experience, and it shows up in much better net promoter scores that have gone up for both of our businesses during the last six months. So our move to digitizing and virtualizing the transaction in both these businesses we think that really helped us during the six months.

The other thing is just the continued strategic expansion. So again, we set up a new mortgage JV two years ago. We lost money on for first year. And what we've been doing even in 2020 is adding more loan officers still, building some more direct-to-consumer kind of channels, increasing our coverage, right, instead of one loan officer covering 50 agents, we want to get it for one loan officer covering 30 agents. So we're adding more loan officers. And then there are even still some geographic expansion where we're still trying to make sure we've got every place covered.

And on the title side, we're doing some of the same. We've got our title business for a while, but we just opened new title stuff in Utah, Idaho. We have one coming in another state that I'm not sure I'm supposed to say out loud, so I won't. But the digital/virtual acceleration has really helped that in the last six months and then just the continued investment to build these businesses as expanding parts of our business is the other strategic thing we've been doing, Ryan. And again, at the end of the day, that combination gets you to this, how do we create a more integrated transaction experience for consumers. We've got all the pieces to do it. We've got the technology and we're actually linking these things together. And we think that's helped our agents and our customers and drove bunch of our volume here in this good housing market in the last three months. So, we're very excited about both of those and we're going to keep investing there. We've got the scale and size to do that and we think it's a big competitive advantage and we love the financial delivery, too.

Ryan McKeveny
Analyst, Zelman & Associates

Q

That is helpful, Ryan. Thank you. And then one quick clarification or question. So you mentioned formalizing a joint venture with Home Partners of America. Can you talk about what exactly that joint venture entails? I guess, I'm just wondering, are you – is capital from yourselves going to be going into this, or does it remain kind of capital-light off-balance sheet type dynamic? Just looking for a better clarification on that.

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

A

For the latter, we're going to put a bit of capital into the JV as is Home Partners of America. But that's capital just to fund the JV and its operation and its expenses. The actual purchase and sale of homes will stay off-balance sheet. They won't be on our balance sheet. And Home Partners of America is very, very savvy on the capital markets side of things. So, you should view this as a capital-light thing, but an example of us investing in the business and again the amount of capital we're contributing is not a huge number for either of us to start. But again, it's capital just to run the joint venture, it's not capital to buy homes, that will remain off-balance sheet and hence, my capital-light thesis will remain.

Ryan McKeveny
Analyst, Zelman & Associates

Q

That makes sense. Thank you so much.

Operator: Our next question comes from the line of Tommy McJoynt with KBW.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning, guys. I want to ask about the relocation business. It actually seems to be holding in bit better than I had expected. Can you just kind of talk about the outlook for what you want to do strategically with that? And then just the outlook for the business with what would seem like corporate relocations that are going to be taking ahead of the next year or so?

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

A

Yeah. Look, the corporate relocation business made about $4 million of EBITDA, which is obviously a lot less than it did the year before. But man, how hard and good is our team done on the cost side of things like that to kind of stay profitable. So, we're really excited about that. And look, we – and that's been a part of the company for a long time. We like the business. It's been very valuable including on the lead generation agents and franchisees, but you are onto something.

At the end of the day, the corporate relocation market has not had the bounce back that the housing markets had or the mortgage markets had. And, obviously, COVID is kind of a big chunk of that. But another thing, when you're a global player like we are, the immigration restrictions that are in place right now are another headwind for that business.

So, what I'm most interested there actually is how the industry shakes out. We're the largest player in that industry and we have a much broader business that can kind of support that business that integrates into our ecosystem. There's a lot of pure players out there. And so, if you get an industry that's kind of not recovered the way the housing market has, I'm very interested to see what kind of shakeout happens. So, we'll be watching it strategically and kind of trying to keep working on it. But we're still investing in that business in terms of technology and things like that and we'll see what the shape of that recovery is. But it is different and thank you for asking that question.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. Thanks. And switching over, so you guys did gain some market share in the quarter. Any sense of how much of that was pure organic, or were there any acquisitions during the quarter that you would call out?

