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RLGY - Q1 2016 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning. And welcome to the Realogy Holdings Corporation first-quarter 2016 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 May 19.

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

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

Thank you, Stephanie. Good morning, and welcome to Realogy's first-quarter 2016 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, and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive, and other uncertainties and contingencies. Many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements.

For those who listen to a rebroadcast of this presentation, we remind you that the remarks made herein are as of today, May 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 as per SEC rules, important information regarding these non-GAAP financial measures are included in our earnings press release.

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

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

Thank you Alicia. And good morning everyone. We delivered solid results this quarter. As you can see on slide 4, revenue was $1.1 billion in the first quarter, an increase of 7%. The revenue gains were primarily driven by a 6% increase in home sale transaction volume at our franchise and company-owned real estate brokerage operations. Adjusted EBITDA was $77 million, which represents an increase of 10% year over year. We continue to execute on our business-optimization initiatives, to ensure the efficiency of our operations and cost structure. We remain on track to achieve our annualized run rate savings target of $40 million.

The changes we have implemented to date are designed to help us grow our business. And deliver the highest levels of service for our clients, affiliated brokers and agents, and the customers they serve. Before I turn to my commentary regarding our markets and the performance of our business, I would like to highlight the progress we've made on our long-term financial goals. On May 2, we retired $500 million of our 3.375% senior notes at their maturity using a combination of cash on hand, and borrowings under our revolving credit facility, continuing to reduce our leverage ratio of corporate debt to adjusted EBITDA.

During the first quarter, we repurchased 1 million shares of the Company's common stock in the open market for $33.5 million. And that's under the $275 million repurchase plan that we announced in February. As we have previously stated, our strong free cash flow generation should continue to enable us to return value to our shareholders, while maintaining the flexibility to invest in the growth of our Company. In the current market environment, we're confident that Realogy is on track to continue to generate significant free cash flow for full-year 2016.

Now turning to slide 5, let me discuss the performance of our business units. On the growth front, RFG completed new franchisee and sales production of $89 million in franchisee gross commission income in the first quarter, which was a 27% increase from the first quarter of last year. On the technology front, we have accelerated the installation of ZAP and RFG's roll out of our innovative platform as well ahead of schedule.

Today, more than 750 Realogy franchise brokerages have been activated and are live on the ZAP platform. Almost double the franchise installations in the platform at year end. We now have over 41,000 affiliated agents on the ZAP platform. Which is approximately 30% of RFG's total affiliated US agent count. Our ERA real estate brand reached a significant milestone, by being the first of our franchises to connect its entire network on the ZAP platform. Thus linking it's consumer facing ERA.com website and thousands of ERA affiliated broker and agent sites, with ZAP's online customer relationship management system.

Driven by predictive analytics, ZAP enables Realogy brand affiliated brokers and agents to reach, engage and follow up with prospective clients in a timely and efficient manner. We are in the early stages of agent adoption which will mature over time as agents become more proficient in utilizing the ZAP productivity tools. ZAP is a long-term investment and designed to substantially enhance the value proposition of our franchise offerings. Delivering productivity tools which will help our franchisees increase transaction volume and thus, the profitability of their companies.

Looking at our Company-owned operations NRT, was ranked the number one residential real estate brokerage company in the United States for the 19th consecutive year in the annual REAL Trends 500 rankings, released in the first quarter. The top 500 brokerages in the nation were ranked based on their 2015 closed sales volume, and closed transaction sides. On the pro forma basis used by REAL Trends, that includes the impact of acquisitions made during the year. NRT's approximately $167 billion in sales volume is 2.1 times greater than its next closest competitor. And is 342,300 transaction sides or 1.5 times greater.

In March, NRT continued to diversify by expanding into new markets through the acquisition of a leading independent real estate firm in Columbia, South Carolina. Its 12 offices and over 400 affiliated sales associates complement NRT's growing presence in the region. Which has increased to more than 1,000 affiliated sales associates serving home buyers and sellers in the Carolinas in the last 13 months.

On the competitive front, NRT's focus remains on profitable market share a discipline that we believe is in the best long-term interest of our Company. Recently, this has put NRT's market share under modest pressure, given our focus on expanding margins. We are increasing our efforts to optimize NRT's market position over the medium and long term to take full advantage of our significant economies of scale. In addition, the high end of residential real estate is generally softer than anticipated. It is not being offset by the growth of the lower price markets. Low inventory levels in the lower price markets are failing to satisfy strong demand, resulting in moderate transaction volume growth. I will address the housing inventory issues a little bit later in my comments.

Looking ahead, the industry forecast for 2016. Existing home sale transaction volume, which we you will find on slide 6, have remained consistent since February. With each of the forecasters we track pointing towards approximately 7% volume growth for the full year. Based on our current visibility into the second quarter, we're providing guidance of 3% to 7% home sale transaction volume growth for the current quarter. The housing market continues to exhibit favorable characteristics, including low mortgage rates, improving employment and a modestly improving US economy.

Today, the most significant headwind to an improving housing market is the widely discussed issue of low inventory. Particularly for mid and lower priced homes. Inventory data has shown three months of sequential gain since December 2015, as reported by NAR. Although the latest national inventory level of 4.5-month supply still falls short of the prior year.

