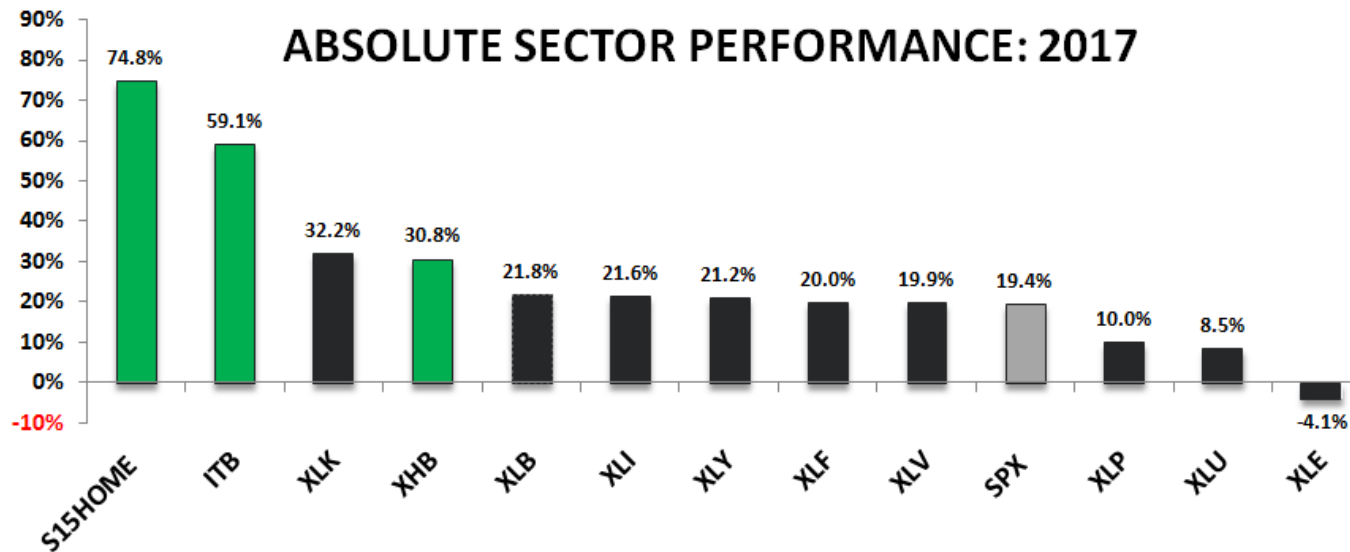
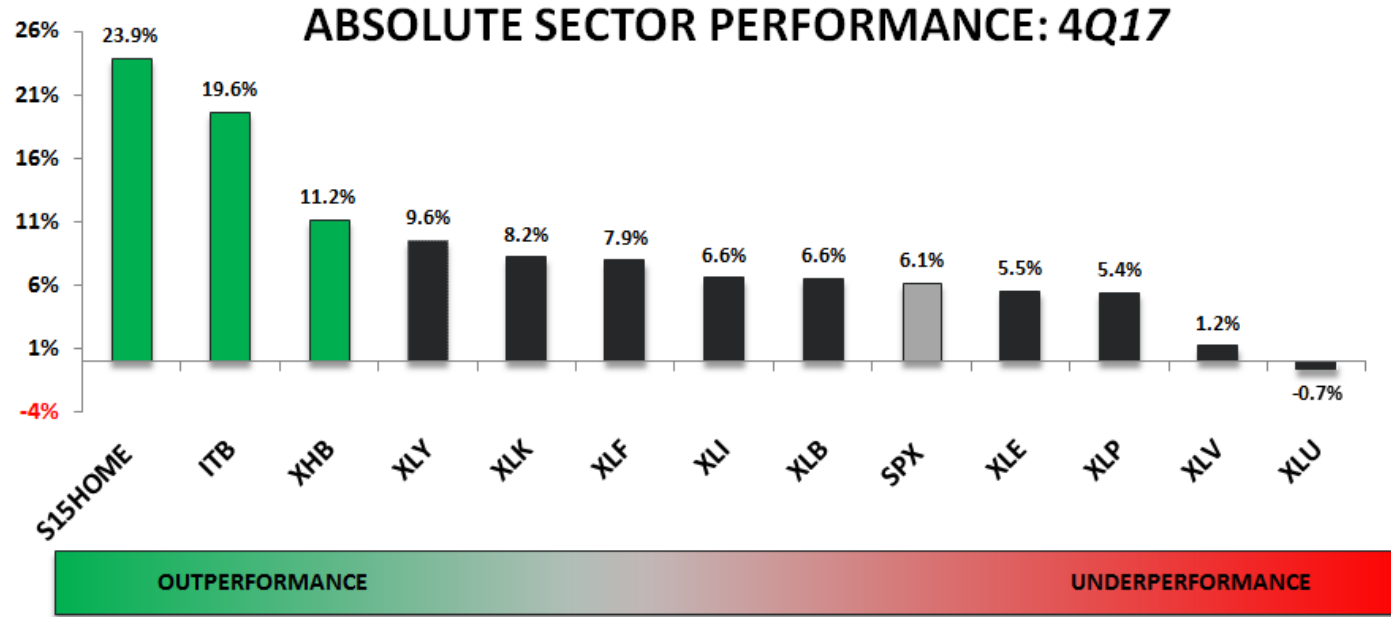


4Q & FY17 PRICE PERFORMANCE – THE GREEN MONSTER



4Q & FY17 PRICE PERFORMANCE – MORE NUANCED

HOUSING: SUBSECTOR PERFORMANCE

HEDGEYE HOUSING

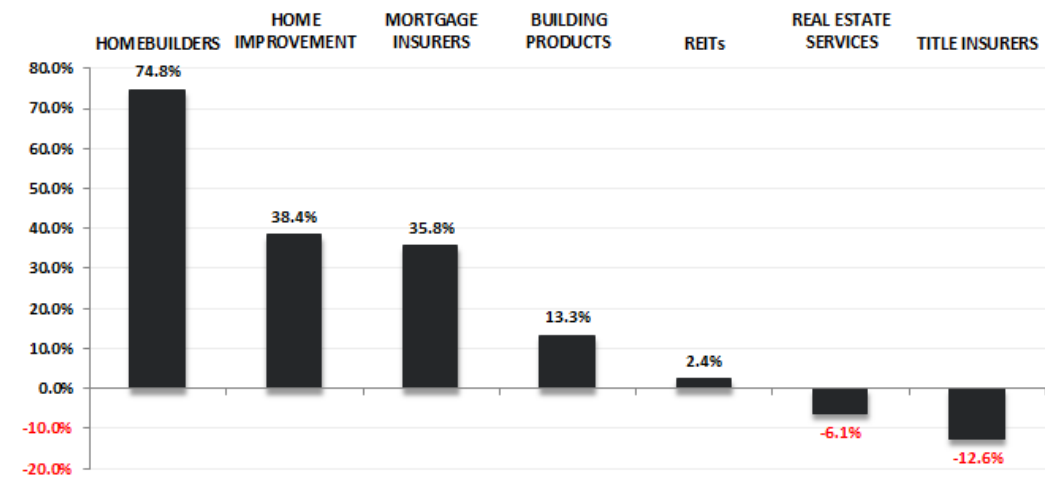
INDEX	Ticker	1Q17 % Chg	2Q17 % Chg	3Q17 % Chg	4Q17 % Chg	2017 % Chg
S&P 500	SPX	5.5%	2.6%	4.0%	6.1%	19.4%
HOMEBUILDERS						
S&P Homebuilder Index	S15HOME	20.4%	7.3%	9.2%	23.9%	74.8%
	Relative	14.9%	4.7%	5.2%	17.8%	55.3%
BUILDING PRODUCTS						
S&P Building Products Index	S15BUILX	5.9%	4.9%	-0.7%	2.6%	13.3%
	Relative	0.4%	2.3%	-4.6%	-3.5%	-6.1%
HOME IMPROVEMENT						
S&P Home Improvement Index	S5HOMI	11.2%	1.6%	5.7%	16.0%	38.4%
	Relative	5.6%	-1.0%	1.7%	9.9%	19.0%
REITs						
Apartment REITs*	.REIT U Index	-0.4%	5.0%	-0.2%	-1.9%	2.4%
	Relative	-6.0%	2.4%	-4.1%	-8.0%	-17.0%
REAL ESTATE SERVICES						
Real Estate Services*	.RESRVCS U Index	10.3%	1.2%	7.4%	-21.7%	-6.1%
	Relative	4.8%	-1.4%	3.4%	-27.8%	-25.6%
MORTGAGE INSURERS						
Mortgage Insurers*	.MI U Index	5.0%	0.8%	11.0%	15.6%	35.8%
	Relative	-0.5%	-1.8%	7.0%	9.5%	16.3%
TITLE INSURERS						
Title Insurers*	.TI U Index	-28.4%	9.5%	-1.3%	12.9%	-12.6%
	Relative	-33.9%	6.9%	-5.3%	6.8%	-32.1%
SUBSECTOR AVE						
	Abs	3.4%	4.3%	4.4%	6.8%	20.8%
	Relative	-2.1%	1.8%	0.5%	0.7%	1.4%

*Equal Weighted Composites: REITs: AIV, AVB, CPT, EQR, ESS, MAA, UDR; RE Services: RLG, RMAX; MI: ESNT, MTG, NMIH, RDN; TI: FNF, FAF, STC

