

2024 - 2025 Economic Forecast

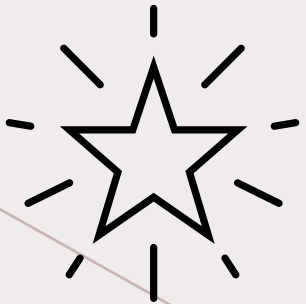
PRESENTER:
MICHELE RUSSO, LEED AP
AMERICAN INSTITUTE OF
ARCHITECTS



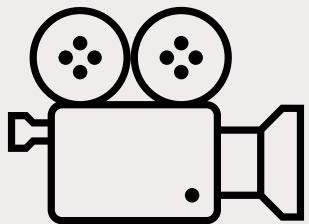
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LEARNING OBJECTIVES



Understand the current impacts on the design and construction industry and on various building typologies.



Learn about the economic forecast for 2024 and 2025 from various entities including the Architecture Billings Index and the Consensus Construction Forecast.



Discover what's ahead for the construction industry from the nation's leading construction economists who forecast business conditions over the next 12–18 months.



Learn about the economic forecast as it relates to California, including residential and non-residential market sectors

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PRESENTER

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Economic Forecast

Michele A. Russo, LEED AP
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American Institute of Architects

AIA California
Practice Webinar | May 22, 2024

Agenda

- The Economy
- The Industry
- The Profession
- The Outlook

The Headlines

- Economic indicators relatively positive, some potential areas of concern
- Weakness at architecture firms points to a construction slowdown
- Profitability top of mind for architecture firm leaders
- Commercial construction most vulnerable nonresidential sector



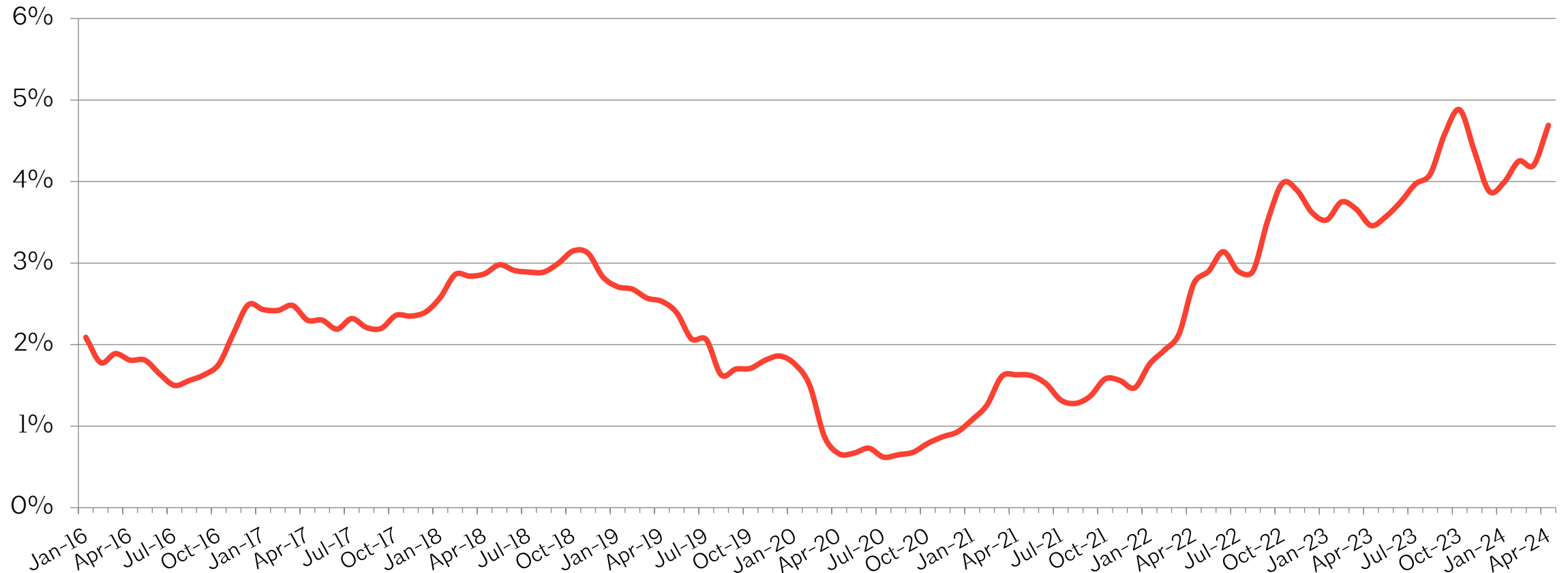
The Economy

Major monthly leading economic indicators continue to remain generally positive

	Apr. '23	Apr. '24	Change since Apr. 2023
Consumer prices (change from year-ago)	4.9%	3.4%	-1.5 pct. points
3-mo. T-bills	4.95%	5.25%	0.3 pct. points
30-yr fixed rate mortgage	6.43%	7.17%	0.74 pct. points
Consumer sentiment (index: Q1 1966=100)	63.7	77.2	13.5 points
Housing starts (SAAR)	1.37M	1.36M	-0.6%
Retail sales (\$B, seasonally adj.)	\$684.4	\$705.2	+3.0%
Nonfarm payrolls (change in number, 000s)	278	175	+2,802

10-year treasury bills have been volatile recently and are approaching 5%, near their highest level in over 15 years

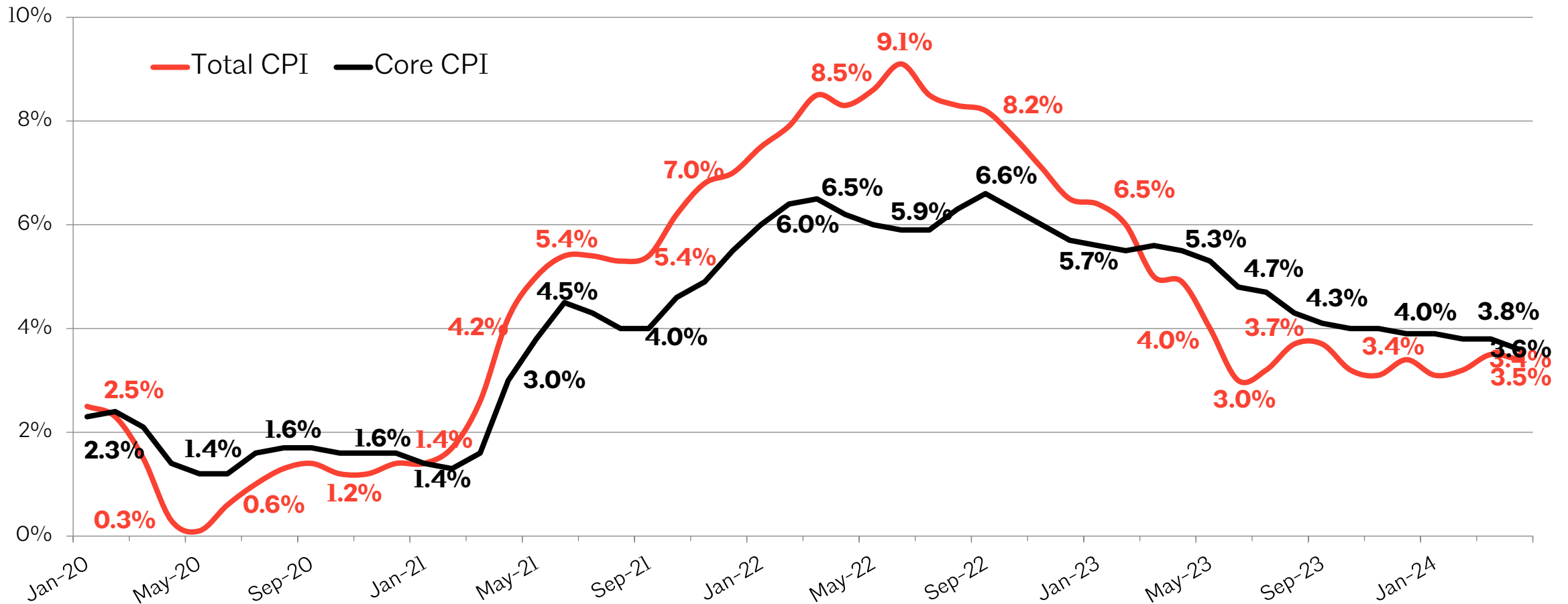
Annual yield on 10-year treasury bills, end of month figures



Source: Macrotrends (www.macrotrends.net)

Overall consumer price inflation has been falling faster than expected, but the core rate has been sluggish

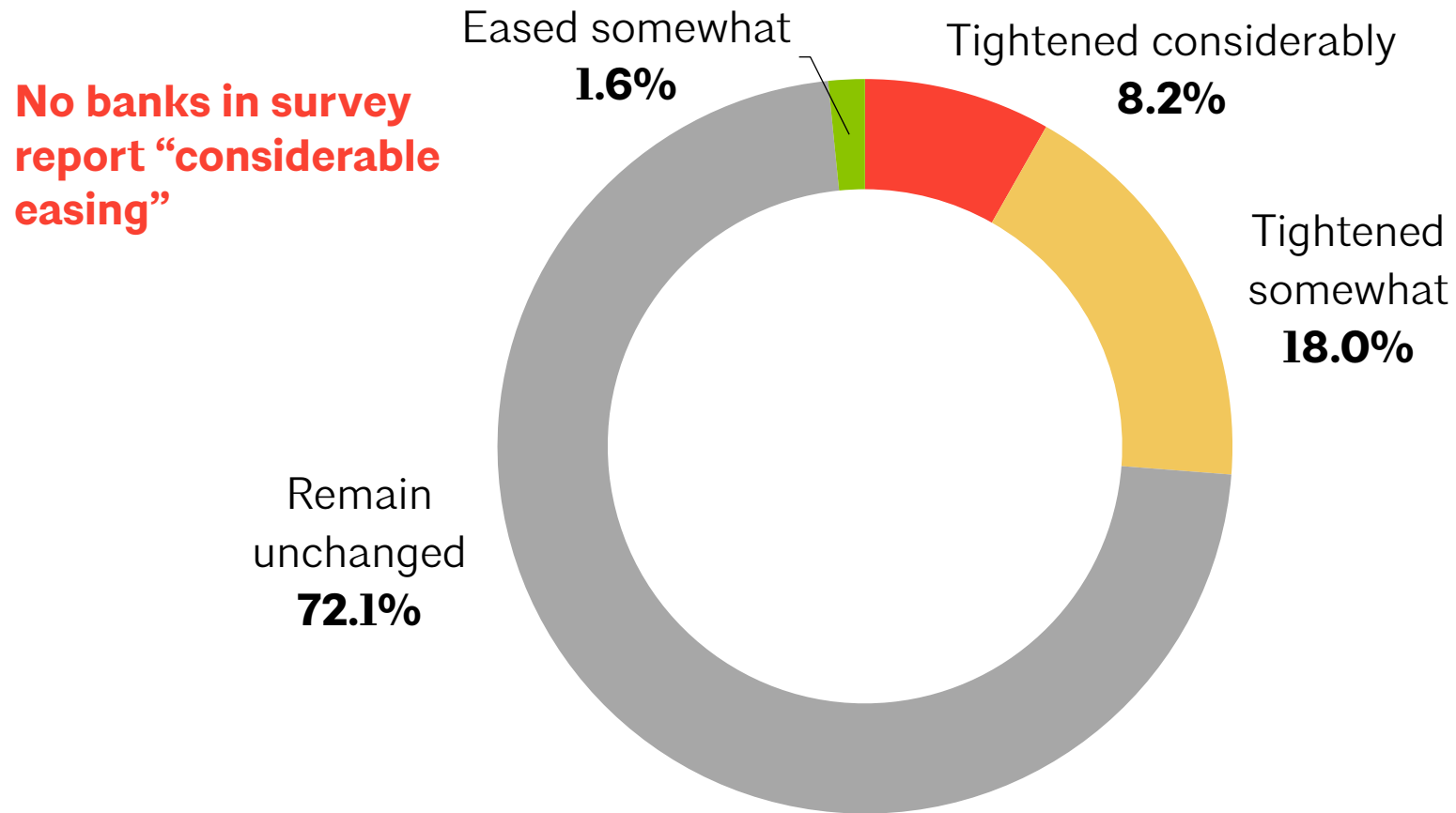
Monthly year/year total CPI and core CPI



Source: Bureau of Labor Statistics

Banks are stabilizing credit standards for commercial real estate loans after tightening in 2023

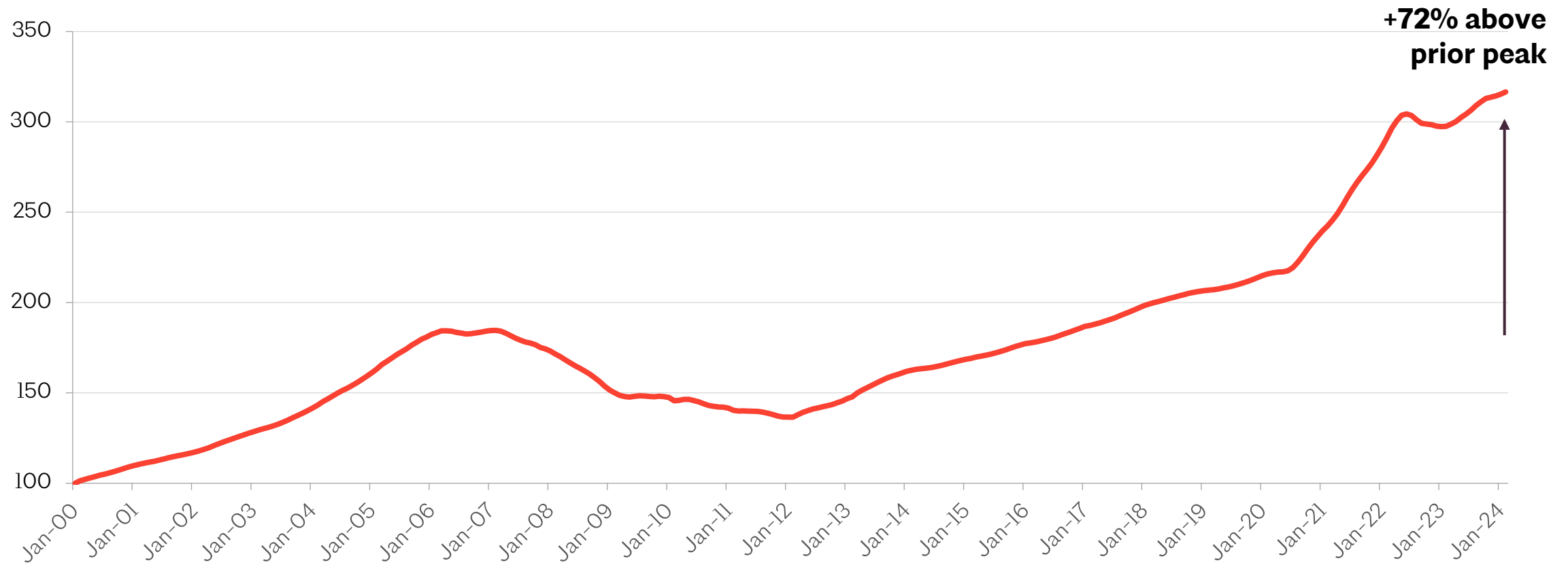
Change in bank's credit standards over past three months



Source: Federal Reserve Board Senior Loan Officer Opinion Survey (Table 1; Q. 7) April 2024

Nationally, house prices have been on a tear, although higher mortgage rates have slowed the growth

CoreLogic National House Price Index (NSA, Jan. 2000=100)



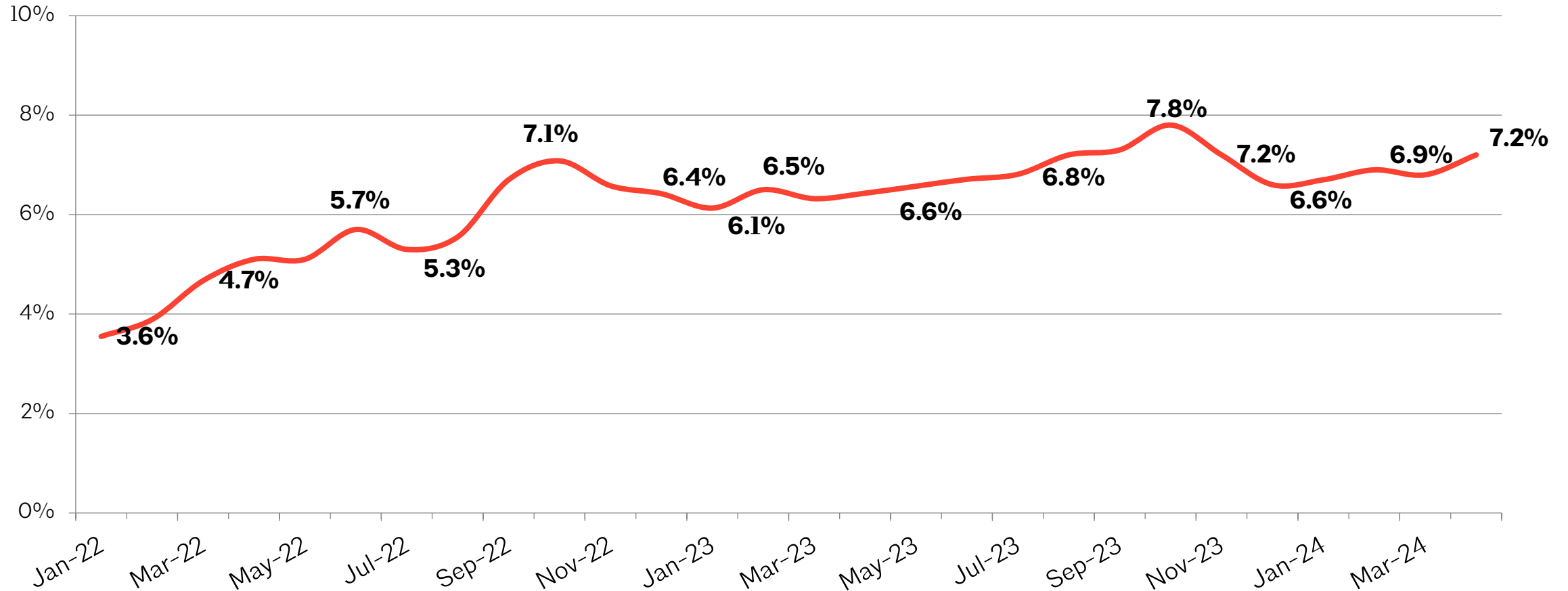
Notes: Index Includes Single Family Attached And Detached Structures. Data Accessed on 05/21/24
Source: S&P Corelogic Case-shiller Home Price Indices: National Home Price Index (HPI)

The Industry

housing

Fixed rate mortgages have been steadily trending up over past 2 years; averaging 7% in 2024

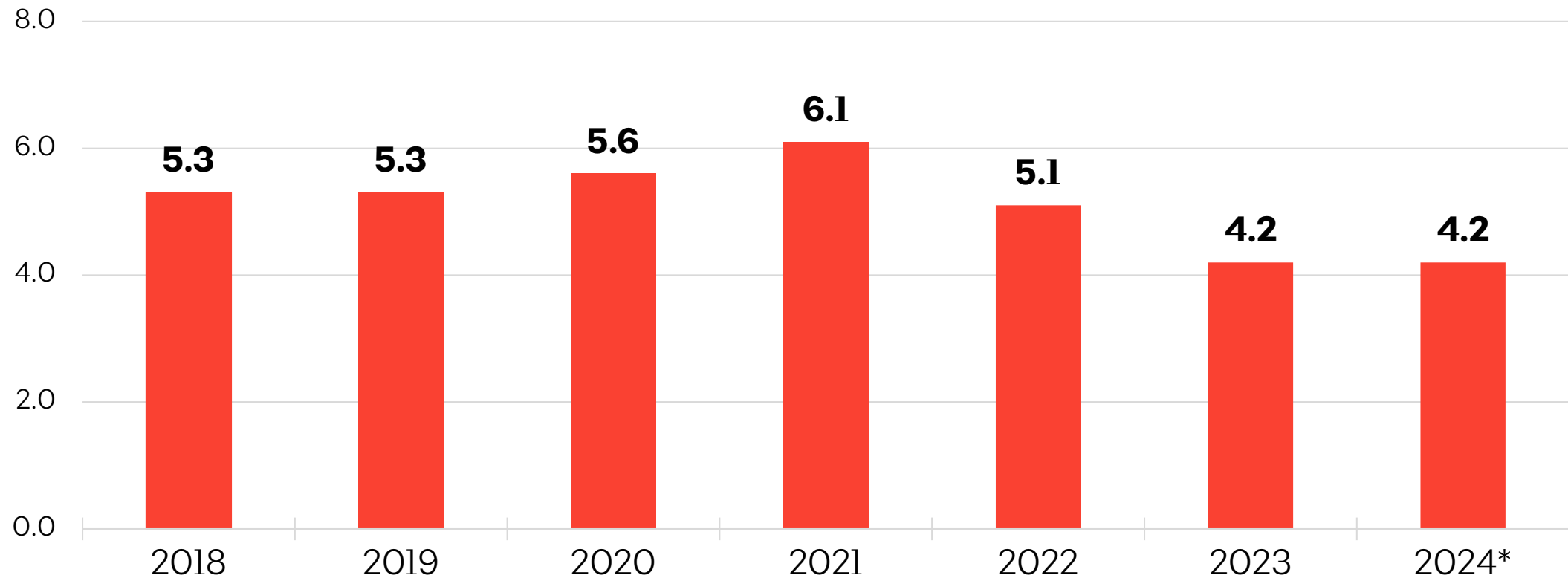
Interest rate on 30-year fixed rate mortgage



