

When Will We See a Recovery? The Design and Construction Outlook for 2010 and 2011

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Agenda

- Emerging recovery in the broader economy still looking for traction;
- Business conditions at architecture firms;
- When will the downturn end: lessons from previous cycles;
- Construction outlook for 2010 and 2011
- How architecture firms are approaching 2010;

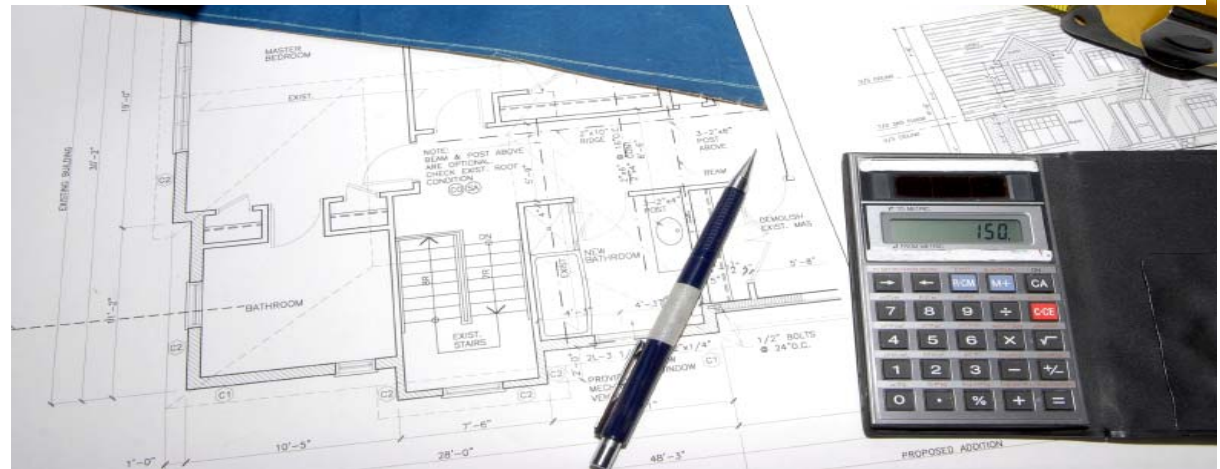
U.S. Economy – Beginning to Dig Out From Under

- Traditional economic leading indicators (e.g. stock market valuations; interest rates; money supply) have been very favorable in recent months;
- Much of federal stimulus funds yet to be spent, so boost to economy will come later this year and into 2010 and 2011;
- Low inflation and favorable interest rates have helped turnaround financial markets and credit conditions;
- Low value of U.S. dollar has helped exports, which has improved manufacturing activity;

But We're Not Nearly Out of the Woods Yet

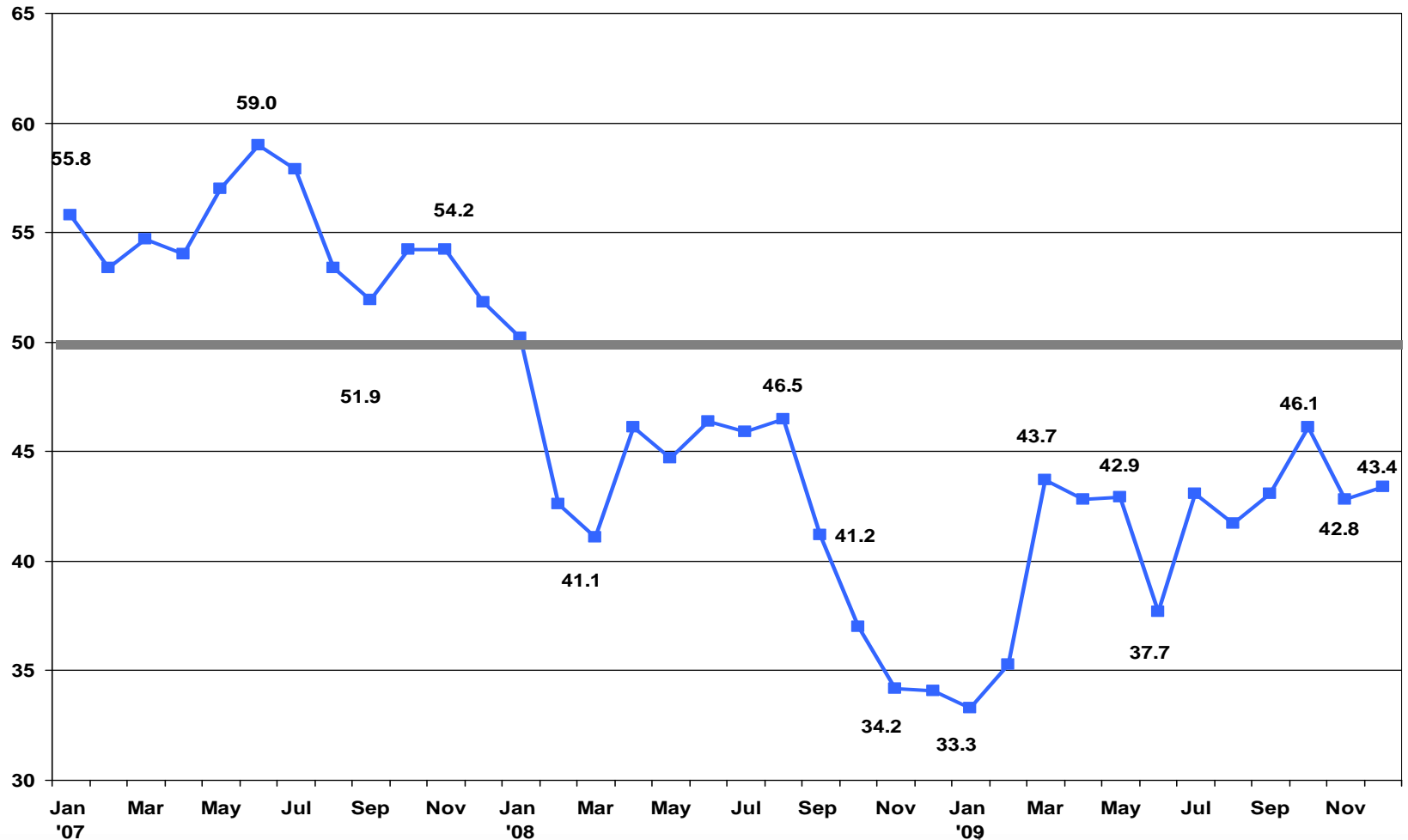
- U.S. recession was the longest since the Great Depression; some sectors (such as nonresidential construction) have not yet recovered; ensuing upturn likely to be weak;
- Payroll losses still mounting; unemployment high;
- Wealth losses (stock market, home equity) substantial and limit consumer spending;
- Massive federal deficit will take years to resolve; extraordinary monetary stimulus may generate bout of inflation in the years ahead;

