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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation Second Quarter 2017 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.

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

Thank you, Jennifer. Good morning, and welcome to Realogy's Second Quarter 2017 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 statement during the 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 the 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 our annual and quarterly SEC filings.

Also certain non-GAAP financial measures will be discussed on this call 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 Chairman, CEO and President, Richard Smith.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Thank you, Alicia, and good morning, everyone, and thank you for joining us today.

Commencing over a year ago, the company embarked on a series of initiatives focused on sales agents, including targeted recruiting strategies, best-in-class agent retention practices and organizational changes with new centers of excellence to enhance support for services, such as marketing and education for our agents. These initiatives became the foundation for broader strategy work in the fall, during which we initiated a comprehensive review of strategy for our entire enterprise.

That body of work has led us to a refined strategic plan that we believe will manifest itself in a variety of ways from improved lead generation capabilities, to strengthened technology and marketing tools for agents, to enhanced coaching and training for agents to drive improved results, all of which are designed to increase the productivity of our existing agents and attract new agents.

In addition, our newly created and staffed strategy office will manage our strategic initiatives and enable innovations in our businesses that will help to strengthen our value proposition. We are excited by the plans already underway with more to come, and look forward to discussing our growth strategy and related initiatives with you in more detail on Investor Day, which as you know we will host at our headquarters next week on August 10. While it is still very early in the process, we are starting to see results, which Tony and I will describe as we walk you through the quarter.

So let's turn to Slide 4. Our residential real estate business outperformed our expectations for the quarter, primarily due to early progress on several key strategic initiatives and increased homesale pricing. Home prices continue to increase due to low inventory levels and stronger demand in high-end markets.

Our franchise and company-owned brokerage segments experienced a combined 9% year-over-year increase in homesale transaction volume. NRT, our company-owned brokerage segment led the way with a 12% year-over-year gain in homesale volume.

This strong performance was attributable to accelerating strength at the high-end of the housing market, coupled with the success of NRT's agent recruiting and other organic growth initiatives.

RFG homesale volume increased 7% as compared to the second quarter last year, again driven largely by price gains, achieving the high-end of the range we had anticipated for our franchised operations.

At NRT, we continue to make meaningful progress on our growth initiatives, specifically our recruiting programs and the focus on strengthening the sales agent value proposition.

In addition to our core recruiting, the new targeted recruiting initiatives that we have discussed in each of the past 2 quarters have so far enabled us to add a significant number of agents. These agents in the aggregate generated approximately $250 million in revenue over the past 12 months for their previous brokerage firms, and that's averaging about 13 sides per agent.

Our retention rate of NRT's first and second quartile sales agents has returned to levels approaching 94%, our historical high watermark. While these recruiting and retention initiatives have increased our commission expense as expected and will result in near-term moderate pressure on margins, we're starting to see the positive impact on overall revenue and increases in EBITDA at RFG from royalties it receives from NRT.

A key strategic initiative we outlined on our last earnings call is the development of a comprehensive education platform for sales agents and sales office managers, for both our franchisees and our company-owned operations. The purpose of which is to increase sales agent productivity and strengthen our value proposition. We have made solid progress in a relatively short period of time and expect to begin rolling out the improved training programs later this year.

On the franchise side of our business, our Zap technology platform continues to enhance the value proposition of our brands for our affiliated brokers and sales agents. As we have previously discussed, Zap and its CRM technology use predictive analytics to help Realogy brand-affiliated sales agents increase their productivity.

The Zap platform represents a significant investment in the success of our affiliated sales agents, and is at the forefront of our efforts to help our franchisees improve the performance of their companies. Approximately 75% of our eligible franchisees have installed the Zap platform, and we expect to complete the rollout to the majority of our remaining eligible franchisees this year.

It will take time and effective training to fully capitalize on the benefits of this program. At our Investor Day, we will report on a number of key metrics related to Zap including agent productivity, increases in online traffic and active users. Our focus on providing unrivaled service and support to sales agents continues to pay dividends.

According to a REAL Trends, Wall Street Journal report issued in June, Realogy brand affiliated agents and teams led the nation, with 26% of the top agents and teams as ranked by sales volume and homesale transaction sides, and 36% of the top agents and teams ranked by average sales price. Most notably, NRT accounted for 24% of the nation's top individual agents based on sales volume, including 11 of the top 30.

In a separate report issued by the National Association of Hispanic Real Estate Professionals, CENTURY 21 had the #1 Latino agents in terms of sales volume and 3 agents in the top 10. When ranked by total number of transactions in 2016, CENTURY 21 had 31 of the top 250 Latino agents and teams nationwide.

In early July, Title Resources Group established a commercial title division. This included the acquisition of EAM Land Services, a prominent Manhattan-based title company, offering a full range of title services, which expands the scope of TRG's title operations in Manhattan and Long Island, key markets for us.

