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RALLY APPRAISAL MARKET REPORT

A Quarterly Publication

MARKET TRENDS

Below are ongoing market trends for both residential and commercial real estate in the markets that Rally Appraisal LLC serves throughout the Midwest in the States of Iowa, Illinois, Wisconsin, Indiana, Missouri and Nebraska. Residential real estate trends are updated once a quarter with corresponding data for each metro market that Rally serves. Commercial real estate trends will be updated on a bi-annual basis as trends in these markets take longer to develop and measure.

RESIDENTIAL 3rd QUARTER

The third quarter of 2023 largely continued the trends from the first 2 quarters of 2023. This is characterized by substantially lower sales volume, but with median sale prices still increasing, but at a lesser pace than during the same period the prior year. However, there was significant movement in the 10-year Treasury, which mortgage rates track, at the end of the 3rd quarter. This will in all likelihood influence trends moving forward.

All of the markets that we serve, regardless of State, saw declines in sales volume versus the 3rd quarter of 2022. Sales volumes in the markets we serve ranged between declines of 11.17% to 37.71% during the 3rd quarter of 2023 with sales volume generally dropping more in the 3rd quarter versus in the 2nd quarter. The top performing market on a sales volume standpoint was the St. Louis, Missouri metro market which saw a decline of 11.17%.

The worst performing market was the Dubuque, Iowa market which saw a decline of 37.71%. The vast majority of markets saw declines in sales volume in the mid to high teens to low twenties on a percentage basis.

The overall trend in pricing was still slight appreciation. The range varied between a decline of 1.64% in the Indianapolis metro market, or Marion County, which marked the second straight quarter of declines in this market, to an increase of 15.57% in the Bloomington/Normal, Illinois market.

2023 CONTINUED OUTLOOK

The interest rate environment continues to dominate what is occurring in the housing market. Interest rates recently hit their highest point since 1994 with the number of sales being the lowest since 1996. In a typical market the interest rate level impacts the demand side. In the current market, the interest rate level is impacting both demand and supply. The large increase in rates over a very short period of time has locked many owners into their homes which is dampening supply greatly. Prices are still appreciating as even though demand is very weak, it is still greater than supply.

The 10-year treasury has recently spiked, which has given us near 8% mortgage interest rates. While it is impossible to predict the future, it is likely that the 10-year yield will continue to increase. This is the case as the market appears to be recognizing the unsustainable path of the U.S. deficit and debt situation.

In the recent past the largest buyers of U.S. debt have been the Federal Reserve, China and Japan. The Federal Reserve has left a policy of Q.E. or Quantitative Easing, to Q.T. or Quantitative Tightening eliminating a large buyer. China has been cutting back on their purchases as tensions between the U.S. and China have intensified. Japan is curtailing purchases due to internal demographic and economic issues which are keeping more money within Japanese borders. Therefore, demand is diminishing at a time when supply is increasing greatly owing to U.S. debt levels. This will likely require a higher interest rate to attract buyers of U.S. debt and the result is the rising yields we are currently experiencing. As the mortgage interest rate tracks the 10-year, this will further drive up borrowing costs and ultimately have a greater influence on economic conditions versus Fed policy.

It would appear that the market is just starting to feel what is called the "lag effect". This is the recognition that when there is a change in direction of Fed policy it takes some period of time for the economy to feel these changes. Credit is now starting to tighten due to this "lag effect" with the Fed raising nearly 600 basis points in the past 18 months.

The most likely scenario is for some iteration of current market conditions to continue over at least the next two quarters. Rising rates will ensure limited demand, but supply will also stay very constrained so pricing will in all likelihood remain relatively stable with a very low number of sales. This will change with either time, as eventually the market will get used to the higher rate environment, or with a decline in rates due to either inflation subsiding or an economic recession. Ironically lower rates could trigger a decline in pricing as supply could finally be unleashed. This could especially be the case if this coincides with weaker overall economic conditions.

COMMERCIAL 3rd QUARTER

The first quarter of 2023 saw commercial real estate activity slow greatly as interest rates increased. Capitalization rates nationwide also followed interest rates higher, but are not yet showing the true impact as the results often lag 6 months.

PWC Korpacz indicated 50 to 60 basis points for office, warehouse and multifamily with only a slight increase in retail of 3 basis points year of year Q1 2022 to Q1 2023. 1031 activity was also slower but there are still many commercial investments purchased with cash which is why cap rates did not rise at the same rate as interest rates.

