Walker & Dunlop

August 1, 2018
8:00 am ET

Operator: Welcome to Walker & Dunlop's Second Quarter 2018 Earnings Conference Call and Webcast. Hosting the call today from Walker & Dunlop is Willy Walker, Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer; and Kelsey Montz, Assistant Vice President of Investor Relations. Today's call is being recorded and will be made available via webcast on the company's website. At this time all participants have been placed in a listen-only mode and the floor will be opened for your questions following the presentation. [Operator Instructions]

It is now my pleasure to turn the floor over to Ms. Kelsey Montz. Please go ahead, ma'am.

Kelsey Montz: Thank you, Erica. Good morning, everyone. Thank you for joining the Walker & Dunlop's second quarter 2018 earnings call. I have with me this morning our Chairman and CEO, Willy Walker; and our CFO, Steve Theobald. This call is being webcast live on our website and a recording will be available later this morning. Both our earnings press release and website provide details on accessing the archived webcast. This morning we posted our earnings release and presentation to the Investor Relations section of our website, www.walkerdunlop.com. These slides serve as a reference point for some of what Willy and Steve will touch on this morning.

Please also note that we will reference the non-GAAP financial metric, adjusted EBITDA, during the course of this call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statements language in our earnings release. Statements made on this call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe our current expectations and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC.

I will now turn the call over to Willy.

Willy Walker: Thank you, Kelsey, and good morning. We are doing our earnings call this morning from Sun Valley, Idaho, where we just completed our annual Walker & Dunlop's Summer Conference with over 650 people in attendance. Our Sun Valley Conference has become one of the very best in the commercial real estate industry and the discussion and interactions we have had with our clients over the past several days are reflective of the important role Walker & Dunlop plays in their financing decisions and the deep relationships we have forged with them over time.

This morning we reported another strong quarter of financial performance with 7% year-over-year growth in total revenues, generating 19% increase in earnings per share as shown on slide three. We earned $1.28 per diluted share on total transaction volume of $6.2 billion, generating $50 million of adjusted EBITDA. Our transaction volumes and financial results benefited from strong multifamily loan originations which accounted for 83% or transaction volume during the quarter.

Fannie Mae originations of $2.3 billion were up nicely over Q1 and we originated $1.3 billion of loans with Freddie Mac for the second consecutive quarter. We originated $1.7 billion of brokered loans with banks like insurance companies and CMBS lenders, $231 million of loans with HUD, and $192 million of interim loans in our joint venture with Blackstone and on our balance sheet.

Finally, our investment sales volume grew nicely to $484 million during the quarter, as the interest rate rally and economic growth numbers gave investors continued confidence in the markets. As you can see Q2 was a very active quarter across all of our businesses.

We remain focused on marching towards our long-term growth objective of $1 billion in revenues, $30 billion to $35 billion in debt originations, $8 billion to $10 billion of investment sales volume, $8 billion to $10 billion of assets under management, and $100 billion servicing portfolio by 2020.

As investors in Walker & Dunlop know, we have an extremely strong track record of establishing ambitious long-term goals and achieving them fully. In pursuit of our 2020, vision we have added 18 bankers and brokers to our platform in the first half of 2018 and should see the revenues begin contributing to the top line in the second half of this year and then ramp nicely in 2019.

I spent most of June and July on the road meeting with Walker & Dunlop clients to discuss their businesses and financing needs and I've never seen more opportunity for our company. Full employment, strong GDP growth, and some wage inflation have resulted in very strong economic environment for commercial real estate, particularly the multifamily sector. Typically that combination of economic factors will generate a surge in development of single-family homes to compete with multifamily housing.

But as we have discussed in past earnings calls, single-family developers are building higher-end homes, leaving entry-level homebuyers without an option but to keep renting either an apartment or a single-family home. As well commercial real estate property values are high, while the cost of debt and equity are still relatively low. This gap between asset values and the cost of financing is very advantageous for owners of commercial real estate and is driving additional transaction activity across the market.

As we have grown our financing investment sales platforms, the number of clients, and number of bankers and brokers to work with those clients continues to scale. This additional breadth in our servicing offering, coupled with new insights into our customers businesses due to investments in database technology is generating financing and investment sales opportunities for Walker & Dunlop that haven't existed before.

I'll give you two examples from my meetings over the past month. We recently met with a large multifamily owner-operator that had retained an investment bank to sell the firm. Because of our detailed knowledge of this client's portfolio, we were able to provide an analysis on refinancing and recapitalizing their assets, presenting an attractive alternative to selling the firm. Due to this analysis and our insight, we are currently working side-by-side with the investment bank to either sell or refinance the company. We would not have been given this opportunity without our existing relationship with the client, our insight and analysis into the client's portfolio, and our track record of previous financings.