Our domestic franchise sales team continues to build our base of brokers and agents with RFG adding approximately $100 million in new franchisees and sales agent production gross commission income in the second quarter, and $173 million in GCI year-to-date.

Cartus is a global leader in employee relocation for corporate clients. This is also very integral to Realogy's emphasis on improving our sales agents' productivity. Last year, it provided referrals that resulted in approximately 80,000 homesale closing transactions for agents affiliated with NRT and RFG.

And last, but certainly not least, we want to acknowledge that during the second quarter, Realogy was named to the Fortune 500 for the 4th consecutive year. Once again, we are the only residential real estate franchise or a brokerage firm recognized in this prestigious ranking of America's leading corporations.

Let's move to macro trends. For the second consecutive quarter and only the second time in a decade, more new U.S. households chose to buy homes than to rent. Census Bureau data reports that there was a gain of 1.2 million owner occupied homes, which was offset by decrease of 700,000 renter-occupied households during the quarter. This resulted in 560,000 net new households formed during the quarter and reflects a positive trend for growth in owner-occupied households.

As a result, there was an increase in the homeownership rate in the second quarter to 63.7% over the prior year rate of 62.9%. We believe this is a very positive sign for the housing market as more millennials begin to move from renting into homeownership.

The inventory of existing homes for sale in the U.S. was 2.0 million units at the end of June of this year, that's down 5% from a year ago. The current inventory of homes for sale represents a 4.3 million -- 4.3-month national average supply, which is well below the 25-year average of 6.1 months. This low level of supply along with continued challenging mortgage underwriting criteria, remain 2 of the most challenging headwinds to the industry.

Related to inventory, the Commerce Department reported that housing starts increased 8.3% from May to June, to a seasonally adjusted annual rate of 1.2 million, which is 2% above the prior year. Two encouraging notes in this data were that housing starts for single-family residences rose 10% year-over-year, and single-family housing completions increased 5% from June of last year to June of this year.

That said, the industry continues to benefit from attractive mortgage rates of approximately 4% as of today. The outlook for rising wages and strong consumer confidence is also contributing to favorable demand and higher existing homesale volume growth.

On the litigation front, in the quarter, we reached an agreement in principle to settle the outstanding Strader matter for $8 million, which remained subject to court approval. We elected to settle the matter to avoid the cost of continued litigation.

We're proud to report on our efforts to return capital to our shareholders. Since the inception of our share repurchase program in February of 2016, we have repurchased a total of 11.7 million of our outstanding shares for $334 million in the aggregate, bringing our total share count to 136 million shares as of today.

Company-wide, we are highly energized by our progress as we execute on our long-term strategic growth initiatives. As you will hear throughout the year, we have invested a great deal of time and resources sharpening our strategic focus and improving the operating performance of our business units. We look forward to a robust discussion of these activities during next week's Investor Day.

So with that, I'll turn the call over to Tony, our CFO. Tony?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Thanks, Richard. Turning to Slide 5, I will review our second quarter 2017 results in greater detail.

Revenue of $1.8 billion was up 8% compared to the second quarter of 2016. Operating EBITDA, including the Strader settlement reserve, was $269 million, a decrease of $6 million from the prior year. If not for the Strader reserve, operating EBITDA would have been $2 million higher compared to last year.

Free cash flow for the quarter was $229 million compared with $209 million in the second quarter of 2016, an increase of $20 million. Year-to-date free cash flow was $157 million, up from $96 million in the first half of 2016.

Net income for the quarter was $109 million compared to $92 million last year. Last year's second quarter results included a greater mark-to-market, interest rate swap expenses and higher restructuring charges. Adjusted net income per share was $0.78 compared to $0.74 in the second quarter of 2016.

In the second quarter, we repurchased 1.9 million shares of common stock. From January 1 through August 1, 2017, we repurchased approximately 4.6 million shares for a total of $135 million. Giving effect to these repurchases, as of August 1 of 2017, we had approximately $241 million remaining -- authorized under the February 2017 repurchase program.

Turning to Slide 6 for a discussion of drivers of our business. Our overall homesale transaction volume growth is 9% year-over-year in the second quarter. This was above the guidance range we gave of 5% to 8% due to greater-than-expected strength and average sales price at both NRT and RFG.

RFG's transaction volume increased by 7%, with 1 point of increase coming from higher transaction sides and 6 points from greater average sales price. RFG transaction volume growth in the $2.5 million and above price category grew 21% in the second quarter. That segment represented 7% of RFG's Q2 volume compared with 6% in 2016.

Overall, volume gains in the West were the strongest at 11%, the Northeast and South had volume increases of 7% and 6% respectively, and the Midwest grew 3%.

NRT finished the quarter up 12% in transaction volume, with 3% growth in sides and 9% growth in price. Factors driving that growth in the quarter included our successful recruiting and retention efforts, improvement in the high-end market segment and approximately 2 percentage points from the impact of acquisitions completed since March of last year.