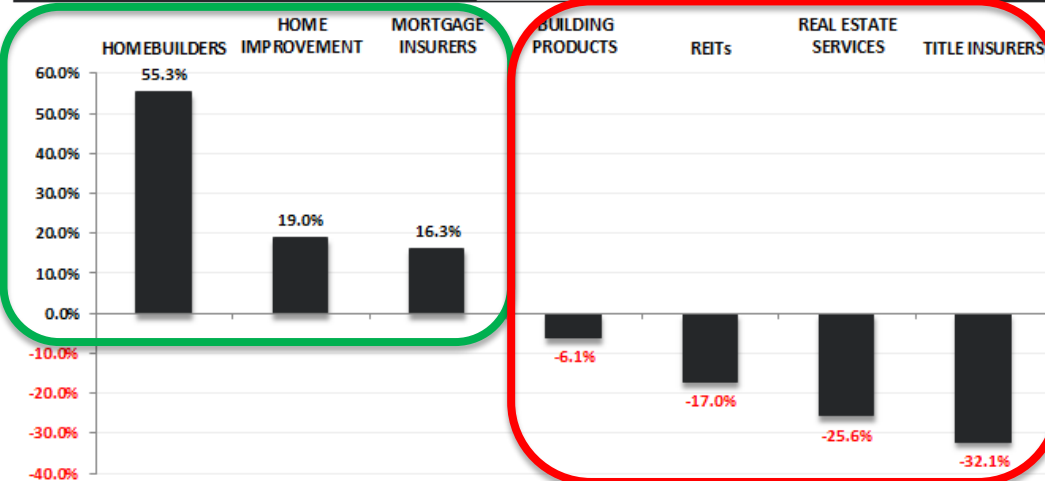
Source: Bloomberg, HEDGEYE

2017 PERFORMANCE

ABSOLUTE



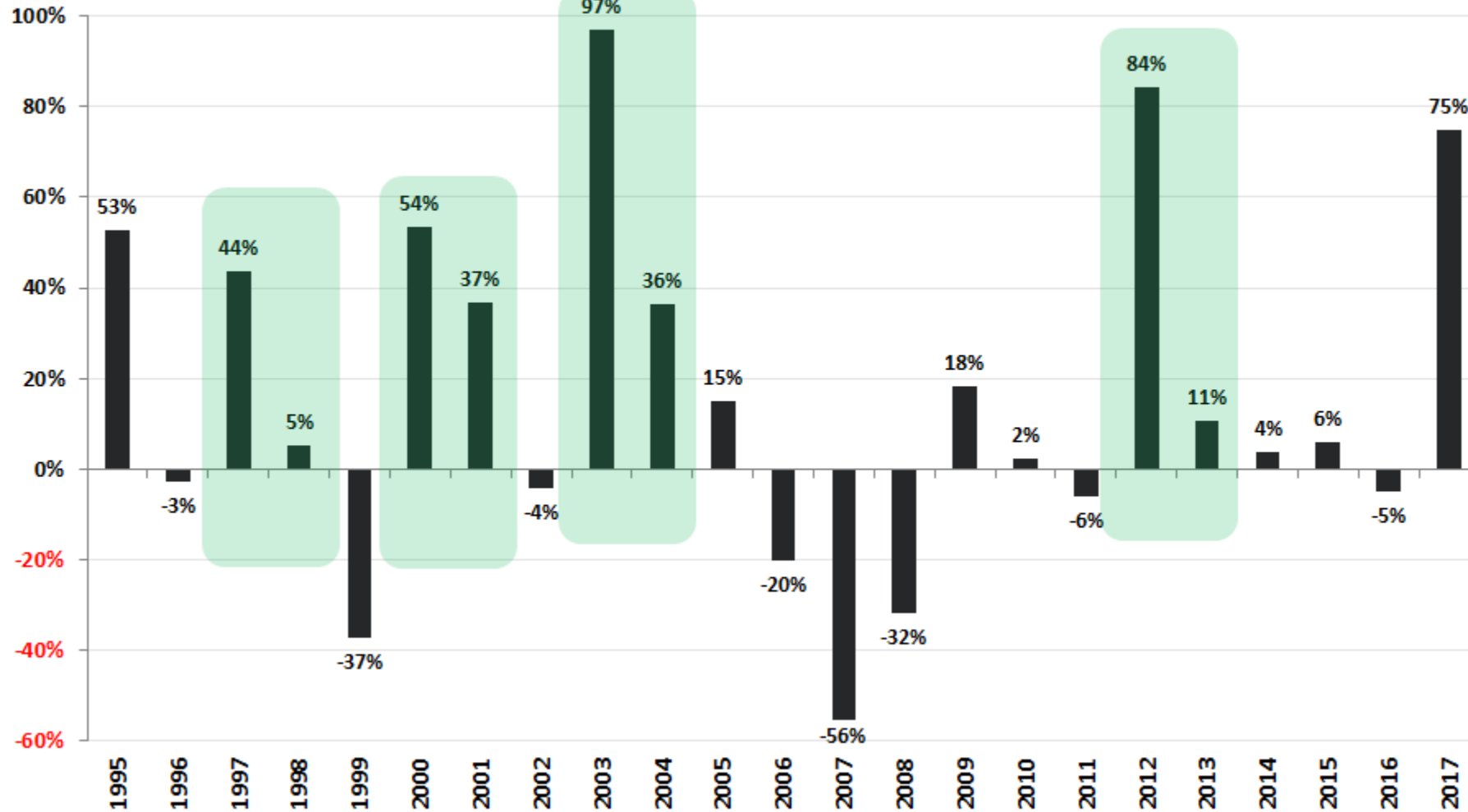
RELATIVE



BUILDERS – PERFORMANCE/VALUATION IS NOT A CATALYST

HOMEBUILDER PERFORMANCE

S15 Home Index Annual Performance



DATA SOURCE: BLOOMBERG

Builders had a monster year in 2017 with the S15 Home Index up 75% and valuations growing increasingly rich.

Looking historically, valuation and prior year returns have not been catalysts for subsequent performance. In fact, over the history of the series, performance has clustered in multi-year trends with outsized performance years generally being followed by more positive absolute performance in the subsequent year.

FUNDAMENTAL PERFORMANCE – THE GREEN MONSTER

HEDGEYE HOUSING COMPENDIUM

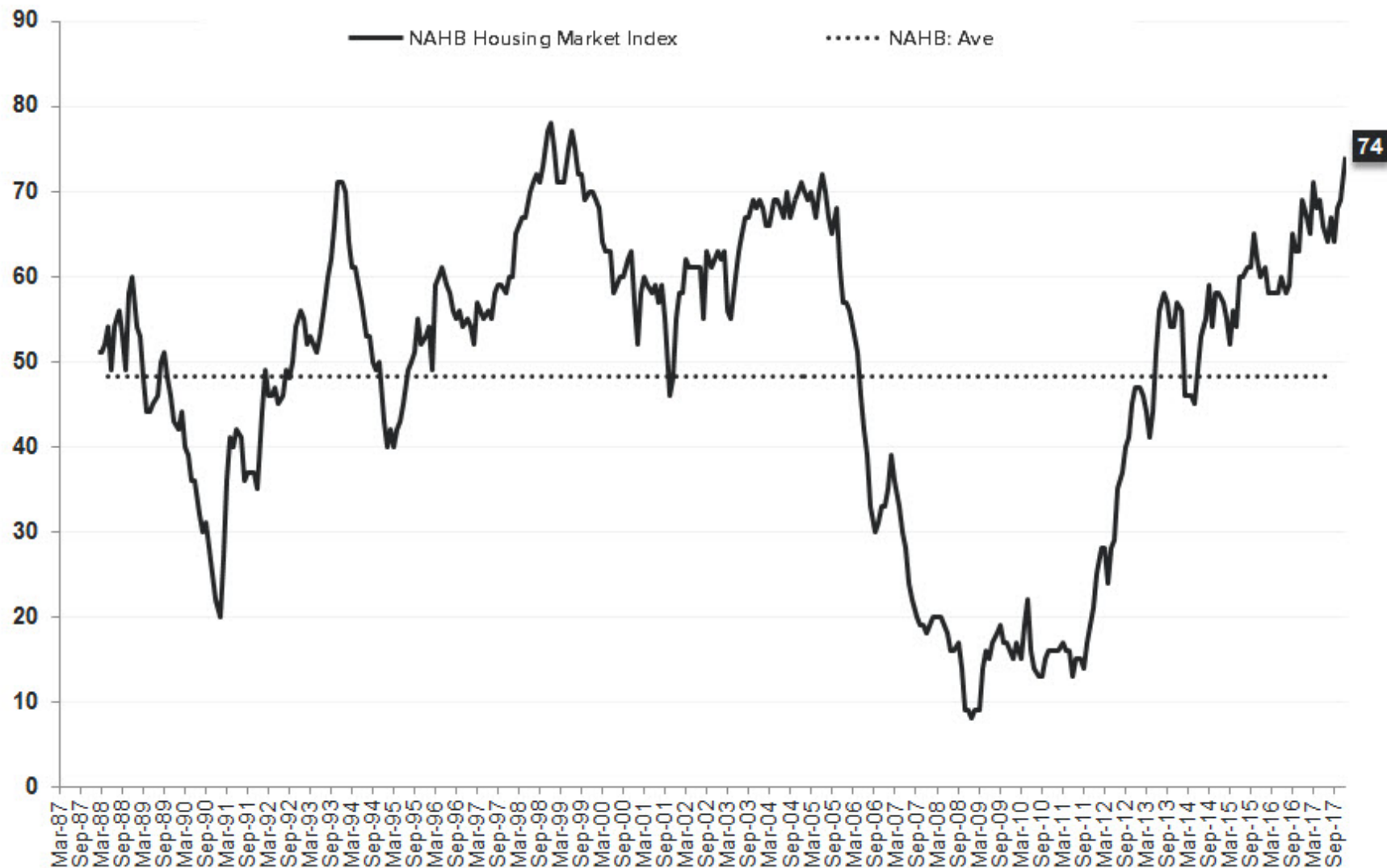
					TRADE/TREND/TAIL			Rate of Change					
					Most Recent Data			Short Term	Intmed Term	Long Term			
					Period	Latest Data	Last Price	Prior Period	3M Ago	12M Ave	MoM Chg	3M Chg	vs 12M Avg
Home Prices	Case-Shiller 20 City HPI YoY NSA	Oct-17	Better	6.4%	6.2%	5.8%	5.7%	0.2%	0.6%	0.7%			
	Case-Shiller 20 City HPI MoM SA	Oct-17	Worse	0.7%	1.0%	0.4%	0.5%	-0.3%	0.3%	0.2%			
	Corelogic HPI - NSA YoY % Chg	Sep-17	Better	6.4%	6.2%	5.9%	5.7%	0.2%	0.4%	0.6%			
	Corelogic (Ex-Dist.) HPI - NSA YoY % Chg	Sep-17	Better	5.6%	5.3%	5.1%	4.8%	0.3%	0.5%	0.8%			
	FHFA HPI - NSA YoY % Chg	Oct-17	Better	6.6%	6.6%	6.6%	6.6%	0.1%	0.0%	0.0%			
Supply & Demand: Existing	MBA Purchase Apps Index (Mo. Ave)	Dec-17	Better	244.3	235.1	233.7	237.4	3.9%	4.5%	2.9%			
	NAR: Pending Home Sales (Index)	Nov-17	Better	109.5	109.3	106.0	108.9	0.2%	3.3%	0.6%			
	NAR: Existing Home Sales (SAAR)	Nov-17	Better	5.81	5.50	5.35	5.55	5.6%	8.6%	4.7%			
	NAR: Existing Home Inv. (millions units)	Nov-17	Better	1.67	1.80	1.87	1.82	-7.2%	-10.7%	-8.2%			
	NAR: Existing Home Inv: Months Supply	Nov-17	Better	3.45	3.93	4.19	3.94	-12.2%	-17.8%	-12.5%			
Supply & Demand: New Homes	NAHB: HMI	Dec-17	Better	74	69	64	68	5.0	10.0	0.1			
	Census: Total Starts	Nov-17	Better	1297	1256	1172	1201	3.3%	10.7%	8.0%			
	Census: SF Starts	Nov-17	Better	930	883	871	844	5.3%	6.8%	10.2%			
	Census: Total Permits	Nov-17	Worse	1298	1316	1272	1247	-1.4%	2.0%	4.1%			
	Census: SF Permits	Nov-17	Better	862	850	800	815	1.4%	7.7%	5.8%			
	Resi Construction Spending (in Billions)	Oct-17	Better	524	522	520	513	0.4%	0.8%	2.1%			
	Census: New Home Sales	Nov-17	Better	733	624	559	609	17.5%	31.1%	20.4%			
Census: New Home Inventory (000)	Nov-17	Worse	288	287	284	270	0.3%	1.4%	6.5%				
Miscellaneous	Interest Rates (30 Year FRM)	Dec-17	Better	4.18%	4.19%	4.07%	4.23%	0.0%	0.1%	0.0%			
	NAR: Affordability Index (Composite)	Oct-17	Better	161.1	159.2	151.6	160.0	1.2%	6.3%	0.7%			
	ITB Price (EOP)	Dec-17	Better	42.63	40.79	34.95	33.87	4.5%	22.0%	25.9%			
	XHB Price (EOP)	Dec-17	Better	43.44	41.59	38.81	38.14	4.4%	11.9%	13.9%			

Source: Hedgeye Risk Management, S&P, Corelogic, FHFA, MBA, NAR, NAHB, Census Dept., Factset, Bloomberg

HEDGEYE

BUILDER CONFIDENCE = 18 YEAR HIGHS

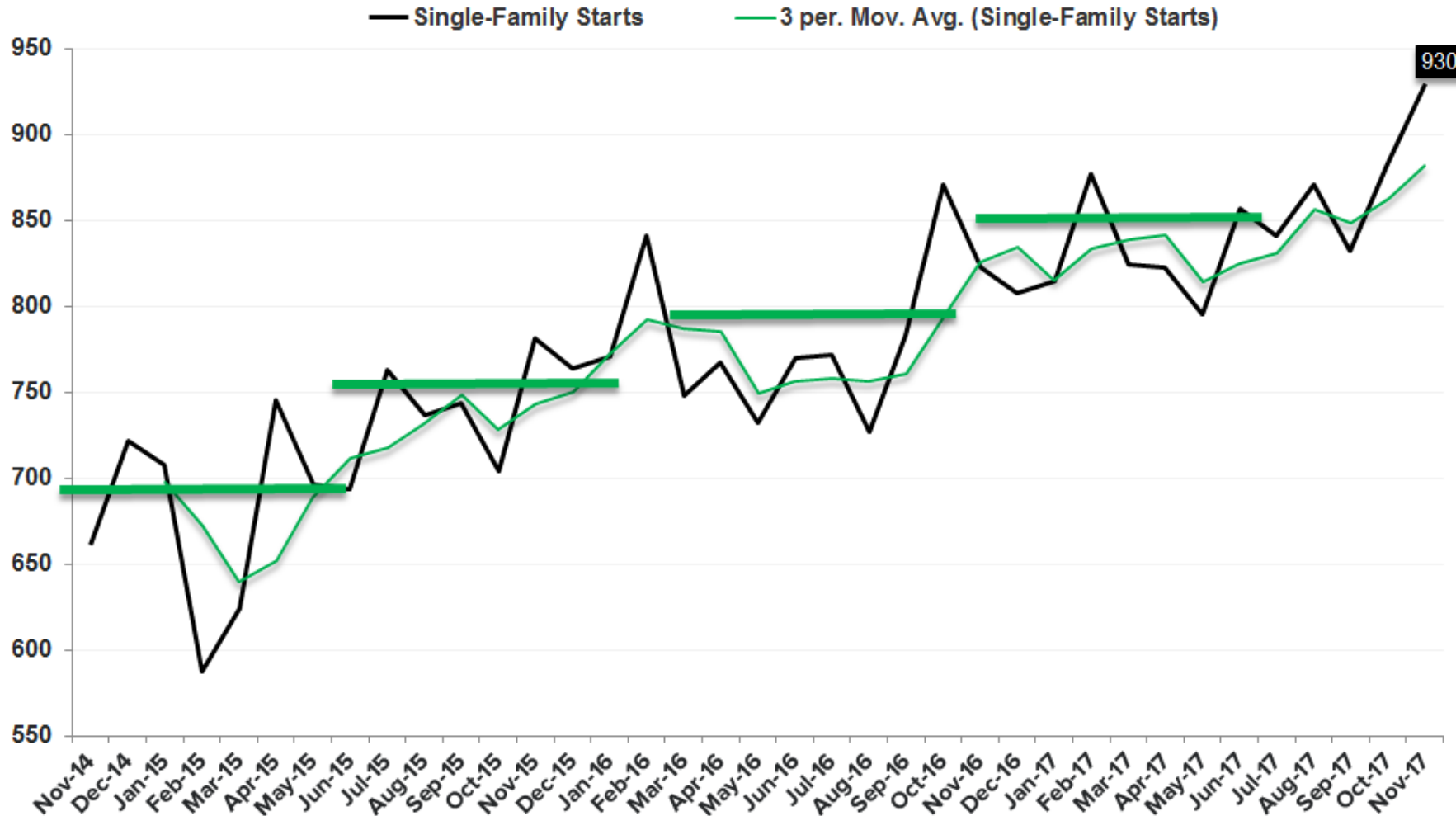
NAHB HOUSING MARKET INDEX



Given cycle highs in New Construction Starts & Sales and continued favorability of demand side tailwinds, such as low unemployment rates, favorable demographics and tightness in the existing home supply, it's of little surprise that Builder's are optimistic.