In another meeting we were discussing refinancing alone and the head of acquisition stopped us and said, we're going to sell that asset in about six months. To which we responded, we just hired a great investment sales team in that market, would you like us to sell it for you? Walker & Dunlop's customers are looking to W&D for expertise and solutions at a time when the macroeconomic environment is very strong and fortunately for us and our investors we have a larger footprint and deeper service offering than ever before.

A couple other notes on the overall market before I turn the call over to Steve to run through our Q2 financial performance in more detail. Our year-to-date origination numbers do not include any large financings which has been a hallmark of our growth and due to our standing is one of the very best multifamily lenders in the country. Billion dollar financings are not predictable, but with the current macroeconomic and commercial real estate market conditions there will be opportunities for us to work on large deals in the coming quarters and years.

From a rate standpoint the rally and 10-year treasuries at the beginning of June has given commercial real estate investors renewed confidence in the overall markets and the prices they are paying for new assets. Reflecting this point is the 37% year-over-year growth in our Q2 investment sales volumes, combined with an increase in acquisition financing in the quarter.

As you can see on slide four 45% of our Q2 financing was for acquisitions, up from 27% in the second quarter of 2017 and while acquisition activity has picked up significantly and cap rates remain historically low, we continue to lend under very conservative underwriting standards. Our average loan-to-value on all our originations in Q2 were 67% and our average debt service coverage was 1.40 times. As we have said on previous calls we will continue to lend billions of dollars for as long as we can with conservative underwriting standards like these.

I'll now turn the call over to Steve to discuss our financial results in more detail.

Steve Theobald: Thank you, Willy, and good morning everyone. Q2 represents another very solid quarter of performance for Walker & Dunlop with continued strong execution in our agency business bolstered by continued growth in servicing and its related revenues. Earnings for the quarter were $1.28 per share, an increase of 19% over last year's second quarter. Adjusted EBITDA was $50 million flat to adjusted EBITDA in Q2 of last year.

Total transaction volume of $6.2 billion was up 3% from the second quarter of 2017, with our GSE originations up 9% year-on-year due to strong levels of flow volume. Compared to the first quarter of 2018, second quarter's mix of volume shifted notably to a higher percentage of Fannie Mae originations, as we saw Fannie regain market share during Q2. This is exactly what we expected to happen after Fannie's slow start to the year.

We had another solid quarter with Freddie Mac, with an 18% year-over-year increase in originations to $1.3 billion. Our HUD originations decreased by 43% from last year's strong second quarter, but a significant increase in construction draws made this a financially successful quarter for our HUD business.

Brokered volumes of $1.7 billion were down from last year's exceptional $1.9 billion a quarter as our capital market's team continues to originate a significant amount of agency business. Q2 investment sales activity continued its stellar growth trajectory with volumes up 37% year-over-year, easily outpacing the broader multifamily market's 7% decline in transaction volume.

We were pleased to see a pickup in our bridge lending volume in the second quarter, with nearly $200 million in interim loans originated for our joint venture with Blackstone and our own balance sheet. On our first quarter earnings call we described a fiercely competitive multifamily bridge lending environment, due to the influx of debt funds into this space. That environment has not changed. However, as we stated on the Q1 call there's still plenty of good multifamily bridge loans to be done given the strong demand for value-add investments and we were able to originate a number of high quality loans with excellent sponsors during the second quarter.

During the quarter we closed on the acquisition of JCR. The overall financial results for JCR were not material in the quarter. We did successfully deploy $32 million of capital from the JCR funds while originating $44 million in bridge loans through the separate accounts. As of the end of Q2 JCR had $294 million of committed capital to deploy from its funds and we are finalizing the capital raised for Fund 4 [ph] which we expect to be completed near the end of Q3.

Q2 2018 total revenues were up 7% year-over-year led by revenue streams related to our servicing portfolio which ended the quarter at $78 billion. I would like to highlight these servicing related revenues as they are high margin growing cash flow streams that provide financial stability regardless of the level of transaction activity in a given quarter. Escrow earnings increased 105% from Q2 2017 to $9.3 million and with escrow deposits now totaling over $2 billion combined with recent increases in short-term interest rates we expect escrow earnings to continue to be a meaningful source of revenue going forward.

Servicing fees grew 14% from Q2 2017 reflecting the continued strong year-over-year growth in the portfolio. We expect to see continued growth in servicing fees as the servicing portfolio increases from $78 billion to our goal of $100 billion by 2020. The growth in these two high margin cash revenue streams will also benefit adjusted EBITDA with total of $50 million in the second quarter bringing the year-to-date adjusted EBITDA to over $100 million.

