

REALOGY GROUP LLC  
Form 10-K  
February 25, 2013  
Table of Contents

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35674

REALOGY HOLDINGS CORP

(Exact name of registrant as specified in its charter)

20-8050955

(I.R.S. Employer Identification Number)

Commission File No. 333-179896

REALOGY GROUP LLC

(Exact name of registrant as specified in its charter)

20-4381990

(I.R.S. Employer Identification Number)

Delaware

(State or other jurisdiction of incorporation or organization)

One Campus Drive

Parsippany, NJ 07054

(Address of principal executive offices) (Zip Code)

(973) 407-2000

(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
Realogy Holdings Corp.	Common Stock, par value \$0.01 per share	New York Stock Exchange
Realogy Group LLC	None	None
Securities registered pursuant to Section 12(g) of the Act: None		

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Indicate by check mark if the Registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

Realogy Holdings Corp. Yes  No  Realogy Group LLC Yes  No

Indicate by check mark if the Registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Realogy Holdings Corp. Yes  No  Realogy Group LLC Yes  No

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

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Realogy Holdings Corp. Yes  No  Realogy Group LLC Yes  No

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files).

Realogy Holdings Corp. Yes  No  Realogy Group LLC Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Realogy Holdings Corp.  Realogy Group LLC

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Realogy Holdings Corp.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Realogy Group LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the Registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).

Realogy Holdings Corp. Yes  No  Realogy Group LLC Yes  No

The aggregate market value of the voting and non-voting common equity of Realogy Holdings Corp. held by non-affiliates as of the close of business on June 30, 2012 was \$0. There were 145,370,433 shares of Common Stock, \$0.01 par value, of Realogy Holdings Corp. outstanding as of February 22, 2013.

Realogy Group LLC meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to Realogy Group LLC.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

## TABLE OF CONTENTS

	Page
<u>Special Note Regarding Forward-Looking Statements</u>	<u>1</u>
<u>Trademarks and Service Marks</u>	<u>3</u>
<u>Market and Industry Data and Forecasts</u>	<u>3</u>
PART I	
Item 1. <u>Business</u>	<u>4</u>
Item 1A. <u>Risk Factors</u>	<u>20</u>
Item 2. <u>Properties</u>	<u>37</u>
Item 3. <u>Legal Proceedings</u>	<u>38</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>39</u>
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>40</u>
Item 6. <u>Selected Financial Data</u>	<u>41</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
Item 7A. <u>Qualitative and Quantitative Disclosures about Market Risk</u>	<u>72</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>72</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>72</u>
Item 9A. <u>Controls and Procedures</u>	<u>72</u>
Item 9B. <u>Other Information</u>	<u>74</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>75</u>
Item 11. <u>Executive Compensation</u>	<u>81</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>104</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>106</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>111</u>
PART IV	
Item 15. <u>Exhibits, Financial Statements and Schedules</u>	<u>113</u>
<u>SIGNATURES</u>	<u>114</u>
<u>Financial Statements and Notes</u>	<u>F-1</u>
<u>Exhibit Index</u>	<u>G-1</u>

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this Annual Report, our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward looking in nature and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:
  - a lack of improvement in the number of homesales, stagnant or declining home prices and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate;
  - a lack of improvement in consumer confidence;
  - the impact of recessions, slow economic growth, disruptions in the banking system and high levels of unemployment in the U.S. and abroad;
  - increasing mortgage rates and down payment requirements and/or constraints on the availability of mortgage financing, including but not limited to the potential impact of various provisions of the Dodd-Frank Act and regulations that may be promulgated thereunder relating to mortgage financing;
  - legislative, tax or regulatory changes that would adversely impact the residential real estate market, including potential reforms of Fannie Mae and Freddie Mac, potential tax code reform, which could reduce the amount that taxpayers would be allowed to deduct for home mortgage interest;
  - negative trends and/or a negative perception of the market trends in value for residential real estate;
  - renewed high levels of foreclosure activity including but not limited to the release of homes already held for sale by financial institutions;
  - excessive or insufficient regional home inventory levels;
  - the inability or unwillingness of homeowners to enter into homesale transactions due to negative equity in their existing homes; and
  - lower homeownership rates or failure of homeownership rates to return to more typical levels;
- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations;
- our inability to enter into franchise agreements with new franchisees or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements or maintain franchisee satisfaction with our brands;
- existing franchisees may incur operating losses if sales volume decreases which may impede their ability to grow or continue operations. Additionally, debt incurred by our franchisees during the downturn may hinder long-term growth and their ability to pay back indebtedness;
- disputes or issues with entities that license us their trade names for use in our business that could impede our franchising of those brands;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees,
- controversies with our franchisees or actions against us by third parties with which our franchisees have business relationships;
- competition in our existing and future lines of business;
- our failure to comply with laws, regulations and regulatory interpretations and any changes in laws, regulations and regulatory interpretations;

seasonal fluctuations in the residential real estate brokerage business which could adversely affect our business, financial condition and liquidity;

1

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Table of Contents

the loss of any of our senior management or key managers or employees or other significant labor or employment issues;

adverse effects of natural disasters or environmental catastrophes;

risks related to our international operations;

risks associated with our substantial indebtedness and interest obligations, including risks related to having to dedicate a substantial portion of our cash flows from operations to service our debt, risks related to our ability to refinance our indebtedness and to incur additional indebtedness, risks associated with our ability to comply with our senior secured leverage ratio covenant under our senior secured credit facility, interest rate risk, and risks related to an event of default under our outstanding indebtedness;

our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;

limitations on flexibility in operating our business due to restrictions contained in our debt agreements;

any remaining resolutions or outcomes with respect to Cendant's contingent liabilities under the Separation and Distribution Agreement and the Tax Sharing Agreement, including any adverse impact on our future cash flows;

any adverse resolution of litigation, governmental proceedings or arbitration awards; and

new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under "Item 1A.—Risk Factors" and "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control.

You should consider these factors in connection with considering any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in this Annual Report, our other public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Table of Contents

**TRADEMARKS AND SERVICE MARKS**

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this Annual Report include the CENTURY 21<sup>®</sup>, COLDWELL BANKER<sup>®</sup>, ERA<sup>®</sup>, THE CORCORAN GROUP<sup>®</sup>, COLDWELL BANKER COMMERCIAL<sup>®</sup>, SOTHEBY'S INTERNATIONAL REALTY<sup>®</sup> and BETTER HOMES AND GARDENS<sup>®</sup> marks, which are registered in the United States and/or registered or pending registration in other jurisdictions, as appropriate, to the needs of our relevant business. Each trademark, trade name or service mark of any other company appearing in this Annual Report is owned by such company.

**MARKET AND INDUSTRY DATA AND FORECASTS**

This Annual Report includes data, forecasts and information obtained from independent trade associations, industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. As noted in this Annual Report, the National Association of Realtors ("NAR"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") were the primary sources for third-party industry data and forecasts. While data provided by NAR and Fannie Mae are two indicators of the direction of the residential housing market, we believe that homesale statistics will continue to vary between us and NAR and Fannie Mae because they use survey data in 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. For instance, comparability is impaired due to NAR's utilization of seasonally adjusted annualized rates whereas we report actual period over period changes and their use of median price for their forecasts compared to our average price. Additionally, NAR data is subject to periodic review and revision. While we believe that the industry data presented herein 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.