SINGLE FAMILY STARTS = 10 YEAR HIGH

SINGLE-FAMILY STARTS

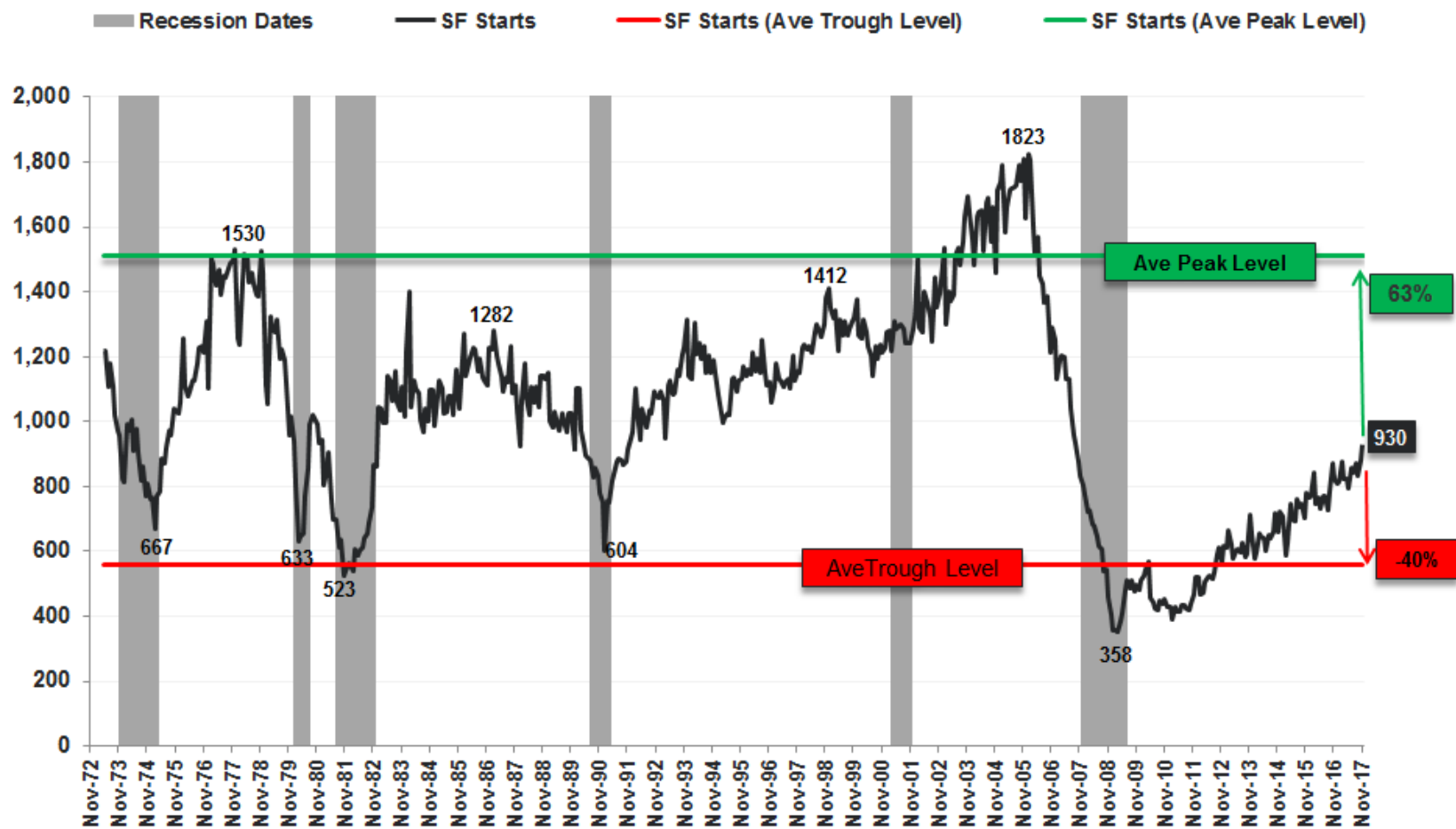


Single family (SF) construction continues its multi-year stair-step pattern of improvement. The latest November reading marked another new cycle high in SF activity.

DATA SOURCE: BLOOMBERG

SINGLE-FAMILY HOUSING STARTS: VISUAL CYCLE CONTEXT

SINGLE-FAMILY HOUSING STARTS



DATA SOURCE: BLOOMBERG, NBER, CENSUS BUREAU, HRM

Despite half a decade of recovery, new SF construction remains depressed relative to historical cycle precedents.

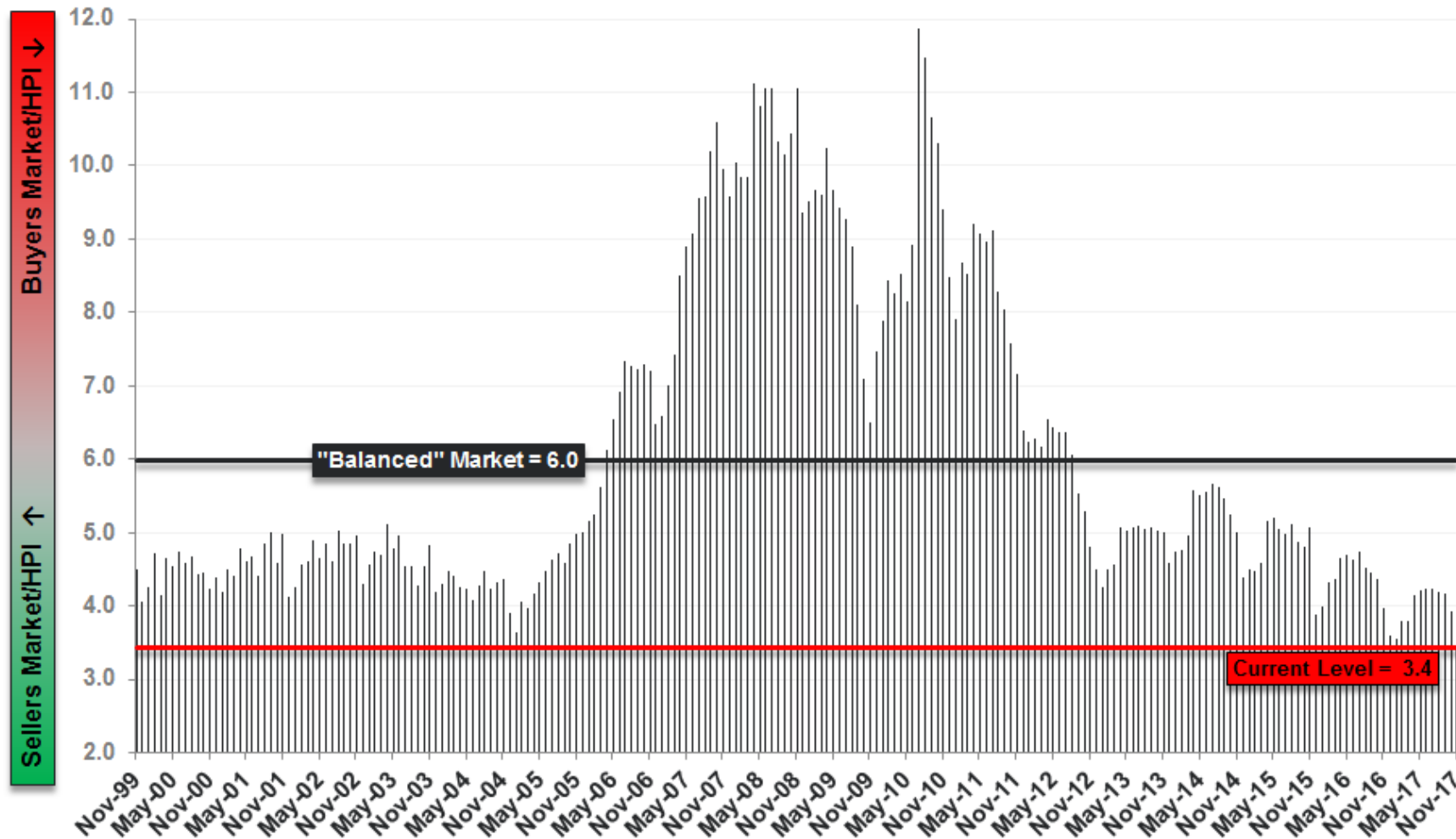
As we highlighted in the previous slide, there exists **63% upside to average peak levels in SF construction.**

A return to that level over the course of the present cycle would provide ~68% of the inventory needed to correct the supply imbalance in the existing market, assuming no change in EHS unit inventory and demand from current levels.

INVENTORY ATL'S: EVER IS A LONG TIME!

EXISTING HOME INVENTORY: MONTHS SUPPLY

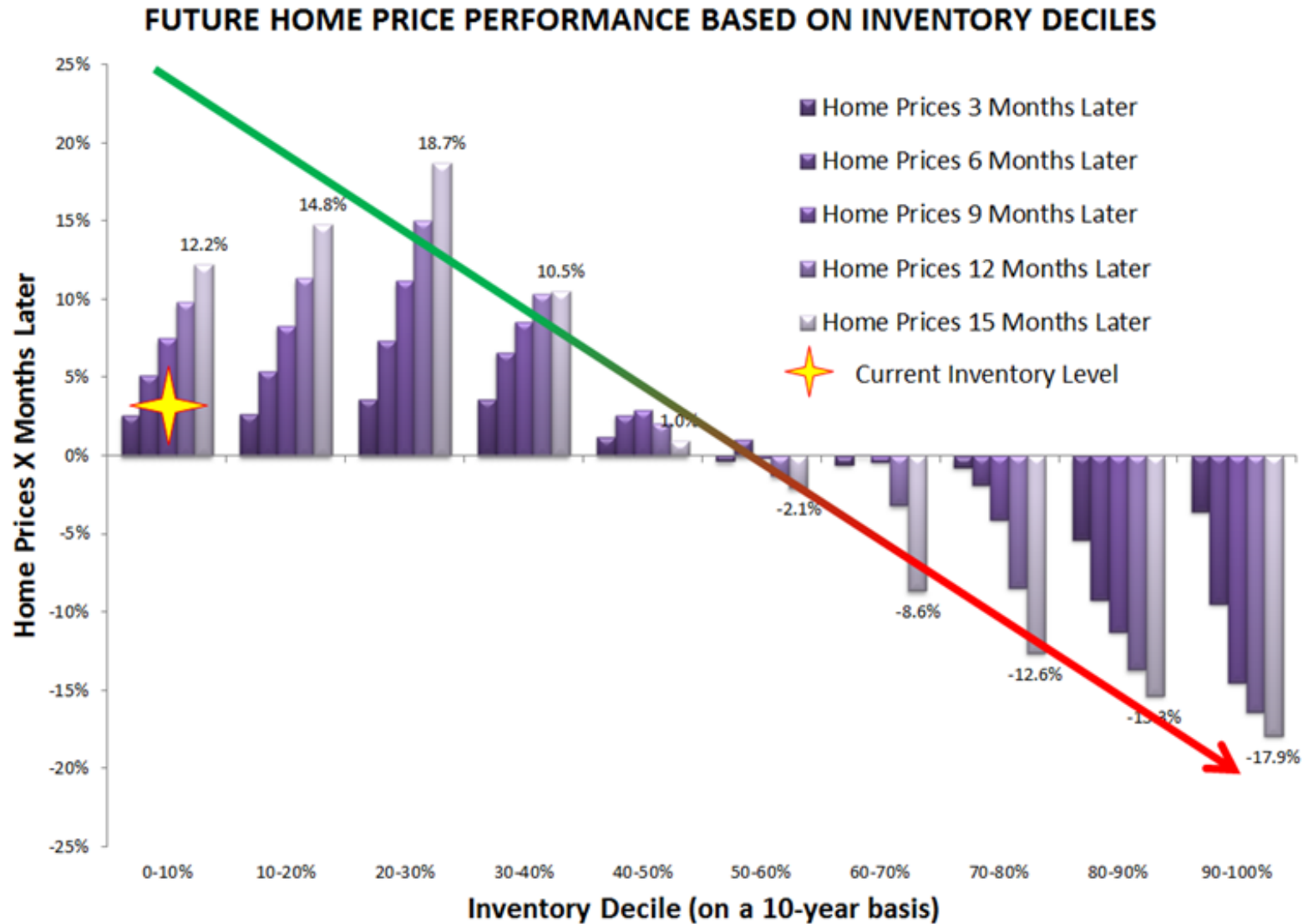
Existing Home Inventory: Months Supply Balanced Market Current Level



DATA SOURCE: NAR, BLOOMBERG

The combination of (continued) strong demand and accelerating decline in unit inventory growth drove months-supply to 3.4-months in the latest November reading Another new all-time low.

