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Q2 2018 Realogy Holdings Corp Earnings Call

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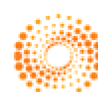

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. second quarter 2018 earnings 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.

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 Corp. - SVP of Financial Planning & Analysis and IR***

Thank you, Natalia. Good morning, and welcome to Realogy's Second Quarter 2018 Earnings Call. On the call with me today are Realogy's CEO and President, Ryan Schneider; 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 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. 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, August 3, 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 in 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 ***Realogy Holdings Corp. - CEO, President & Director***

Thanks, Alicia. As you may recall from our call last quarter, I told you I was excited to compete for a position of leadership in the attractive and growing $70 billion residential real estate market, especially given the growth we expect in this large addressable market over the next several years. Nothing has changed in that regard. Realogy has powerful strengths, industry-leading market position, great brands, strong cash flow, and something you will continue to hear me talk about, technology and data scale.

In the short term, the most pressing issue facing the industry is an inventory shortage in the mainstream market versus robust demand. This is resulting in slightly lower homesale transactions, offset by strong increases in the average home prices, which results in increased volume that is beneficial to us. While NAR and others are starting to point to modest inventory increases, we are not planning for dramatic inventory improvement at this time.

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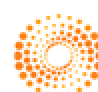

Despite the challenging inventory environment, we are moving faster. I'm excited that some of our earlier 2018 efforts are starting to drive results. We outperformed the market on transaction volume. We began to see the expense benefits from our expanded focus on operating efficiency, and our Q2 2018 operating EBITDA outperformed Q2 2017.

With that, let me discuss what we saw in the second quarter. Q2 2018 operating EBITDA was $276 million, up $7 million from Q2 2017. We delivered on our transaction volume guidance. Our 3% volume growth outperformed the market for Q2, with NAR reporting 1% volume growth. RFG transaction volume was up 4%, driven by 7% price growth. NRT volume was up 1%, with sides flat in a quarter where NAR reported sides down 2%.

Moving to our guidance for the third quarter. We forecast that Realogy's combined transaction volume will increase in the range of 3% to 6% year-over-year with sides contributing between -1% to +1% and 4% to 5% coming from price. Broken down by business unit, we expect 4% to 6% transaction volume growth at RFG and 3% to 5% growth at NRT. Based on what we know today and subject to macro uncertainty, we continue to expect that aggregate Q2 to Q4 operating EBITDA will be in line with or better than the same period in 2017, as we have said on our last two calls.

Now let me talk more about NRT. In Q2, the West, South and Midwest regions all saw single-digit volume growth. The West was up 6%. South was up 4%, and Midwest was up 3%, all driven by price. The Northeast was up 5% in volume, with growth in sides and price, excluding New York City and the Hamptons. Including those markets, NRT's Northeast volume was down 5%.

NRT commission rates in Q2 increased 209 basis points year-over-year, which included approximately 45 basis points new development impact. This compares to a 284 basis point increase year-over-year in the first quarter, which included approximately 65 basis points new development impact. Consistent with what we said in the last two quarters, while we expect continued upward pressure on agent commission rates, overall we do expect further year-over-year split increase moderation in the second half of 2018.

Shifting gears. I want to share a few thoughts on our strategic direction as the year evolves. First, while I've not spent much time talking about our franchise business in the last two earnings calls, I really love this business. It is hard not to love RFG's $560 million of 2017 operating EBITDA. We have a very strong group of nearly 2,500 franchisees, and we are focused on helping them grow. And with approximately half of the agents in the market today still with independent companies, not affiliated with national brands or major regional players, we believe we have unexplored opportunities to attract those agents to our franchisees.

To drive substantial agent growth in our franchise business, we'll be making a number of strategic changes at RFG in 2018 and 2019. First, we are going to launch at least one new franchise brand in 2019. Second, we are expanding our franchise business by now supporting multi-brand franchisees and start-up brokerage companies, things we have not done traditionally. And third, we are expanding the capital programs available to franchisees to help recruit new agents and complete M&A transactions. Additionally, we are continuing to invest in our franchise technology offerings that are today deployed to over 100,000 affiliated agents.

Second, we love our owned brokerage business at NRT. We especially like its contribution to our franchise earnings. Remember, NRT contributed approximately $300 million of intercompany royalties through RFG Operating EBITDA in 2017. That said, while we're intent on helping our agents grow their businesses, we are clearly not satisfied with NRT's recent direct financial results. This business should be - and we are working hard to make it - the largest source of operating leverage for our company.