Source: Freddie Mac

Existing home sales dipped over 15% in 2022 and another 20% in 2023; flat in Q1 of 2024

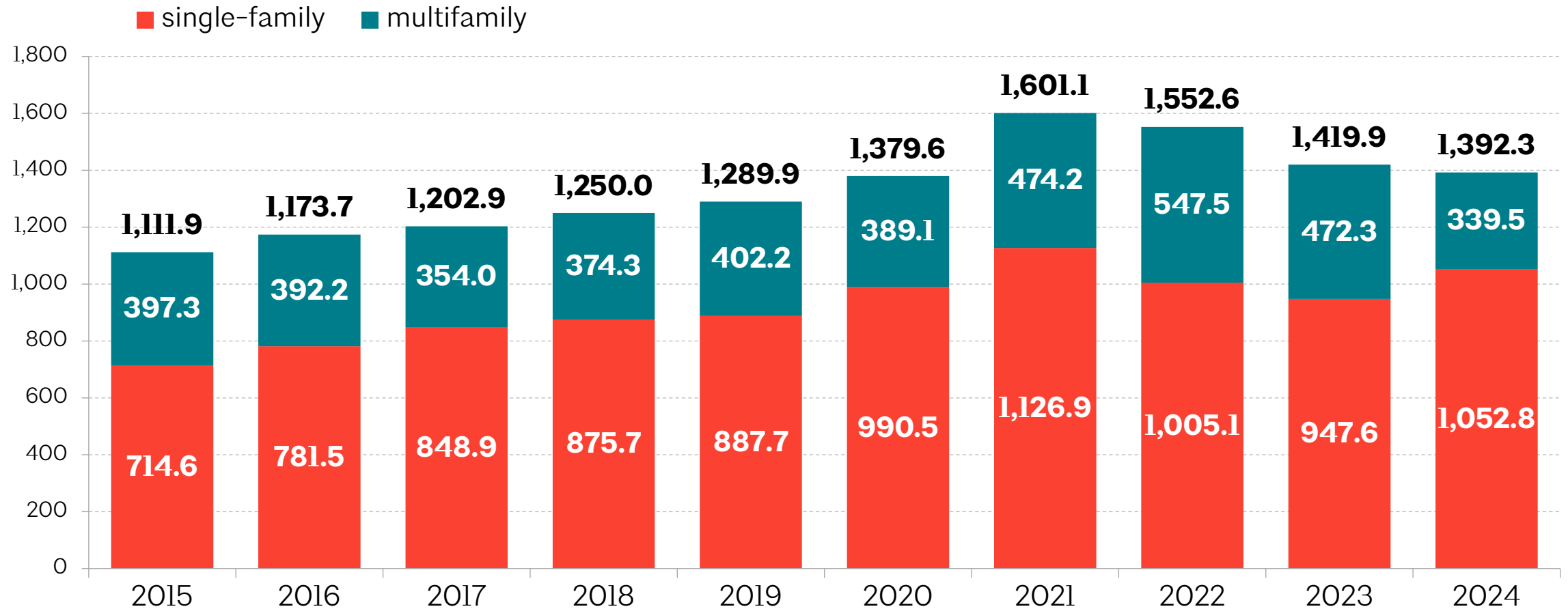
Existing home sales nationally (millions)



* Average through end of March
Source: National Association of Realtors

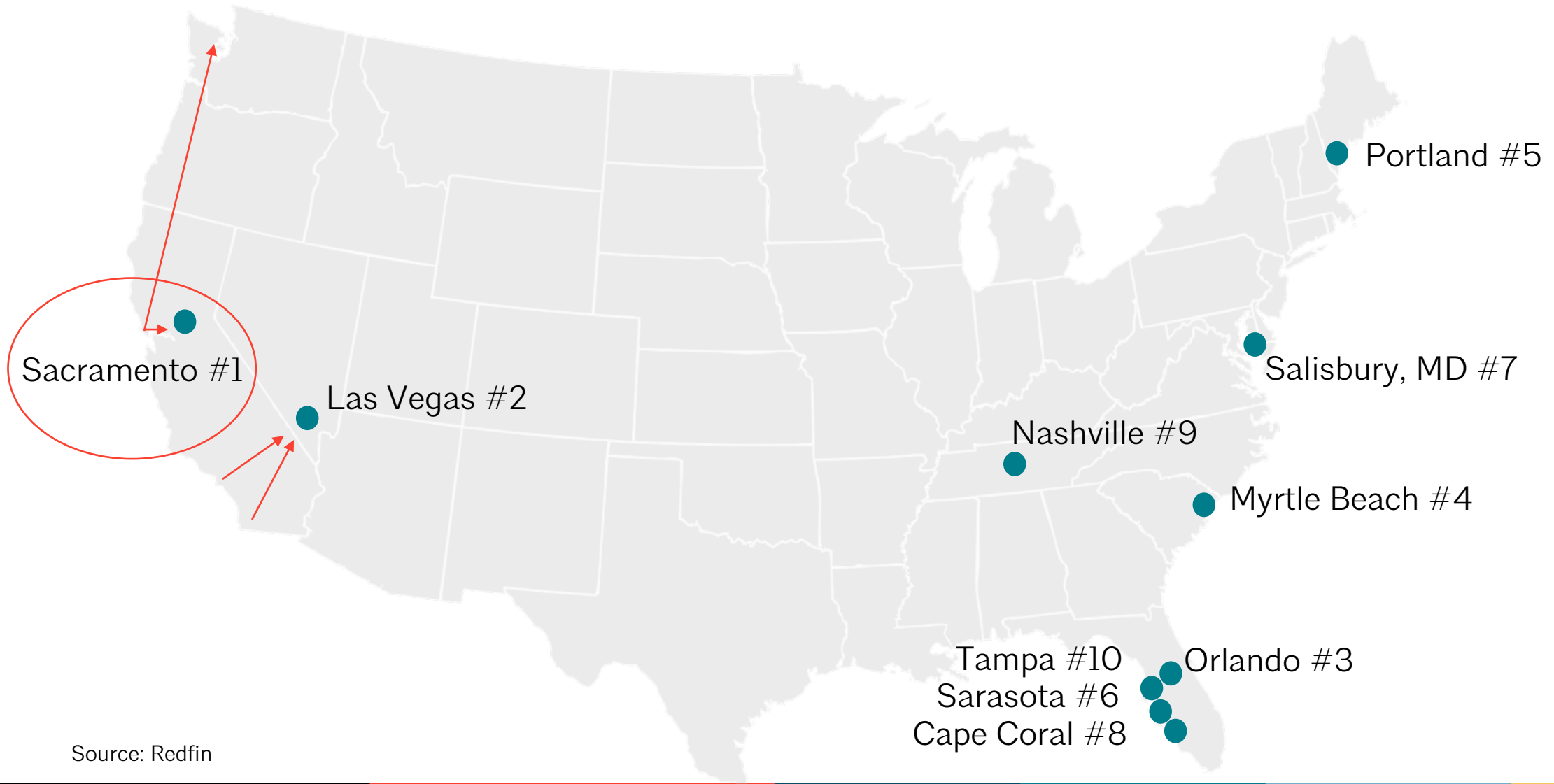
Rising mortgage rates and record high house prices slowed homebuilding; however starts appeared to have bottomed

Annual housing starts (000's), 2024 figures are annualized, year-to-date figures through April



Source: U.S. Department of Commerce

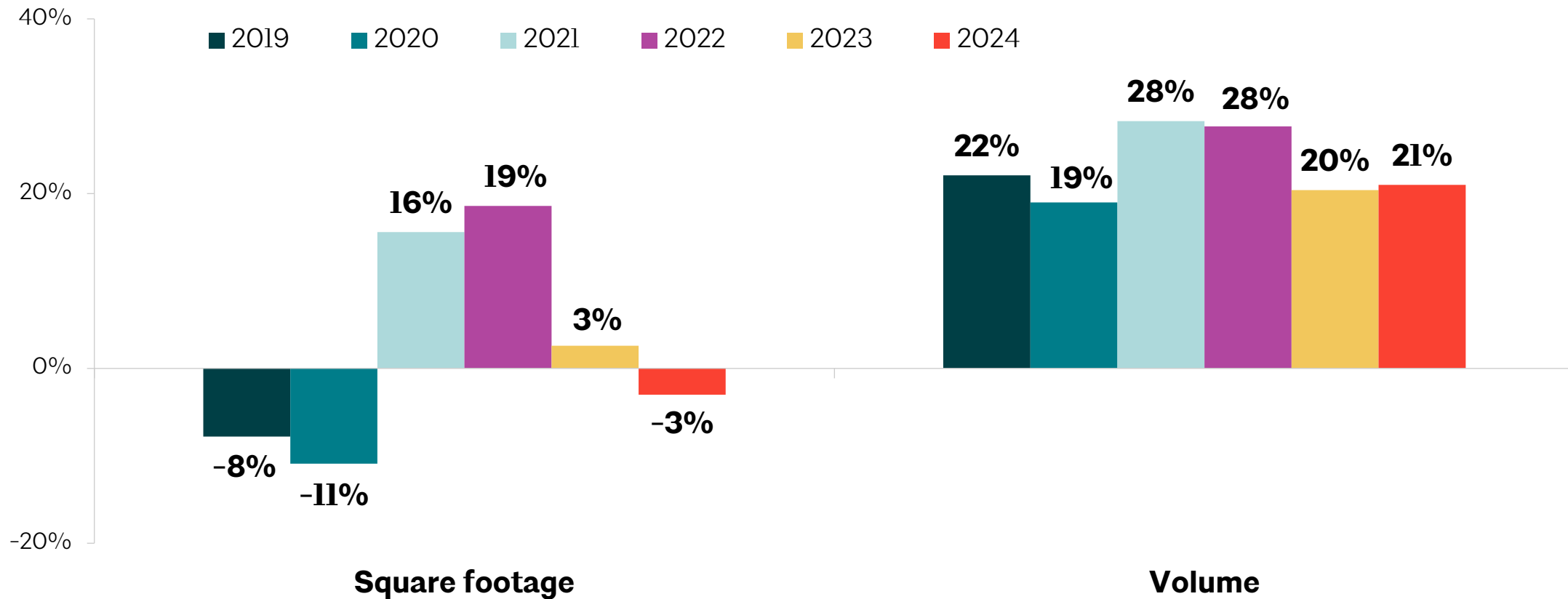
Top metros homebuyers are moving into in 2023 are affordable and in the Sunbelt, though prone to climate risks



Source: Redfin

Home square footage stabilizing, while housing volume continues to increase

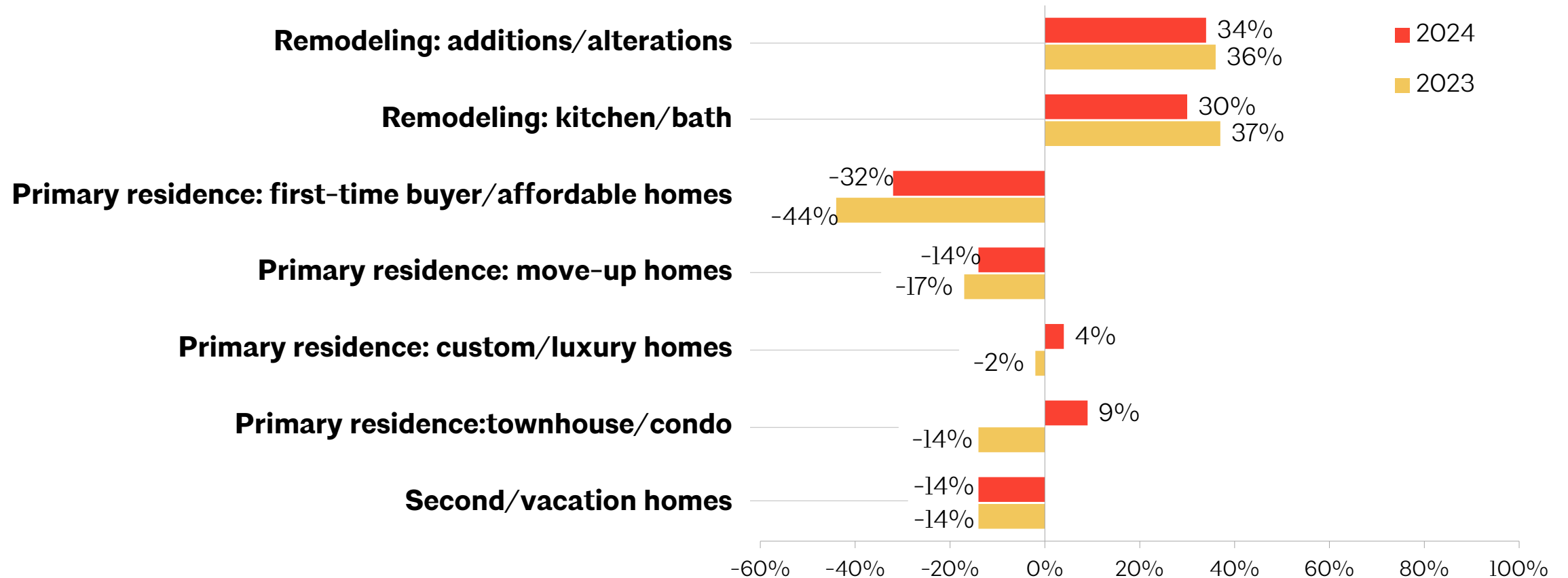
% of respondents indicating that square footage of overall homes is “increasing” minus % reporting “decreasing”; data from Q1 2019-2024



Source: The American Institute of Architects Home Design Trends Survey

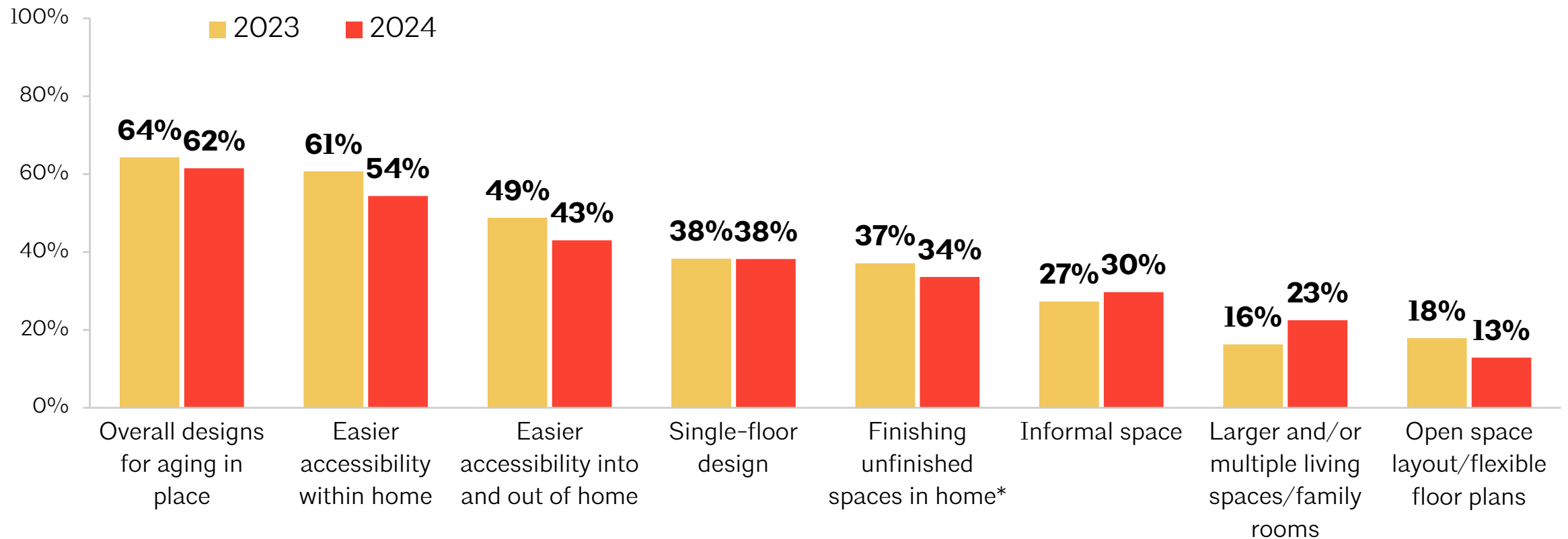
Investing in home renovations continued to increase over the past two years, townhouse/condo & luxury homes show improvement

% of respondents reporting sector “improving” minus % reporting “weakening”; data from Q1 2024 compared to data from Q4 2023



Designs for aging in place and accessibility remain popular, while informal spaces & larger/multiple living rooms increase in popularity

% of respondents reporting popularity of home layouts/designs “increasing” minus % reporting “decreasing”; data from Q1 2024 compared to data from Q1 2023

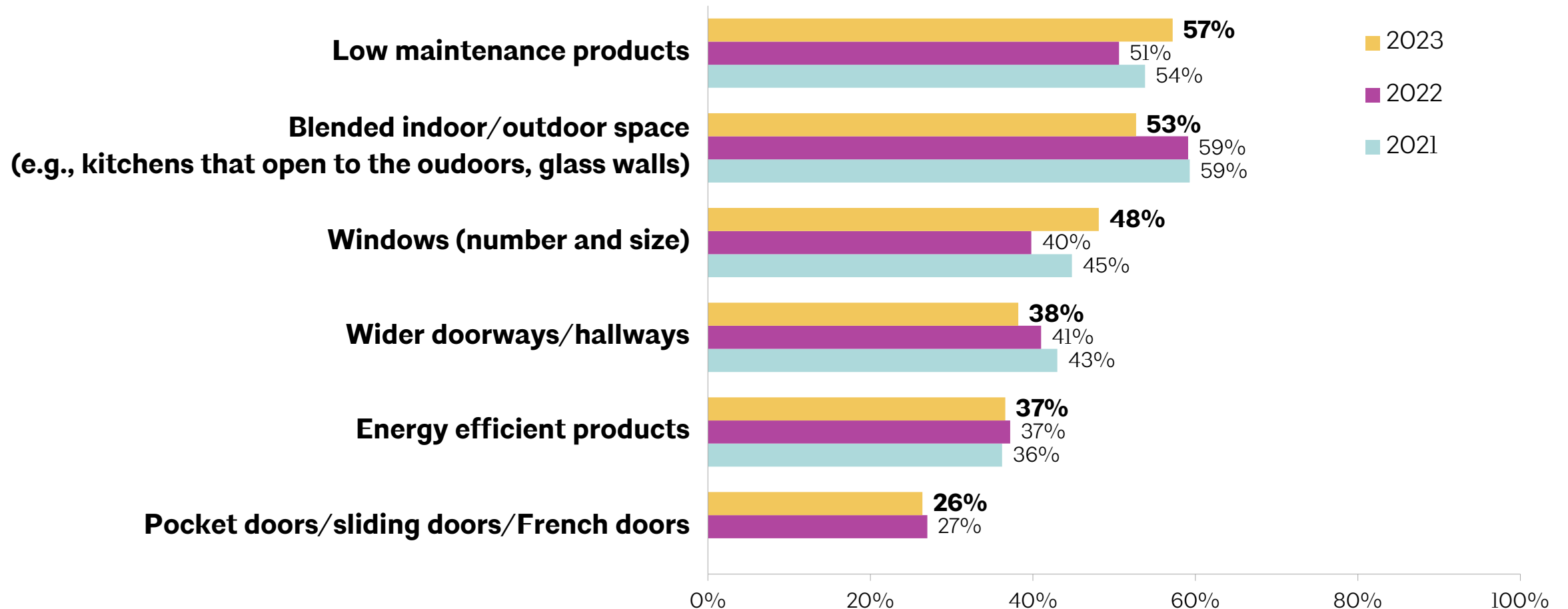


*basements, attics, garages, etc.

