

“Is a principal residence is the cornerstone of a healthy financial plan in Canada?”

If you're like me, you know someone who has bought a 2nd house or condo as an investment property. The most common thing I hear is that this is their retirement plan. The reasoning is simple real estate goes up over time and someone else is paying your mortgage. These are good reasons and it's a strategy that has worked, but remember the 80s and 90's when it did not. Raising interest rates or a recession can cause substantial drops in the value of real estate. In 2008/2009 in the United States many investors had to sell their second property at fire sale prices. If you own quality assets for the long term everything will work out fine.

As an investment advisor I need to make decisions using the facts of today to make assumptions about the future. Let's look at the facts.

We have been in a declining interest rate environment for the last 25 years which has made the cost of borrowing cheaper and cheaper. Mortgage rates in the 90's were in the 7% range, and today they are half that so with the same income, a person can effectively borrow twice as much today. This has driven home prices up everywhere. Banks are currently offering some of the lowest mortgage rates in history. But what happens when rates start to rise? The cost of borrowing goes up and affordability for buyers decreases which will have a negative impact on housing prices.

What else impacts borrowing? Your existing debt load. Canadians are sitting on the highest debt levels in decades. With debt levels so high you can't expect borrowing to continue at the same pace in the future. I think we can safely say that potential returns going forward will not continue at the same levels. So is there a better option? Yes, and it has grown more than real estate over the last 25 years. In this example Invesco is showing what an investment in their two flagship Mutual funds would have grown to via the same investment into Real Estate.

Again let me reiterate a principal residence is a very important asset for Canadians especially because of its tax free status. Higher home prices have made it difficult for younger and lower income citizens to participate in Canada's robust housing market. That is why Mindset Wealth has partnered with Habitat for Humanity in the Comox valley. More now than ever before, people require a hand up rather than a hand out to enter our housing market. Mindset Wealth has agreed to match contributions to Habitat's campaign up to \$ 5,000.

Regional real estate growth versus Trimark Fund and Trimark Canadian Fund (since 1981)

City	Starting investment	Inflation-matched investment ¹	House value ²	Trimark Fund, Series SC ³	Trimark Canadian Fund, Series SC ³
	Sept. 30, 1981	Dec. 31, 2014	Dec. 31, 2014	Dec. 31, 2014	Dec. 31, 2014
Victoria	\$185,000	\$454,286	\$571,200	\$7,440,867	\$3,998,498
West Vancouver	\$339,000	\$832,448	\$1,950,000	\$13,634,885	\$7,326,977
Edmonton (Riverbend/Terwillegar)	\$170,000	\$417,452	\$560,354	\$6,837,553	\$3,674,295
Calgary (South West)	\$220,000	\$540,232	\$541,300	\$8,848,598	\$4,754,970
Regina (North)	\$129,000	\$316,772	\$505,000	\$5,188,496	\$2,788,142
Winnipeg (Charleswood)	\$115,000	\$282,394	\$480,750	\$4,625,404	\$2,485,553
London	\$96,000	\$235,738	\$342,800	\$3,861,206	\$2,074,896
Toronto (North)	\$235,000	\$577,066	\$1,710,625	\$9,451,912	\$5,079,173
Montreal (Beaconsfield)	\$126,900	\$311,616	\$545,625	\$5,104,032	\$2,742,753
Fredericton	\$95,000	\$233,282	\$295,000	\$3,820,986	\$2,053,283

Note: The values for inflation-matched investment, Trimark Fund and Trimark Canadian Fund assume that the starting investment was made on September 30, 1981.

¹ Inflation source: Consumer Price Index (CPI). CPI is an index representing the rate of inflation of Canadian consumer prices as determined by Statistics Canada. It was used to calculate the inflation-matched investment, which shows the value to which an investor's starting investment would have to grow simply to maintain purchasing power (keep pace with inflation).

² Comprised from the Royal LePage survey of Canadian House Prices on the average price of an executive detached two-storey home. For primary homes, factors such as municipal taxes, maintenance, costs, savings on rent and no capital gains tax on disposition are not accounted for. For investment purposes, rental income that the owner may gain during the holding period is not accounted for.

³ Inception date: September 1, 1981.

