

Realogy Corporation
First Quarter 2011 Financial Results Webcast Transcript
May 4, 2011

SLIDE 1

OPERATOR: Good morning and welcome to the Realogy Corporation first quarter 2011 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 Web site later today. A webcast replay will also be made available on the Company's Web site. At this time, I would like to turn the conference over to Realogy Senior Vice President of Financial Planning, Alicia Swift. Please go ahead, Alicia.

SLIDE 2

SWIFT:

Thank you. Good morning and welcome to Realogy's first quarter 2011 earnings conference call. On the call with me today are Realogy's President & CEO, Richard Smith; and Chief Financial Officer, Tony Hull.

I would like to call your attention to three items.

SLIDE 3

First, you should have access to a copy of our financial results press release and our Form 10-Q for the quarter ended March 31, 2011, which we have filed with the Securities and Exchange Commission. Both documents are available on the investor information section of our website, as well as a copy of today's webcast slides.

Second, the Company will be making statements about its future results and other forward-looking statements during this call. Statements about future results made during the call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. The Company cautions that these statements are not guarantees of future performance. 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, May 4, and have not been updated subsequent to the initial earnings call

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Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements and projections are set forth under the headings "Forward-Looking Statements", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2010, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and in our other periodic reports.

Third, we will be referring to certain non-GAAP financial measures during the call. Today's press release contains definitions of these terms, a reconciliation of these terms to their most comparable GAAP measure, and a discussion of why we believe these non-GAAP financial measures are useful to our investors.

In terms of industry data we use the National Association of Realtors (N-A-R) and Fannie Mae as benchmarks of the direction of the residential housing market. We believe changes in Realty's homesale statistics will continue to vary from those reported by N-A-R because they use survey data as the basis of their historical reports and forecasting models whereas we use data based on actual reported results. In addition to the differences in calculation methodologies, there are geographical differences and concentrations in the markets in which we operate versus the national market. N-A-R historical data is subject to periodic review and revision. N-A-R is currently engaged in a review of its sampling and methodology processes with respect to existing homesale data. While we believe this industry data is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone.

Let me briefly review the headlines from our release issued today regarding Realty's first quarter 2011 results.

SLIDE 4

Specifically for the quarter ended March 31, 2011, we reported:

- Revenue of \$831 million,
- EBITDA before restructuring and other items of \$25 million; which excludes a \$36 million loss on early extinguishment of debt; and
- Net loss attributable to Realty of \$237 million – which includes \$179 million of interest expense and \$46 million of depreciation and amortization.

Now I will turn the call over to Realty's President and CEO, Richard Smith.

SMITH:

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Thank you, Alicia. Good morning and thank you for joining our Webcast. It's been about two months since we last hosted a call to discuss our full-year 2010 financial highlights, so our summary for the First Quarter of this year will be brief.

As I am sure you will recall from prior reports, given the seasonality of our industry, the first quarter of any year is historically the weakest, and Realogy is no exception to that rule. A variety of macroeconomic pressures made for very difficult year-over-year comparisons this past quarter, including an increased proportion of distressed property sales and weather-related issues in the Northeast and upper Midwest in first quarter 2011, and the impact of the Homebuyer Tax credit on Q1 2010.

Keeping those headwinds in mind, we are pleased to note that Realogy's net revenue was \$831 million in the first quarter of 2011, a 1% increase over the same period in 2010, and EBITDA before restructuring and other items was \$25 million in the first quarter, which is a 14% year-over-year increase from Q1 2010.

SLIDE 5

The improved year-over-year results for Q1 2011 were largely the result of long-term growth initiatives at Cartus and Title Resource Group -- our relocation and title and settlement services segments, respectively -- both of which are beginning to bear fruit in the form of higher transaction volume and increased revenues.

In the first quarter of 2011, both the Realogy Franchise Group (RFG) and NRT, our company-owned brokerage business, experienced modest year-over-year decreases in closed unit sales. RFG units were down 4% while its average home sale price in the first quarter increased by 3% year over year. At NRT, units decreased by 3% in the first quarter, while its average home sale price was down 1%. By comparison, the National Association of Realtors reported that actual units were down 2% nationally in the first quarter and average sales price was down 3% nationally in the first quarter. N-A-R reported that distressed sales increased from an average of 36% of all sales in the first quarter of 2010 to 39% in the first quarter of 2011 which contributed to the price decline they reported.