Source: The American Institute of Architects Home Design Trends Survey

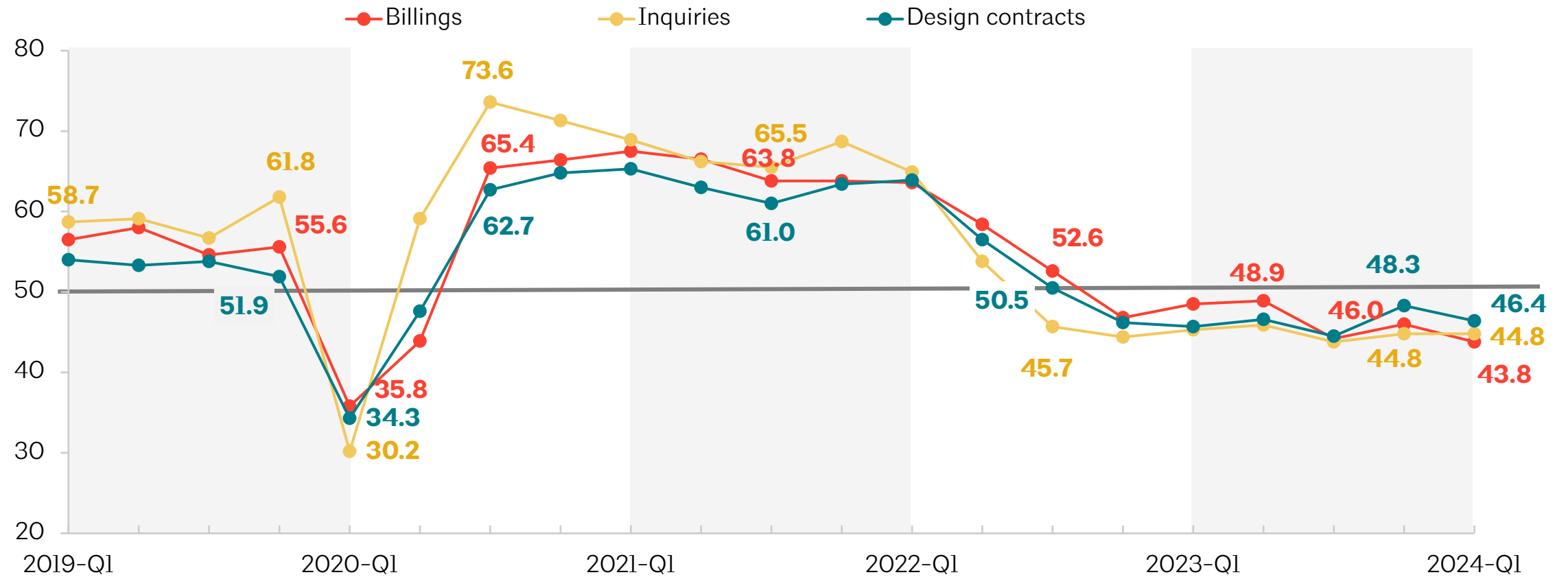
Homeowners looking for lower maintenance products, but increasing the number and size of windows in the home

% of respondents reporting popularity “increasing” minus % reporting “decreasing;” data from 2023 results



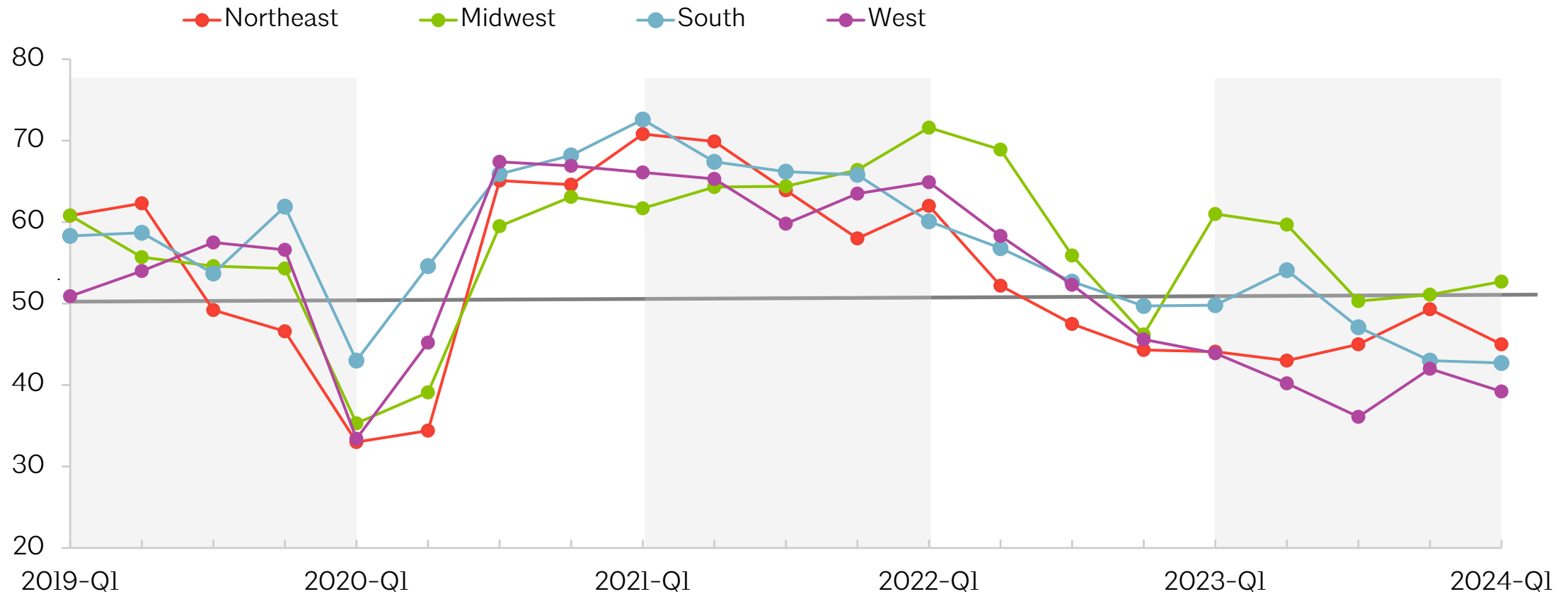
After strong growth in billings in 2020 & 2021, custom residential billings end 2023 and start 2024 with declines

Diffusion index: 50 = no change from previous quarter; data are seasonally adjusted; data from Q1 2019-Q1 2024



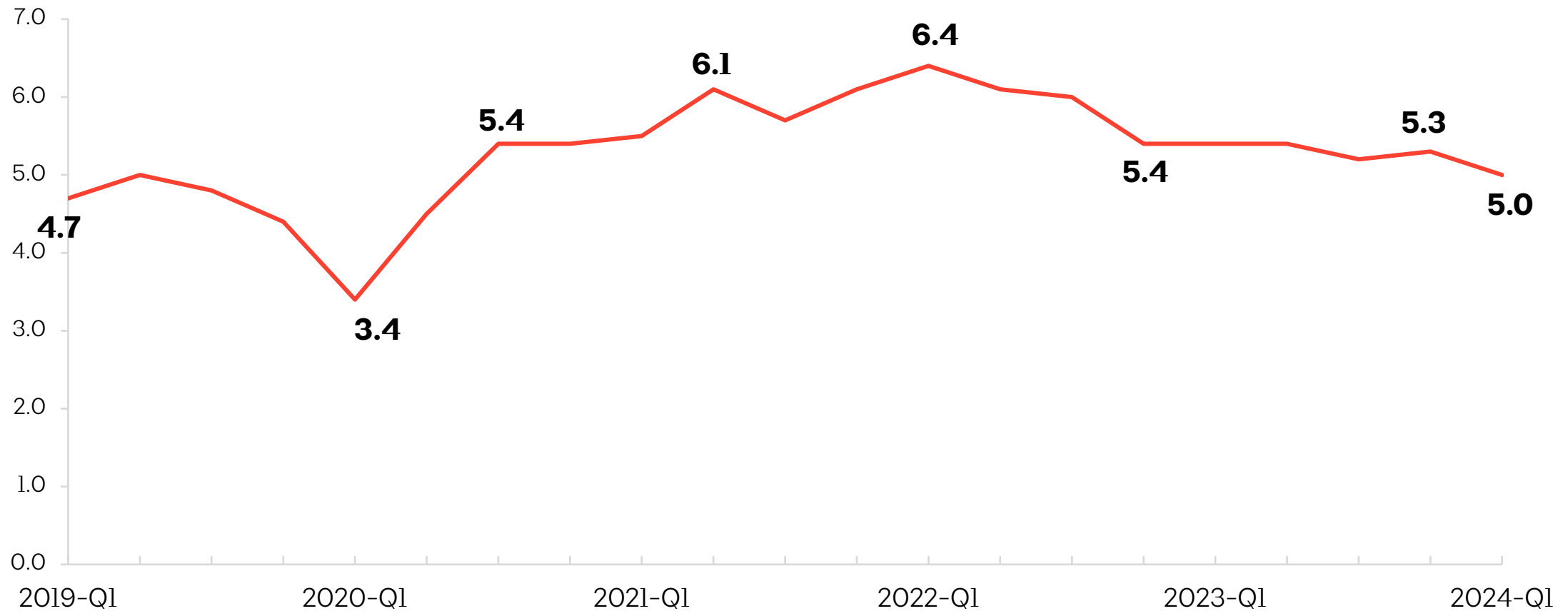
Home design firms in all regions ended 2023 with billing declines, more so in the West

Diffusion index for billings: 50 = no change from previous quarter; data is seasonally adjusted; data from Q1 2019-Q1 2024



Project backlogs decline slightly but remain relatively healthy at residential architecture firms

Number of months of project backlogs, averages across all firms; data are not seasonally adjusted; data from Q1 2019–Q1 2024



Source: The American Institute of Architects Home Design Trends Survey

nonresidential

Spending on the construction of buildings was very strong in 2023...

Billions of \$, Jan-Dec 2023 vs. Jan-Dec 2022 totals

	2022	2023	% Change
Total Nonresidential Building Construction	\$631.8	\$766.0	21.2%
Commercial/ Industrial	\$347.4	\$449.6	29.4%
Lodging	\$19.7	\$23.6	19.3%
Office	\$91.6	\$98.8	7.8%
Commercial (retail & other)	\$121.4	\$131.6	8.5%
Manufacturing	\$114.7	\$195.6	70.5%
Institutional	\$284.4	\$316.5	11.3%
Healthcare	\$54.8	\$62.9	14.9%
Education	\$102.1	\$115.8	13.4%
Religious	\$2.9	\$3.4	16.3%
Public Safety	\$11.6	\$13.2	14.4%
Amusement & Recreation	\$30.0	\$32.5	8.2%
Transportation	\$58.7	\$63.8	8.7%
Communication	\$24.3	\$24.9	2.3%

Source: U.S. Census Bureau, Value of Construction Put in Place

... And spending remains strong early in 2024, but commercial sector is beginning to slow

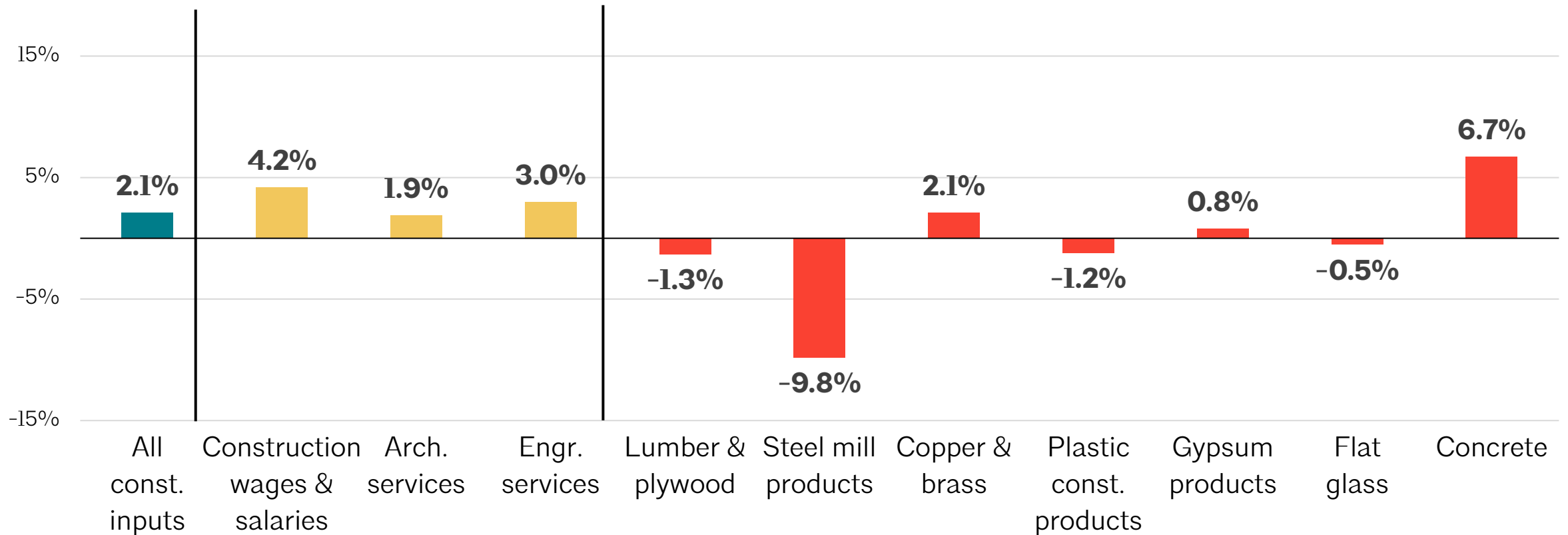
Billions of \$, Jan-Mar 2024 vs. Jan-Mar 2023 totals

	2023	2024	% Change
Total Nonresidential Building Construction	\$164.3	\$188.9	15.0%
Commercial/ Industrial	\$97.3	\$111.7	14.8%
Lodging	\$5.5	\$5.5	0.7%
Office	\$22.4	\$23.7	5.8%
Commercial (retail & other)	\$29.4	\$30.2	2.5%
Manufacturing	\$40.0	\$52.3	30.7%
Institutional	\$67.0	\$77.2	15.2%
Healthcare	\$14.3	\$16.1	12.8%
Education	\$23.2	\$27.7	19.4%
Religious	\$0.7	\$1.0	27.8%
Public Safety	\$2.7	\$4.0	48.9%
Amusement & Recreation	\$6.8	\$8.0	18.9%
Transportation	\$13.6	\$14.4	6.0%
Communication	\$5.7	\$6.0	4.2%

Source: U.S. Census Bureau, Value of Construction Put in Place

Construction costs for key inputs have significantly stabilized

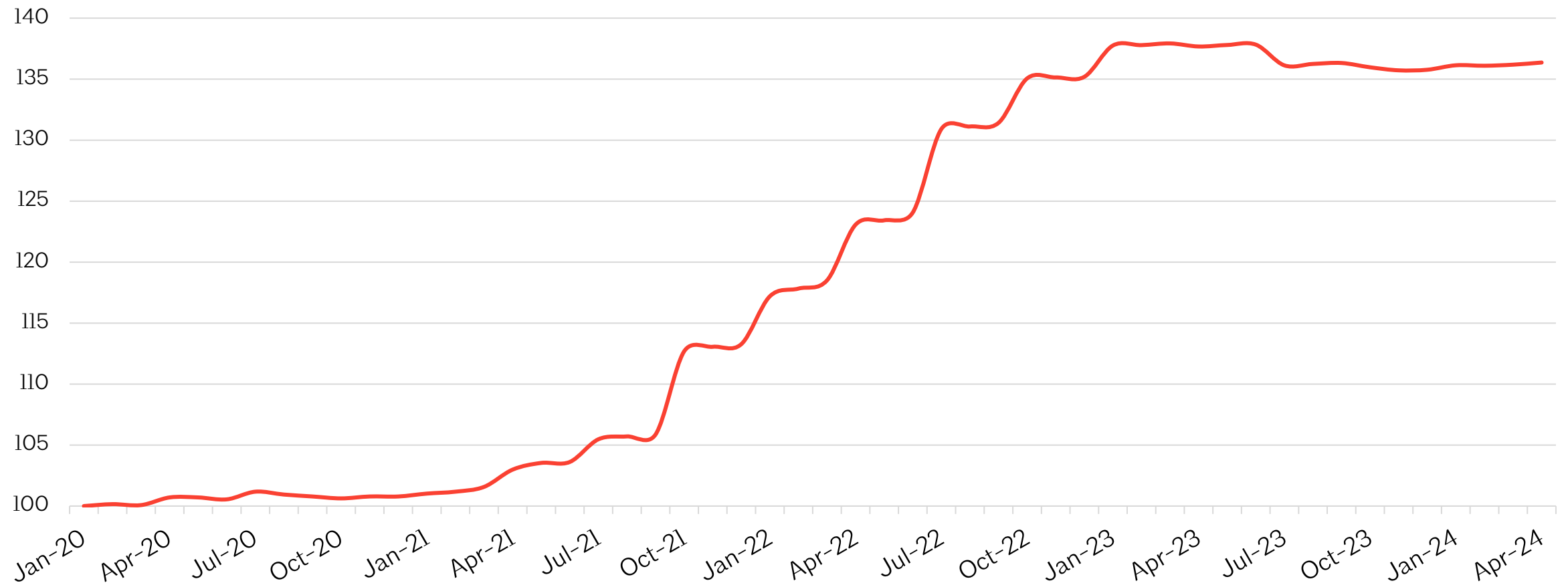
Change in construction costs, Apr 2023 to Apr 2024



Source: Bureau of Labor Statistics

Inputs to building construction have stabilized recently, but are almost 40% above pre-pandemic levels

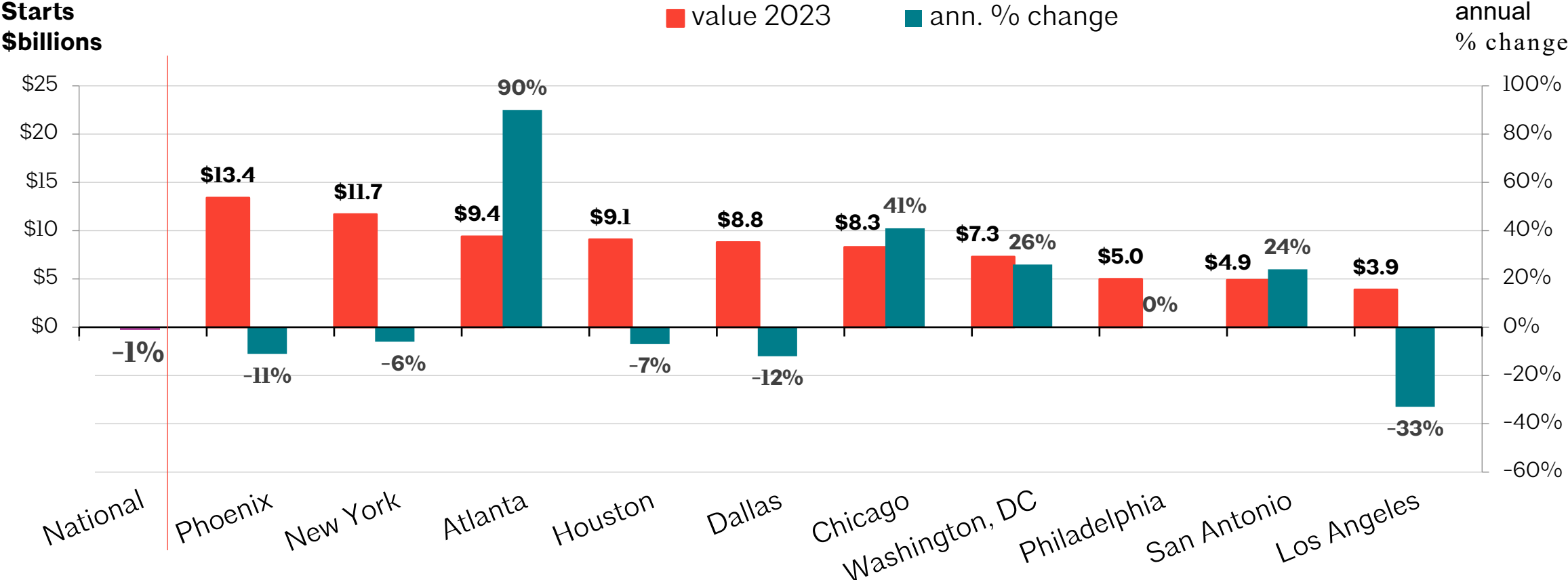
Producer price index for inputs to new nonresidential building construction, January 2020=100, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics

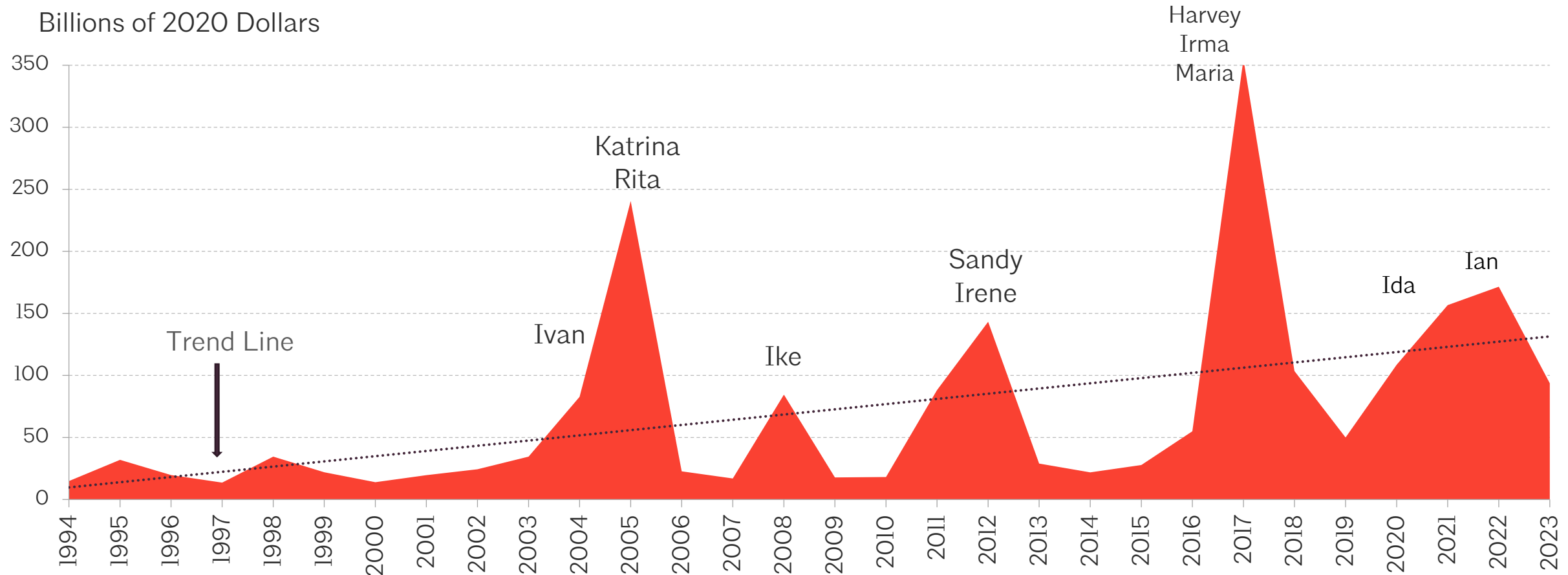
Construction starts flat in 2023, but key metro areas show considerable variation in performance

Billions \$ / % change—commercial and multifamily construction starts



Source: ConstructConnect, January 2024

Though volatile, natural disaster losses from large-scale events have dramatically increased

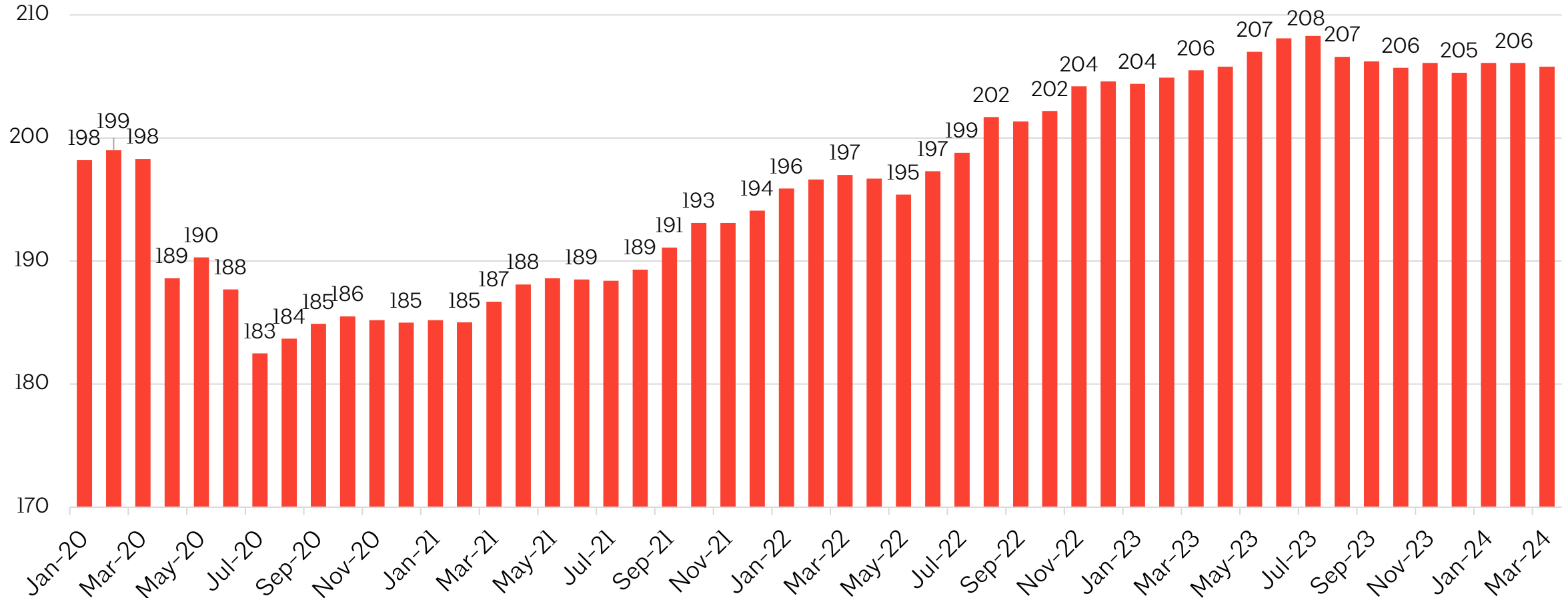


Notes: Dollar values are adjusted for inflation using CPI-U. Costs include only natural disaster events that generate over \$1 billion in damages after adjusting for inflation
Source: JCHS tabulations of National Oceanic and Atmospheric Administration (NOAA) National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters, <https://www.ncdc.noaa.gov/billions/>

The Profession

Architecture firm employment has returned to pre-pandemic levels, but has largely leveled off

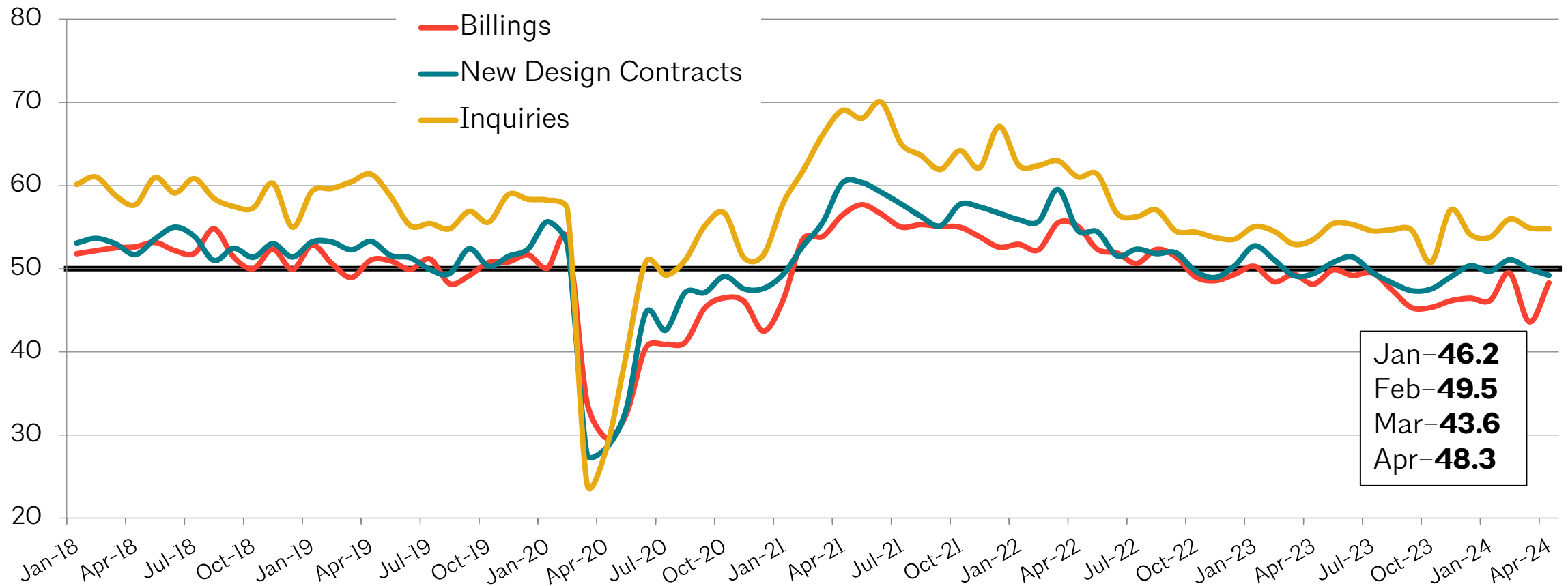
All employees, thousands, architectural services, seasonally adjusted



Source: Bureau of Labor Statistics

Architecture firm billings generally weak since Q3 2022, but more volatile recently, while inquiries remain positive

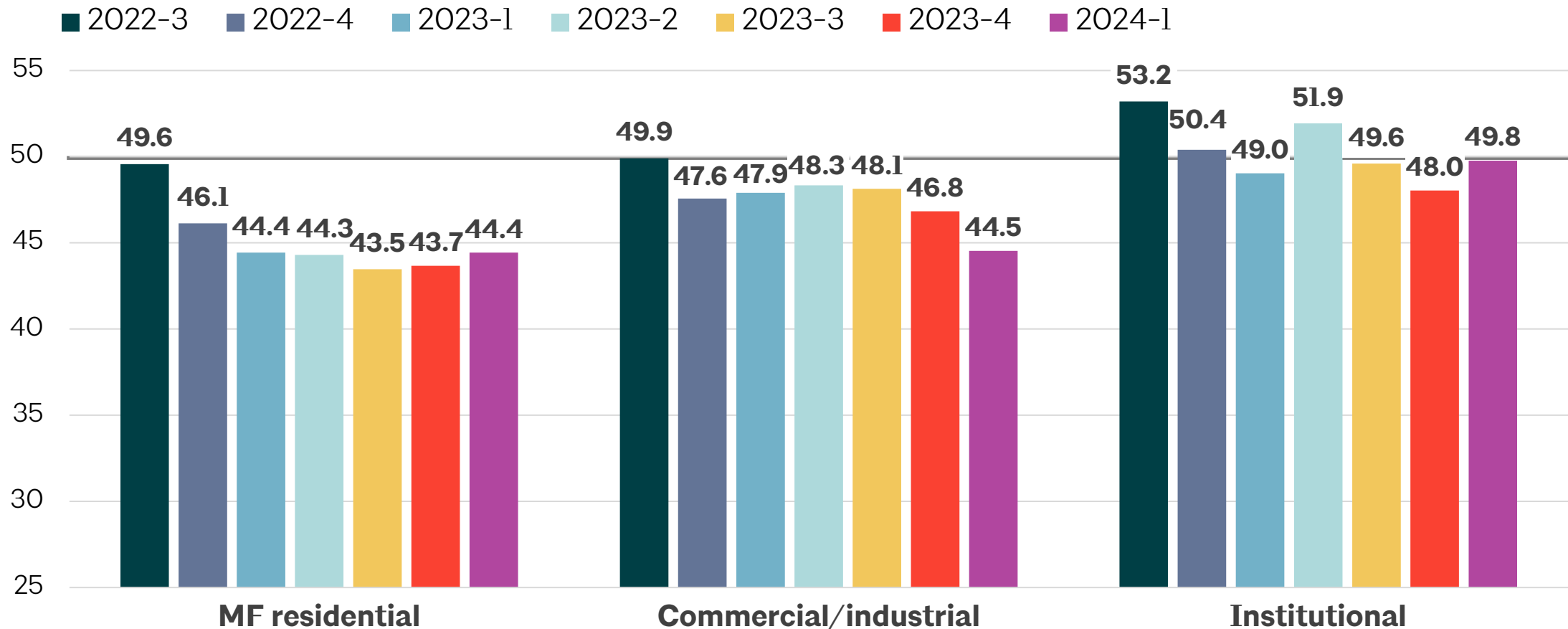
Diffusion index: 50 = no change from previous month, seasonally adjusted



Source: AIA/Deltek Architecture Billings Index

MF residential is main sector pulling down scores; institutional sector seems to have most upside potential

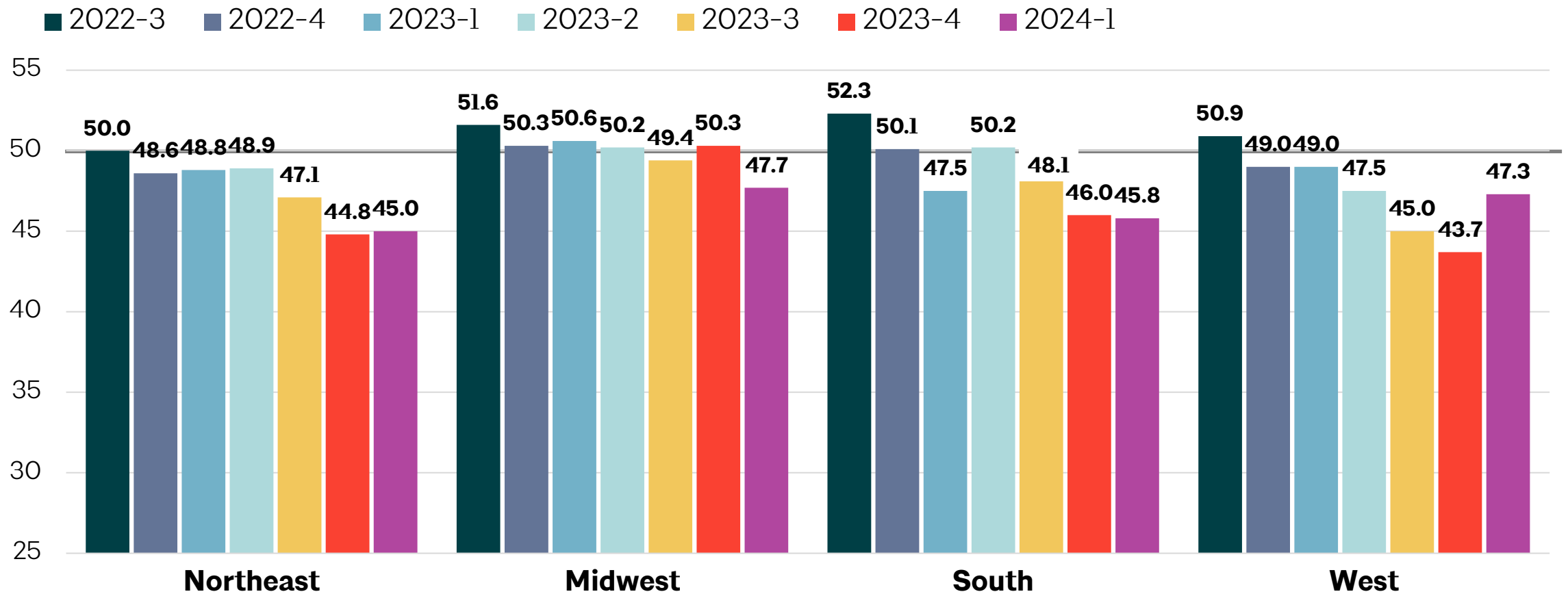
ABI scores by quarter for 2022 and 2023



Source: AIA/Deltek Architecture Billings Index

Firms in all regions remain weak; Midwest has performed the best; Northeast and West the worst

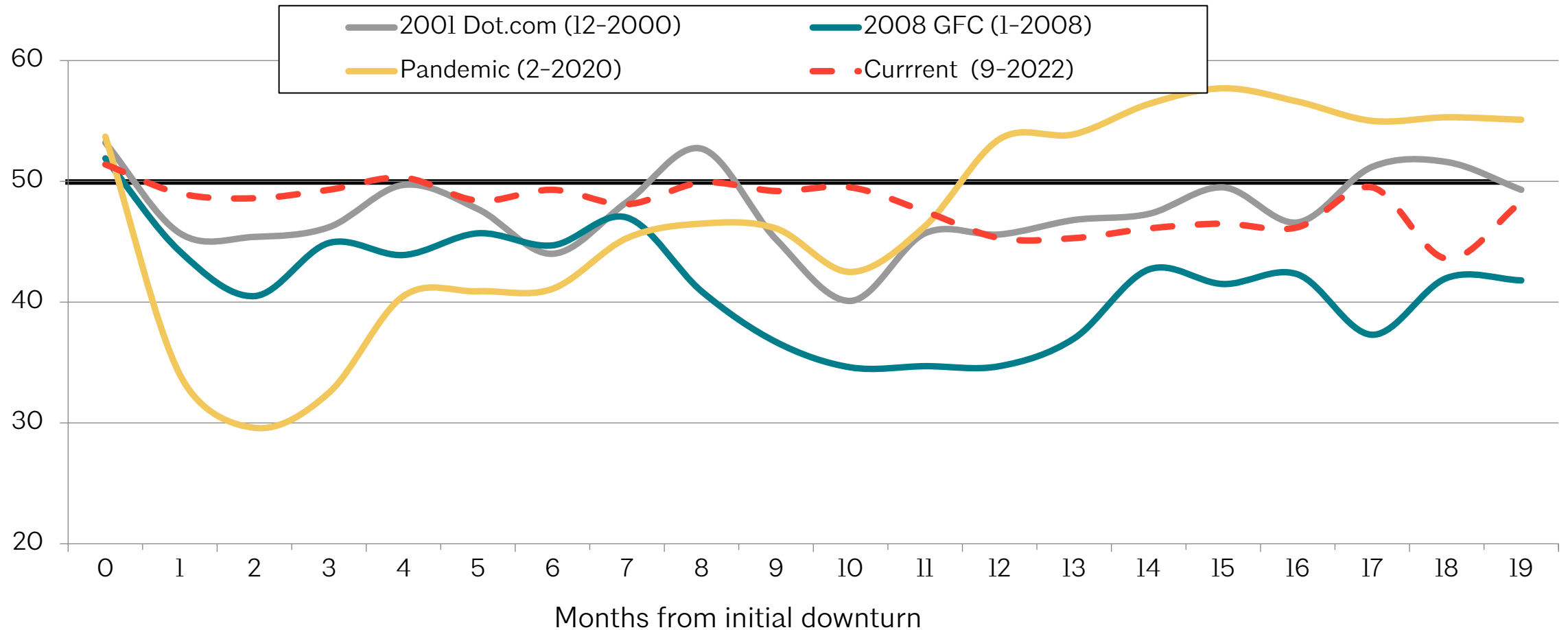
ABI scores by quarter since mid-year 2022