As shown on slide 7, the continued strong consumer demand for existing home sales and a corresponding lack of inventory is evident in our analysis of demand across different price levels. For NRT listings, across its markets, we found that the demand for homes, as evidenced by multiple purchase offers, was concentrated in the lower and intermediate price segments of the market during the first two weeks of April. 47% of home sales in lower priced starter home market segment had multiple offers. 38% of home sales in the intermediate move-up segment had multiple offers. And only 11% of high end NRT listings received multiple offers. Clearly, the demand for homes in the entry-level and move-up segments is stronger than at the high end.

This was especially true in markets such as Boston, Northern California and Southern California where multiple offers and bidding wars were particularly strong. When RFG surveyed its franchise brokers and agents last month about their biggest challenges in working with home buyers, 65% cited a lack of available inventory. That's up from 53% on a similar survey in October of 2015. 38% of our franchise broker owners indicated that multiple offers were their second biggest challenge. And that's up from 27% same type of inventory assessment in October of last year.

Mortgage loan approvals, as an issue dropped from 35% to 28%. Indicating that credit availability continues to improve. Our research indicates that the biggest negative in today's housing market, a lack of inventory is somewhat counter-balanced by strong demand. Supplies failing to meet demand, and as inventory levels improve over time, we expect to see higher sales volume.

Before turning the call to Tony, I would like to acknowledge an important recognition we received during the quarter being named by the Ethisphere Institute as one of the World's Most Ethical Companies for 2016. This is the fifth consecutive year in which we have received this honor. Integrity is one of our core values, and we're proud of the recognition that we continue to receive for our commitment to ethics in business.

The spring selling season is the shaping up in line with industry forecasts. And we are encouraged by the level of demand in this inventory constrained market. Longer term, we believe our investments in technology, and other initiatives we have underway will continue to enhance our value propositions and support our long-term financial strategies, which include delevering and returning capital to shareholders.

Tony will discuss our first quarter financial performance. Tony?

Tony Hull - *Realogy Holdings Corporation - CFO*

Thank you, Richard. Before getting into a more detailed discussion on the quarter, I would like to highlight several key areas of Realogy's Q1 performance on slide 8. Transaction volume growth of 6% was the primary driver of our 7% revenue growth. Adjusted EBITDA was $77 million, representing a 10% increase year over year. Realogy continued to execute on business optimization efforts during the quarter. As a reminder, the plan focuses on several key areas of opportunity which include process improving efficiencies, office-footprint optimization, leveraging technology and media spend, centralized procurement, and organizational design.

Cost savings related to the restructuring initiatives are estimated to be approximately $40 million on an annual run-rate basis. $25 million of which is expected to be realized in 2016. Q1 adjusted basic loss per share was $0.12, compared with a loss of $0.16 per share in 2015, on the same basis.

That's an improvement of 25%. One large item that we adjusted for in the quarter was the non-cash mark-to-market charge on our interest rate swaps of $31 million, which was $11 million greater after tax than in Q1 2015. We typically have a net loss in the first quarter of every year. Since transaction volume is at its annual low and revenue generated is insufficient to offset the fixed operating costs of our businesses. In addition to depreciation, amortization and interest expense that are more evenly spread over the year. At the end of the quarter our debt leverage was 4.1 times.

One item of note, is that going forward, we are providing a new financial measure called operating EBITDA, which is EBITDA before restructuring costs, early extinguishment of debt, and former parent-legacy items. We will continue to report adjusted, or covenant EBITDA. That also includes prescribed adjustments required in our credit facilities. So that investors can keep track of our credit ratios. We believe providing both financial measures will add transparency to our results, and that operating EBITDA better reflects a comparative operating performance of the Company.

So you can have a framework as to the differences in these two EBITDAs, on slide 9 we have provided operating EBITDA and adjusted or covenant EBITDA for the 12-month periods ended from 2012 to 2015. As you can see for 2015, operating EBITDA was $769 million, while adjusted or covenant EBITDA for the same period was $845 million. The difference between the two is primarily non-cash stock compensation, and pro forma business optimization and acquisition impacts.

Turning to slide 10, which is key drivers for the first quarter of 2016. Combined RFG and NRT closed on sale transaction volume was 6% higher than Q1 2015, and was comprised of 4% growth in sides and 2% growth in average sales price. At NRT, sides were up 7%. And average sales price decreased 2%. At RFG sides and price were both up 3%. According to NAR, the new three-day advance disclosure rule continued to delay closings by an average of approximately 3 days across the industry in March, compared to the same period last year.

On a month-over-month basis, current trends indicate that lenders are adjusting to the regulations and reducing the time to close. Since the initial spike occurred in November and December of last year. We remain cautious about the seasonal impacts that may occur with increased volume in loan and home sale closings, as we head into the traditionally busiest months of the year in the second and third quarters. As we have discussed throughout the past year, the acquisition of Coldwell Banker United had certain impacts on the comparability of NRT and RFG to the prior year.