We ended the quarter with $32 million [ph] of cash on the balance sheet with another $94 million used on a short-term basis to fund loans held for sale and loans held for investment, all of which has been recycled back to the balance sheet after quarter end. We remain highly confident in the continued cash generating capabilities of our business model and the resultant flexibility this gives us to both continue investing in the business while also returning capital to shareholders.

As such, our Board authorized a dividend of $0.25 per share payable to common shareholders of record on September 04, 2018. The dividend represents a modest payout ratio on Q2 earnings of 19% and on adjusted EBITDA of just 16%. In addition, we continue to maintain $50 million of authorization under our share repurchase plan. Q2 2018 expenses increased 14% year-over-year largely due to our ongoing recruiting efforts and the increased headcount from the JCR acquisition which brought 26 employees on board in April.

During the second quarter we also added 13 bankers and brokers. Year-to-date we have integrated 25 bankers, brokers, and their related support staff, which increased fixed costs by $10 million in the second quarter and created a short-term drag on operating margin that will disappear as new hires become productive over the coming months. Despite the substantial increase in headcount during the quarter, we generated a strong operating margin of 30%. In addition, we continue to operate at over $1 million of revenue per employee on a trailing twelve-month basis due to our disciplined approach to hiring and the value of our business model.

Our financial performance in the first half puts us on track for another very successful year. Originations volumes exhibited increased momentum over the course of the quarter with June representing our highest monthly volumes of the year led by the sharp increase in Fannie Mae volume. Our pipeline of business under application is as high as it's been in 2018 driven by continued low interest rates, strong investor appetite for commercial real estate assets and positive market fundamentals.

Given the levels of transaction activity we are seeing in the market and our strong pipeline, we feel confident that the second half of the year will be stronger than the first, which will benefit our annual key performance metrics. Gain on sale margin was within our expected range in both the first and second quarters at 181 basis points and 179 basis points, respectively. We expect that trend to continue for the remainder of the year barring in the discrete large transactions.

Our pretax operating results in the first six months of the year are not on pace to reach our ambitious goal of double-digit growth in operating income for 2018, although we remain highly confident in our ability to achieve double-digit growth in EPS and adjusted EBITDA for the full-year. Year-to-date return on equity of 19% positions us well to deliver an annual ROE within our target range of 20% to 25%. We generated a healthy operating margin of 30% in the first six months of the year and we expect elevated origination volumes in the second half of the year will produce additional scale benefits and allow us to achieve an operating margin in our 30% to 35% target range for all of 2018.

We feel extremely confident about the strength of our core business, positive market dynamics supporting it and the steady deal flow we are seeing as we move into the second half of 2018. We will continue to realize the benefits of our previous investments in the platform and recent hiring to deliver strong financial performance to our shareholders over the coming quarters.

I will now turn the call back over to Willy.

Willy Walker: Thank you, Steve. As I said at the top of the call and as Steve just detailed, we're in an extremely strong financial position. We've executed on our growth strategy exceptionally well which has included rising in the lead tables to be a top-three lender with Fannie Mae, Freddie Mac, and HUD. We ended 2017 as Fannie Mae's largest multifamily lending partner, Freddie Mac's third largest lending partner and HUD's fourth largest lending partner. Thanks to the fantastic work of our HUD loan origination and underwriting teams, we have jumped from number four to number two with HUD through three quarters of their fiscal year and have every intention of remaining there.

Our position at the very top of the lead tables with three largest providers of capital to the multifamily housing industry was not easily achieved and in the process we've established, along with one or two other financial services companies, a defendable competitive advantage due to our scale and expertise in this industry.

As our position as one of the largest providers of capital to the multifamily industry has solidified itself, we have focused on building out our capital markets business to provide capital to the rest of the commercial real estate industry. Over the past five years we have significantly expanded our access to deal flow and our client base, growing annual brokered loan originations from $1 billion in 2012 to over $7 billion last year as shown on slide eight.

And inherent in our strategy to build out a nationally scaled capital markets platform is the desire to raise capital that we control to feed into our loan distribution network and enhance the margins on the cash and carry brokerage business. We entered into a joint venture with Blackstone during Q2 of last year to originate multifamily bridge loans and in Q2 of this year we acquired and fully integrated JCR Capital into Walker & Dunlop.

JCR's asset management platform provides us with the track record and operational expertise to raise capital from institutional investors and then feed that capital into our loan origination and investment sales platforms. We are very focused on growing our asset management business and as you may have seen in our earnings release this morning, we've combined the aggregate size of our servicing portfolio with our total assets under management for the very first time to highlight the similarities between commercial loan servicing and the asset management business which both have long-term sticky revenue streams inherent in their business models.