Focusing on the high-end, NRT's volume in the $2.5 million and above category grew 29% in the quarter, with about 2/3 coming from sides and the remainder from price. That price segment represented 18% of NRT's Q2 volume compared with 16% in Q2 of 2016. The strongest geographic markets for NRT in terms of volume growth were the Northeast at 18%, the West at 11%, and South at 10%. The Midwest had a volume increase of 3%.

Turning to other drivers. Average broker commission rate, or ABCR, at RFG was down 1 basis point to 2.50%; and ABCR at NRT was down 5 basis points at 2.44%. Some pressure is expected given historical inverse relationship between ABCR and average price, although the full year commission rate at NRT is expected to be flat to last year's level.

Net effect of royalty rate for RFG was 4.41%, down 8 basis points for the quarter. Our top 250 franchisees who paid net royalty rates below 6% continue to perform well. This group generated 64% of RFG affiliates' gross commission income in Q2 of 2017 compared with 63% in Q2 of 2016. Downward movement in the net effective royalty rate is modestly diluted to overall revenue growth at RFG. For full year 2017, we currently expect the net effective royalty rate will be approximately 4.40%.

NRT commission splits increased approximately 150 basis points year-over-year to 70.6%. The increase in Q2 commission rate was a result of several factors, higher transaction volume was one, the change to the geographical mix of business and the impact of heightened retention recruiting efforts. We expect that splits will be approximately 70% for the full year 2017 as we continue to strategically invest in productive sales agents.

While we expect these recruiting efforts will put near-term pressure on NRT's margins, the benefit of these and other growth initiatives is being immediately realized in RFG's results due to the higher resulting royalty revenue it earns from NRT.

On Slide 7, we demonstrate this point. As you can see for the second quarter 2017, combined NRT and RFG revenue was up 9%. And despite the headwind of higher splits, we are able to grow absolute levels of EBITDA by 3% from the prior year.

Turning to Slide 8, let's talk about business unit operating performance in detail. At RFG, revenue increased 7%. Two main factors contributed to the $16 million improvement. First, RFG's net domestic affiliate royalties increased $6 million due to its franchisee's 7% growth in transaction volume. Second, NRT contributed $7 million to the increase in the form of intercompany royalties paid to RFG due to its 12% volume gain. Operating EBITDA was up $15 million, principally due to higher revenues.

NRT revenue increased 10% or $124 million into the second quarter of 2017, 75% of which was organic growth and 25% from acquisitions. NRT operating EBITDA decreased $7 million to $78 million. About $3 million of the decline was due to a reduction in PHH Home Loans earnings as it winds down and transitions to the new -- and we transition to a new mortgage joint venture with Guaranteed Rate. The remaining decline in EBITDA was primarily driven by the increase in revenue being more than offset by $106 million of higher commission expense.

Other factors included $9 million of acquisition-related expenses, higher incentive compensation and other expenses of $6 million, and $7 million of higher royalties paid to RFG. The increase in commission expense can be broken down into 3 categories: $66 million was due to higher organic homesale transaction volume; $22 million was due to higher split rates relative to last year, partially due to higher transaction volume in California; and $18 million related to acquisitions completed since last March.

Year-to-date earnings from our current mortgage origination joint venture with PHH declined $7 million compared to last year. The results are mainly due to lower origination volume, compressed industry margins and the inevitable impact of the wind down process. The first phase of the transition to our new mortgage JV with our partner Guaranteed Rate will begin in August, and the remaining phases are expected to be completed by year-end 2017.

As we get further into the transition, there will be more PHH JV wind down cost reflected in NRT's numbers, offset by gains on the sale of the venture's assets to our new joint venture. Assuming the phases are completed in 2017, full year earnings from the joint venture, including the impact of wind down costs, gains on sale of the venture and startup costs of the new JV are expected to total approximately $20 million.

The company also expects to receive approximately $20 million in net cash proceeds in early 2018, once the wind down of the old joint venture is completed. The Guaranteed Rate JV will be reported in the financial results of our TRG business segment rather than NRT.

Cartus revenue decreased $7 million in the second quarter of 2017, primarily due to $5 million decrease in international revenue. Operating EBITDA decreased $3 million as a result of the decrease in revenues, partially offset by a $2 million decrease in employee related costs. TRG's revenues increased $8 million and operating EBITDA was flat year-over-year as purchase volume increases were offset by lower refinance volume.

Corporate expense before restructuring legacy and early extinguishment of debt in the second quarter of '17 was $11 million higher than in Q2 of '16, due to the Strader settlement reserve of $8 million as well as higher expenses relating to investments in technology development, professional fees supporting strategic initiatives and higher employee incentive compensation accruals relative to last year.

Turning to Slide 9. Looking at our expectations for the third quarter of 2017, we forecast that Realogy's combined homesale transaction volume will increase in the range of 4% to 7% year-over-year, with sides contributing between 0% and 2%, and 4% to 5% coming from price growth. Broken down by business unit, we expect 4% to 7% transaction volume growth at RFG and 5% to 7% growth at NRT.

