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New construction vs. renovation: Key considerations - by Thomas Dionne

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Is it better to renovate or build new? We often encounter clients contemplating this question. There are many parameters involved in understanding if it makes more sense to renovate an existing building or take on a new, ground-up construction project. Key factors such as cost, time, and scope can make one option more viable than the other.

A construction manager's role (and value) is to provide a neutral perspective from which an owner or developer can equally weigh both options having been equipped with enough information to make an informed decision that best serves their overall goals and needs. As head of preconstruction, with over 40 years of experience, the following should be evaluated in reference to new construction vs. renovation.

Renovations

A major concern in reference to taking on a renovation project can be summed up in two words: Existing conditions.

Existing conditions can be the linchpin that directly impacts many other factors involved in developing a cost analysis/preliminary budget for a renovation project. Concerns such as bringing the building up to code, matching finishes or retrofitting spaces can be very expensive and quickly diminish any return on investment. The age of the building, access to as-built drawings, specs on mechanical systems or other essential information is typically used to develop a preliminary budget. In situations where the intended use of the building will be highly specialized, such as with a life science and biopharma company, it becomes more of a challenge to get an idea of what the cost to renovate might look like. In some cases, it's prudent to retain an engineer upfront to do a feasibility study or a building analysis report. This might require setting aside a small part of the project budget for a higher level of preconstruction due diligence. The upfront monetary investment far outweighs the risk of proceeding without enough information.

Schedule is another significant reason as to why renovation appears more attractive than new construction. The assumption is that new construction will take much longer than renovating an existing property, which in turn means a longer time frame before the building can be occupied. Again, the answer depends on the construction manager's ability to get as much information as possible about existing conditions. New England is rife with older buildings marked for re-use, and contaminants (like asbestos) that require remediation can add a substantial amount of time to the project schedule.

Additionally, cost ranks high on the list. This is where engaging a construction manager early on can yield the most benefit. The construction manager is able to develop a preliminary budget. This gives the owner or developer a broad overview of the financial picture and often helps identify a rough cost per square foot, depending on the information the construction manager has to work with.

Design also plays a part in approaching the “build or renovate” debate. Renovation generally requires more compromise. Things such as the existing building’s foundation, core and shell, and square footage can limit how the architectural team proceeds with design/layout. The needs of the owner or developer must fit into what exists, which may involve sacrificing design and making changes to the project scope. For these reasons, renovation can sometimes cost more than new construction, especially if substantial efforts are needed to meet programmatic goals.

New Construction

The two main drivers that make new construction more attractive than renovation are cost and design. Ground-up construction offers the advantage of having more control over the project. Owners and developers no longer have to worry about dealing with existing conditions (other than site work) and the associated budget implications. New construction inherently provides clients with more latitude pertaining to design. This in turn, translates to greater control over the budget for the project. This can be very advantageous when developers are looking to build a lab-ready facility where the need is to have turn-key, white-wall space for lease, giving a tenant the ability to have a shortened turnaround time for occupancy. Being able to leverage this option can give a developer better strategic positioning to attract tenants to lease the space.

However, because of the time needed to design, construct, and fit-up a new building, this option may be less appealing if a specific date for occupancy is required. In situations where a company has to perform a site search (in addition to the time frame involved for constructing the actual facility), schedule becomes a deterrent, thereby taking ground-up construction off the table.

Site work again comes into play, presenting challenges that may or may not make new construction an attractive option. A geotechnical assessment/report yields vital information that the construction manager can use to arrive at an estimated cost for site work pertaining to a specific property. Equipped with this information, clients can determine, before making any investment, if a property is suitable to meet their building and permitting requirements.

The goal in preconstruction is to develop a picture of project cost, schedule, challenges, and other considerations that should be addressed before a final decision is made to proceed. Above all, we advise careful consideration of both new construction and renovation. As should be clear by now, neither approach is inherently superior or inferior. A developer or owner’s decision should be driven by a review of the competing and interrelated factors mentioned above.

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