We thought it would be interesting to show investors exactly how rapidly Walker & Dunlop has grown its top and bottom-line over the past decade. So rather than compare our growth to one of our direct competitors, we decided to compare our growth to that of the most successful technology company in the commercial real estate industry, CoStar. As slide nine shows, through 2017 on a 1, 3, 5 and ten-year basis Walker & Dunlop has grown revenues, net income and adjusted EBITDA at the same pace or faster than CoStar at every marking point.

That is a phenomenal growth track record for W&D against an incredible technology company that is currently trading at over a hundred times trailing earnings. While the market clearly values technology companies and financial services companies distinctly, Walker & Dunlop has a stronger brand and broader service offering than ever before and we have a significantly larger team focused on our continued growth.

We have scaled Walker & Dunlop in an extremely disciplined manner to achieve the market-leading growth I just highlighted. And as we have built our investment sales business over the past few years and dramatically grown our debt brokerage platform by acquiring local and regional firms across the country, we have not attempted or merge with one of the larger national debt and investment sales brokerage platforms for three primary reasons. First, the large debt brokerage firms, broker loans, off the financial services firms and do not have the underwriting and credit analysis capabilities that Walker & Dunlop does.

Our scaled underwriting and credit culture differentiate us to the market and allow our bankers and brokers to be far more insightful into the financing needs of our customers. Second, while the brokerage business can scale rapidly and is a very necessary service to the market it does not bring with it the long-term revenue streams that W&D's GSE, HUD and asset management businesses do. Our servicing and asset management portfolio is rapidly approaching $80 billion and inside that portfolio is over $1 billion of prepayment protected revenues which will provide us with growing recurring high margin revenue streams over the coming years.

Finally, investment sales is a far more cyclical business than debt financing. While we continue to recruit exceptional multifamily investment sales professionals across the country and successfully added professionals in Boston and Los Angeles in the first half of 2018, we want an extremely focused, highly capable, relatively small team.

Talent is very expensive during robust market cycles like we find ourselves in today and there will be a time when investment sales professionals can be added to our platform at a significantly lower cost. We have lots of growth potential in both the debt brokerage and property brokerage businesses and will continue to expand them in a methodical, strategic manner, always focused on our clients and their needs.

I'd like to end today's call by reiterating what I said at the top. We are extremely excited about our business due the macroeconomic environment we see ahead and the investments we have made to become more relevant and insightful to our clients across the country.

High asset values, coupled with low financing cost presents our clients with myriad options to harvest profits, realize gains, eliminate rate risk or recapitalize their businesses for future growth. In every one of those scenarios Walker & Dunlop has the people, expertise and financial resources to meet our client's needs and that quite honestly is what we have been building at such a dramatic growth rate over the past decade.

I want to thank all of my colleagues at W&D for their continued great work. We have always believed that if you create a great place to work, great financial results will follow. For eight years as a public company through plenty of ups and downs in the broader market, Walker & Dunlop has shown our investors that focusing on long term goals, investing in our people and maintaining a strong corporate culture of excellence and customer service produces outsized investor returns. And as we have discussed on this call we really like what we see ahead.

With that, I'll ask the operator to open the line for any questions.

Operator: Thank you. [Operator Instructions] Thank you. Our first question is coming from Jade Rahmani from KBW.

Jade Rahmani: Thanks very much. Your comments about the servicing portfolio you mentioned $1 billion of future servicing revenues and I assume that's with an eight year roughly duration to that. So that produces $100 million, well above a $100 million in cash flow, which is meaningfully above the dividend. I guess could you make any comments about how the Board might think about potential growth in the dividend?

Willy Walker: Good morning, Jade. Thanks for joining us. The dividend is where it is as Steve said in our comments Jade, it is a low payout ratio. As you know, this is the third quarter that we've declared a dividend and I would just say that we clearly have begun paying a dividend at a level that is very comfortable for the firm and the Board will analyze any potential increases to that number in coming years.

Jade Rahmani: And suffice to say there is plenty of excess cash flow to fund growth in the business, what historical recapture rate does Walker & Dunlop generate on the servicing portfolio loans that mature?

Willy Walker: I don't know, we clearly track that internally. I'm not sure whether we've given that number out, yes, but we have not given that number out. I would just put - it's not a number that we publish, Jade, but we track it very closely and we have a team that does nothing but focus on recapture of existing loans in the portfolio and what that conversion rate is.

Jade Rahmani: And is it fair to assume that as a servicer you have detailed insight into the properties' performance and the borrower, so you have a competitive advantage in winning the refinancing?