To change this financial trend, we need to expand our base of productive agents faster than our recent past and provide our existing and new agents compelling data and technology products and services to make them more productive and their businesses more profitable. We will be making a number of strategic changes at NRT in 2018 and 2019. First, we are simplifying and standardizing our agent commission pricing to drive growth. Keep in mind that NRT was built by combining hundreds of brokerages, each with different commission plans and legacy branch-level variations that often continue in some form or another to this day. We are moving to consistent commission plans in each market, with less branch-level variation and more central decision-making, driven by greater data analytics. These changes will create clearer and simpler messaging around our value proposition to drive growth by improved agent recruiting and retention.

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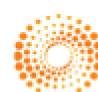

We are also changing our products. As we've discussed previously, we are adding new products to our agent value proposition to enhance recruiting, retention and to drive agent productivity. For certain select new products, we will charge fees. In some cases, those fees will be because we've created something that drives exceptional value. In other cases, the fees will offset the cost to deliver the new products. This move to charge fees expands the universe of products that we can offer our agents.

We're moving quickly to drive these changes, given our need to alter NRT's financial trajectory. For example, we are in a process of simplifying and standardizing our pricing in California today to accelerate growth, and we are testing pricing variations in several other markets this year. We have also introduced a few high-value, fee-based products already in California and other select markets, and we are seeing encouragingly high take rates from our agents. We believe these changes will drive our agent recruiting and retention, agent productivity and our commission income growth over time.

While I've just shared with you some strategy changes at NRT and RFG, we're not going to be able to give you as many specifics today as I know you would like for both competitive reasons and because we are still early in these changes. However, we do want you to know the strategic direction that we are headed, and we look forward to updating you as 2018 and 2019 progress.

Third, we remain focused on enhancing our agent value proposition through new technology and data products. This is part of delivering more value to agents to help drive better recruiting and retention results. Last quarter, I described a few agent-focused beta technology products we produced. This quarter, I want to highlight two investments in other technologies we made to help our agents. First, we invested in OJO, an artificial intelligence start-up focused on enhancing real estate leads. Together, our goal is to provide additional high-quality leads to our industry-leading network of more than 190,000 U.S. agents. Second, we also invested in Notarize, a platform that enables remote notarization. We want to be on our front foot helping agents and their customers as the real estate transaction becomes increasingly digital.

Finally, our capital strategy remains unchanged. We returned $101 million to shareholders through share buybacks and another $11 million in dividends during the second quarter. As I've shared multiple times, we are deemphasizing brokerage M&A to focus on organic growth. We expect to repurchase an additional $200 million of shares over the back half of 2018, which we believe continues to be the best use of our capital, given our current stock price. With this level of stock repurchase, we expect our leverage ratio to be a bit above 4x at the end of 2018.

In closing, I want to emphasize that we're focused on moving quickly. I know shareholders expect better results. While we're in the early innings and while our results trajectory will not change overnight, we are beginning to see the impact of some actions we took earlier in the year. We remain committed to demonstrating a fast pace of change and improving profitability over time.

While I will come back at the end of the call to summarize my thoughts, now let me turn it over to Tony to discuss our Q2 2018 results in more detail.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Thank you, Ryan. Turning to Slide 6 for the second quarter 2018 results. Revenue of $1.8 billion was up 2% compared to Q2 2017. This growth was attributable to an increase in homesale transaction volume at NRT and RFG. Our operating EBITDA of $276 million increased 3% compared to Q2 2017. The year-over-year increase of $7 million was largely due to revenue increases and operating expense favorability across the company. We remain on track to achieve approximately $50 million on an annual run rate basis from restructuring and other cost-savings initiatives, which more than offset some inflationary pressures. Adjusted net income was $127 million or $1.00 per share compared to adjusted net income of $107 million or $0.78 per share in Q2 2017. We generated free cash flow of $192 million in the quarter. For full year 2018, we continue to expect conversion from operating EBITDA to free cash flow at a rate of approximately 60%.

Slide 7 provides information about our business unit operating performance in the second quarter. RFG's operating EBITDA increased $6 million, principally due to growth in the franchise royalty revenue as well as decrease in employee-related costs. RFG's Q2 reported revenue was flat as revenue -- as higher net domestic affiliate royalties were offset by lower recognized brand marketing on revenues due

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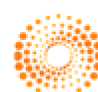

to the timing of spending. This had no impact on operating EBITDA due to an offsetting decrease in expenses. The growth in domestic royalties was 4%, driven by higher average sales price as royalty per side reached $336, up by 6%. Net effective royalty rate was slightly improved at 4.42%, up 1 basis point from the Q2 2017.

