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Comparing Canadian real estate to Canadian equities

When comparing real estate and equity investments, it's important to understand the historical growth associated with these different asset classes. 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 a more effective way to grow wealth compared to real estate

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



Sources: All data as of January 1, 1996 to December 31, 2020. 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.

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, taxes, maintenance and repairs are not included in the data. Neither is potential rental income. These would all impact investment returns in real estate.
- One cannot invest directly in an index. Transaction costs, investment management fees and taxes are not reflected, which would negatively impact returns for equity investments. 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.

Past performance is not a guarantee of future results. Interest rates, market conditions, tax rules and other investment factors are subject to change. You should consult your investment advisor, lawyer, accountant or other professional advisor when planning to implement a strategy. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC Global Asset Management (RBC GAM), its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.