

Real Estate vs. Funds

AGF SOUND CHOICES

The Real Estate Debate

A number of investors are choosing to invest in real estate often at the expense of building a diversified portfolio. But is it really the best solution at all times?

	Real Estate	Diversified Portfolio of Funds
Diversification	<ul style="list-style-type: none"> • Residential, commercial or industrial? • # of properties? • Geography? Having multiple properties in the same geographic area can lead to concentration risk. If real estate values go down, it can have a negative effect across all your properties 	<ul style="list-style-type: none"> • With a diversified portfolio, you can minimize the risks by investing in different asset classes, regions and sectors
Liquidity	<ul style="list-style-type: none"> • Not considered a liquid investment – may take months to sell – and once sold, could have a long closing period • During this time, property taxes, mortgages and other expenses still need to be paid • If you suddenly need to sell a property, this can be costly and you may need to reduce the price • Cannot sell a portion of a property 	<ul style="list-style-type: none"> • Generally highly liquid • For example, if you need to sell your funds, this can be done within two or three days with minimal to no cost (please refer to the fund's prospectus for more details on what selling costs may apply) • Able to sell part of the portfolio
Minimum investment required	<ul style="list-style-type: none"> • Relatively high 	<ul style="list-style-type: none"> • Low
Expenses	<ul style="list-style-type: none"> • May manage on your own or need a firm to manage your properties, given the time and effort required • Can be unpredictable – management fees generally cost 6%-12% of the monthly rental value¹, which doesn't include the ongoing maintenance of the home • Transaction costs approximately 4%-11%² 	<ul style="list-style-type: none"> • A fund's Management Expense Ratio (MER) pays for the maintenance, rebalancing and ongoing advice received • Costs are known – MERs typically 0.6%-2.3%³ • Transaction costs usually zero to low

¹ Source: <https://www.allpropertymanagement.com/resources/ask-a-pro/posts/how-much-property-managers-charge/>

² Source: <https://www.globalpropertyguide.com/North-America/Canada/Buying-Guide>

³ Source: Morningstar Global Investor Experience Study: Fees and Expenses, September 2019. Asset-weighted median expense ratios – Fixed Income: 0.60%-1.49%. Equity: 1.05%-2.28%. Allocation: 0.91%-2.04%.

The important thing to remember is that a properly balanced portfolio can help mitigate risk, can also increase in value over the long term, all while costing less to manage compared to investing in real estate alone.

	Real Estate	Diversified Portfolio of Funds
Economic factors	<ul style="list-style-type: none"> • Vacancy rates rising – best tenants may have already bought • If the property becomes vacant or is damaged, still have to pay mortgage / other costs • Mortgage rates remain low, but if interest rates rise, that can have a significant impact on your monthly cash flow 	<ul style="list-style-type: none"> • Economy growing or declining • Fees generally fixed
Timing	<ul style="list-style-type: none"> • When is the right time to get in? • What is the length of time you want to hold on to the property? • What's the current balance between what you can afford, and the mortgage rates? 	<ul style="list-style-type: none"> • Decisions can be smoother, less stressful and less time consuming working with an advisor
Tax efficiency of income⁴	<ul style="list-style-type: none"> • Net rental income taxed as income • Disposition can be taxed as income⁵ or capital gains for non-principal residence 	<ul style="list-style-type: none"> • Distributions can include interest, dividend income, other income, capital gains and return of capital • Dispositions can be taxed as income⁵ or capital gains for taxable investors

To find out more contact your financial advisor or visit AGF.com

⁴ Assumes a Canadian investor holding Canadian real estate/securities

⁵ If you are considered to be in the business of buying and selling property/securities, or recapture from claiming excess capital cost allowance.

Commissions, trailing commissions, management fees all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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