On Slide 10, for the full year, we currently expect that revenue will be between $6.1 billion and $6.2 billion. Operating EBITDA between $760 million and $770 million, and that is net of the $8 million Strader settlement. And it also reflects management's current view of commission splits and the modest investments in strategic initiatives, along with anticipated gain on sale on the PHH mortgage JV.

Realogy's combined homesale transaction volume is forecast to increase in the range of 5% to 7% year-over-year. And by business unit, we expect RFG to have 5% to 7% of transaction volume growth and NRT to grow transaction volume between 6% and 8% in 2017.

Slide 11 provides guidance for specific cash flow items below operating EBITDA. In particular, corporate cash interest expense for the year is expected to be approximately $165 million, cash taxes of $20 million to $25 million are forecasted for the year. Capital expenditures in 2017 are forecasted to be between $95 million and $100 million. Finally, working capital is expected to be a contributor of cash of between $25 million and $45 million.

Based on the expected operating EBITDA range noted above, this is expected to result in the company generating free cash flow of between $500 million and $530 million in 2017. As mentioned above, we expect to allocate the bulk of our free cash for repurchasing shares, paying quarterly dividends and repaying debt. Ordinary course M&A investment is forecasted to total approximately $50 million, of which half is for earn outs related to prior year acquisitions. Through June 30, we have expended $8 million between acquisitions and earn outs.

As the premier company for real estate agents, we intend to drive sustainable organic growth in each of our business units by strengthening the services we provide to affiliated agents. Solid execution of these initiatives together with the anticipated improvement in the high-end market is translating into higher volume and revenue across Realogy.

These factors, along with the benefits from our business optimization initiatives, are expected to position us to generate more than $500 million of free cash flow, and between $760 million and $770 million of operating EBITDA in 2017.

With that, we will open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of John Campbell with Stephens.

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

On the splits, I think there's a good bit of seasonality in that line. But I think you guys have said in the past that 2Q is typically the highest. But how does that trend in 3Q and 4Q? Just for modeling purposes, are we basically holding that flat at 70%?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, for the year, we expected to be 70%. So that depends on how your model works. But certainly, the increases in Q3 are expected to be less than the increases we saw in Q2 year-over-year. And then they really drop off -- the increase really drops off in Q4 because we started to have some of the higher split numbers start showing in our numbers in Q4 of last year from some of our targeted recruiting efforts and retention efforts. So it sort of trails off pretty significantly in Q4.

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

Okay, that's helpful. And you guys are putting up, I mean, I think very much improved results. So I hate to shift the focus away from you. But Richard, I'm just dying to get your thoughts on Redfin. I'm sure you guys love the multiples those guys are getting. But just curious about your views about the sustainability of that model, and then whether they're putting much pressure on you guys today?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Well, certainly there is no pressure. We, as you know, we have been in the business for a long time. We have seen any number of models come to market. We bought one, ZipRealty, came to market in a very similar fashion. We followed it for number of years and acquired it for a fraction of its original valuation. So we're -- there's a lot of business out there and there's a wealth of opportunity for new and innovative ideas. We can all argue about whether they're sustainable or not. We believe that our focus is the right focus. We believe that an absolute focus on the productivity of the agent and the productivity of our franchisees at the end of the day, coupled with our fairly substantial investment in technology, best positions us to capitalize on the market in ways small startups just cannot possibly capitalize. So it's generally how we feel about competing interests in our business.

Operator

Your next question comes from the line of Brandon Dobell with William Blair.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Given what feels like some decent success so far in the agent recruiting and retention program, maybe the thought process around why you wouldn't accelerate that or why wouldn't push it harder or push it for longer? Given what seems like recovery and retention rates, et cetera, what's the thinking behind, I guess, the go forward in that initiative from here?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

You're absolutely right. It will be pushed harder and it will be pushed longer. We are well ahead of plan. We're very pleased with the results thus far. It has been exceptional actually. And we expect that to continue. We're not slowing down at all. We're using our size and scale, which nobody else in our business has, to substantially capitalize on that opportunity. So news at 11, but it's going quite well.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

And then maybe as a tangential question, as you look at the NRT footprint across the country, how should we think about some of the cities that maybe 5 or 10 years ago didn't seem attractive, but now given either companies relocating there, population dynamic, et cetera, may seem like a more attractive market but maybe cannot support a full office footprint? So maybe taking up a pseudo virtual model, where you have got agents but not the typical NRT office footprint. How do you think about that as an option for the strategy?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Well, as you properly point out, we're students of the business. So we're very careful to watch any number of metrics that encourage us to move into markets we've ignored over the past decades. We particularly liked the strengths of the Southeast and Southwest. We think there is a wealth of opportunity. We've moved into those markets in ways that well establish us to be a meaningful competitor in those markets, and we think that will continue to be the case. So the Southeast and Southwest are very appealing to us.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Okay. And then final one from me. The CapEx guide for the year, Tony, how much of that should we expect is going to be, let's call it, pure technology or capitalized R&D investments versus kind of traditional furniture and fixture kind of stuff?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

It's about half and half. Maybe a little more towards technology.