Source: AIA/Deltek Architecture Billings Index

In previous three recessions, ABI downturn at onset was much sharper

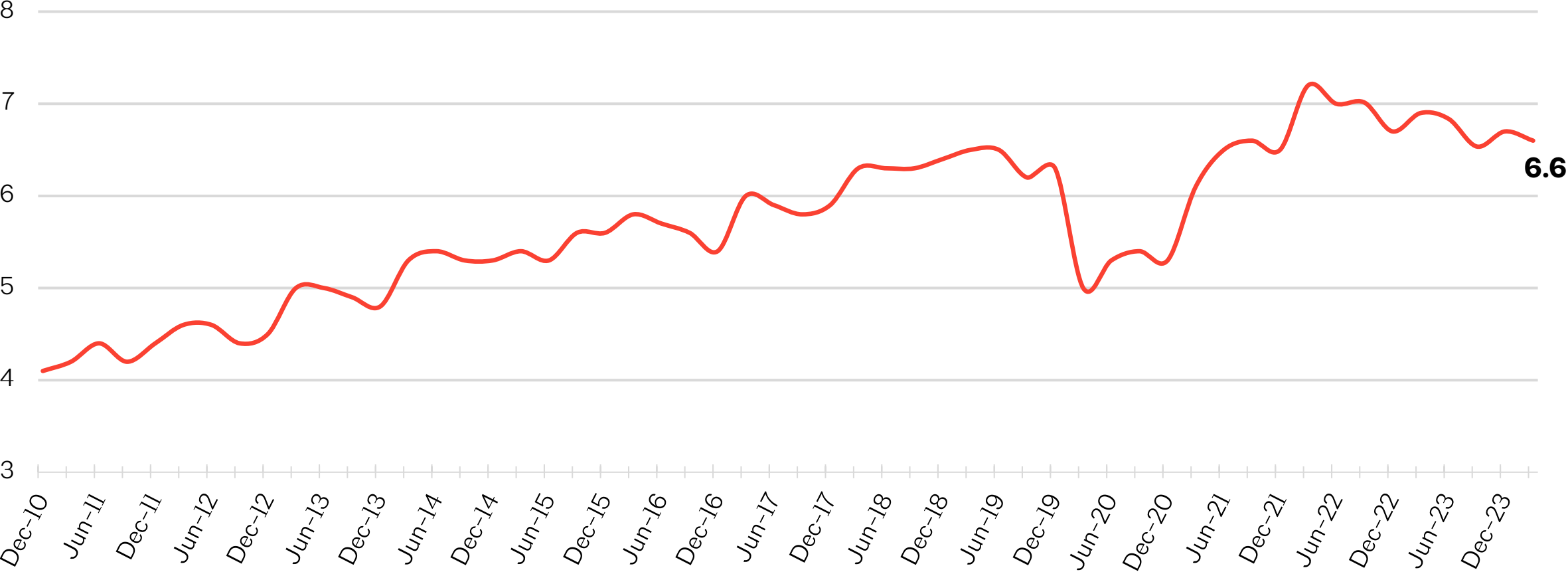
Diffusion index: 50 = no change from previous month, seasonally adjusted



Source: AIA/Deltek Architecture Billings Index

Architecture firm backlogs—averaging around 6.6 months—have been easing somewhat recently

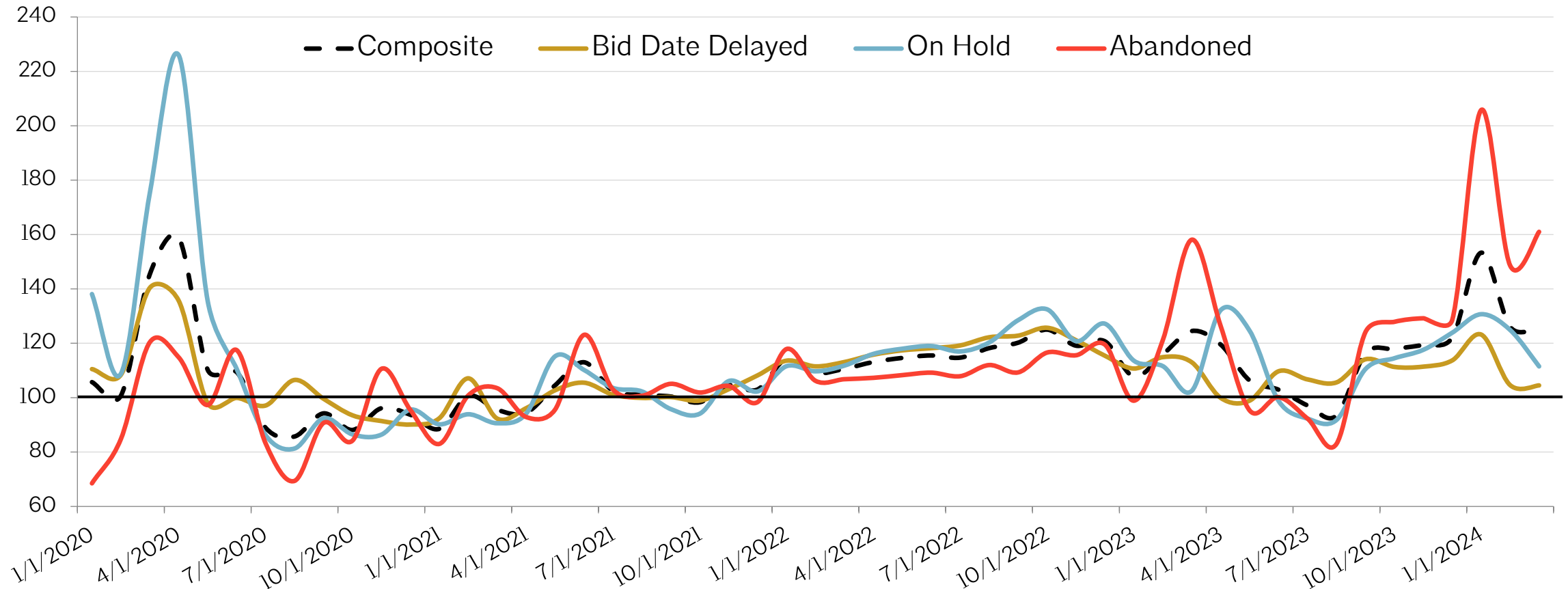
Average backlog at architecture firms (months)



Source: AIA Work-on-the-Boards survey

Recent spike in troubled design projects driven by increase in project that are being abandoned

Project Stress Index value: calculated as compared to the average weekly result calculated during calendar year 2021

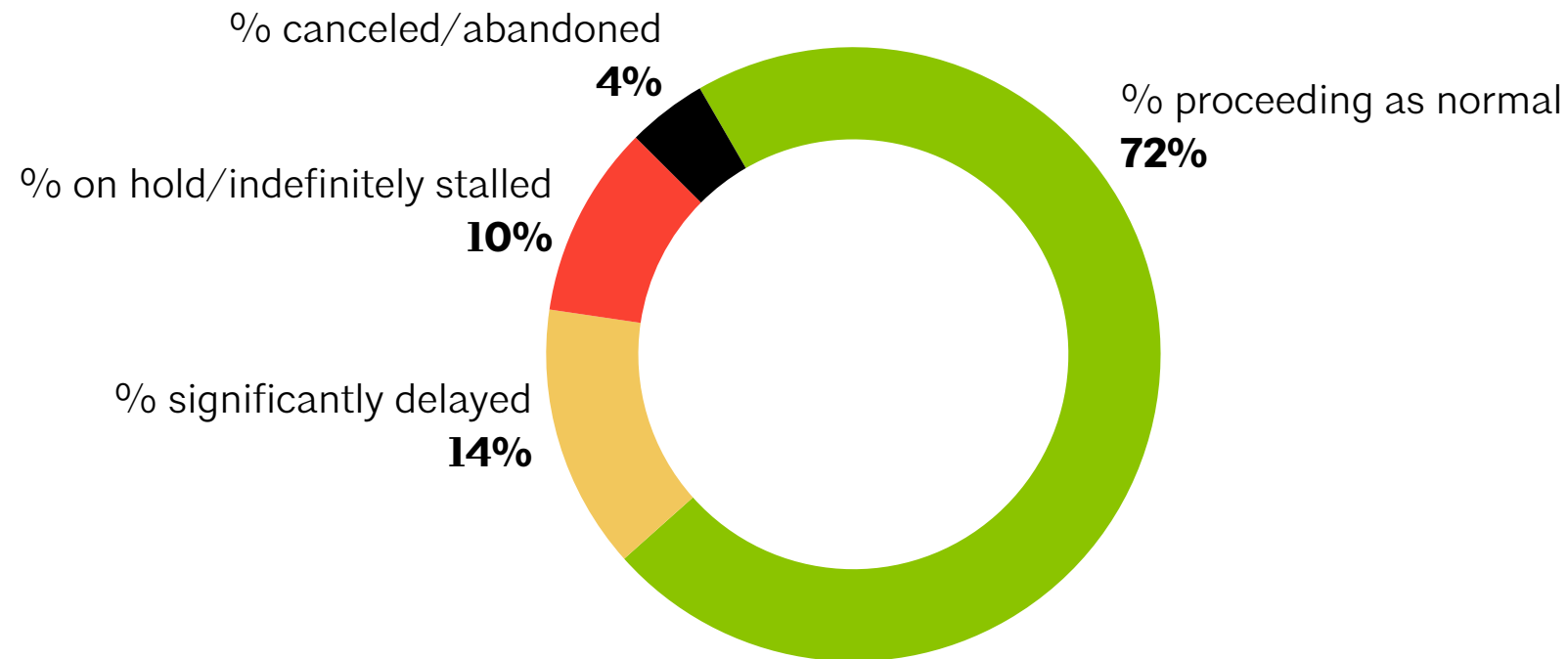


Note: composite index is an equal-weight average of indexed readings for bid date delayed, on hold, and abandoned projects.

Source: ConstructConnect, March 2024

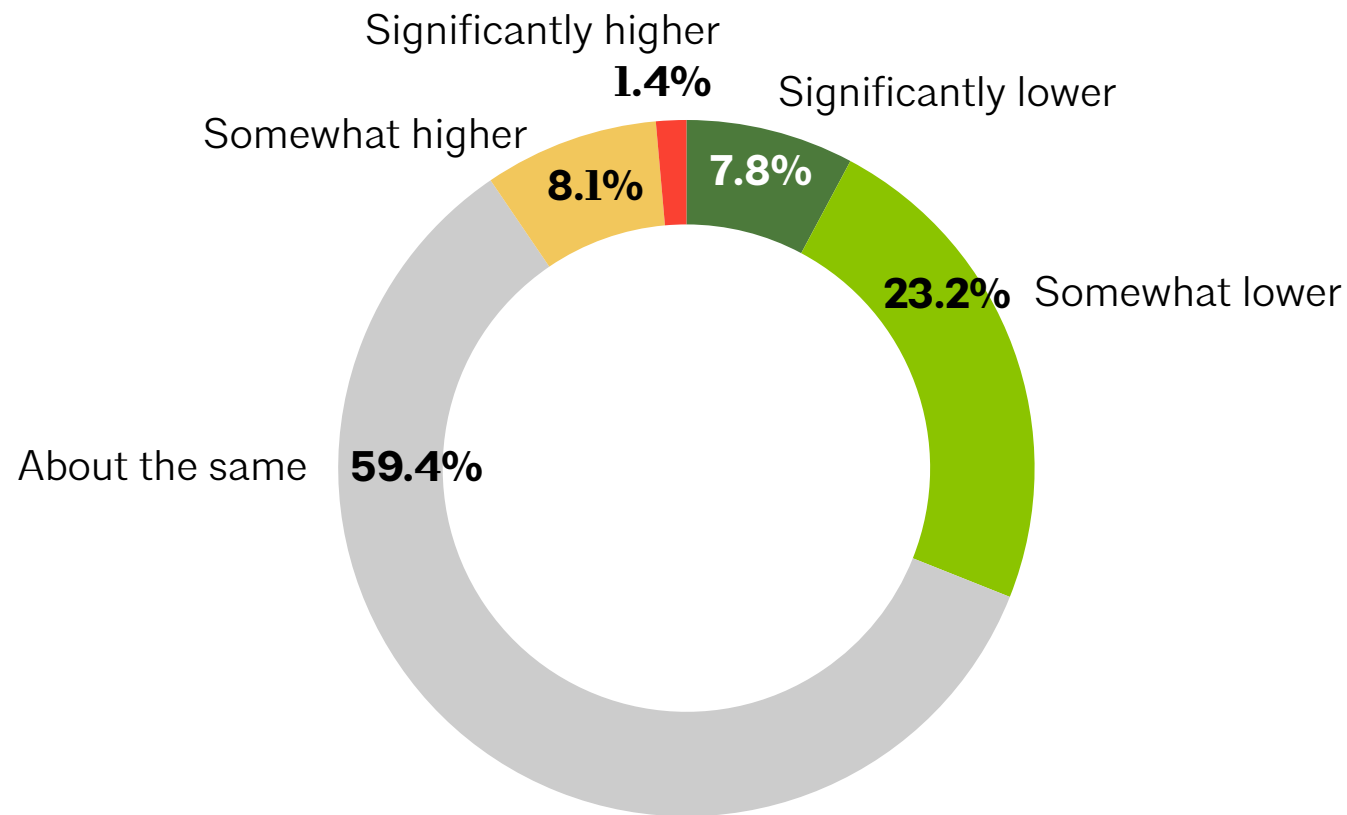
Firms report that almost 30% of recent project activity either delayed, stalled or cancelled

Average share by dollar value of project over past six months affected in each of the following ways



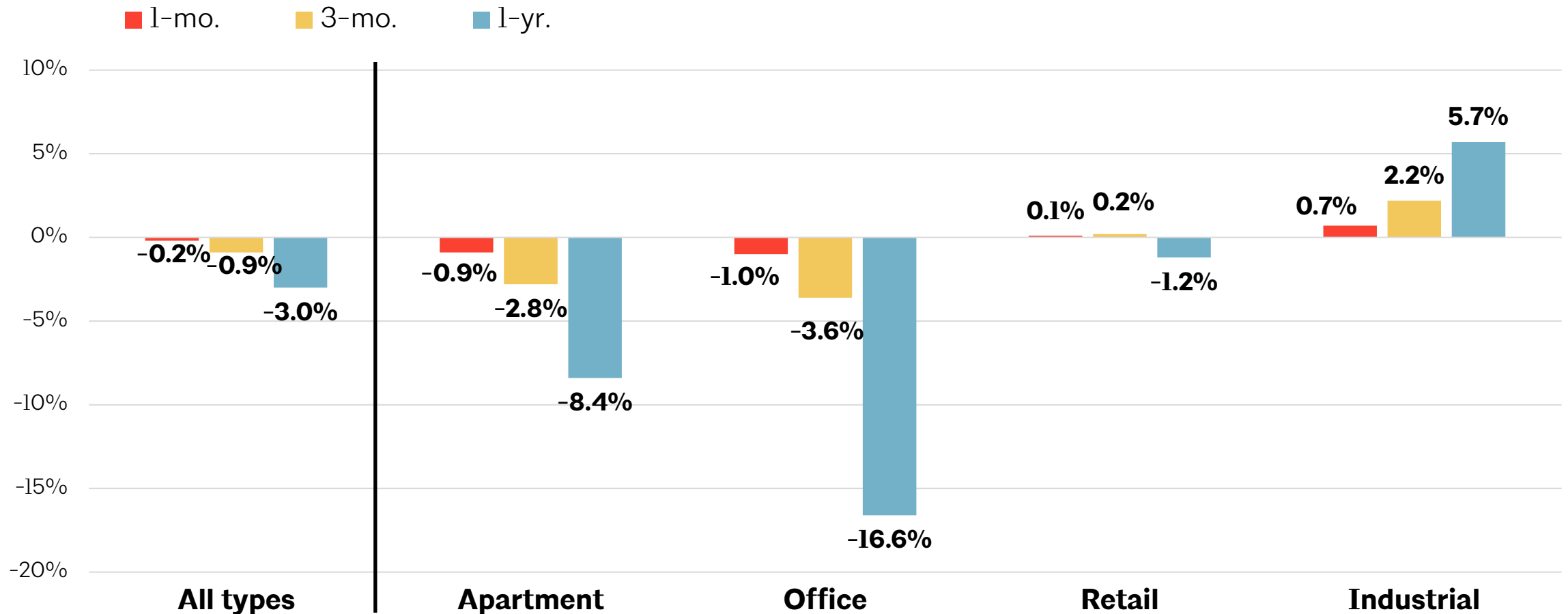
Fortunately, most firms feel that troubled project share will decrease over coming six months

Share of firms reporting what they anticipate will be the trend for delayed, stalled, or canceled projects over the first six months of 2024 as compared to the past six months



Commercial property beginning to firm; office declines accelerating, industrial values increasing

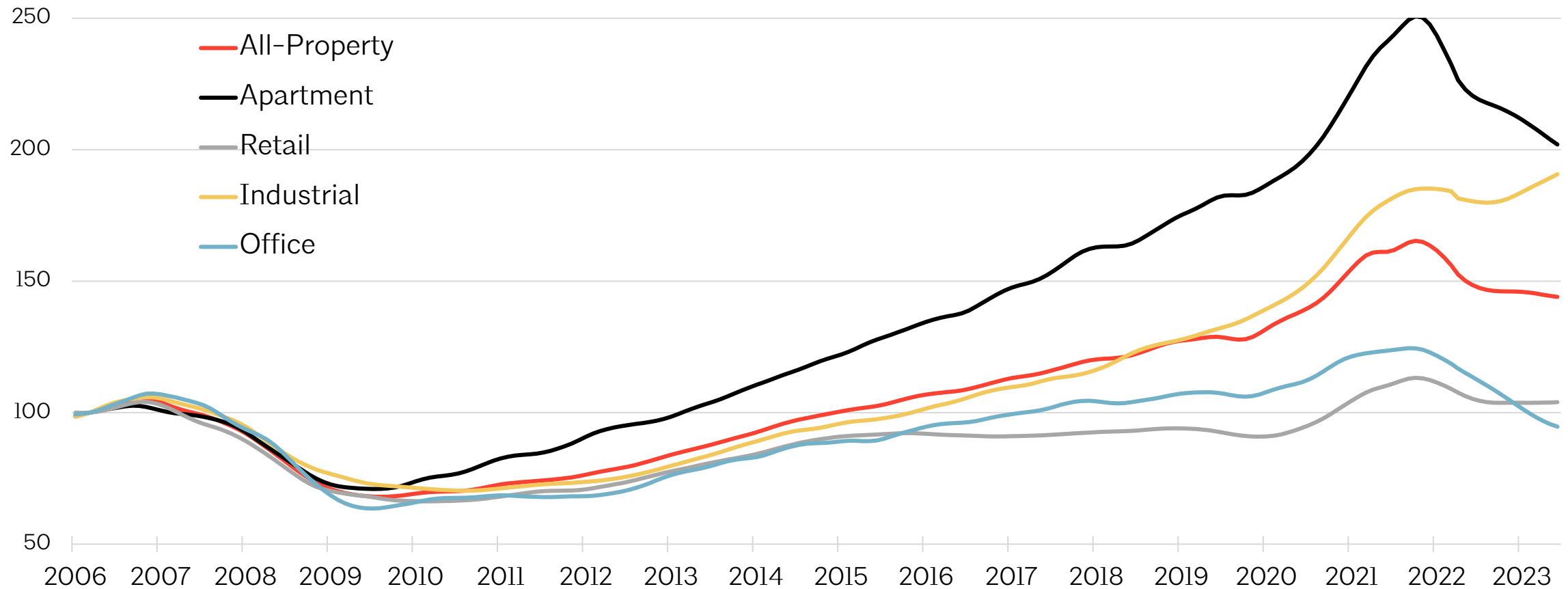
Change in price index for February 2024



Source: RCA Commercial Property Price Indexes

Apartment property value declines from a high base; offices from a low one

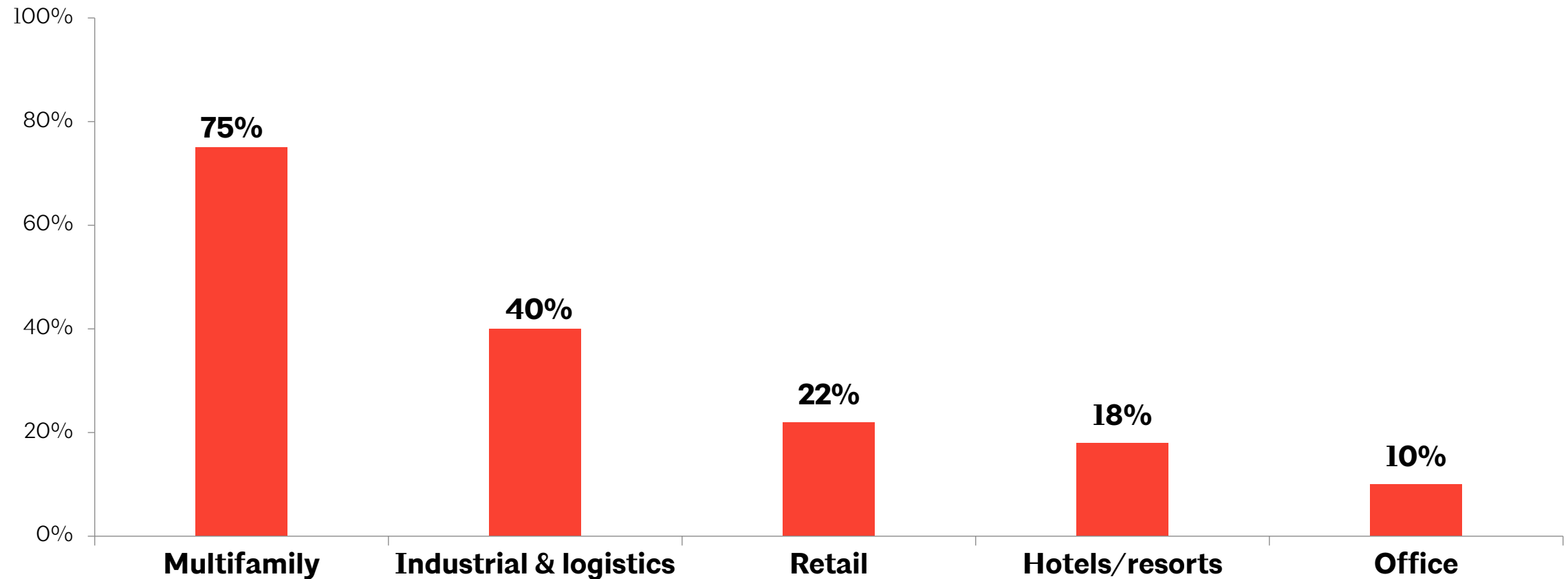
Index of repeat sale property values: 2006:4 = 100