NRT operating EBITDA was $61 million. This was a decrease of $17 million, $9 million of which was due to lower new development activity. A revenue increase of $16 million and a $5 million decrease in operating expenses were more than offset by $39 million of greater agent commission expense. NRT also contributed $89 million of intercompany royalties, which are in RFG's results for the quarter. As a reminder, we exited the PHH Home Loans joint venture in 2017. Equity earnings in the NRT segment from the wind down of this JV will be a $26 million headwind in the second half 2018.

Cartus operating EBITDA increased $7 million in the second quarter due to a combination of higher revenue and the impact of expense-reduction initiatives. Revenue increased $3 million primarily due to higher affinity and international revenues.

TRG revenue and operating EBITDA each increased by $5 million as a result of higher underwriting revenue, lower employee-related expenses and a $2 million increase in earnings, primarily related to our mortgage joint venture, Guaranteed Rate Affinity.

Shifting to the bigger picture. There's currently a lot of speculation and static surrounding the health of the existing homesale market and its future prospects. In the short term, limited inventory in the mainstream market continues to be the major constraint, and it fuels other concerns about affordability, mortgage rates and the impact of tax law changes. But the fact is that demand outstrips supply, and that has kept homesale transaction volume on a positive trajectory. Looking longer term, demographic trends are compelling. We are already seeing growth in a number of households who own homes rather than rent. There were 1.8 million new homeowners added over the last 12 months, according to the latest Census Bureau report. And Millennials are the most important factor driving the increase. There's clearly a demographic shift on the horizon that we believe will be a meaningful tailwind for the housing market and Realogy for years to come.

Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Thank you, Tony. Before we turn to your questions, I'd like to take a moment to highlight a leadership addition at Realogy. In July, Katrina Helmkamp joined as President and CEO of Cartus. An experienced CEO, who was built her career leading companies through transformations, Katrina is well positioned to drive performance at Cartus and lead its technology and process transformation.

Pulling way up, we're increasingly making changes meant to improve profitability over time. I'm confident that we're headed in the right direction. In this quarter, we outgrew the market. We're seeing the benefits from our focus on driving efficiencies in our cost structure, and we grew our operating EBITDA over last year. We're making strategy changes at both RFG and NRT designed to substantially grow our productive agent population. Our technology and data focus - all to help our agents succeed continues. We're returning substantial capital to shareholders, given our robust free cash flow. And finally, we continue to make talent moves across the company as well as bringing outside talent. Both are critical to executing our strategy and delivering better results.

With that, Tony and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Bose George of KBW.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Actually, can you start with just an update on the competitive landscape for agents? And last quarter, you said that you expect the pressure on splits to largely moderate year-over-year. And I wasn't sure if in your commentary, you repeated that. So could you just address that as well.

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Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, we haven't changed our commentary on splits. While we still think there will be upward pressure, the kind of year-over-year increases we're seeing each quarter, we signaled and believe are going to moderate. We saw that in this quarter between the 284 to the 209 as an example of that. So nothing's changed on that.

Look, the competitive environment is pretty intense. I mean it's -- there's no question that a lot of people think this is a really attractive market, just like we do. We like that. We like our industry-leading position in that, but the competition from traditional brokerages remains strong, right. There's a lot of outside capital coming in, both in the traditional brokerage and into some of the disruptive models trying to target the same economics as ours. And so I would say it's just as competitive now as it was last quarter and the quarter before. The lack of inventory makes it even tougher out there because you've got the agents competing for a relatively limited number of listings. And so if there was more inventory, I think there'd be a little more dynamism in the market. So that makes it a bit difficult also, but it hasn't changed in our eyes over time here recently.

Bose Thomas George ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Great, great. In terms of the new brand, the franchise brand you think you're introducing, can you just talk about the drivers? Is there sort of a market niche that you feel provides an opportunity? Or Any color there.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Absolutely. And obviously, I can't share the name. We want to launch it in the right way, and the right way wouldn't be on an earnings call. But -- so we're looking actually at more than one. I said at least one. So we're looking at more than one. We think there's at least -- there's a couple of niches in the market that are both a little bit underserved overall and a little bit -- and underserved by Realogy. And we think we got access to the kind of brands that could actually fill those niches. We've got -- we're doing the work to really make sure it's the best thing for our owners and our company, but I'm incredibly confident that we got one of those niches that we're definitely going to launch, which is why I said we have at least one. And we're actually looking at more than one.

It is still at an incredibly fragmented market, and we've had a lot of success in the past introducing new brands. And so we think there's a real opportunity here, and we look forward to telling you more after we launch it more in a kind of press PR kind of way. And at that point, we'll be able to give you more details on financials and stuff like that as we work that through, but there's some opportunities in the brand spectrum. We've got great brands today. Each of our brands create unique value, but there are some segments that we think are actually right for us to look really hard at. And at minimum, it's going to be one.