Business Conditions at Design Firms: AIA Architectural Billings Index



Architecture Billings Index Has Stalled in Recent Months

billings scores since 2007; index: 50 = no change from previous month



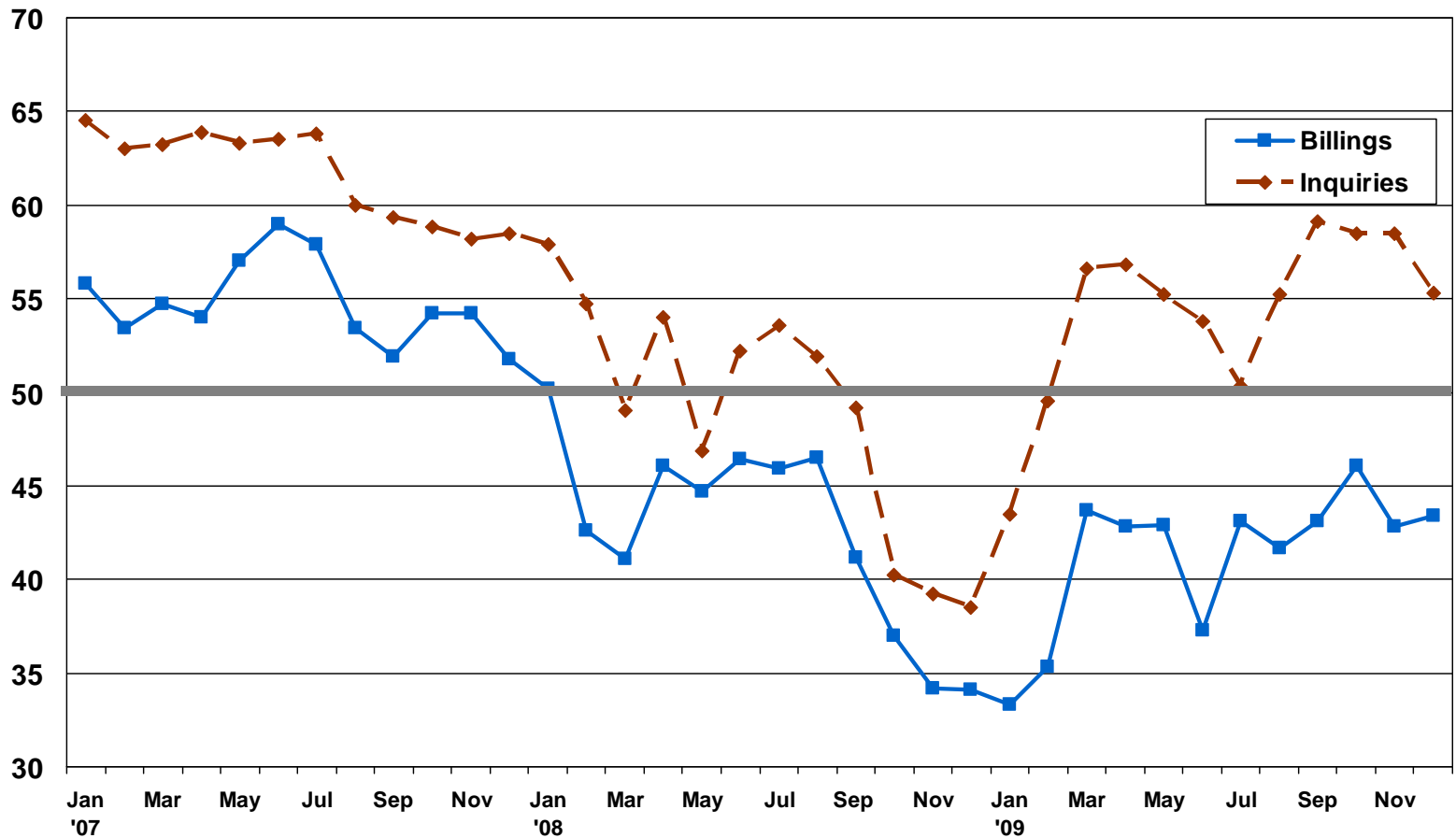
Source: AIA Architecture Billings Index



Inquiries Growth Remains Strong, But Not Producing New Workloads

billings scores since 2007

index: 50 = no change from previous month

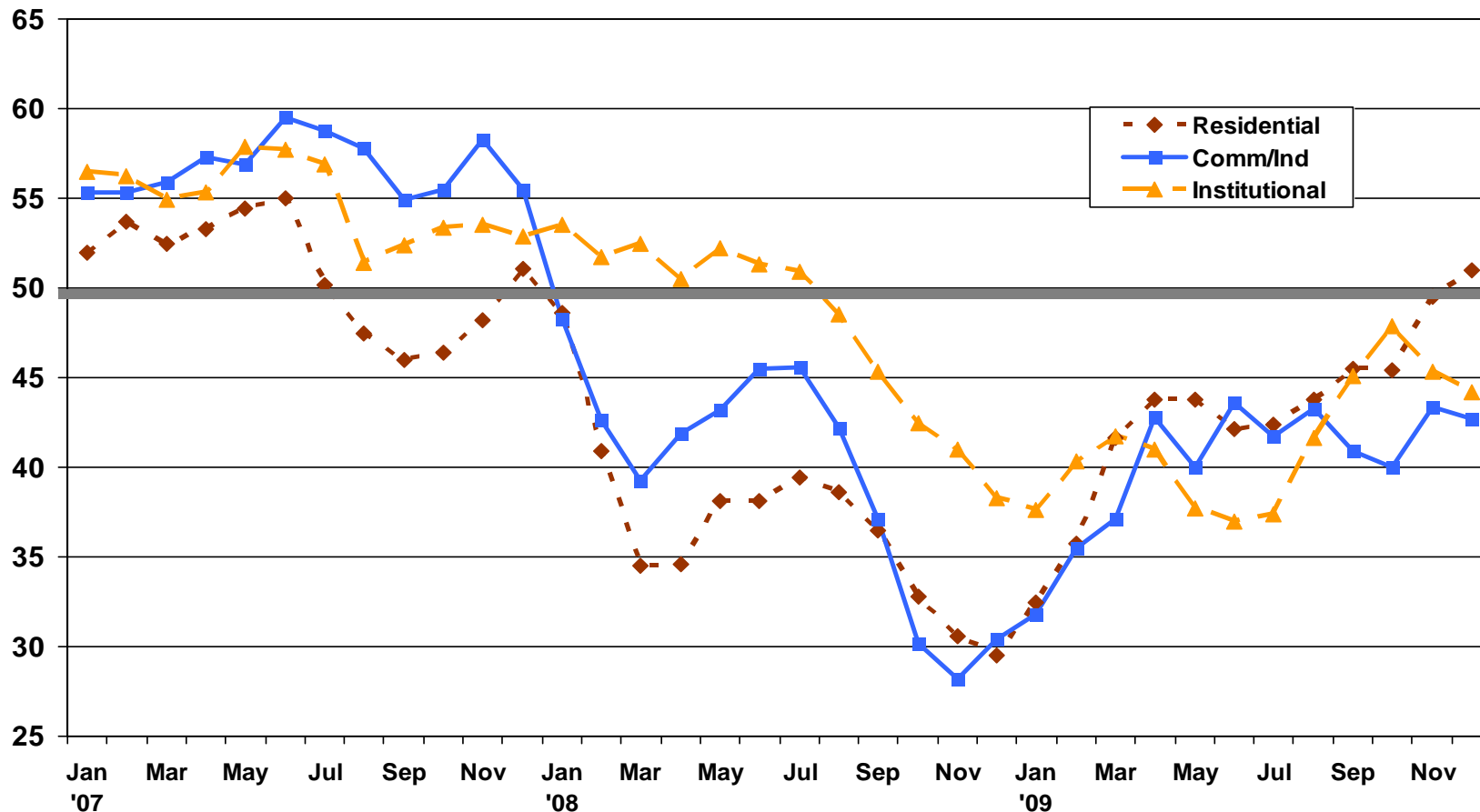


Source: AIA Architecture Billings Index



Residential Firms Reporting Most Favorable Business Conditions at Present

Billings scores by firm specialization; Index: 50 = no change from previous month

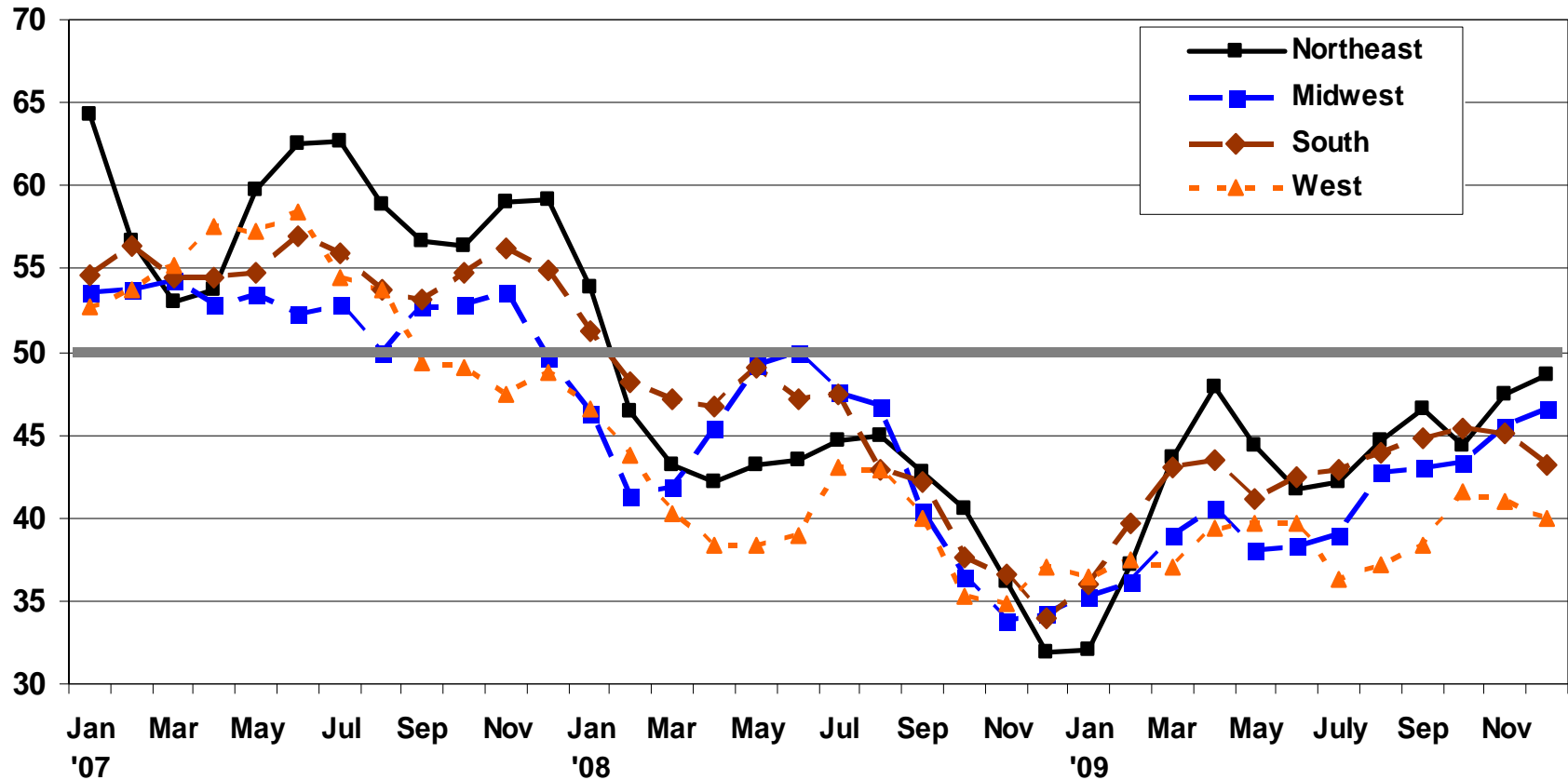


Source: AIA Architecture Billings Index



Regional Scores Remain Volatile, With Firms in Northeast and Midwest Reporting Best Conditions

