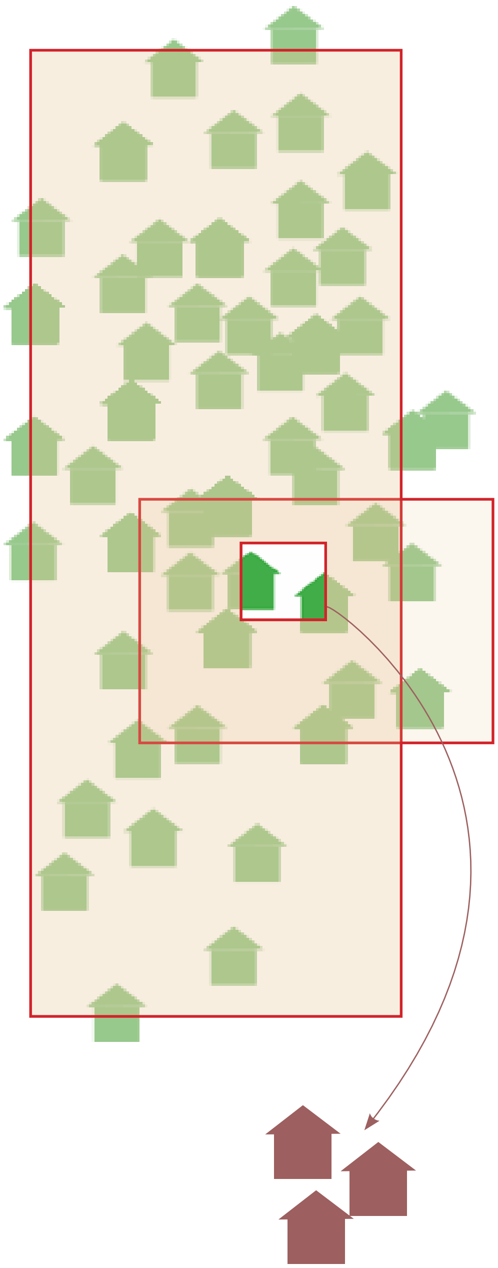
The MasterWerks Perspective

INFORMED OBSERVATIONS ON CURRENT HOUSING CHALLENGES AND OPPORTUNITIES • MARCH 2023

THOUGHTFUL ANALYSIS.

MEASURED ADVICE.



The Housing Market Disconnect: Macro Forecasts versus Micro Realities

Lately, it's been hard to miss the drumbeat of news about the housing market, with plenty of doleful predictions about price declines and interest rate hikes. While the forecasts seem compelling, it's important to remember that the data behind them is general at best, typically reflecting regional or national macroeconomic trends.

The reality is that housing actually consists of micro markets. Desirability and demand vary depending on the attractiveness of specific neighborhoods and communities. Safety, schools, amenities, and services are all factors that influence housing values, in addition to market size, absorption rates, and actual inventory—not to mention the quality and appeal of individual homes and the natural human tendency to seek friends and neighbors whose interests and aspirations align with our own.

Given these factors, it makes sense to view housing markets as local. They aren't immune to larger economic issues and trends, but the effects can literally be different from one house, neighborhood, or community to the next.

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As to the notion that house prices are falling, our local research shows an entirely different picture. When we surveyed six communities in our area, we saw that between January 1, 2020 and December 31, 2022, sale prices increased by a range of 10.4%-23.3%. Simultaneously, unit sales per community declined from 13.8%-26.7%, while market times actually declined 7% -45% during the same period. So, what does this mean? Basically, we don't have a major problem with price or sales, but we are critically short of inventory!

This shortage of inventory is likely due to various reasons: economic uncertainty and inflation worries as we emerge from the pandemic, daunting news reports, the realities of rising interest rates and higher costs, and owners' fears around losing their current low-interest rate mortgages. These issues combine to create negative perceptions that keep would-be sellers sitting tight and would-be buyers on the sidelines. Meanwhile, the truth of the matter gets lost in the haze of anxieties.