Operator

Your next question is from the line of Anthony Paolone with JPMorgan.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

In terms of the splits and you going through the process of streamlining that, it sounds like you've done some over there already. Can you just talk to whether -- I guess, I mean -- and if there's going to have to be an average split, and curious as to whether or not that's, on average, higher or lower than what the agents are getting today.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So it's too early from the stuff that we've rolled out to actually say if it's higher or lower. So again, the market pressure on splits is upward, not downwards. So we just all need to keep that in mind. The thing I'd love to pivot to, though is, the real reason to do it, Anthony, is not to try to get to some target number on splits. It's really actually about driving growth, right, and kind of getting to the right integrated economics. If we can get enough growth with simpler, clearer, more data-driven commission plans, we'll take higher splits if that's what it takes to get a lot more growth because the economics on an integrated basis would be better. And that growth has got to come from more recruiting. And so we had some success with that, but you can look at a bunch of our competitors who's had a lot more success on recruiting than we had.

And the way our company has evolved with those hundreds of brokerages, we've got these kind of complex and inconsistent plans out there. And they make it really hard, actually, to explain to potential agents both what our pricing really is and what our value proposition

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really is. And we think if we can do better to simplify and standardize, have a much clearer and more consistent message, we can actually get a lot more growth with recruiting. And that's going to be the real leverage in this.

There'll be a set of integrated economics, we believe, are going to be better than today if we get that outcome. Whether splits are higher or lower on average or what the distribution on that looks like, that's still little bit TBD in it. But the goal is to drive growth and drive better integrated economics more than it is to try to get to a certain split target.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

Okay. And then just on your marketing cost and your G&A in the quarter, at least relative to where we were, those seem to come in lower and really were pretty helpful. Can you just talk about anything behind those 2 items and perhaps kind of what they might look like going forward?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, the marketing, at least from the RFG point of view, is more of timing. So I think that will come back a bit in the third quarter. In terms of the other costs, we reduced our headcount significantly compared to year-end and the year ago, as we said we would in our restructuring, and we reduced our office footprint. So those 2 things have contributed to that.

Obviously, Cartus did a fairly major reset on their cost base. So we're happy to see the benefit of all that hitting in the second quarter and expect that probably to still to continue for the year. And it's kind of our normal operating procedure from now on.

Anthony Paolone ***JP Morgan Chase & Co, Research Division - Senior Analyst***

So -- and I guess we only had $364 million of G&A I think in 2017, I mean any ability to kind of give some brackets on what that might look like for full year '18? Like, does it really stay down at these levels for the next couple of quarters?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I mean we don't -- we gave the guidance we gave. But obviously, we're really pleased with the cost savings flowing through to the bottom line.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. I'll add to that, Anthony. That's one of the things in my comments. What we want to show you is that some of the stuff that we started earlier in the year is actually starting to pay off. This is one of those examples. And so obviously, we plan to continue on that trend -- trajectory, as Tony talked about. But I agree with Tony. We don't have guidance to give on that specific line item.

Operator

Your next question is from the line of Stephen Kim with Evercore ISI.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

I guess my first question touches on the question you -- or the issue you raised about technology. You gave us 2 examples, I think, in artificial intelligence, start-up to identify leads, I think, and the Notarize platform. I was curious, first of all, what inning you think we are in terms of Realogy embracing some of the new technologies that are available? Will they -- will you be rolling these things out in a brand-specific manner? And then as you talk about launching new brands, I was curious if any of the motivations or the niches were actually built around some of the things you're finding in terms of technology opportunities.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Great, great questions. Thank you, Stephen. So I think this industry as a whole is actually still in the early innings around technology relative to some of the other industries out there. And I -- Realogy is also in the early innings on technology, though Realogy did do one thing that no one else in this business did, which is Realogy provides the Zap technology to its franchisees, which I don't believe any other franchise would provide something of that size and scale the way Realogy does. But I think, overall, the industry and Realogy are more in the early innings in this area. And what I'm trying to demonstrate to you as we have these conversations in each quarter is the different vectors that we're actually engaged in.

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So for example, last quarter, I talked about stuff we developed and some beta products we put out in the market that are out there being tested as we speak right now. This quarter, here's some places we made some investments to roll those products out to have products for agents that we can then distribute to 190,000 agents that we've got and leverage our scale. So it's early innings, but I want you to know we're incredibly focused on this and moving fast.

