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Rev N You with Real Estate

Real Estate Vs. Stocks

Dear Dave,

"If you have an apple and I have an apple and we exchange these apples, then you and I will still each have one apple. But if you have an idea and I have an idea and we exchange these ideas, then each of us will have two ideas." - George Bernard Shaw

It's hard not to get swept up in the chaos of the holiday season and forget that sometimes the simplest things are what make an experience special. That's why we chose to open with the above quote this month. We share our ideas and experiences with you, and many of you have shared yours with us (THANK YOU!). We write Rev N You each month to, at the very least, entertain you for a few minutes, and hopefully help you invest in real estate along the way.

This month we're taking a look at where you get the best bang for your buck: investing in real estate or investing in stocks. Diving into the math with some examples, we answer which vehicle has the better return on investment.

Welcome to the eighteenth edition of our newsletter - Rev N You with Real Estate.

Merry Christmas and Season's Greetings!

by Dave
Peniuk &
Julie Broad

We wish all of our readers a wonderful holiday season. May your 2008 be filled with realistic but lofty goals, good health and happiness!

As you sit down to review your goals for next year (you are planning on doing that, right?), if you find a topic you want us to cover in a future edition please let us know. If we don't know the answer, we will try and find it for you.

Real Estate Investing Vs. Buying Stocks

by Dave
Peniuk

Which has the better ROI?

At the end of the day, your investment portfolio should be diversified. It's not about holding just real estate or just stocks. But, most of you aren't satisfied with that answer. You've asked for more analysis on which investment vehicle - Stocks or Real Estate - has the better Return on Investment (ROI)?

I won't get into all of the qualitative reasons why I love real estate investing. If you've been reading our newsletter for awhile you know that "kicking the bricks" and having control over the outcomes are two of the main reasons I put more focus on my real estate portfolio than my stock portfolio. For today, I'll stick to numbers.

Before we go into the numbers, I need to explain a few things. When I refer to **real estate**, I mean an investment property, not a home. Someone is paying rent. Also, I am going to use B.C. average values over the last 15 years. B.C. prices have surged in the past 5 years, but the 10 years prior to that were far from stellar. So, we are looking at averages.

On the other side, I look at the widely used **S&P 500** as the stock average return. It's often used as an indicator of the broader market and includes both growth companies and value companies along with NASDAQ and NYSE traded companies. And, for simplicity, I am assuming that the investment property garners enough rent to cover your mortgage, taxes, management, insurance and miscellaneous other costs but doesn't put any extra in your pocket. Thus, it's a "neutral" cashflow property.

Alright, let's look at the numbers:

- Average B.C. home price in 1992: \$200,000
- 25% down: \$50,000
- Mortgage value of \$150,000, rate of 7.5%
- 25 year amortization, Monthly payment: \$1,097
- Principal remaining in 2007: \$92,913
- Average B.C. home price in 2007: \$450,000
- Average Annual Appreciation: 8.3%
- Average Annual ROI (excluding principal paydown): 26.7%
- **Avg. Annual ROI (including principal paydown): 40.9%**

The assumptions I made included keeping the interest rate the same for 15 years at 7.5% (which is high compared to the past 6 years, but about average historically), that the property has not been refinanced to pull out any equity, and that rent covered all expenses and upgrades. In other words, no additional money was invested out of pocket over the 15 years (this would decrease our ROI).

Now, let's look at stocks using the S&P 500. **The average annual 15 year return has been 15.8%**. Compared only to the appreciation on our property investment, investing in the S&P 500 15 years ago would have given you almost double the return (15.8% vs. 8.3%) that buying a rental property would have given you. But, **when you look at stocks versus your ROI including principal paydown on the investment property, its 15.8% vs. 40.9%**. Assumptions with the stock return analysis included no reinvestment of any dividends, no fees for buying or selling the stocks,

and no capital gains paid or capital losses taken for tax write offs. But it's important to note, no tax write offs were included for real estate either. And the write offs for real estate can be plentiful.

Real estate is a much stronger investment because of leverage.

Your investment is usually a maximum of 25% of the property value, a renter is paying down your mortgage, and the value of the property over the long term, almost always goes up.

Just to further make the point, let's look at the same example, but in the past 10 years instead.

- Average B.C. home price in 1997: \$219,915
- 25% down: \$54,979
- Mortgage value of \$164,936, rate of 6.8%
- Principal remaining in 2007: \$128,613
- Average Annual Appreciation: 10.5%
- **Average Annual ROI (including principal paydown): 48.5%**

The comparable S&P 500 over the past 10 years: 5.1%. This low return was mostly due to the Dot Com crash in the early 2000's. But this example is even more dramatic than the first. **With stocks producing a 5.1% return vs. real estate's 48.5%, I know where I would want my money.**

The story doesn't end there. And, as I said at the start, it's not about choosing one over the other every time. It goes back to your goals. And, although real estate is the clear winner in terms of ROI, there are significant challenges with buying and owning real estate vs. stocks.

I have included a couple of good articles below which detail some of the pros and cons to both investment vehicles so please check them out. Choosing to own real estate as an investment, or even choosing to own your home can, and should, require some work. It's not an "easy" game that you can simply jump into. But, if you determine your objectives, do your research, and save some money for your down payment (or find other's who have it), you can go a long way with your dollar in the real estate sector.

Check out the following articles for a continued battle between real estate and stocks. [CNN Money's Article](#) has a lot to do with why people don't choose real estate. And as a counter article, you can see [Ozzie Jurock's article](#) here.

A Special Announcement!

by Julie
Broad and
Dave Peniuk

The time is quickly approaching where we'll launch our **Rev N You with Real Estate website!** It's been a long time coming, but we're very excited

as our "GO LIVE" day is almost here.

What can you expect from our website? Initially you will find all of our previous newsletters along with links to useful online resources. In early spring, once we're back from our honeymoon, we're going to launch our blog where you can share your stories and questions with all of the Rev N You readers and visitors, and we'll be introducing some other new products and services.

As a thank you to all of our loyal and wonderful readers, we'll be giving you a launch gift... a tool for your investing tool box.

Watch your email first thing in the new year for our official launch announcement and the link to your special gift.

Rev N You - Next Edition

Remember to look for our New Year's edition where we'll discuss:

- Buying Pre-Construction - Is it Worth It?; and
- A New Year....New Goals?

If you know someone who would enjoy and/or learn from our tales, please pass this along. If you want to continue receiving this, please subscribe below.

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