LOCALLY, LOW INVENTORY IS TRIGGERING RISING PRICES

MARKET CONDITIONS BY COMMUNITY

Community	Year	No. Sales	Av. Sale Price ($)	Days/Market
MINNEAPOLIS	2020	4,587	360,533	24.4
	2021	4,982	390,255	21.9
	2022	3,985	397,921	22.7
PERCENT OF CHANGE		-20.0%	10.4%	-7.0%
ST. LOUIS PARK	2020	761	389,313	22.3%
	2021	771	414,339	16.9%
	2022	580	433,617	17.7%
PERCENT OF CHANGE		-24.8%	11.4%	-20.6%
GOLDEN VALLEY	2020	334	438,028	26.4
	2021	334	465,628	16.7
	2022	288	514,825	16.7
PERCENT OF CHANGE		-13.8%	17.5%	-36.7%
EDINA	2020	673	799,974	51.5
	2021	736	933,107	28.7
	2022	561	966,371	28.3
PERCENT OF CHANGE		-23.8%	20.8%	-45.0%
MINNETONKA	2020	668	540,597	33.4
	2021	619	628,976	23.6
	2022	511	664,128	20.9
PERCENT OF CHANGE		-17.4%	22.9%	-37.4%
EDEN PRAIRIE	2020	617	532,927	35.8
	2021	711	618,788	19.3
	2022	521	657,211	22.2
PERCENT OF CHANGE		-26.7%	23.3%	-38.0%

Prices have increased while both unit sales and market times have declined. This indicates an inventory shortage rather than falling prices.

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SEVERE INVENTORY PINCH IN $200K-$999K RANGE

NUMBER OF EDINA HOME SALES BY PRICE CATEGORY

Price Category USD	2020	2021	2022		
200-299	12	4	5		
3-399	59	35	31	<	-44.3% DECLINE
4-499	125	95	52		
5-599	100	104	77		
6-699,	77	75	72		
7-799	57	79	50		
8-899	49	52	45		
9-999	38	48	36		
TOTALS	517	492	368	<	-28.8% DECLINE
1,-1,099	23	22	22		
1,1-1,199	25	40	28		
1,2-1,299	14	24	23		
1,3-1,399	23	36	16		
1,4-1,499,	15	23	16		
1,5-1,599	11	17	15		
1,6-1,699	10	14	10		
1,7-1,799	6	8	17		
1,8-1,899	6	7	8		
1,9-1,999	8	17	3		
TOTALS	141	208	158	<	12.1% INCREASE
2,-2099	3	4	7		
2,1-2,199	1	9	8		
2,2-2,299	2	4	0		
2,3-2,399	1	5	1		
2,4-2,499	0	1	3		
2,5-2,599	1	5	3		
2,6-2,699	1	0	2		
2,7-2,799	0	2	2		
2,8-2,899	2	2	2		
2,9-2,999	0	1	0		
TOTALS	11	33	28	<	155% INCREASE
3,0-3,499	2	2	3		
3,5-3,999	1	0	1		
4,000+	1	1	3		
TOTALS	5	3	7	<	40% INCREASE

A DEEPER DIVE INTO EDINA HOUSING DATA

To examine our micro housing market more closely, let's look at Edina, and within its relatively upscale neighborhoods, actual sales distribution by $100,000 price categories. Notice that unit sales declined in general. Sales of homes priced between $200K and $600K fell 44.3%, from a high of 296 in 2020 down to 165 in 2022.

Some of these homes increased in value, moving to higher price categories between $600K and $1M, but the overall number of unit sales in these groups also dropped during the same period, from 221 in 2020 to 203 in 2022, an 8.1% decline. However, when we look at unit sales above $1M, we see a 22.9% increase from 157 in 2020 to 193 in 2022. This is certainly one of the factors contributing to higher average sales prices in Edina in the recent past.

Housing in this area faces two currently substantial headwinds, each with characteristically different effects on the two main types of houses on the

Home sales below $1M have declined while sales over $1M have increased. This is contributing to higher average sale prices. The fall-off is particularly sharp in the $200K-$599K category, with a 44.3% decline, due to various factors: affordability, higher costs and interest rates, and economic uncertainty, leading to far fewer purchasing options.

