

MANN REPORT

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The Articles ▶ Office Construction

A&R Work Is Key To Economic Growth

By Richard T. Anderson, New York Building Congress



In a mature city such as New York, where precious few new development opportunities exist, the alteration and renovation (A&R) market plays an essential, yet largely invisible, role. This is especially so in the private sector, as well as with such disciplines as healthcare and education that must constantly incorporate the latest advances in technology.

This dynamic, coupled with a strengthening economy, has led to increased levels of A&R investment across multiple sectors of the real estate market.

According to a recent New York Building Congress report, the City's private and public building owners initiated \$5.7 billion worth of A&R projects in 2013 alone, a 5% increase from 2012, when A&R starts totaled \$5.4 billion, and a 25% increase from 2011 (\$4.6 billion).

The upward trend has continued through the first six months of 2014, with A&R construction starts valued at \$3.6 billion, according to the Building Congress report, which is based on an analysis of McGraw Hill Construction Dodge construction data.

Office Interior Work Surging

Office A&R work is a major segment of the New York City construction market. Nearly three-fourths of all office construction since 2009 has been devoted to alteration and renovation of New York's vast supply of existing office space.

According to our analysis, office owners accounted for \$2.1 billion in construction starts, 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.

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.

Office tenants, especially in such emerging sectors as technology, advertising, media, design and the Internet, are increasingly creating spaces that are far more efficient, flexible, and collaborative, and devoting considerably less square feet per worker than previously allotted. 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.

Sector Analysis

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.

The Building Congress believes that the A&R market will continue to be a strong source of construction activity in the coming year and beyond. In fact, our analysis found that, 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.

This bodes well for the City's economy in the near-term, as all this work will stimulate new jobs, tax revenues and related activity. But more importantly, all these investments are helping to create a more modern, competitive and durable economy, which will have even longer-term benefits.

About Richard T. Anderson

Richard T. Anderson is President of the New York Building Congress and a nationally recognized association executive and urban planner. An advocate of strategic infrastructure investment and economic development, he has dedicated his career to promoting the long-term growth of America's foremost urban centers, primarily New York City.

About New York Building Congress

Celebrating its 93rd year, the New York Building Congress is a non-partisan, public policy coalition of business, labor, professional, and governmental organizations serving the design, construction and real estate industry. Through a program of advocacy, research, events, committees and networking, the Building Congress provides a unique forum to advance an industry-wide agenda focusing on economic and infrastructure investment, job creation and professional exchange.

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