What I didn't talk about that I'm really passionate about is we just did a kind of non-Realogy agent predictive analytics productivity analysis with MLS data and stuff. And we found that, using kind of the machine learning, we found that 5 of the 10 most important explanatory variables for predicting agents that we should be recruiting isn't actually agent characteristics, it's actually Realogy data and Realogy-only information, which is kind of a nice competitive advantage given our scale and our data scale. So we're in the early innings, but in each of these kind of areas, building, buying using machine learning on stuff, we're starting to actually produce some insights that we're going to drive into the market.

Some things, I think, will be done at the brand level, and some things will be done across the company. I think over time, you'll see more of this stuff done across the company, but we do have a few examples, even this year. Sotheby's did something really nice, I thought, with augmented reality as part of their virtual listings basically. But I think most of what we're going to be doing will be meant to be out there to leverage the scale we have with our 190,000 agents and give the -- any technology we buy, build, develop, et cetera, data insights out as much as possible. Because I think that's part of our competitive advantage, which is if we come up with a good insight or a good product, we can get it to 16% of the market. And so let's do that overall, even though there will still be some brand-specific things.

On the new brands, technology, I do not actually think is the core thing that actually determines some of these potentially open or underserved segments of where we've got new brands. Though technology, making a decision of how you're going -- how to support these new brands with technology is actually one of the most challenging things we're trying to work through now, because we need to set a really high bar for that and have it be great. But I don't think you'll see a new franchise brand built around a technology as much as about maybe a different operating model, if that makes any sense in terms of different physical presence or different kind of customer segment targeting.

Stephen Kim ***Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team***

Great. That's, yes, that's a very full response and very helpful. My second question relates to your comment about simplifying and standardizing the agent pricing model. It seems like a very significant move by the company to change something that seems like it's been fairly deeply ingrained. So I just wanted to explore that a bit. I guess what I heard you say was that you were employing data analytics to determine better ways to recruit and also to provide a more clear value proposition or at least a financial projection model that an agent could use than before. Seems very reasonable. Seems like that should be clear and transparent. However, I'm imagining there must be some reasons why that system was in place to begin with and allowed to perpetuate for as long as it did. And the changing it is going to be somewhat jarring for the existing professionals, particularly your most productive agents. And so I was wondering if you could talk about how you see that implementation of a more simplified centralized model sort of balancing the change effects on your business and perhaps alienating some folks that liked the existing platform, and the kinds of things that you are seeing in terms of the potential for a simplified program that make you say that this is worth doing at this time.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So great, great question. And look, there's no -- companies evolve with their history, and just because something changes now doesn't mean it was not the right thing to be doing in the past. Let me start back with Realogy. Literally, I think if I count it out, there was somewhere between 400 and 500 brokerages came together to form NRT over time. I mean, that's a phenomenal number. And even today, the legacy of that massive amount of companies coming together still exist, Stephen. In many, many places, how we do -- we have all kinds of variation in terms of commission processing and activities that are done very different in different geographies. Because with that number of companies coming together, there was never -- it was just a Herculean effort to kind of continually get closer to kind of single ways of doing things on almost any dimension, including pricing. So you just got that legacy history.

But I think we're at a point where, given the challenges that you're challenging us with in terms of improving our performance, we can't just keep going the way that we're going. And one of -- and the thing that, I think, haunts us the most is because of that fragmentation and the branch-level variation in pricing, choices and stuff like that is, we actually have a really hard time communicating our value

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proposition as powerfully as we should be able to, including the pricing part of it. And if you actually Google our marketing materials versus some of our competitors', you'll see they can actually communicate their value proposition in terms of pricing incredibly clearly with clear headline pricing. And for us, it's a much longer kind of all-in integrated conversation. It's just harder. And so the change is more actually to drive new agents to us and, hopefully, help us recruit new agents.

Now part of the reason that I talked about -- that we're doing this in California right now. I also mentioned we're testing in most other market is, we actually do know that because each market's different, we're going to have differences in each market. But we also have to actually, like, learn from the early experiments of doing this, right. So Sacramento's actually going quite well, and we've learned a lot from doing it there. But we're going to do testing in different markets on the East Coast. And the -- how far we move from where we are today to the other end of the spectrum around consistency and pure data analytic-driven will likely be a function of what we learn during these tests and how we confront some of those existing agent issues that you talk about. But the power of it is less about what happens to the existing agent. The power of it is, if we're going to succeed and deliver the kind of results you want us to deliver, we actually need to drive more productive agent growth. And we have to do more recruiting than we're doing today. And you can see that when you benchmark us against the competition. And so we're designing this as much or more to recruit talent and agent -- to recruit agents than as it is to try to just change the mix of what people are having today. A lot of people don't understand is what they're on today is actually what we do for the people who are going to be new is where the power really is.