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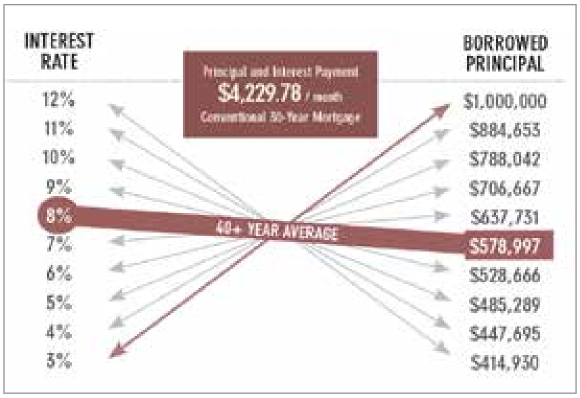
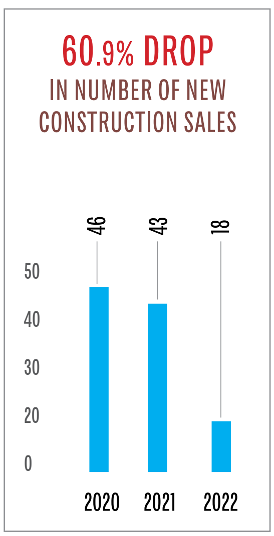
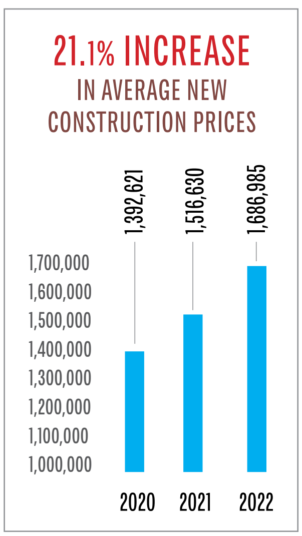
AS INTEREST RATES RISE, BUYING POWER DECLINES



INFLATION & INTEREST RATES IMPACT NEW CONSTRUCTION





The combination of inflation and rising interest rates seriously impacts both new construction and the market for teardown sites. Higher costs significantly reduce demand, translating into far fewer buyers.

market: new and previously owned. The first headwind comes from interest rate increases which have risen from the low 3s to over 7% in the past 12 months before starting to recede slightly. These hikes have triggered a significant rise in principal and interest (PI) payments for a home purchase even if other costs remain the same, while requiring a much higher income to qualify for the loan—in other words, increasing cost while reducing buying power. This creates a double-whammy for many buyers who can't put down a large equity stake. The other headwind is inflation, and its effects are most clearly visible in the new construction sector, a major revitalization component of the Edina market.

Because MasterWerks does such a wide range of projects—each responding to a unique set of circumstances—it's difficult to establish apple-to-apple comparisons or precise conclusions about the effects of inflation in the micro-market we serve. But we do know the effects are dramatic. Between 2020 and 2022, average new home sales prices increased by 21.1% from $1,392,621 to $1,686,983, while unit sales declined by 60.9%, from 46 to 18. However, these numbers don't tell the real story because of the lead times involved between construction costing and the physical building process, which can often lag significantly behind current figures.

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ACTUAL CONTENT QUALITY, NOT JUST PRICE, DEFINES CLASSES

EDINA NEW CONSTRUCTION INVENTORY | JANUARY 2023 | EDINA, MN

Property	List Price ($)	Site Cost ($)	Build Cost ($)	Fin.SqFt	Cost/SqFt ($)
CLASS ONE					
Valley View	1,240,000	265,000	975,000	3,840	253.91
Brookside	1,399,900	325000	1,074,900	3,744	287.10
Ashcroft	1,449,900	440,000	1,009,900	4,114	245.48
Oxford	1,550,000	465,000	1,085,000	3,946	274.96
Ashcroft	1,649,000	425,000	1,224,000	4,142	293.51
Hollywood	1,650,000	535,000	1,115,000	3,600	309.72
Oaklawn	1,669,000	429,900	1,239,100	4,018	308.39
Saint Johns	1,690,000	465,000	1,225,000	3,946	310.44
AVERAGES	1,537,225	418,738	1,118,488	3,919	285.69
CLASS TWO					
Galway	2,150,000	470,000	1,680,000	4,451	377.44
Danens	2,150,000	510,000	1,640,000	5,199	315.44
Kellogg	2,175,000	460,000	1,715,000	4,768	359.69
Highwood	2,225,000	625,000	1,600,000	5,548	288.39
Brookview	2,235,000	420,300	1,814,700	4,600	394.50
Halifax	2,250,000	650,000	1,600,000	4,347	368.07
Grimes	2,295,000	850,000	1,445,000	3,685	392.13
Scott	2,395,000	885,000	1,510,000	4,050	372.84
Westridge	2,595,000	740,000	1,855,000	5,576	332.68
Olinger	2,700,000	660,000	2,040,000	5,354	381.02
AVERAGES	2,317,000	627,030	1,689,970	4,758	358.22
CLASS THREE					
Mirror Lakes	3,250,000	1,050,000	2,200,000	5,262	418.09
Blossom	3,350,000	875,000	2,475,000	5,200	475.96
Skyline	3,350,000	875,000	2,475,000	5,200	475.96
Parkwood	3,900,000	820,000	3,080,000	6,336	486.11
Minnehaha	4,495,000	950,000	3,545,000	6,804	521.02
AVERAGES	3,669,000	914,000	2,755,000	5,760	475.43