Operator

Your next question comes from the line of Tony Paolone with JP Morgan.

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

First, on the splits. You mentioned 70% for the full year. And so if you think back at kind of how this played out in '16 and '17, you talked about seeing the full impact of the initiatives in '17 and then kind of that would be the new level. Given that that's bumped up a little bit, does it go up 'further in '18, given that you guys are continuing with these initiatives? Or is 70% kind of the level and we'll just keep it there?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, first of all, I think the fact that we went from a range of 69.50% to 70% to just 70% is driven by the great success of our agents in California. Because California is an 80-20 market and it's a bad split market, but it's a great ancillary business market, so that's good for TRG and other pieces of our business. But that's really the change is that California, and specifically Southern California, really strengthened in the second quarter, and we expect that to continue. So that's why we sort of went from a range to 70%. We've always said that this is a business that there's going to be pressure. We never said this would be -- and there's going to be pressure on splits, it's just the nature of the market. It so happens that the pressure we saw in '16 -- '15 and '16 was extreme, and we're not seeing that right now as much. It's still -- it's sort of a normal pressure that we see, but it's not the extreme competitive pressures that we saw in '15 and '16 from a couple of people coming into the market on economic levels. So we expect that to continue now because we don't see -- we're just not seeing signs of that kind of extreme pressure anymore. So I think that's going to -- so I think will splits be under pressure? Yes. But do we have ways to offset that through more companies enter business? Yes. But certainly, the rate of increase is going to be nowhere near what we saw in '15 and '16 and so far this year.

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

Okay, Got it. And then whether it's Redfin or any other competitor for that matter, in markets where folks like that try to cut commission rates and have some meaningful presence, do you see that? Is it noticeable in your system and having to compete against that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

No. No, [we haven't].

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes. We haven't seen this -- if you look at the statistics for not just us, we play in 99.5% of the market. So I think it's a pretty significant -- that's not just us, obviously, but it's the majority of the market 99.5% is the reality of the market. And that's what we focus on and that's where we're focusing our agent productivity and strategy on. Because they are the bulk of the market, and they are the bulk of the market, they are the vast, vast majority of the market for the foreseeable future. Commission rates have not moved 1 basis point. So if you compare what they were last year -- this is not our data, this is the data from REAL Trends, they're exactly the same in 2002 as they were last year, 5.12%. So we just don't see any movement and we, in fact, see that the usage of agents from the buyer's perspective and the seller's perspective has increased during that same period from sort of mid-to-high 70s to 88%. So we just -- we think the model that -- the world we play in, the real world we play in is very stable and sustainable for the foreseeable future.

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

And you show in your slide deck how stable the commission rates have been really for the last 15-plus years, as you just mentioned. In the '90s, it dropped over the course of 10 years from 6% to 5%. What drove -- what prompted that move?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes, that's why we overlay on that chart, Tony, the average sales price. So you can see that average sales price really bummed up during that period. So there's an inverse relationship between average sales price and commission rate. And that's really the major driver of changes. Again, we've always said that we think because average sales price is increasing, that there will be a point or 2 of deterioration in average broker commission rate. But again, in the 99.5% world that we play in, that's not a huge change, and it's what we sort of expect to happen.

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

Okay. And then just last question from me. On the technology side, is there a way you can characterize or quantify just kind of where your total tax spend is these days? And also maybe add a little bit of color on kind of how you think of the capabilities you get from that. So do you have the ability to incubate new products or new concepts or brands and so forth into the market and just how you're funding that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Tony, that's why we organized Zap labs. It's our sort of innovation hub, if you will. Not only are they responsible for launching Zap platform to all of our franchisees, they're also responsible for innovative products that are fundamentally focused on agent productivity and broker productivity. We are going to a great deal of detail on Investor Day as to where we're spending and investing and why. So I think you'll be very pleased with the focus of our technology spend.

Operator

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

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

Question on the RFG-NRT EBITDA margins combined. We got a lot of moving parts here with the higher commission splits, but the volume is ramping up and that's benefiting both segments. So how should we think about the EBITDA margins that combined RFG-NRT EBITDA margins going forward? It would seem, at some point, the volume gains should outstrip kind of the higher commission split costs and we should start to get margin expansion again on the combined segments. Is that a fair way to think about it or not?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

No, it's totally fair. I think that -- our objective that we've been talking about for the last 2 quarters is to increase absolute levels of revenue and EBITDA, less focus on the margin, but get those numbers up. And we did that in the second quarter on a combined basis, obviously, and we expect to continue to do that. And I think as some of these -- we really haven't seen the benefit of a lot of the target recruiting agents that we did in the last 9 months really kick in terms of sides. So I think that as we get more of that flow through, it should be beneficial to the margins of those 2 combined.

