Real Estate versus the Stock Market

Our family recently came across the original purchase agreement and trust indenture (mortgage) of our Grandparents' house in Vancouver, back in 1951.

They purchased their home on West 36th Avenue and Dunbar Street in October 1951 for $10,500. Our grandparents lived there happily for many years raising their three sons, hosting countless holiday dinners and building a legacy of memories. As our grandparents grew older and their health began to fail, they sold in 1996.

What is that property worth today? The 2018 BC Assessment was an incredible $4,646,000. Keep in mind the market value could be higher.

So what does that return on investment look like? Well from 1951 to 2017, or 66 years, we have calculated the annualized rate of return to be approximately 9.67%. This does not factor in home ownership costs such mortgage, insurance, upkeep and property tax.

Russell Investments conducted research from 1977-2017 with the following annualized returns:

Vancouver detached home:	7.83%
S&P 500 Index	11.5%
S&/TSX Composite Index:	10.0%

For illustrative purposes only: if one had invested $10,500 invested in the Canadian markets and used the above average rate of return, their portfolio could be worth an estimated $5,663,781 (not including taxes or investment fees). Keep in mind we are comparing against the hottest market in Canada. In contrast, RBC calculated the national average real estate return in Canada for 25 years ending in 2017 at 4.7%.

We often hear "You can't lose with real estate." or "Real estate is a better investments that the stock market." We like to remind all investors that:

1. We believe owning a home is financially prudent
2. Because a home is often ones' largest portion of their net worth, we encourage investors to diversify
3. Historically the Canadian and U.S. Stock markets have outperformed real estate
4. During certain periods, there can be over or underperformance from any of these three assets

Until next time…
Invest Well. Live Well.

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