To demonstrate the situation more clearly, we analyzed Edina's current inventory of new construction homes for sale. Allowing for distinctly different classes of construction in terms of materials, design, and finishes, measured by price per square foot in January 2023, we see the least expensive tier of builders (Class One) priced at $285.69-SF, the mid-range (Class Two) at $385.22-SF and the top tier builders (Class Three) at $475.43-SF.

That means construction costs for an average 4000-SF home translate to $1,142,760 for Class 1, $1,540,880 for Class 2, and $1,901,720 for Class 3. The differences between these three tiers are apparent in many areas, not simply profits, as the buildings themselves are radically different in composition, content, craftsmanship, and finishes.

While every new home generally fits in a particular class, each home is built to a unique formula and construction standards. The home's class is determined not simply by price but also by significant differences in design, materials, labor, and other factors since each builder's formulas and standards are different—no universal criteria exist. It is important to recognize that the homes listed here are all largely "to be built," meaning on spec, so pricing may be aimed at securing prospects rather than reflecting the actual cost to build.

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HOW MERCHANT BUILDER'S OFFERINGS TRANSLATE INTO BUYER'S COSTS: 2020 VS TODAY

MERCHANT BUILDER NEW HOME SALES AND OFFERINGS

	Sale Price ($)	Site Cost ($)	Build Cost ($)	Fin.SqFt	Price/SqFt ($)
SOLD 2020	1,056,800	335,000	721,800	3,946	182.92
	1,180,000	418,200	761,800	4,038	188.66
	1,245,800	360,000	885,000	4,475	197.94
	1,268,337	418,200	850,137	4,316	196.97
	1,410,000	462,500	947,500	4,455	212.68
AVERAGES	1,232,187	398,780	833,247	4,246	195.83
PENDING	1,755,000	458,000	1,297,000	4,355	297.82
	1,775,000	465,000	1,310,000	43,25	302.89
AVERAGES	1,765,000	461,500	1,303,500	4,340	300.36

TRANSLATION INTO BUYERS' COSTS

	Purchase Price ($)	20% Down ($)	Mortgage ($)	30yr Fixed	Monthly ($)
SOLD 2020	1,232,187	246,437	985,749	3.00%	4,146
PENDING 2022	1,765,000	353,000	1,412,000	6.70%	9,061
INCREASES	532,813	106,563	426,251	3.70%	4,915

The combined effects of inflation and rising interest rates are clear in this merchant builder comparison. The builder's sold and pending sales numbers portray a more accurate picture of inflation within his building class, since his houses are products, built to standard specs and finishes consistent over time. Because the builder's formula is maintained consistently, the jump in pricing reveals the degree of inflation. The result is a significant increase in cost for buyers.

So, how much have costs risen? To gauge the answer, we examined the sales record of a successful local merchant builder with an established track record of new home sales and offerings in Edina. From his 2020 sales to his current pending sales, we see an average increase of $532,813 in building costs—a 55.9% increase. We believe this figure is accurate because the builder is currently building houses with similar square footage and features with finishes that are comparable to the houses he built two years ago. His average sold price (SP) in August 2020 was $1,232,187, and his current pending price is now $1,765,000. For buyers, with a typical 20% down payment, it is an increase in monthly principal and interest payments of $4,915, rising from $4146 in 2020 to $9061 in 2023.

These costs resonate through all building situations but are much more pronounced in new construction and major house renovations and transformations. In other words, the larger the project, the bigger the impact. To verify and reference our findings, we also checked the building permits in Edina to see if they provided additional validation.

