

Overview

- ① In terms of revenue, US architecture firms have experienced nearly a full recovery from the Great Recession.
- ② The recovery has generated disproportionate revenue growth for larger firms, pushing the size distribution back to pre-downturn proportions.
- ③ As firms have been returning to profitability, firm owners have been better able to reinvest in their businesses, with a focus on adding services, improving staff productivity, and rebuilding firm culture.

Firm Survey Report 2016



The US economy went into a major recession at the beginning of 2008, but the construction sector didn't begin its recession until 2009. And while the economy overall emerged from recession by mid-year 2009, spending on construction didn't begin to recover until 2012. As such, construction was one of the last major sectors in our economy to begin recovering from this past downturn. However, with building activity experiencing growth each year since 2011, construction spending is approaching pre-downturn levels.

Construction recovery almost complete

Nonresidential building construction totaled just over \$500 billion at its peak in 2008 and recovered back to almost \$450 billion by 2015. Likewise, the architecture profession has regained much of the revenue and staff resources that were lost during the downturn. Net billings at architecture firms¹ were \$28.5 billion at the peak of the market in 2008 and had nearly recovered to \$28.4 billion by 2015.

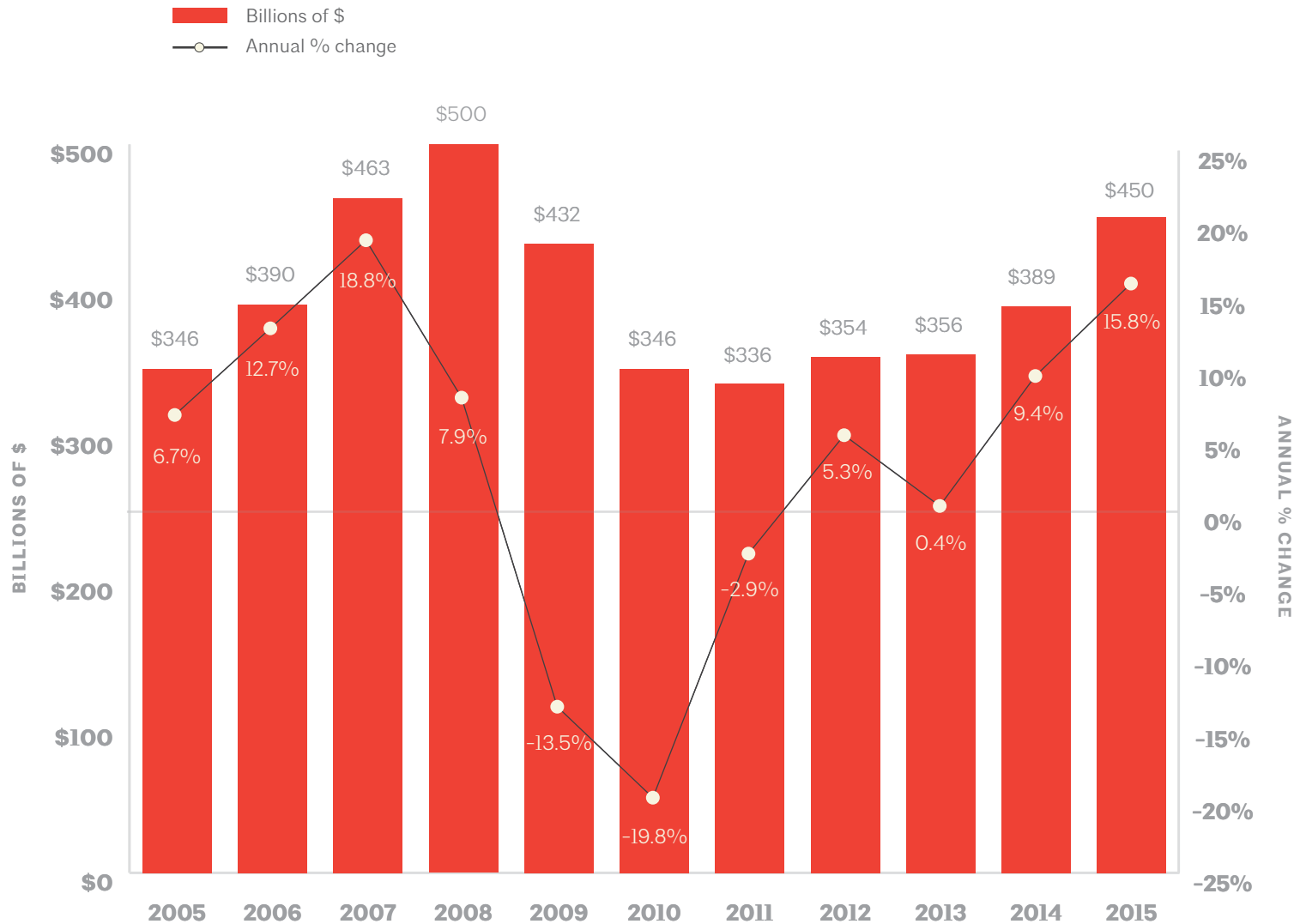
As the industry has recovered, there have been several changes in the composition of architecture firms and their staff. Since many firms downsized during the recession, many architects set up independent practices. A large share of firms today have been formed since the last upturn began. Many of the firms that had been relying heavily on contract and part-time employees have now returned to supporting full-time positions. Although firms had scaled back on pass-throughs to keep more revenue in-house,

¹ For this report, information is reported for those architecture firms where an AIA member has an ownership position. Research conducted by AIA estimates that these firms generate almost two-thirds of architectural and related services revenue, according to the US Census Bureau's quarterly services surveys.