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

Got it. And then on the unit sides growth. It seemed a little soft, with the guidance, and it was -- in RFG for the franchises. It seemed a little soft in the quarter and then it seems like the guide's a little soft too. What are the drivers? Anything to call out there on the sides?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

I think it's inventory. It's funny because we have that discussion. But if you look at the NAR sides growth, which is -- it's probably the best benchmark for RFG because it's -- they're both national footprints, they were up 1.6% in the second quarter. And not to get into too much [weeds], but the RFG was up 1.4%. So those are some hard rounds. So we think we certainly kept up with the NAR numbers in terms of overall transaction volume market share in the second quarter. And we were little better because of our focus on the high-end, even with Sotheby's within the RFG mix on price, and we were again 0.2 point weaker on sides. So we -- it's just that market. And I think that the inventory issue is reflected in our full year guidance on sides. That's -- we're definitely making up in price and we've seen this play out now for the last 18 months or so in terms of low inventory. So we're -- we get paid on sides and price, so we'd rather it be sides than price. But right now, there's -- and presumably the way economics works is if price continues to go up at the rate it's going up, then it's going to release some inventory. Because we'll get to prices that are interesting to sellers, and obviously, there are 20 other things that have to happen. But we think that this is sort of where we are right now. And that's why we're -- that's why we gave the guidance for the rest of the year, that sides are going to be -- I think we said 0% to 2% for the full year, and that's reflective of that low inventory situation.

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

Got it. And then just last one. Thoughts on M&A going forward. M&A as a strategy, is it still -- is the thesis still as strong as it used to be? Or have things changed and how you're kind of viewing M&A going forward? Just like to get you thoughts there.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Jason, we'll continue tuck-in acquisitions. You're correct in pointing out that it seems a bit slower. We're being far more selective than we have been over the past, say, 5 or more years. So we don't think that's going to change, we think there's still opportunity. There are still very attractive tuck-in acquisitions. They're going to be principally in markets where we have high synergies. So you could expect -- Tony gave guidance as to amount of capital that will be deployed for M&A, that's probably going to be about the case through the balance of this year and it may very well move into next year. We have found that our agent recruiting is extraordinarily attractive and a good use of capital. So that's -- our shift to that is showing up in our results. So a little bit of both, less M&A, very strong agent recruiting.

Operator

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

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

I guess, Richard and Tony, I guess you both sort of addressed the high end being a contributor to your stronger results on -- particularly on the price side. And I guess you alluded to some of the strength you're seeing in California, but what I was curious if we could give some hard numbers maybe on how much you think the geographic split or geographic distribution contributed to your price performance? And then how much do you think of the remainder, do you think, was just sort of the market improving versus your strategy and actually positioning yourself or doing things to sort of go after that market in a more pointed way?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, it's all of the above. I mean, I think the high -- just the high end was not just limited -- the high-end strength was not limited to California. I mean, that was -- the strength in California was among -- the entire market was strong. But the high end in New York was up very similar to the overall 29% I mentioned at the $2.5 million and above. Florida at the high end was very strong. So it's really -- it's pervasive around the markets that NRT serves. It wasn't -- it didn't standout in one market or the other, so we're very encouraged by that. And obviously, we were seeing the exact opposite a year ago. So we're very happy to be in the place we're in now. I think the initiatives -- I think the average sales price on some of the target recruiting was probably not dissimilar from our overall. It doesn't really moved that much, it's just rising with the overall average sales price rising, as you'd expect, that's really driving more units given the agents that we brought on. And again, we haven't seen -- we've just seen sort of the beginning of that trend, and we'll see more of that benefit on the sides side of equation at NRT in the back half of the year.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Great. So that's great. It sounds like it's really a lot of the market that is improving at the high end. Kind of like you alluded to last quarter, it sounds like it's beginning to extend here in 2Q. So that's great. Talking -- staying on geography a little bit, you mentioned that, obviously, in California you get higher splits and so forth. But again, just wanted to be clear, how much do you think that impacted your splits this quarter? If you can give us some sense maybe of the basis point impact of that?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Sure. Sure. So -- well, I'll give you a number. How about if I give you a number? So the rate -- okay, the rate increase was 22 -- the impact of the rate increase -- so we separate rate from volume. It was $22 million of a headwind during the quarter. And about third of that was from the mix shift in geography from -- into California, and the rest was just the overall retention and recruiting efforts that we've had in NRT.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Awesome. That's very helpful. Next question I had was regarding the -- your new construction share. I know it's not super big important part of your business. But I was curious, have we seen that rise at all over the last year? Or can you just talk about anything with respect to the new construction or the builder side of your business?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

We don't think there's any share gain there on our part. We...

