

When is the Best Time to Buy or Lease Medical Real Estate?

Real Estate Cycles

Historically, commercial real estate values have always been and will continue to be cyclical. The availability and cost of financing is a key component of these cycles. Available capital is affected by the economy, interest rates, supply and demand and by the perception of the market. Real estate prices fluctuate as these factors exert their influence.

To determine the best time for you or your practice to buy or negotiate leases, consider where we are in the cycle. Then, see how your particular practice or your own personal financial goals can be strengthened by considering the effects of the cycles.

There are four distinct phases to the commercial real estate cycle: Recession, Recovery, Expansion and Contraction.

- Recession: The Recession Phase follows a market contraction, when the availability of financing become scarce or expensive and property prices have fallen. Properties experience higher vacancies and owners have more difficulty refinancing, selling or leasing. Foreclosures increase and property owners become motivated. Prices can fall below replacement costs, resulting in many opportunities for those with the liquidity and fortitude to take advantage of the market weakness. This is the absolute best time to buy and or negotiate leases as a tenant.

- Recovery: In the Recovery Phase, the market is improving and prices begin to recover, although some buyers and tenants are still hesitant to proceed. More tenants enter the market and property owners refinance as more affordable financing becomes available. Owners tend to improve their property and work to maximize rental rates. Prices are increasing. This is a good time to buy as well as a good time to negotiate leases for your practice.

- Expansion: During the Expansion Phase, the real estate market is progressing and expanding and equity investors are plentiful. Financing is readily available and the price of real estate increases more than seen in previous history. Vacancies are low and there is a general feeling of well-being, prosperity and abundance. Everyone is talking about buying real estate. This is the time to sell.

- Contraction: The Contraction Phase is when vacancies are increasing and prices begin to fall from the peaks of the expansion phase. The market is oversaturated and financing is becoming more difficult or expensive. Equity investors begin to withdraw from the market as vacancy and delinquency rates rise and prices decline. Buying, selling and leasing decisions are based more on need, prime properties being available and specific sub-markets and individual situations.

The phases of the real estate cycle are always in the same order; the only variables are the depth and duration of each phase. By determining the timing of phases along with your own personal and business capability and goals, you can make the best decisions.

As a real estate investor or practice manager the most important question is, "When is the best time to buy and/or negotiate leases?" This is when we realize we are savvy decision makers or just one of the "herd." If the market is in the Recession Phase, the stage is set to reap the absolute highest profits by buying or leasing at a time when prices are at their lowest. When the market is in the Recovery Phase, it's still an easier time to expand holdings and find deals and work on building long term wealth.

We have all heard, "Buy low and sell high." The best time to buy low; is when the cycle is in the Recession Phase, when the lowest prices are available. In this phase, prices or lease terms can be negotiated and some of the best locations are available. The time to sell is during the Expansion Phase, when buyers can easily obtain financing and the market continues to expand. Think about it this way, when everyone is talking about buying, you should be selling. When everyone is talking about the doom and gloom in the Recession Phase, you should be buying.

The challenge with this strategy is that it goes against our basic instincts, even though logic and history dictate otherwise. Our "herd instinct" is affected by the people around us, the media and our resulting emotions. Although we understand that we should not follow the herd mentality logic and emotion are in conflict. Unfortunately for most, emotion will usually rule over logic. This human tendency creates opportunities for the more logical and less emotional investors.

This is certain, cycles will repeat, that's why they're called cycles. History has proven that those with the emotional fortitude and the financial ability to take advantage of the cycles will reap tremendous rewards.



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