



## Why I'm Wildly Bullish on This "Overvalued" Property Market

### Description

Swiss bank UBS has compiled the numbers, and they don't look good for the [Toronto real estate market](#).

According to the bank's global real estate bubble index, Toronto is the world's second most overvalued real estate market, trailing only Munich, Germany. Other members of the top five include Hong Kong, Amsterdam, and Frankfurt. Another Canadian city made the top 10, with Vancouver slotting in at sixth.

Reasons for Toronto's prominent ranking include the fact its real estate tripled between 2000 and 2017 — without a corresponding rise in personal income — as well as the market's resiliency, despite actions taken by governments to limit price increases. Despite a foreign buyer's tax and changes to mortgage qualification standards, Toronto's housing market keeps on marching higher.

Naysayers have been saying for years that Toronto [real estate is in a bubble](#), pointing to metrics like the market's sky-high price-to-income ratio and the minuscule return on investment offered by renting out a well-located condo. The factors identified by UBS are just the icing on the cake, at least according to bears.

I couldn't disagree more. In fact, I'm a big believer in the Toronto property market and have positioned my portfolio so I have investments in the city, despite nearly everyone saying the market is in a bubble. Here's why.

### Premium space downtown

Even though my generation is getting older and my peers are having children, many of them are resisting a more typical path. They don't want to leave their downtown digs for a house in the suburbs. They want to remain living close to work and entertainment. Wouldn't you?

It's also obvious there's a huge housing shortage in Downtown Toronto, too. Despite all the cranes you might see in the sky, builders are actually showing a fair bit of restraint. A common criticism is, developers are sitting on certain properties, content to wait years to figure out what to do with them.

The booming construction sector doesn't help either; some developers are having a hard time finding enough skilled labour to keep up with demand.

Toronto has long been the financial capital of Canada, taking that title from Montreal years ago. Now the city is in the middle of a second jobs boom, this one in technology. The world's largest tech companies are aggressively expanding in the Greater Toronto Area, bringing in well-paying jobs. This only serves to push real estate prices higher.

Finally, we have the greenbelt, a huge swath of green space that goes through the heart of the region. This helps to keep real estate supply low, which inevitably increases prices.

## How you can invest in Toronto

Short of going out and buying your own condo on Queen Street, investors can make a passive investment in Toronto real estate by purchasing **Dream Office REIT** ([TSX:D.UN](#)) shares.

Dream has transformed itself over the last five years, going from a company with huge exposure to the Calgary office market to one with a big focus on Toronto. 80% of Dream's rents now come from office buildings in Downtown Toronto, with an additional 10% from the city's suburbs. If you think Toronto is still a great market, then you're going to want to own Dream shares.

The company is well positioned to keep growing, too, with a solid balance sheet that can be used to fund new building purchases, as well as a relatively low dividend with a yield of just over 3%. This frees up cash that can be put to work in new buildings.

Dream also has the opportunity to redevelop some of its Toronto properties, adding things like additional office space or new retail shops. One example is 250 Dundas Street West, a property spanning 122,000 square feet today. The company plans to expand it into a mixed-use space of nearly 500,000 square feet.

## The bottom line

Despite a massive run-up in Toronto real estate market, I'm still wildly bullish on the city and the value of its houses. Perhaps you should join me and invest in the city, even if it's just in a passive investment like Dream Office REIT.

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

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