Operator

Your next question is from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

The first question on NRT. I wanted to focus a bit on the EBITDA margin there. So we talked a lot about commission splits over the last year plus. And obviously, that's been a headwind. But I'm just thinking about the actual EBITDA margin and kind of what else can be done from a cost perspective within the NRT side. I know you've called out some efficiency gains and restructuring efforts related to headcount and such. The topic I'm focused on is kind of the office side of things, where you have a lot of offices across the country. I'm guess I'm wondering, is there opportunity for any consolidation there as kind of an expense reduction, assuming maybe the commission split, let's say, trends continually slightly higher to offset these pressures? Can you get to a point where you see the EBITDA margin in that business stabilize after seeing a few years of declines? Just any context around that and maybe some of the other factors outside of just the split that could help benefit the margin in NRT going forward.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. Look, great question. And I think may have mentioned it the last call. We're doing some work around the office of the future. We're not blind to the things that -- the E*TRADEs and the Schwabs and the others have done to really change how physical presence can work for different kind of businesses. And look, today, we cover our operating markets, but we are continuing to look for opportunities there. And some of the restructuring and some of the cost benefits that Tony talked about did come from that.

So I agree with your premise. And I think you should know we do think there is some opportunity there. But I will say -- just I don't want to mislead you on this one. I don't think it's going to be the most -- the biggest driver of a change -- any sort of change in our trajectory in the future, right. The much bigger driver -- back to the recruiting question, is literally how do we do a better job of -- whether our office size is what it is today or 2/3 of it or whatever, how do we do a much better job of leveraging that fixed-cost base by having more recruiting success and driving kind of more operating leverage through that business? And so we are looking at it in those kind of ways that I talked about. But just like office consolidation alone and things like that won't change our long-term trajectory in a way that's going to excite you. Whereas, we will do some moves in that area paired with more success on the recruiting side, you can see the combination being much more powerful down the road.

Ryan McKeveny ***Zelman & Associates LLC - VP of Research***

Got it. Very helpful. And I guess somewhat interrelated with the whole concept of recruitment and competition in the industry. I guess it's interesting to hear about the tools and products that you think you can kind of charge agents for. So I'm just wondering if you could give some additional thoughts around any trade-offs that you need to think about there, just given such a kind of competitive environment. I think the naysayer would say it must be tough to charge anything additional to agents when other companies are expanding and trying

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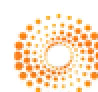

to do what they can do with tech, recruiting their way. So I guess, what gives you the confidence that you can kind of charge sort of premiums for some of these tools? Is it just the nature of them are so good that it is what it is? Just any additional thoughts there would be helpful.

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

That's a great question, Ryan. So first off, remember, a ton of people in our industry are charging for a huge amount of things today, right. Our value proposition has been kind of all-in pricing, right? So further split, we kind of give everything. But we do live in a world where a lot of agents -- most agents, I would predict, are used to be in charge for a lot of things.

However, to your competition point, here's the reality in our view, we believe. Look, our goal of all of our value proposition changes is actually growth, right. We're not -- we're in this to actually drive as much more recruiting as we can, and we want to have the best kind of product set that we can. We think we have a good one today that's compelling. And we've given you our retention stats and the fact that we are 2% kind of up year-over-year on agents. So we're getting some recruiting and stuff.

But in terms of charging for things, let me give you the 2 kind of scenarios where we actually feel really good about this. And in fact, we have actual evidence that it's happening. So one is, if we put a product out there that is just above and beyond kind of our normal value proposition, and it's optional and agents want to use it and charge for it. Because it creates exceptional value, we think they'll go for it. We have one of those right now. It's called Listing Concierge. It's live in California and Denver and a few other smaller places. And this is a product, Ryan, where an agent can basically purchase marketing support from Realogy from Coldwell Banker for -- in NRT for a listing. And it kind of gives white-glove service on the marketing. We do the professional photography, HD, aerial, video, all that stuff, professional copywriting. We produce spots and put them in newspapers and magazines and online. We do some targeted and boosted social media placements, et cetera. And we charge for this product per listing, right. And so agents don't have to pay it. They can all do this themselves. But if they want this kind of above-and-beyond thing that we've just started offering, they pay us a fee for it for each listing. And our take rates on this thing have been incredibly good in these markets that we've rolled it out.

So that's an example to me of a kind of high-value thing that we could actually charge fees for doing it. It's getting good results. If we put more of those in the markets, some we may want to put into our core value proposition, but others we may want to charge for, like what we're doing with Listing Concierge.