Because the anniversary of the transaction is early April, this will be the last quarter the impacts depicted on slide 11 will be highlighted. For the first quarter, the CB United transaction had a 1 percentage point negative impact on RFG sides. Meaning, without this adjustment, the increase in RFG sides would have been 4%, compared to the reported 3%. Without the impact of the acquisition RFG's volume gain of 8% would've been in line with NAR's reported volume increase in the first quarter. On the other side of the house, the addition of CB United boost to NRT sides by six percentage points, but had a negative 3 percentage point impact on NRT's price. Excluding the impact of this acquisition, NRT's volume increase would have been 2%. Realogy's combined average home sale price came in lower than we expected when we give guidance at the end of February, putting us at the low end of our guidance range before transaction volume.

March closings skewed the results, given the months' relative importance to the quarter. March represented 40% of the total volume for the first quarter on a combined basis, which is typical, as the spring selling season begins to ramp up in earnest. Price in March was weaker than expected because contracts that opened and closed in that significant month at a lower average sales price than anticipated.

A shift in activity from the high-end to the entry-level and mid-priced homes generally results in overall unit increases. However, the overall transaction volume gains in the quarter were muted, due to inventory constraints that are most prevalent in the entry-level and mid-price markets. The general trend for NRT for the first quarter was a softness in both sides and price at the high end. This was broad based, as NRT sales volume at the $2.5 million and above price points decreased to 19% of total volume in Q1 2016, down from 22% of total volume in Q1 of 2015. In the price range of $20 million and above, NRT had 12 transaction sides in Q1, 2016, which was half as many as we saw in the first quarter of 2015.

RFG also felt pressure at the high end. Its volume of homes sold over $2.5 million, which is more of a nationwide look, decreased from 8% of its total volume in Q1 of 2015, to 7% in the latest quarter. Price impact was the greatest within the Sotheby's International Realty brand, where average sales price declined 3% in the first quarter compared to the same period last year. Having said that, transaction sides for our Sotheby's International Realty franchisees were up 14% in the quarter.

Regionally for NRT, the Northeast, excluding New York City and the Hamptons had strong volume gains with an increase of 10%. We have received many questions about the New York City market. The Corcoran Group, which has operations in Manhattan, Brooklyn, the Hamptons, and Palm Beach had 12% volume gains in the quarter. This was aided by new-development sales in New York, but collectively the areas Corcoran serves continue to be a significant market for us. The Midwest had volume increases of 7%. Weaker NRT markets include Florida, which had volume declines of 5%, and California, where volume decreased 4% primarily due to inventory constraints.

A few quick comments on the other drivers before I move on to revenue and EBITDA. On slide 12, you will see that RFG's average broker commission rate decreased to 2.51% and its net effective royalty rate also decreased 1 basis point. Splits at NRT were 67.6%, a 31 basis point improvement year over year. For 2016, we continue to expect commission rate, net effective rate, and splits to remain relatively flat to 2015 levels.

Now turning to revenue and EBITDA at the business unit level on slide 13. RFG revenue increased $6 million, or 4%, driven by domestic franchise volume increase as well as $2 million increase in royalties received from NRT. And those were predominantly from its acquisitions. RFG's EBITDA also increased $6 million, or 7%. During Q1 of 2016, NRT revenue increased $45 million, which includes $32 million of revenue from acquisitions.

The revenue increase was partially offset by a corresponding $28 million increase in commissions, and a $2 million increase in the royalties paid to RFG. EBITDA declined $5 million, compared to last year's operating expenses increased $15 million. Of which $10 million related to acquisitions completed since the first quarter of 2015. NRT EBITDA was also adversely impacted by a $2 million decrease in PHH Home Loan earnings. The JV earnings, and $2 million in restructuring costs. Looking at results in another way, NRT's EBITDA decline of $5 million was impacted by $4 million of restructuring charges and lower mortgage joint-venture earnings, as well as a reported loss at NRT for acquisitions of $2 million. Taking into consideration the royalties paid to RFG for those acquisitions, the acquisitions will break even in the first quarter.

Cartus EBITDA decreased $2 million as a result of lower revenue, due to the absence of a large group move recorded in the first quarter of 2015. TRG EBITDA increased $3 million, due to a higher purchase and refinance volume as well as the inclusion of the results of its acquisition of Independence Title.

Corporate expense increased $5 million year over year. Primarily due to the restructuring related consulting costs for the business-optimization plan. Corporate cash interest was significantly reduced, to $28 million in the first quarter of 2016. Versus $57 million in the first quarter of 2015, as a result of the debt repayments the refinancings completed in 2015. However, book-interest expense was $73 million in the quarter, versus $68 million in the first quarter of 2015. As the non-cash mark-to-market on our interest rate swaps increase $17 million in the quarter.

Our second-quarter guidance on slide 14 reflects the continuation of a softer high-end housing market. Our expectation is for volume growth of 3% to 7% in the second quarter. With 3% to 5% coming from sides, and average sale price flat to up 2%. This guidance is generally in line with NARs other forecaster's estimates for the second quarter, although we are slightly more optimistic on sides, and a little more cautious on price. Because it is now May, and the spring selling season is been getting to take shape, we're in a better position to provide guidance for full-year 2016 margins. The five forecasters we reference are currently each expecting a 7% increase in transaction volume for 2016.

As indicated on slide 15, if a range of 6% to 8% materializes, and our transaction volume increases at that level in 2016, our adjusted-EBITDA margin should be in the range of 14.8% to 15.2%. Compared to the 14.8% reported in 2015. In this margin guidance range, we expect that NRT transaction volume growth will slightly under perform RFG's growth in 2016. As a result of the softness we're seeing at the high end of the market.