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FIGURE 01: Spending on nonresidential buildings has seen strong acceleration in recent years

National spending on nonresidential building, billions of \$, and annual % change



Source: US Census Bureau

they are again expanding their service offerings and passing through more revenue to other design professionals.

After a surprisingly strong showing in 2015, the recovery in the construction sector is nearly complete. Between 2008 and 2011, spending on the construction of nonresidential buildings declined by about a third nationally. Since that time, spending grew by about a third from this initial trough to its 2015 level. However, this still leaves spending about 10% below the previous peak in 2008. Since the AIA’s Architecture Billings Index (ABI) has remained positive through the first half of 2016, there is reason for optimism that construction activity will continue to grow in the quarters ahead. In addition, new projects have been coming into architecture firms² in recent quarters, suggesting that revenue at architecture firms will continue to grow. Therefore, recent improvements that we’ve seen in architecture firms are likely to continue progressing in the months and quarters ahead. **(FIGURE 01)**

The general economic recovery of the architecture profession has been felt more by some types of firms than others. During economic downturns, larger firms typically experience greater impacts, in part because major projects tend to be downsized or put on hold, and larger firms are more likely to have a greater share of their portfolio in these projects. In addition, larger firms typically have more fixed overhead expenses (such as office space, equipment, and support staff) that can make them less cost-competitive as pressure on fees grows.

² ABI results are available monthly on AIA’s website. An extensive review of the performance of the ABI in predicting future levels of construction activity: *Designing the Construction Future: Reviewing the Performance and Extending the Applications of the AIA’s Architecture Billings Index* is also available at no charge on the AIA’s web site.

FIGURE 02: Profession continues to see increased concentration in revenue at larger firms, but still not back to pre-downturn levels

% of all firms, staff, and gross billings by firm size for 2015, with 2013 and 2005 comparisons

Number of employees	Share of firms	Share of staff	Share of billings	2013 Share of billings	2005 Share of billings
1 to 9	77.3%	20.7%	15.4%	17.3%	16.5%
10 to 49	17.6%	32.3%	33.3%	37.8%	31.7%
50 or more	5.1%	47.0%	51.3%	44.9%	51.9%

However, just the reverse tends to happen during economic recoveries, with big firms often picking up a disproportionate share of new projects. This was the case in the 2015 survey. For example, firms with 50 or more employees, which account for only 5% of firms but which employ 47% of staff at US architecture firms, generated over 51% of national architecture firm billings in 2015. In 2013, firms of this size generated less than 45% of firm billings. Conversely, firms with fewer than 50 employees saw a declining share of billings. Some of the increased share resulted from firms growing into the 50 or more employee category during this period versus larger firms merely increasing their share of revenue.

This distribution of billings by firm size in 2015 closely mirrors the distribution firms reported in 2005 during the last expansion of the construction market. At that time, the share of billings at firms with 50 or more employees was very close to the share reported by firms in 2015.