Essentially, we found that building permits for significant remodels were up 10% in 2020-2022, but average permit declared valuations were up 47% during the same period. Therefore, we have 55% increase in costs and 47% increase izn permit values—somewhat soft numbers in terms of costs and values—but based on MasterWerks' records and experience, we believe these cost increases indicate a probable range of 50% or so since 2020—definitely above 35-40% as our other data suggests.

New construction and major renovations lie at the heart of community revitalization efforts because they represent the leading edge of how and where the community is developing and provide a subtle standard for valuing existing housing and measuring future housing options. Essentially, all physical structures are wasting assets subject to various elements of obsolescence, and they require managed upgrading to maintain economic relevance. The tone for this process is set by the preferred formulas of new construction which often take their lead from the dictates of popular culture, fashion trends, and other transitional influences.

DRAMATIC RISE IN REMODELING PERMIT VALUATIONS REINFORCES REALITY OF HIGH INFLATION

	2020	2021	2022	
Permit Count	522	588	574	+10% Increase
Total Valuation	$35,241,878	$47,376,204	$56,822,065	+61% Increase
Average Valuation	$67,513	$80,572	$98,993	+47% Increase

While the total number of issued permits has increased by 10%, the total and average valuation of those permits has increased considerably more. These higher declared values indicate increased costs, not larger projects.

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Given the factors of inflation and higher mortgage rates, the average list price for active new construction houses in Edina today is $2,333,383, far beyond the reach of most buyers, while the average price for all single-family (SF) sales in 2022 was $966,371, already a sobering obstacle for many. Due to inventory shortage, the current SF homes for sale have an average price of $1,872,429, illustrating the surreal nature of the current inventory imbalance.

INVENTORY IMBALANCE IS SKEWING PRICES UPWARD

EDINA RECENT SALES DATA, MARCH 2023

	Number	Avg. Price	Finished SqFt	Days/Market
EDINA NEW CONSTRUCTION				
ACTIVE	23	2,333,383	4,647	165.8
PENDING	6	2,048,425	4,994	180.8
ALL SINGLE FAMILY - FOR SALE				
0 - 999	18	661,535	2,449	49.5
1,- 1,999	16	1,476,981	4,014	98.5
2,- 2,999	16	2,531,188	5,381	142.6
3,000+	9	3,826,111	7,468	229.2
ALL SINGLE FAMILY - PENDING				
0 - 999	13	719,085	2,862	45.8
1,- 1,999	6	1,476,092	4,691	115.8
2,- 2,999	6	2,373,667	5,283	143.3
3,000+	0			
ALL SINGLE FAMILY TOTALS				
FOR SALE	59	1,872,429	4,439	115.5
PENDING	25	1,297,866	3,882	78.2
CLOSED	8	1,051,313	3,856	84.3

Single-family, for sale numbers illustrate how inventory imbalance is skewing market statistics. The discrepancy is clear in single-family totals. Note the wide disconnect between for sale, pendings, and closed.

TYPICAL UNIT SALES VARIATION

EDINA SALE PRICES AND UNITS SOLD

Year	Average Price ($)	Number of Sales	
2009	521,330	416	Below 600
2010	525,600	452	Below 600
2011	534,303	473	Below 600
2012	551,690	597	Below 600
2013	575,902	600	
2014	611,257	588	Below 600
2015	625,962	638	
2016	657,860	685	
2017	702,758	708	
2018	703,514	591	Below 600
2019	736,863	641	
2020	799,974	673	
2021	933,107	736	
2022	966,371	561	Below 600

For those concerned about the recent drop in unit sales, it's worth noting that the total number of sold homes—561—in 2022 was not that unusual. Approximately 50% of the years since 2009 show total sales below 600, indicating that the fall in unit sales may be less of an issue than many fear.