Forecasts regarding rates of home ownership, median sales price, volume of homesales, and other metrics included in this Annual Report to describe the housing industry are inherently uncertain or speculative in nature and actual results for any period may materially differ. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on market data currently available to us. While we are not aware of any misstatements regarding industry data provided herein, our estimates involve risks and uncertainties and are subject to change based upon various factors, including those discussed under the headings "Risk Factors" and "Special Note Regarding Forward-Looking Statements." Similarly, we believe our internal research is reliable, even though such research has not been verified by any independent sources.

Table of Contents

PART I

Except as otherwise indicated or unless the context otherwise requires, the terms “we,” “us,” “our,” “our company,” “Realogy,” “Realogy Holdings” and the “Company” refer to Realogy Holdings Corp., a Delaware corporation, and its consolidated subsidiaries, including Realogy Intermediate Holdings LLC, a Delaware limited liability company (“Realogy Intermediate”), and Realogy Group LLC, a Delaware limited liability company (“Realogy Group”) and its consolidated subsidiaries. Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

Realogy Holdings is not a party to the senior secured credit facility and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the senior secured credit facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its secured and unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

Item 1. Business.

Our Company

We are the preeminent and most integrated provider of residential real estate services in the U.S. We are the world's largest franchisor of residential real estate brokerages with some of the most recognized brands in the real estate industry, the largest owner of U.S. residential real estate brokerage offices, the largest U.S. and a leading global provider of outsourced employee relocation services and a significant provider of title and settlement services. Our owned and franchised brokerage businesses are more than two and a half times larger than their nearest competitor and, in 2012, we were involved in approximately 26% of domestic existing homesale transaction volume that involved a real estate brokerage firm. Our revenue is derived on a fee-for-service basis, and given our breadth of complementary service offerings, we are able to generate fees from multiple aspects of a residential real estate transaction. Our operating platform is supported by our portfolio of industry leading franchise brokerage brands, including Century 21<sup>®</sup>, Coldwell Banker<sup>®</sup>, Coldwell Banker Commercial<sup>®</sup>, ERA<sup>®</sup>, Sotheby's International Realty<sup>®</sup> and Better Homes and Gardens<sup>®</sup> Real Estate and we also own and operate the Corcoran Group<sup>®</sup> and CitiHabitats brands. Our multiple brands and operations allow us to derive revenue from many different segments of the residential real estate market, in many different geographies and at varying price points.

Segment Overview

We report our operations in four segments, each of which receives fees based upon services performed for our customers: Real Estate Franchise Services (“RFG”), Company Owned Real Estate Brokerage Services (“NRT”), Relocation Services (“Cartus”) and Title and Settlement Services (“TRG”). See “Management's Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements, including the notes thereto, included elsewhere in this Annual Report, for further information on our reportable segments.

**Real Estate Franchise Services.** We are the largest franchisor of residential real estate brokerages in the world through our portfolio of well known brokerage brands, including Century 21<sup>®</sup>, Coldwell Banker<sup>®</sup>, Coldwell Banker Commercial<sup>®</sup>, ERA<sup>®</sup>, Sotheby's International Realty<sup>®</sup> and Better Homes and Gardens<sup>®</sup> Real Estate. We derive substantially all of our real estate franchising revenues from royalty fees received under long-term (typically ten year) franchise agreements with our franchisees. The royalty fee is based on a percentage of the franchisees' sales commission earned from real estate transactions, which we refer to as gross commission income. Our franchisees pay us fees for the right to operate under one of our trademarks and to enjoy the benefits of the systems and business enhancing tools provided by our real estate franchise operations. These fees provide us with recurring franchise revenue streams at high operating margins. In addition to highly competitive brands that provide unique offerings to our franchisees, we support our franchisees with dedicated national marketing and servicing programs, technology, training and education to facilitate our franchisees in growing their business and increasing their revenue and profitability. We believe that one of our strengths is the strong relationships that we have with our franchisees, as evidenced by our 97% retention rate through December 31, 2012. Our retention rate represents the annual gross commission income as of December 31 of the previous year generated by our franchisees that remain in the franchise

systems on an annual basis, measured against the annual gross commission income of all franchisees as of December 31 of the previous year. At December 31, 2012, our real estate franchise systems had approximately 13,600 offices worldwide in 102 countries and territories, including approximately 6,100 brokerage offices in the U.S. and approximately 238,900 independent sales associates worldwide (which included approximately 41,300 independent sales agents working with our company owned brokerage offices) including approximately 166,000 sales

## Table of Contents

associates operating under our franchise and proprietary brands in the U.S., with an average tenure among U.S. franchisees of approximately 19 years as of December 31, 2012.

**Company Owned Real Estate Brokerage Services.** We own and operate the largest residential real estate brokerage business in the U.S. under the Coldwell Banker®, Sotheby's International Realty®, ERA®, Corcoran Group® and CitiHabitats brand names. We offer full-service residential brokerage services through approximately 710 company owned brokerage offices in more than 35 of the largest metropolitan areas of the U.S. As a result of our attractive geographic positioning, the average sales price of an NRT transaction is approximately twice the national average. NRT, as the broker for a home buyer or seller, derives revenues primarily from gross commission income received at the closing of real estate transactions. In addition, we participate in the mortgage process through our 49.9% ownership of PHH Home Loans LLC ("PHH Home Loans"), our home mortgage venture with PHH. Our home mortgage joint venture with PHH is the exclusive recommended provider of mortgages for our real estate brokerage and relocation service customers (unless exclusivity is waived by PHH). We also assist landlords and tenants through property management services.

**Relocation Services.** We are a leading global provider of outsourced employee relocation services. We are the largest provider of such services in the U.S. and also operate in key international relocation destinations. We offer a broad range of world-class employee relocation services designed to manage all aspects of an employee's move to facilitate a smooth transition in what otherwise may be a complex and difficult process for the employee and employer. Our relocation services business serves corporations, including over 64% of the Fortune 50 companies, as well as affinity organizations such as insurance companies and credit unions that provide our services to their members. In 2012, we assisted in over 158,000 relocations in more than 150 countries for approximately 1,500 active clients and as of December 31, 2012, our top 25 relocation clients had an average tenure of 17 years with us.

**Title and Settlement Services.** We assist with the closing of real estate transactions by providing full-service title and settlement (i.e., closing and escrow) services to customers, real estate companies, including our company owned real estate brokerage and relocation services businesses, as well as a targeted channel of large financial institution clients, including PHH. In 2012, TRG was involved in the closing of approximately 194,000 transactions of which approximately 54,000 related to NRT. In addition to our own title and settlement services, we also coordinate a nationwide network of attorneys, title agents and notaries to service financial institution clients on a national basis. We also serve as an underwriter of title insurance policies in connection with residential and commercial real estate transactions.

