Long-term perspectives

Stocks vs. real estate

Considerations for Canadian investors

Wealth Management
Dominion Securities

The Canadian residential real estate market has enjoyed a prolonged period of strong price appreciation. Understandably, this has inspired debate among investors in recent years as to whether the stock market or real estate has been a better long-term investment. On balance, we believe the historical data paints a more nuanced picture than commonly perceived.

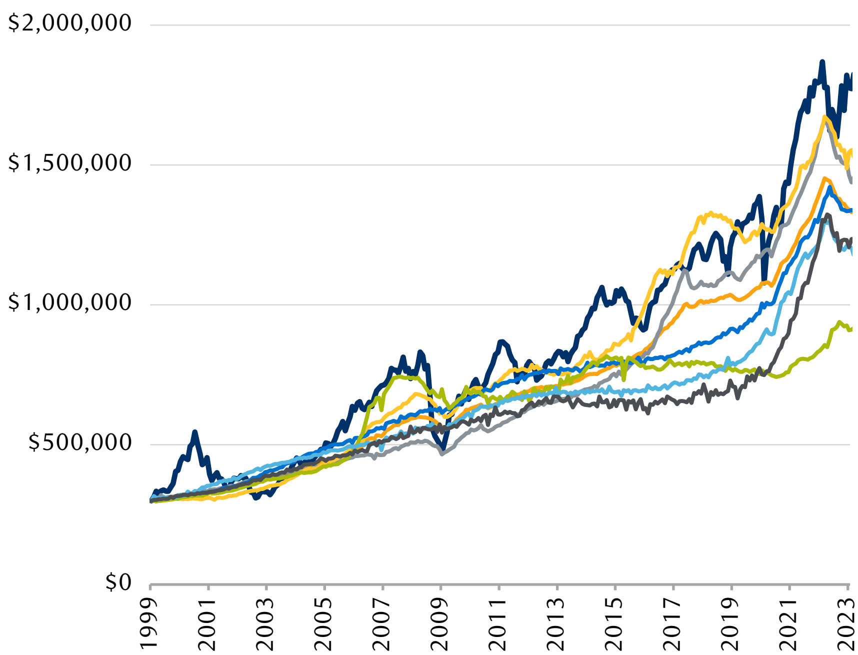
In this report, we compare the long-term total return performance of the S&P/TSX Composite Index to that of residential real estate markets across major Canadian cities. Though we acknowledge that comparing real estate to stocks is fraught with many pitfalls, we believe the analysis provides a few high-level, but noteworthy, takeaways.

Both the stock market and real estate have delivered attractive long-term returns

The persistent strength of many Canadian housing markets over the past decade has left many people with the impression that real estate is a more compelling long-term investment vehicle than other asset classes such as equities. **Over the past two decades, however, both the stock market and real estate have delivered attractive long-term returns, in our view.** As the chart shows, the S&P/TSX Composite has generated annualized total returns since early 1999 that are in line with, or better than, various Canadian real estate markets—including Toronto and Vancouver, which have experienced some of the most robust house price appreciation in recent years.

S&P/TSX Composite vs. select Canadian real estate markets

Total returns: Equity investments are in line with, or better than, many housing markets*



Market	End value	Rate of return
S&P/TSX Composite	$1,894,703	7.7%
Vancouver	$1,627,442	7.0%
Toronto	$1,523,844	6.8%
National composite	$1,402,378	6.4%
Montreal	$1,392,592	6.4%
Halifax	$1,362,656	6.3%
Ottawa-Gatineau	$1,244,373	5.9%
Calgary	$1,003,401	5.0%

*Based on an initial $300,000 investment with no leverage since February 1999.

Source - RBC Wealth Management, Bloomberg; data through 12/31/23. Equity returns based on S&P/TSX Composite Total Return Index. Housing returns based on Teranet-National Bank House Price Index unsmoothed data series. All returns are annualized.