Willy Walker: I would say that both in the existing loan portfolio and investments we have made to understand the broader market, we are very focused in meeting with our clients to talk about loans that we both have and then other opportunities for us to expand our lending.

Jade Rahmani: In terms of headcount growth, could you share with investors the latency period before a transaction hires, recent hires of transaction professionals start to contribute revenues? It seems that the dip in margins suggests that a timing related factor and that the growth in originations is likely to accelerate given the recent hires?

Steve Theobald: Yes, Jade, this is Steve. I'll jump in here. I think typically what we plan for or expect is, you know likely call it six months process or timeframe before folks that we bring on actually start to generate revenue and then once they start it obviously picks up momentum from that point forward. So usually in the first quarter or two we're obviously incurring the expense, but there's no revenue associated with it and that's essentially what we saw happen here in Q2.

Jade Rahmani: In terms of JCR what was the transaction expense impact? I think the 10-Q talks about some continued liabilities that were paid and I think you also mentioned legal expenses.

Willy Walker: Yes, I think in total Jade, it was may be a penny a share.

Jade Rahmani: Got it and going forward are you going to be breaking out asset management revenues?

Willy Walker: To the extent that it becomes material or significant to the overall story you should expect us to break that out separately.

Jade Rahmani: And just lastly on the gain on sale margin were there any large transactions in the quarter that drove a lower cash gain on sale margin?

Willy Walker: No, not to speak of.

Jade Rahmani: Thanks for taking the questions.

Willy Walker: Thanks Jade.

Operator: Thank you. And our next question will be coming from Steve DeLaney from JMP Securities.

Steve DeLaney: Good morning and thanks for taking the question. Steve and Willy, you both mentioned recruiting successes, I think Willy you mention a figure of 18 in the new hires in the first half of ’18 and Steve you mentioned 13 in the second quarter and 25 year-to-date. Now those I assume are gross figures, those of the new people that have come on board. Can you comment on what the net growth was year-over-year because obviously these people move around and I just would like to get some sense for what percentage, what are the numbers on a net basis in terms of like your headcount, your producer headcount at June 30, ‘18 versus the prior year period? Thank you.

Steve Theobald: Steve, thanks so I'm not sure going back to June of last year, but for the year and one thing let me just be clear on the numbers, so my 25 includes not just the originators, the bankers and brokers themselves but also the support staff. So as when we recruit a team we're typically bringing on their analysts and folks who help them get their business done. We're not counting them in the production total, but obviously they are added to our headcount number, so that's my 25.

Steve DeLaney: Got it.

Willy Walker: Year-to-date the net increase is 10 on origination side.

Steve DeLaney: Okay, great that's the number I was looking for.

Willy Walker: Yes, just one quick thing because that was just kind of the active the number here Steve is close to [indiscernible] we were 143 through Q2 of last year and we're at 155 through Q2 of this year.

Steve DeLaney: Great and that's producers loan originate brokers and investment sales right Willy?

Willy Walker: That's correct. That is bankers, brokers and brokers of both debt as well as brokers of properties.

Steve DeLaney: Excellent, very good that's exactly what I needed thanks. And just looking back at the second quarter, so look I mean, obviously a very good quarter, if we wanted to poke at it a little bit, we could - understanding that your business is seasonal and tends to be lumpy, but the only thing I guess you could look at in contrast to sort of a high growth profile would be the fact that second quarter production at 6.2 was up a fairly modest 3% year-over-year.

And I know there was a lot going on, Fannie Mae, rate spikes, Willy just in your mind, especially since you've been out there talking to clients, could you kind of summarize what you think the key causes of that say slower growth in business was in the first half and then why you both commented about improvement in the second half, so what happened first half of the year and what has changed to make you optimistic about the second half? Thank you.

Willy Walker: Sure, Steve. As both Steve Theobald and I said in our comments, we do look to the back half with a lot of excitement about what we see coming ahead. Specifically Steve to your question, as I mentioned in my comments at the end of May beginning of June there was the rate rally where the tenure went from about 315 down to 285, I think that that rally in rates, really if you will, freed up the investment sales business where up until that point it had been kind of steady but not great and all of a sudden people saw rates come back down, they felt good about not waiting for cap rates to adjust.

And we saw a flurry of activity which was obviously reflected in our Q2 investment sales numbers and then the pipeline statement that Steve Theobald said in our comments as it relates to the outlook for Q3. I would also say that underlying GDP growth has continued to accelerate, yet you're not getting the inflationary pressures which make people think that rates are going to all of a sudden start running ahead.

With that said, we are doing much more fixed rate financing than we are floating rate financing right now. And clients appeared to be from and I've had, as I mentioned I've been out on the road a lot and clients are excited about what they see ahead. We've just had over 650 people here in Sun Valley. We had a full roundtable yesterday where we had a lot of discussion about what people are seeing in the markets, where they're putting shovels in the ground, where they're buying assets.