\* \* \*

Our headquarters is located at One Campus Drive, Parsippany, New Jersey 07054. We have entered into a lease for a new corporate headquarters at 175 Park Avenue, Madison, New Jersey and expect to take occupancy of the new headquarters in the next several months. Our general telephone number is (973) 407-2000. We were incorporated on December 14, 2006 in the State of Delaware. The Company files electronically with the Securities and Exchange Commission (the "SEC") required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; registration statements and other forms or reports as required. Certain of the Company's officers and directors also file statements of changes in beneficial ownership on Form 4 with the SEC. The public may read and copy any materials that the Company has filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Such materials may also be accessed electronically on the SEC's Internet site ([www.sec.gov](http://www.sec.gov)). We maintain an Internet website at <http://www.realogy.com> and make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports and any amendments to these reports in the Investor Relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website address is provided as an inactive textual reference. The contents of our website are not incorporated by reference herein or otherwise a part of this Annual Report.

### Industry Trends

**Industry definition.** We primarily operate in the U.S. residential real estate industry, which is an approximately \$1.16 trillion industry based on 2012 transaction volume (i.e. average homesale price times number of new and existing

homesale transactions), as compared to \$2.1 trillion in 2006, and derive the substantial majority of our revenues from serving the needs of buyers and sellers of existing homes rather than those of new homes. Residential real estate brokerage companies typically realize revenues in the form of a commission that is based on a percentage of the price of each home sold and/or a flat fee. As a result, the real estate industry generally benefits from rising home prices and increased volume of homesales (and conversely is adversely impacted by falling prices and decreased volume of homesales). We believe that existing home transactions and the

Table of Contents

services associated with these transactions, such as mortgage origination, title services and relocation services, represent the most attractive segment of the residential real estate industry for the following reasons: the existing homesales segment represents a significantly larger addressable market than new homesales. Of the approximately 5.0 million homesales in the U.S. in 2012, NAR estimates that approximately 4.7 million were existing homesales, representing approximately 93% of the overall sales as measured in units; existing homesales afford us the opportunity to represent either the buyer or the seller and in some cases both the buyer and the seller; and

we are able to generate revenues from ancillary services provided to our customers.

We also believe that the traditional broker-assisted business model compares favorably to alternative channels of the residential brokerage industry, such as discount brokers and “for sale by owner” for the following reasons:

a real estate transaction has certain characteristics that we believe are best suited for full-service brokerages, including large monetary value, low transaction frequency, wide cost differential among choices, high buyers' subjectivity regarding styles, tastes and preferences, and the consumer's need for a high level of personalized advice, specific marketing and technology services and support given the complexity of the transaction; and

we believe that the enhanced service and value offered by a traditional agent or broker is such that using a traditional agent or broker will continue to be the primary method of buying and selling a home in the long term. According to NAR, 88% of homes were sold using an agent or broker in 2012 compared to 79% in 2001.

We are confident that consumers will continue to choose to use the broker-assisted model for residential real estate transactions because: (i) the average transaction size is very high and generally the largest transaction one does in a lifetime; (ii) transactions occur infrequently; (iii) there is a high variance in price, depending on neighborhood, floor plan, architecture, fixtures, and outdoor space; (iv) there is a compelling need for personal service as home preferences are unique to each buyer; and (v) a high level of support is required given the complexity associated with the process. Underscoring the value of the traditional brokerage model, after declining modestly during the height of the residential real estate market to 2.47% per transaction side, the average broker commission rate earned by our franchisees and our owned operations has held steady at approximately 2.52% over the past three years.

Cyclical nature of industry. The existing homesale real estate industry is cyclical in nature and has historically shown strong growth. Based on information published by NAR, existing homesale units increased at a compound annual growth rate, or CAGR, of 1.8% from 1972 through 2012, with unit increases 25 times on an annual basis, versus 15 annual decreases. During that same period, median existing homesale prices increased at a CAGR of 4.8% (not adjusted for inflation) from 1972 through 2012, a period that included four economic recessions. According to NAR, the existing homesale transaction volume (median homesale price times existing homesale transactions) was approximately \$824 billion in 2012 and grew at a CAGR of 6.8% from 1972 through 2012 period.

Commencing in the second half of 2005 and continuing through 2011, the existing homesale real estate industry was in a significant and lengthy downturn. Based upon data published by NAR from 2005 to 2011, the number of annual U.S. existing homesale units declined by 40% and the median existing homesale price declined by 24%. Despite economic headwinds that particularly impacted the housing market, according to NAR, the number of existing homesale transactions from 2008 to 2011 were in the 4.1 to 4.3 million range on an annual basis. During 2012, the industry evidenced the beginning of a recovery. According to NAR, existing homesale transactions and median existing homesale price increased 9% and 6%, respectively in 2012 compared to 2011. The beginning of the housing recovery in 2012 was particularly evident with respect to year-over-year unit growth. The most recent NAR forecast estimates that the volume of existing homesales (i.e. median homesale price times number of homesale transactions) will increase 15% for the full year 2013 compared to 2012 and increase a further 10% in 2014 compared to 2013. We believe the 2012 improvement in the residential real estate market may be reflective of a sustainable market recovery driven by lower interest rates, fewer foreclosures, high affordability of home ownership, and satisfying demand that has built up during a period of economic uncertainty. The inventory supply is returning to a more typical level and acting as a stabilizing force on home prices, though in certain markets there is insufficient inventory. In addition, as rental prices have recently continued to rise, the cost of owning a home is now lower than the rental of a comparable property in the vast majority of U.S. metropolitan areas.

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As of their most recent releases, Fannie Mae and NAR are forecasting an 11% and a 9% increase in existing homesale transactions for 2013 compared to 2012, respectively. With respect to homesale prices, NAR's most recent release is forecasting median homesale prices for 2013 to increase 6% compared to 2012. Fannie Mae's most recent forecast shows a 2% increase in

6

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Table of Contents

median homesale price for 2013 compared to 2012. For 2014, NAR is forecasting a 6% increase in homesales to 5.4 million units compared to 2013. NAR also is forecasting a 4% increase in median existing homesale prices in 2014 compared to 2013.

Although there have been concerns about significant “shadow inventory” (i.e., properties where the homeowner is seriously delinquent in meeting its mortgage obligations or where the property is in some stage of foreclosure or already a REO), we do not believe that this will have a significant impact on our business, as the concentration of the shadow inventory is limited to a few regions of the country and the potential increase in unit sales activity should offset in whole or in part the adverse impact on home prices in these regions. Furthermore, according to NAR, the percentage of distressed properties has declined from 32% of sales in December 2011 to 24% of sales in December 2012, and institutions holding distressed mortgages have increasingly shifted activity away from REOs and focused on short sales, which are less disruptive to the market.