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

A

No acquisitions. Now, our franchisees occasionally are buying somebody, but look there is no acquisition drove that. As I said, we've had some market share headwinds, man how great do we feel, not just a stabilized market share, but to gain some share here. And again, it's the combination of what we've done strategically, that whole list I gave you and the kind of technology stocks that gets back a little bit to Ryan McKeveny's question that we think together kind of drove that gain. And we're excited about it and hope to repeat it.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. And then just last one. After the USAA affinity rolled off, you guys announced a few new affinity partnerships. Could you give an update on how those have progressed over the past year?

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

A

Yeah. We're happy with both of the ones we mostly talked about. Our Realogy Military Rewards Program is open to anybody related to the US military and we like the growth in that. It's – the USAA thing was 30 years of building it up. So it's not going to be replaced overnight. But we liked the growth of Realogy Military Rewards. And then our AARP program is off to a really nice start. We did a soft launch in Q2 effectively, because of the COVID impact and kind of messed up our plans. But we started putting marketing dollars against it in June and July, we like the early returns and we think they're a great partner to build something with long-term. And we're excited to drive high quality leads to our agents and franchisees in a world that's just a wash for so many low quality leads. So we're excited about both of them, but a lot of building to go, because they are new.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you.

Operator: Our next question comes of the line of Matthew Bouley with Barclays.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Good morning. Thank you for taking the questions. So on the topic of the agent, Ryan, you gave some perspective at the end of your opening remarks there around kind of the importance of the agent, homebuyers and sellers and the death of the brokerage is greatly exaggerated, I guess. But I think what people zero in on is not whether the agent goes away, but more so that the structure of commission rates and whether they may change one day. So, I mean, my question is what's going on today? You mentioned iBuyers taking market share and obviously virtual offerings gaining steam and things like that. To the extent there are structural changes coming out of this, why would or would not there be any changes to that ABCR in your view? Thank you.

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

A

Well, that's a great strategic topic, I mean. And by the way, I actually – I don't – I didn't mean to imply that iBuyers are gaining share. I think they have incredibly small share out there and even some of the aspirations of people have talked about when you do the math on, 6 plus million transactions is a very small share of the market. And I suspect, I don't have the data yet, but I'll bet when the data is all written, agents will have done more business than ever in the last couple of quarters, right. I mean, if you take that example, all the iBuying program shut down in Q2, agents kept going and we did hundreds of thousands of transactions. So we'll see what happens on that dimension.

Look, on ABCR, ABCR was flat to up in the quarter, right. And I mean, yes, it's a risk, sure, but it's been a risk for forever. I'm old enough to remember when Bill Gates said the Internet was going to take the broker's commission from 6% to zero and that was a very long time ago. So it's always a risk, absolutely. But a lot of it – if you just look at the actual data, you have not seen the big fall-off that people have predicted. And then you also see even models that are trying to disrupt that moving to agents, as I cited. So it's a great question. We watch it strategically all the time, but sometimes you've got to look at the data and see what's actually happening out there in the world. And what's actually happening out there in the world as agents are powering through and earning that commission.

And to quote another famous person, Warren Buffet's out there making it very clear, he thinks agents are – really deserve their commission and they provide real value and I agree with him, but anyway. So we'll keep watching it. But for all the noise on the topic, occasionally, I think people got to look at the data. It doesn't mean we won't worry about the future, but the current data doesn't show the thing that your question is worried about.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. Okay. I appreciate your thoughts there. And then a second one I wanted to ask about, just since you've had a lot of success clearly on the deleveraging side. Does that change the thoughts at all around M&A, which I know it's something you would kind of intentionally moved away from, or in general, just where else might this show up in the growth investment side?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Listen, we definitely remain focused on paying down debt and investing in our business. We're excited with the progress that we made. It was a really strong quarter for us. We're going to continue on that path. And if anything else changes, we'll certainly let you know. But we remain focused and we do feel like we have enough capital to invest in the business and do what we need to do. So we don't feel limited by that.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Okay. Thank you, Charlotte. Thank you, Ryan.

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

Thank you.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Thank you.

Operator: Next question comes from the line of John Campbell with Stephens, Inc.,

John Campbell
Analyst, Stephens, Inc.
Q

Hey, guys. Good morning. Congrats on a great quarter.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Good morning.

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

Thank you, John.