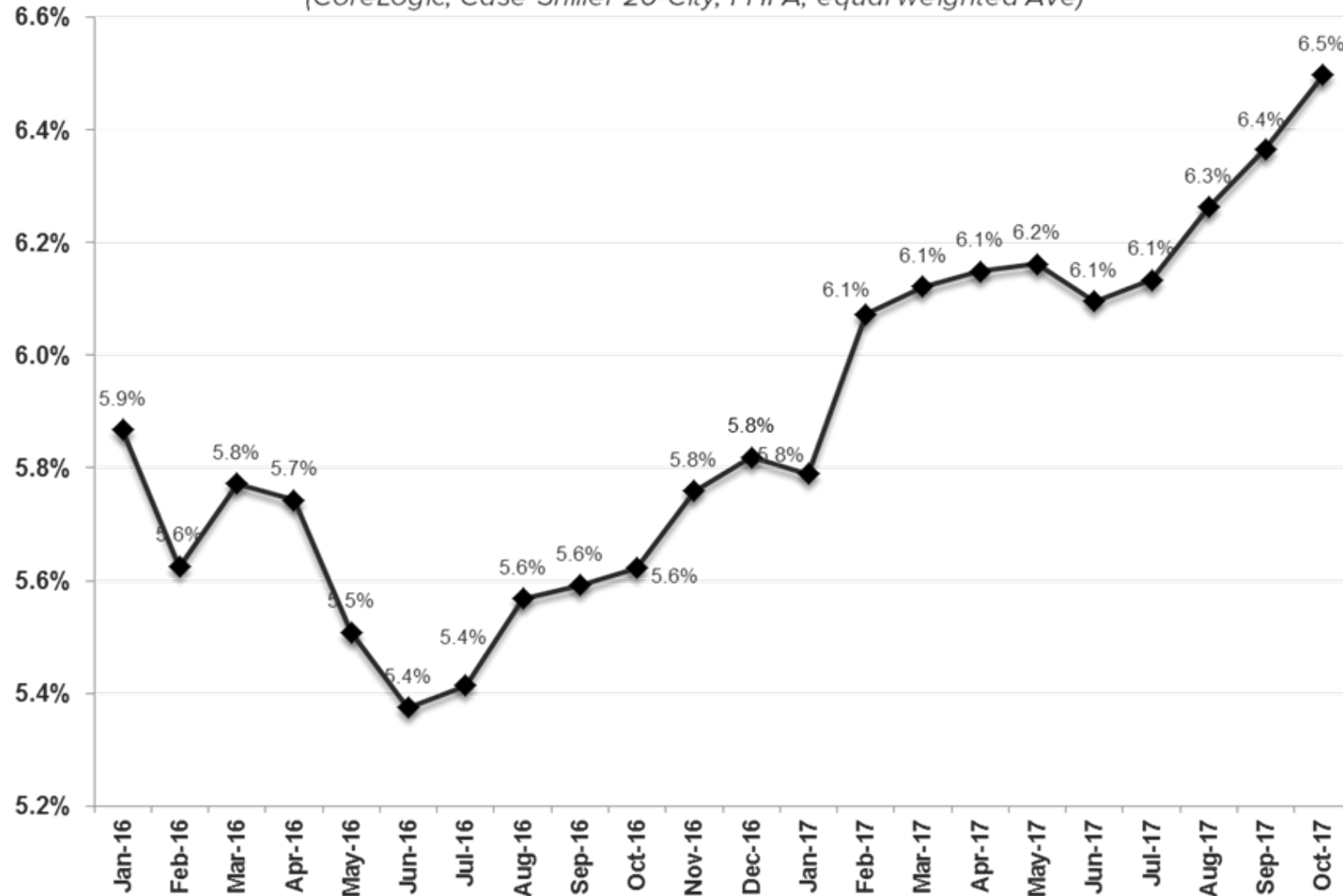
SUPPLY ↓, PRICE ↑



We've previously analyzed the forward predictive power of inventory levels on NTM home prices. When inventory levels fall in the bottom decile of the historical range, as they are now, home prices have tended to rise at double digit rates or roughly double the current 6%.

HPI ECONOMICS 101: DEMAND ↑, SUPPLY ↓ PRICE ↑

HOME PRICE GROWTH: HPI Composite, YoY %
(CoreLogic, Case-Shiller 20-City, FHFA; equal weighted Ave)



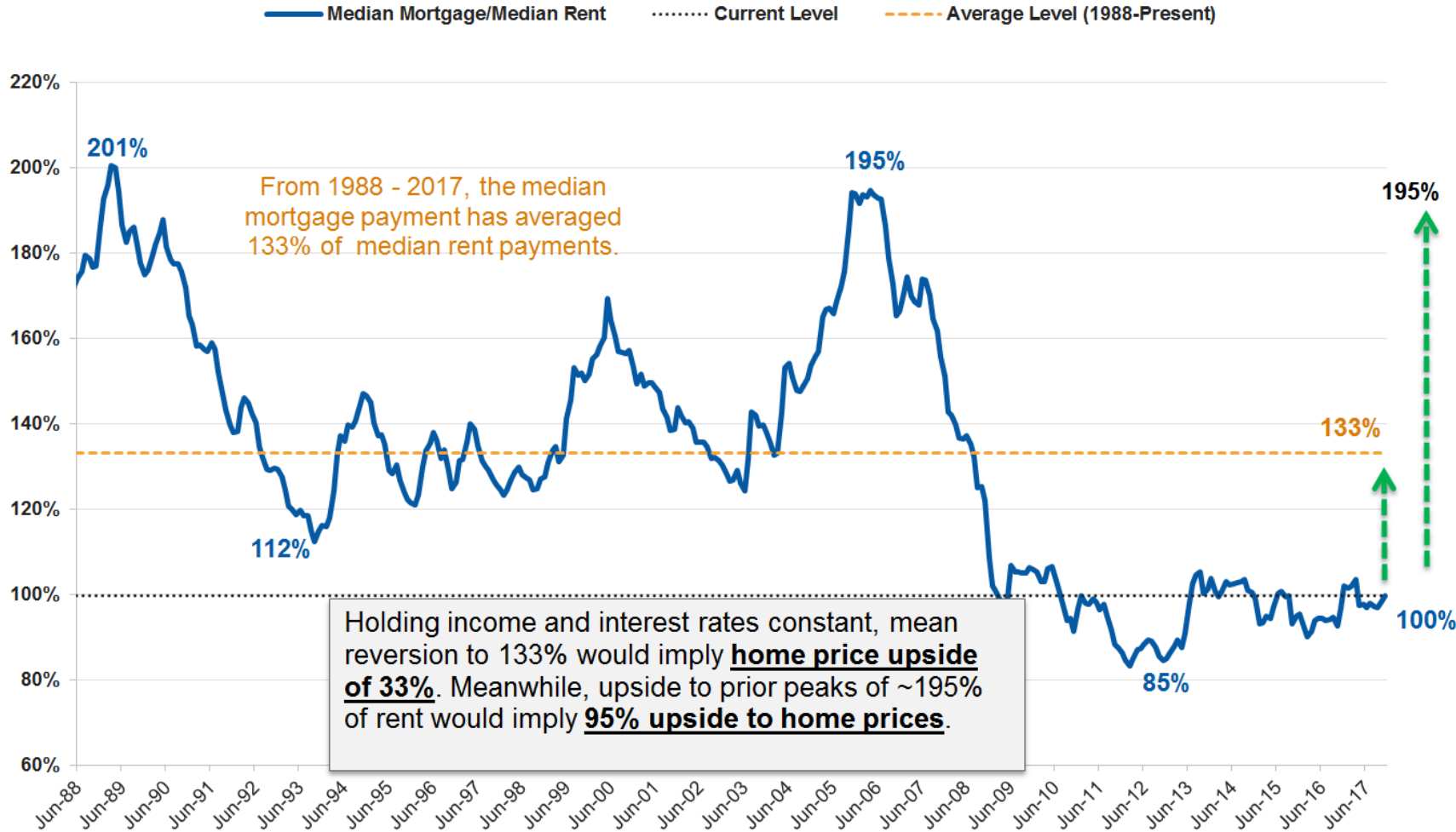
DATA SOURCE: CORELOGIC, CASE SHILLER, FHFA, BLOOMBERG, HEDGEYE

Alongside solid demand and increasing supply tightness, HPI continues to accelerate across the primary Price series (Case-Shiller, CoreLogic, FHFA).

Prices have now been broadly accelerating for 16 months (since June 2016).

AFFORDABILITY DYNAMICS: MORTGAGE VS RENT

RATIO OF MEDIAN MORTGAGE PAYMENT TO MEDIAN RENT



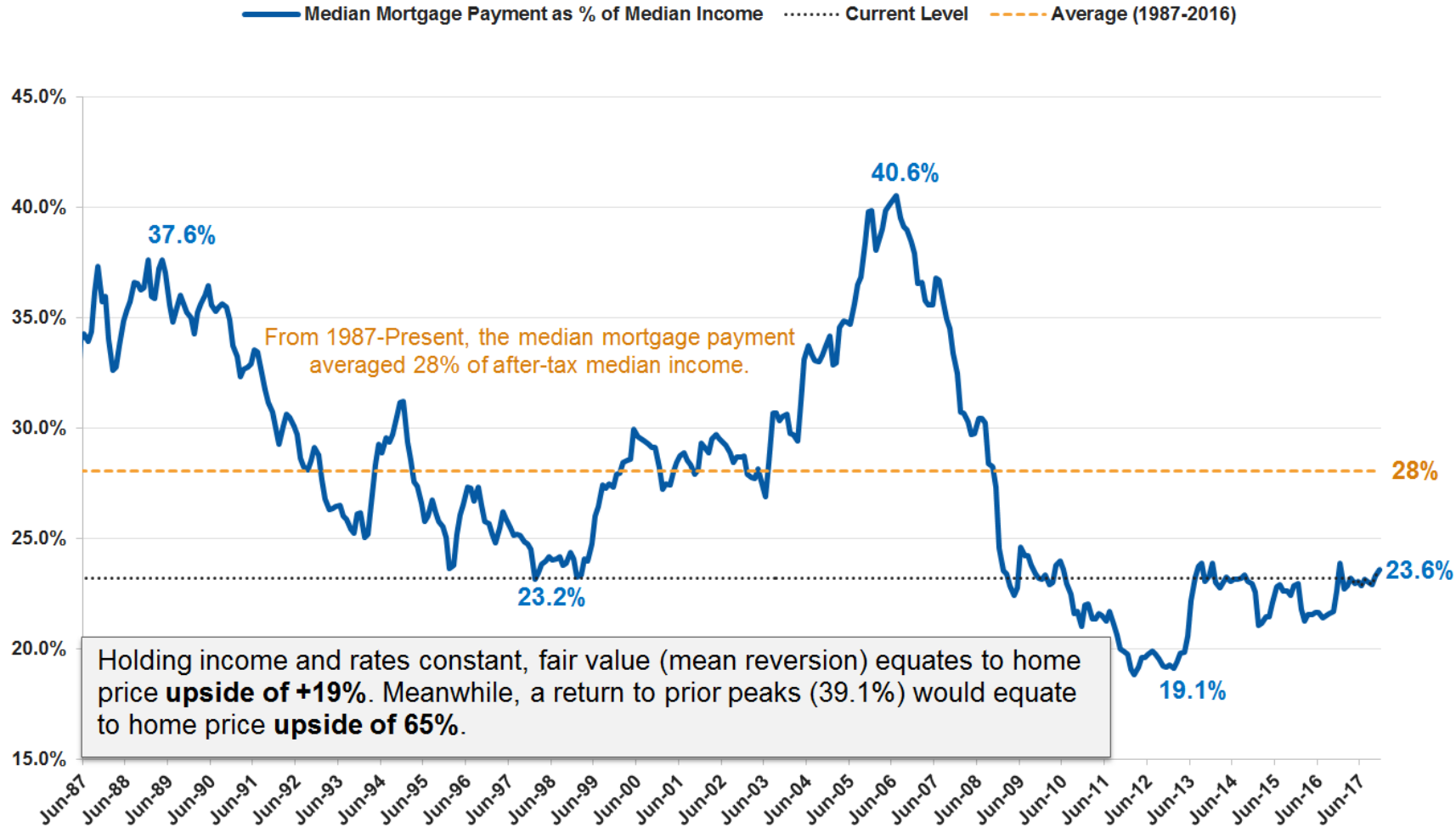
The ratio of median mortgage payment to median rental payments has ranged between parity at the lows of the cycle and 2x at the highs. The current level of 100% implies home price could nearly double on a national basis before reaching prior cycle-peak levels of extreme overvaluation.

