Global Asset Management

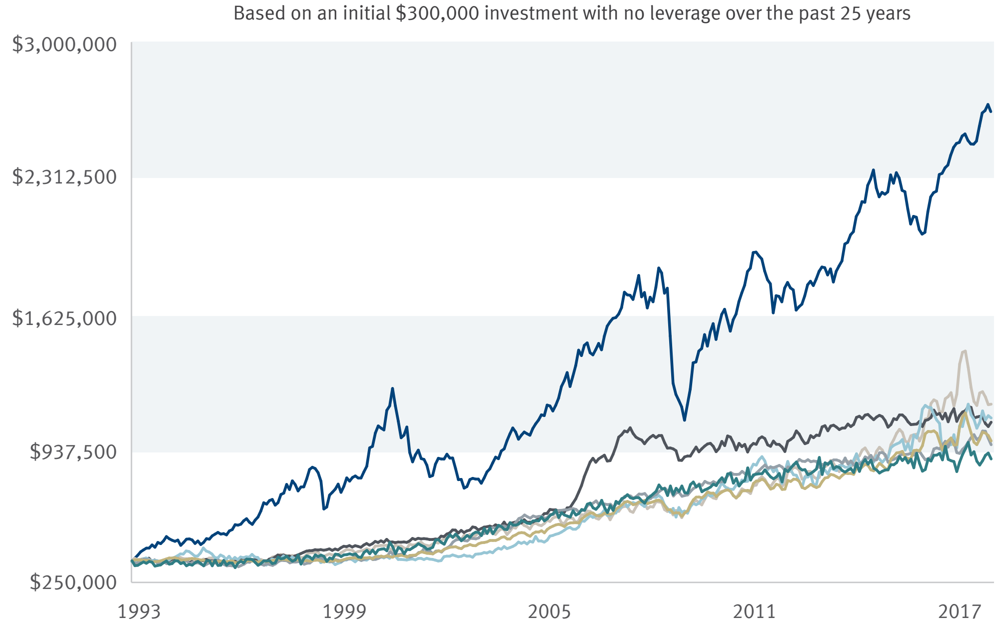
Home Economics: Comparing Canadian real estate to Canadian equities

When comparing real estate and equity markets, it's important to understand the historical growth associated with these different asset classes and have the right information to make an "apples-to-apples" comparison. A common misconception among many investors is that, historically, real estate has been a better long-term investment than equities. Looking back, however, the data suggests otherwise.

Equities have been an effective way to grow wealth compared to real estate

S&P/TSX Composite Total Return (TR) Index vs. select Canadian real estate markets

Based on an initial $300,000 investment with no leverage over the past 25 years



Market	End value	Rate of Return
S&P/TSX Composite TR Index	$2,608,610	9.0%
Toronto	$1,149,673	5.5%
Vancouver	$1,136,495	5.5%
Calgary	$1,021,800	5.0%
Montreal*	$937,722	4.7%
National Average	$949,489	4.7%
Halifax	$809,769	4.1%

Sources: All data as of January 31, 2018. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). Source of the S&P/TSX Composite Total Return Index is RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions.
*Please note that data for the Montreal market is not seasonally adjusted.
Note: For illustrative purposes only. An investment cannot be made directly in an index and this graph does not reflect costs, fees or taxes, which would lower returns.

Key factors to consider when making the comparison:

- Real estate purchases are typically highly mortgaged (or leveraged), which can magnify gains. In Canada, it's not uncommon to see loan-to-value ratios of 80% or more. By contrast, equity market investments are typically not purchased with borrowed funds.
- Costs such as real estate commissions, land transfer taxes, and maintenance and repairs are not included in the data and would also negatively impact investment returns in the real estate markets.

What's important to keep in mind when comparing real estate and equities is not which asset class is better, but that over time the right investment for you will depend on your own unique investment goals and time horizon.

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