MATTERHORN
GROUP

THE FINAL FOUR

We are going to conclude this training on real estate value with the final four pieces of the value puzzle. We are going to teach you about the principle of progression, average price, median price, and the principle of regression.

1. The Principle of Progression

- The economic principle of progression as it relates to real estate investing says that if you buy a property below the median price for the area there will be a positive impact on the future value of that property just because of the area itself. Another way to say this is that when you buy a property that is priced below the median price, there are more properties priced at a higher level than are priced at a lower level relative to the property you are buying. First of all, let us figure out what the median price means. The median price is the price where half of the property in the area is more expensive than the median price and half of the property is less expensive than the median price. The median price is different than the average price. The average price is higher than the median price and is skewed that way because of the expensive property in an area.

2. Average Price versus Median Price

- As we have already said, the median price is the price where half of the properties in an area are more expensive and half of the properties in an area are less expensive. We know that the market comparison approach to value places the most emphasis on sold comparable properties. The median price takes all properties, not just comparable properties, into account. Let us look at five properties in the same neighborhood that have sold and closed escrow in the last six months.

Median Price

- What is the median price for these five properties? The answer may surprise you.The median price is $155,000, which is the price for which property 3 sold. Remember the median price is the price where half of the properties sell for a higher price (properties 4 and 5) and half of the properties sell for a lower price (properties 1 and 2).

- **Average Price**

  - What is the average price for these five properties? Again, the answer may surprise you. The average price for these five properties is $170,000! You can see that the average price is $15,000 higher than the median price ($170,000 versus $155,000). Property 4 and especially property 5 with their higher sales prices of $180,000 and $290,000, respectively, skew the average price higher. As a real estate investor you are much more interested in the median price.

3. Five Properties

- Property 1 is a three bedroom, two bathroom, 1,200 square feet starter home that sold for $105,000. Property 2 is a four bedroom, two bathroom, 1,500 square feet older home that sold for $120,000. Property 3 is a four bedroom, two bathroom, 2,000 square feet newer home that sold for $155,000. Property 4 is a three bedroom, two bathroom, 1,800 square feet upgraded home that sold for $180,000. Property 5 is a five bedroom, four bathroom, 3,500 square feet executive home that sold for $290,000.

4. The Principle of Regression

- The economic principle of regression as it relates to real estate investing says that if you buy a property above the median price for the area there will be a negative impact on the future value of that property just because of the area itself. Another way to say this is that when you buy a property that is priced above the median, there are more properties priced at a lower level than are priced at a higher level relative to the property you are buying. Using our property examples from above, if you had purchased property 4 for $180,000, the value of that property for investment purposes would be negatively impacted by the principle of regression. Properties 1, 2, and 3 would all be pulling down the value of your property. Only property 5 would be pulling up the value of your property.

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