Data Source: Census Bureau, Case-Shiller, Freddie Mac

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AFFORDABILITY DYNAMICS: MORTGAGE VS INCOME

MEDIAN MORTGAGE PAYMENT AS A % OF MEDIAN INCOME



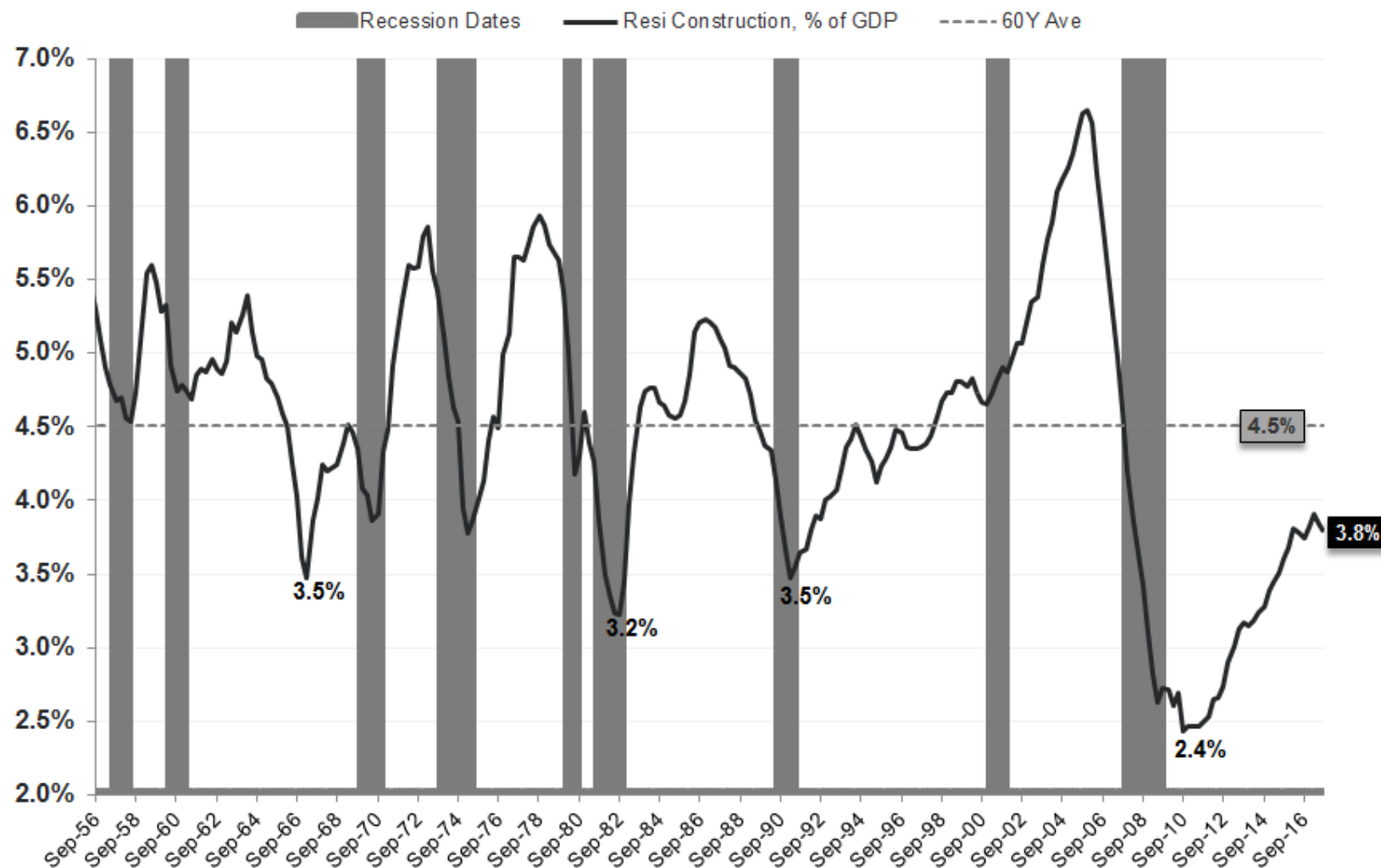
As a percent of median income, the upside to home prices from current levels is still significant in the context of past peaks.

Data Source: Census Bureau, Case-Shiller, Freddie Mac

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RESIDENTIAL CONSTRUCTION REMAINS NEAR TROUGH

RESIDENTIAL CONSTRUCTION, % OF GDP NOMINAL DOLLARS

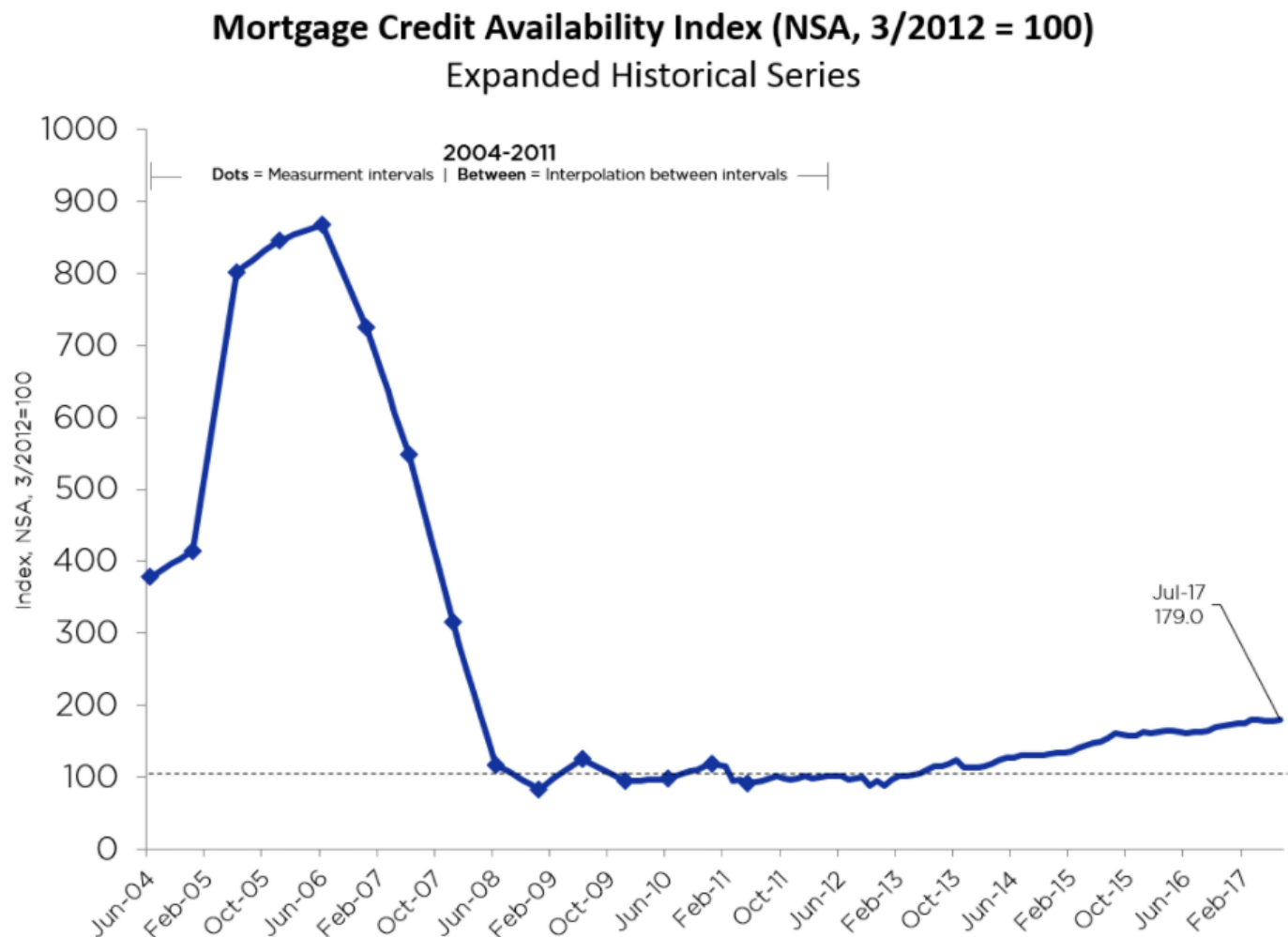


DATA SOURCE: BLOOMBERG, BEA, BLS

Bigger Picture, residential construction activity remains depressed.

Inclusive of 6 years of steady improvement, residential construction as a share of GDP sits just north of trough levels observed across prior cycles.

MORTGAGE CREDIT AVAILABILITY: MCAI



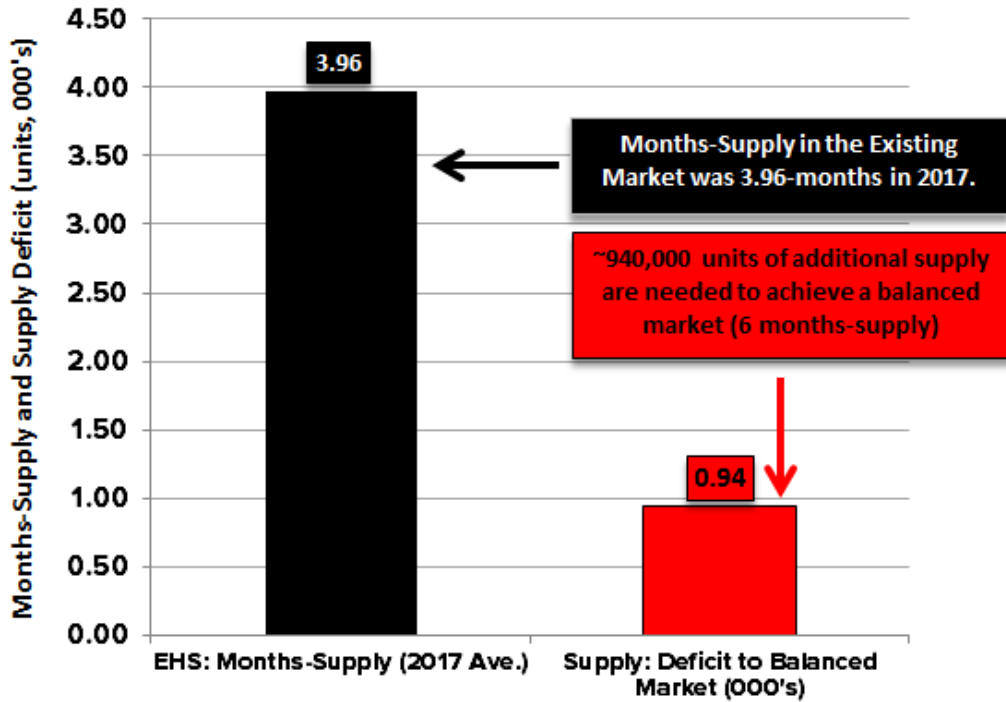
The credit box has been expanding steadily since 2012. That said, the MCAI still has a LONG way to go before it renormalizes.

Source: Mortgage Bankers Association; Powered by Ellie Mae's AllRegs[®] Market Clarity[®]
Data prior to 3/31/2011 was generated using less frequent and less complete data measured at 6-month intervals interpolated in the months between for charting purposes.