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Except in New York City maybe.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Except New York, which is, as you know, Corcoran Sunshine on site, that's been -- that's gone remarkably well. We're very, very encouraged by what we see there and what it says about the market. We mentioned new construction because it's a very important contributor to inventory gains. So we, over time, [listings] marginally will increase our share along with everybody else. But we're just very encouraged that builders are building more inventory because, as you know, that's going to be an important factor in increasing the inventory levels.

Stephen Kim - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team and Fundamental Research Analyst*

Sure, absolutely. And then last for me, in New York city, I think recently there were some effort to create some version -- some sort of retaliation against Zillow, and I think I read that Corcoran didn't participate in it. I was just wondering to the degree you can just sort of comment on sort of how you think about initiatives like that and maybe just reiterate how you position yourself relative to Zillow I think that would be helpful.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Yes. No, I don't think it's necessarily a dispute with Zillow. Zillow is an important media channel for us, and I don't expect that to change. I think the issue that you point out pertains to how listings are displayed and where and who pays for it. So at the end of the day, it's an agent expense. It doesn't have to be a broker expense. And our job is to make sure the agents get the tools they need to be productive. And if there's a certain approach in New York City market that's unique to the balance of the country, which it is, because there's no MLS, you often have to go about the display of rental listings or for sell listings a little differently than you would the balance of the country. But we think we and others are well positioned to capitalize on the opportunity that Zillow represents to us in New York, and I don't expect that to change. We can argue about who pays for it, that's a different discussion altogether. But we think it's -- we're well positioned to capitalize on their unique marketing approach to the New York market.

Operator

Your next question comes from the line of Mike Dahl with Barclays.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

A couple of questions to start on some of the recruitment efforts. And Tony, I'm curious to hear, and I think you commented, it's not quite the extreme environment that we saw even though there's still some pressure. And I guess, I'd like to hear a little bit more about why you think that is. Because there certainly seems to be kind of a few larger platforms that are still making fairly aggressive pushes in either New York or California. One of your big competitors just made -- one of your New York competitors just made an acquisition in California. So just curious to hear kind of why you think the competitive environment has started to stabilize?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

With respect to agent recruiting, it's probably increasingly difficult for people to compete against us on the same basis. This is why we're using our size, scale and leverage to substantially enhance our agent recruiting and also agent retention. So it's showing up in the numbers. I don't think that's making it easier for the competition. So I think that's probably part of it. We're very formidable in that regard. We're getting increasingly so, and that's -- I think that's probably tough to compete against.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Got it. And then, I guess, if we look at the quarter kind of going back to your answer to Steve Kim's question on kind of market versus your own efforts. If I look at a selection of kind of your local MLS data from those markets, it looks like sides were up about 3% in a lot of these markets. Do you think that's fair that you kind of kept pace with your markets in NRT in the second quarter? Or do you think these recruitment efforts have actually led you to already gain share? You may just have a more complete data set that we often have.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Yes. I think the results of target recruiting have not yet shown up, maybe a little bit in market share data, but there's a lot more to come on that. And I think the bottom line is, a year ago, we were concerned about 2 things, not to bring up the pain from the past, but we were concerned about the high end being extremely soft last year. So it seems to be recovering. So check, that's great. And then retention of our top 2 quartile agents, which, as you know, generate 90% of our NRT's revenue, because of the severe recruiting, was down in the 92% range and we're back to our targeted 94% range. So we've made progress on that. So I think the 2 things we're very focused on, one was in our control and one was out of our control, but they're both definitely moving in the right direction.

Michael Glaser Dahl - *Barclays PLC, Research Division - Research Analyst*

Got it. And then last couple of quick ones on the guidance for me. Just as it relates to the third quarter. Could you break down the NRT expectations, what sides and price are within that? And then I know it's early and you probably don't have a ton of backlog for fourth quarter, but if I look at your comments for transaction volume for the full year and take the midpoint of 3Q, it seems to suggest a very flat environment for 4Q. So just curious to get your thoughts on how much of that is, at this point, you just being conservative versus something that you're seeing out there already in some of the opens that don't close until 4Q?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

The only thing I would say is, again, that the -- I think we don't break down business units by sides and price. But I think from the overall, you can see, since RFG is sort of the driver of that statistic because it has so much more volume related to it. As I said earlier, the sides, because of inventory and that sort of thing, we think sides are going to be softer in the 0% to 2%, as we said. I think at NRT, again, it's going to be a little more -- it's going to be more balanced because we'll see the full kind of inclusion of all the targeted recruiting efforts really kick in, in the third and fourth quarter. So it's going to be a little more balanced for them.

Operator

Your next question comes from the line of Kevin McVeigh with Deutsche Bank.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

If I have it right, it looks like the agent production came in at about $250 million in Q2 versus $180 million in Q1. Is there any way to think about how that should come in over the balance of '17 into '18?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

What do you mean by agent production?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

I think it's recruiting.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Oh, recruiting?

