

Confidence in US housing being tested

Despite the continued record low mortgage rates and a resurgent economy, jitters in the US property market have resurfaced which has bolstered short sellers in housing related stocks.

- Homebuilder William Lyon Homes sees shorts gather as shares plummet in 2016
- SPDR S&P Homebuilders ETF posts the largest price decline seen since 2008
- Housing related Tempur Sealy and Bed Bath & Beyond see rush of short sellers

Property bubbles

Property prices globally have performed well in the past 10 years, with some cities now in perpetual **'bubble' territory** as cheap credit, low inventory and insatiable foreign demand continues to fuel asset price growth.

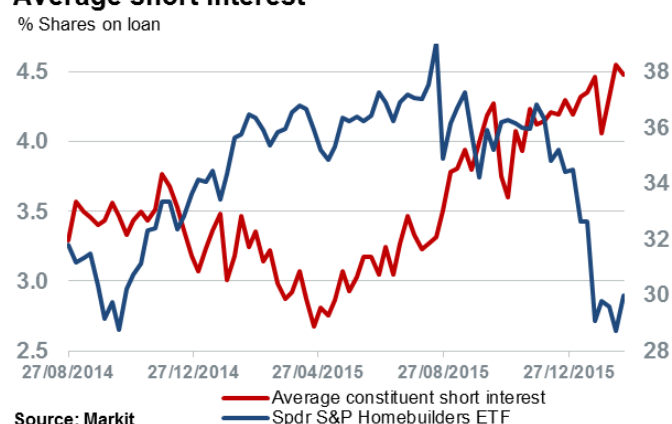
However, the US property market has taken time to recover after being the tinder of the financial crisis. House prices are almost at levels last seen in **2006** however, recent weakness in **housing starts** for January have seen doubts about the strength of the recovery resurface.

After reaching 'peak' housing starts in September 2015 of 1.2Mn, starts have declined to 1.09Mn in January. This coincided with a drop in confidence among builders to a nine month low in February. This decline in outlook is occurring while average rates on 30-year fixed mortgages remain near **record lows** and US job growth remains **robust**.

Shorts begin to build positions

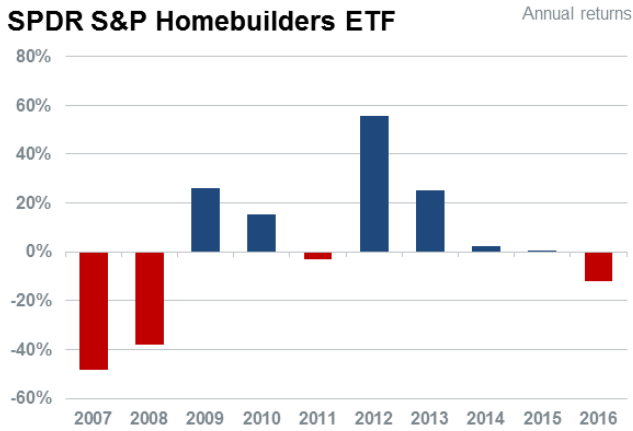
Naturally, homebuilders and related suppliers are not directly exposed to weakness in house prices and new housing demand. Short sellers have been quick to build positions in the sector, measured by average short interest of the SPDR S&P Homebuilders ETF (XHB).

Average short interest



Average short interest increased by 29% across constituents last year and the trend has continued in the new year as short interest across this group of shares is up 5% year to date to 4.5% of shares outstanding on loan.

It seems short sentiment has been well timed as XHB stocks fully participated in the selloff seen across markets in the opening weeks of 2016. XHB constituents (37 companies) have fallen 12% on average year to date after falling 6% in December 2015 – in fact price returns for the ETF have been declining since 2012.



Source: Markit

As well as being the most shorted constituent of the XHB, the constituent falling by the most year to date is William Lyon Homes down which is down 44%. The company is one of the largest Western U.S regional home builders and has seen short interest climb since July 2015, rising threefold to 17% of shares outstanding on loan. William Lyon is due to report earnings next week.

Top 10 Most Shorted US homebuilders 16 February 16)

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)	YTD change
William Lyon Homes	WLH	North America Consumer Dura	16.8	10%	5	-44%
Restoration Hardware Holdings Inc	RH	North America Retailing	11.7	-31%	5	-35%
Lennar Corp	LEN	North America Consumer Dura	11.5	-3%	21	-18%
Bed Bath & Beyond Inc	BBBY	North America Retailing	11.3	1%	18	-8%
Lgi Homes Inc	LGIH	North America Consumer Dura	9.8	-10%	2	-12%
Williams-Sonoma Inc	WSM	North America Retailing	9.2	34%	8	-7%
Tempur Sealy International Inc	TPX	North America Consumer Dura	8.5	246%	5	-20%
Fortune Brands Home & Security Inc	FBHS	North America Capital Goods	6.7	4%	11	-14%
Usg Corp	USG	North America Capital Goods	6.0	-29%	9	-15%
Intu Properties Plc	INTU	EMEA Real Estate	5.6	12%	76	-11%

William Lyon Homes



Source: Markit

Shorts 2016 focus on furnishings

Sentiment has turned sour as well for the “world’s largest bedding provider” Tempur Sealy International. Shares have fallen 32% from highs in 2015 with short sellers aggressively increasing positions in the stock

year to date, up more than fourfold to 9% of shares outstanding on loan.

Tempur Sealy International Inc



Source: Markit

Shares in the bedmaker have been on a downward trajectory, falling just shy of a third since the end of November 2016.

Bed Bath & Beyond Inc



Source: Markit

Posting almost linear declines over the last 12 months falling by 40% is Bed Bath & Beyond. The home retailing business has attracted short sellers with 11.3% in shares currently outstanding on loan.

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Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: relte.schutte@markit.com

For further information, please visit www.markit.com

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