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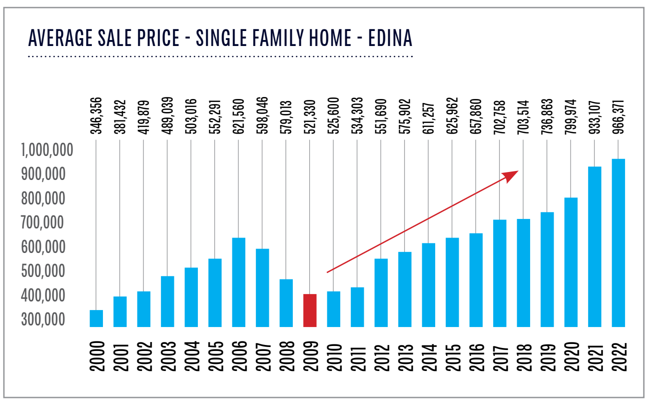
Fear of Loss: The Motivator for Potential Buyers and Sellers

With such daunting numbers, potential buyers feel frustrated and hesitant to make an offer on anything. Simultaneously, potential sellers are much more cognizant of the flaws in their living space, due to the way the pandemic has re-shaped their work routines. They are struggling to find ways to meet their needs, but a steady diet of negative housing news and changing economic realities has made them seriously reconsider their plans for change. Many are shellshocked by higher remodeling costs or troubled by the prospect of financing either a remodeling project or a replacement home, given the evaporation of low-interest rate mortgages. Although they feel the pinch of their personal economics—understandably a factor in decision making—the situation may be more promising than perceived. Many existing homeowners have significantly increased equity positions due to the post-pandemic pricing escalation, giving them, in fact, heightened ability to finance improvements.

Meanwhile, many other potential buyers and sellers are adopting a more cautious, wait-and-see attitude, never a proactive strategy. In all cases, the reason for inaction is the fear of loss, which psychologists have deemed the most potent of all motivations.

EXCEPTIONAL EDINA SALES TRAJECTORY



Between 2019 and 2022, average sale prices increased by 31.1%, with a 3.6% rise in 2022 alone, leaving many homeowners with strong equity positions.

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Why Remodeling and New Construction Costs Are Unlikely to Drop

Although some fervently believe construction prices will come down, this is largely an erroneous conclusion because the cost of materials and components used in remodeling and new construction don't follow the fluctuations that consumers associate with commodities. Most construction components are manufactured products, such as trusses, flooring, HVAC, electrical and plumbing systems, windows, doors, siding, roofing, appliances, windows, doors, and lighting, among many other items. Everything on this extensive list has its own raw material pricing and cost structure for manufacturing, with overheads including labor, transportation, and distribution. Consequently, it's rare to see declining prices in parts and materials, especially with higher-cost items like windows, doors, cabinetry, etc., which are built to order with extensive lead times.

Skilled local labor is the other big cost component. Most people are now aware that there is a serious shortage of skilled workers. Fewer young people are entering the traditional trades, resulting in high demand for the services of older, experienced workers with consequent pressure on wages. To put it simply, builders can't retain the best people and subcontractors while paying them lower wages, especially when the best subcontractors already have more work than they can handle. In addition, they and their employees are feeling squeezed by the same cost-of-living increases as everyone else, with additional transportation costs due to fuel prices. Should an economic slowdown occur, it's the least experienced or competent workers who are laid off; owners retain the highly skilled and don't significantly cut their wages for the privilege of working for less on your project.

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The Flaws in Consumers' Coping Tactics

A word to the wise: Consumers who want the lowest project costing should take "caveat emptor" as their motto, as there are many, many ways for builders to cut corners, compromising and downgrading materials and labor to lower their price points. Neither building solutions nor builders are interchangeable. Each builder has their own formula and product composition, and unfortunately, few buyers really understand that standards of quality are very porous and weak, and your standards must align with your builder's. Cutting corners to lower the price generally cheapens product composition, leading to poorer performance and greater costs over time. Combine these rising costs with higher interest rates, and it becomes clear why some consumers are frantically seeking lower-cost solutions.

Homeowners who are contemplating various projects often experience shellshock over the costs involved, typically thinking, "These prices are too high! They're ripping me off!" (In some cases, this may, in fact, be true.) Often, it's educated, professionally successful people that are most at risk of making poor decisions about building because they assume they have the necessary knowledge and analytical skills to figure things out. They cope by pursuing the strategy of securing multiple bids while failing to grasp that even the same plan can be built to various standards and price points. Price is only one factor; the other factors involve substantial differences in composition and content. (See Builder Classes 1, 2, and 3, discussed previously).