If NRT's high-end markets gain traction, as the equity markets have in recent months, such that its transaction volume growth is in line with RFG's for the full year, we would expect that we will see margins at the more favorable side of the range. In August we will update you on how the year is progressing.

On slide 16, we highlight cash flow items that are below EBITDA in 2016. The largest of which is cash interest of $170 million to $175 million, down from $238 million in 2015. Looking ahead, there are encouraging economic factors that support a continued rebound in the residential real estate market, including a better jobs picture, strong demographic trends, and mortgage rates that are still at historically low levels. On the other side of the coin, lower inventory in certain price ranges is holding back overall activity levels. While these inventory constraints have certain moderating effect on our business, we are encouraged by the high demand that we are seeing.

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

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Stephen Kim, Barclays.

Stephen Kim - *Barclays Capital - Analyst*

Thanks very much, guys. Thanks for all the clarity. Very helpful.

My first question related to the EBITDA margin guidance that you just talked about. I think you indicated that the 14.8% to 15.2% range assumes that NRT underperforms RFG as a result of the mix shift effect. But then I think you said that if NRT were to actually match RFG's results, then you would come at the higher end of EBITDA margin range.

If your assumption, embedded in that 14.8% to 15.2%, assumes NRT under performs, if it actually didn't underperform, wouldn't that cause you to simply increase the range? Just want to make sure I didn't misunderstand something.

Tony Hull - *Realogy Holdings Corporation - CFO*

No, we think if the high end rebounds modestly at NRT, we would expect to be on the high end of that range. If not, we would be more in the middle of that range.

Stephen Kim - *Barclays Capital - Analyst*

Okay. And then, you had given some really interesting data about multiple purchase offers across the market. The low, intermediate, and high. Can you define what characterizes low, what characterizes intermediate what, and characterizes high?

And I think you had called out certain areas like Boston as particularly seeing this effect. Is there any other geographic commentary you can make about this phenomenon?

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

This is Richard. As you know, real estate's local. So it varies market by market. Literally suburb by suburb. These are broad metrics that are indicative of trends. Some markets more so than others. But generally speaking, these are just broad price ranges.

So we didn't break them out by county or market or state or geography. These are just broad swaths if you will, in the markets we serve.

I think also you should note that, what's interesting about it, multiple offers will mean two or more competing offers on the same house. Which speaks to, one the strength of the market, two, the lack of inventory. So is telling us a trend.

Stephen Kim - *Barclays Capital - Analyst*

Great. Thanks very much guys. Appreciate it.

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

You're welcome.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Good morning guys.

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

Good morning.

Will Randow - *Citigroup - Analyst*

One of the push backs of the past quarter, based on what we have seen from competitors, has been EBITDA conversion relative to revenues. Can you talk about how you think about your guidance with roughly mid single digit top line growth? Not dropping down to EBITDA? And your thoughts maybe on next year if you can hold that type of conversion level?

Tony Hull - *Realogy Holdings Corporation - CFO*

Again, our goal is to improve margins over time. I think our conversion is where we expect it to be. And it's a little bit muted from where we were in the third and fourth quarter of last year, because of the shift in the high end. But we still think the conversion is strong.

I am not sure from a competitive standpoint, since we are the only publicly reporting residential real estate services company. I am not sure what that is.

But, we're focused on profitable market share. And that's a discipline we believe is in the best interest of our Company. And we're confident in the strength of our business model and long term prospects for growth and value creation.

Will Randow - *Citigroup - Analyst*

I was discussing directly a [sell side] competitor. But it sounds like it's going to be north of 20% operating leverage for EBITDA drop down. Is that fair?

Tony Hull - *Realogy Holdings Corporation - CFO*

Again, that was the number we were looking at last fall. I think if the high end stays muted I think we would be in the high teens on that. If the high end rebounds, just like the stock market is rebounded, over the year. I think we would be in that the range we gave last fall.

Will Randow - *Citigroup - Analyst*

In terms of buybacks, what type of capacity do you have given leverage covenants as well as some room in your restricted payments baskets?

Tony Hull - *Realogy Holdings Corporation - CFO*

We have the capacity to do the buybacks that we've been authorized to do.

Will Randow - *Citigroup - Analyst*

So how much more is left for the second quarter?

Tony Hull - *Realogy Holdings Corporation - CFO*

We did $33 million out of the $275 million. In the first quarter. So again, there's not a restriction on that.

Will Randow - *Citigroup - Analyst*

Thanks and good luck in the next quarter.

Tony Hull - *Realogy Holdings Corporation - CFO*

Thank you.

Operator

John Campbell, Stephens Inc.

John Campbell - *Stephens Inc. - Analyst*

Hey good morning.

Tony Hull - *Realogy Holdings Corporation - CFO*

Good morning.

John Campbell - *Stephens Inc. - Analyst*

It's pretty impressive to hear that ERA's entire base is on ZAP. What drove that to 100% adoption rate? Was that a conscious decision by you to run somewhat of a pilot or was there something else driving that?

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

We, by design, wanted to start with those in the greatest need. And there were some measure of simplicity there. It's one of our smaller brands with a lot of upside. So we wanted to start there.

