The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 6 – Issue 7

Investing

Vancouver real estate as an investment

By Michael Chu, Investment Advisor

Real estate has been doing well in Canada, especially in Vancouver. Valuations seem to be stretched based on some factors, but there are a lot of reasons to support higher prices, too – such as desirability, supply and geographic constraints, historically low interest rates and a weaker Canadian dollar.

With house prices doing so well, we should look at whether Vancouver real estate makes sense as an investment alternative to stocks.

According to the Real Estate Board of Greater Vancouver, the benchmark price for a detached house in Vancouver has risen from about $400,000 to $1.1 million in the last 16 years. Those numbers are very impressive, and make real estate look like a great investment. But let's focus in on some of the details.

To go from $400,000 to $1.1 million over 16 years is a 175 percent profit. That seems like a really great investment. But 16 years is a long time. If we annualize that profit, it works out to 6.5 percent per year. That's still pretty good, but it's probably lower than your instinct told you the annual return would be. The reason is because it's such a long time period for those profits to occur.

How did the stock market do over this time? As you'll see below, if we put the same $400,000 into the stock market, it would be worth almost $1.3 million, or about $200,000 more than investing in a Vancouver house. To compare apples to apples, if we annualize the stock market returns, it works out to about 7.5 percent per year, or about one percent more per year compared to a Vancouver house.

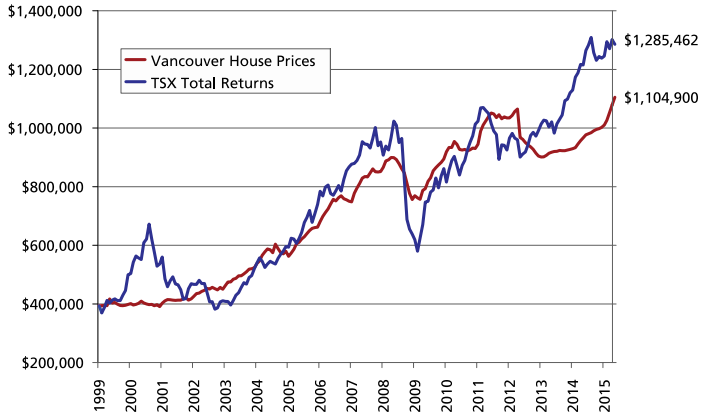
Keep in mind that this is just a simple example. We're ignoring a lot of real-world factors, such as taxes, rents, maintenance and fees. But our point is not to identify which investment had better returns. Rather, it's to ensure that, when evaluating investments, we are indeed comparing apples to apples and taking a long-term approach. The bottom line is that it's important to be diversified between major asset classes like real estate and the stock market.

Michael Chu is an Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

To learn more about CIBC Wood Gundy, the Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.

Vancouver Real Estate vs Stock Market

Jan 1999 - May 2015



Source: Bloomberg, Real Estate Board of Greater Vancouver

CIBC Wood Gundy | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

Stan Clark is an Investment Advisor with CIBC Wood Gundy in Vancouver, BC. The views of Stan Clark do not necessarily reflect those of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors.
If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund.