Economics

Architecture Firms Design a Quarter of Single-Family Homes

Consolidation among builders may present future opportunities

by Kermit Baker

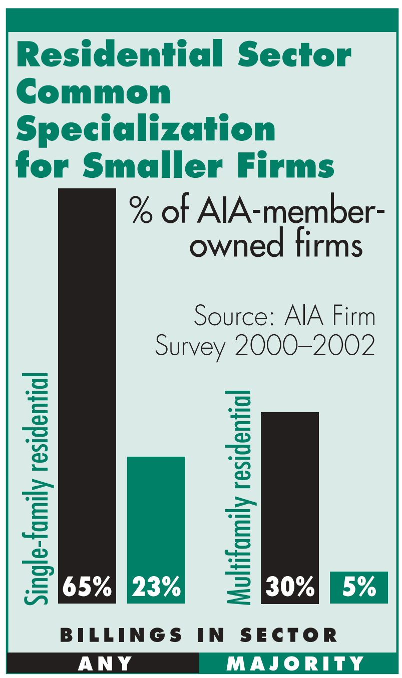
AIA Chief Economist

U.S. architecture firms have principal design responsibility for about a quarter of the single-family homes built each year and about three-quarters of the apartment units. As homes continue to increase in quality, and competition among builders for customers grows stronger, design involvement in the residential sector should grow.

Firms broadly involved in residential design

Designing homes and apartment buildings is an important building sector for many architecture firms, particularly small to midsize firms. Many architects report that they enjoy focusing their practice in the residential sector because the projects are constantly changing, and the design issues they confront are varied.

Designing homes is the most common type of project for many architecture firms, even though any individual project tends to be small. Almost two-thirds of architecture firms report at least some billings in the single-family residential sector according to the AIA 2000-2002 Firm Survey, and almost a quarter of firms report that a majority of their work comes from this sector. The design of multifamily buildings is more concentrated, with smaller proproportions of firms reporting either any or a majority of their project workload in this sector.



Other involvement in residential design

Even though most architecture firms have some involvement in designing homes, and in spite of the fact that designing single-family is the single most common specialization for U.S. architecture firms, only a relatively small share of professional billings comes from this sector. Billings from the design of single-family homes (5.5%) and multifamily buildings (3.8%) together account for less than 10% of total billings at firms. In contrast, commercial/industrial facilities account for 33% of billings, institutional buildings account for 48%, while other construction and nonconstruction projects account for under 10% of total billings.

Residential projects account for under 10% of total billings at firms in spite of the fact that residential projects added two-thirds more square feet to our built environment than nonresidential projects in 2000, and were 20% greater in terms of total construction contract value according to data from F.W. Dodge.

There are several reasons why billings from residential projects are a smaller share of business activity at U.S. architecture firms nationally. Virtually all states exempt some homes, generally single-family homes of two stories or less, from requirements that construction drawings be approved by an architect. Since the overall design of a home may not need complete architect involvement, design services may encompass the development of a prototype, or model, which is then replicated. Additionally, involvement may encompass selected design features to customize a basic model to the preferences of a homebuyer.

Architects focus on the custom and semi-custom market

Overall, architecture firms report that they had principal design responsibility for over a quarter of the single-family homes in the U.S. in 1999, according to information compiled from the AIA Firm Survey 2000-2002. However, they are more involved in some segments than others.

Firms were responsible for designing just over 20% of homes of under 2,000 square feet, typically considered the affordable or first-time homebuyer segment of the market, and may include the retirement segment. Architecture firms designed about a third of the homes over 2,000 square feet, which generally encompasses the trade-up as well as custom/luxury segments.

The services that architects provide vary with the type of project and the client. For builders and developers, architects may focus more on liaison with the community and efforts to integrate the development into the community fabric. For individuals, architects generally focus on traditional building design services

continued on next page

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continued from previous page

(schematic design, design development, construction documents, bidding/negotiations). Individuals may also want the architect to provide construction management services to oversee the construction process.

Architects are more involved in the design of multifamily housing, mostly because very few multifamily structures are exempt from architectural licensing laws. Private architects had principal design responsibility for three quarters of the multifamily units built between 1991 and 1997, according to F.W. Dodge data. Architects on the staff of the building owner designed much of the remainder in-house.

Architects Design Over A Quarter of Single-Family Homes

thousands of homes, 1999

	Architect designed	Total	Share
Under 2,000 sq. ft.	141	629	22%
2,000 sq. ft. or more	226	677	33%
Total	367	1,306	28%

Source: AIA Firm Survey 2000–2002, U.S. Census Bureau

Prospects favorable for residential architects

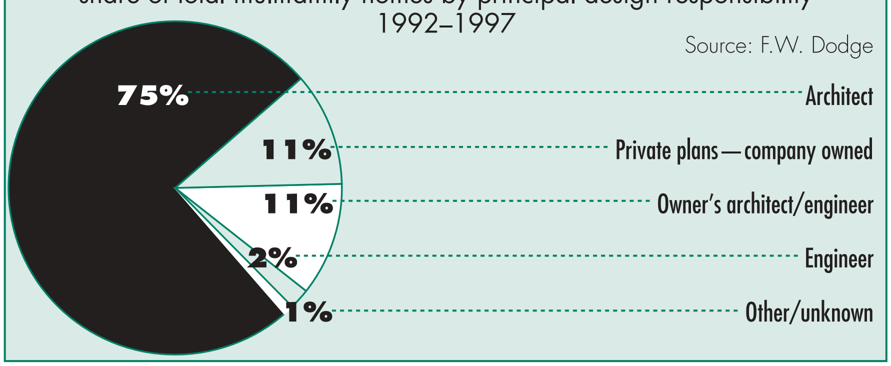
Consolidation in the home building industry is changing the nature of architect involvement in the design of residential facilities. The share of homes built by the largest national builders has increased dramatically over the past decade. As in last year, the top 10 builders nationally accounted for almost one in seven homes built in the U.S., and the top 50 builders accounted for almost one in four. Both of these shares have doubled over the past decade. Most in the industry feel that this consolidation is going to continue over the coming decade.

Industry consolidation among builders potentially means greater involvement by architects in the design of new homes. According to surveys conducted by the National Association of Home Builders, about a quarter of major homebuilders have an architect or designer on staff. Additionally, many larger firms contract out residential design work to architecture firms.

Since homes have gotten bigger and better in recent years—the average price on new homes increased 30% between 1995 and 2000 while overall inflation in consumer prices grew only 13%—there should be a premium on design moving forward. With consolidation in the industry, homebuilders may have the incentive and the resources to design homes more in concert with consumer preferences.

ARCHITECTS PRINCIPAL DESIGNERS OF 75% OF MULTIFAMILY HOMES

share of total multifamily homes by principal design responsibility 1992–1997



Top 50 Builders Account for Almost a Quarter of Homes

share of single-family housing starts