All of the markets that Rally Appraisal serves, regardless of State, saw declines in sales volume activity in all asset classes. The multifamily market had very modest activity which is surprising as this market was one of the strongest and most appealing investment markets the past few years. Buyers have quickly realized that they can no longer purchase at sub 6% and sub 7% cap rates while sellers are still stuck in the past. This divide has led to fewer closed transactions and fewer owners willing to list. MLS data in Cedar Rapids showed only 3 multifamily sales and they were all 5 to 8 units. Other markets served by Rally have also cooled greatly on this asset class.

The industrial market throughout the Midwest has been very strong the past 24 months. Even as interest rates have increased this market remains on good footing but will begin to start showing a slow down for the first time in many months. Leasing of industrial space has continued to be very strong as there is still limited inventory. The cost to build is a major headwind and most industrial being developed is 100,000 sq ft or more to allow for economic scale. Cost to build is starting to adjust downward for some building materials but will likely never return to pre pandemic levels. The supply chain is starting to be less of an issue. Financing is still available for industrial warehousing but at much higher interest rates which is the other headwind to construction cost.

Office is by far the weakest sector of the commercial real estate market and has never recovered from the 2008 recession. Employees are being forced to return to the office for 3 to 4 days a week depending on the employer and type of work being performed. The return to the office trend is in full swing and has been since the latter half of last year, but as of yet is not having an impact. Large office space is available in most markets Rally serves but small office space of less than 5,000 sq ft still seems to have modest demand and is in limited supply. There are fewer and fewer large office users in all markets and with more people working from home or sharing offices, large office space is greater in supply.

The retail market is moving forward in most markets. The biggest issue with retail is interest rates rising fast and cap rates now decompressing. This will become more evident as sellers and buyers are going to be settling more transactions at higher cap rates moving forward or buying more retail with cash. Lenders are requiring loan to value of no greater than 70% on most deals and some less than 70%. Only one sale of commercial retail sold during the Q1 2023 in Cedar Rapids and the previous Q4 2022 had nine MLS sales with nearly all sales being lower quality, smaller retail/commercial properties. Markets such as Des Moines and Omaha were of course much stronger but it is becoming very evident that commercial real estate is going to have a difficult year with weakening market conditions.

At this time financing terms are difficult for borrowers needing to refinance. The US has borrowers that need new credit for nearly \$1.5 billion in loans coming due into 2025. The tight market and higher interest rates means many borrowers will need to come to the closing table with cash as they refinance. Some properties are being repossessed already according to a recent article in the Wall Street Journal article published the week of April 10th. Thankfully most lending practices in the Midwest have been more conservative and the expectation is that the markets which Rally Appraisal serves will be less impacted by overzealous lending practices.

The theme of increased property tax assessments in most Midwest states will impact commercial real estate negatively on top of the already high interest rate environment. Assessments in some cases have increased 20%, 30% and even more. The impact however won't truly be felt until payments are due and in some states like Iowa will be Fall of 2024. Based on reviewing many properties at least in Iowa, many assessments were greatly below market the past few years and now finally being brought to market.

Overall the 2023 market will be difficult for commercial real estate in general. It is typical for downward market swing after a boom markets as what goes up must come back down. The question remains how far will the market come down and for how long will it last?



Supporting data compiled by the following:

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Iowa Residential Markets

Iowa Quad Cities

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	706	\$195,400	4th Quarter 2022	544	\$208,250	-22.95%	6.58%
1st Quarter 2022	550	\$197,500	1st Quarter 2023	407	\$195,000	-26.00%	-1.27%
2nd Quarter 2022	752	\$223,300	2nd Quarter 2023	572	\$235,000	-23.94%	5.24%
3rd Quarter 2022	712	\$224,450	3rd Quarter 2023	583	\$242,000	-18.12%	7.82%

Cedar Rapids

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	1048	\$180,000	4th Quarter 2022	816	\$195,000	-22.14%	8.33%
1st Quarter 2022	727	\$180,000	1st Quarter 2023	597	\$186,500	-17.88%	3.61%
2nd Quarter 2022	1074	\$196,635	2nd Quarter 2023	835	\$200,000	-22.25%	1.71%
3rd Quarter 2022	1109	\$210,000	3rd Quarter 2023	842	\$217,000	-24.08%	3.33%

Iowa City/Coralville

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	585	\$269,900	4th Quarter 2022	399	\$279,900	-31.79%	3.71%
1st Quarter 2022	407	\$275,000	1st Quarter 2023	282	\$309,950	-30.71%	12.71%
2nd Quarter 2022	861	\$299,900	2nd Quarter 2023	676	\$309,900	-21.49%	3.33%
3rd Quarter 2022	736	\$286,000	3rd Quarter 2023	586	\$307,750	-20.38%	7.60%