CAPACITY CONSTRAINED CONSTRUCTION

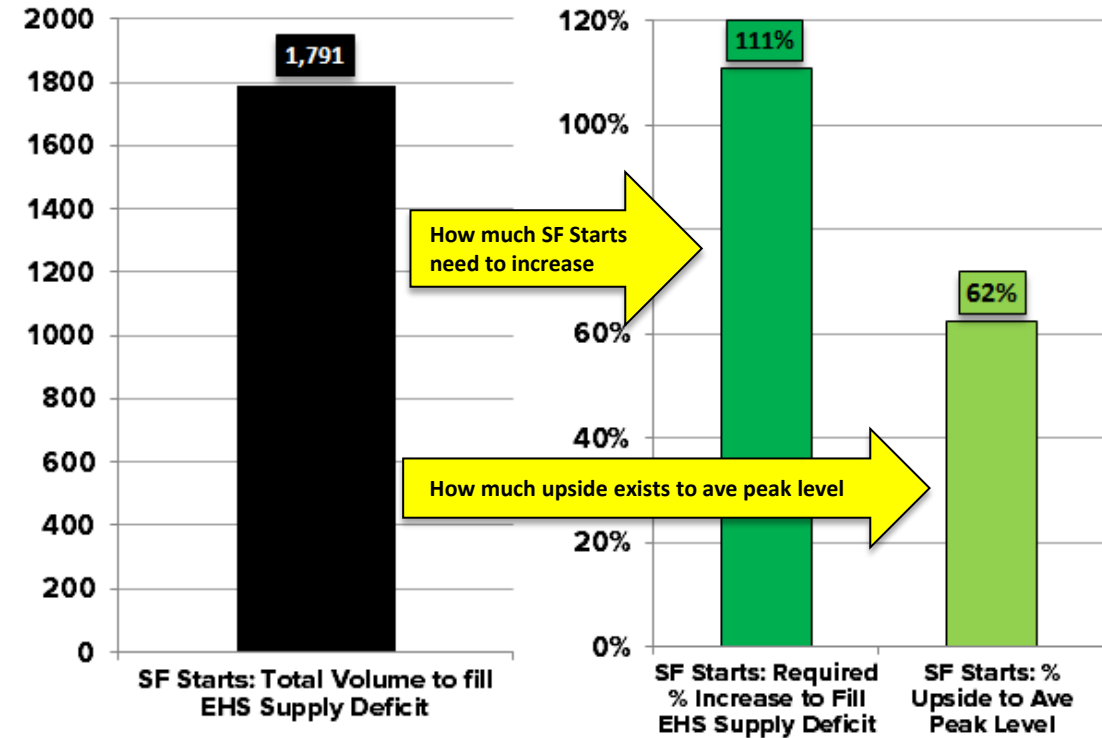
A RETURN TO AVERAGE PEAK LEVELS OF SF CONSTRUCTION COULD FILL ~68% OF THE CURRENT SUPPLY DEFICIT IN THE EXISTING MARKET

The Current Inventory Deficit



Potential New Construction Supply

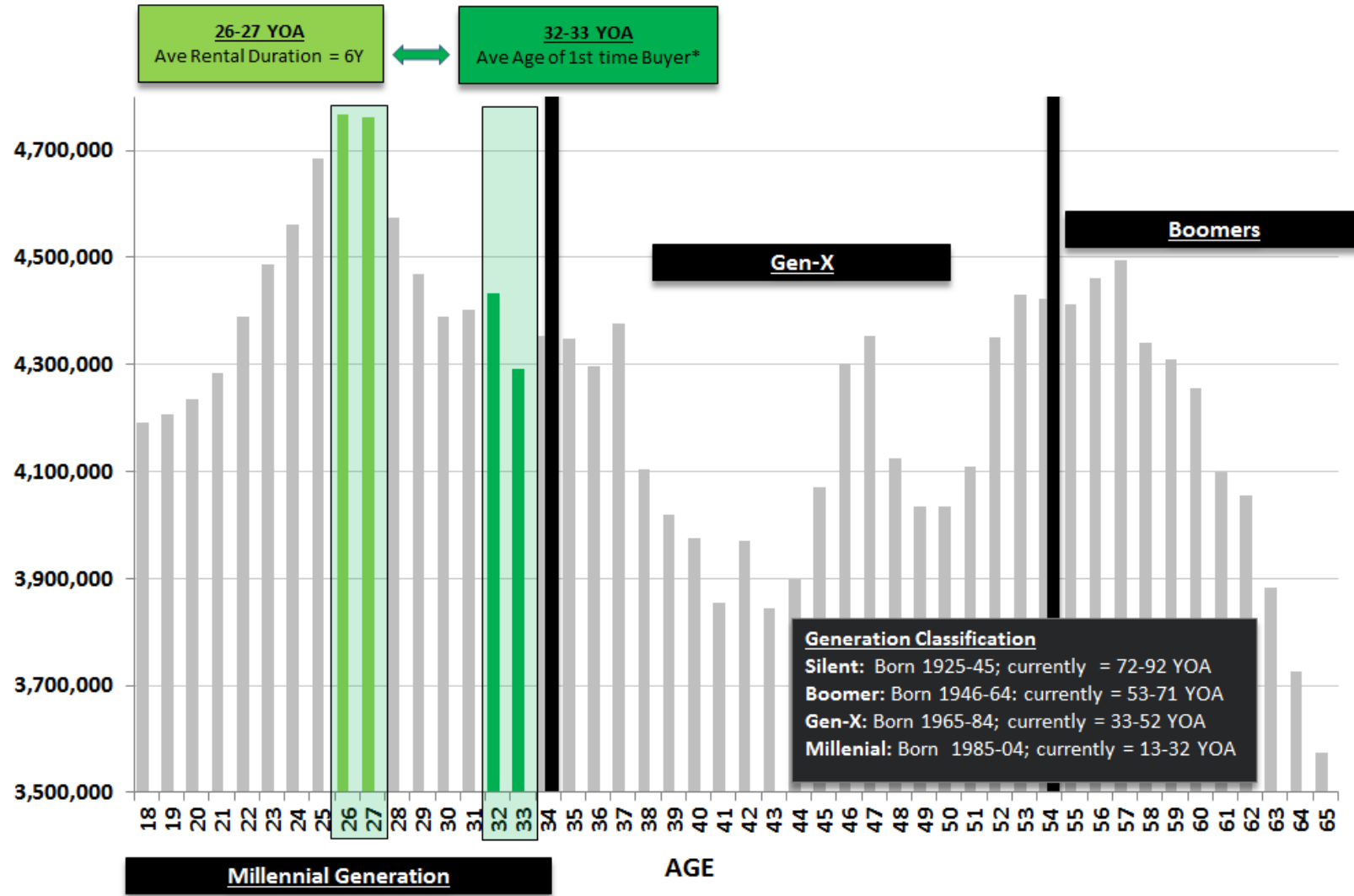
Relief



SF Construction Volume needed to fill EHS supply deficit

THE DEMOGRAPHIC DEMAND WAVE

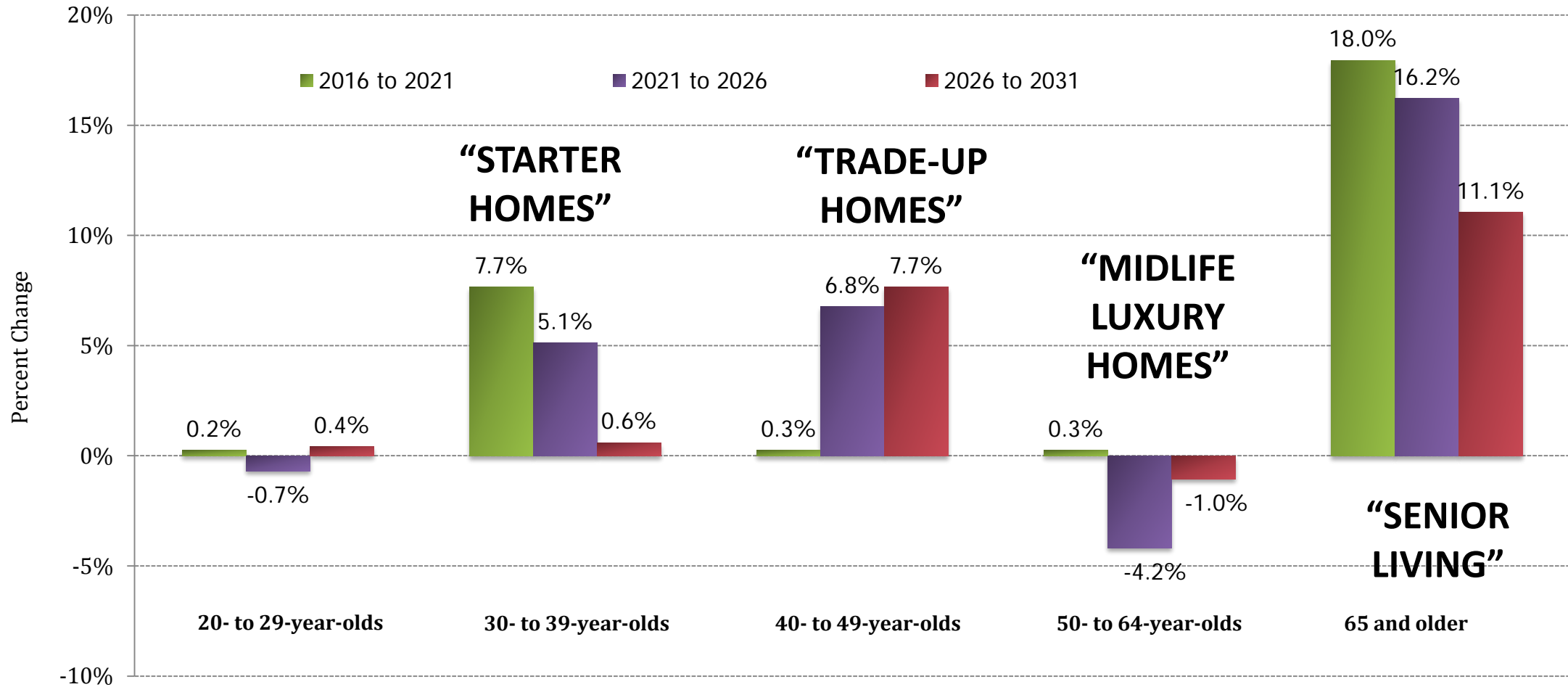
POPULATION DISTRIBUTION & CLASSIFICATION



Knowing that the median first time buyer age is 32/33 is critical because it allows us to look at the coming demographic wave. This chart shows the size of the current 32/33 YOA cohort – roughly 4.3-4.4 million. The 26/27 YOA cohort is 4.8 million by comparison. 2020-2022 will see an extraordinary housing bull market.

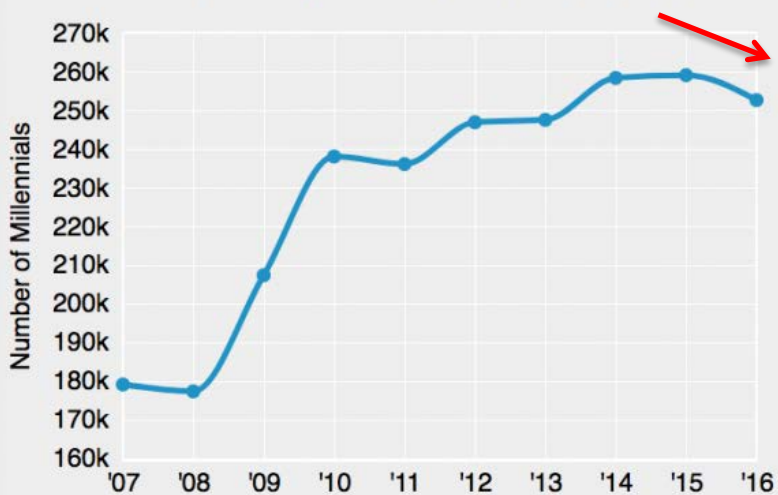
BOOM FOR STARTERS AND SENIORS, BUST FOR MIDLIFE

Projected Changes in Population by Age Bracket



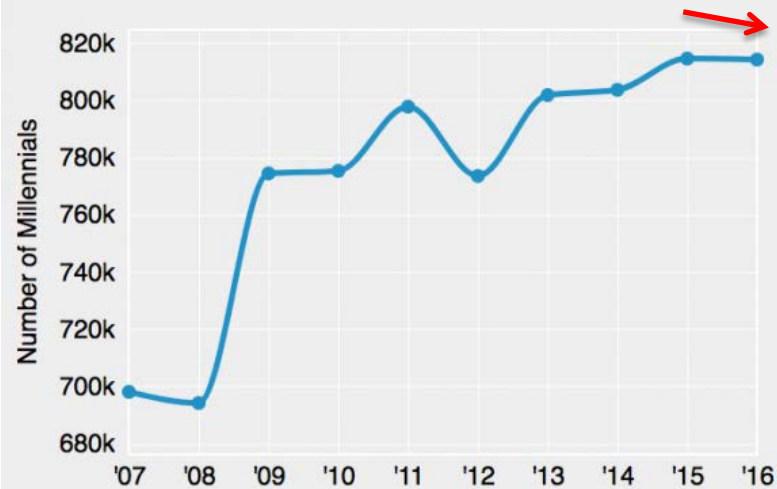
HAS URBAN RENTAL RESIDENCY PEAKED?