Favorable long-term demographics. We believe that long-term demand for housing and the growth of our industry is primarily driven by affordability, the economic health of the U.S. economy, positive demographic trends such as population growth, increases in the number of U.S. households, low interest rates, increases in renters that qualify as homebuyers and locally based factors. We believe that the residential real estate market will benefit over the long term from expected positive fundamentals, including the following factors:

- based on U.S. Census data and NAR, from 1991 through 2012, the average number of existing homesale transactions as a percentage of U.S. households was approximately 4.5%, compared to an average of approximately 3.8% from 2007 through 2012. During the same period, the number of U.S. households grew from 94 million in 1991 to 121 million in 2012, increasing at a 1% CAGR. We believe that as the U.S. economy stabilizes, the number of existing homesale transactions as a percentage of U.S. households will progress to the 4.5% mean level and the number of annual existing homesale transactions will increase; according to the 2011 State of the Nation's Housing Report compiled by JCHS, the number of U.S. households is projected to grow by an average of 1.2 million annually from 2010 to 2020. Assuming this annual household formation and given the lack of new home building activity over the past several years, we would expect both home sale price and volume to exhibit strong growth over the long term;
- aging echo boomers (i.e., children born to baby boomers) are expected to drive much of the next U.S. household growth;
- we believe that as baby boomers age, a portion are likely to purchase smaller homes or purchase retirement homes thereby increasing homesale activity; and
- according to NAR, the number of renters that qualify to buy a median priced home increased from 9 million in 2005 to 19 million in 2011.

Table of Contents

Participation in Multiple Aspects of the Residential Real Estate Market

We participate in services associated with many aspects of the residential real estate market. Our four complementary businesses and mortgage joint venture work together to form our “value circle,” allowing us to generate revenue at various points in a residential real estate transaction, including listing of homes, assisting buyers in home searches, corporate relocation services, settlement and title services, and franchising of our brands. The businesses each benefit from our deep understanding of the industry, strong relationships with real estate brokers, sale associates and other real estate professionals and expertise across the transactional process. Unlike other industry participants who offer only one or two services, we can offer homeowners, our franchisees and our corporate and affinity clients ready access to numerous associated services that facilitate and simplify the home purchase and sale process. These services provide further revenue opportunities for our owned businesses and those of our franchisees. Specifically, our brokerage offices and those of our franchisees participate in purchases and sales of homes involving relocations of corporate transferees and affinity members using Cartus relocation services and we offer customers (purchasers and sellers) of both our owned and franchised brokerage businesses convenient title and settlement services. These services produce incremental revenues for our businesses and franchisees. In addition, we participate in the mortgage process through our 49.9% ownership of PHH Home Loans. All four of our businesses and our mortgage joint venture can derive revenue from the same real estate transaction.

Table of Contents

## Our Brands

Our brands are among the most well known and established real estate brokerage brands in the real estate industry. As of December 31, 2012, our franchise systems had approximately 13,600 franchised and company owned offices and 238,900 independent sales associates operating under our franchise and proprietary brands in the U.S. and 101 other countries and territories around the world, which includes approximately 710 of our company owned and operated brokerage offices. In 2012, based on NAR's historical survey data and our own results, we were involved, either through our franchise operations or our company owned brokerages, in approximately 26% of all existing homesale transaction volume (sides times price) for domestic transactions involving a real estate brokerage firm.

Our real estate franchise brands, excluding proprietary brands that we own, are listed in the following chart, which includes information as of December 31, 2012 for both our franchised and company owned offices:

Worldwide Offices <sup>(1)</sup>	7,100	3,100	2,300	660	250	170
Worldwide Brokers and Sales Associates <sup>(1)</sup>	100,300	82,200	31,000	12,900	8,300	1,900
U.S. Annual Sides	390,391	663,826	107,775	64,515	40,810	N/A
# Countries with Owned or Franchised Operations	73	50	35	47	2	26
Characteristics	World's largest residential real estate sales organization	Longest running national real estate brand in the U.S. (since 1906)	Driving value through innovation and collaboration	Synonymous with luxury	Growing real estate brand launched in July 2008	A commercial real estate franchise organization
	Identified by consumers as the most recognized name in real estate Significant international office footprint	Known for innovative consumer services, marketing and technology	Highest percentage of international offices among international brands	Strong ties to auction house established in 1744 Rapid International Growth	Unique relationship with a leading media company, including largest lifestyle magazine in the U.S.	Serves a wide range of clients from corporations to small businesses to individual clients and investors

(1) Includes offices and related brokers and sales associates of franchisees of master franchisors.

Table of Contents

Real Estate Franchise Services

Our primary objectives as the largest franchisor of residential real estate brokerages in the world are to sell new franchises, retain existing franchises, create or acquire new brands and, most importantly, provide branding and support to our franchisees. At December 31, 2012, our real estate franchise systems had approximately 13,600 offices worldwide in 102 countries and territories in North and South America, Europe, Asia, Africa, the Middle East and Australia, including approximately 6,100 brokerage offices in the U.S.

Over the past few years, our total number of offices and franchisees contracted due to the prolonged housing downturn. Despite this downturn we continued to sell franchises domestically, increased the number of international master franchise agreements and increased the geographic footprint of our franchisees.

We derive substantially all of our real estate franchising revenues from royalty fees received under long-term franchise agreements with our domestic franchisees (typically ten years in duration), including NRT. The royalty fee is based on a percentage of the franchisees' sales commission earned from closed homesale sides (either the "buy" side or the "sell" side of a real estate transaction), which we refer to as gross commission income, and our franchisees pay us such royalty fees, net of volume incentives achieved (other than NRT), for the right to operate under one of our trademarks and to utilize the benefits of the franchise systems. We provide our franchisees with certain systems and tools that are designed to help our franchisees serve their customers and attract new or retain existing independent sales associates, and support our franchisees with servicing programs, technology, education and market information, as well as branding-related marketing which is funded through contributions by our franchisees and us (including our company owned brokerage offices). We operate and maintain an Internet-based reporting system for our domestic franchisees which generally allows them to electronically transmit listing information and other relevant reporting data to our websites and also own and operate websites for each of our brands for the benefit of our franchisees.

RFG's domestic annual net royalty revenues from franchisees other than our company owned brokerages are calculated by multiplying (1) that year's total number of closed homesale sides in which those franchisees participated by (2) the average sale price of those homesales by (3) the average brokerage commission rate charged by these franchisees by (4) RFG's net effective royalty rate. The net effective royalty rate represents the average percentage of our franchisees' commission revenues paid to us as a royalty, net of volume incentives achieved. The net effective royalty rate does not include the effect of non-standard production or development incentives granted to some franchisees. The domestic royalty revenue from NRT is also calculated by multiplying homesale sides by average sale price and average brokerage commission rate by 6% royalty rate. NRT does not get volume incentives. In addition to domestic royalty revenue, RFG earns royalty revenue from international affiliates, marketing fees (which is spent on national marketing campaigns), preferred vendor programs and other revenue. The following chart illustrates the key drivers for revenue earned by RFG:

We believe one of our strengths is the strong relationships that we have with our franchisees as evidenced by the franchisee retention rate of 97% through December 31, 2012. Our retention rate represents the annual gross commission income as of December 31st of the previous year generated by our franchisees that remain in the franchise systems on an annual basis, measured against the annual gross commission income of all franchisees as of December 31 of the previous year. On average, our domestic franchisees' tenure with our brands was approximately 19 years as of December 31, 2012. During 2012, none of our franchisees (other than our company owned brokerage operations) generated more than 1% of our real estate franchise business revenues.