The team was extremely effective in pulling that off, so we have learned a lot. Those learnings are being applied more broadly now. So we are very excited about it. I

t was a great transition with a lot of upside. And we're already seeing great results as a byproduct of that acceleration of our ZAP installations. A good management team was able to pull it off faster than we anticipated.

John Campbell - *Stephens Inc. - Analyst*

Got it. And then I know you mentioned that the April trends were factored in 2Q guidance obviously. But I might've missed this during the prepared remarks. Just curious about the exact pace of size and price? And just mainly looking whether you need a sharper reacceleration in May and June to exceed guidance?

Tony Hull - *Realogy Holdings Corporation - CFO*

To exceed guidance we would. The guidance was based on what we're seeing today. So I think what we're encouraged by in the guidance, and what we're seeing in our April results, as well as our early May opens, is that we're seeing more robust unit increase and less price increase.

We think size improvement is more important than price for a number of reasons. One is if the price stays muted for a while that would help affordability, which will encourage sides. So I think we like the way it shaping up for the second quarter.

John Campbell - *Stephens Inc. - Analyst*

Got it. And then I know some of your top three key geographies. Those markets felt like they might've overheated a little bit with price. Do you see those key markets moderating a bit?

Tony Hull - *Realogy Holdings Corporation - CFO*

You are talking about New York, Florida and California?

John Campbell - *Stephens Inc. - Analyst*

That's right.

Tony Hull - *Realogy Holdings Corporation - CFO*

So California, both in LA and San Francisco, is characterized by inventory constraint. Prices sort of holding, but we are seeing constrained inventory. Really the sellers aren't seeing a move up where to move up, so they're reluctant to list. Buyers are less -- we're seeing less cash purchases and more using mortgages so that puts pressure on velocity.

So I think overall, the West Coast is characterized by inventory constraints.

Florida really started their recovery earlier than the rest of our markets. So I think we are seeing a little bit of softness there. As I mentioned, they were down 4% to 5% in volume in the first quarter. And that seems to be continuing. But it's not inventory constraints. I think it is where the market is in the cycle.

And then certainly, in New England and New York tri-state area continues to be strong. And where the inventory constraints are, are really at the very high end there. But I think that the move upmarket and the entry-level markets continue to be strong. But there are some inventory constraints there. So that's how we'd characterize those three markets.

John Campbell - *Stephens Inc. - Analyst*

Got it thanks for taking our questions guys.

Operator

Ryan McKeveny, Zelman & Associates.

Ryan McKeveny - *Zelman & Associates - Analyst*

Hi good morning. And thank you for all the disclosure. I think it's really helpful. With the covenant EBITDA guidance, it implies about flat to call it 40 bps of margin improvement in 2016. If you think about this relative to the operating EBITDA disclosure, would that same magnitude roughly hold? Or any way to think about that?

Tony Hull - *Realogy Holdings Corporation - CFO*

Will get more into that in August when we give you more clarity on how the year is progressing.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay got it. And second, on the business optimization and the restructuring cost this quarter. There was about $6 million in the corporate segment. So the corporate EBITDA was negative $15 million. Thinking about that line item going forward, is that a decent run rate to use going forward? And when we think about the restructuring efforts through the year, how that focuses on corporate versus the other segments?

Tony Hull - *Realogy Holdings Corporation - CFO*

Most of those construction costs in corporate were consulting costs. And those are winding down pretty significantly. So they won't even stand out I don't think in the second quarter. Maybe $1 million or something like that.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay got it. Thank you very much.

Tony Hull - *Realogy Holdings Corporation - CFO*

You're welcome.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks. First question on ZAP. I know it's still a little early. But, how much effort are you guys putting behind marketing for -- or selling to new franchisees, attracting new agents within RFG just using ZAP? I'm trying to figure out if it's been a real lever for you for attracting new talent? Or if is it still too early to tell.

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

There is anecdotal, in spite of that we measure those metrics on a monthly basis. So a couple points. One, it's becoming an important value enhancement from a franchisees perspective. So the franchise sales team is using that quite effectively to attract and win new franchises. That's one point. We like what we see in the early stage of that.

From a brokerage perspective, brokers are beginning to see more success in recruiting and retaining agents. In some ways, very materially. So the early indications are that's proceeding as we anticipated.

And then third, and most important, it is beginning to show evidence that the agent is more productive in better managing the relationships with their clients and prospective clients. So on all counts, we are seeing early anecdotal data that strongly supports the value enhancement. So we are very encouraged by it.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then Tony you said relatively flat for net royalty rate, commissioned rates, those kinds of things. Given the moving parts around the high end and some markets that are little more priced or inventory constrained. Should we expect that relatively flat common to have any seasonal variations we should worry about? Or anything that is year-on-year comparison wise that we should be aware that little strange [going for] the balance of this year?

Tony Hull - *Realogy Holdings Corporation - CFO*

I think there are some seasonal movements in those factors. But I don't think they're going to be much different than we've seen in the past. Again, I think those factors are most valuable on an annual basis. Those metrics. And again, we think they're all going to be flat this year. We expect that they will be flat this year.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Good thanks guys.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Thank you, and good morning. On the inventory matter. It's been a topic for a while now, and yet we have had good job growth and some expansion of credit. And so I am wondering if you can help us think through what happens if the jobs start to go from $200,000 a month to $150,000 or $100,000 something like that. Can we realistically expect inventory to pickup and fix that issue?