Omaha Iowa Market

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	369	\$171,750	4th Quarter 2022	256	\$185,000	-30.62%	7.71%
1st Quarter 2022	230	\$150,000	1st Quarter 2023	204	\$196,000	-11.30%	30.67%
2nd Quarter 2022	355	\$193,000	2nd Quarter 2023	303	\$216,000	-14.65%	11.92%
3rd Quarter 2022	335	\$208,000	3rd Quarter 2023	278	\$219,750	-17.01%	5.65%

Dubuque

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	304	\$212,000	4th Quarter 2022	236	\$208,500	-22.37%	-1.65%
1st Quarter 2022	177	\$202,500	1st Quarter 2023	167	\$207,700	-5.65%	2.57%
2nd Quarter 2022	285	\$225,000	2nd Quarter 2023	222	\$230,000	-22.11%	2.22%
3rd Quarter 2022	358	\$231,500	3rd Quarter 2023	223	\$235,000	-37.71%	1.51%

Des Moines

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	3630	\$265,813	4th Quarter 2022	2443	\$275,000	-32.70%	3.46%
1st Quarter 2022	2768	\$268,250	1st Quarter 2023	1835	\$270,000	-33.71%	0.65%
2nd Quarter 2022	2721	\$286,500	2nd Quarter 2023	2532	\$310,000	-6.95%	8.20%
3rd Quarter 2022	3553	\$285,975	3rd Quarter 2023	2283	\$315,000	-35.74%	10.15%

Cedar Falls/Waterloo

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	511	\$153,500	4th Quarter 2022	379	\$162,500	-25.83%	5.86%
1st Quarter 2022	358	\$163,500	1st Quarter 2023	273	\$168,000	-23.74%	2.75%
2nd Quarter 2022	494	\$185,000	2nd Quarter 2023	406	\$184,275	-17.81%	-0.39%
3rd Quarter 2022	583	\$175,000	3rd Quarter 2023	454	\$180,750	-22.13%	3.29%

Illinois Residential Markets

Illinois Quad Cities

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	553	\$134,900	4th Quarter 2022	414	\$138,500	-25.14%	2.67%
1st Quarter 2022	393	\$128,000	1st Quarter 2023	297	\$125,000	-24.43%	-2.34%
2nd Quarter 2022	570	\$126,625	2nd Quarter 2023	412	\$149,250	-27.72%	17.87%
3rd Quarter 2022	540	\$139,000	3rd Quarter 2023	436	\$157,400	-19.26%	13.24%

Peoria Metro

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	859	\$119,500	4th Quarter 2022	707	\$123,500	-17.69%	3.35%
1st Quarter 2022	629	\$116,900	1st Quarter 2023	552	\$119,000	-12.24%	1.80%
2nd Quarter 2022	1012	\$130,000	2nd Quarter 2023	773	\$147,500	-23.62%	13.46%
3rd Quarter 2022	862	\$140,000	3rd Quarter 2023	763	\$150,000	-11.48%	7.14%

Peoria Suburban

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	569	\$140,000	4th Quarter 2022	433	\$140,000	-23.90%	0.00%
1st Quarter 2022	427	\$135,900	1st Quarter 2023	331	\$130,000	-22.48%	-4.34%
2nd Quarter 2022	606	\$150,000	2nd Quarter 2023	496	\$165,000	-18.15%	10.00%
3rd Quarter 2022	572	\$153,750	3rd Quarter 2023	495	\$160,000	-13.46%	4.07%

Springfield

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	815	\$154,000	4th Quarter 2022	591	\$164,900	-27.48%	7.08%
1st Quarter 2022	590	\$145,000	1st Quarter 2023	491	\$152,900	-16.78%	5.45%
2nd Quarter 2022	813	\$158,000	2nd Quarter 2023	663	\$165,000	-18.45%	4.43%
3rd Quarter 2022	805	\$171,000	3rd Quarter 2023	636	\$175,000	-20.99%	2.34%

Bloomington/Normal

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	651	\$180,500	4th Quarter 2022	547	\$200,000	-15.98%	10.80%
1st Quarter 2022	430	\$185,500	1st Quarter 2023	354	\$215,950	-17.67%	16.42%
2nd Quarter 2022	653	\$215,000	2nd Quarter 2023	488	\$249,500	-25.27%	16.05%
3rd Quarter 2022	797	\$212,000	3rd Quarter 2023	509	\$245,000	-36.14%	15.57%

St. Louis Metro East Illinois

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	2223	\$168,000	4th Quarter 2022	1701	\$175,000	-23.48%	4.17%
1st Quarter 2022	1583	\$165,000	1st Quarter 2023	1332	\$165,000	-15.86%	0.00%
2nd Quarter 2022	2233	\$194,000	2nd Quarter 2023	1777	\$203,000	-20.42%	4.64%
3rd Quarter 2022	2219	\$190,000	3rd Quarter 2023	1813	\$195,000	-18.30%	2.63%