Source: MSCI Commercial Property Price Indexes

Multifamily properties top investor preferred list for 2024

Preferred commercial real estate sector, % of respondents (multiple responses allowed)



Key trends



Profitability



Technology

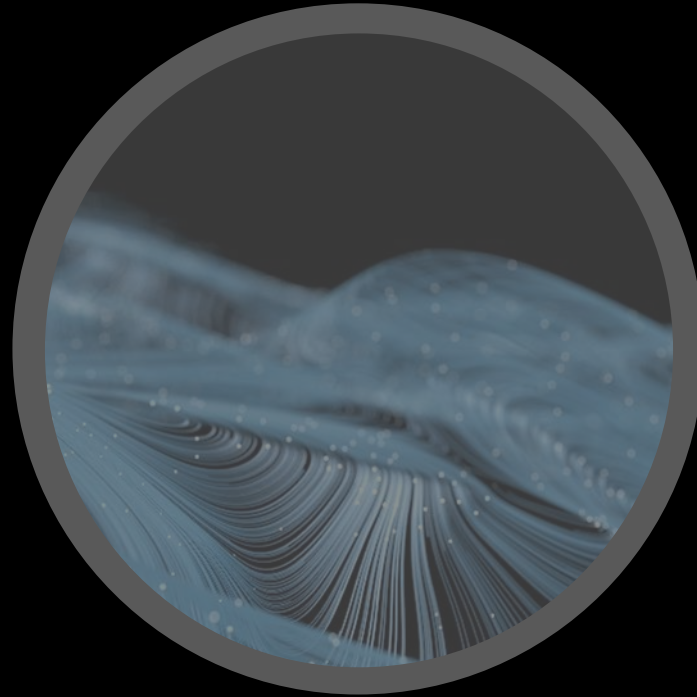


Global

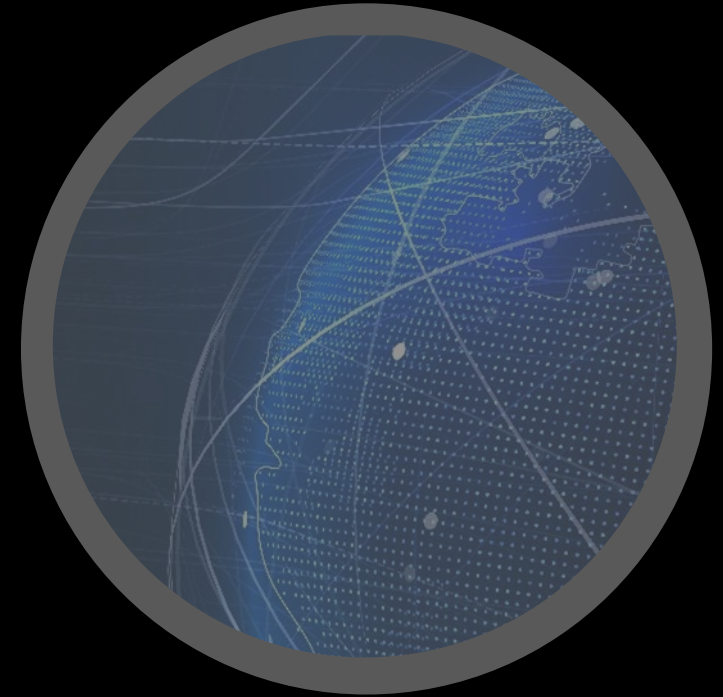
Key trends



Profitability



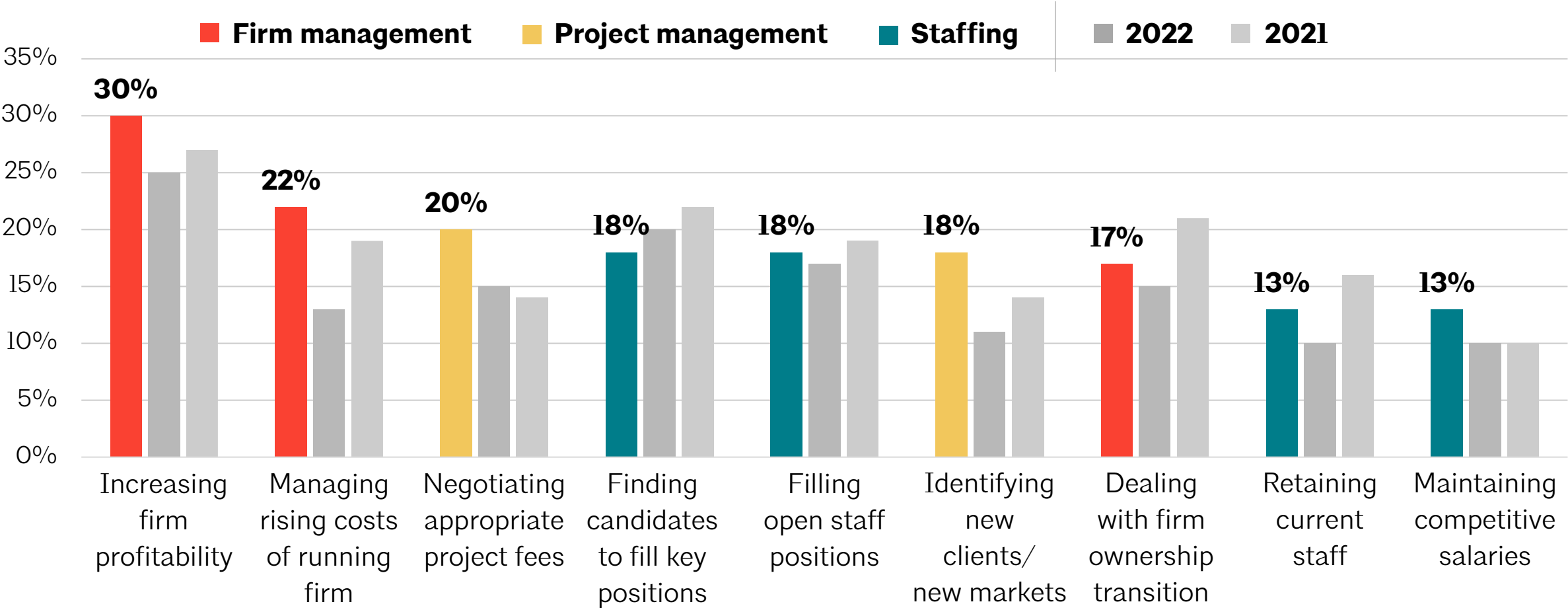
Technology



Global

Profit and costs most critical to firms—as well as staffing

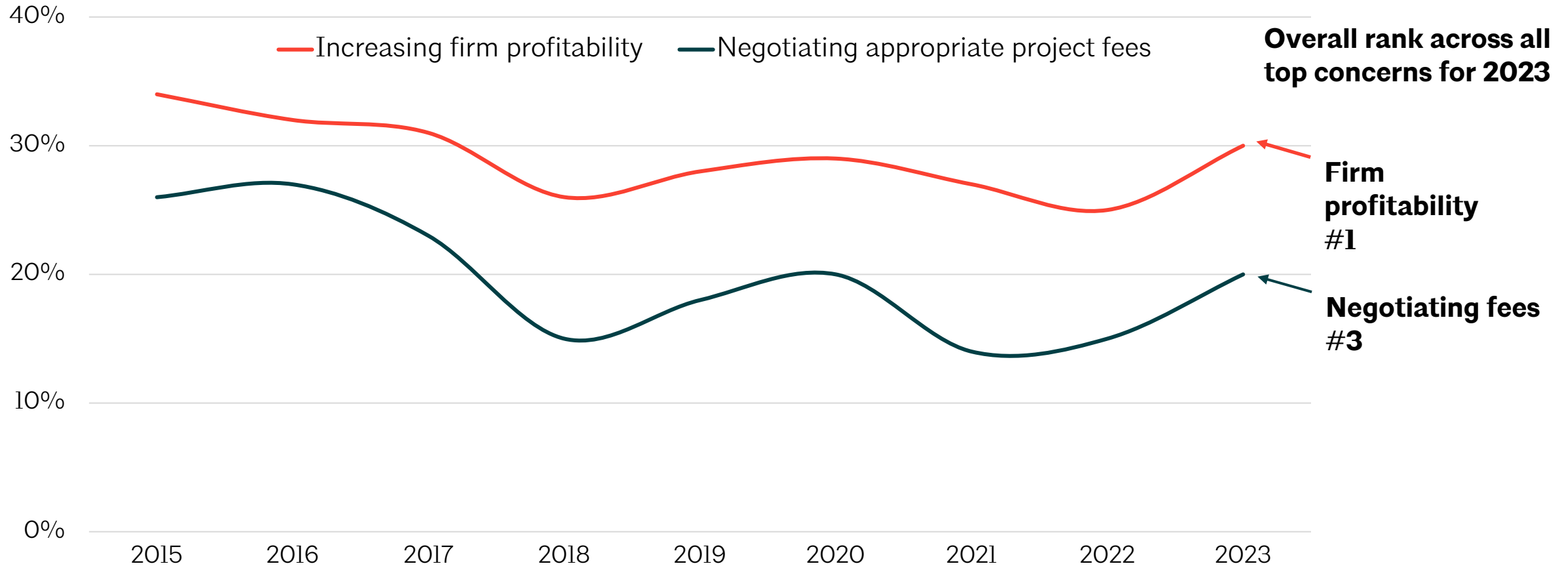
% of firms selecting issue as one of their top three business-related concerns for 2023



Source: AIA Work-on-the-Boards Survey, December 2021, 2022, 2023

Profitability Routinely a Top Concern at Architecture Firms; Negotiating Fees Also a Major Issue

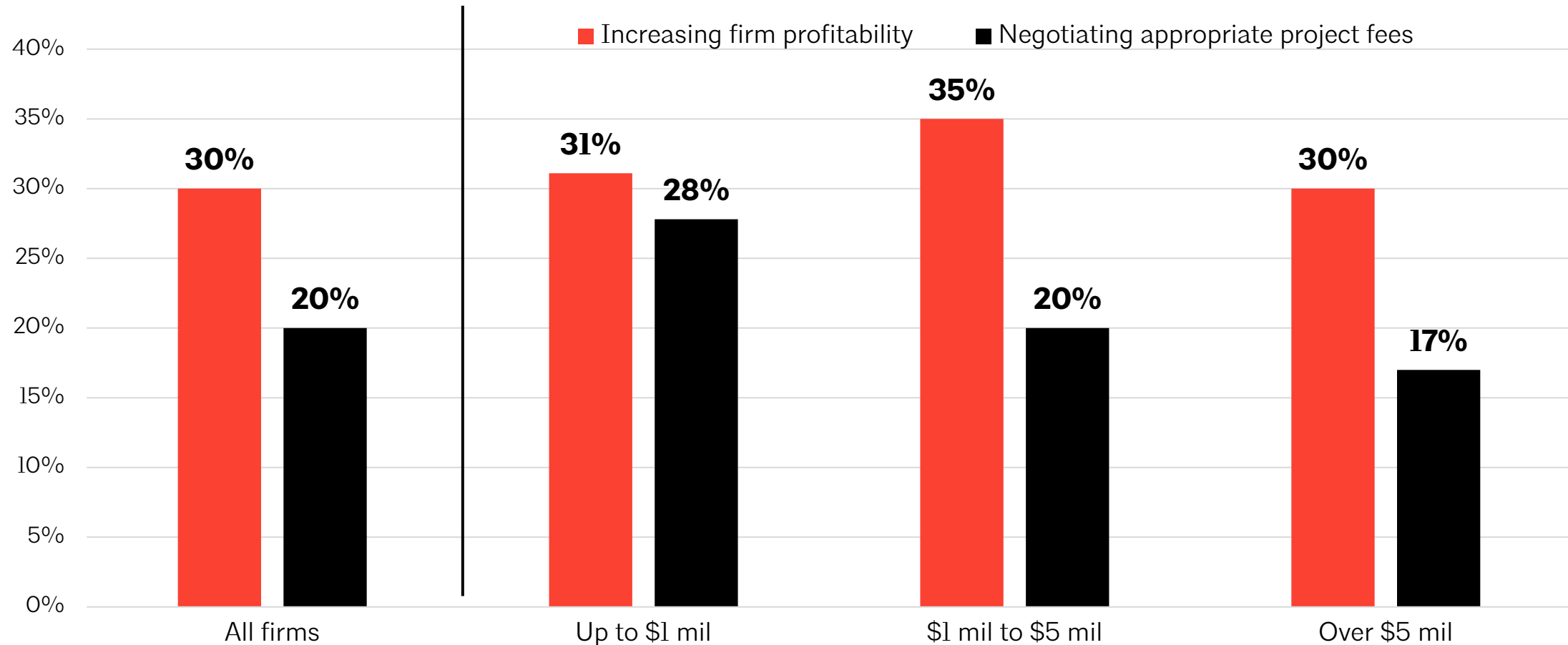
Share of firms reporting each as one of their top 3 business concerns for the coming year



Source: AIA Work-on-the-Boards Survey, various years

Negotiating Fees Generally a Greater Concern for Smaller Firms; Profitability a Top Concern for Firms of All Sizes

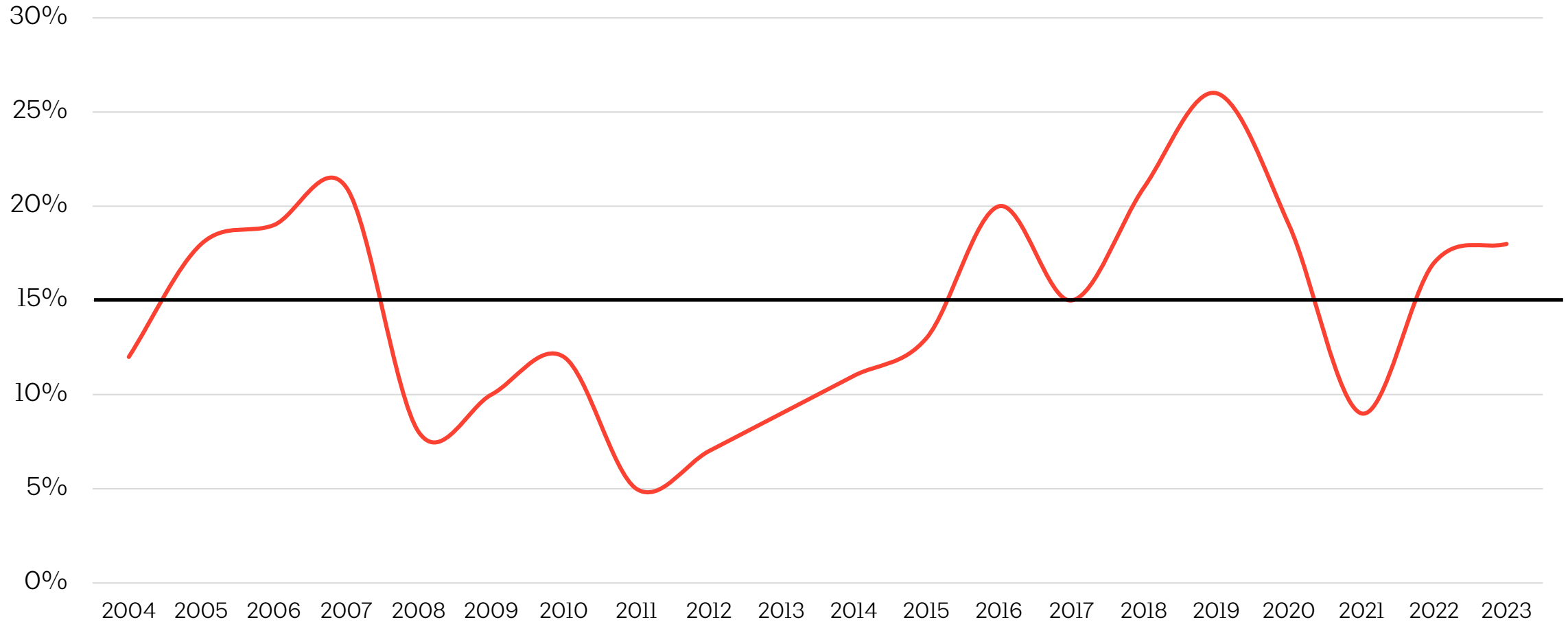
Share of firms reporting each as one of their top 3 concerns for 2024 by firm size



Source: AIA Work-on-the-Boards Survey, December 2023

Architecture Firm Profitability is Variable, and Has Averaged 15% Over Past Two Decades

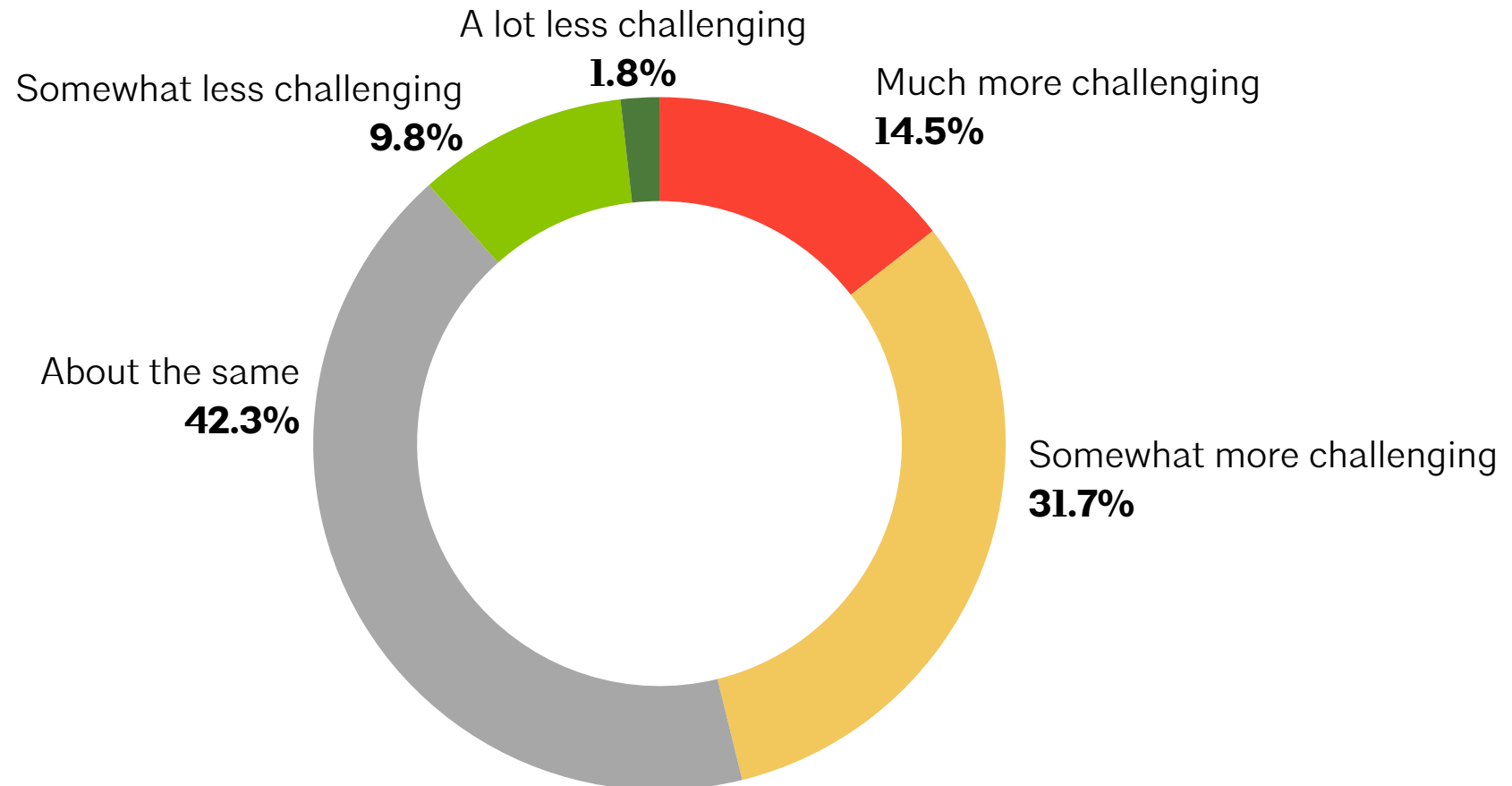
Firm profitability at architecture firms, annual %