Cartus and TRG favorably impacted our first quarter, and sales volume of our franchise and company-owned real estate segments outperformed N-A-R's first quarter reported results. We believe that the year is performing much as we expected -- with very difficult comparisons in the first half culminating in April and May that should be followed by more favorable comparisons in the second half of the year.

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SLIDE 6

In terms of domestic franchise sales, the Realty Franchise Group reported new franchise sales representing a 23% year-over-year increase based upon new franchisee gross commission income. And given the headwinds, that's a solid franchise sales quarter.

Our global expansion continued with the addition of two new Sotheby's International Realty direct franchise agreements in Spain and one in Taiwan.

NRT, our company-owned brokerage, was recently ranked as the No. 1 brokerage firm in the nation for the 14th consecutive year by the *REAL Trends 500* industry research report. In 2010, NRT had approximately \$113 billion in pro forma closed sales volume and more than 259,000 transaction sides. NRT's 2010 year-over-year sales volume increased by \$5.8 billion, the largest increase among all companies in the ranking.

We believe NRT's organic growth strategies are producing results. During the last 12 months, the company recruited new sales associates who collectively generated more than \$50 million in annual gross commission income. In keeping with its historical norms, NRT retained over 93% of the production from its first- and second-quartile sales associates, the top-producing segments of its 43,000 independent sales associates. Over the past 12 months, NRT took advantage of compelling opportunities in today's market and closed 12 acquisitions, which resulted in incremental GCI of more than \$63 million.

SLIDE 7

In the first quarter of 2011, Cartus initiations increased 8% from the prior year, and its broker referrals were up 6% year-over-year. In addition to increased domestic and international transaction volume, Cartus successfully won the business of 29 new clients representing an estimated \$4 million in annualized revenue and expanded services with 118 of its existing clients.

In our settlement services segment, Title Resource Group's refinance title and closing units were up 41% in the first quarter. This increase reflects an increased volume of transactions and an expanded client base. The increase in refinance transactions more than offset the 5% decline in purchase title and closing units. As we have previously stated, TRG's purchase title units generally track NRT unit sales, and both unit sales and purchase volume followed the national downward trend for the quarter. On a combined basis, TRG's purchase and refinance units

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reflected a 12% increase over the first quarter of 2010, and TRG's overall sales volume was helped by a 2% increase in its average price per closing unit.

TRG's underwriter, Title Resources Guaranty Company, reported its fourth consecutive quarter of revenue growth. Net premiums during the first quarter increased by 21% over the previous year, in part attributable to market expansion and gains in the number of title agents. TRG's underwriting claims experience for the quarter was less than 1%, and with annual claims of less than 2%, TRG's underwriter continues to substantially outperform the industry average loss ratio of 6%.

Now, let's take a look at the current operating environment ...

SLIDE 8

As we have previously stated, industry observers have correctly forecasted a comparatively weak first half, due to a variety of macroeconomic pressures, including an increased proportion of distressed property sales and weather-related issues we saw in the Northeast and upper Midwest in first quarter 2011, and of course, the impact of the Homebuyer Tax credit last year.

We expect the weakness in the first quarter to continue into the second quarter, almost all related to the strength of last year's Homebuyer Tax Credit. In the second quarter of this year, we expect units to be down on a comparative basis and price to increase over the second quarter of last year. Currently N-A-R and Fannie Mae are forecasting a second quarter Seasonally Adjusted Annual Rate (SAAR) home sale unit decline of 6% and 7%, respectively versus second quarter 2010 and a modest decrease in median sales price. In the second half, we expect year-over-year comparisons to improve.

On a full-year basis, N-A-R is forecasting an 8% increase in existing home sales in 2011 compared to 2010, and a 6% increase in 2012. Fannie Mae is forecasting a 6% annual increase in existing home sales in 2011, and a 7% increase in 2012.

With respect to home sale prices, N-A-R is forecasting median sale prices to be down 2% in 2011 and to increase by 4% in 2012. Fannie Mae's most recent April forecast is a 5% decrease in the median home sale price in 2011, followed by a 1% year-over-year increase in 2012.

As we have stated in prior earnings calls, a housing recovery depends largely on macroeconomic issues, most notably employment. As of the U.S. Department of Labor's latest report in March, the unemployment rate has declined for the fourth

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consecutive month. The Conference Board's Consumer Confidence Index, which had declined sharply in March, rose slightly in April despite rising fuel and commodity prices. These positive employment and consumer confidence reports are encouraging, along with the N-A-R Home Affordability Index, which is at its highest levels in 40 years.

