Are Stocks a Better Investment Than Real Estate?

Description

Buying real estate is a big decision, but whether it's better than investing in the stock market is a question that investors shouldn't be overlooking. Home prices have increased over the years, but so too have stock prices. There are different pros and cons to each option, and there are many factors to consider, which I'll examine in a bit more detail below.

Which option will give you a better return?

This is undoubtedly one of the most important questions, since it determines how much you'll earn from your investment. Let's assume you've got about $1,000,000, which, according to the Canadian Real Estate Association, is about what you'd need to buy a home in just about every market (if you're eyeing the Greater Vancouver area, you'll still need a bit more).

If you'd bought a home five years ago in the biggest markets in B.C., you could have expected to earn a return of around 80-93% on average. In the Toronto area, you're looking at closer to 60%, and in the two big Alberta markets, you'd be in the low single digits. Like the stock market, you've got to know where to put your money. No stock is the same, and every market is very different when it comes to real estate.

The aggregate return is close to 45%, however, so, for argument's sake, we can take that as our benchmark.

If you're looking at stocks to invest in, you can still benefit from rising real estate values. Real estate investment trusts (REITs) can offer investors a portfolio of properties to invest in and can give you a great way to diversify your holdings.

One of the first investments I made was in **RioCan Real Estate Investment Trust** (TSX:REI.UN). The idea was definitely appealing to me, especially with property values continuing to rise and RioCan having a broad and diverse set of assets.

Unfortunately, investing in a REIT is not quite the same as investing in real estate, and while property values may have averaged strong returns during the past five years, RioCan's stock has risen just

3.5% over that period. It hasn't been my best investment, but it currently pays a good dividend of over 5%, which provides investors with a good stream of recurring cash flow.

But you don't need to invest in REITs, there are countless other stocks to invest in that are safe bets to appreciate in value. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is one of the country's top bank stocks and is a safe investment to make. During the past five years, its share price has risen by 80%, and that's without taking into account its dividend, which has grown over the years and likely will continue to do so.

The math

If your $1,000,000 home doubled in value, you'd be looking at north of $60,000 in fees when you sell. You could avoid paying taxes if it is your principal residence, and that's the big tax advantage when it comes to investing in real estate. A profit in the stock market of $1,000,000 would mean half of that would be taxable and, even at a rate of 30%, would come in well above what you'd pay your realtor and other fees related to selling your home.

Bottom line

While you have the potential to earn more with real estate under the right conditions, for the risk involved, lack of diversification, and poor liquidity, stocks offer the more balanced investment. If you want to invest in real estate, you also need a lot of money to do so, especially in markets where returns have been the greatest. Stocks, however, offer a lot more flexibility and don't require a huge balance in your savings account for you to get started.

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Author
djagielski