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

Listen, we don't anticipate that the inventory fix is a short term issue. It's going to take a while for this to correct. It's a byproduct of builders not building for a considerable period of time. So they have to catch up on an annual basis, which they clearly are doing.

You need to see a number of other issues. First time seller cannot sell to move up, because there's limited inventory in the move up cycle. So that is creating a bottleneck.

So we know there is substantial demand and interest in moving up. Just lack of inventory. So there's no single factor that's going to fix inventory overnight. It's a variety of different issues. Stronger market, some price appreciation in some markets. Builders have to build more aggressively. They have to start building new first-time buyer product.

All those things are happening. They are just happening slowly, and they will correct over time. So none of our forecast or beliefs suggest a quick fix, because there's not going to be one. It's going to take time.

But we like what we see. And it's encouraging. And we think we're on the right track to better inventory levels over the next several years.

Anthony Paolone - *JPMorgan - Analyst*

Okay thanks. And then in New York, you gave us some data on Corcoran. It was up pretty nicely. How much of that, if you think just even New York in general in your system is benefiting from the sell through of condos and representation there versus just the market in general?

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

We are through a subsidiary of Corcoran, as you know we market a lot of new product. We think we are the dominant player in New York City in that regard. And we're definitely getting the benefit of that.

But the traditional corporate brokerage is also performing quite well. So it's a combination of both. But given that we are the largest, from a new construction marketing perspective, we are doing quite well. So it's contributing in a meaningful way.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then my last question. I know we've talked about this in the past on the share item and it's tough to tie perfectly. But I think the NAR volume growth was like 9.5% in the first quarter and you guys were at about 6%. And you talked about adding GCI, and RFG, [finishing] like NRT did well in some key markets. Can you talk to that disconnect a bit or why that it still persisting?

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

We are more high-end focused than NAR. That would be one thing. And that's again, as we talked about that's in the cycle. We don't think it's a permanent issue. It's really just a pause.

We think the high end is being a little more cautious. But they are looking for value, but they are there. I think over the long term being in cities like New York, Miami, Chicago, San Francisco, LA. Those are the markets you want us to be in, and we are in them.

So I think that -- I think again, it's partially because of that shift. But over the long term, we're in the right markets. And again, our market share overall in terms of volume has been in the mid 16% for the last three years. And we don't see any change to that.

So, I think we are doing fine on market share. And obviously, it's a very competitive market out there. And we think we are doing well, keeping our metrics splits steady. And we are not about market share necessarily. But we think we're holding our own. And we're in good shape. But we are obviously always looking to do better. So, and we will.

Anthony Paolone - *JPMorgan - Analyst*

In NRT, is agent count year-over-year up, down, sideways any way to think about it that way?

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

It's about flat.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Thank you guys.

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

You're welcome.

Operator

Brad Burke, Goldman Sachs.

Brad Burke - *Goldman Sachs - Analyst*

Good morning guys. Your comments indicate that demand remains very healthy. But there's not nearly enough supply. And that credit availability continues to improve. So good demand, not enough supply.

Bigger picture question. Why wouldn't that translate into more than the 0% to 2% home appreciation that you're expecting in the second quarter?

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

We think the high end of the market is becoming particularly value conscious with respect to price. The demand is there, but they are going to pay what they believe is fair value. And they don't like what they see. So, the moderation of price is actually a good thing.

We think it impacts affordability. The run-up in price makes it possible. We've got some leeway there to slow down the appreciation in price if not even decline a little bit while sides increase. That is a better outcome long term.

And we believe that's probably what shaping up. It's hard to tell at this point. We will know more later in the year. But it looks like the moderation a price is going to be healthy contributor to stronger unit volume.

Brad Burke - *Goldman Sachs - Analyst*

Okay. And actually then a follow up to your margin guidance. Two part question. The first, the third-party forecasts are obviously for the broader market. But you indicated that your margin range is based upon Realogy realizing a 6% to 8% growth in transactions. So, is your expectation that Realogy would realize transaction growth in line with the broader market for the year?

And second, that 6% to 8% range would imply some acceleration for the first of the year based on your guide for the second quarter. So hoping for your view to on whether that's a reasonable assumption for the back half of the year?

Tony Hull - *Realogy Holdings Corporation - CFO*

Sure. So on the quarter guidance specifically. We mentioned that we expect the volume growth at NRT to trail slightly behind the RFG growth because what's happening to high end. So that means if RFG hit the market growth, then NRT would be slightly below that.

And we said, if that's not the case, and the high end rebounds, we think they would both be in lock step. And that would get us to the higher end of that margin guidance.

The second part of your question. If you look at all the forecasts, you can see this. We're lapping the TRID impacted the fourth quarter. So, we think that the back half is going to bring up the full year. So to your point, you're right the first half is closer to 6% versus the 6% to 8%. When we get to the back half of the year and we're lapping TRID, fourth quarter should show some benefits from that.

Brad Burke - *Goldman Sachs - Analyst*

Okay. But just so I am clear. The 14.8% to 15.2%, that's contingent upon Realogy getting the 6% to 8% growth in transaction volumes?

Tony Hull - *Realogy Holdings Corporation - CFO*

Correct.