Boston hit peak millennial in 2015



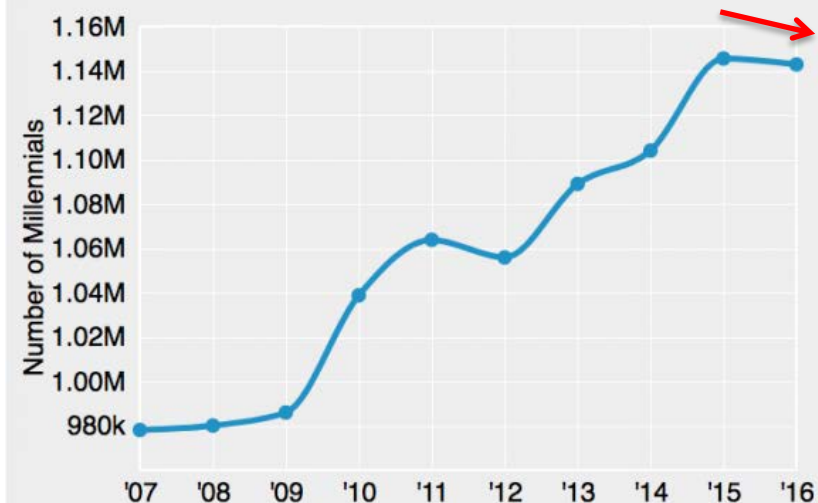
Source: IPUMS-USA, University of Minnesota

Chicago millennials plateaued in 2015



Source: IPUMS-USA, University of Minnesota

Los Angeles hit peak millennial in 2015



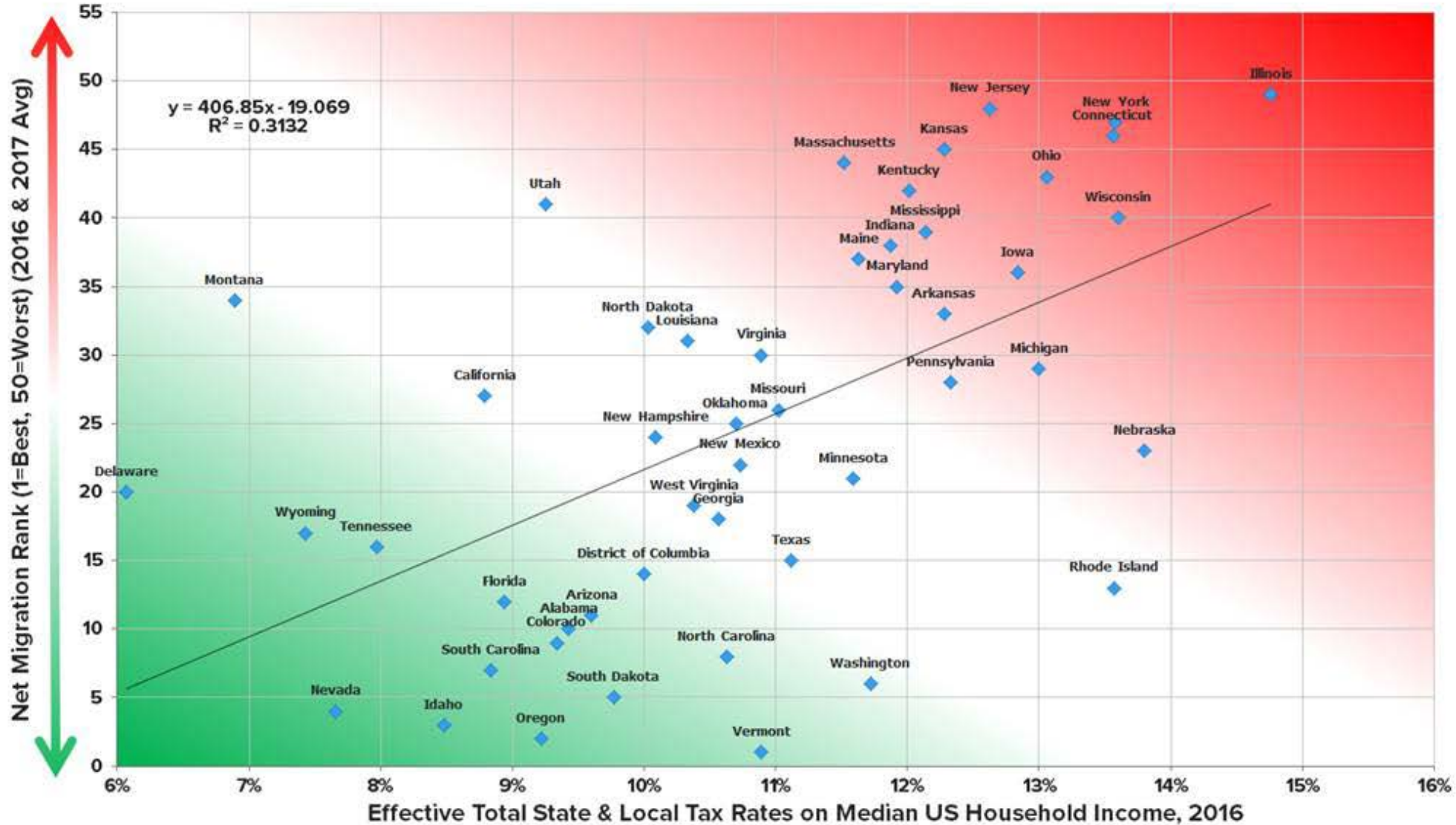
Source: IPUMS-USA, University of Minnesota

MILLENNIALS ARE FOLLOWING THE SAME PATH AS PREVIOUS GENERATIONS

The number of millennial residents in major cities including Boston, Chicago and Los Angeles are all showing signs of being at or past peak. As the head of the Greater Chamber of Commerce in Boston, Jim Rooney, put it, **“They’re doing what every generation does — they get married, start a family and think about having a backyard and looking at school systems.”**

CHANGES UNDER TAX CUTS AND JOBS ACT A CONCERN

Do State Taxes Drive Interstate Migration Trends? In A Word, Yes.

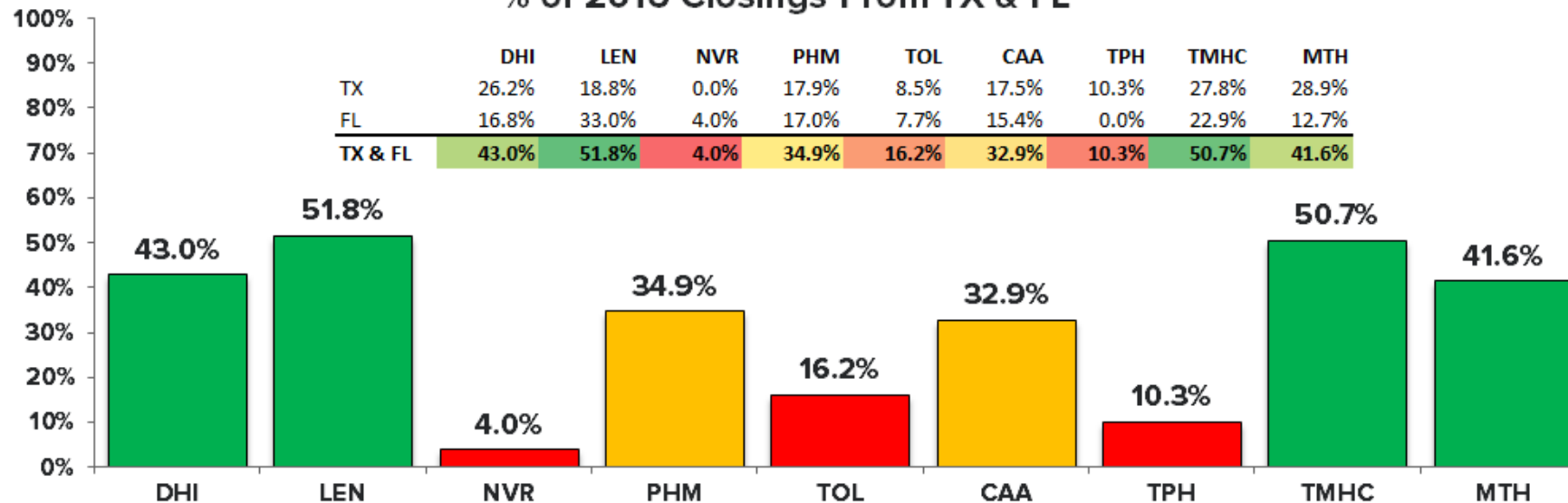


BUILDERS: TX & FL = 36.3% OF EXPOSURE

Name	Publics	DHI	LEN	NVR	PHM	TOL	CAA	TPH	TMHC	MTH
Market Exposure (% of 2016 Closings)										
Regions/Metrostudy Markets										
+ Texas	20.1	26.2	18.8	0.0	17.9	8.5	17.5	10.3	27.8	28.9
+ Florida	16.2	16.8	33.0	4.0	17.0	7.7	15.4	0.0	22.9	12.7
+ California	11.2	5.7	15.9	0.0	6.2	15.5	16.0	37.4	13.8	14.3
+ Southeast	10.7	11.4	9.4	8.9	13.9	2.8	11.8	0.0	12.5	16.2
+ Southwest	14.5	10.0	12.5	0.0	12.7	16.4	16.9	28.8	19.5	23.1
+ Northeast	8.6	1.7	5.2	45.3	5.1	33.9	5.3	8.5	0.0	0.0
+ Midwest	3.6	2.2	2.1	2.2	7.3	1.3	12.6	0.0	0.9	0.0
+ Northwest	2.6	4.4	3.0	0.0	0.9	4.8	0.0	8.8	0.0	0.0

In short, the Builders understand the demographic and population flow dynamics and are positioning/overweight accordingly.

% of 2016 Closings From TX & FL

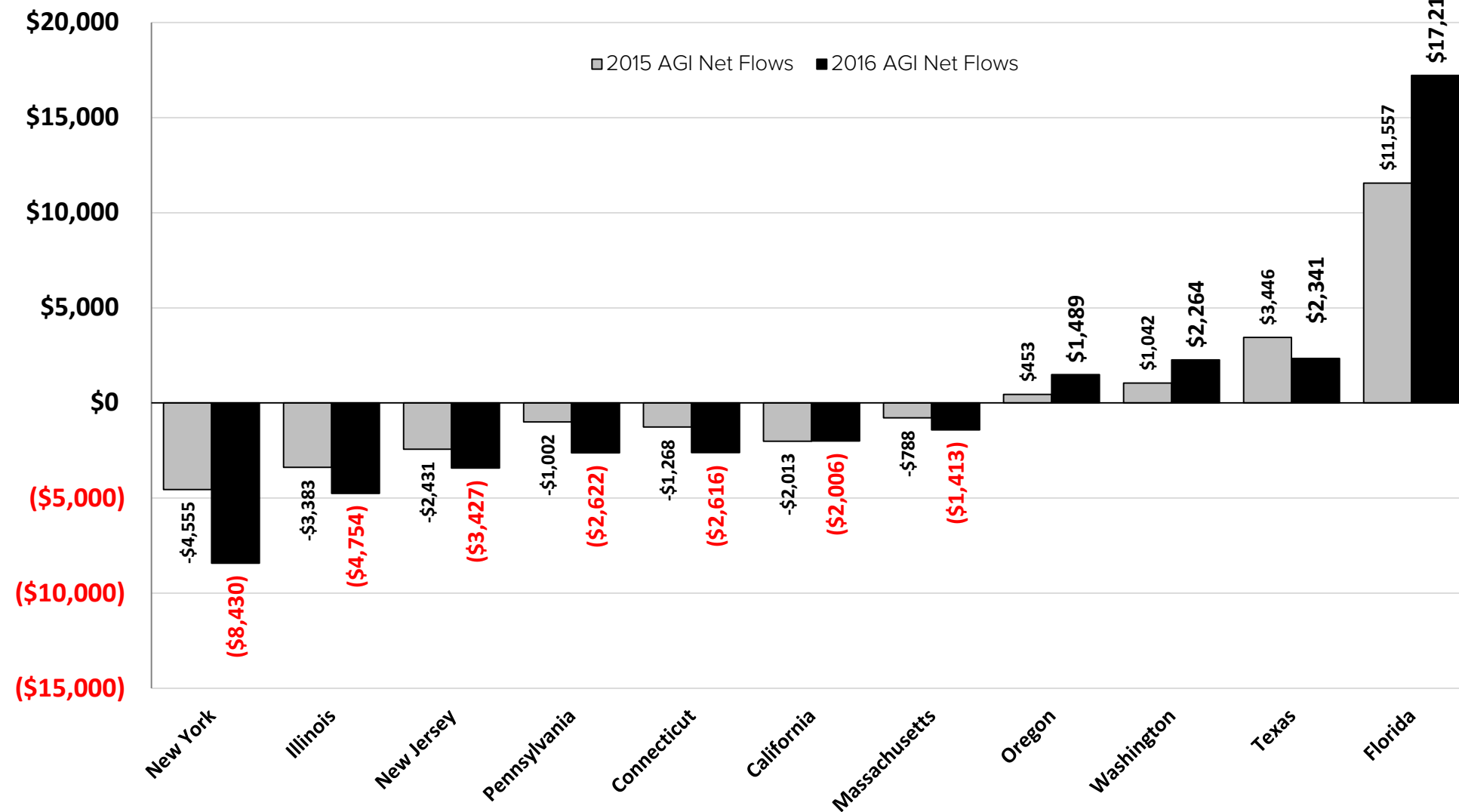


Source: Company Documents, SEC Filings

© Hedgeye Risk Management

WEALTH IS LEAVING THE NORTHEAST AT AN ACCELERATING RATE

Net Flow of Domestic Non-Foreign AGI
(In Millions \$)