The reality is that it's not price that is the most important but the context and what's included. That's where builders' numbers most often differ. In fact, there are only two ways to cut costs: Use fewer and/or lower-quality components and materials or use less skilled labor. Among smaller builders meeting the same standards and requirements, there is little difference in material or labor costs. So, to remain price competitive, many merchant builders compete by cutting back on expensive items. They make kitchens and baths smaller, thus requiring less cabinetry and/or tile. They lower the building /construction standards; deploy lower-cost, less-efficient, or durable applications; cut corners on mechanicals; use cheaper, less expensive products wherever possible; cover hastily installed trim with paint and putty; or simply leave things out or don't include them in the bid. That's why it's essential to know exactly what's involved in the work, beyond the mere components, and seriously determine what exactly you're getting for the money you are spending.

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Prioritize Resale and Investment Value

The trap that consumers fall into when they are thinking about buying or remodeling a home is over-focusing on acquisition and affordability, while overlooking tenets of resale and investment value. It is essential to realize that there are many principles involved when making a proper investment-grade improvement or purchase —far beyond the limits of this current article. But in a nutshell, construction shortcuts or downgrades significantly affect the home's durability, functionality, desirability, and ultimately, resale value potential, all of which cost far more than the initial so-called savings.

At MasterWerks, we constantly see these issues, as we are called upon to fix problems caused by prior building or remodeling on the cheap. Recently, we rebuilt the porch, deck, and front stoop of a four-year-old house, due to faulty foundation work by a builder who then went out of business, leaving the owner no recourse. We also were called in to repair a recent remodel with five baths that had their exhaust fans exhausting into the attic, causing serious moisture and mold issues. And the list goes on, including houses with severe ice dams due to faulty insulation issues and faulty drainage leading to water intrusion on the lower levels and attendant damage.

These are real stories where the owners are the victims, forced to pay again for repairs they paid for the first time. They are now filled with concerns about the equity they lost and doubts about whether they can recover their costs in the long run. When you choose a builder's solution based solely on price, be extremely careful and check what's really included and at what grade, weighing the amount you may have to pay for change orders for items that may not be included.

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Where Do Things Go From Here? Determining the Smart Strategy

Many economic pundits are speculating about what will happen with inflation and government spending and whether the Fed will continue to raise interest rates to combat the trend. Since we don't stock crystal balls at MasterWerks, we won't pretend to know the answers.

What we do know, however, is that actual construction costs won't go down, and the only relief for consumers may come from lower interest rates. Even today's higher rates are on the historically low side. With rising construction costs, the cost of existing homes will also rise, maintaining the traditional relationships and ratios between the sectors. There are, however, clear indications of where consumer alternatives lie, providing a path forward for those seeking to improve their living standards while enhancing long-term investment potential.

House sales typically fall into $100K price categories such as $300-399 or $900-999. Within these categories, house hunters intuitively rank the offerings by design, finish levels, and location. At the top of each price category, we typically see the lowest square footage homes with the highest finish levels and greatest consumer appeal—homes where relevance is maintained. The houses within the category then generally descend in price with the least-valued homes being the largest structures with the most dated décor or other features that are less appealing and potentially costly to enhance.

After the meltdown in 2008, society experienced a period of historically low interest rates. Many people assumed those low rates were the new normal, causing the current 7% to appear excessive. The chart on the right, however, shows that interest rates have fluctuated widely over time, with 8% constituting the average. Viewed through that longer lens, 7% can still be considered a bargain.

30-YEAR FIXED RATE MORTGAGE HISTORY

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To illustrate this point, we've included a sampling of houses sold in Edina in 2022 in the $1.2M-$1.299M price category. Note that the pattern holds true, with the examples showing the differences in appearance and size at the top, middle, and bottom of the category. The highest-ranking home (A) at the top of the category is 3,012-SF priced at $416.67 per square foot; the mid-range house 4,267-SF is at $292.95 per square foot, and the largest home (B) at the bottom of the category is 5,537-SF priced at $225.95 per square foot. Certainly, there are also subjective factors involved, such as client preferences for neighborhoods and specific locations. But all three houses were built since 2003, so, by definition, none of them are older homes. The difference, apart from overall size, is their respective formulas. The top home is more traditional with finer features; the middle is a conventional, merchant home built on spec; the bottom shows its age through trend design and finishes that have long since gone out of fashion.

The hard evidence, however, resides in their sale and resale records, where we can evaluate the success of each home as an investment. The leader (A) was purchased in 2012 for $774K and sold in 2022 for $1,255,000, which was $56K above asking price. The sellers received multiple offers, grossing a $481K gain. After adjusting for inflation, they actually beat the inflation rate by $268,411, illustrating the solidity of their investment.