And to be perfectly honest with you there was not a single opinion or a comment in our entire roundtable that said that people don't like what they see right now. And there is not any talk of rates flying through the ceiling. There's not any talk of cap rates being at levels where people don't feel like they can transact and there is an underlying theme amongst everybody that they have a lot of capital right now and they are looking for places to play that capital. So if you take all that as an underlying sort of investment thesis and you say and today Walker & Dunlop has a bigger footprint, has more bankers and brokers than we've ever had before, and has a better brand than we've had ever before, that presents a lot of opportunity for us.

Steve Theobald: And I'd just go into that, if I'd just add to that, the investments we've already made in the first half of the year we fully expect are going to pay benefits in the second half.

Steve DeLaney: Great, thanks for those comments. One final quick thing, nice pickup in the larger multifamily loans on the interim loans with Blackstone, where does it program stand cumulatively today in terms of net outstanding versus the original $1 billion commitment? Thanks.

Willy Walker: It's about a quarter of the way there Steve, and Q2 this year was a great surge forward for us with Blackstone. As I was just after what I just said on the last question you had Steve, the one other thing that I would point out is, in the first half of the year as we said in our prepared remarks, we did not do a large transaction. It is all the right over here, so your point out hey, year-on-year volumes are about the same as where they were last year. That's correct but last year included some very large transactions.

So if you think about the - where we are year-to-date it's all been flow business without a large transaction and as I said in my prepared remarks given our scale, given the macro environment it is our expectation that we will have the opportunity to work on large transactions going forward. But specifically to the Blackstone JV, we had a really strong quarter. We did as Steve said, some really solid deals with solid sponsors and I was just in New York with Blackstone last week meeting with them and we feel very good about where the joint venture is positioned.

Steve DeLaney: Right, well thank you both for your comments and we look forward to what's coming in the second half. Thank you.

Willy Walker: Thanks Steve.

Operator: Thank you and our next question will come from Vivek Agrawal from Compass Point.

Vivek Agrawal: Hi, good morning and thanks for taking my questions. Hey you guys have done a great job building the various businesses obviously JCR acquisition, can you maybe comment about other areas that you may have interest in to, is there new asset class that you find interesting now in the marketplace, I think you mentioned that the investment sales guys are a little bit expensive, what are you kind of seeing in opportunities in the marketplace?

Willy Walker: Vic, first of all it’s really nice to have you on the call this morning. Thanks for joining us. Specifically to your question, we will continue to add bankers and brokers to our core businesses and do so in a methodical fashion and if you will building off of our past performance of bringing in great people who fit not only technically but culturally with W&D.

As it relates to new areas as we announced in Q2 we brought in a group to focus on the small loan space. We think that there is great growth opportunity in small loans and we are giving that team the resources for them to be very successful in the market. The affordable space is a space that needs more focus and attention. We were the second largest affordable lender in the United States last year behind Wells Fargo with the agencies and we plan to continue to do so and focus on that space going forward.

And then as we mentioned, we brought in JCR and that gets us close to a $1 billion of AUM in our asset management business, but we have a goal to scale that business dramatically and so whether that be going out and raising new funds at JCR and doing that in a very rapid fashion or adding other AUM to that platform through acquisition, we're looking at both and we will continue to look for opportunities to add scale to that business because we love the dynamics of that business just like we love the dynamics of our servicing business.

Steve Theobald: And I'd add to that the single family rental space is also another area where I think - we think there are some pretty interesting opportunities there and as we've disclosed we are one of the participants in Freddie's pilot program in that space.

Vivek Agrawal: And on-- I think you've mentioned in your comments that once the tenure came back down it sort of freed up your investment sales people, now that tenure is hovering around three, if it does go back to where it's high or even higher, how do you kind of think about the opportunity sets then compared to now?

Willy Walker: Vic, it's a good question. I would put forth to you that, the movements in the market as we've discussed with a lot of investors in the past, what investors like is sort of steady change and not dramatic change. And so when rates spike in a business that is so dependent upon debt financing, people take a pause, people sit there and say okay, do I need to wait for an adjustment in cap rates? What we're seeing today is it relates to the numbers of bidders on assets where the bidder list is 20 to 30 bidders rather than five to 10, which was the case in quarters of last year or the year before.

There is a tremendous amount of capital looking to be deployed and as a result of that if the number one bidder who's got it, decides that they want to wait for cap rates and wants to renegotiate the deal, quite honestly they're out and the number two bidder is waiting with bated breath, if you will. And so I feel quite good right now as it relates to the rate rally down to a 285 and then kind of sticking there. If you may have noticed June was an incredibly sort of docile month as it relates to rate movements. There was some great stat out there that the ten-year had had less volatility in June for a 21-day period, dating back to 1978.