N-A-R reported in April that the total housing inventory through the end of March rose 1.5% to 3.55 million existing homes available for sale, which represents an 8.4-month supply at the current sales pace, down from an 8.5-month supply in February. The current housing supply remains higher than the historical average and could increase due to the release of foreclosed or distressed homes by financial institutions, often referred to as shadow inventory. The 8.4-month supply of homes does not include that inventory. The shadow inventory could continue to add downward pressure on the price of existing homesales, especially in certain markets and particularly if banks and other mortgage servicers accelerate the liquidation of their foreclosed properties.

Other factors that could impede the potential recovery in the housing market are the move-up buyers who have limited or negative equity in their homes and the reluctance of first-time homebuyers to purchase a home in an uncertain economic environment.

The supply of homes for sale remains higher than the historical averages and could increase subject to the disposition of lender-owned foreclosures and other distressed sales. We believe that lenders will follow a gradual and orderly process in putting their foreclosed properties on the market, which we continue to believe will be sold on a relatively prompt basis, principally to investors and first-time buyers.

On the regulatory and legislative front, we continue to be active in matters that have broad industry implications, GSE reform and the Dodd-Frank Act being the most time consuming. We believe that GSE reform, which as you know pertains to Fannie Mae and Freddie Mac, is the single-most important national housing policy issue to be undertaken by Congress in more than 50 years. Congress and the Administration continue to struggle with this very controversial subject. In spite of the Treasury Department's constructive white paper which essentially framed the debate, we do not see a firm strategy emerging this year.

Dodd-Frank, all 850 pages, is equally challenging. Most aspects of the law were left to the regulators to address, not Congress. There are more than 300 rules that must be written by regulators -- many, if not all, without Congressional oversight. A number of them pertain to the mortgage industry and could have a material impact on the mortgage industry, and thus housing. In particular, we

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believe that the recently proposed definition of a “Qualified Residential Mortgage”, which among other things, includes a down-payment requirement of 20% for home buyers – a definition that penalizes homeowners in higher priced markets and we believe would hurt low- to moderate-income buyers as well -- will ultimately be harmful to consumers, the mortgage finance industry, and the housing market. Combined with the fact that the maximum conforming loan limits are scheduled to be dramatically lowered at the end of September of this year – reverting from \$729,750 in certain markets down to a potential cap at the general national limit of \$417,000 – we believe the current regulatory environment is headed in a direction that will likely result in the unintended consequence of further dampening the housing market at a time when it is fragile and essential to a general economic recovery.

We are working closely with N-A-R, other trade groups, Congress and the Administration in hopes of positively impacting the new rules as they are being written. As in the past, the National Association of Realtors lobbying efforts are particularly effective, and we are encouraged by their efforts.

In closing, we will continue to make our voices heard regarding legislative and regulatory matters that pose challenges to housing policy and thus our company. Once again, permit me to recognize the management team and all of our employees for their effectiveness, dedication and commitment. The team effort has truly been outstanding.

With that, I'll turn the call over to Tony.

HULL: Thank you, Richard.

In discussing the financial results I will be referring to the webcast slides. Let me begin with some comments and financial highlights for Realty in the first quarter 2011 as shown on **SLIDE 9**.

- As reflected in our filing, Q1 2011 revenue totaled \$831 million, an increase of 1% year-over-year;
- EBITDA before restructuring and other items was \$25 million, an increase of 14% vs. 2010 Q1 results;
- The increase in first quarter EBITDA before restructuring and other items was due to Cartus and TRG's strong results which more than made up for RFG and NRT declines due to lower home sale volume;
- Based on our trailing 12-month Adjusted EBITDA, Realty's senior secured leverage ratio was 3.83 to 1 at March 31st.

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Looking at **SLIDE 10**, the breakdown by category of the first quarter \$831 million of total net revenue was as follows:

- Gross commission income totaled \$575 million at NRT, a decrease of 2% from 2010,
- Service revenues principally from Cartus and Title Resource Group increased to \$164 million up 21% from Q1 2010
- Realty Franchise Group's third-party domestic franchise fees decreased \$4 million to \$51 million for the quarter.

