

## When is the Best Time to Buy Commercial Real Estate?

### Real Estate Cycles

Historically, commercial real estate values have been cyclical and will continue to be so in the future. 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 the perception of the market. Real estate prices fluctuate as these factors exert their influence.

To determine the best time to buy, consider where we are in the cycle. Then, see how your particular business or 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 difficulty refinancing, selling or leasing. Foreclosures increase and property sellers 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.

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

- 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 may increase more than seen in previous history. Vacancies are at their lowest point and there is a general sense 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 has become oversaturated and financing is becoming more difficult or expensive. Investors begin to withdraw from the market as vacancy and delinquency rates rise and prices decline. Buying and selling decisions should be based on need, prime property availability and specific sub-market and individual opportunities.

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, the most important question is, "When is the best time to buy?" This is when we realize we are either savvy decision makers or merely "one of the herd". If the market is in the Recession Phase, the stage is set to reap the absolute highest profits by buying at a time when prices are at their lowest. When the market is in the Recovery Phase, it's still a good time to expand holdings and find deals while building long term wealth.

We have all heard the phrase, "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 can be negotiated and many prime locations are available. The time to sell is during the Expansion Phase, when buyers can easily obtain financing and the market continues to expand. One way to think about this is 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.

In this time of uncertainty, one thing that we can be certain of is that that cycles will continue to repeat. History has proven that those with the emotional fortitude and the financial ability to take advantage of the cycles will reap tremendous rewards.

*Michael Bull, CCIM is a 30 year commercial real estate veteran and president of Bull Realty, Incorporated. Bull Realty real estate professionals help investors and companies maximize profits and build wealth through strategic real estate planning and services.*

*Michael Bull, CCIM  
(404) 876-1640 x101  
michael@bullrealty.com  
www.BullRealty.com*