Source: Zweig Group

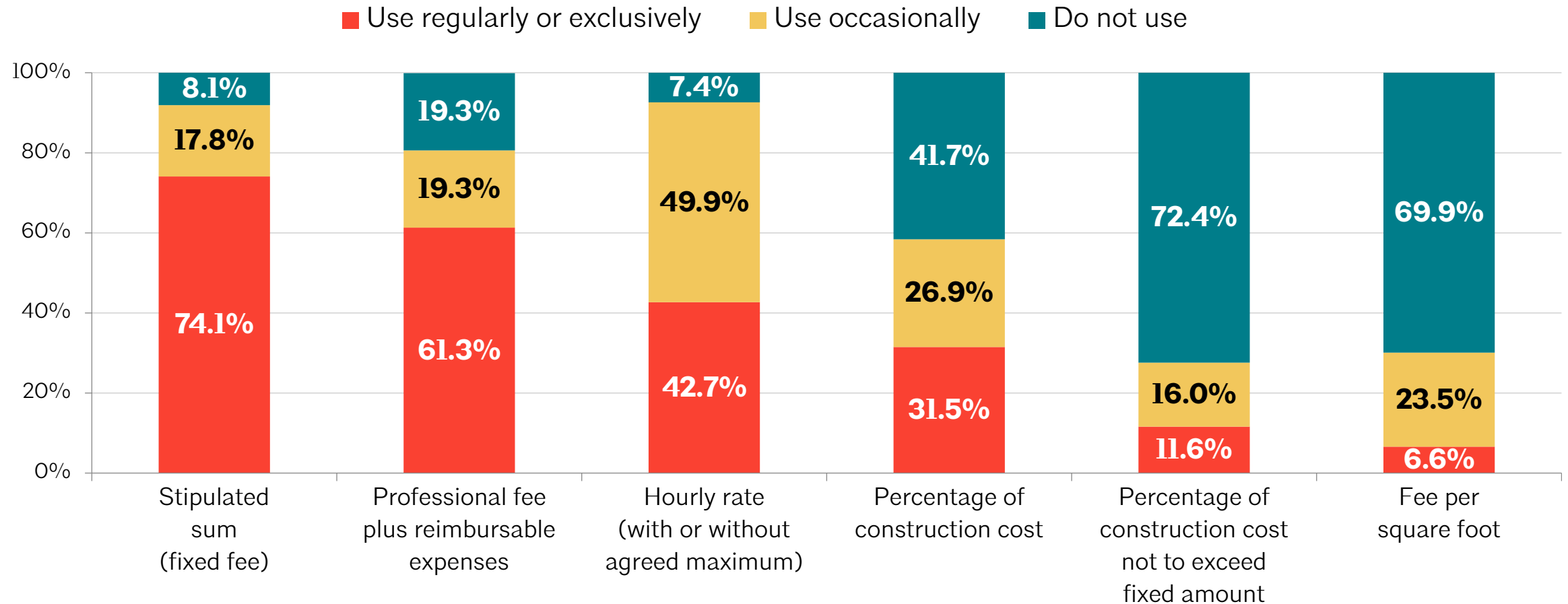
In general, architecture firms finding fee negotiation more challenging now

Share of firms reporting how challenging it is negotiating design fees for their projects now compared to 4–5 years ago



Stipulated sum most common fee method, followed by professional fee plus costs

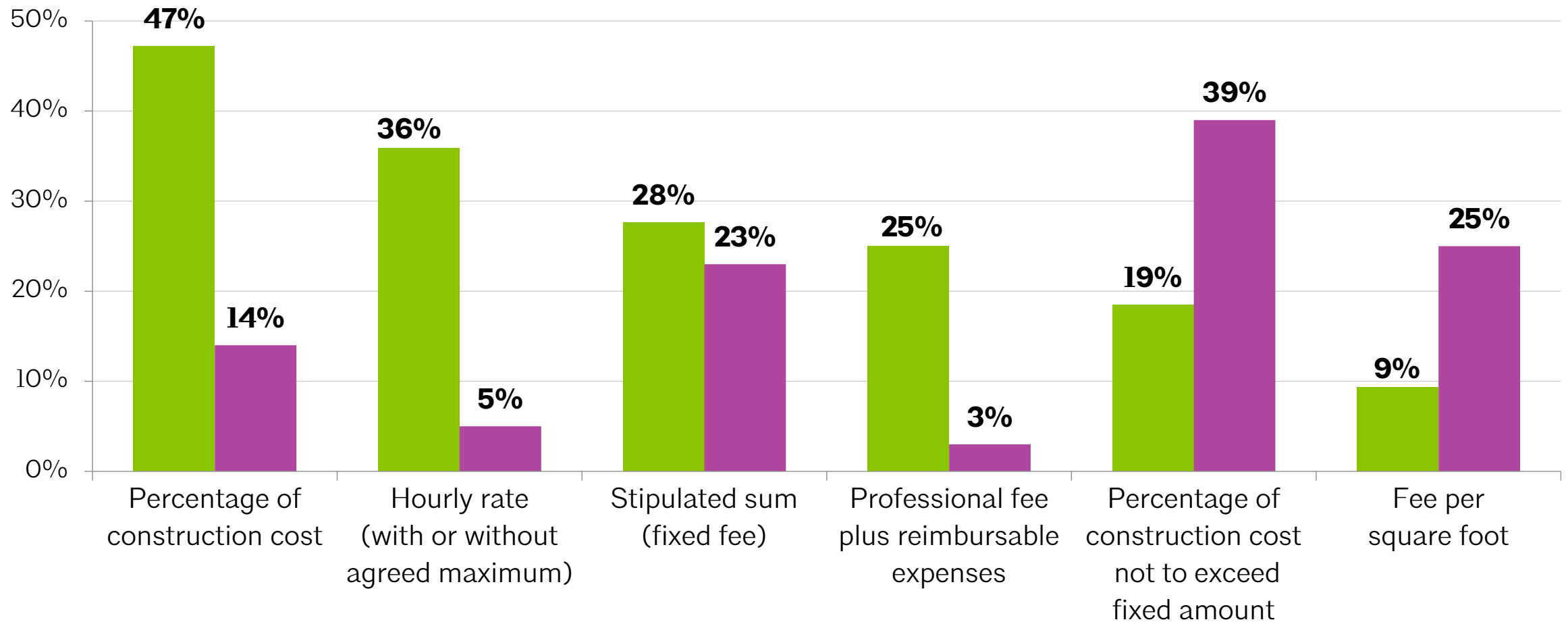
Share of firms reporting frequency of use of the following fee determination methods for design fees



Source: AIA Work-on-the-Boards Survey, March 2024

The most profitable fee methods tend to be the least risky, with percentage of construction cost preferred

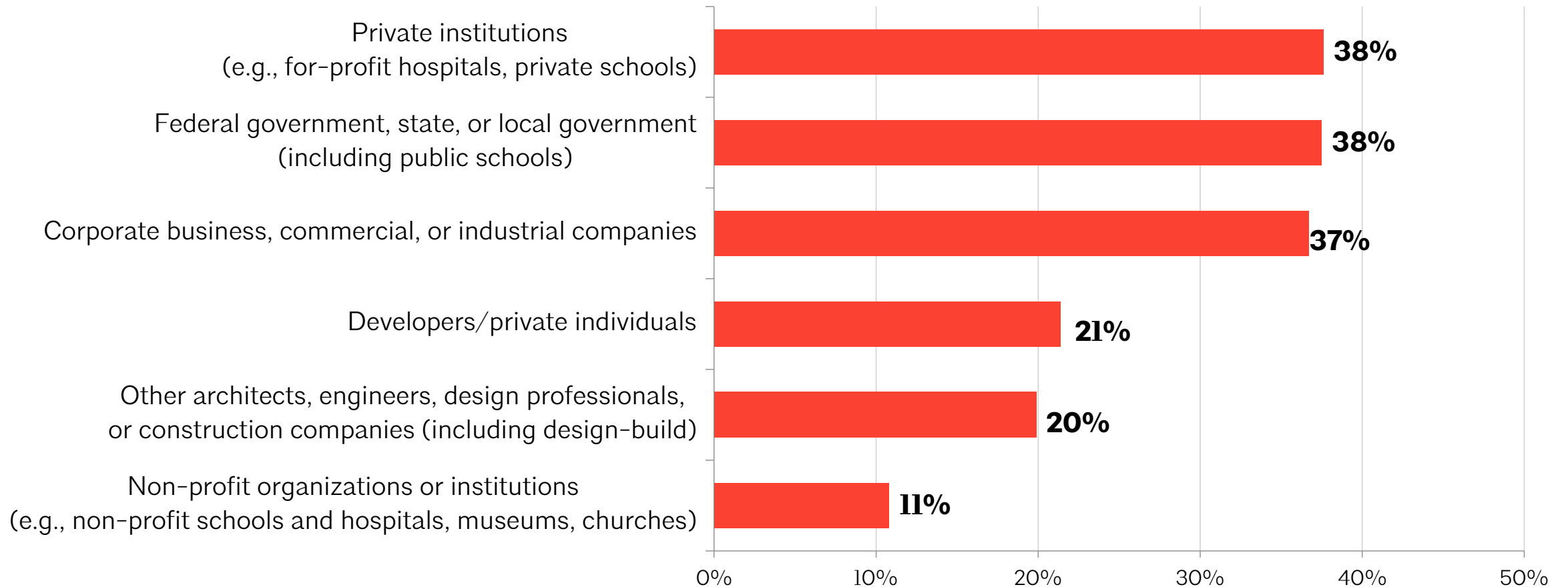
Share of firms reporting method as quite profitable, share of firms reporting method as quite risky



Source: AIA Work-on-the-Boards Survey, March 2024

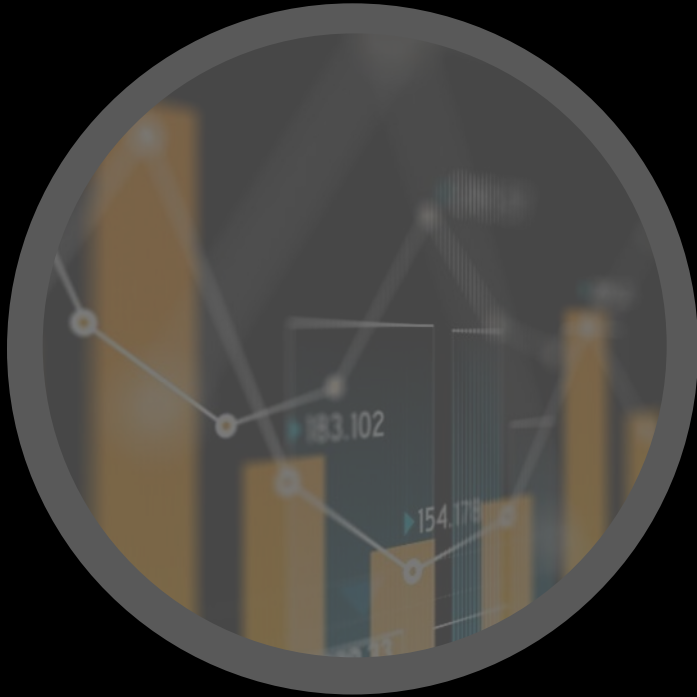
Projects for private institutions, government commonly viewed as quite profitable client category

Share of firms reporting which client categories are quite profitable



Source: AIA Work-on-the-Boards Survey, March 2024

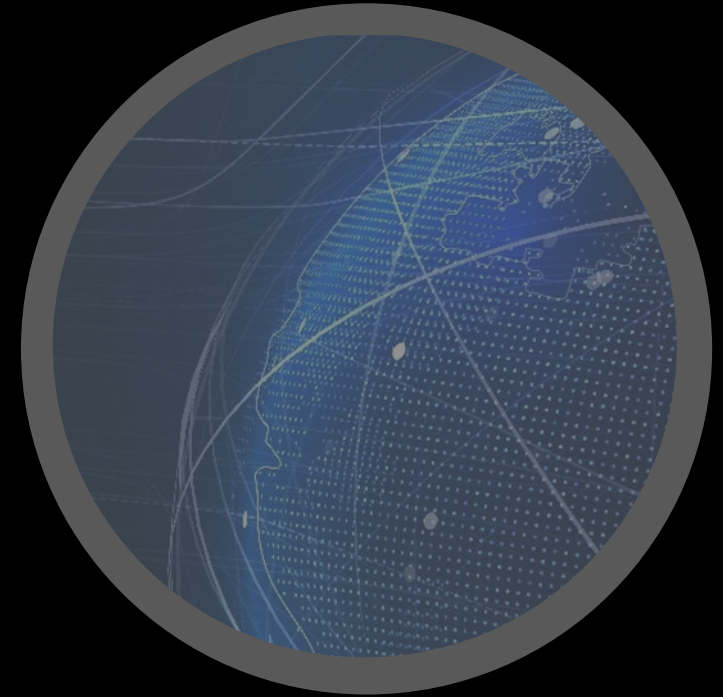
Key trends



Profitability



Technology

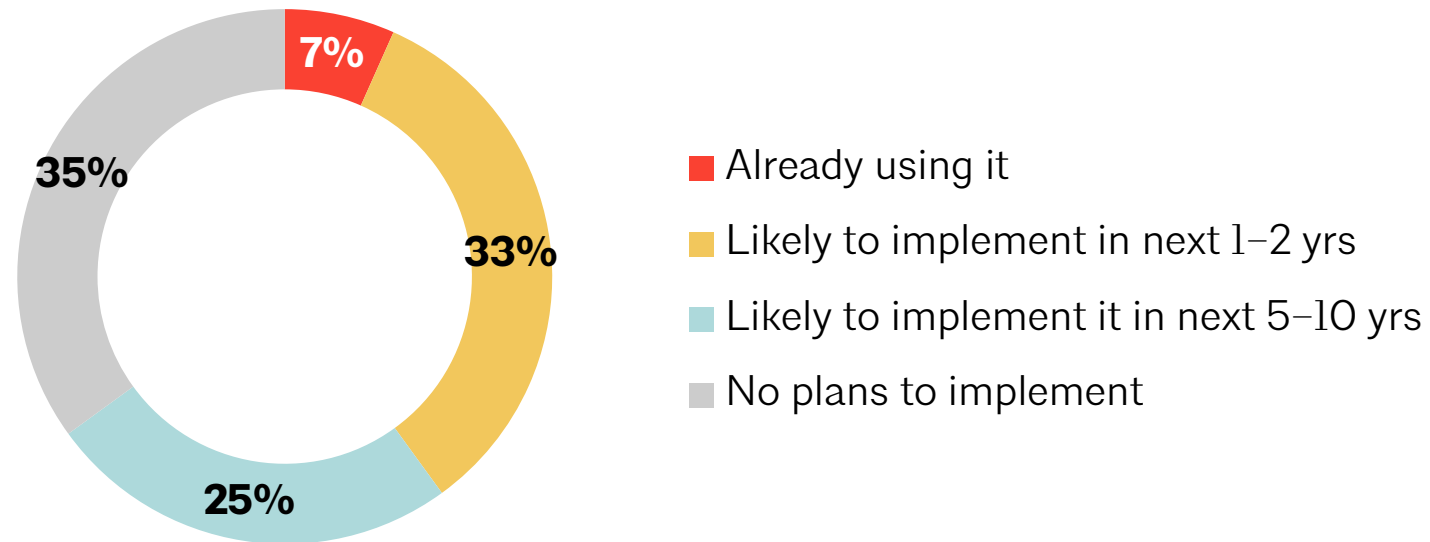


Global

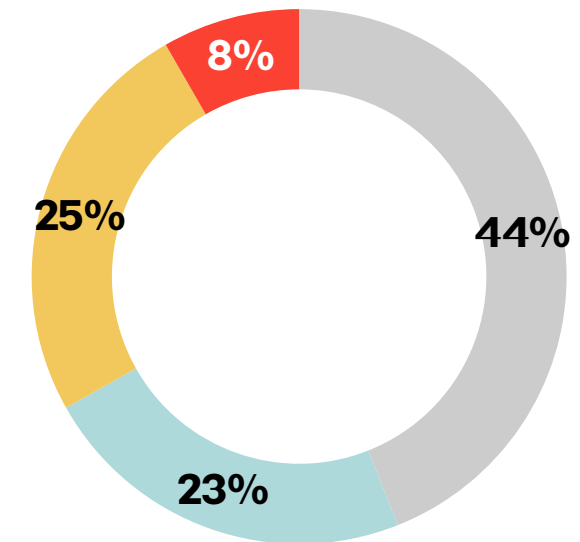
Architecture firms still in the exploratory stages with AI, though looking at future implementation

Share of firm leaders reporting on current and future expected use of AI

AI for design-related applications

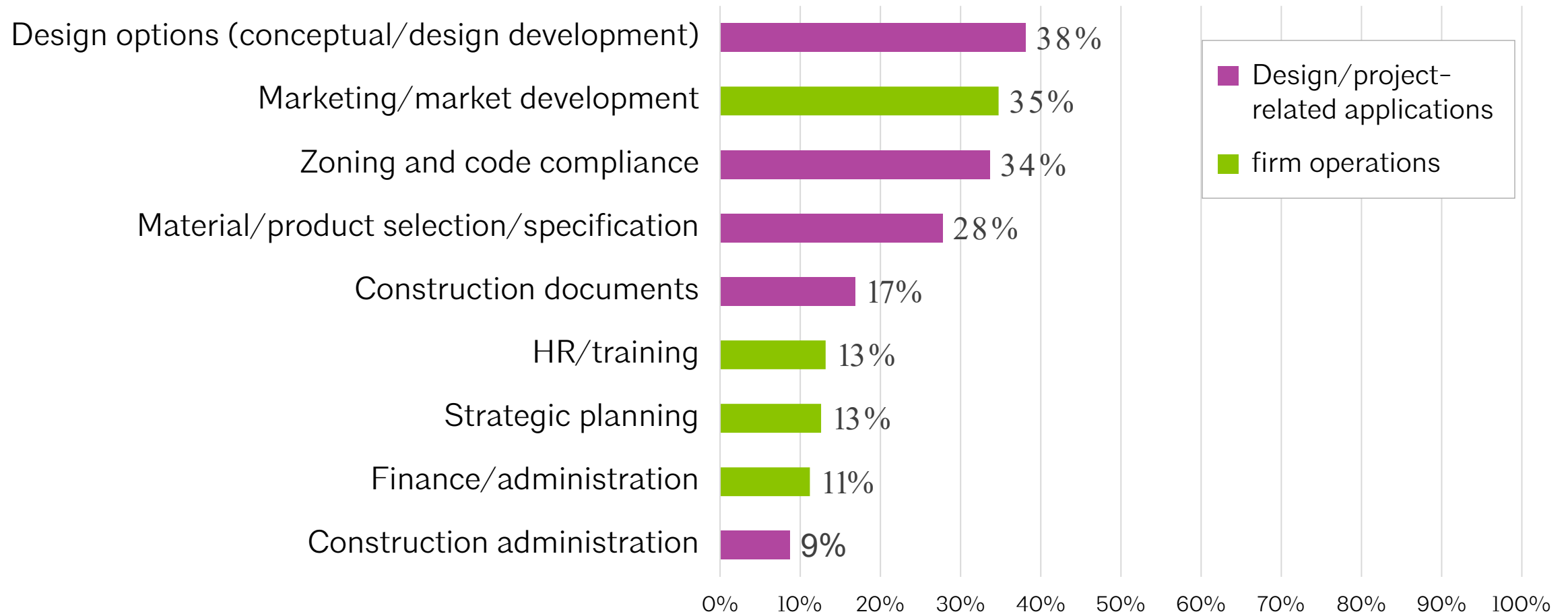


AI for firm operations



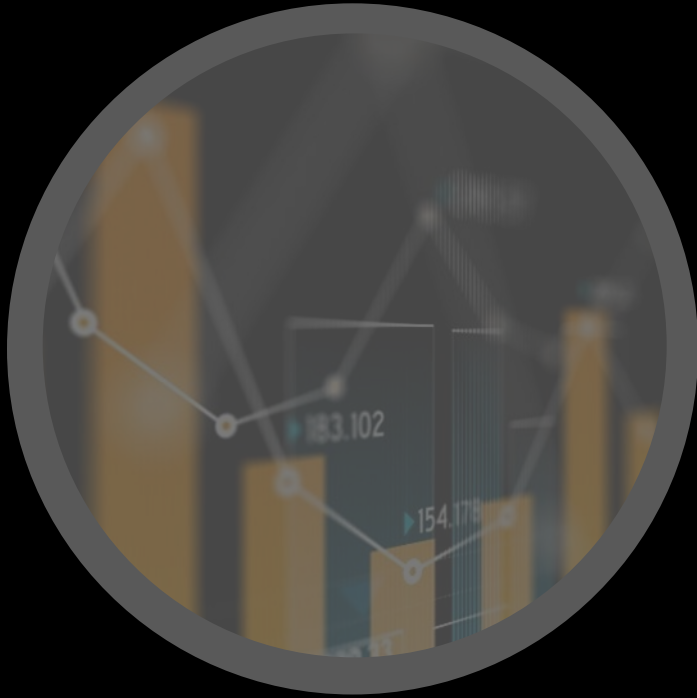
Of firms using or considering AI, design concepts, marketing, and zoning/code compliance popular options

