RBC Global Asset Management

Home Economics

Comparing Canadian real estate to Canadian equities

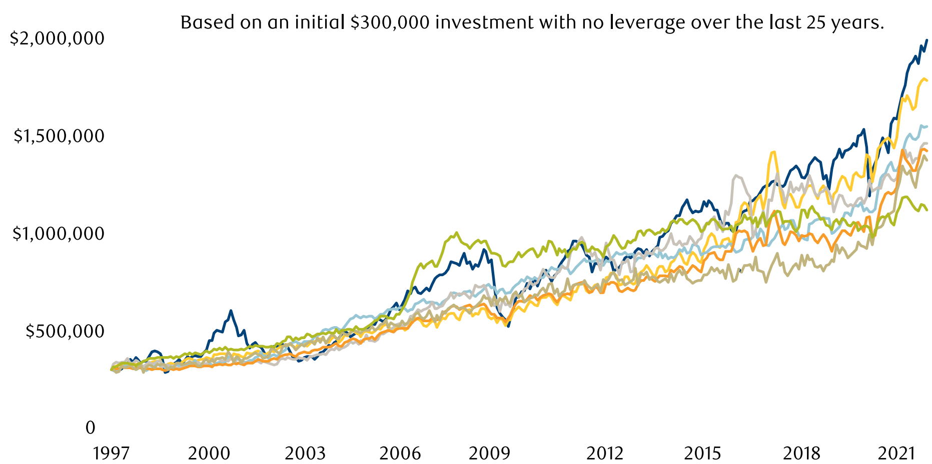
There are many factors to consider when comparing real estate and equity investments. As with any investment, first and foremost, you'll want to assess your goals and needs. It can also be helpful to understand the historical growth associated with these different asset classes.

In recent years, many Canadian real estate markets have been very strong, leading to a common view that real estate has been a better long-term investment than equities. Looking back however, the data suggests a closer look is worthwhile.

Long-term returns

As shown below, long-term Canadian equity returns have been higher than returns in various Canadian real estate markets.

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



Market	End value	Rate of return
S&P/TSX Composite Total Return Index	$1,985,959	7.9%
Toronto	$1,779,536	7.4%
Montreal	$1,545,808	6.8%
Vancouver	$1,458,463	6.5%
National Avg	$1,417,607	6.4%
Halifax	$1,371,928	6.3%
Calgary	$1,119,483	5.4%

Source: All data as of December 31, 2021. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). S&P/TSX Composite Total Return Index data compiled by 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.

Short-term returns

While short-term returns don't always align with longer-term averages, and using them to project future returns can be risky, they are a part of the bigger picture. As shown in the table below, in recent years, Canadian equities have outperformed Canadian average home prices.

	Annualized returns			
	1 year	3 years	5 years	10 years
S&P/TSX Composite Total Return Index	25.1%	17.5%	10.0%	9.1%
Canadian national average home price	17.3%	14.6%	8.7%	7.1%

Source: All data as of December 31, 2021. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). S&P/TSX Composite Total Return Index data compiled by RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions.

Looking at the bigger picture

When comparing two very different investments there can be a lot to think about. With respect to the market returns discussed above, here are some additional factors to consider:

- Real estate purchases are typically highly mortgaged (or leveraged), which can magnify both gains and losses. 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. The market data shown does not consider any borrowing costs.
- Costs associated with real estate such as commissions, taxes, maintenance and repairs are also not included in the market data shown. Neither is potential rental income. These would all impact investment returns in real estate.
- Transaction costs, investment management fees and taxes for equity investments are not reflected, which would negatively impact returns. Additionally, one cannot invest directly in an index and past performance is not a guarantee of future results.

When deciding between investments in real estate or equities, it is important to keep in mind that the best asset class for you will depend on your own unique investment goals, time horizon and risk tolerance.

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