The franchise agreements impose restrictions on the business and operations of the franchisees and require them to comply with the operating and identity standards set forth in each brand's policy and procedures manuals. A franchisee's failure to comply with these restrictions and standards could result in a termination of the franchise agreement. The franchisees generally are not permitted to terminate the franchise agreements prior to their expiration, and in those cases where termination rights do

Table of Contents

exist, they are very limited (e.g., if the franchisee retires, becomes disabled or dies). Generally, new domestic franchise agreements have a term of ten years and require the franchisees to pay us an initial franchise fee of up to \$35,000 for the franchisee's principal office, plus, upon the receipt of any commission income, a royalty fee, in most cases, equal to 6% of such income. Each of our franchise systems (other than Coldwell Banker Commercial<sup>®</sup>) offers a volume incentive program, whereby each franchisee is eligible to receive a refund of a portion of the royalties paid upon the satisfaction of certain conditions. The amount of the volume incentive varies depending upon the franchisee's annual gross revenue subject to royalty payments for the prior calendar year. Under the current form of the franchise agreements, the volume incentive varies for each franchise system, and ranges from zero to 3% of gross revenues. We provide a detailed table to each franchisee that describes the gross revenue thresholds required to achieve a volume incentive and the corresponding incentive amounts. We reserve the right to increase or decrease the percentage and/or dollar amounts in the table, subject to certain limitations. Our company owned brokerage offices do not participate in the volume incentive program. Franchisees and company owned offices are also required to make monthly contributions to marketing funds maintained by each brand for the creation and development of advertising, public relations, other marketing programs and related tools and services.

Under certain circumstances, we extend conversion notes (development advance notes were issued prior to 2009) to eligible franchisees for the purpose of providing an incentive to join the brand, to renew their franchise agreements, or to facilitate their growth opportunities. Growth opportunities include the expansion of franchisees' existing businesses by opening additional offices, through the consolidation of operations of other franchisees, as well as through the acquisition of independent sales agents and offices operated by independent brokerages. Many franchisees use the proceeds from the conversion notes to change stationery, signage and marketing materials, upgrade technology and websites, or to assist in acquiring companies. The notes are not funded until appropriate credit checks and other due diligence matters are completed and the business is opened and operating under one of our brands. Upon satisfaction of certain performance based thresholds, the notes are forgiven over the term of the franchise agreement.

In addition to offices owned and operated by our franchisees, we, through NRT, own and operate approximately 710 offices under the following names: Coldwell Banker<sup>®</sup>, ERA<sup>®</sup>, Sotheby's International Realty<sup>®</sup>, The Corcoran Group<sup>®</sup> and CitiHabitats. NRT pays intercompany royalty fees and marketing fees to our real estate franchise business in connection with its operation of these offices. These fees are recognized as income or expense by the applicable segment level and eliminated in the consolidation of our businesses. NRT is not eligible for any volume incentives. In the U.S. and generally in Canada, we employ a direct franchising model whereby we contract with and provide services directly to independent owner-operators. In other parts of the world, we employ either a master franchise model, whereby we contract with a qualified, experienced third party to build a franchise enterprise in such third party's country or region or a direct franchising model in the case of Sotheby's International Realty. Under the master franchise model, we typically enter into long term franchise agreements (often 25 years in duration) and receive an initial area development fee and ongoing royalties. The ongoing royalties are generally a percentage of the royalties received by the master franchisor from its franchisees with which it contracts.

We also offer third-party service providers an opportunity to market their products to our franchisees and their independent sales associates and customers through our Preferred Alliance Program. To participate in this program, service providers generally pay us some combination of an initial licensing or access fee, subsequent marketing fees and commissions based upon our franchisees' or independent sales associates' usage of the preferred alliance vendors. In connection with the spin-off of PHH, Cendant's former mortgage business, PHH Mortgage Corporation, the subsidiary of PHH that conducts mortgage financing, is the only provider of mortgages for customers of our franchisees that we endorse. We receive a fee from PHH for licensing our brands and an advertising fee for allowing PHH promotional opportunities on websites and in offices and at periodic group events.

We own the trademarks Century 21<sup>®</sup>, Coldwell Banker<sup>®</sup>, Coldwell Banker Commercial<sup>®</sup>, ERA<sup>®</sup> and related trademarks and logos, and such trademarks and logos are material to the businesses that are part of our real estate franchise segment. Our franchisees and our subsidiaries actively use these trademarks, and all of the material trademarks are registered (or have applications pending) with the United States Patent and Trademark Office as well as with corresponding trademark offices in major countries worldwide where these businesses have significant operations.

We have an exclusive license to own, operate and franchise the Sotheby's International Realty® brand to qualified residential real estate brokerage offices and individuals operating in eligible markets pursuant to a license agreement with SPTC Delaware LLC, a subsidiary of Sotheby's ("Sotheby's"). Such license agreement has a 100-year term, which consists of an initial 50-year term ending February 16, 2054 and a 50-year renewal option. In connection with our acquisition of such license, we also acquired the domestic residential real estate brokerage operations of Sotheby's which are now operated by NRT. We pay a licensing fee to Sotheby's for the use of the Sotheby's International Realty® name equal to 9.5% of the royalties earned by our

Table of Contents

Real Estate Franchise Services Segment attributable to franchisees affiliated with the Sotheby's International Realty® brand, including our company owned offices.

In October 2007, we entered into a long-term license agreement to own, operate and franchise the Better Homes and Gardens® Real Estate brand from Meredith. The license agreement between Realogy and Meredith is for a 50-year term, with a renewal option for another 50 years at our option. We pay an annual minimum licensing fee which began in 2009 at \$0.5 million and will increase to \$4 million by 2014 and generally remains the same thereafter. At December 31, 2012, we had approximately 250 offices with approximately 8,300 independent sales associates operating under the Better Homes and Gardens® Real Estate brand name in the U.S. and Canada.

Each of our brands has a consumer website that offers real estate listings, contacts and services. Century21.com, coldwellbanker.com, coldwellbankercommercial.com, sothebysrealty.com, era.com and bhgrealestate.com are the official websites for the Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, Sotheby's International Realty®, ERA® and Better Homes and Gardens® Real Estate franchise systems, respectively. The contents of these websites are not incorporated by reference herein or otherwise a part of this Annual Report.

**Company Owned Real Estate Brokerage Services**

Through our subsidiary, NRT, we own and operate a full-service real estate brokerage business in more than 35 of the largest metropolitan areas in the U.S. Our company owned real estate brokerage business operates under the Coldwell Banker®, ERA® and Sotheby's International Realty® franchised brands as well as proprietary brands that we own, but do not currently franchise, such as The Corcoran Group® and CitiHabitats. As of December 31, 2012, we had approximately 710 company owned brokerage offices, approximately 4,600 employees and approximately 41,300 independent sales associates working with these company owned offices.

Our company owned real estate brokerage business derives revenue primarily from gross commission income received serving as the broker at the closing of real estate transactions. For the year ended December 31, 2012, our average homesale broker commission rate was 2.49% which represents the average commission rate earned on either the “buy” side or the “sell” side of a homesale transaction. Gross commission income is also earned on non-sale transactions such as home rentals. NRT, as a franchisee of RFG, pays a royalty fee of 6% per transaction to RFG from the commission earned on a real estate transaction. The following chart illustrates the key drivers for revenue earned by NRT:

In addition, as a full-service real estate brokerage company, we promote the complementary services of our relocation and title and settlement services businesses, in addition to PHH Home Loans. We believe we provide integrated services that enhance the customer experience.