billings scores by region; Index: 50 = no change from previous month

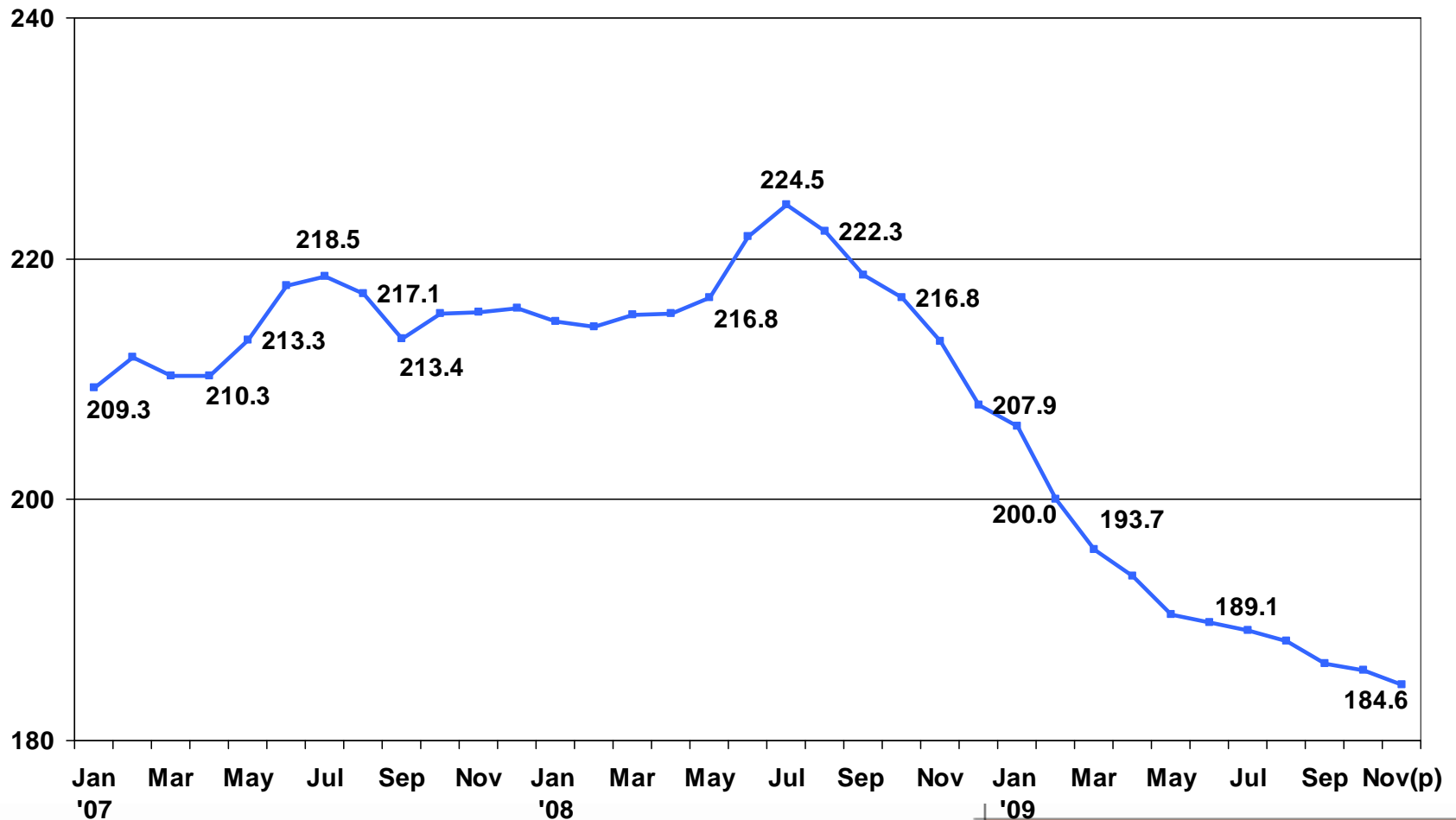


Source: AIA Architecture Billings Index



Architecture Firm Payrolls Have Been Steadily Declining Since Mid-2008

Number of employees at architecture firm, 000s, not seasonally adjusted



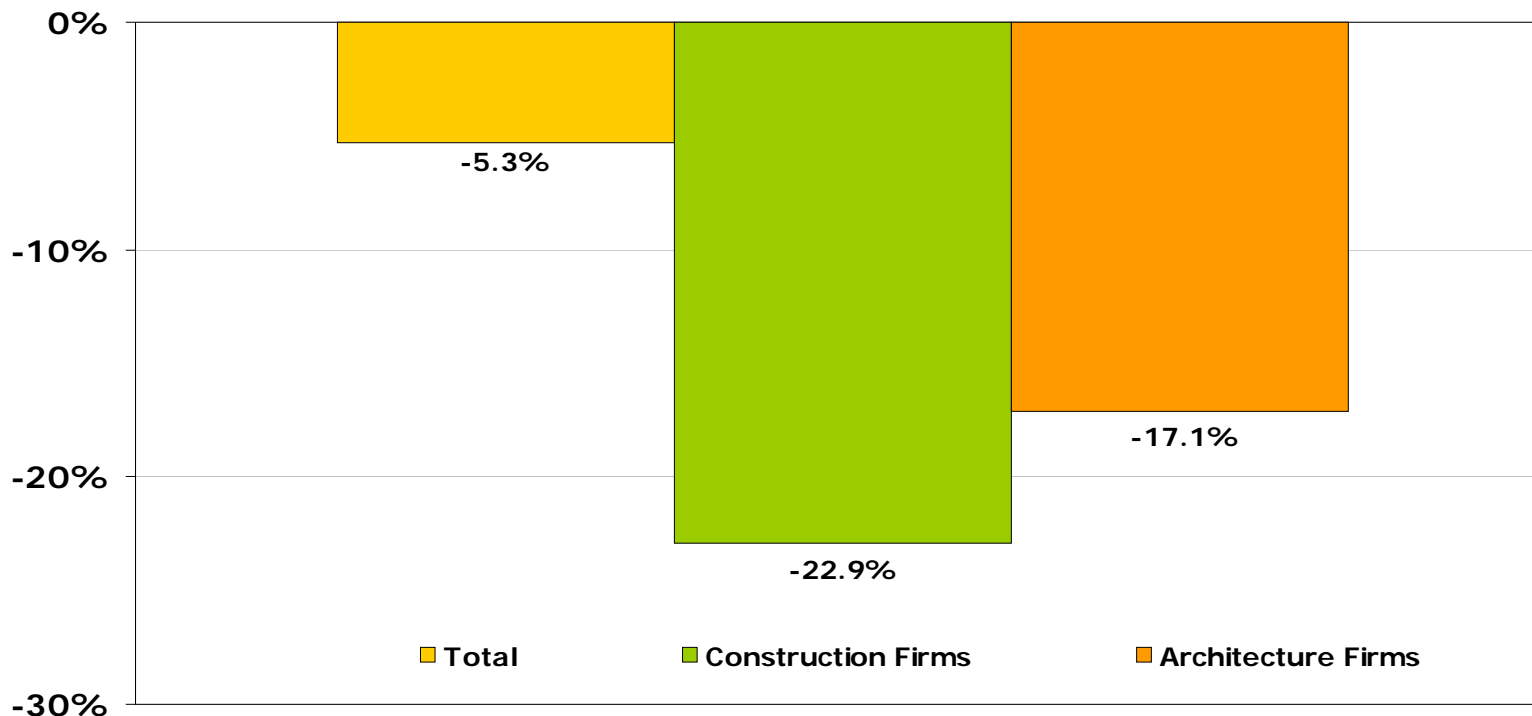
Source: U.S. Department of Labor





Percentage of Job Losses in Broader Economy Have Been Exceeded by Losses in Construction and at Architecture Firms

Total percent declines in payroll employees from previous peak to date



Source: U.S. Department of Labor





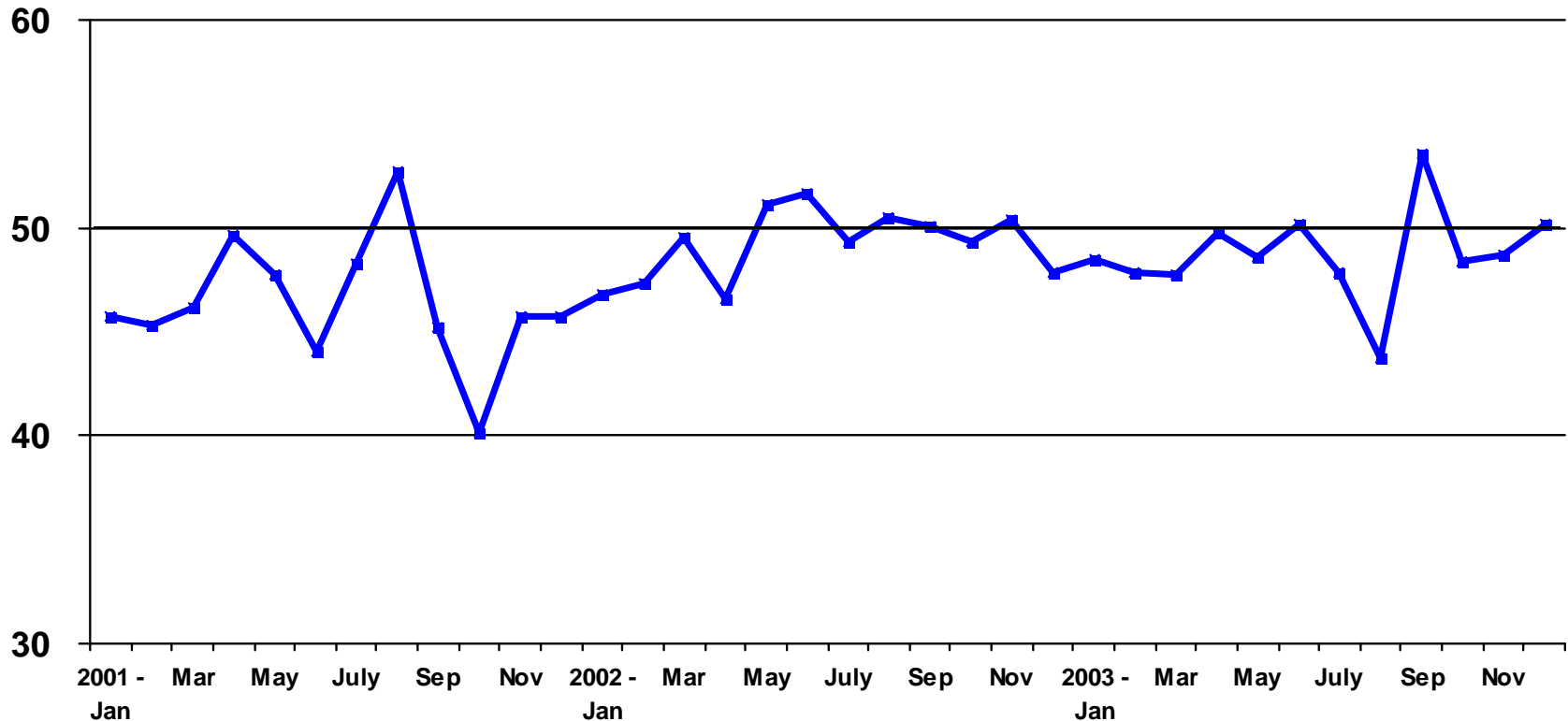
When Will This
Downturn End?

