

Why Median Price Rather Than Average Price

In their press releases, the Québec Federation of Real Estate Boards and the province's real estate boards are now using the median price to report on the evolution of property prices. The National Association of Realtors in the United States has been using this measure for quite some time now to discuss property prices. Let us examine why the median is generally a better indicator than the average when dealing with property prices.

The median is the middle point that divides a series into two equal parts. In our case, the median price allows you to divide all transactions into two equal parts: 50% of transactions occur at a price that is lower than the median price and the other 50% occur at a price that is higher. For example, a median price of \$150,000 indicates that 50% of properties sold for less than \$150,000 and the other 50% sold for more.

The advantage of the median as a measure of central tendency is that it is not adversely influenced by extreme numbers. And conversely, the disadvantage of the average is that it can be influenced by extreme numbers, which can lead to major distortions that bias data interpretation. Consider a geographical area in which property prices are generally in the \$150,000 to \$200,000 range. If, in one particular month, a property that is not representative of the geographic area sells

for \$2,000,000, this transaction pulls the average higher and results in an over-estimate of price growth in the area. The median price is not influenced by this \$2,000,000 transaction. It thereby provides a truer reflection of the market in terms of prices and in terms of growth between two periods.

Regardless of whether the median price or the average price is used, the fewer transactions there are on which to base the calculation, the more the data needs to be interpreted with caution. The standard for this calculation is a minimum of 30 transactions. With fewer than 30 transactions, there is increased risk that neither the median price nor the average price will provide a valid measure of the market value of all properties. The QFREB therefore uses this 30-sale minimum rule to determine whether or not to publish a median or average price.