

US home builders flying higher

On average short sellers have covered positions in US home builders as the housing market continues on an almost five year rally. However, certain names have seen a recent rise in shorting activity.

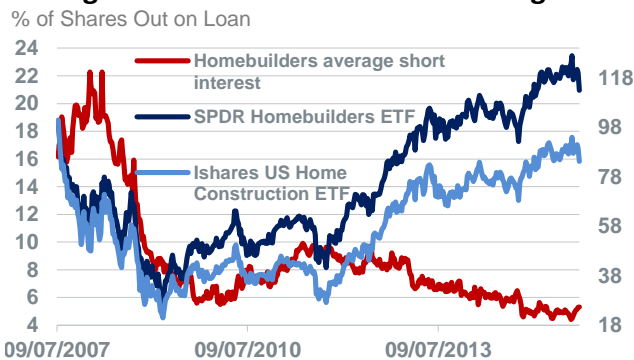
- Average short interest across US homebuilding declines to an eight year low
- Hovnanian is the most short sold homebuilder with almost a fifth of shares shorted
- Despite solid earnings, largest homebuilders Lennar and D.R. Horton see rise in shorting

Shorts struggle to build in US housing

Calling the top of the US housing market has proven tricky for short sellers since 2008. The sector's recovery and that of the US economy in general has seen stocks continue to perform in recent years, underpinned by record low interest rates and quantitative easing.

Positive sentiment in US property and home builders has surged as **confidence** levels reach multi year highs and US housing prices continue to rise as measured by the **US National Home Price Index**. This has seen even the largest firms **positing** double digit increases in new orders and net income.

Average short interest: US homebuilding



Source: Markit

Prices based to 100 (September 2007)

Using the SPDR Homebuilders and iShares US Home Construction ETFs as proxies for the sector shows that short sellers managed to time the 2008-2009 crisis well. Short interest for the segment peaked before prices slumped in 2009, followed by covering by short sellers.

Shorts looked to have returned to the sector in 2012, but success looks to have been company specific, with average short interest across US homebuilders continuing to decline since then, to the lowest level in over eight years.

Shorts narrow focus

Shares in Hovnanian Homes have fallen 41% in the last 12 months, and the company is still the most shorted homebuilder. Short sellers have continued to build positions during the decline, with shares outstanding on loan reaching a 12 month high of 18%.

Hovnanian Enterprises Inc



Source: Markit

Hovnanian shares initially came under increased pressure in June 2015 after the company **missed** earnings expectations for the second quarter of 2015.

Hovnanian joins KB Home, who **frequently** ranks among the most shorted companies ahead of earnings with 12.5% of shares outstanding on loan currently. KB Home's share price has, however, recovered from an

earlier fall during the year, with shares up 3% over the past 12 months.

Kb Home

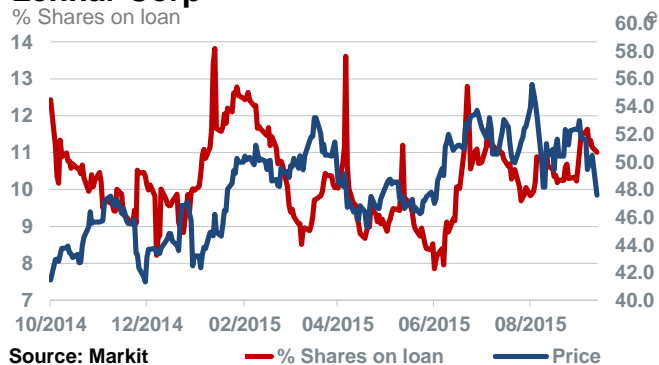


In early 2015 KB Home announced it was expecting a significant drop in margins, which sent shares **falling**. However, less than six months later, the company **topped** market expectations when announcing strong second quarter earnings.

Largest attractions in US homebuilding

Lennar, the second largest behind D.R. Horton by market value (\$8.2bn) and houses constructed, has maintained its attraction to short sellers with 11% of shares outstanding on loan. The company's **strong set** of results echoed the sustained recovery in the US housing market.

Lennar Corp



Despite the industry's recent show of exuberance, short sellers have also been attracted to the largest name in US home building, D.R. Horton.

D.R. Horton Inc



The company has seen a twofold increase in short interest in the past three months with shares outstanding on loan rising to 3.2% but does not make the top ten most shorted homebuilders in the US.

D.R. Horton and Lennar are the top two holdings of the iShares US Home Construction ETF, representing 22% of total holdings.

Name	Ticker	Short Interest	over Month
Hovnanian Enterprises Inc	HOV	18.1	8%
Kb Home	KBH	13.0	16%
Ryland Group Inc	RYL	12.1	16%
Mdc Holdings Inc	MDC	11.9	-9%
Lennar Corp	LEN	11.0	6%
Lgi Homes Inc	LGIH	8.4	14%
M/I Homes Inc	MHO	7.8	-14%
William Lyon Homes	WLH	7.6	20%
Meritage Homes Corp	MTH	7.1	5%
Beazer Homes Usa Inc	BZH	5.0	-7%

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Relte Stephen Schutte

Analyst

Markit

Tel: +44 2070646447

Email: relte.schutte@markit.com

For further information, please visit www.markit.com



4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

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