And so, a rate environment that has, I mean and one of the points to all that that Vic quite honestly which is unbelievable, as you think about what was going on in the macro environment during the month of June and all the various things on the political front and trade wars and things of that nature into it, and you had the ten-year sit very steady during that period of time. That's what investors like, and so if we can see rates stay in a certain band. I think we'll see quite a lot of investment sales activity and should they move aggressively, well our bankers and our brokers need to be on their toes to go and work with their clients to figure out what their clients want to do, or be either running to refinance things quickly, do acquisitions more quickly or pause and wait and see where rates settle out.

Vivek Agrawal: Thanks and then Steve I just have a modeling question for you. I know that other operating expenses were a little bit higher due to some costs do we expect that to sort of at Q1 and Q4 levels going forward?

Steve Theobald: Yes, Vic. So obviously a lot of the costs in any given quarter variability is going to be driven by our recruiting efforts to a large extent. And so, I would orient back to operating margin in our gold to be in that range of 30% to 35% and as I mentioned I think our expectation is for the year will be spot on in that range.

Operator: Thank you. And we'll go next to the line of Ben Zucker from BTIG. Please go ahead.

Benjamin Zucker: Good morning guys. Thanks for taking my questions. I wanted to focus on your 2020 goals real quickly. You identify $30 billion to $35 billion in annual originations and I was calculating a trailing 12-month number of about $25 billion. So I'm curious based on what you're seeing in the market over the next few years, do you think you already have enough mortgage bankers on the platform to hit that goal understanding that there's that lag time we spoke about earlier, so we might not be seeing the full capability of all employees yet?

Willy Walker: Yes, Ben that's a really good - it's a really good question. I would just say to you, one of the- I've watched a number of our competitors who have sort of slowed down on their hiring of late and we have been really very focused on our long-term goals. We haven't been sort of going from quarter-to-quarter, half year-to-half year of saying, now we're in the market and we're out of the market.

I just made a presentation here in Sun Valley day before yesterday, just talking about the lifeblood of our firm is going out and recruiting new bankers and brokers to continue to expand the platform and that's really the focus. And so you can clearly do the math and you can say if I'm doing on a per broker, how much volume they do there, they already have the team in place to be able to hit that number, I can guarantee you we will continue to add bankers and brokers at a significant rate over the coming years because we are a, relatively speaking, small firm. You look at those growth numbers that I put up in the - of us versus CoStar which I will tell you we are darn proud of.

CoStar is a magnificent company and to have been able to grow as fast or faster than CoStar in a one, three, five and 10-year look back is incredible. But that says to me with only 100 was the number I used 155, yes, with only 155 bankers and brokers. We've said to numerous investors who sat there and said, how does Walker & Dunlop continue to grow? We were sitting in a meeting in Boston, Massachusetts and I said, CBRE probably has a 100 and as many bankers and brokers in the city of Boston as Walker & Dunlop has across the entire country.

So the nice thing about our business model and as Steve said, we've got over $1 million of revenue per employee. So we're relatively small, we're highly profitable and we have the opportunity to continue to add people going forward without worrying about getting ourselves into a situation where we are overstaffed or we have too many people in a given market. So yes, your math may be correct as it relates to the model to get to the number, but I would just tell you our recruiting efforts will continue forward unabated.

Steve Theobald: Yes, I would just add to that and this is a little bit of the psyche of the company as well Ben is $30 billion to $35 billion by 2020 is just another milestone. That's not the end. So to Willy’s point, the recruiting and hiring will continue because 30 to 35 is not the ultimate goal.

Benjamin Zucker: I think those are very helpful comments basically. It sounds like you guys are never going to pass on smart growth opportunities and I know you say that there are some top markets where you're just scratching the surface. When we look for the, just lastly on the employee headcount, when we think about the asset management component that's coming - that will need to come for the 2020 goals, would it be fair to say that employee headcount is a less meaningful metric as you build that business out, and I'm just kind of basing that off the assumption that AUM growth is not as correlated to employee headcount as the production businesses?

Willy Walker: So Steve and I are both kind of looking at each other sort of saying, you want to take that or do you want to take that. I think one of the interesting things there Ben is the following, the asset management business is a phenomenal business at scale. If you look at the number of people we've brought across from JCR and as Steve said JCR are not materially contributing to our financials in Q2. We had to start somewhere, you have to make the investment, you have start building the platform.