Operator

Bose George, KBW.

Chaz Tyson - *Keefe, Bruyette & Woods - Analyst*

Good morning [this] is actually Chaz Tyson on for Bose. I think you said Florida is down 5% on transaction volume, and California down 4%. Do you have the same breakout on a price versus sides basis?

Tony Hull - *Realogy Holdings Corporation - CFO*

California, without looking, I can tell you is all sides, price was flat. And it was a mix for Florida. Size and price.

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Chaz Tyson - *Keefe, Bruyette & Woods - Analyst*

Okay. And are you expecting similar trends? Is that built into your guidance and 2Q that would have similar trends there? And New York would continue to be up?

Tony Hull - *Realogy Holdings Corporation - CFO*

I think in the second quarter, we are seeing the California situation we expect to continue. And Florida, we are starting to see some stabilization there. And we think the development in New York City will not be a strong in the second quarter as the first quarter. So the 12% probably is not repeatable in the second quarter.

Chaz Tyson - *Keefe, Bruyette & Woods - Analyst*

Okay. And then in Florida in particular. How are you seeing the, if you have any color, the health of the international buyer there given that it's a fair amount of the market?

And also, do you have a breakout of what percentage your NRT volume there is? Is condo based as opposed to single family detached?

Tony Hull - *Realogy Holdings Corporation - CFO*

I don't. I don't have that. We saw both.

Certainly in Miami, some of the softest can be attributed to lower international activity. But that doesn't really affect the markets outside of Miami. And on the West Coast to Florida, it is a little bit of softness due to less Canadian activity. But they are definitely feeling it in those two markets. But I would say in the rest of the state, it's not a big factor.

Chaz Tyson - *Keefe, Bruyette & Woods - Analyst*

Okay and then last question. I think last quarter you had given a revenue impact of TRID. Do you have a similar figure this year? And are you building into your guidance that we continue to see the narrowing of the gap in opening and closing homes as we see in [TRID familiar] rate a little bit.

Tony Hull - *Realogy Holdings Corporation - CFO*

We don't. TRID was baked into our numbers. So the reason we highlighted it in the fourth quarter is because we didn't see it when we gave guidance. And then two weeks after we gave guidance it really started to affect the fourth quarter. And we had that baked into our first quarter.

In terms of, for the rest of the year. I guess we have seen, as I mentioned in my comments, we've seen some improvement in TRID. But what we're still cautious about is we are going to get into the significant volume periods over the next several months. So whether those gains that were made in March hold is something we're cautious about.

But we think for the full year, we're going to stay at this four to five day. We don't expect any improvement in the four to five day delay for the full year. We haven't baked that into any of our numbers.

Chaz Tyson - *Keefe, Bruyette & Woods - Analyst*

Okay makes sense, thanks guys.

Operator

Mike Dahl, Credit Suisse.

Mike Dahl - *Credit Suisse - Analyst*

Thanks for taking my questions. Tony, just wanted to follow up on the couple comments relating to the Q2 guidance. And again, NRT specifically. Because I think, just listening to some of those comments around the markets. It sounds like, [net] a lot of things and NRT markets stay relatively similar, but then maybe New York City not quite as strong. Just given the development pipeline issues near term.

And so, if you did a 2% organic in NRT in 1Q, is there any color as far as like should we expect similar growth within this 3% to 7% guide for NRT in terms of just still seeing 2% organic. Is it going to slow a little bit given the New York City issue? Or are there other offsets that would put it back in more the middle of the pack?

Tony Hull - *Realogy Holdings Corporation - CFO*

We are seeing a unit pick up. One of the challenges with first quarter is everything stands out like a sore thumb. That's not the case in the second quarter, because [feeding] our more overall volume.

But overall, we expect to see good sides improvement at NRT as well as RFG in the second quarter. And there will not be the CB United discussion, because we owned that for all but about four days of the second quarter last year.

Mike Dahl - *Credit Suisse - Analyst*

Right. So you would think that 2% could still pick up a little and actually be within the range of the overall transaction?

Tony Hull - *Realogy Holdings Corporation - CFO*

Yes. Definitely.

Mike Dahl - *Credit Suisse - Analyst*

And then, appreciate the comments both Richard and Tony around some of the NRT issues as it relates to share. But I think Richard, you did mention in the opening remarks that it sounds like you're choosing to give up a little bit of share. And seeing some pressure just in favor of improving the profitability on the remaining portfolio of offices.

And so, I guess what's changed on the competitive front? Or are you seeing any differences in terms of who is driving some of the incremental competitive pressures.

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

As you know, it's a cottage industry. So our competition is the person across the street who decides to go into business the day before. So we compete against everyone.

We are disciplined in our approach to the market. We don't focus on market share, we focus on profitability. We've always done that. And we're going to continue doing that.

We've seen no seismic change in that regard. Is literally local competitors who discount their services and provides very limited services to the consumer. That's not our business. There's no apples to apples comparison on either market share, or method of operation, or the economics of those methods of operation.

So we know our model, we know it well. And we focus on that, and we think it's is the model that delivers the best upside to shareholders and generates the most cash.

And most important, our model is sustainable. Many we compete against are not sustainable models. So we know what we know. And we focus on what we do well and it shows in the results.