John Campbell
Analyst, Stephens, Inc.
Q

Hey. Back to the title and mortgage operations, obviously, really good results there. Ryan talked, and I think you made some pretty good points about how you guys are kind of already living much of what others are dreaming as far as kind of capturing economics along the way. It sounds like you've also obviously put some things in motion that's helping drive that outperformance. But at one point a couple of years ago at Analyst Day, you guys talked to some attach rate goals. Can you maybe just kind of refresh us on that? You talked to what the mortgage attach rates are since you picked up the guaranteed rate JV, and then maybe how that's working on the title side as well.

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

A

Yeah. So that Analyst Day kind of predates my time, and I bluntly don't even know what was said on that topic. Look, we don't give out our capture rates there. But what you should know is we like our capture rates. We are always trying to increase them and of the two, probably because it's newer, it's the mortgage side where we've actually had the most success kind of creating a step-change or a change in kind of where we are on that stuff. So – and it is these digital and kind of more integrated things that I believe is by far the key to even greater increasing of those capture rates. So it's a huge strategic thing. And in some ways everything does come back to that. But we're not going to give the numbers out here. And I'm sorry just for not knowing what you were given back in 2016 or 2017.

John Campbell
Analyst, Stephens, Inc.

Q

No. That's fine. That was many, many years ago. And then Ryan, you talked a little bit about that which is why I ask this question. But on your prepared remarks, you talked about the Zillow or it sounds like you were kind of hinting at the Zillow announcement. But I'm curious about Zillow adding in-house agents. What's your initial reaction on that is, how Realogy is viewing that? Do you guys view that as a threat to the broader industry as it kind of just a harmless cost-driven play within their iBuying business, any kind of thoughts there?

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

A

Well, none of my comments were made to anyone in particular including Zillow. I just think if you look, a lot of the folks who are trying to disrupt the business or change the business have realized either they need to partner with agents or hire agents or whatever, which back to the previous question I got gets a little bit back to them the thesis that, okay, agents actually have a real long-term role here to deliver value et cetera. And so but – and we, as I said in my remarks, just are really excited about our agent base and the future of that business. Again, remember, very infrequent, very high dollar transaction. This is different than buying something at Amazon or whatever. And there's a lot of businesses in the world that are very infrequent, high dollar transactions where having a human kind of shepherding you through and adding real value is worth people paying for and people do pay for, I think that's held up very well in this industry.

We've got to watch all the risks around it. We've got to make sure our agents have great products to differentiate themselves like RealSure. We got to do the kind of greater integration for the consumer like we showed in the tighter mortgage business. But where we like our focus, we're going to stay focused on us. But we watch all those competitors closely, but no one else out there has that size and scale that we've got, the agent base, the brand and kind of some of the tech and data, both infrastructure and the ability to invest in it. So, we just are more optimistic about our ability to do some of the things the other people are talking about doing. And we actually think with the digital acceleration from COVID, we have now demonstrated more of us doing those and it shows up in things like the market share gain in the quarter and the kind of tighter mortgage acceleration in our bottom line.

John Campbell
Analyst, Stephens, Inc.

Q

Yeah. Absolutely. Great work. Thanks, guys.

Operator: Thank you. Our final question comes from the line of Jack Micenko with SIG.

Jack Micenko
Analyst, Susquehanna International Group, LLP

A

Hi. Good morning. A couple for Charlotte on the expense side. G&A picked up and I'm guessing some of that sequential increase was due to the temporary sort of coming off in the permanent if that's the case. On the marketing expense, we had a new run rate on marketing. And then on the operating side, thanks for the color, the $80 million permanent. Are you saying the $80 million in permanent goes something closer to $90 million next year because of that lease expense outperformance, or am I over-interpreting?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Okay. I'll take them in order. Yeah. So, in the quarter, part of it is due to the drop-off of the temporary. There is some volume-related expense, yeah, some employee-related expense that varies quarter-by-quarter and so that's a bit of what's happening in the general expenses as well.

As far as marketing, I wouldn't say it's a new run rate, but we always are working to optimize and be most efficient with our marketing spend. So there's probably more that I'll share with you in coming quarters after we've firmed up with the plans for next year on the marketing side. As far as next year, no, I didn't really mean to imply an exact number for next year, but the fact that the administrative lease expense is going to be better than we thought wouldn't change the number. So you shouldn't be interpreting something higher on that level.

