

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.

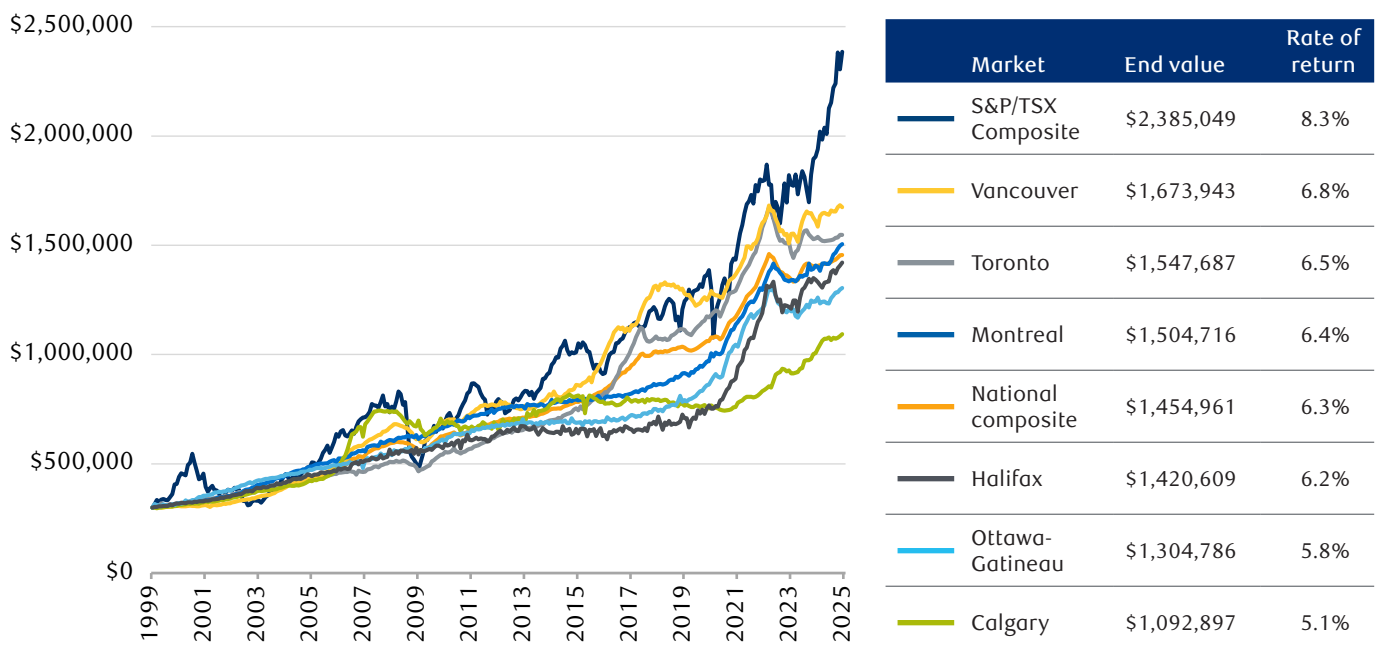
This report compares the long-term total return performance of the S&P/TSX Composite Index with that of residential real estate markets across major Canadian cities. While a direct comparison between real estate and stocks is fraught with many pitfalls, we believe the analysis provides a few high-level, 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 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-plus decades, however, both the stock market and real estate have delivered attractive long-term returns, in our view.** As the chart illustrates, despite a more volatile path, the S&P/TSX Composite has generated annualized total returns since early 1999 that are ahead of various Canadian real estate markets—including Toronto and Vancouver, which have experienced some of the strongest house price appreciation over the past 20 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*



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

Source - RBC Wealth Management, Bloomberg; data through 1/31/25. 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 Jan. 31, 2025, market close, unless otherwise noted.

Past performance does not guarantee future results.

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RBC Dominion Securities Inc.

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	25.1%	14.4%	10.0%	11.4%	10.3%	9.0%	8.9%	8.3%	8.3%
National housing composite	3.5%	3.7%	1.7%	6.5%	5.3%	6.3%	5.8%	6.1%	6.3%
Toronto	1.1%	1.1%	-0.7%	5.8%	5.2%	7.5%	7.2%	6.6%	6.5%
Vancouver	3.9%	5.3%	1.5%	5.8%	3.5%	6.9%	6.0%	7.0%	6.8%
Montreal	6.9%	6.2%	5.1%	9.2%	8.3%	6.6%	5.6%	5.8%	6.4%
Calgary	8.6%	8.6%	9.5%	7.7%	4.7%	3.0%	3.1%	4.9%	5.1%
Ottawa-Gatineau	4.9%	3.9%	2.5%	8.6%	8.2%	6.6%	5.2%	5.2%	5.8%
Halifax	5.8%	8.0%	6.1%	13.1%	11.1%	8.0%	6.3%	5.9%	6.2%
Edmonton	6.0%	3.5%	3.3%	3.5%	2.0%	1.2%	1.6%	3.9%	4.8%
Winnipeg	3.1%	3.2%	1.2%	4.6%	3.5%	3.2%	3.4%	5.2%	5.5%

Source - RBC Wealth Management, Bloomberg; data through 1/31/25. 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.

Moreover, the table reveals that home price gains in a number of major Canadian cities have moderated substantially under the weight of higher interest rates in recent years. While there have certainly been extended periods when housing prices have meaningfully outpaced the Canadian equity market, we note that **time horizon matters** and the S&P/TSX Composite has matched or exceeded the price gains of many local real estate markets as time horizons are lengthened.

Understanding the pitfalls of comparing stocks and real estate

Although how much each person's home has appreciated in value over time has become a common topic of discussion in recent years, most people purchase homes as a primary residence, and thus price appreciation may not be their chief focus. In contrast, investments in the stock market are typically made with the goal of long-term capital appreciation to meet an investor's financial objective. That said, some individuals treat 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 easily 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.

Moreover, 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—ranging from agent commissions and legal fees to land transfer taxes. The long-term costs of home or real estate ownership—property taxes as well as repair, maintenance, and renovation expenses—are another consideration that is often underappreciated, as investors tend to place too much emphasis on the initial purchase price.

Participating in the stock market, by contrast, is typically more accessible in terms of initial capital requirements, transaction costs, and achieving a prudent level of diversification across geographies, sectors, and industries.

We have omitted some other important factors, such as the impact of leverage (mortgage) on returns, tax treatment 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 differences and tradeoffs between the stock market and real estate is essential, 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. Importantly, investments in real estate and stocks are not mutually exclusive, and a residential property can certainly play a role in an 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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