Rockford

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	1189	\$151,000	4th Quarter 2022	817	\$155,000	-31.29%	2.65%
1st Quarter 2022	876	\$133,750	1st Quarter 2023	621	\$146,300	-29.11%	9.38%
2nd Quarter 2022	985	\$175,000	2nd Quarter 2023	851	\$175,000	-13.60%	0.00%
3rd Quarter 2022	1136	\$170,000	3rd Quarter 2023	1006	\$185,000	-11.44%	8.82%

Wisconsin Residential Markets

Madison

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	1611	\$365,500	4th Quarter 2022	1076	\$400,000	-33.21%	9.44%
1st Quarter 2022	1036	\$391,500	1st Quarter 2023	805	\$424,900	-22.30%	8.53%
2nd Quarter 2022	1779	\$425,000	2nd Quarter 2023	1353	\$445,000	-23.95%	4.71%
3rd Quarter 2022	1760	\$416,500	3rd Quarter 2023	1342	\$445,000	-23.75%	6.84%

Janesville/Beloit

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	609	\$205,000	4th Quarter 2022	438	\$225,500	-28.08%	10.00%
1st Quarter 2022	380	\$195,000	1st Quarter 2023	320	\$239,500	-15.79%	22.82%
2nd Quarter 2022	539	\$241,000	2nd Quarter 2023	468	\$259,850	-13.17%	7.82%
3rd Quarter 2022	632	\$245,000	3rd Quarter 2023	503	\$250,000	-20.41%	2.04%

La Crosse

2021-2022			2022-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	387	\$237,900	4th Quarter 2022	296	\$263,950	-23.51%	10.95%
1st Quarter 2022	229	\$245,000	1st Quarter 2023	171	\$260,000	-25.33%	6.12%
2nd Quarter 2022	397	\$280,000	2nd Quarter 2023	290	\$289,450	-26.95%	3.38%
3rd Quarter 2022	421	\$266,500	3rd Quarter 2023	330	\$295,000	-21.62%	10.69%

Missouri Residential Markets

St. Louis Metro

	2021-2022			2022-2023		Sales +/-	Median +/-
	Sales	Median Sale Price		Sales	Median Sale Price		
4th Quarter 2021	7435	\$245,000	4th Quarter 2022	5438	\$255,000	-26.86%	4.08%
1st Quarter 2022	5115	\$240,000	1st Quarter 2023	4158	\$250,000	-18.71%	4.17%
2nd Quarter 2022	7444	\$275,000	2nd Quarter 2023	6088	\$282,500	-18.22%	2.73%
3rd Quarter 2022	7172	\$272,000	3rd Quarter 2023	6371	\$290,000	-11.17%	6.62%

Nebraska Residential Markets

Omaha Metro

2021-2022			2023-2023				
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	2706	\$243,750	4th Quarter 2022	1688	\$275,000	-37.62%	12.82%
1st Quarter 2022	1751	\$262,000	1st Quarter 2023	1349	\$271,000	-22.96%	3.44%
2nd Quarter 2022	2642	\$285,000	2nd Quarter 2023	2061	\$300,000	-21.99%	5.26%
3rd Quarter 2022	2509	\$285,000	3rd Quarter 2023	2082	\$299,000	-17.02%	4.91%

Indiana Residential Markets

Indianapolis Metro

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	4069	\$220,000	4th Quarter 2022	2748	\$230,000	-32.46%	4.55%
1st Quarter 2022	3051	\$222,000	1st Quarter 2023	2572	\$229,900	-15.70%	3.56%
2nd Quarter 2022	3953	\$247,500	2nd Quarter 2023	3215	\$245,000	-18.67%	-1.01%
3rd Quarter 2022	3820	\$244,000	3rd Quarter 2023	3262	\$240,000	-14.61%	-1.64%

Indianapolis Suburban

	2021-2022			2022-2023			
	Sales	Median Sale Price		Sales	Median Sale Price	Sales +/-	Median +/-
4th Quarter 2021	4222	\$329,977	4th Quarter 2022	3309	\$365,650	-21.62%	10.81%
1st Quarter 2022	2864	\$337,750	1st Quarter 2023	2785	\$355,960	-2.76%	5.39%
2nd Quarter 2022	4335	\$367,500	2nd Quarter 2023	3537	\$380,000	-18.41%	3.40%
3rd Quarter 2022	4262	\$365,000	3rd Quarter 2023	3745	\$375,000	-12.13%	2.74%