Work-on-the-Boards

Architecture Firms Emerge from Six-Month Billings Downturn

Project change orders account for significant share of construction costs

by Kermit Baker, PhD, Hon. AIA

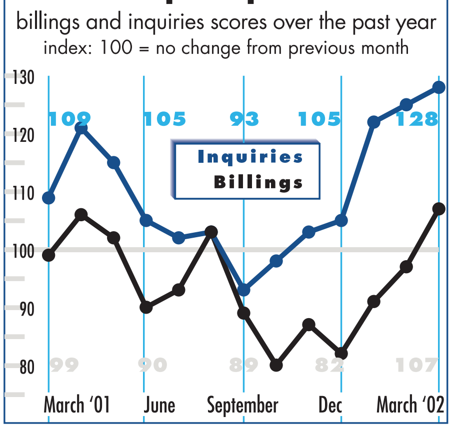
AIA Chief Economist

Billings at U.S. architecture firms declined in September 2001 and have declined further each month since. However . . .

Inquiries for new projects continued to increase at a record pace. For each of the past three months, more than a third of firms have reported a sizeable increase in new inquiries, while about half of firms report inquiries holding stable. Only a small share is reporting declines.

Strong rebound in the East

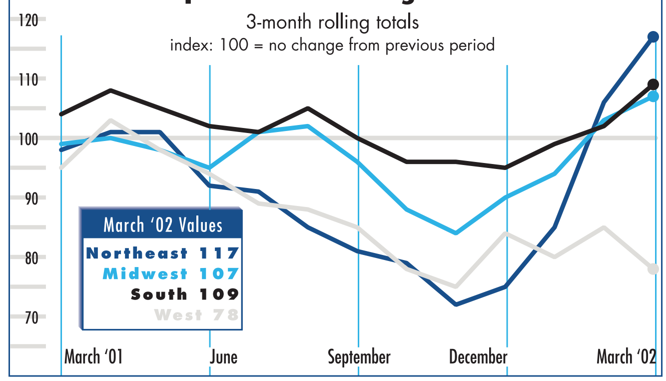
Firms in all regions but the West report healthy gains in billings. In recent months, there has been a particularly strong rebound among firms in the East. By area of specialization, residential and institutional firms are reporting the strongest growth in billings. However, even commercial/industrial firms reported some improvement in March. Firms in this sector have been particularly hurt by the recent downturn in the economy.



Firm Billings Emerge from Downturn; Inquiries Continue Rapid Upturn

Like business conditions at architecture firms, the broader economy has shown signs of improvement recently. The employment report for March showed a modest increase in business payrolls, the first increase since last July. However, the national unemployment rate crept back up to 5.7%.

The residential sector has gone through the downturn without missing a beat, and the February numbers continue this trend, with housing starts totaling 1.77 million units (when seasonally adjusted and annualized) and existing home sales totaling 5.88 million units on the same basis. And while the economy is strengthening, inflation remains under control, with consumer prices rising only very modestly and producer prices running below year-ago levels.

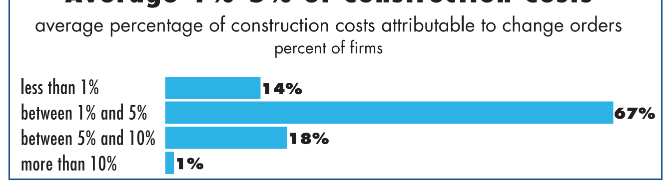


Firms in Northeast, Midwest, and South Report Solid Billings Gains

Change orders

Change orders remain a chronic issue in the construction industry, and this month's special question attempted to estimate their magnitude. When asked to estimate the average percentage of construction costs attributed to change orders, most firms responded that it was in the 1–5% range. Of the responding firms, 14% felt that average percentages were below 1% whereas 19% felt that they were above 5%. However, many noted that it is important to distinguish between changes in scope initiated by the owner, unforeseen conditions changes initiated by the contractor, and errors and omissions in the design work.

Single-family residential projects typically were cited as the most frequent construction category for change orders (44% of firms working in this sector indicated that they were very frequent). Three institutional sectors were next in terms of perceived frequency of change orders (health care, transportation, and education), where 22%, 21% and 15% of firms respectively indicated that change orders in these sectors are very frequent.



Most Firms Estimate Change Orders Average 1%–5% of Construction Costs