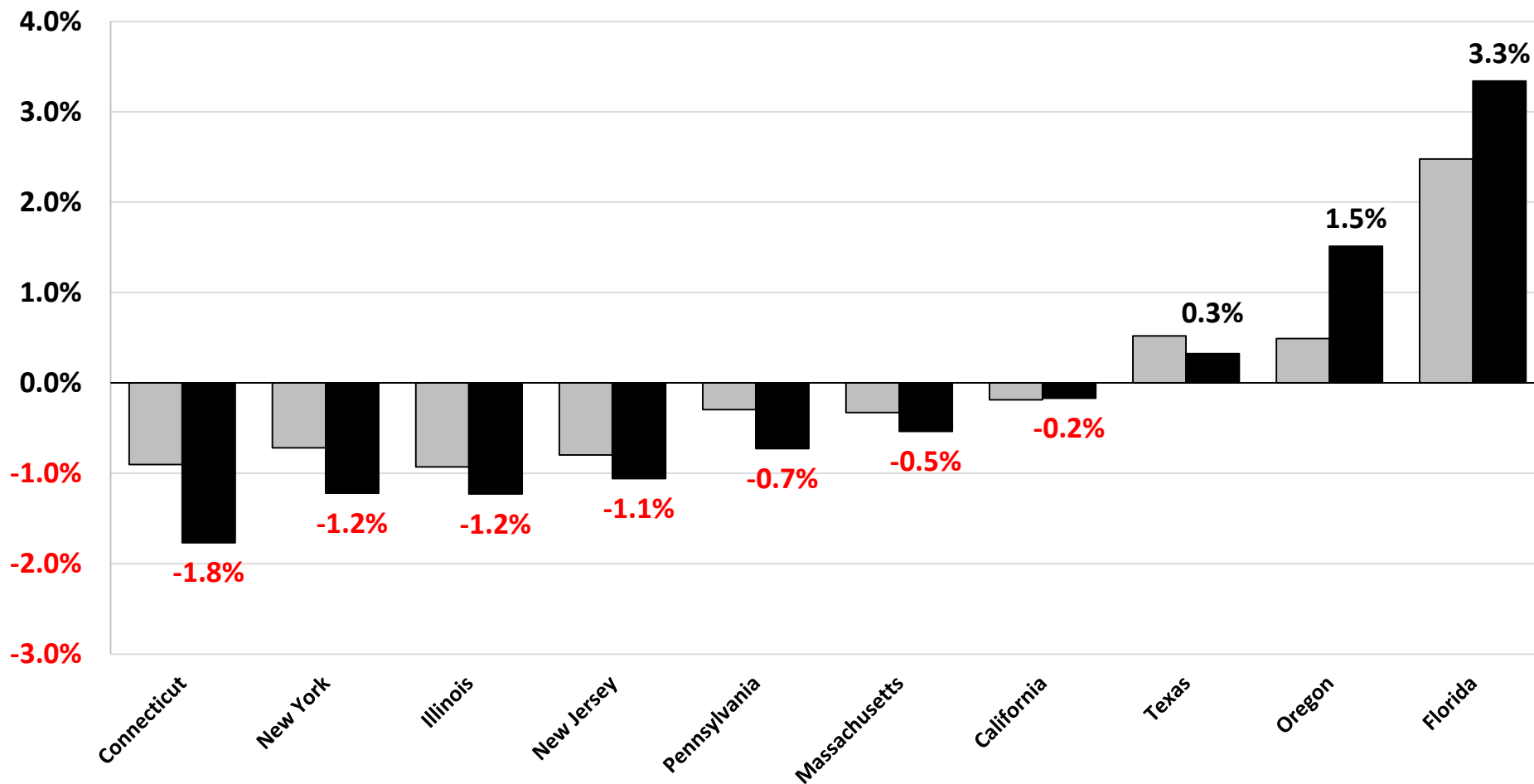


Between 2015 and 2016, \$14.5 billion in AGI, net left the Tri-State area, much to the benefit of Southern states, namely Florida (+\$17.2 billion).

MONEY LEAVING CONNECTICUT- FAST

Net Domestic AGI Flow as a Percent of Year-Prior AGI

□ 2015 Net Flow as a Percent of AGI ■ 2016 Net Flow as a Percent of AGI



Already, the high SALT states have seen significant, costly outflows of money. The South and the West have benefitted from this move.

HEADING INTO THE HEADWIND SEASON

Housing Seasonality				
<i>Average Performance by Quarter</i>				
<u>Average Absolute Performance, Trailing 6Y</u>				
Security	1Q	2Q	3Q	4Q
ITB	10.0%	2.6%	1.3%	9.8%
XHB	8.8%	0.1%	-3.5%	7.0%
S5HOME	8.2%	2.1%	0.7%	11.0%
<u>LTM</u>				
Security	1Q	2Q	3Q	4Q
ITB	16.4%	6.1%	7.7%	19.6%
XHB	10.0%	3.5%	3.3%	11.2%
S5HOME	23.0%	4.0%	8.5%	24.4%

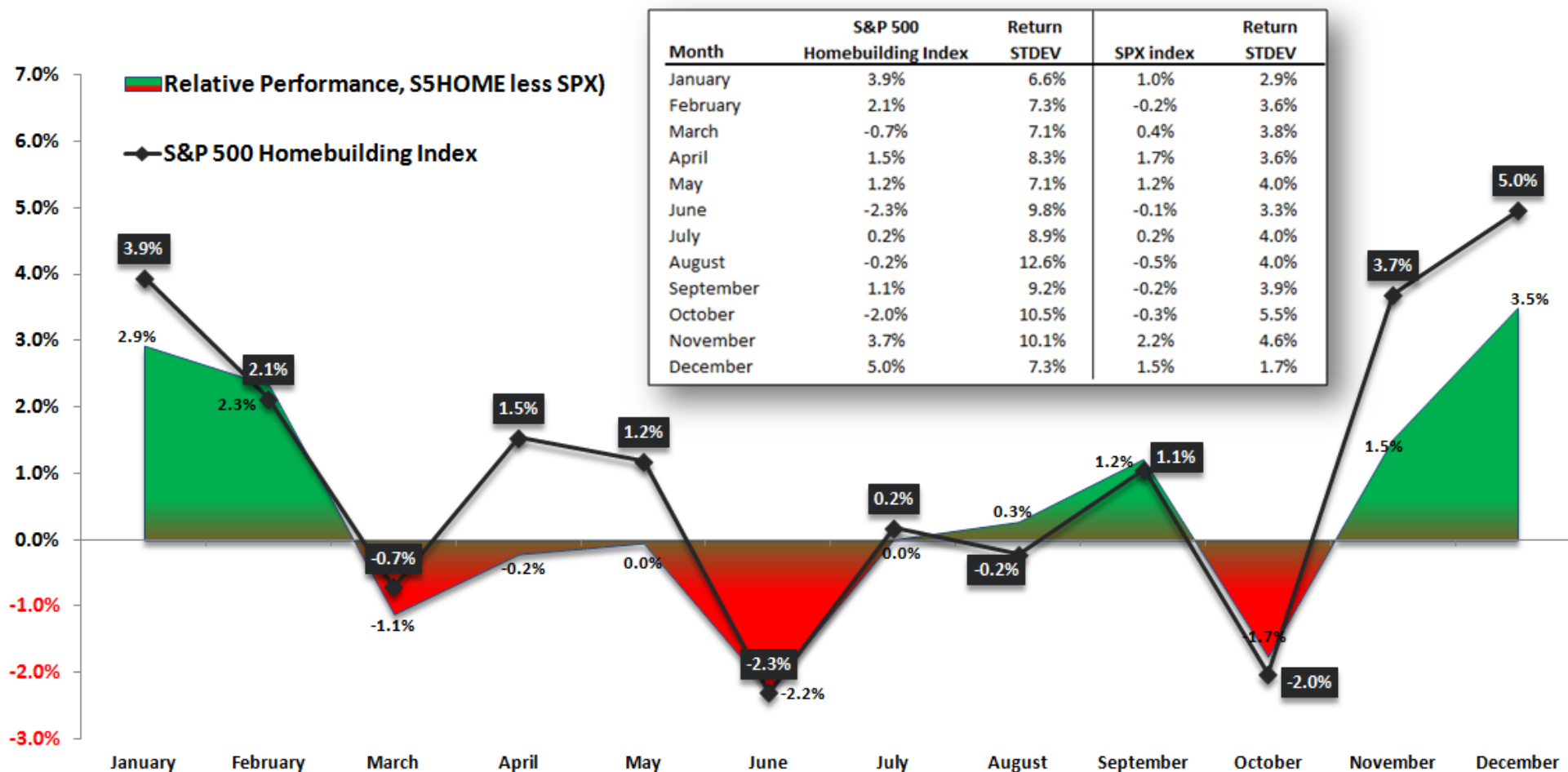
Here's how the seasonality looks on a quarterly basis. It's pretty clear which quarters historically have tended to generate positive and negative P&L.

The seasonal performance trend had been somewhat inconsistent the last couple years but the past year has seen a conspicuous return to the historical pattern.

BUILDER SEASONALITY (20 YEARS)

HOMEBUILDER SEASONALITY

Ave Performance by Month, 1996-2014



*Performance calculated using average monthly price: sample period = 1996-2014

Incidentally, the last 20 years of housing data show similar seasonal patterns.

HOUSING: STYLE FACTOR PERFORMANCE

SPX: STYLE FACTOR PERFORMANCE*

FACTOR		3M % Chg	6M % Chg	12M % Chg
DEBT	High Debt/EV	3.4%	5.5%	10.9%
	Low Debt/EV	8.2%	13.3%	25.6%
SI	High Short Interest	6.7%	5.3%	6.5%
	Low Short Interest	5.5%	11.3%	25.5%
BETA	High Beta	7.6%	11.8%	18.1%
	Low Beta	3.8%	5.3%	13.2%
YIELD	High Yield	3.2%	3.2%	3.0%
	Low Yield	6.0%	12.1%	24.8%
MKT CAP	MCAP Bottom 25%	4.5%	4.9%	8.9%
	MCAP Top 25%	6.8%	12.8%	24.2%
Sales Growth	Top 25% Sales Growth	7.2%	13.3%	24.8%
	Bottom 25% Sales Growth	4.5%	5.4%	6.5%
EPS Growth	Top 25% EPS Growth	6.8%	12.6%	23.0%
	Bottom 25% EPS Growth	4.6%	5.2%	5.0%

HOUSING: STYLE FACTOR PERFORMANCE*

FACTOR		3M % Chg	6M % Chg	12M % Chg
Debt	High Debt/EV	11.1%	16.6%	37.3%
	Low Debt/EV	13.4%	17.7%	40.1%
SI	High Short Interest	12.4%	15.8%	38.3%
	Low Short Interest	12.6%	16.8%	38.3%
BETA	High Beta	16.5%	20.9%	46.5%
	Low Beta	8.0%	13.3%	30.9%
YIELD	High Yield	5.9%	11.2%	32.8%
	Low Yield	18.2%	23.1%	45.8%
MKT CAP	MCAP Bottom 25%	14.3%	17.8%	40.4%
	MCAP Top 25%	9.2%	14.6%	37.3%
Sales Growth	Top 25% Sales Growth	16.5%	22.5%	52.8%
	Bottom 25% Sales Growth	6.5%	11.6%	26.4%
EPS Growth	Top 25% EPS Growth	16.2%	22.1%	44.1%
	Bottom 25% EPS Growth	8.0%	11.3%	32.9%

GREEN = Relative Outperformance Over Given Duration

*Mean Performance of Top Quartile vs. Bottom Quartile, S&P500 Companies

*Mean Performance of Top Half vs. Bottom Half of companies for given style factor

n = 60, Industries Include: Builders, MI, TI, Reits, RE Services, Home Improvement, Building Products

Sector Style Factor Exposure Ranking

SECTOR	FACTOR SCORE
Mortgage Insurers	30.00
Building Products	24.00
Home Builders	22.00
Real Estate Services	22.00
Other Mortgage Finance	21.00
Home Centers	20.00
SF Rental	19.00
Title Insurers	13.00
Apartment REITs	9.00

Style Factor Exposure to:
Beta, Yield, Growth, SI

DISCLAIMER

DISCLAIMER

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