Real Estate Investing vs. Stock Investing in the Last 7 Years

Description

Canadians thinking about real estate investing might wonder how it fares against stock investing. In other words, is it better to invest in real estate or stocks?

Real estate investing vs. stock investing returns comparison

According to Ratehub, the average Canadian home price doubled, returning a compound annual growth rate (CAGR) of approximately 8.8%, over the last seven years. There are costs in real estate ownership, though, including property insurance, property tax, repairs, and renovations. Thankfully, you could also potentially earn rental income by renting out a room, for example. Of course, you'll have to pay corresponding rental income taxes. So, the real rate of return for real estate investing is not a simple calculation.

Using the **S&P 500 Index** and **iShares S&P/TSX 60 Index ETF** as proxies, in the last seven years, the U.S. stock market delivered annualized returns of about 11.5%, while the Canadian stock market's return was almost 8% per year. Technically, you can now trade with $0 fees on trading platforms. Even when you have to pay a fee, it's still an acceptably low fee.

What's non-calculable about owning a home is the peace of mind of living in your own place. After all, renters are essentially helping their landlords pay down their mortgages. You're building equity in a long-term investment when you invest in a real estate property. As the adage goes, it's time in the market, not timing the market when it comes to buying real estate investments that are for long-term investing.

Investing in practice

Another complication in calculating returns for real estate investing is that leverage is used. Seldom do Canadians pay entirely in cash for a property. By using leverage, your rate of return increases when you ultimately sell after many years (potentially in retirement) when your property price is much higher. Simultaneously, interest expense needs to be accounted for. However, as long as your mortgage interest expense is lower than the appreciation of the property price, you're making money.

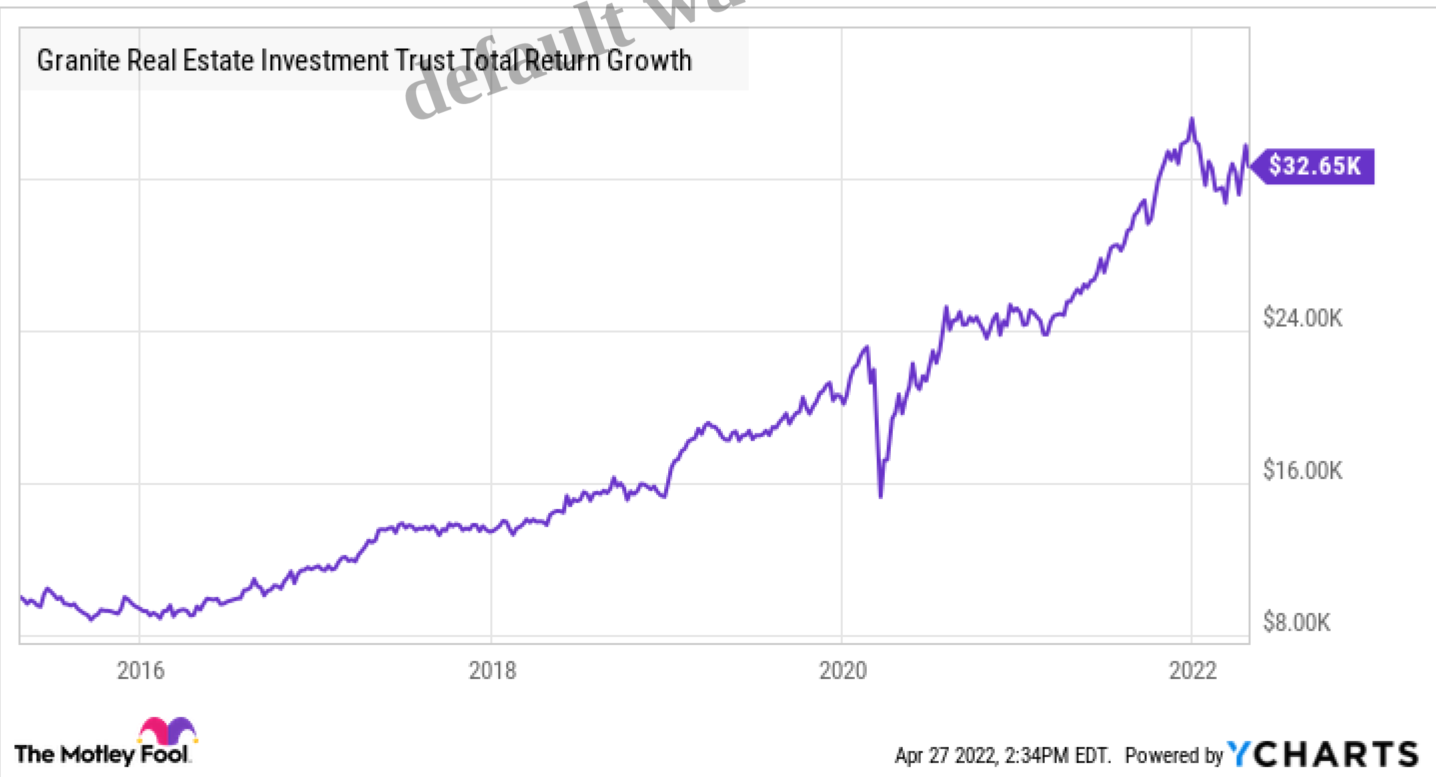
Generally, it's seen as an advantage for investments to be liquid — that is, you can easily convert them to cash. Stocks are more liquid than real estate properties. However, it could be a bad thing if, for example, during market corrections, even quality stocks can be shaken out of weak hands, leading to stock investors booking losses. From this perspective, it could be advantageous to invest in illiquid real estate.

Real estate investing in stocks

Often, the ultimate goal of investing is receiving predictable and growing income. Real estate investment trusts (REITs) can provide this benefit without the responsibility of being a landlord and managing properties.

For example, industrial REITs continue to lead the real estate sector with persistent stock price growth in the long run. One leading industrial REIT is **Granite REIT** (TSX:GRT.UN), which has delivered a CAGR of 18.4% in the last seven years.

The thing is that you're not going to invest the amount that you would invest in a real estate property in stocks. That said, a $10,000 initial investment would have turned into a fabulous amount of about $32,650. Past returns don't translate into future returns, though.



GRT.UN Total Return Level data by YCharts

Granite REIT’s three-, five-, and 10-year cash-distribution growth rates are 3.3%, 4.4%, and 14.3%, respectively. So, its dividend growth has slowed in recent years. At writing, it offers a decent yield of almost 3.2%, but the stock appears to be fully valued now. As a result, it would be a goodconsideration on meaningful dips.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:GRT.UN (Granite Real Estate Investment Trust)

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