



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. Although past performance is not necessary to occur in the future, it can also be helpful to understand the historical growth associated with these different asset classes.

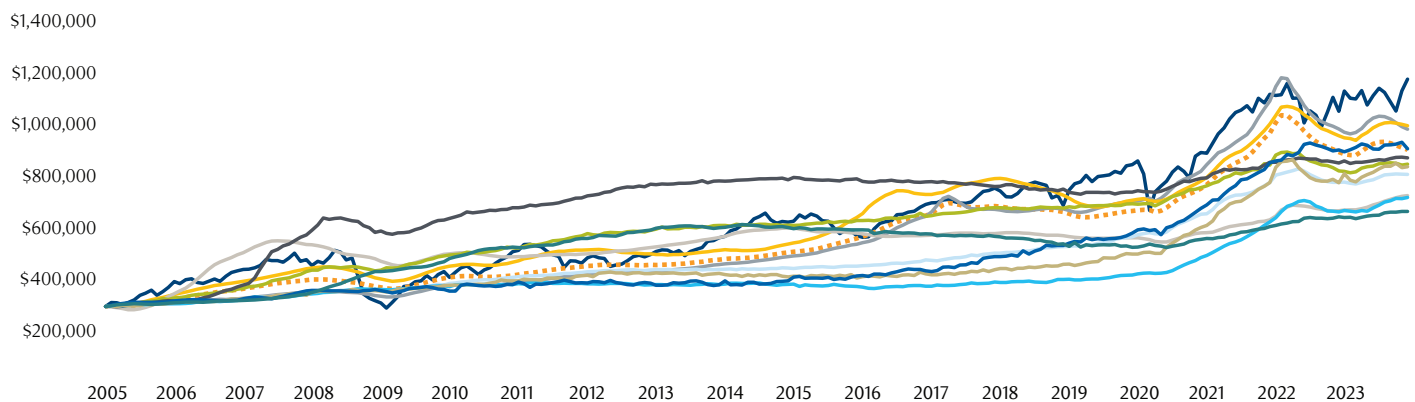
After decades of strength, many Canadian real estate markets experienced weakness in 2022. While housing supply and prices have bounced back slightly in 2023, some investors now expect the market to lose steam into 2024. Despite the challenges, investors continue to hold the belief that real estate has been a better long-term investment than equities. Looking back however, the data suggests a closer look is worthwhile.

A view of the long term

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

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

Based on an initial \$300,000 investment with no leverage over the last 20 years



Source: All data as of December 31, 2023. 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.

Market	End value	Rate of return
S&P/TSX Composite TR Index	\$1,180,315.40	7.45%
British Columbia	\$1,000,200.00	6.50%
Ontario	\$986,400.00	6.50%
Prince Edward Island	\$911,100.00	6.00%
National average	\$907,200.00	6.00%
Saskatchewan	\$875,400.00	5.80%
Manitoba	\$850,800.00	5.60%
Nova Scotia	\$841,200.00	5.60%
Quebec	\$811,500.00	5.40%
Alberta	\$729,600.00	4.80%
New Brunswick	\$722,400.00	4.70%
Newfoundland and Labrador	\$668,100.00	4.30%

While the one-year performance experienced in the housing market was flat, equity markets rallied. Over the long term, equity markets have generated consistent returns and they tend to outperform house prices over time.

	Annualized returns			
	1 year	3 years	5 years	10 years
S&P/TSX Composite Total Return Index	11.8%	9.6%	11.3%	7.6%
Canadian national average home price	0.7%	5.1%	6.3%	6.4%

Source: All data as of December 31, 2023. 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.

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.

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes, as of the date noted only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document.

Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

®/™ Trademark(s) of Royal Bank of Canada. Used under licence.
© RBC Global Asset Management Inc., 2024