Lessons From
Previous Cycles



During Last Downturn, ABI Turned Down in Early 2001 and Didn't Recover Until the End of 2003

billings scores; index: 50 = no change from previous month

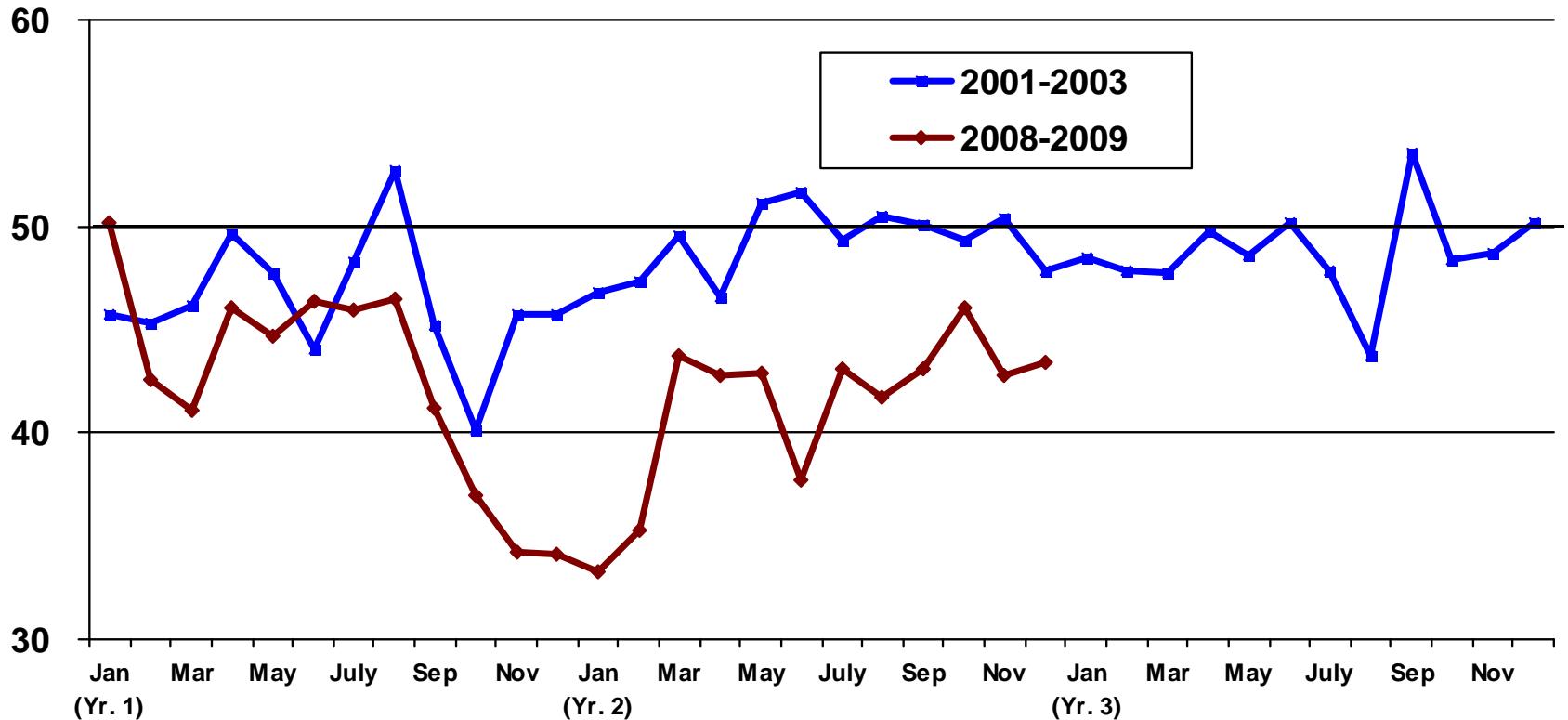


Source: The American Institute of Architects



Two Years into This Downturn, Business Conditions are Weaker, and Are Yet to Signal a Recovery

billings scores; index: 50 = no change from previous month

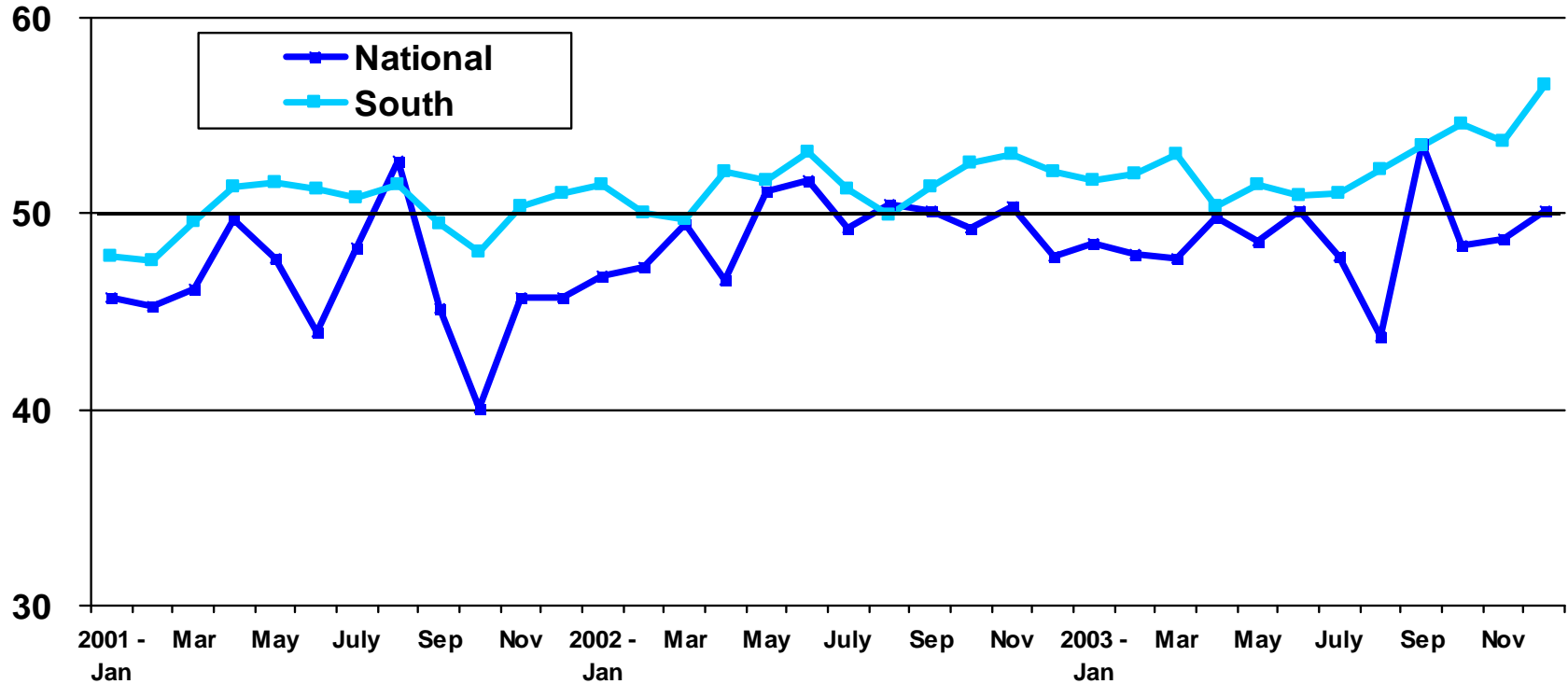


Source: The American Institute of Architects



2001-2003 Downturn for the South Region Was Considerably Milder than National Downturn