There's another dynamic, Ryan, that being an all-in pricing player creates, which is we got 50,000-ish, plus or minus, agents in NRT. Imagine if there's a product that like 2,000 of those agents want to use, but the other 48,000 don't. It's probably going to be, in today's world, not feasible for us to provide that product to 50,000 agents if only 2,000 are going to use it. Because it's going to be really expensive to us, and there's just not going to be that much value because 48,000 people don't want it.

But there's another scenario where in that world, we can say, look, we're going to put that product out there for the small subset of agents who want it. We'll charge enough to those agents to cover our cost of it, and it let's expand the universe of products we offer, which again gets back to the reason to do this, which is actually to have the best value proposition of there, the best options, so that we can drive better recruiting and drive more people and higher retention.

So those are 2 different ways that this charging fees, I think, can be very helpful to us. It's obviously effective. It's optional for agents, but a lot of agents are used to paying fees. But if we don't have real value in these products, they're not going to opt in to them. But I wanted to give you that sense, there's still the all-in value proposition that we offer, that we're going to continue to offer. But hopefully, that helps tell you a bit how we're thinking about this and why it expands the universe of things we can do to offer our agents that help also drive recruitment.

Operator

Your next question is from the line of John Campbell with Stephens Inc.

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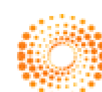

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

You talked a lot about some of the changes under way. That's definitely encouraging to hear. But back to RFG with the planned launch of, I think, you guys said at least one brand, it sounds like that's more of an organic effort. But could that also include M&A? And if so, how big could your appetite be there?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes, I -- you could assume it's going to be organic. We're really not very focused on M&A at all in the brokerage area. I just don't -- there's such a long, great history of the company doing that, and we've come so far on that path. I think, at this point, there's a real focus on trying to drive organic growth, both in NRT and RFG. And when we're able to share with you the brand and kind of what we plan for it, at least the one and maybe more than one, hopefully, you'll see that we feel like we've got the equity and the ability to organically get off to a really good start with the new brand. So you shouldn't assume there'll be M&A as part of that.

John Robert Campbell ***Stephens Inc., Research Division - VP and Research Analyst***

Okay. And then on the facility cost, you guys are, I guess, at the mid-60% or so occupancy rate a couple of quarters ago. First, has that moved at all of late? And then second, I know you guys have several long-term commitments to work through there. But what could that look like a few years down the road?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Well, our -- the one way to sort of capture that, John, is the agents per office. That went from sort of 63 agents per office in the second quarter '17. It went to 66 in the second quarter of '18. So I think we're -- that indicates that we're using the offices more efficiently, and that's obviously goal of some of our efforts to streamline our real estate costs. But that's a continuing effort, and the long-term leases become much shorter term as time goes on. Time is our friend on that one. So the number of opportunities continues to roll as time progresses, so it's something that we're just continually focused on and being pretty aggressive on.

Operator

Your next question is from the line of Matt Bouley with Barclays.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Just following up on the operating cost question. In NRT specifically, it looked like lower incentive accruals was a big driver of the lower employee cost this quarter, which did serve as an offset to the split increase. So is that specifically a onetime benefit? Or does that persist here?

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes. I mean, incentive payment, we had about $18 million of lower employee costs during the quarter. And about half of them were headcount -- the result of headcount, about half were lower incentive payments. But that one -- I guess, the incentive payment is permanent or flexible based on what goals we set in the future, but it certainly benefits shareholders this year by having lower incentive payments.

Matthew Adrien Bouley ***Barclays Bank PLC, Research Division - VP***

Okay. Understood. And then secondly, just the commentary earlier around using higher splits to drive growth. When you look at the data, whether it's the national data or local NRT markets, you've seen some slowdown or choppiness on sides growth. So if this is the market backdrop at this point in the cycle, why do think that the strategy of investing in higher splits is still the right one in this type of environment there? Does that strategy still depend on seeing a step-up in market growth?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Yes. So Matt, thanks for your questions. So first off, I apologize if you heard me either say or imply kind of higher splits to drive growth. That was actually not my intention. The changes we're making, like aren't about any sort of split kind of target higher or lower. Again, I think the market pressure is moving splits up, and we've said that for multiple quarters. But what we're trying to get to is less about any sort of a split number and more about driving growth with the right integrated economics. And again, that comes out in more recruiting success, hopefully, which again our competitors have had some more compared to us. And our -- and the issue is not that our -- the issue

