Should You Buy Real Estate or Stocks?

Description

It's hard not to notice that Canada's real estate market is booming. Prices are rising in virtually every major city, and activity is rising as well. According to a recent *CBC* article, prices rose an astounding 41% year over year in April. That was one of the highest year-over-year prices increases in recent memory.

If you're looking at all of this, you might be eager to buy a house. Whether you want to live in a house or rent it, there are many advantages to home ownership — a place to stay, rental income, and capital gains being just a few of them. But the same characteristics that have made Canadian homes such a valuable investment have also created a barrier to investing in them. With high prices come big mortgages, and not everybody can afford to service $700,000 (the average Canadian home price) in debt. Even with rock-bottom interest rates, it's a lot to take on.

Faced with this dilemma, you might be interested in investing in stocks. Stocks usually sell for low individual prices, making them easy to get started with. Anybody with $100 and a Questrade account can begin trading in stocks. But not everybody can just go out and buy a house. In this article, I'll explore the advantages of stocks and real estate, so you can gauge which is right for you.

The case for real estate

The main case for owning real estate is that it's less volatile than stocks. Real estate prices tend to appreciate in a fairly smooth, steady pattern. Stocks, however, are going up and down all the time. In the 2000s, we've seen three major downturns in stocks: in 2000/2001, 2008, and in 2020. In only one of these periods (2008) did real estate go down as well. Even then, it was mainly the U.S. housing market that crashed; Canadian real estate was relatively unaffected. If you buy real estate, you'll experience much less volatility than you will with stocks. That's a big plus for real estate. Now, let's look at stocks.

The case for stocks

Stocks have a number of advantages over real estate. In addition to the point I've already mentioned (the fact that you can get started with less money), there's also

- Potential for "faster" gains. It's not uncommon for a stock to rise 100% in a year. That rarely happens with real estate;
- Tax benefits. You pay no property tax on stocks, and you pay no tax whatsoever if you hold them in a TFSA; and
- Sophisticated trading strategies. It's pretty easy to use derivatives and advanced data-driven methods with stocks, not quite as easy for real estate.

Why choose?

So far in this article, I've highlighted the case for real estate and contrasted it with the case for buying stocks. But truth be told, it's a false premise. You don't need to "choose" between the two at all, because you can buy real estate that trades on the stock market.

That is by buying REITS like **Killam Apartment REIT** (TSX:KMP.UN). REITs like Killam trade on the stock market, and you buy and sell them just like you would any other stock. With $100 and a Questrade account, you could buy approximately five shares of Killam. You'd immediately begin earning dividend income and potentially see the value of your REIT units rise. Capital gains from KMP aren't guaranteed, but the dividend income is pretty safe. KMP's dividend is well covered by earnings (it has a very low payout ratio for a REIT), and it will generate more rental income as the economy recovers. Overall, it's a great asset to consider that lets you side-step the decision of investing in real estate versus investing in stocks.

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