The mid-range home (B) was purchased in 2016 for $1,150,000 and resold in 2022 for $1,250,000, grossing a $100K gain. When adjusted for inflation, this house fell below the inflation rate by $152,000.

The house at the bottom (C) was purchased in 2003 for $1,054,000 and resold in 2022 for $1,250,000, grossing a $196K gain. After adjusting for inflation, the bottom house was $426,404 below the rate—so much for the owner's actual appreciation and investment gain.

RE-SALE GAINS AND LOSSES WHEN FACTORING FOR INFLATION

	Purchase	Re-Sale	Gain	Inflation Value	Gain/Loss
Home A	10/5/12 $774,000	6/30/22 1,255,000	$481,000	$986,589	+$268,411
Home B	3/13/16 $1,150,000	3/30/22 1,250,000	$100,000	$1,402,264	-$152,264
Home C	10/10/03 $1,054,000	6/30/22 1,250,000	$196,000	$1,676,404	-$426,404

Home A, which had maintained economic relevance, was the recipient of multiple offers, selling for $55,100 over list price and beating inflation by 27.2% at resale. Home C, which had lost relevance, suffered a 25.4% loss after factoring inflation. Maintaining relevance clearly matters and provides significant returns on investment.

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WITHIN THE SAME PRICE CATEGORY–
SIGNIFICANT DIFFERENCES IN RELEVANCE AND CONDITION PROTECT THE OWNER'S INVESTMENT

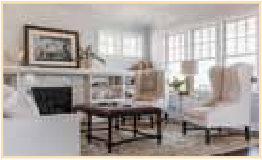
Home A

SOLD 6/30/22 $1,255,000

Year Built 2012

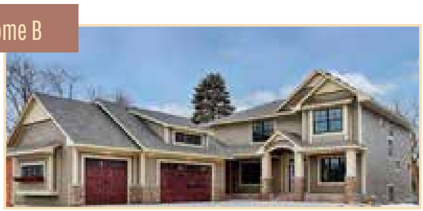
Square Footage 3,012

4 Beds, 4 Baths



$416.67 / SqFt

Home B

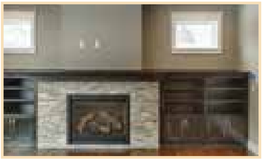


SOLD 3/3/22 $1,250,000

Year Built 2015

Square Footage 4,267

5 Beds, 5 Baths



$292.95 / SqFt

Home C

SOLD 2/28/22 $1,250,000

Year Built 2003

Square Footage 5,537

4 Beds, 4 Baths

$225.75 / SqFt

The differences are clear between the three homes in this price category, referenced in the chart on the opposite page. Essentially, Home A, the smallest in terms of overall square footage, offers finer design quality and finishes, appealing to today's buyers who are neither interested nor financially capable of stretching budgets to cover home improvement projects.

To underscore the point, note the difference in light and window usage between Homes A and B, as well as the overall finish levels between A and C. The differences are not simply visual but also sensory, reflecting how well the home meets today's current trends and requirements. The term MasterWerks uses to describe this is "relevance," meaning how up to date the house is and/or what effort and expense would bring it up to date. Given the combination of higher costs and interest rates, buyers are willing to stretch to acquire the best house requiring the least amount of work in a desirable neighborhood. As these three houses demonstrate, maintaining relevance is key to enhancing a home's investment potential.

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There are, of course, many other factors involved with how houses perform over time, beyond the scope of this discussion. Together, however, these three homes provide a stunning example of how a smart housing investment strategy can pay back the owner in the long term—and how a not-so-smart strategy ultimately disappoints.

This doesn't mean that there are easy answers or one-size solutions when it comes to devising your individual housing investment strategy. That's why, as a building solutions firm, MasterWerks cultivates an understanding of each client's unique scenario and uses qualitative and quantitative analysis to develop the most strategic response to the situation. There is, however, an overall message and path forward for smart home-owners who care about their long-term financial best interest: Maintain relevance by building lasting quality, performance, and appeal into your home.

Please note: Material and information contained in this Perspective are deemed reliable but intended only for general information purposes. The presented data and recommendations must be independently verified prior to exclusive reliance thereon.