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

The recruiting, yes.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Oh, so those are kind of apples and oranges numbers. The $180 million is a combination, I think last year, of especially normal recruiting, and the $250 million we mentioned was the revenue that the agents that we recruited in our targeted recruiting effort made in 12 months prior to joining us. So it's a little bit of apples and oranges there. But anyway, so that's one way to look at it. The other thing is maybe comparing where we were in the last quarter, we were at $180 million from those agents that we had targeted recruiting. Now we're at $250 million, and that's really the result of someone's earlier question, that we just -- we did -- we were so successful in the first effort that we did it again in the second quarter and it was very successful. So that's going to continue. If someone asked, obviously this is working. So we're going to continue to do it.

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

Kevin, the way to think about that, the $250 million is what they produced at the previous place of employment. We expect that they'll do that or better with us. It just takes time to mature it. But -- so that'll be layered in over the next 12 months or so.

Kevin Damien McVeigh - *Deutsche Bank AG, Research Division - Head of Business and Information Services Company Research*

It's super helpful. And then just on NRT, you know the 12% transactions, it seems like price and sides both came in better than expected. On the pricing, is that -- because if some of the higher end comes down, you'd see more transactions. Is it just that $2.5 million has been so strong and that's helping to offset maybe some of the lower-price points at super high end? Or is there is any way to just put some context around that 9%?

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, I think the pricing increase was driven by, obviously, the [$2.5 million] and above being much stronger [pretty nicely]. But it's also, in the mainstream market, it's lack of inventory. So it's really -- it's a combination of those 2 things. So it's strong across the board. There's no real distinction between the 2. It's just very strong this year because, again, at the low -- at the mainstream market it's because of the low inventory in rest of the market it's because it's picked up at the high end.

Operator

Your next question comes from the line of Ryan McKeveny with Zelman.

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

Wanted to dig in a bit more on the high-end trends in NRT and certainly a lot of discussion on the call about the acceleration in the high-end demand, which we agree with, and the benefit that you're seeing from the recruiting efforts. But when I look at the sides growth of 3%, still relatively modest and clearly benefiting more so on the price side of things. So really trying to understand, when you think about NRT as market share today in terms of unit activity, is that 3% percent growth in sides that they're seeing, do you think that's what the market at high end is up at this point in the year? Just really trying to think how you think about the market share where we are today.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Well, again, in the mainstream market, there's an inventory constraint. So that's hurting growth. It's actually probably negative at NRT. And then the high end is very strong. So the balance of those is 3%. So we're very happy with that result.

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

And I guess just following up on market share dynamic. Does that play into the commission split in the sense that when you look at things like how your market share is stacking up, ultimately, how you -- how aggressive you want to be on splits? And if market share was to be worse than you expected, then maybe splits would end up being higher or vice versa? If market share gains improve, then maybe the split pressure eases? Just wondering how you think about that dynamic.

Anthony E. Hull - *Realogy Holdings Corp. - CFO, EVP and Treasurer*

Again, we look at the -- what is the revenue and EBITDA impact to the company. So whatever we can do to accelerate our revenue and that also accelerates -- increases our EBITDA is what we're going to do. If -- obviously, it's a balance. If we think that the revenue is going to come at too high a cost, we're not going to go there. So it's really just a balance.

Operator

Your next question comes from the line of David Ridley-Lane with Bank of America.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Sure. Wanted to ask how you think the inventory situation will improve? NAR's traffic index suggests that when buyer traffic is up, the potential seller traffic is still ticking down. Do you have a sense on what level of price increase would be needed to get more listings?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

David, no, we do not. I mean, this is just an adjustment that's going to correct itself over time. It's going to be any number of variables, you probably know them as well as I do. Builders are here to contribute in a meaningful way. Underwater equities got to improve, and it is improving dramatically because the average sell price is increasing so dramatically. Listen, people eventually discover that their home is worth more than they thought previously. And it'll get to the point where it's attractive, they'll enter the market as new inventory. The early really encouraging sign is the high-end market, which has robust inventory levels, is finally starting to correct. So we view that very positively. We think, over time, the mainstream inventory levels will increase given any number of those dynamics. So we don't see -- this is not a [permanent] issue, this is a timing issue. And we're encouraged by the early indications that it is, in fact, starting to correct.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And then wanted to ask on 2 potential risk here. One is that we've heard anecdotally that appraisal delays are becoming a problem. Are you seeing any delays within open order book? And then, secondly, given the business -- the hike interest rates by the Fed, did you see any pull forward from people trying to close deals ahead of that?

Richard A. Smith - *Realogy Holdings Corp. - Chairman, CEO & President*

No. I mean, we -- there's no indication of that as of yet. And as to the contract delays or cancellation rates, our cancellation rate is at extremely low level. Maybe even at historical levels. So we're seeing no indication of that at all.

Operator

And we have no further questions in queue at this time. And I would like to turn the call back over to Alicia.

Alicia Swift

Great. Thank you for joining our call today, and we look forward to talking with you over the coming quarter.

Operator

Thank you for your participation. This does conclude today's conference call and you may now disconnect.