All values in Canadian dollars and priced as of Dec. 31, 2023, market close, unless otherwise noted.
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Equities have kept pace with housing over the longer term

Multi-horizon annualized returns

Market	1 year	2 years	3 years	5 years	7 years	10 years	15 years	20 years	Since Feb. 1999
S&P/TSX Composite	11.8%	2.6%	9.6%	11.3%	7.9%	7.6%	9.0%	7.8%	7.7%
National housing composite	3.1%	1.6%	6.5%	6.3%	6.0%	6.6%	6.1%	6.4%	6.4%
Toronto	1.3%	-0.2%	5.8%	6.4%	6.4%	8.2%	7.8%	6.9%	6.8%
Vancouver	4.8%	1.6%	6.3%	4.6%	5.5%	7.3%	6.6%	7.5%	7.0%
Montreal	4.0%	3.3%	7.7%	9.1%	7.9%	6.1%	5.5%	6.0%	6.4%
Calgary	8.7%	10.5%	9.8%	5.2%	3.2%	2.9%	2.7%	4.8%	5.0%
Ottawa-Gatineau	4.0%	1.7%	6.3%	8.9%	8.4%	6.0%	5.4%	5.3%	5.9%
Halifax	10.6%	7.9%	15.6%	14.5%	10.7%	7.7%	6.3%	6.2%	6.3%
Edmonton	-1.6%	2.3%	2.9%	1.9%	0.9%	1.0%	1.2%	3.9%	4.7%
Winnipeg	3.2%	0.7%	4.2%	4.2%	3.4%	2.8%	3.7%	5.7%	5.6%

Source - RBC Wealth Management, Bloomberg; data through 12/31/23. Equity returns based on S&P/TSX Composite Total Return Index. Housing returns based on Teranet-National Bank House Price Index unsmoothed data series. All returns are annualized.

However, the table reveals that home price gains in a number of major Canadian cities have outpaced the performance of the Canadian equity market in recent years. While it may be tempting to extrapolate from housing's recent strong run when forming future expectations, we note that **time horizon matters** and the S&P/TSX Composite has more than kept pace with many local real estate markets as time horizons are lengthened.

Understanding the pitfalls of comparing stocks and real estate

Although one of the main topics of discussion at dinner parties in recent years has been how much each person's home has appreciated in value, most people purchase their homes as primary residences, and thus price appreciation may not be their primary focus. In contrast, investing capital in the stock market is typically done with the goal of having that capital appreciate over the long term to meet the investor's financial objectives. That said, there are others who look to residential real estate as a potential investment vehicle. While comparing housing and equities may seem reasonable on the surface, we believe there are numerous factors that make a direct comparison difficult, if not outright misleading.

As a start, it is crucial to take the need for liquidity and diversification into account, in our view. Real estate can seldom be quickly liquidated for cash. This lack of liquidity compared to other types of assets (such as equities and bonds) makes real estate generally unsuitable for investors with ongoing or expected cash flow requirements. Except for those with sizeable amounts of wealth, it can also be quite challenging for investors to attain an appropriate level of diversification in their real estate holdings.

Additionally, real estate comes with potentially onerous barriers to entry, including down payments, access to affordable mortgage financing and insurance coverage, and an array of transaction costs such as agent commissions, legal fees, and land transfer taxes. The long-term costs of home or real estate property ownership—including, for instance, property taxes as well as repair, maintenance, and renovation expenses—is another consideration that is often underappreciated, as investors tend to place too much emphasis on the initial purchase price.

In contrast to real estate, it is typically less arduous for investors to gain exposure to the stock market in terms of initial capital requirements, transaction costs, and achieving a suitable level of diversification across geographies, sectors, and industries.

We have omitted some other important considerations, such as the impact of leverage (mortgage) on returns, differences in the taxation of capital gains, and whether a primary residence should be viewed as an investment, but our main takeaway is that **any direct comparison between the stock market and residential real estate is likely to be a flawed exercise**.

To each their own, but be mindful of the tradeoffs

Understanding the tradeoffs and differences between the stock market and real estate is crucial, in our opinion. While the stock market tends to be considerably more volatile, a review of historical performance supports the view that equities have been an equally effective means for investors to build wealth over the long term relative to residential real estate in Canada. It is also worth noting that investments in real estate and stocks are not mutually exclusive, and a residential property can certainly play a role in one's overall investment portfolio. The choice of what mix of assets to invest in and own over the long term ultimately depends on an investor's financial objective, time horizon, and risk capacity and tolerance.

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