billings scores; index: 50 = no change from previous month

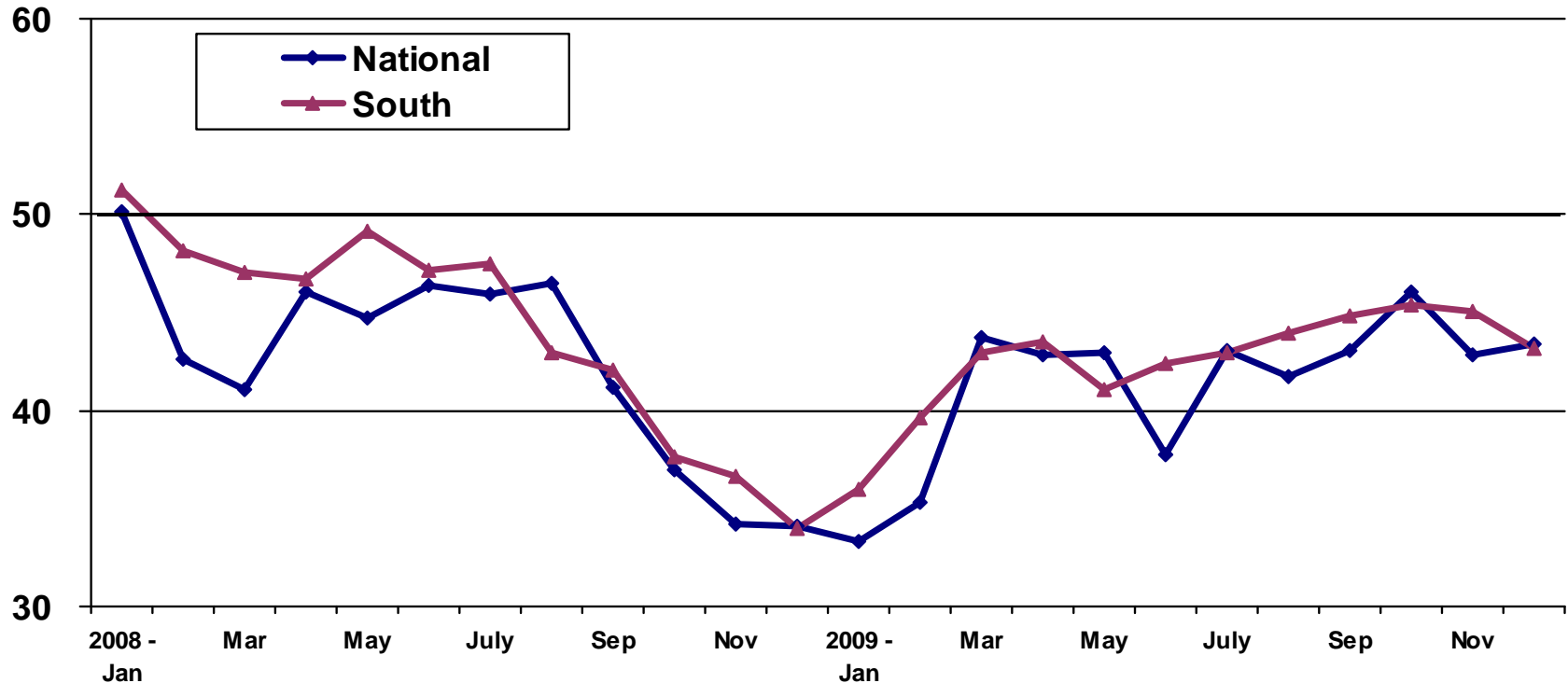


Source: The American Institute of Architects



This Cycle, Conditions in the South Have Generally Paralleled National Levels

billings scores; index: 50 = no change from previous month



Source: The American Institute of Architects



All Business Cycles are Different, But Typically Unfold in a Similar Manner

Timing of beginning of recovery for selected economic indicator

| Recession Period | Stock Market | GDP | Payroll Employ. | Nonres. Const. Starts |
|--|---------------------|------------|------------------------|------------------------------|
| 1981-1982 | 1982-Q2 | 1982-Q4 | 1982-Q4 | 1982-Q4 |
| 1990-1991 | 1990-Q4 | 1991-Q1 | 1991-Q3 | 1993-Q1 |
| 2001 | 2001-Q4 | 2001-Q4 | 2003-Q2 | 2003-Q3 |
| 2008-2009 | 2009-Q1 | 2009-Q3(?) | ? | ? |
| Average Duration from Prior Benchmark | | 2 Quarters | 3 Quarters | 2 Quarters |

Sources: Dow Jones, U.S. Dept. of Commerce, U.S. Dept. of Labor, McGraw-Hill Construction.



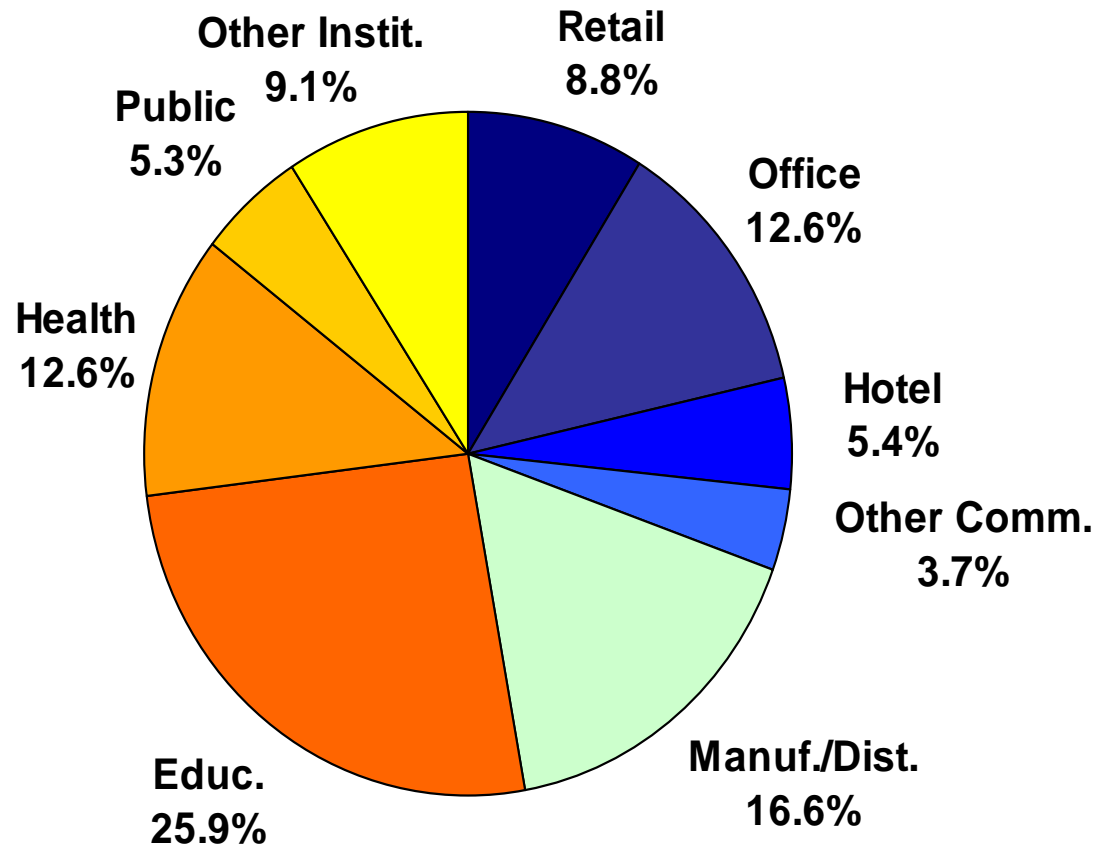
Nonresidential Construction Outlook:

2010-2011



Institutional Activity Accounts for Over Half of Nonresidential Market

Distribution of construction starts activity by sector, 2008 (\$ of construction value)

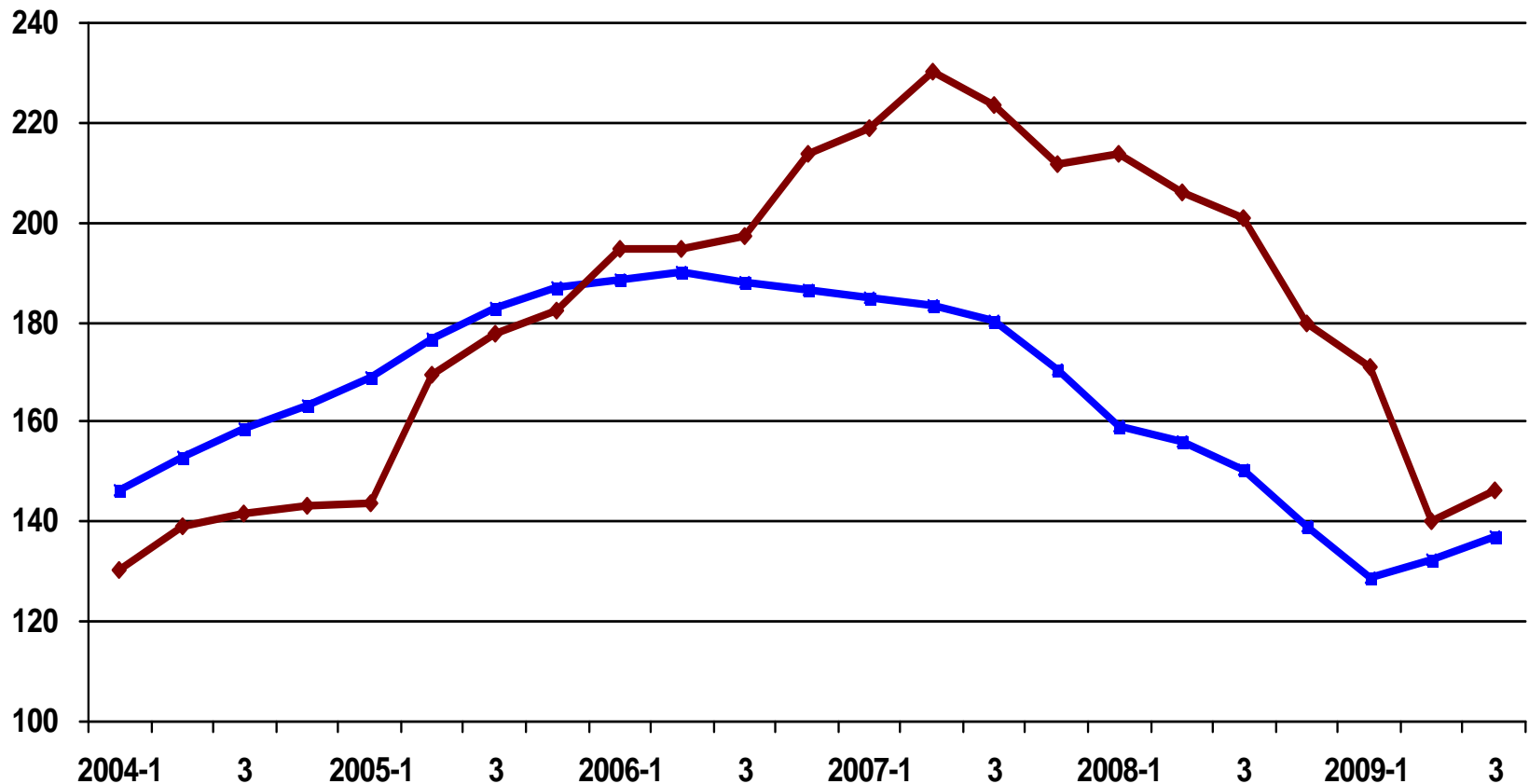


Source: McGraw-Hill Construction



Commercial Property Values Have Fallen Further Than House Prices Nationally, and May Have Not Yet Hit Bottom

Index: January, 2000=100 for house prices; December 2000=100 for commercial property values