On **SLIDE 11**, we compare expenses during first quarter 2011 to 2010:

- Total commission and other related costs of \$374 million decreased \$3 million year over year, in line with gross commission income decreases.
- Operating expenses of \$318 million increased \$18 million or 6% year over year primarily due to volume increases at TRG and a full quarter of Primacy expenses.
- Marketing costs decreased by \$3 million.
- General & administrative costs declined \$7 million to \$71 million compared to 2010.

Next I would like to discuss our key business drivers from **SLIDE 12**.

For first quarter 2011, RFG home sale sides decreased 4% while average home sale price increased 3% compared to 2010. The year-over-year decline in home sale sides was due to the reasons discussed earlier. However, RFG's average sales price actually increased 3% largely due to the 24% increase in home sale sides and average sales price increase of 11% from our Sotheby's International Realty franchisees.

At NRT, home sale sides decreased 3% in the first quarter compared to 2010. Average home sale price also decreased but by only 1%. Volume of sales of homes over \$750,000 increased to 46% from 44% in the first quarter of 2010 driven by average price increases of 4%. However, the average sales price in the "below \$750,000" category declined 3%, and that was what caused the overall NRT price decline in the first quarter.

Here is a look at select regional performance data both for the first quarter of 2011:

NRT generally continues to see strength in select high-end markets such as New York City, the San Francisco Peninsula and Silicon Valley. Regionally, NRT's Northern California operations performed the best comparatively in the first quarter of 2011 with home sale sides increases of 11% and average sales price increases of 2% compared to first quarter 2010. NRT's Sotheby International

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Realty owned offices had home sale side and price increases of 5% and 6%, respectively, and Corcoran resale business in New York City also performed well in the first quarter with home sale sides and price increases of 3% and 4%, respectively. NRT's operations in Florida reported a 4% increase in closed sides, and a 1% increase in average sales price. Weaker areas include NRT's Southern California operations which reported a 13% decrease in home sale sides offset by a 4% increase in average home price. In the Midwest, NRT reported 10% declines in sale sides and flat on average sales price. NRT's tri-state area outside of New York City reported a 7% decrease in home sale sides and flat average home sale price.

Looking at what we are seeing in the second quarter, as we expected, April home sales combined for RFG and NRT decreased approximately 17%, while average price increased 4% versus 2010. We expect that the second quarter will produce the worst year-over-year unit comparisons because the impact of the homebuyer tax credit peaked in the second quarter of 2010. Looking beyond the second quarter, if SAAR levels hold at approximately 5 million units in national sales in the third quarter, then home sale side improvements in the third quarter could be up approximately 20 percent year-over-year.

Average broker commission rates in the quarter increased 2 basis points at NRT from 2.48% in 2010 to 2.50% in the first quarter of 2011 while RFG average broker commission rate declined 1 basis point from 2.55% to 2.54% in 2011. Also, the Realogy Franchise Group's net effective royalty rate declined 17 basis points to 4.87% as our larger affiliates are achieving higher volume levels and Sotheby's International Realty's increased volume contributed at a lower net effective rate.

The net effective royalty rate has been declining over the past three years. We would expect that, over the near future, the net effective royalty rate will continue to modestly decline due to an increased concentration of business in our larger franchisees, which earn higher volume rebates, and a shift in volume across our brands.

Cartus relocation initiations in the first quarter increased 8% and referrals increased 6% for the period. Primacy contributed 95% of the initiation and 36% of the referral increases in the first quarter.

At TRG, first quarter 2011 refinance unit volume increased 41%. This gain was due to low mortgage rates and increased volume from clients we are servicing. The company's purchase title and closing units decreased 5% in the first quarter compared to 2010, which was consistent with the NRT unit sales, and average price per closing unit increased by 2% from 2010.

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Now let's review revenue and EBITDA before restructuring and other items by business unit for the first quarter ended March 31, 2011 and 2010 shown on **SLIDE 13**.

Total revenue at RFG was \$118 million in first quarter 2011 compared to \$122 million in 2010. The 3% revenue decrease was due to the decrease in home sale sides, lower NRT royalties and a decrease in the net effective royalty rate, partially offset by the 3% increase in average sales price.

EBITDA before restructuring and other items at RFG was \$62 million in first quarter 2011 compared with \$65 million in 2010. Revenue decreases along with higher operating expenses due to brand conferences held this year but not last year were partially offset by lower legal and marketing expenses.