Mike Dahl - *Credit Suisse - Analyst*

Thanks. One last question Tony. Just going back to the full year and some of the covenant adjustments. Because it seems like there are certainly some parts of it that evolve over the year in terms of some of these pro forma optimization or acquisition parts.

But as far as some of the things that are a little more defined within the guide like the stock comp expenses. Is or anything you can just give us as far as just magnitude of what some of these adjustments as currently in the 14.8% to 15.2% guide are?

Tony Hull - *Realogy Holdings Corporation - CFO*

We're moving to operating EBITDA. So we're trying to shift people's focus of some of those things. They are not there but having said, that I understand. I started thinking back. I think they're pretty comparable to last year.

I think business optimization would be about the same. I think the pro forma M&A may be a less because we did a couple of large transactions last year. And the stock comp, we're probably within $5 million on the stock comp.

Mike Dahl - *Credit Suisse - Analyst*

Okay. Since you're shifting that focus, should we expect the will start giving guidance based on the operating EBITDA and operating EBITDA margin in the future?

Tony Hull - *Realogy Holdings Corporation - CFO*

Yes. We expect to look at that in August as well.

Mike Dahl - *Credit Suisse - Analyst*

Okay thank you.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

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

Within the 4% to 6% full-year transaction volume guidance, would you anticipate pricing being pretty consistent with first quarter results and your second-quarter guidance in that call it 0% to 2% range?

Tony Hull - *Realogy Holdings Corporation - CFO*

Yes. We expect price to be flat to up 2%, and sides to be up 3% to 5%.

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

Okay. And then a little bit of a longer term question around the US housing market. The lack of entry-level inventory, does this potentially pressure rebound that we're all expecting in homeownership rates in the US?

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

I do not quite get that. Is that the impact on homeownership?

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

Yes. So if the inventory constraint is being felt more at the low end, that first-time home buyer home. Is that a potential risk for when new households do form over the next few years, and they can't find that entry-level home to move into, does that put pressure on homeownership mix homeownership rates?

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

I got it. No, inventory issues are across all price points. There's a lot of inventory at the very high end of the market. It's inadequate inventory at the entry-level and also the move-up market. So I don't see that in particular impacting homeownership rates. A variety of issues impacting homeownership rates, that just probably one of many.

The good news on inventory is that it's an across the board issue. Quite frankly, if it were only one segment of the US market, we could probably address it a lot faster, but that's not the case.

So listen, it's improving a little bit. There's been three sequential months of slight increases in inventory. We anticipate that will increase somewhat in the second and third quarter as people decide they can get what they want for their home, and they're going to put on the market and try to move up.

But we're still well off the normal 6 to 7 months of inventory, we're about 4.5 or 4.6 right now. But we are encouraged. We're starting to see slight improvements, and that in and of itself is not going to be the big impact on homeownership rates. I think there are a number of issues there.

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

Got it. All right thank you very much.

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

You're welcome.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Thank you, and good morning. So just a question on the move up buyer. What you think is holding up the move up buyer right now? Is it still negative equity? Or are there other issues? What are your thoughts there?

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

We don't it's negative equity. Although that's less of an issue today than it was several years ago. It's literally inventory. Not only is there not sufficient inventory for the first time buyer, there is inadequate inventory for the move up buyer.

If I am a first-time seller and I want to move up and there's no inventory, or less inventory, then I am going to wait. And that's exactly what we see in certain markets. There are not many markets where there's an exception to that rule. It's just created this little bottleneck.

The way we view that, and I think most housing experts view it, is demand is strong. I'd much rather see strong demand and inadequate supply versus the opposite. So, this will work itself out and fix itself over time. And it's slowly doing that, it's just a matter of time. But we expect that inventory levels will improve, and inventory supply will meet demand, and we will see much stronger results over the next several years.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Thanks for that. And then, going back to the full year guidance. The 6% to 8% volume growth. Can you help us think about, or at least that is in the ballpark on the revenue growth expectations? We are thinking probably lower than the volume growth. Can you help us a little bit on the magnitude of revenue versus the volume growth?

Tony Hull - *Realogy Holdings Corporation - CFO*

We don't give guidance on volume expectations, we don't give guidance on [any other] metric.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Then in terms of the margin expansion. I believe historically the algorithm has been like 3% revenue growth would start to drive margin expansion as you would cover your inflation in the cost. Is that still the right way to think about the margin expansion for the business?

Tony Hull - *Realogy Holdings Corporation - CFO*

With the business optimization, we been trying to get it down from 5.6% to 3.4%.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Okay. Thank you very much.

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

You're welcome. That concludes our call but I want to make a comment before we drop off today. In summary, our first quarter financial results were in line with our expectations. We're working very hard to bolster our market presence in a profitable manner. And we remain confident that the investments in technology we have made, and other actions we are taking will strengthen the resiliency of our integrated business model and its long-term ability to enhance shareholder value.

Like everyone in the industry, we are challenged by low inventory. But we are encouraged by the level of demand being demonstrated in the market. Our focus on enhancing profitability, reducing cost, delevering our balance sheet, and returning capital to shareholders will continue to be our top priorities.

We will deploy our strong free cash flow in a manner that will drive growth and shareholder value. Thank you very much for joining our call. Have a good day.

Operator

This concludes today's conference call. You may now disconnect.
