

PERSPECTIVES

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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.

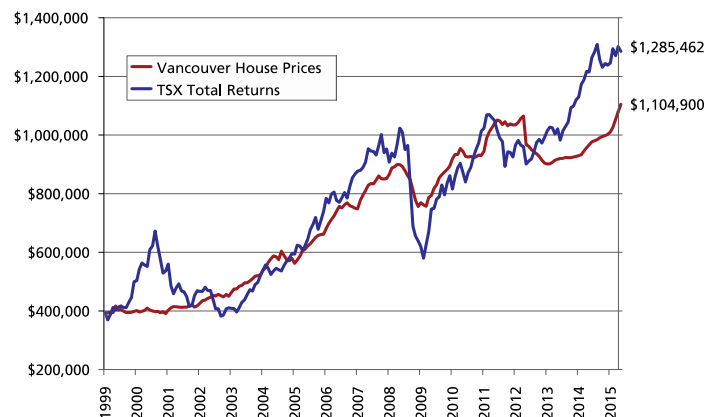
Keep in mind that this is just a simple example. We're ignoring a lot of real-world factors, such as taxes, rents, maintenance and fees. But our point is not to identify which investment had better returns. Rather, it's to ensure that, when evaluating investments, we are indeed comparing apples to apples 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.



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Vancouver Real Estate vs Stock Market
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Source: Bloomberg, Real Estate Board of Greater Vancouver



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