When we assist the seller in a real estate transaction, our independent sales associates generally provide the seller with a full service marketing program, which may include developing a direct marketing plan for the property, assisting the seller in pricing the property and preparing it for sale, listing it on multiple listing services, advertising the property (including on websites), showing the property to prospective buyers, assisting the seller in sale negotiations, and assisting the seller in preparing for closing the transaction. When we assist the buyer in a real estate transaction, our independent sales associates generally help the buyer in locating specific properties that meet the buyer's personal and financial specifications, show properties to the buyer, assist the buyer in negotiating (where permissible) and in preparing for closing the transaction.

At December 31, 2012, we operated approximately: 90% of our offices under the Coldwell Banker® brand name, 5% of our offices under The Corcoran Group® and CitiHabitats brand names, 4% of our offices under the Sotheby's International Realty® brand name, and 1% of our offices under the ERA® brand name. Our offices are geographically diverse with a strong presence in the east and west coast areas, where home prices are generally higher. We operate our Coldwell Banker® offices in numerous regions throughout the U.S., our Sotheby's International Realty® offices in several regions throughout the U.S, our Corcoran® Group offices in New York City, the Hamptons (New York), and Palm Beach, Florida and our ERA® offices in Pennsylvania.

## Table of Contents

We intend to grow our business both organically and through strategic acquisitions. To grow organically, we will focus on working with office managers to recruit, retain and facilitate effective independent sales associates who can successfully engage and promote transactions from new and existing clients.

We have a dedicated group of professionals whose function is to identify, evaluate and complete acquisitions. We are continuously evaluating acquisitions that will allow us to enter into new markets and to profitably expand our existing markets through smaller “tuck-in” acquisitions. Following completion of an acquisition, we consolidate the newly acquired operations with our existing operations. By consolidating operations, we reduce or eliminate duplicative costs, such as advertising, rent and administrative support. By utilizing our existing infrastructure to support a broader network of independent sales associates and revenue base, we can enhance the profitability of our operations. We also seek to enhance the profitability of newly acquired operations by increasing the productivity of the acquired brokerages' independent sales associates. We provide these independent sales associates with supplemental tools, marketing information and resources that are often unavailable at smaller firms, such as access to sophisticated information technology and ongoing technical support, increased advertising and marketing support, relocation referrals, and a wide offering of brokerage-related services.

Our real estate brokerage business has a contract with Cartus under which the brokerage business provides brokerage services to relocating employees of the clients of Cartus. When receiving a referral from Cartus, our brokerage business seeks to assist the buyer in completing a homesale or home purchase. Upon completion of a homesale or home purchase, our brokerage business receives a commission on the purchase or sale of the property and is obligated to pay Cartus a portion of such commission as a referral fee. We believe that these fees are comparable to the fees charged by other relocation companies.

PHH Home Loans, our home mortgage venture with PHH, a publicly traded company, has a 50-year term, subject to earlier termination upon the occurrence of certain events or at our election by providing two years notice to PHH at any time after January 31, 2015. We own 49.9% of PHH Home Loans and PHH owns the remaining 50.1%. PHH may terminate the venture upon the occurrence of certain events or, at its option, after January 31, 2030. Such earlier termination would result in (i) PHH selling its interest to a buyer designated by us or (ii) requiring PHH to buy our interest. In either case, the purchase price would be the fair market value of the interest sold. All mortgage loans originated by the venture are sold to PHH or other third party investors after a hold period, and PHH Home Loans does not hold any mortgage loans for investment purposes or perform servicing functions for any loans it originates. Accordingly, we have no mortgage servicing rights asset risk. PHH Home Loans is the exclusive recommended provider of mortgages for our company owned real estate brokerage business (unless exclusivity is waived by PHH). In 2012, PHH Home Loans originated \$12.1 billion of loan volume of which 61% was for home purchases and 39% was for home refinancings. In 2011, PHH Home Loans originated \$9.6 billion of loan volume of which 70% was for home purchases and 30% was for home refinancings.

### Relocation Services

Through our subsidiary, Cartus, we are a leading global provider of outsourced employee relocation services.

We primarily offer corporate clients employee relocation services, such as:

homesale assistance, including the evaluation, inspection, purchasing and selling of a transferee's home; the issuance of home equity advances to transferees permitting them to purchase a new home before selling their current home (these advances are generally guaranteed by the client); certain home management services; assistance in locating a new home; and closing on the sale of the old home, generally at the instruction of the client;

expense processing, relocation policy counseling, relocation-related accounting, including international assignment compensation services, and other consulting services;

arranging household goods moving services, with approximately 72,000 domestic and international shipments in 2012, and providing support for all aspects of moving a transferee's household goods, including the handling of insurance and claim assistance, invoice auditing and quality control;

coordinating visa and immigration support, intercultural and language training, and expatriation/repatriation counseling and destination services; and

group move management services providing coordination for moves involving a large number of transferees to or from a specific regional area over a short period of time.

The wide range of our services allows our clients to outsource their entire relocation programs to us. In January 2010, our relocation business acquired Primacy, a U.S. based relocation and global assignment management services company with international locations in Canada, Europe and Asia. The acquisition enabled Cartus to re-enter the U.S. government relocation business, increase its U.S. operations, as well as expand the Company's global relocation capabilities. Effective January 1, 2011, the Primacy business operates under the Cartus name.

13

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## Table of Contents

In 2012, we assisted in over 158,000 relocations in more than 150 countries for approximately 1,500 active clients, including over 64% of the Fortune 50 companies as well as affinity organizations. Cartus has offices in the U.S. as well as internationally in the United Kingdom, Canada, Hong Kong, Singapore, China, Germany, France, Switzerland and the Netherlands.

Under relocation services contracts with our clients, homesale services have historically been classified into two types, “at risk” and “no risk.” Under “no risk” business, which during 2012 accounted for substantially all of our homesale service transactions, the client is responsible for reimbursement of all direct expenses associated with the homesale. Such expenses include, but are not limited to, appraisal, inspection and real estate brokerage commissions. The client also bears the risk of loss on the resale of the transferee's home. Clients are responsible for reimbursement of all other direct costs associated with the relocation, including, but not limited to, costs to move household goods, mortgage origination points, temporary living and travel expenses. Generally we fund the direct expenses associated with the homesale as well as those associated with the relocation on behalf of the client and the client then reimburses us for these costs plus interest charges on the advanced money. This limits our exposure on “no risk” homesale services to the credit risk of our clients rather than to the potential fluctuations in the real estate market or to the creditworthiness of the individual transferring employee. Historically, due to the credit quality of our clients, we have had minimal losses with respect to these “no risk” homesale services.

In “at risk” homesale service transactions in which we engage, we acquire the home being sold by relocating employees, pay for all direct expenses (acquisition, carrying and selling costs) associated with the homesale and bear any loss on the sale of the home. As with the “no-risk” contracts, clients with “at risk” contracts bear the non-homesale related direct costs associated with the relocation though we generally advance these expenses and the client reimburses us inclusive of interest charges on the advanced money. The “at risk” business that we do conduct relates almost entirely to certain government and corporate contracts we assumed in the Primacy acquisition, which we believe are priced in a manner that mitigates risks associated with a downturn in the residential real estate market.

Substantially all of our contracts with our relocation clients are terminable at any time at the option of the client and are non-exclusive. If a client terminates its contract, we will be compensated for all services performed up to the time of termination and reimbursed for all expenses incurred to the time of termination.

There are a number of different revenue streams associated with relocation services. We earn commissions primarily from real estate brokers and household goods moving companies that provide services to the transferee. Clients may also pay transactional fees for the services performed. We also earn net interest income which represents interest earned from clients on the funds we advance on behalf of the transferring employee net of costs associated with the securitization obligations. Cartus measures operating performance based on initiations, which represent the total number of transferees we serve, and referrals, which represent the number of referrals from which we earn revenue from real estate brokers. The following chart illustrates the key drivers for revenue generated by Cartus:

We also manage the Cartus Broker Network, which is a network of real estate brokers consisting of our company owned brokerage operations, select franchisees and independent real estate brokers who have been approved to become members. Member brokers of the Cartus Broker Network receive referrals from our relocation services business in exchange for a referral fee. The Cartus Broker Network closed approximately 68,000 properties in 2012 related to relocation, affinity, and broker to broker activity. The broker to broker segment accounted for approximately 6% of our relocation revenue.

About 8% of our relocation revenue in 2012 was derived from our affinity services, which provide real estate and relocation services, including home buying and selling assistance, as well as mortgage assistance and moving services, to organizations such as insurance companies and credit unions that have established members. Often these organizations offer our affinity services to their members at no cost and, where permitted, provide their members with a financial incentive for using these services. This service helps the organizations attract new members and retain current members.

Table of Contents

Title and Settlement Services

Our title and settlement services business, TRG, provides full-service title and settlement (i.e., closing and escrow) services to real estate companies and financial institutions. We act in the capacity of a title agent and sell title insurance to property buyers and mortgage lenders. We are licensed as a title agent in 42 states and Washington, D.C., and have physical locations in 24 states and Washington, D.C. We issue title insurance policies on behalf of large national underwriters as well as through our Dallas-based subsidiary, Title Resources Guaranty Company (“TRGC”), which we acquired in January 2006. TRGC is a title insurance underwriter licensed in 27 states and Washington, D.C. We operate mostly in major metropolitan areas. As of December 31, 2012, we had approximately 340 offices, approximately 200 of which are co-located within one of our company owned brokerage offices.

Virtually all lenders require their borrowers to obtain title insurance policies at the time mortgage loans are made on real property. For policies issued through our agency operations, assuming no negligence on our part, we typically are liable only for the first \$5,000 of loss for such policies on a per claim basis, with the title insurer being liable for any remaining loss. Title insurance policies state the terms and conditions upon which a title underwriter will insure title to real property. Such policies are issued on the basis of a preliminary report or commitment. Such reports are prepared after, among others, a search of public records, maps and other relevant documents to ascertain title ownership and the existence of easements, restrictions, rights of way, conditions, encumbrances or other matters affecting the title to, or use of, real property. To facilitate the preparation of preliminary reports, copies of public records, maps and other relevant historical documents are compiled and indexed in a title plant. We subscribe to title information services provided by title plants owned and operated by independent entities to assist us in the preparation of preliminary title reports. In addition, we own, lease or participate with other title insurance companies or agents in the cooperative operation of such plants.

The terms and conditions upon which the real property will be insured are determined in accordance with the standard policies and procedures of the title underwriter. When our title agencies sell title insurance, the title search and examination function is performed by the agent. The title agent and underwriter split the premium. The amount of such premium “split” is determined by agreement between the agency and underwriter, or is promulgated by state law. We have entered into underwriting agreements with various underwriters, which state the conditions under which we may issue a title insurance policy on their behalf.

Our company owned brokerage operations are the principal source of our title and settlement services business for resale transactions. Other sources of our title and settlement services resale business include our real estate franchise business and Cartus. Many of our offices have subleased space from, and are co-located within, our company owned brokerage offices. The capture rate of our title and settlement services business from company owned brokerage operations was approximately 40% in 2012. For refinance transactions, we generate title and escrow revenues from PHH and other financial institutions throughout the mortgage lending industry.

Certain states in which we operate have “controlled business” statutes which impose limitations on affiliations between providers of title and settlement services, on the one hand, and real estate brokers, mortgage lenders and other real estate service providers, on the other hand. For example, in California, a title insurer/agent cannot generate more than 50% of its title orders from “controlled business sources,” which is defined as sources controlled by, or which control, directly or indirectly, the title insurer/agent, which would include leads generated by our company owned brokerage business. In those states in which we operate our title and settlement services business that have “controlled business” statutes, we comply with such statutes by ensuring that we generate sufficient business from sources we do not control.

We derive revenue through fees charged in real estate transactions for rendering the services described above as well as a percentage of the title premium on each title insurance policy sold. We provide many of these services in connection with our residential and commercial real estate brokerage and relocation operations. Fees for escrow and closing services are separate and distinct from premiums paid for title insurance and other real-estate services.

We coordinate a national network of escrow and closing agents (some of whom are our employees, while others are attorneys in private practice and independent title companies) to provide full-service title and settlement services to a broad-based group that includes lenders, home buyers and sellers, developers, and independent real estate sales associates. Our role is generally that of an intermediary managing the completion of all the necessary documentation

and services required to complete a real estate transaction.

We also derive revenues by providing our title and settlement services to various financial institutions in the mortgage lending industry. Such revenues are primarily derived from providing our services to customers who are refinancing their mortgage loans.

15

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## Table of Contents

Our title and settlement services business measures operating performance based on purchase and refinance closing units and the related title premiums and escrow fees earned on such closings. In addition, we measure net title premiums earned for title policies issued by our underwriting operation. The following chart illustrates the key drivers for revenue generated by our title and settlement services business:

We intend to grow our title and settlement services business by recruiting title and escrow sales associates in existing markets and by completing acquisitions to expand our geographic footprint or complement existing operations. We also intend to continue to increase our capture rate of title business from our NRT homesale sides. In addition, we expect to continue to grow and diversify our lender channel and our underwriting businesses by expanding and adding clients and increasing our agent base, respectively.

### Competition

**Real Estate Franchise Business.** Competition among the national real estate brokerage brand franchisors to grow their franchise systems is intense. Our largest national competitors in this industry include, but are not limited to three large, franchisors: HSF Affiliates LLC, a joint venture between Brookfield Residential Property Services (an affiliate of Brookfield Asset Management, Inc.) and HomeServices of America (a Berkshire Hathaway affiliate) to operate the Real Living and Prudential Real Estate brands as well as a new franchise brand, Berkshire Hathaway HomeServices; RE/MAX International, Inc.; and Keller Williams Realty, Inc. In addition, a real estate broker may choose to affiliate with a regional chain or choose not to affiliate with a franchisor but to remain unaffiliated. We believe that competition for the sale of franchises in the real estate brokerage industry is based principally upon the perceived value and quality of the brand and services, the nature of those services offered to franchisees, including the availability of financing, the fees the franchisees must pay and by the state of the housing industry.