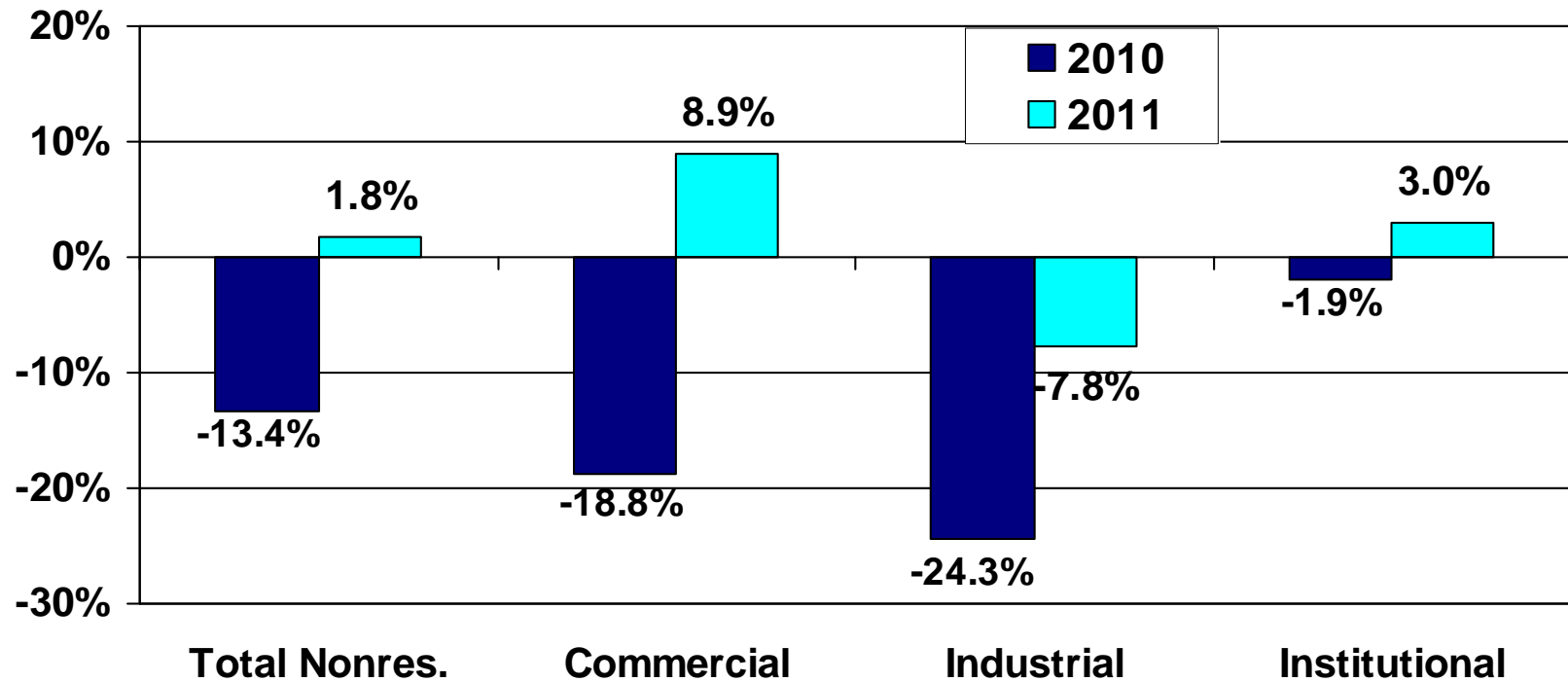


Sources: S&P Case-Shiller National Home Price Index; MIT Commercial Property Price Index



Another Weak Year for Nonresidential Construction Before Recovery Begins in 2011

annual % change; inflation-adjusted \$



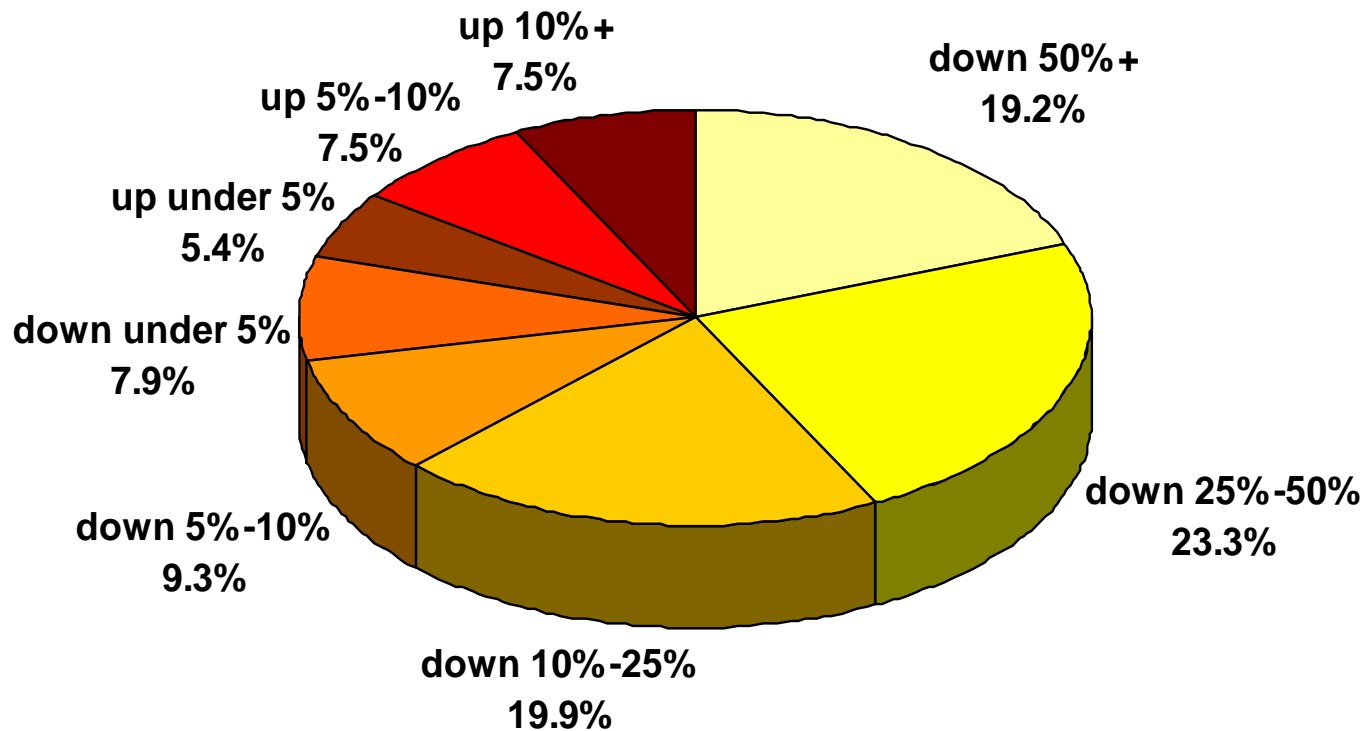
Source: AIA Consensus Construction Forecast Survey for 2010 and 2011 conducted in Nov., 2009.

How Architecture Firms are Approaching 2010

- Revenue outlook for 2010
- Impact on the structure of firms
- Issues for the profession for 2010

Revenue Declines in 2009 Were Sharp for Most Firms

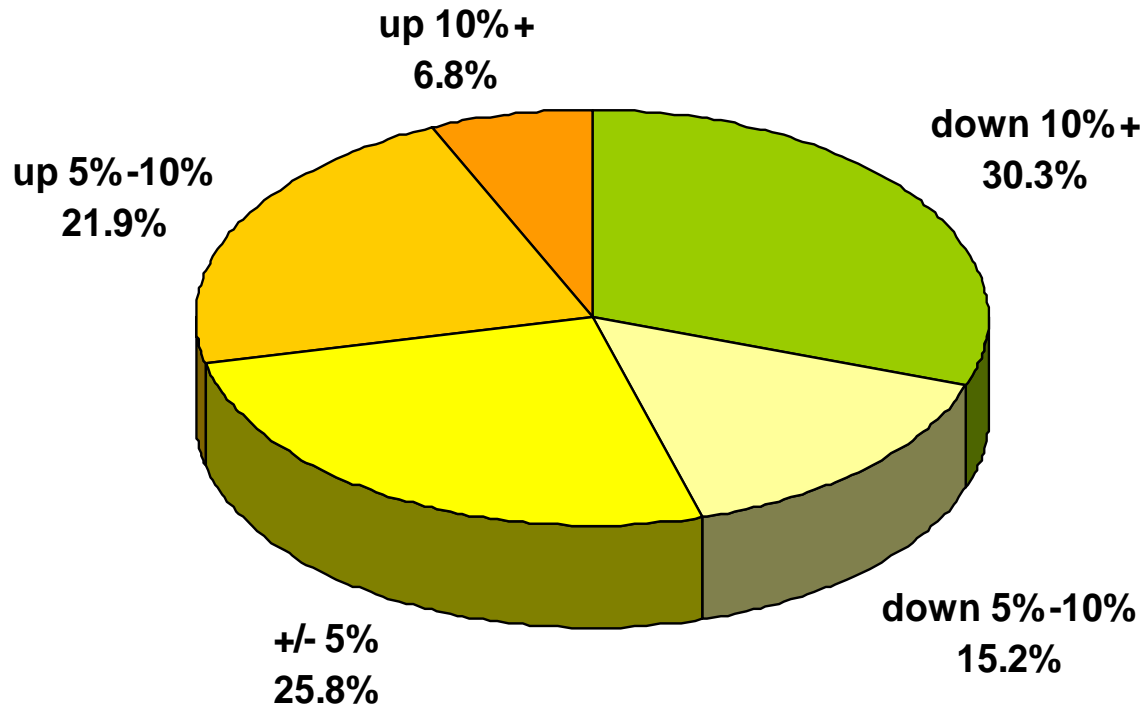
Estimate for firm revenue in 2009 compared to 2008; % of firms