Share of firm leaders reporting which of their firm activities they see the most long-term potential of AI

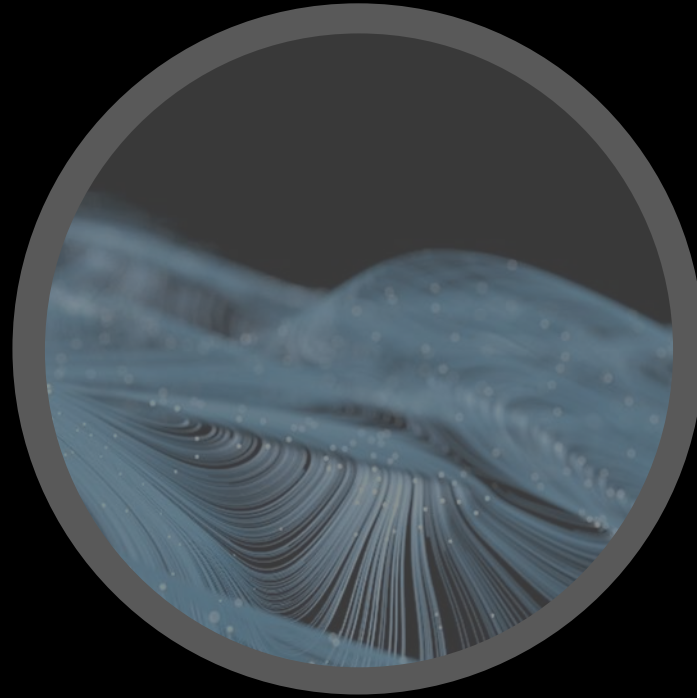


Source: AIA Work-on-the-Boards survey, July 2023

Key trends



Profitability



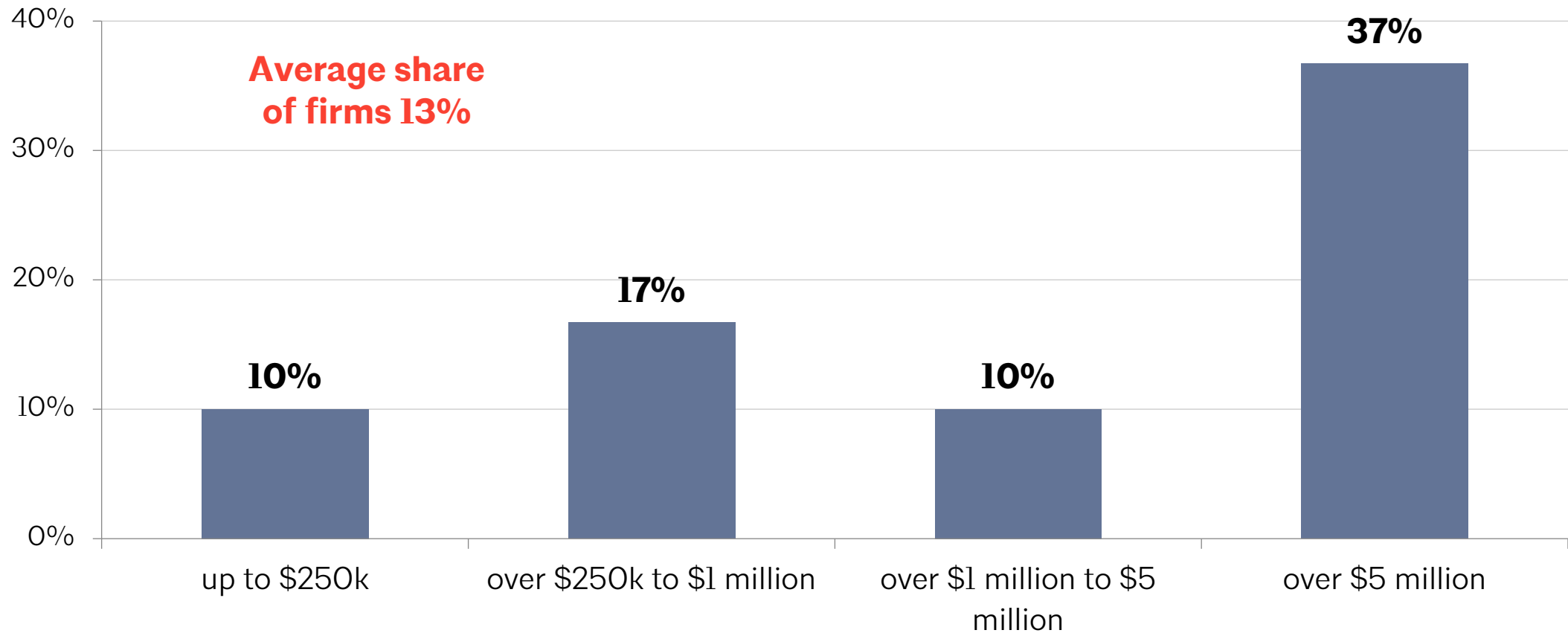
Technology



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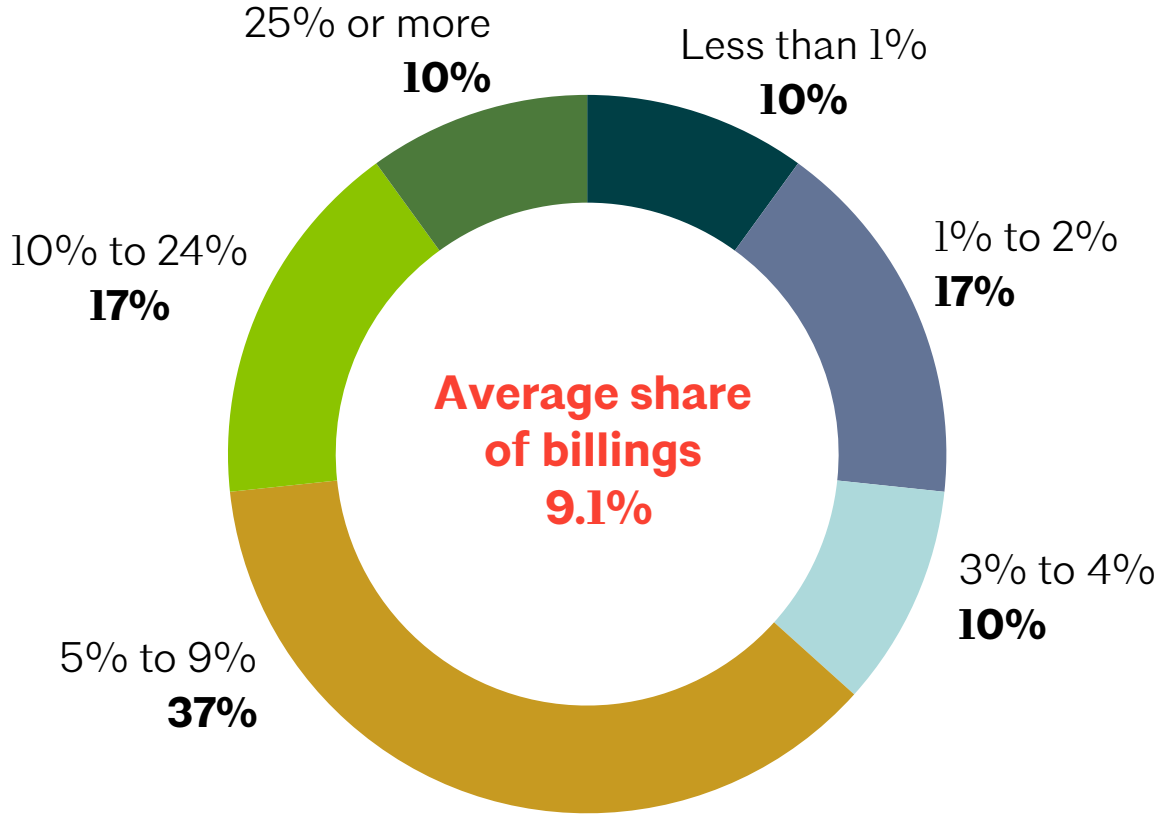
Though most firms do not have international work, a quarter of large firms do

approximate share of firms that have billings from international projects by size of firm billings



On average, for firms with international project billings, they account for at least 5% of gross billings

approximate share of gross billings at their firm (all offices) over the past year from international projects for those firms that currently have billings from international projects (built outside US either for a foreign or domestic client)

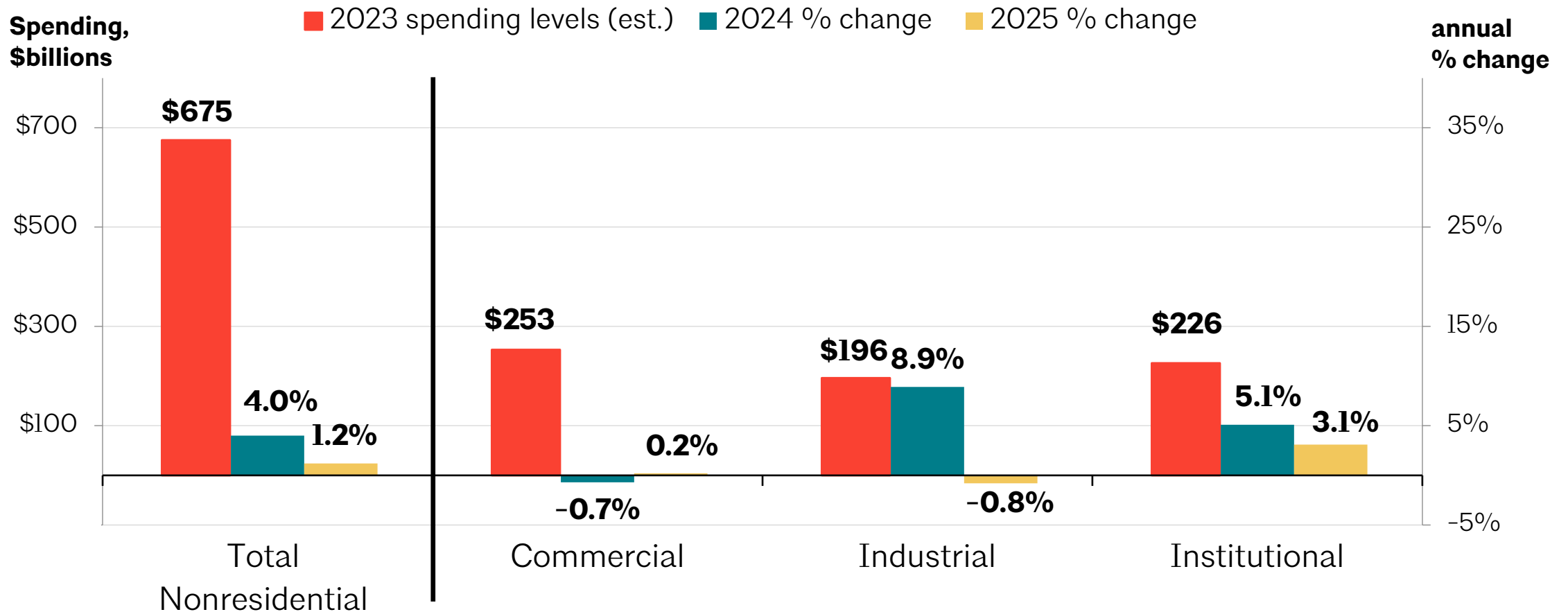


Source: AIA Work-on-the-Boards Survey, April 2024

The Outlook

Construction spending expected to see only very moderate growth this year before slowing more in 2025

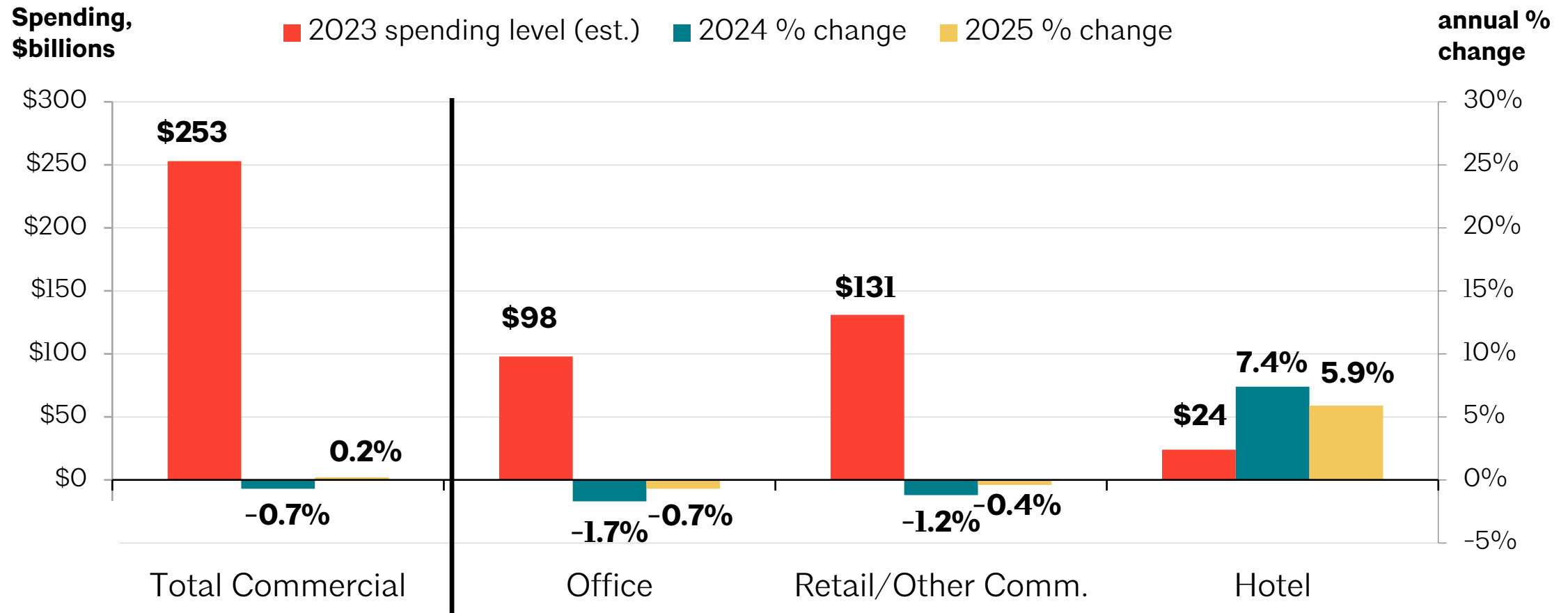
Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast, January 2024

Hotel construction expected healthy growth this year and next; office and retail expected to slip both years

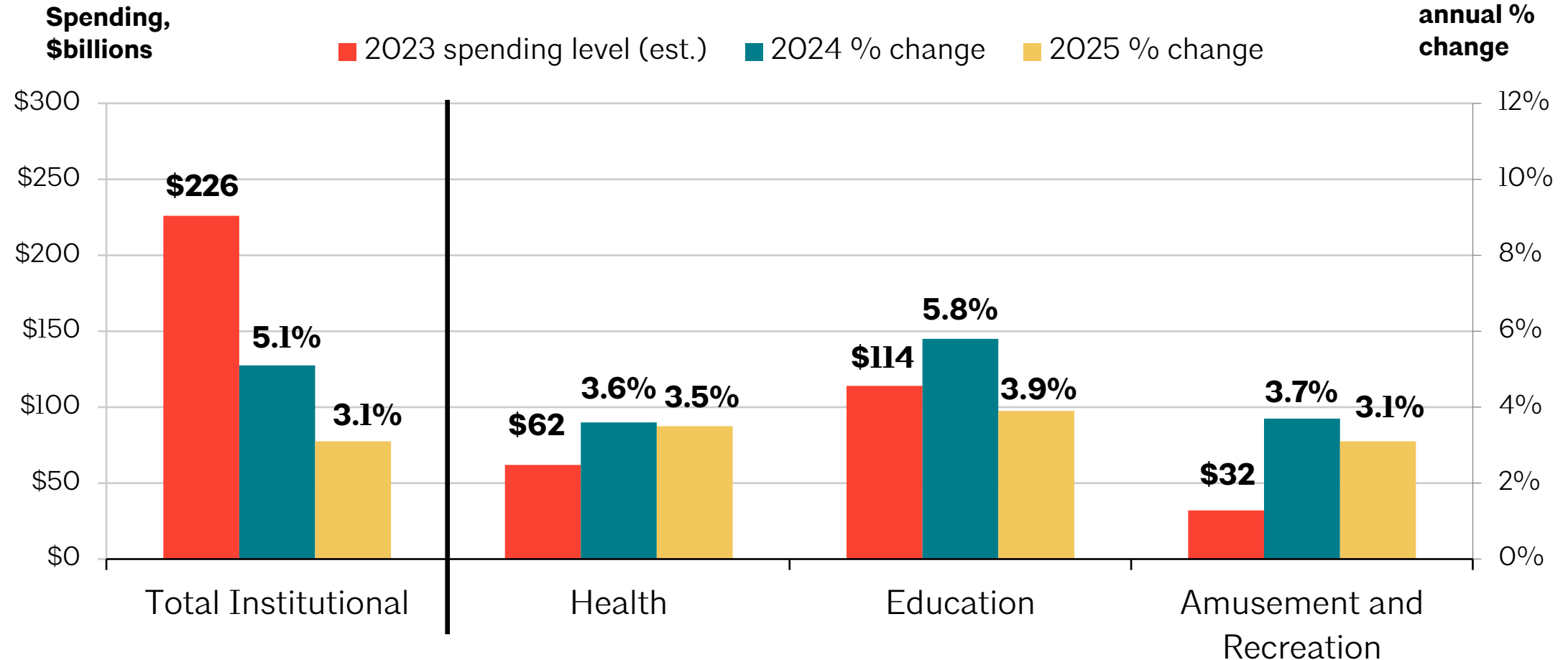
Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast, January 2024

Institutional sector remains relatively healthy both this year and next

Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast, January 2024

When will billings go up?



ABI



Above 50



Economic & business resources from the AIA

- AIA/Deltek Architectural Billings Index (ABI): aia.org/abi
- AIA Consensus Construction Forecast: aia.org/ccf
- Economic indicators to track leading economic Key Performance Indicators (KPIs): aia.org/indicators
- 2023 AIA Compensation Survey: www.aia.org/compensation
- AIA Salary Calculator: info.aia.org/salary
- 2022 AIA Business of Architecture firm survey report: aia.org/firmsurvey
- AIA Guides for Equitable Practice: www.aia.org/equityguides
- AIA Home Design Trend Survey (HDTS): aia.org/hdts
- AIA Best Practices: www.aia.org/bestpractices

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- Q3: **7/24** 2pm ET
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