

The Pros and Cons of New Construction Versus Renovation

Prepared by:
Kimberly Ashby
Foley & Lardner LLP



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The Pros and Cons of New Construction Versus Renovation

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The goal for construction projects is to maximize the bottom line. Analyzing whether new construction beats renovation, or vice versa, lends itself to reviewing some fundamental elements of real estate development. To some extent, a “pro” vote for one choice is not necessarily a “con” for the other choice.

RENOVATIONS

First, identify positive attributes for renovating an existing structure or development.

1. Location, location, location

One of the easiest positive attributes may be that the existing structure has an irreplaceably great location on a vibrant city core, waterfront or other scenic venue. Demolition to allow for new structure is the obvious alternative to renovating an existing structure. But, comprehensive plans, zoning regulations and even historic preservation regions can severely limit demolition as an option. This is especially true for areas with newer, more

aggressive setback requirements from other properties, coastline and air rights.

If the project is best positioned in a certain location, renovation may be the only realistic means to accomplish completion. Even if permits are available for demolition in a prized venue, the time delay in getting all of the notices to proceed may make the wait too expensive.

2. Trade Wars

The current U.S. embargo and threats of trade restrictions internationally, across both oceans, are a topic for all properties planning to go vertical in the next 12 months. Price fluctuations in steel and aluminum are forcing parties to construction contracts to bargain for who will bear the risk of the possibility that commodity costs will rise dramatically over the current market prices. Renovation of an existing building may minimize or eliminate the need for the big-ticket items, and position the development ahead of new construction in the near term.

3. Speed

Theoretically, taking on an existing building could mean the project turn-keys much faster. This, of course, depends on the magnitude of the renovation. If the project is principally involved with revising the interior buildout, sprucing the envelope and exterior finishes, the turnaround time to an income-producing

property will be greatly enhanced by using the existing structure.

4. Subsidies and Tax Breaks

If the renovation of an existing project is located in an area being courted for redevelopment by local government, there may be tax breaks and real cash subsidies available to apply to the cost of construction renovation. Also, because so many commercial properties were taken back by lenders after the Great Recession of 2008, there are still a number of available developed properties in the auction pipeline. Bargain-hunting for properties in the possession of the lending community, who are not generally in a position to do the redevelopment of the property themselves, can be a profitable starting point.

NEW CONSTRUCTION

Now that the “pros” of renovation of existing structures have been examined, a comparison of the “pros” for new construction will assist in the comparison of cost, time and the combination of both in the completion of a development.

1. Existing Infrastructure Issues

Depending on the age of the existing structure, there may be multiple levels of new requirements to bring an existing property up to applicable building code, or to ensure compliance with the

American Disabilities Act (ADA). Renovation of older structures is often hampered by a lack of accurate as-built drawings defining the particularities of the in-place electrical, HVAC and plumbing systems. An ADA and code assessment for the property can be particularly important before committing to a renovation, as a project may require razing parts of the property to comply with the law once the property changes owners, or if major renovations are planned.

New construction can provide a pathway to cost-effective completion without having to excavate and remedy the history of the structure, and work around code violations, which can cause serious time delays in acquiring design drawings and approvals to address these issues.

2. Toxicity Issues

Even relatively new existing buildings can present expensive remediation issues if toxic substances are present that need to be safely removed. Asbestos used buildings erected before the 1980s can still be an issue, although asbestos removal costs have dropped since this type of remediation is now more widely available. Biological toxicity can be another problem, especially if the property has gone partially or completely dark for a period of time (think rats and bats). Some species of infesting creatures are protected by law as to the seasons of the year they can be legally removed.

New construction eliminates the concern about existing toxic materials. A developer of new construction may still be facing environmental challenges such as protected wildlife on the site to be developed, which might not be an issue for an existing structure.

3. 21st Century Issues

Last, but not least in the list of potential “pros” favoring new construction is the consideration of how the use of commercial buildings has changed, with a better ability to make sure the property is equipped to compete in the 21st century. Beginning with LEED-certified qualifications, highly prized by owners, lenders and end-users, it is much easier to produce a commercial building that satisfies the wants and needs of millennials and their progeny.

Time will tell whether better protection against hurricanes, tornadoes and other natural events will dictate new and improved construction means and methods for design beyond code- required items such as glass. Also, the ability to provide wi-fi friendly interior space and other technological advantages nearly always favors new construction.

4. Parking and Mass Transit Access

Depending on the geographic location, this last category could heavily favor either renovation or new construction. For

example, the northeast corridor of the United States has a well-established mass transit system that would advantage existing developed properties. However, in the South, where mass transit is in its relative infancy, the decisions may drastically change regarding the parking needs during the useful life of the property, and the desirability of the site with direct access to mass transit.

The pros and cons listed here are a start to the decision regarding renovation or new construction and highlights that there is no right answer as to which will always be the more favorable.

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