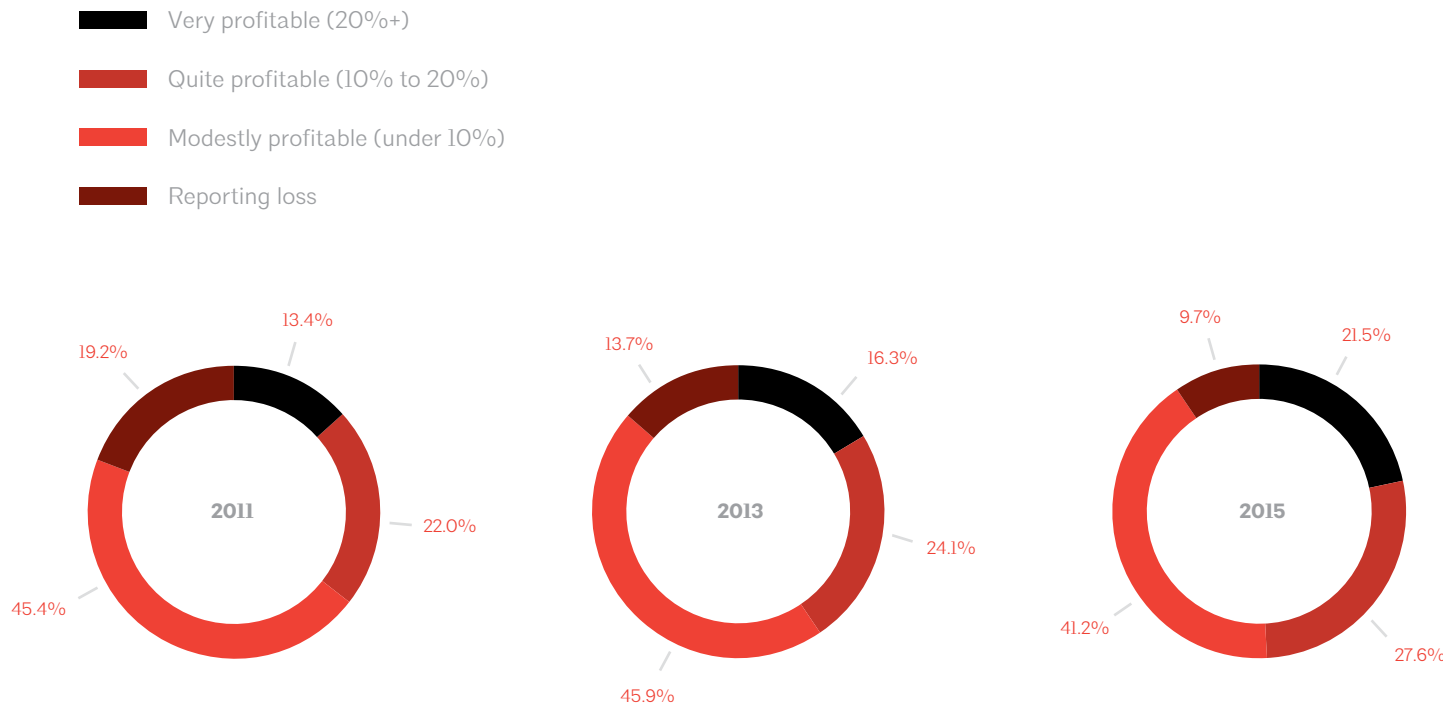
(FIGURE 02)

Profitability spreading across the profession

In recent years, profits at architecture firms have been under tremendous pressure. At most firms, project workloads are more variable than staffing costs and overhead expenses. As project activity diminishes, profitability also declines until firms can adjust their fixed costs. Furthermore, project fees tend to decline during downturns as clients seek to cut project costs and firms try to increase revenue wherever possible, even if it means reducing traditional profit levels.

Note: unless otherwise noted, all information shown in this report is from the American Institute of Architects

FIGURE 03: **Architecture firms are returning to profitability**
 Profit after compensation, but before taxes, discretionary bonuses, and profit-sharing as % of net billings; % of firms



While this dynamic has put downward pressure on fees during the construction downturn, it has had a generally positive effect on fees in recent years as the industry has been recovering. At many firms, project workloads have been increasing faster than firms have been able to add staff. Therefore, staff productivity and profitability have been trending upward. After falling during the downturn, average firm profits as a share of net billings exceeded 10% by 2013. And by 2015, they averaged more than 13%.

However, these average profitability figures mask the experience of many firms. For example, even with profitability very strong in 2015, 1 in 10 firms reported that they were not profitable that year. An additional 4 in 10 reported profits that were more modest, less than 10% of net billings. Still, the general upward trend of profits as the industry has been recovering is unmistakable: more than one in five firms was very profitable in 2015, a share that increased significantly between 2011 and 2015. More important, the percentage reporting a loss declined sharply in recent years from more than 20% in 2011 to fewer than 10% by 2015. **(FIGURE 03)**

Growing profitability has allowed firms to increase their marketing activities and expand into new geographical areas and building types to diversify their design portfolios. It has also allowed firms to invest in new technologies to make their staffs more productive and support superior design solutions, and to increase staff compensation after years of no or low raises. Growing profitability has further allowed firms to increase their pro bono design work, take on projects that may have more social impact (such as those promoting sustainability and resilience), and work on rebuilding their cultures, which often suffered during the downturn.

FIGURE 04: **Women and minority shares steadily climbing at firms**
 Women and racial/ethnic minorities as percentage of all architecture staff, and principal and partners

● Share of architecture staff
 ● Share of principals/partners



Firm diversity increases

Another benefit of growing project workloads is the opportunities offered to traditionally underrepresented groups within the profession. For the past several decades, minorities and women have made up a growing share of the student body at accredited architectural programs in the US.

However, it takes considerable time for the career paths of architects to be established. As of 2015, women comprised almost a third (31%) of all licensed and unlicensed architectural positions at US architecture firms. This percentage increased from 26% in 2005. Proportionately, minorities³ made even greater gains during this decade, with the percentage of architectural staff in this category growing from 16% to 21%.

Women and minorities have made comparable gains in achieving principal and partner status at firms between 2005 and 2015, but from a smaller base. Women accounted for 16% of principal and partner positions in 2005. This percentage grew to 20% in the following decade. The share of principals and partners that were racial and ethnic minorities started at even smaller base of 8% in 2005, but this percentage grew to 11% in 2015. As these cohorts continue to grow, the profession can expect to see more women and minorities in the coming years. **(FIGURE 04)**

³ Racial/ethnic minority is defined as African American, Hispanic/Latino, Native American or Alaskan Native, Subcontinental Asian, Asian or Pacific Islander, two or more races, or "other"—the basic racial and ethnic categories for federal statistics and administrative reporting.