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Stop treating your home as an investment, a nest egg and a retirement plan. It's just a place to live

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Your house was never really meant to be treated as an investment.

A couple of decades of delirious price gains just made it seem like a good idea. Until the investment case unravelled.

First, ultralow interest rates went away. Home prices at a national level promptly peaked and have been stagnating over the two and a half years since.

But there is more to this story than rates. Many of the forces that sustained Canadian real estate for so long continue to weaken. Policy is shifting toward improving affordability – that is, lowering home prices or at least holding them steady. Immigration levels are under serious review. And extreme weather linked to climate change is making a growing share of the national housing stock uninsurable.

The math is changing quickly. But in a country obsessed with real estate, perceptions are much stickier.

A generation of Canadians have treated housing as an asset class, an instrument of financial speculation, a nest egg and a retirement plan.

Opinion: Housing affordability is in the trash can, but you can buy a first home at age 45 and still do OK

About three-quarters of Canadians still think real estate is the best long-term investment, according to a Leger poll conducted last fall on behalf of Re/Max Canada.

The belief that a home is an infallible investment has been seeded into the minds of a young cohort by homeowners who hit the jackpot. You can't really blame them. Building up $1-million in home equity will turn you into a real estate evangelist pretty quickly.

But heeding that advice isn't working out as well for the generation that followed. Plenty of them stretched themselves too thin financially to enter the market in the first place and are now at risk of falling off a mortgage cliff when it comes time to renew at far higher rates.

The fact is, excessive belief in rising housing prices was always problematic.

For starters, studies consistently show that the stock market is the better long-term performer than residential real estate.

Up until roughly 2005, the average home appreciated at little more than the rate of inflation in much of the country. Housing investments, however, do get the benefit of leverage, as well as preferential tax treatment. But still, those kinds of returns don't exactly quicken the pulse.

The two-decade stretch that followed, however, proved to be a big outlier in Canadian real estate history. The average home price increased by roughly 8 per cent annually over that time, according to the Canadian Real Estate Association's aggregate home price index.

From pensions to health benefits, the absence of inflation indexing is making us poorer

Even for someone who timed the market impeccably, their home is an imperfect financial asset. "Many of them who bought 20 or 30 years ago are now retiring and finding that unlocking the equity in their homes is a lot harder than they thought," said Preet Banerjee, a wealth management consultant.

How do you tap into that wealth? You could turn to a home equity line of credit or a reverse mortgage. But they can be expensive and risky, and they may not appeal to those who have spent decades paying off a mortgage.

Do you downsize? If so, where are you going to live? Renting is an option, but you may be in for some sticker shock when you see the going rate these days.

A byproduct of the Canadian housing craze is that it has left far too many people wildly overexposed to housing as an asset. One-third of Canadians are relying on their home as their only financial plan for retirement, according to Leger data released by Re/Max last week.

There are obvious risks to this approach. Such an extreme lack of diversification leaves one vulnerable to the whims of the housing market. In finance speak, that's called "idiosyncratic risk." And Canadians are swimming it.

Just look at Windsor Ont. Its flood-prone geography has left it exposed to intense storms that are happening with increasing frequency. And insurers are considering whether certain neighbourhoods are too risky to underwrite.

Young adults increasingly find their best financial move is to live with their parents – is that bad?

There are already 1.5 million homes in Canada, representing 10 per cent of the housing stock, that do not qualify for flood insurance. It's a number that can only go up.

There are other big risks weighing on the long-term outlook. Government policy is starting to come around to the idea of improving affordability, which is a major break from the past.

"Policy makers were sensitive to anything that would bring home prices or rents down, treating it almost as a political third rail," said Mike Moffatt, a senior director of policy at the Smart Prosperity Institute.

Prime Minister Justin Trudeau recently floated the idea of lowering the number of permanent residents Canada accepts from abroad from the current rate of 500,000 per year. "If that gets ratcheted down to 200,000 or 300,000 that's going to play a massive, massive role in the housing market," Mr. Moffatt said.

This isn't meant to discourage would-be homebuyers. This may very well prove to be a good time to buy, before the market makes its inevitable comeback.

But treating housing as an investment has led us down a bad path. We need to remember the primary purpose of a home: a place to live in, enjoy and fill with mediocre IKEA furniture.