Source: AIA Work-on-the-Boards Survey, November, 2009

Most Firms Projecting No Revenue Growth for 2010

Estimate for firm revenue in 2010 compared to 2009; % of firms

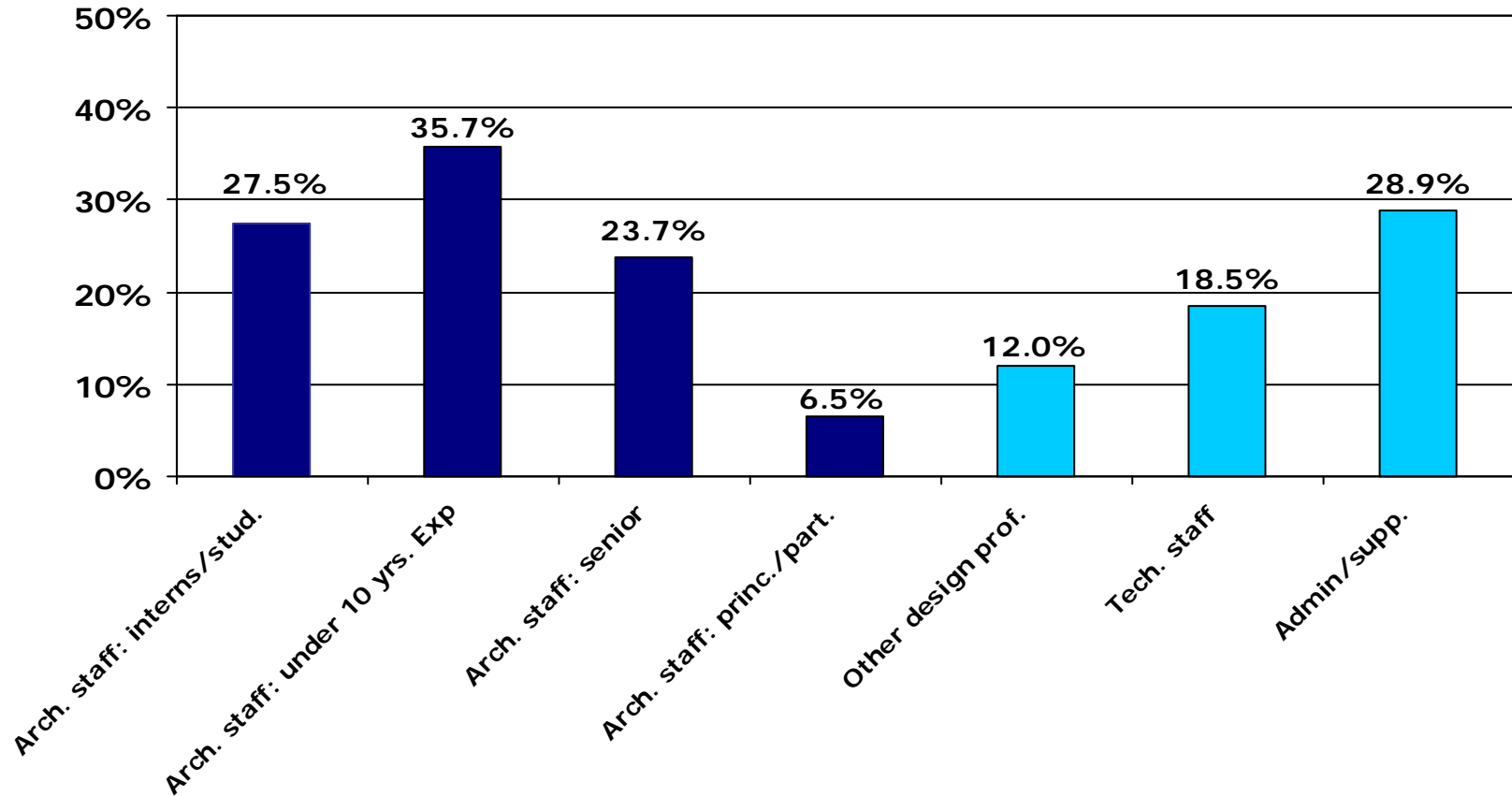


Source: AIA Work-on-the-Boards Survey, November, 2009



Job Losses Widespread, but Have Hit Less-Experienced Architectural Positions the Hardest

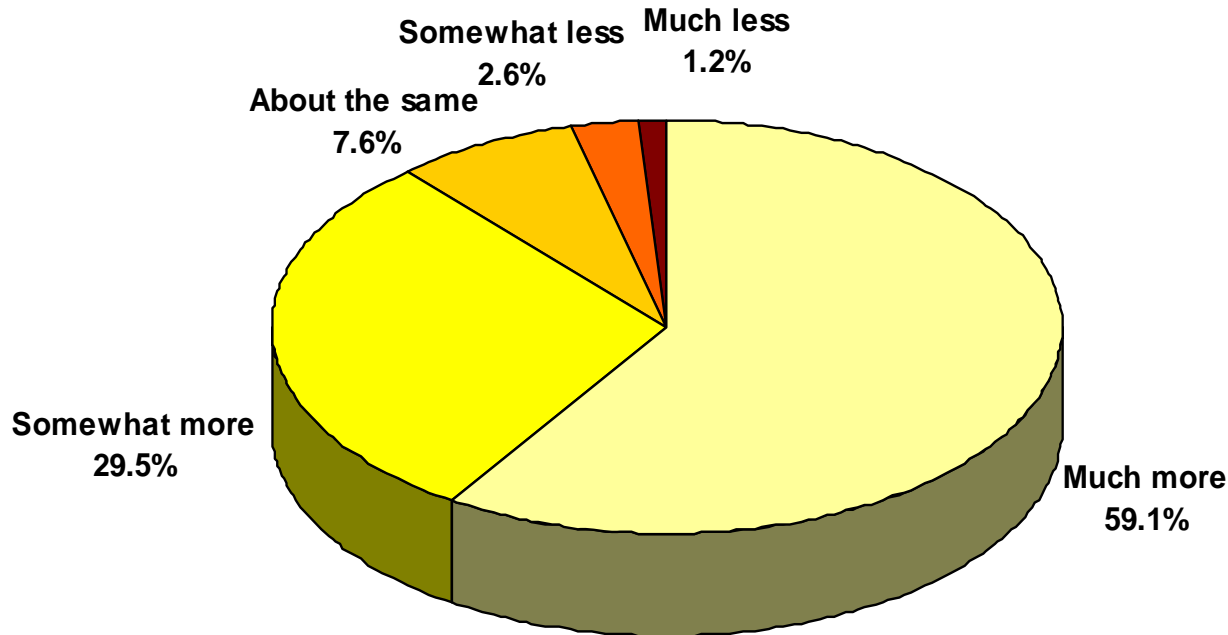
Share of firms that have reduced staff by positions



Source: AIA Work-on-the-Boards Survey, November 2009

Overwhelming Majority of Architecture Firms Rate Current Downturn as More Severe than Early-1990s

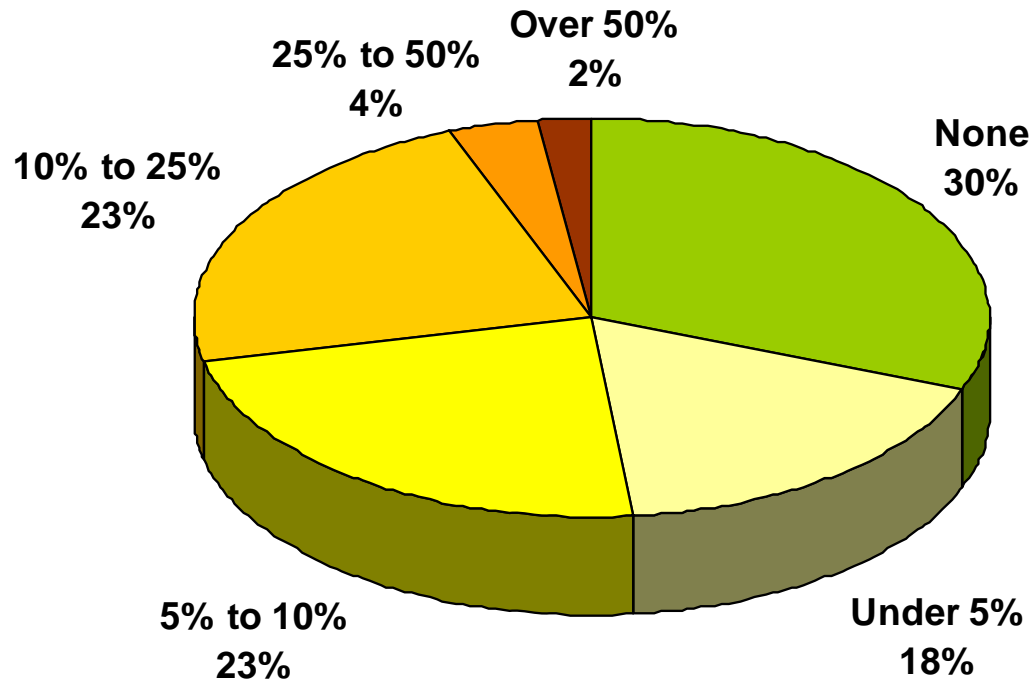
Comparison of severity of current downturn to early 1990s downturn, % of firms



Source: AIA Work-on-the-Boards Survey, January, 2010.

An Estimated 7% of Architecture Firms Nationally Will Close During This Downturn

Percent of firms in area that have closed or are likely to close in near future, % of firms



National average = 7%

Source: AIA Work-on-the-Boards Survey, January, 2010.