JCR standalone basis was a great business and is now a great business inside of Walker & Dunlop. But if you try and do metrics on a number of people per revenues it's - we're investing there, we're going to start building that up and continue to add AUM and we shouldn't have to add a lot of employees to add meaningful amounts of AUM.

So I think you're exactly right on the overall sizing of the business, but on a Q2 look back with 26 employees coming to the platform and really no financial contribution in the quarter, we got to get JCR in. As Steve said, they deployed a bunch of capital at the end of the quarter, we'll start to benefit from those revenues and then we will go out and raise new funds and then we'll get to the scale that we need there, to continue to drive the growth in our asset management business.

Benjamin Zucker: It's almost like the asset management business has just planted the seed that we're seeing in the servicing portfolio where there's some operating leverage that can really expand over the next few years. Just real quickly, the press release mentioned the flattening yield curve making Freddie more attractive in 2Q. With that dynamic still at play, do you think Freddie is going to continue to be more aggressive over the next few months or does it always just kind of seem to balance out between Fannie and Freddie on a full year basis?

Willy Walker: We heard from both Fannie and Freddie yesterday at our conference, both sounded very positive on the outlook for their businesses for this year. Freddie did get out of the blocks very quickly in 2018 and Fannie in their comments said it's been a competitive year and they were not just talking about the broader market, they were talking sort of head-to-head with Freddie Mac. But as you have seen in the past, they both if you will wax and wane in the market. One is very competitive for a period of time, the other one figures out what the other one is doing and comes in and presents a competitive bid and lo and behold they then move forward.

As Steve said in his comments, Fannie came back into the market in Q2 as we expected that they would. And I would put forth it is very difficult for people to be able to predict whether one quarter of our volume is going to be filled with Fannie Mae versus Freddie Mac, fixed rate versus floating rate. I think as we have shown in over year, after year, after year we will continue to grow with both of them. We have created a very defendable market position as being one of the very largest with them and that in the long term and on an annualized basis is going to produce for us and our investors fantastic returns.

Benjamin Zucker: Well, the nice part is I think we're talking about gain on sale margins less and less. Thanks for taking my questions, guys.

Willy Walker: Thank you, Ben.

Steve Theobald: Thanks Ben.

Operator: Thank you. [Operator Instructions] We'll go next to a followup from Jade Rahmani. Please go ahead.

Jade Rahmani: Thanks very much. Do you have any insights into how the Trump administration may think about a potential Mel Watt replacement when that eventually happens?

Willy Walker: You want - might - do you want it, Jade?

Jade Rahmani: Sure.

Willy Walker: So first of all it's at this point it's impossible to predict who the person will be who will replace Director Watt. I would just say a couple things, the first thing is that if you look at the long term, so go back to 2000, there are two major events that have happened to the GSEs since 2000. They went into conservatorship in 2008 and their business continued forward uninterrupted and their supply of capital, the multifamily industry remained uninterrupted. So that was the number one major event that happened.

The second major event that happened was that there were caps placed on their multifamily volumes in 2013 and at that immediate time it created some disruption in the way that loans were originated and sold to Fannie and Freddie. And subsequently both Fannie and Freddie have almost doubled their multifamily volumes.

So as I sit there and hear people say oh, a new regulator might peel back on their green financing or might not have quite as big a focus on affordable. I sit there and say these two enterprises are the biggest suppliers of capital by wide margins to the multifamily industry and there is nothing we see today they would say to us, that they do not continue to play that role.

Will a new director potentially have a distinct view on various components of their business? Certainly. Who it's going to be, we will see come early next year. But as it relates to the two of them being the dominant providers of capital to the multifamily industry and Walker & Dunlop remaining one of their largest partners, to that we feel very good that they will continue to provide that capital to the industry.

Jade Rahmani: Okay, Thank you very much and also wanted to ask about the lower tax rate in the quarter and what you expect for the rest of the year.

Steve Theobald: Yes, I think Jade, as you know, we're benefiting from the overall lower corporate tax rate. We did get a little bit of excess tax benefit from equity programs this quarter due to some option exercises.

So overall, I think if you look at Q2 tax rate we're probably a little bit higher than that second half of the year but coming in that same range.

Jade Rahmani: And do you think longer term something around 26% is a little bit too high, you'll be running lower than that?

Steve Theobald: Yes, it's probably somewhere between 25 and 26.

Jade Rahmani: Thank you very much.

Willy Walker: Thank you, Jade.

Operator: And at this time we have no further questions, so I'd like to turn it back over to Mr. Willy Walker for any additional or closing comments.

Willy Walker: Great. Thank you, Erica. Thanks everyone for joining us this morning. I appreciate the time and focus and I wish everyone a very good day and a productive week. Thanks very much.