The ability of our real estate brokerage franchisees to compete with other real estate brokerages is important to our prospects for growth. Their ability to compete may be affected by the quality of independent sales associates, the location of offices, the services provided to independent sales associates, the number of competing offices in the vicinity, affiliation with a recognized brand name, community reputation, technology and other factors. A franchisee's success may also be affected by general, regional and local economic conditions.

**Real Estate Brokerage Business.** The real estate brokerage industry is highly competitive, particularly in the metropolitan areas in which our owned brokerage businesses operate. In addition, the industry has relatively low barriers to entry for new participants, including participants pursuing non-traditional methods of marketing real estate, such as Internet-based listing services. Companies compete for sales and marketing business primarily on the basis of services offered, reputation, personal contacts, and brokerage commissions. We compete with other national independent real estate organizations, including HomeServices of America in certain of our markets, franchisees of our brands and of other national real estate franchisors, franchisees of local and regional real estate franchisors, regional independent real estate organizations such as Weichert Realtors and Long & Foster Real Estate, discount brokerages and smaller niche companies competing in local areas.

**Relocation Business.** Competition in our relocation business is based on service, quality and price. We compete primarily with global and regional outsourced relocation services providers. The larger outsourced relocation services providers that we compete with include: Brookfield Global Relocation Services (including the operations of Prudential Real Estate and Relocation Services which it acquired in 2011), SIRVA, Inc., and Weichert Relocation Resources, Inc. As the relocation business becomes more global in nature with greater emphasis on relocation of employees throughout the world, we will face greater competition from firms that provide global services.

**Title and Settlement Business.** The title and settlement business is highly competitive and fragmented. The number and size of competing companies vary in the different areas in which we conduct business. We compete with other title insurers, title agents and vendor management companies. The title and settlement business competes with a large, fragmented group of smaller underwriters and agencies. In addition, we compete with national competitors, including Fidelity National Title

## Table of Contents

Insurance Company, First American Title Insurance Company, Stewart Title Guaranty Company and Old Republic Title Company.

### Marketing

Real Estate Franchise Operations. Each of our residential franchise brands operates a marketing fund and our commercial brand operates a commercial marketing fund that is funded by our franchisees and us. The primary focus of each marketing fund is to build and maintain brand awareness, which is accomplished through a variety of media, including increased use of Internet promotion. Our Internet presence, for the most part, features our entire listing inventory in our regional and national markets, plus community profiles, home buying and selling advice, relocation tips and mortgage financing information. Each brand manages a comprehensive system of marketing tools, systems and sales information and data that can be accessed through free standing brand intranet sites to assist independent sales associates in becoming the best marketer of their listings. In addition to the Sotheby's International Realty® brand, a leading luxury brand, our franchisees and our company owned brokerages also participate in luxury marketing programs, such as Century 21® Fine Homes & Estates®, Coldwell Banker Previews®, and ERA International Collection®.

According to NAR, 90% of homebuyers used the Internet in their search for a new home in 2012. Our marketing and technology strategies focus on capturing these consumers and assisting in their purchase.

Advertising is used by the brands to drive consumers to their respective websites. Significant focus is placed on developing websites for each brand to create value to the real estate consumer. Each brand website focuses on streamlined, easy search processes for listing inventory and rich descriptive details and multiple photos to market the real estate listing. Additionally, each brand website serves as a national distribution point for independent sales associates to market themselves to consumers to enhance the customer experience. We place significant emphasis on distributing our real estate listings with third party websites to expand a consumer's access to such listings. Consumers seeking more detailed information about a particular listing on a third party website are able to click through to a brand website or a Company owned brokerage website or telephone the franchisee or Company owned brokerage directly.

In order to improve our response times to buyers and sellers seeking real estate services, we developed LeadRouter, our proprietary patented lead management system. We believe LeadRouter provides a competitive advantage by improving the speed at which a brokerage can begin working with a customer. The system converts text to voice and transfers the lead to our agents within a matter of seconds, providing our agents with the ability to quickly respond to the needs of a potential home buyer or seller. Additionally, LeadRouter provides the broker with an accountability tool to manage their agents and evaluate productivity.

Company Owned Brokerage Operations. Our company owned brokerages conduct a wide array of marketing efforts to support our independent sales associates, acquire new home buyers and sellers and increase local brand awareness. NRT operates full-service brokerages and a key value we provide to our independent sales associates is enabling and/or subsidizing many of their marketing efforts. The effectiveness and quality of this marketing support plays a significant role in our efforts to recruit new sales associates and retain our existing sales associates.

The primary focus of much of our efforts is advertising our real estate services and specific real estate listings. Our broad range of marketing services include managing the placement of property information on real estate websites, provisioning of yard signs and photography, assisting with private showings and public open houses of our listings and facilitating exposure to our services and listings on social media channels. The Company also supports our independent sales associates in prospecting for new clients by facilitating targeted direct mailings, email and social media campaigns and Internet advertising. While print advertising still retains a level of importance to some clients in some markets, we now focus much of our efforts on developing and maintaining Internet marketing programs.

The utilization of information technology as a marketing tool has become increasingly effective in our industry, and we believe that trend will continue. Accordingly, we have sought to become a leader among residential real estate brokerage firms in the use and application of technology and have focused much of our efforts on website development and information technology tools for our independent sales agents.

We operate over 20 company owned brokerage websites in the U.S. with each site supporting a different geographical area of our company owned operations and also place our listings on third party websites. These websites provide a

platform for the marketing of our real estate listings and identifying potential home buyers and sellers; the browsing prospective buyer has the ability to contact us regarding their particular interest in a real estate listing and receive a rapid response through our proprietary lead management system, LeadRouter, which is made available to our independent sales associates. Other web-based productivity tools we provide to our independent sales agents include our proprietary e-Marketing reporting tools and Realogy's

Table of Contents

HomeBase transaction management platform. All independent sales associates are provided access to a sales and marketing knowledgebase via in-house Intranet sites.

Employees

At December 31, 2012, we had approximately 10,800 employees, including approximately 810 employees outside of the U.S. None of our employees are represented by a union. We believe that our employee relations are good.

Sales Associate Recruiting, Education and Marketing Updates

Each real estate brand provides education and marketing-related materials to its franchisees to assist them in the recruiting process. Each brand's recruiting program contains different materials and delivery methods. The marketing materials range from a detailed description of the services offered by our franchise systems (which will be available to the independent sales associate) in brochure or poster format to audio tape lectures from industry experts. Live instructors at conventions and orientation seminars deliver some recruiting modules while other modules can be viewed by brokers anywhere in the world through virtual classrooms over the Internet. Most of the programs and materials are then made available in electronic form to franchisees over the respective system's private intranet site. Many of the materials are customizable to allow franchisees to achieve a personalized look and feel and make modifications to certain content as appropriate for their business and marketplace.

For our company owned brokerage operations, we focus on recruiting and retaining sales associ