Jack Micenko
Analyst, Susquehanna International Group, LLP

A

Okay. That's helpful. Thank you. And then, Ryan, talking through the supply issue keeps coming up, I think we're down 25% or 30% nationally year-to-year. And we obviously think in an environment where you've got limited supply and a lot of multiple bids that traditional agent has got a lot more utility and value versus maybe a more discounted option for sure. When you think about the business, how do you solve the supply issue? And is a more sanguine view of splits today, what it seems like from your perspective? Is that really just like, look, we just got to go, we're going to get to the split issue because we're going to take more share and the better agents are going to do better in a tougher environment and that's just sort of the – maybe splits aren't the right focus in the kind of market we're in. Just curious as to high level thoughts on that whole sort of supply dynamic everything else.

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

A

Well, let me do two things. So I think, overall, the – not just for us as a company but agents, I think everybody focuses on the bottom line. And when we have, like even in the first quarter, a substantial bottom line improvement, even with splits going up, because we drove some growth and what we did this quarter with a better share gain and the increase in yields and stuff, I think – again, I think, it's a – the split thing is one of a number of drivers that's going to affect our P&L, but kind of a little more focus on the integrated bottom line, I think, would be probably good for everybody. But – so that's kind of just a general comment.

On the supply thing, let me just say something and I think I'm right about this, but it's a little bit different. I think people are confusing inventory and supply and I think they're two different things, because supply is clearly up. More houses are getting sold now than they were a year ago by a substantial amount, large numbers, plus 23%

volume. We are plus 28% and like half of ours is more units. And in our October number, more than half of our both closed and open is more units.

But inventory looks even worse right now, right. Days on market has gone down for us. There's like a 40% drop and how long houses are staying on market for large numbers like 34%. So inventory looks even tighter than ever, but the reality is there are more housing transactions being done. So there is more supply coming onto the market, it's just moving very quickly and not piling up in inventory. And again, it's not price volume growth, it's a lot of unit growth in our book and in the world.

So I made the points I made for a reason, which is people have been asking me for three years. what's going to unstick the housing market and get us from 5 million to 5.5 million transactions to like 6-plus million, which we used to be in for a long time. Just like on the builder side, people keep asking, well, when are we going to build the same number of homes we built 20 years ago kind of thing and that's been unlocked a bit and I like it. And what I think happened bluntly is that these – low rates helps for sure, but I think these social shifts that are happening driven by the terrible health crisis in the last six months is unlocking both supply and demand and you just see it in the numbers.

Even if inventory looks really tight, which it is, it's just because houses are moving much more quickly. They're not just sitting in inventory. And so, there is more supply coming to market. And I wasn't sure what the thing was going to be that was going to unlock housing. I didn't predict this for sure. But it's a silver lining in a terrible year for the globe that it has unlocked more people moving. But for every buyer, there's a seller and it has unlocked more supply and the momentum for it seems to be continuing, frankly, when we look at the data we're seeing.

So I think people confuse inventory and supply. And I think we have a very low inventory situation. But I think the reality is there's a lot more supply out there, it's just supply is moving very quickly when it comes to market and never really hits the "inventory" number. And so – and again – and that's – and if we run at a 6-plus million housing rate, which is bluntly probably where the country should be running given GDP growth, household formation, population growth, et cetera, that's really good for us, in part because of our size and scale, especially having kind of stabilized or even growing our market share a bit this quarter.

So that's part of the reason we're optimistic. But I think it's supply and demand of both being unlocked. And I was talking to someone from D.C., and these suburbs in D.C. that were dead for housing are now doing great. I was talking to somebody in Portland, Maine who said, hey, the market here is crazy. And again, it's not just the price side, it's the supply and demand and the number of transactions. And I'm hearing this from so many geographies that it has me very excited for the future and what – how we generate economics in just even a bigger market.

So supply and demand, I think is actually both being unlocked. Inventory is not supply, it's related but it's not supply. And the increase in units that we saw in Q3 and we're seeing as more of our growth in October is a pretty positive thing for us and for the supply/demand dynamic that you're asking about. So that's probably too much. I'm going to wrap up there, Jack. But thank you for the question.

Jack Micenko
Analyst, Susquehanna International Group, LLP

A

No. Thank you for that. That's a really good delineation actually. We do tend to use them too much interchangeably and that's a great point you made. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's webcast. You may disconnect at this time.