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I'm trying to solve is actually not the split level we have today. It's the complexity and inconsistency and lack of data-drivenness in a lot of our commission plans that makes it really hard to explain our value proposition, makes it hard to kind of compare our kind of all-in pricing with someone else's all-in pricing. And so the more we can simplify and standardize that, I think we can get a lot more growth. And then the split dynamics will be what the split dynamics are going to be, both because of the industry and based on how these plans kind of work out. So that's what I'm going for here.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Yes, I'd just like to add, Matt. We have a much more positive long-term view than it seems you do on the housing market. I mean, there are 1.8 million households who own a home added in the second quarter. A year ago, that was 1.2 million. In '16, it was minus 22 million. In '15, it was minus 400 million. In '14, it was minus 76 million. 1.8 million were added. That is just the tip of the iceberg of what's coming in this business, and the $70 billion in addressable market is going to go a lot higher despite whatever the next 2 quarters are doing. We're in this for a much longer game. And the demographics are very compelling in what's happening, and we want to be well positioned. And we're still growing market share in this market, and we want to continue to grow profitable market share. So it's -- the outlook is very positive.

Operator

Your final question is from the line of Jason Deleeuw with Piper.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

And it's good to see the solid second quarter results, and I think that gives you a firm base to make some of the strategic changes. But I'm wondering how investors should track the progress of some of these new strategic direction and the commission split strategy. And should we be looking for EBITDA growth? And do you think margins can still expand -- EBITDA margins can still expand on this strategy? It might be a little early on this, but is there anything you can help us in terms of tracking the progress of the strategy?

Ryan M. Schneider ***Realogy Holdings Corp. - CEO, President & Director***

Sure. Yes, a couple of different things, Jason. Thanks for the question. So look, first off, on splits, we've kind of given you the same guidance this quarter we had for the last 2 of how we expect this year to play out. Obviously, with some of the strategic changes we're literally doing in California as we speak, we're testing in 4 or so markets in the East, to move our whole number over time is going to -- we're going to have to have this rolled out more nationally kind of thing. So I predict this year's numbers will stay with the guidance and the direction that we've given you. Even though there is the upward pressure, we do think there's going to be more of the moderation that you saw in the second quarter on the year-over-year increases. And then obviously, in '19, hopefully, we have more direction for you of how some of these things are actually working out.

But second, hopefully, one of the things is helpful to you guys is, part of the reason I'm telling you this now, even though it's early, and I can't tell you some of the stuff I'd like to tell you because I just can't put it out there for the competitors to hear. It would really be malpractice to share some of our pricing details on the earnings call, is that, hopefully, the consistency in these calls, us being consistent about updating you on what we're doing basically. I've been trying to do that for all 3 other calls this year. And part of the reason I put this out is because now, beginning in future calls, let me tell you where we're at with launching a new brand. Or we've gone past California, and we're now doing more standardized commission price and other things. Or we've got Listing Concierge in California and in Denver, and Listing Concierge is now going to be on the East Coast kind of thing.

So I think there's some verbal stuff you'll again hear. From a financial standpoint, you're going to have to wait for kind of the '19 to roll around just because of the time it takes to get some of the stuff implemented. But I do -- I wanted to tell you strategically where we were going, so you knew our direction even it was in the early days. And then look, our core focus is the EBITDA trajectory, right. And so we want and need to make progress on that. We've given you guidance for this year on that. Obviously, the first quarter was pretty different than last year, but we gave you the guidance on the rest of the year. But going into '19 and beyond, I'd want you to focus most on the EBITDA growth because that's what we, as a management team, are most focused on at the moment.

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Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

That's very helpful. And then for NRT, the growth was 1 -- the volume growth was 1% in the second quarter and expected to be 3% to 5%, I believe, in the third quarter. And so we got an acceleration there. And just seeing some of the volume trends in some of your key markets for NRT, they've been on the softer side. So can you just help us kind of understand what's driving that expected acceleration in NRT volume growth? Is it the recruitment efforts so far are helping? Is it mostly home price-driven? Just any color that you could give us there.

Anthony E. Hull ***Realogy Holdings Corp. - Executive VP, CFO & Treasurer***

Sure. I'd say that the biggest thing is -- the biggest driver of what we gave as guidance was our open activity in July, so that -- and then our closed activity as well that we've seen, it's not completely done yet. So the opens clearly give us really good guidance into the next 2 months. So I think it's -- that was the major driver of our decision. We obviously took into consideration, as you point out, the success we've had on target recruiting and the impact that's had. We've way outperformed the market in terms of sides growth this year. And that's due to recruiting -- the targeted recruiting we did, so that's bearing fruit. And so -- and price is definitely impacted by what we see in New York City, and what we see in California and other markets. Sp anyway, it's a combination of all that. But really, it's data-driven by the opens and the closes we had in July.

Operator

There are no further questions. Are there any closing remarks?

Alicia Swift ***Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR***

No. We thank you for joining us on the call today, and we look forward to talking to you over the coming quarter. Thank you.

Operator

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

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