EXPERT CONTRIBUTOR

REAL ESTATE

Returns May Surprise You

By Brianne Gardner

I once read an article, a tongue-in-cheek piece, that stated the year was 2043 and the average house price in Vancouver was now $25 million. While the thought of that sounded ridiculous, if you assume that the double-digit price growth lower mainland, as well as Toronto, real estate has sometimes seen will continue, the math behind the calculations was not wrong.

Use any financial calculator or online compound interest calculator and you'll see that $1.5 million, growing at 12% compounded annually for 25 years will grow to $25.5 million. The rule of 72 shows that a 12% return will double every 6 years.

Historically though, real estate has generally risen in price at a much more modest rate over the long term; surprisingly much lower than most would assume even in lofty Vancouver and Toronto. Sure, we have seen price spikes every ten years or so that can result in 10%+ growth rates short term, or certain neighbourhoods have seen above-average growth for a few years but that's unsustainable long term as illustrated by the example above. Even just five to six years of those growth rates can make housing incredibly unaffordable for many, as we see today.

Those who bought houses for under $200,000 decades ago and can now sell for $1.7-$2 million are often shocked to learn they have only made 5-7% return on their real estate over those 25-40 years. In fact, if they had invested $180,000 in the stock market 30 years ago, they could have $2.4 million today, considerably more than the return on real estate alone.

That's assuming a straight-up comparison though. Dollar for dollar, the stock market has outperformed real estate over the long term. In reality, most real estate is leveraged and stock portfolios aren't, which significantly changes the math. When you're only putting up 10-20% of the purchase price and seeing price growth of 6-7% on the total, you're now making double-digit returns on the down payment, but don't forget to factor in the mortgage payments in the return calculations. Regardless of returns, I also fully support the idea of buying a house to live in simply because of the forced savings and the tax-free growth that comes with it.

Year of purchase	1977	1980	1986	1995	2005	2014
Current year	2021	2021	2021	2021	2021	2021
Number of years owned	44	41	35	26	16	7
Purchase price (including renos)	$ 80,000	$ 180,000	$ 125,000	$ 500,000	$ 575,000	$1,200,000
Current value	$1,700,000	$1,700,000	$1,700,000	$1,700,000	$1,700,000	$1,700,000
• average house price Vancouver						
Annualized growth rate	7.19%	5.63%	7.74%	4.82%	7.01%	5.10%

Owning rental properties for investment can work well for some people but there are many considerations to factor in. Being a landlord comes with its own challenges and risks. Again, adding leverage can increase the potential expected returns, but lack of liquidity and overextending on debt levels can backfire with any financially stressful situation. I believe diversification is key for all your assets and investments, and talking to an experienced wealth advisor who can create an investment plan that maps out your options is always a good idea.

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