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## **Building Upgrade Spending is Rising**

By Rayna Katz



Anderson: "In a mature city like NY, where there's very few new development opportunities, A&R always will play an essential role."

NEW YORK CITY—Think NYC's buildings are looking snazzier? That's no accident.

New York City's private and public building owners initiated \$5.7 billion worth of alteration and renovation projects in 2013, a 5% increase from 2012, when A&R starts totaled \$5.4 billion, and a 25% increase from 2011 (\$4.6 billion), according to a new report by the New York Building Congress. The upward trend has continued through the first six months of 2014, with A&R construction starts valued at \$3.6 billion.

Office alteration and renovation work accounted for \$2.1 billion in construction starts in 2013, a 66 % increase from 2012, when A&R accounted for \$1.2 billion in starts. The trend has continued over the first half of 2014, with office A&R accounting for \$1.2 billion worth of new projects.

"Office A&R is a massive yet largely invisible segment of the New York City construction market," says Building Congress president Richard T. Anderson. "While great attention has justifiably been paid to the new office towers rising at the World Trade Center and Hudson

Yards, it's important to note that practically three-fourths of all office construction work since 2009 has been devoted to alteration and renovation of New York's vast supply of existing office space."

While some of the work in the office sector represents regular maintenance, lobby modernizations, and upgrades to mechanical and technology systems, the recent increases in investment are also a result of changing office user demands and increased competition from recently constructed office buildings.

"The trend among office tenants, especially in such emerging sectors as technology, advertising, media, design, and the Internet, is to create spaces that are far more efficient, flexible, and collaborative, and to devote considerably less square feet per worker than previously allotted," adds Anderson. "It is this new office paradigm that is motivating landlords and businesses to invest heavily in their existing spaces in order to remain competitive with the new spaces that are being added to the office market."

Commercial buildings in general accounted for 53 % of all A&R construction starts in 2013. In addition to office buildings, hotels (\$478 million in 2013 starts) and retail (\$442 million) are prominent sources of A&R projects.

The institutional sector accounted for \$1.8 billion in A&R starts in 2013, led by public and private schools, which initiated a combined \$738 million in starts last year. Hospitals and healthcare facilities accounted for another \$312 million, while amusement operators, which encompass sports, entertainment, and cultural venues, initiated \$259 million in new A&R projects.

Apartment buildings accounted for \$870 million in A&R construction starts in 2013.

As of the end of June 2014, each of the major categories of construction spending are on pace to meet, and in most cases, exceed their 2013 totals.

Notes Anderson, "In a mature city such as New York, where precious few new development opportunities exist, A&R is always going to play an essential role, especially in the private sector as well as disciplines such as healthcare and education that must constantly incorporate the latest advances in technology. That dynamic, coupled with a strengthening economy, has led to increased levels of A& investment across multiple sectors."