

A GOOD TIME TO INVEST IN BUILDING
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The news is full of stories of a damaged economy. With selective reporting, the media has actually succeeded in creating an environment of a faltering economy, generating more dreadful headlines useful in attracting subscribers. Reports especially abound of the demise of the real estate market. Selling prices are dropping and foreclosure rates are rising. In such a plethora of dire predictions, the gut response is to hold off on any major business investments, especially facility improvements, until the news assures us the economy is stable or growing. But if the best time to invest in anything is when the prices are low, then how can you determine the best time to invest in physical assets for your business?

The best time to build can easily be established as being the worst time in an economic cycle. If you need more space to capitalize on business opportunities or an expanding market, and no one else is building, they have probably done you a favor. When there is little activity in the construction trades, general contractors and subcontractors price their work far more competitively than when their foreseeable future is solidly booked and additional work is largely irrelevant. When few buildings are being erected, material suppliers are willing to part with components for less profit than when construction is booming and materials are in short supply or back ordered. When the price of land is low, it is a far better time to purchase additional property than when sites are in high demand and short supply. The more encompassing the slowdown in the economy, the less additional needed facilities will remove from your bottom line.

Given these considerations, it is easy to rationalize waiting on facility projects until the economy is at its absolute worst. To determine that point in the cycle would require the services of a remarkably accurate economic prophet. An alternate approach is to begin building projects as soon as it becomes apparent the economy is really beginning to improve. This general perception of an improving economy results from ongoing news coverage of national trends like increases in construction. In other words, activity presupposing an improvement in the economy actually creates the economic upswing.

Trying to time facility projects to coincide with the bottom of an economic cycle is only possible if needed facility projects can be launched within a matter of weeks. It is more accurate to plan on feasibility studies and programming taking weeks, architectural and engineering documents taking months, bidding to last about a month, approvals from regulatory agencies absorbing months or years, and construction lasting between six months and five years. There is a significant time lag between the recognition of need and the completion of facility projects. It could be as little as one year, but is usually much, much longer. That delay between addressing the need and paying for and occupying the facility makes attempting to time projects to the bottom of economic cycles somewhat impossible.

There is an additional cost to delaying the construction of needed facilities. If there is a growing market for what you have to offer, pennies are often saved at the expense of dollars. Lacking necessary facilities translates into lost business, orders that cannot be taken because they cannot be filled, and inefficiency in product flow due to congestion on the floor and bottlenecks in the process. Potential customers must be turned away if there is no physical way to meet the needs you could supply if you already had space to grow or even reorganize.

When is the best time to build needed facilities to improve profitability? The optimum time is right now. By the time programming and planning phases are completed, if historical trends can be relied upon, the economy and the cost of land, labor and materials will already be rising. If the timing is a few months from being perfect, the extra income from additional facility capacity should more than offset any slight

savings that could have been realized by waiting any longer. If enough people begin building, the economy will then be perceived as improving and will subsequently do so. Those who began the process and started early will reap the benefits of having bought when prices were the lowest.

It sounds like market manipulation, and it may well be, but it is perfectly legal. It could also be considered as good business.