NRT EBITDA before restructuring and other items in first quarter 2011 was negative \$35 million. This was \$4 million below 2010, driven by a \$14 million decrease in revenue due to lower home sale volume. The revenue declines were mostly offset by lower commission and operating expenses. Historically, NRT has experienced seasonal operating losses in the first quarter, the industry's weakest quarter. Fixed costs of the business are spread evenly throughout the year, and the first quarter normally has the lowest transaction volume which makes these expenses difficult to offset. As in previous years, we forecast that NRT's profit will be strongest in the second and third quarters.

At Cartus, EBITDA before restructuring and other items was \$10 million in 2011, up from \$6 million in 2010. Revenue increases of \$11 million were largely driven by a full quarter of Primacy results rather than the two months of contribution last year, together with strong global and referral fee revenue all due to higher volume. EBITDA before restructuring and other items increased \$4 million due to these revenue increases.

At TRG, revenue increased 28% as a result of much higher underwriting and refinance revenue. TRG's underwriter achieved record levels of quarterly net premiums in the first quarter as a result of an increased agent base and its expansion into California. EBITDA before restructuring and other items increased \$6 million as a result of revenue increases partially offset by an increase in operating costs.

Turning to the balance sheet on **SLIDE 14**, we ended the quarter with a cash balance of \$93 million which includes \$72 million of readily available cash and \$21 million of statutory cash required for our title business. We had a \$30 million balance on our revolving credit facility at March 31, 2011. We currently have

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\$325 million borrowed under the revolver under our senior secured credit agreement. The use of cash since March 31st has been primarily for our semi-annual interest payments. We expect approximately half of the revolver balance to be repaid by the end of June.

On **SLIDE 15**, we continued to reduce our “Due to Former Parent balance” from \$104 million at the end of 2010 to \$98 million at the end of March 2011. Accordingly, in the next few weeks we will seek to reduce the Synthetic letter of credit supporting this liability.

Accrued expenses and other current liabilities increased from \$525 million to \$631 million due to greater accrued interest expense because of the April semi-annual interest payments.

Total long-term debt, excluding securitizations, increased from \$6.9 billion at December 31, 2010 to \$7.0 billion on March 31, 2011. The increase was primarily the result of \$98 million of revolver capacity that converted to term loans in the refinancing transactions and the \$30 million revolver draw at March 31. Offsetting this was the repayment of \$63 million of letter of credit backed borrowings during the quarter.

Our senior secured leverage ratio calculation has a maximum allowable ratio of 4.75 to 1. At March 31, 2011, the numerator – total Senior Secured Net Debt as defined in our credit agreement – totaled \$2.4 billion. That divided by Adjusted EBITDA as defined in our credit agreement of \$634 million for the 12 months ended March 31st, resulted in a senior secured net debt to Adjusted EBITDA ratio of 3.83 to 1, maintaining compliance with our credit agreement.

SLIDE 16

Let me provide you with expectations for certain cash flow items for the full year 2011:

- Corporate cash interest is expected to be approximately \$585 to \$595 million for the year – including the October 2011 interest payment on the senior toggle notes, which will be made in cash;
- Capital expenditures are expected to be approximately \$50 million for the full year;
- Working capital inclusive of cash restructuring costs is forecasted to be a use of cash between \$30 and \$40 million; and
- Net funding of legacy issues is expected to total between \$15 to \$25 million for the full year.

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In conclusion, let me remind you that the second quarter is going to underperform the second quarter of 2010 due to the activity spike created by the homebuyer tax credit last year. However, the direction of the unit activity on a national basis has continued to improve every month. Through March, N-A-R's reported monthly SAAR has increased 4% sequentially on average since July of 2010 when the homebuyer tax credit program effectively ended. Based on both our closed and open sales data from our franchise networks and our company-owned real estate brokerage operations, we believe that the seasonally adjusted annual rate of U.S. existing home sales to be reported by the National Association of Realtors will hold steady at a rate of 5 to 5.1 million units in the second quarter. Our open and closed sales data is also indicating a modest improvement in average sales price in the second quarter. Despite the poor year-over-year comparisons in terms of relative sales figures that will be reported for April and May, we continue to be encouraged that the existing home market is following a course of modest but steady improvement on a monthly sequential basis.

With that, I'll turn it over to Alicia for some concluding remarks.

SWIFT: Thank you, Richard and Tony. A few quick points of information before we conclude today's call:

- First, a transcript of this Webcast will be available on the Investor Information section of the Realogy.com Web site later today.
- Second, we anticipate announcing our Second Quarter 2011 results in August, with the exact date still to be determined.

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