Profession Remains Very Fragmented

share of total staff and billings in the profession in 2008 at all firms by firm size

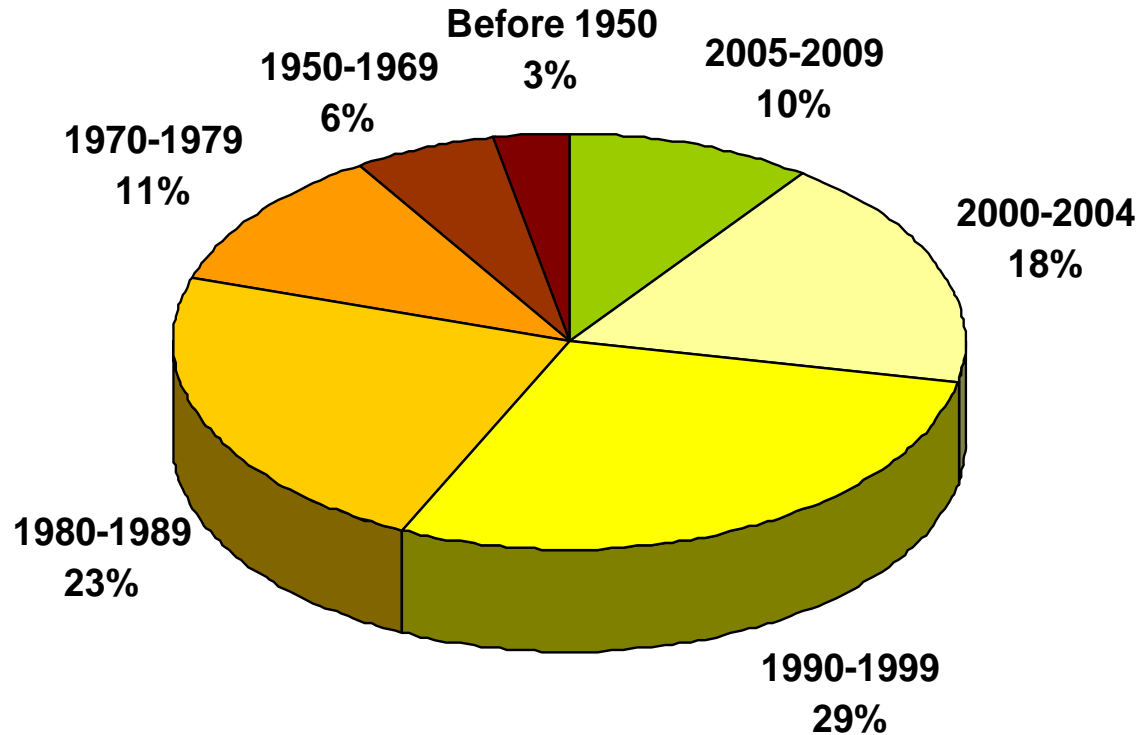
| Firm size (#emp.) | Share of Firms | Share of Staff | Share of Billings |
|----------------------|-------------------|-------------------|----------------------|
| 1 | 24% | 2% | 1% |
| 2 to 4 | 37% | 10% | 6% |
| 5 to 9 | 18% | 12% | 7% |
| 10 to 19 | 11% | 14% | 12% |
| 20 to 49 | 6% | 18% | 23% |
| 50 to 99 | 2% | 14% | 15% |
| 100 or more | 2% | 30% | 36% |

Source: The American Institute of Architects - *The Business of Architecture*, 2009.



Churning of Firms Means Majority Relatively Young, Keeping the Profession Fragmented

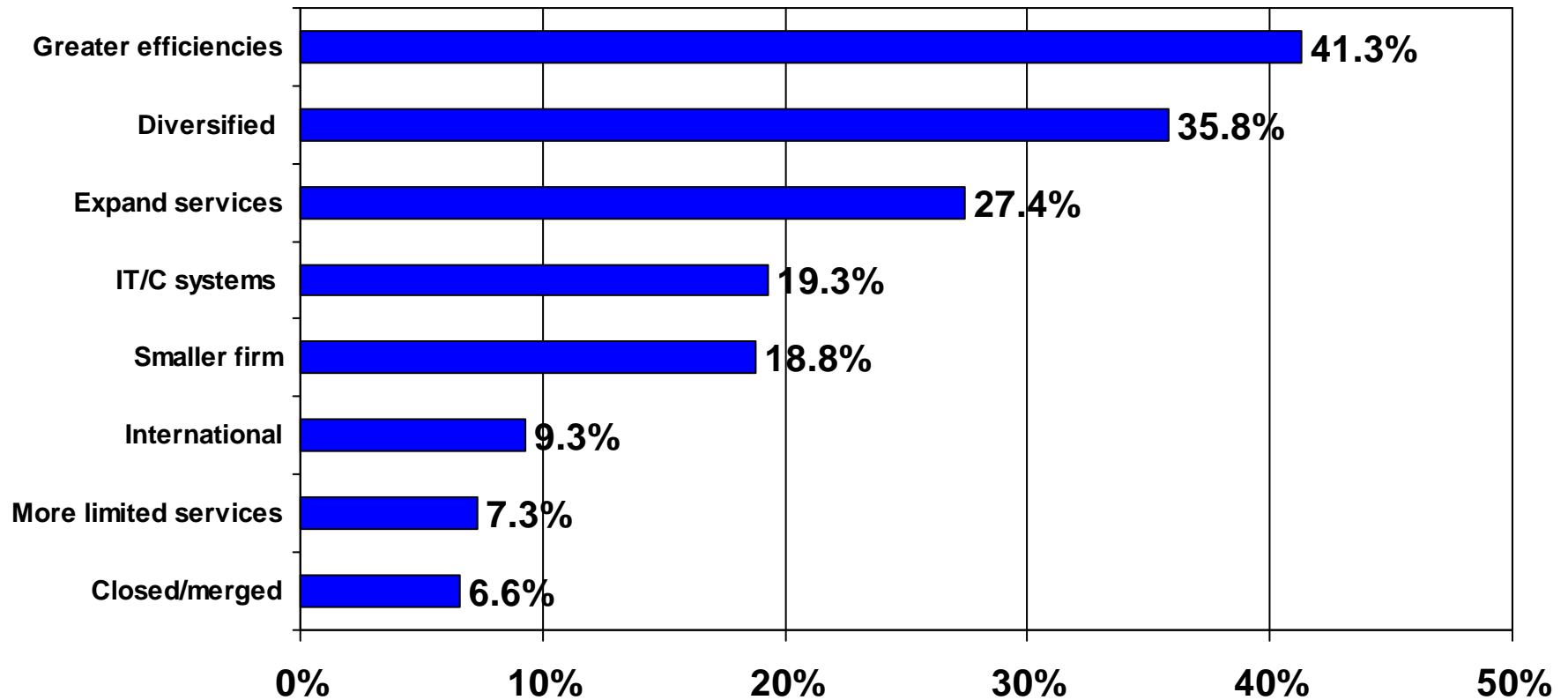
Year of formation, % of firms



Source: The American Institute of Architects - The Business of Architecture, 2009.

Most Firms Anticipate Significant Changes Over Coming Year

Changes expected to see at firm over coming year, % of firms

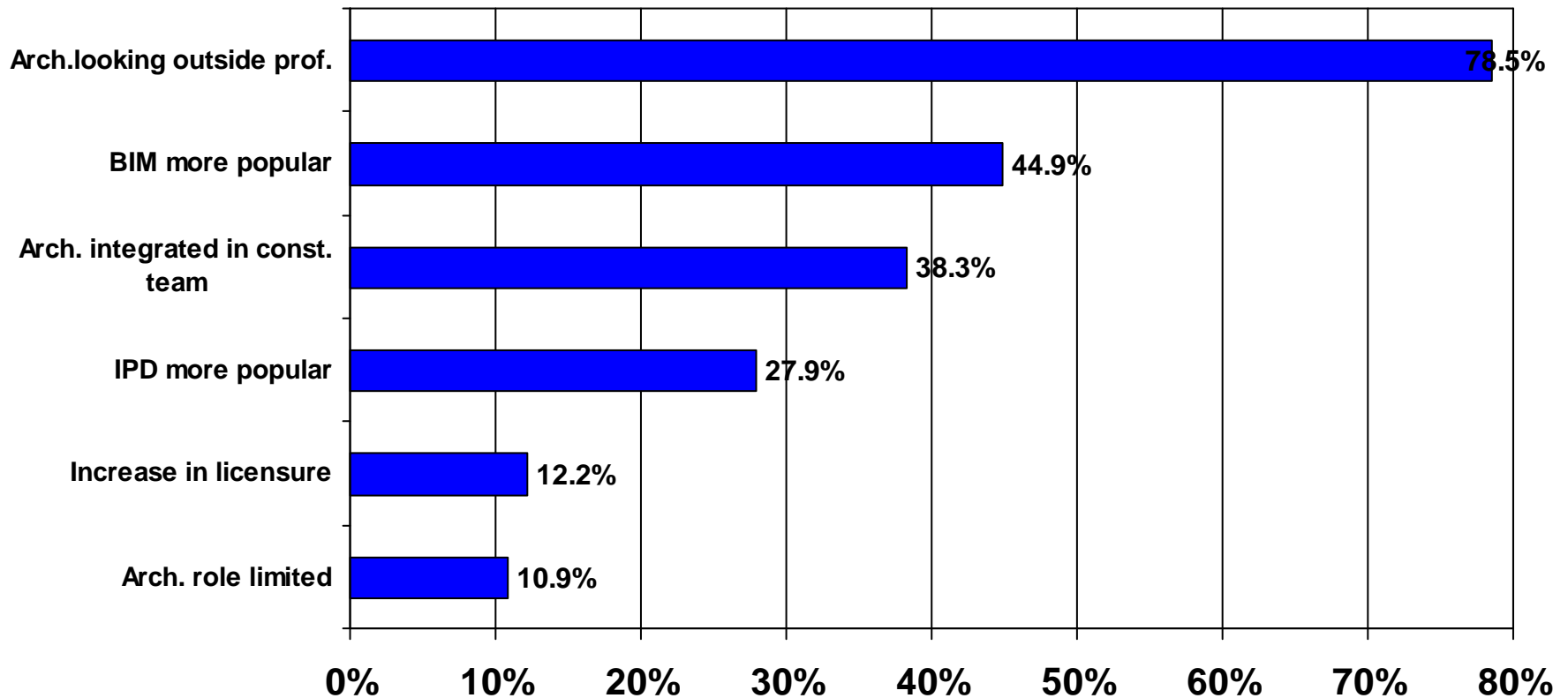


Source: AIA Work-on-the-Boards Survey, December, 2009



Current Cycle Also Expected to Change Profession

Changes expected to see in profession over coming year, % of firms



Source: AIA Work-on-the-Boards Survey, December, 2009



Summing Up

- Design firms approaching two years of a very sharp downturn; steepest declines in commercial/industrial categories. Current downturn shaping up to be as serious as any of the past 50 years.
- Broader economy in recovery mode; however, more adjustments need to occur (credit availability, payroll employment gains, paydown of consumer debt levels) before design recovery and eventual construction recovery can begin.
- Architecture firms foresee major changes over coming years as recovery unfolds.