

→ Overview

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→ After a severe nonresidential building recession from 2000 through 2003, architecture firms have been enjoying a healthy recovery in design and construction activity.

→ Large firms have added other design disciplines that permit them to offer a broad array of design services.

→ A strong residential market has encouraged firms to focus more on projects in this sector, while interest in "green" architecture also increased.

→ From a business perspective, U.S. architecture firms began the second half of the first decade of a new millennium on an upswing. The 2000 to 2003 period produced the deepest downturn for nonresidential building activity since the recession in the early 1990s. Fortunately, though, the recent downturn coincided with a strong residential market, whereas the downturn in the early 1990s saw a steep retrenchment in residential and nonresidential activity. This time, many architecture firms were able to expand their residential design activity to partially offset a decline in nonresidential projects.

Through its regular surveys of architecture firms, the American Institute of Architects documents trends in the changing practice of architecture and offers metrics by which firms can measure their practices and rate their performance in comparison to their peers. In this document, we report results from a survey conducted in early 2006 and look at the benchmarks and best practices from architecture firms reported for 2005. Unless otherwise specified, all information in this report is from the American Institute of Architects.

With the recovery in nonresidential activity beginning in 2004, architecture firms have seen a healthy increase in design projects. According to U.S. Department of Labor figures, payroll employment at architecture firms increased more than 2 percent in 2004, almost 4 percent in 2005, and is on a pace to increase close to 5 percent in 2006. As is typical for most design and construction business cycles, the upturn in design employment has surpassed the upturn in the broader economy. Likewise, the downturn in design employment during this past nonresidential construction downturn was steeper than it was for the broader economy (figure 1.1).

In fact, the growth in employment at architecture firms is a source of concern for the profession. Recently, an increasing number of firms have noted the difficulty in finding qualified employees to support the growth in their practices. To deal with staffing issues, firms are outsourcing more work to other firms to help balance workloads. Firms are also investing in new technologies or taking other measures to increase the output and productivity of current staff.

With the recovery in design and construction activity, we have also seen the reemerging dominance of larger architecture firms in the profession. Architecture firms¹ with 50 or more employees accounted for less than 4 percent of all architecture firm offices but almost 42 percent of all staff at architecture firms in 2005 and almost 52 percent of all billings.

Although the larger firms have come to account for a majority of activity across the profession in recent years, they have not dominated growth to the same extent. For example, the share of increase in employment at firms with 50 or more employees in 2005 was just about comparable to their share

¹ Information for this report was gathered through a survey of architecture establishments (firm office locations) to generate accurate information at the operating level. Statistics presented here are based on responses by these offices. Throughout this report, the term "firm" is used as shorthand for these firm office locations.

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of total employment. Likewise, the share of increase in billings in 2005 at these larger firms was comparable to their overall share of billings (figure 1.2). These figures suggest the continued increase in productivity at larger architecture firms, however. By accounting for a larger share of billings than employment, the typical employee at a larger firm is generating more revenue on average than a typical employee at a smaller one.

Larger firms continue to offer a broad range of design-related services. Almost all firms with 100 or more employees offered interior design and space planning services with in-house staff in 2005, and a majority offered landscape architecture, urban design, and engineering services. In spite of having endured a serious recession earlier this decade, these larger firms have shown no signs of cutting back in the range of services offered.

Many smaller and midsize architecture offices, however, have scaled back on the range of services they offer to clients. Fewer are offering interior design, space planning, landscape architecture, engineering, and construction management services than they did in 2002. Some of these firms may be cutting back on services because they are not as profitable as core design services. Others may be finding they need to focus their services to efficiently manage their operations in the service areas they make available to their clients (figure 1.3).

Housing gains help to offset nonresidential losses

Historically the design of residential facilities has been an important but niche market for many architecture firms. With the strong home building and home remodeling markets in recent years coinciding with a weak nonresidential design activity, however, the share of residential design activity increased to almost 18 percent of total billings in 2005, up from about 12 percent in 2002 and slightly more than 9 percent in 1999.

It is likely this share of residential activity at architecture firms will decline in the coming years as the residential market continues

FIGURE 1.1 → Employment Growth at Architecture Firms Outpaces Economy in Recent Economic Expansion

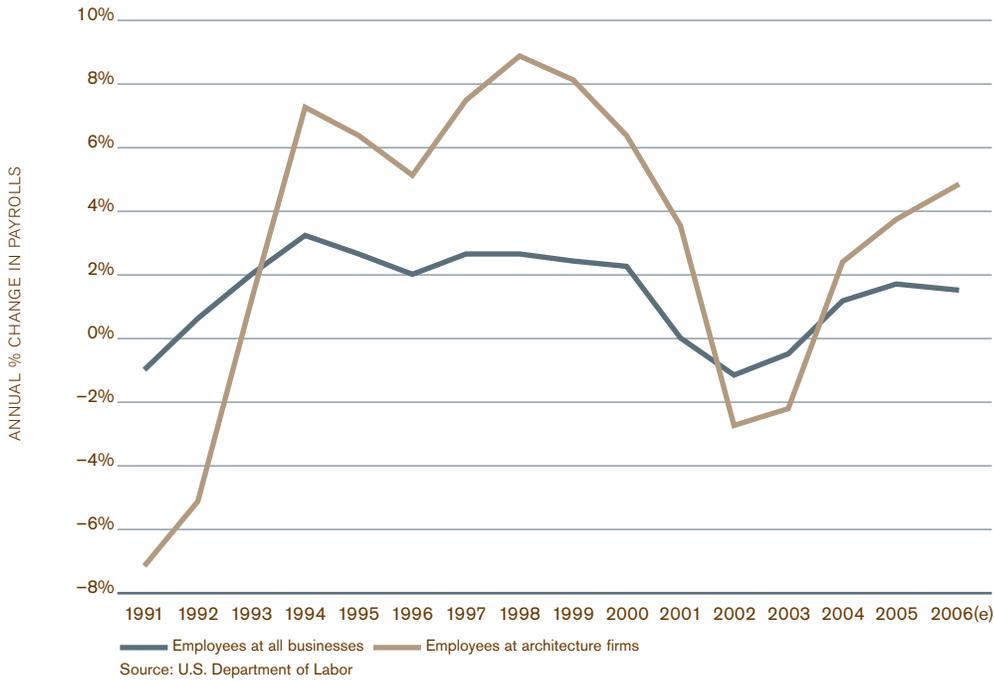


FIGURE 1.2 → Larger Firms Account for Large Share of Activity and Growth in Profession

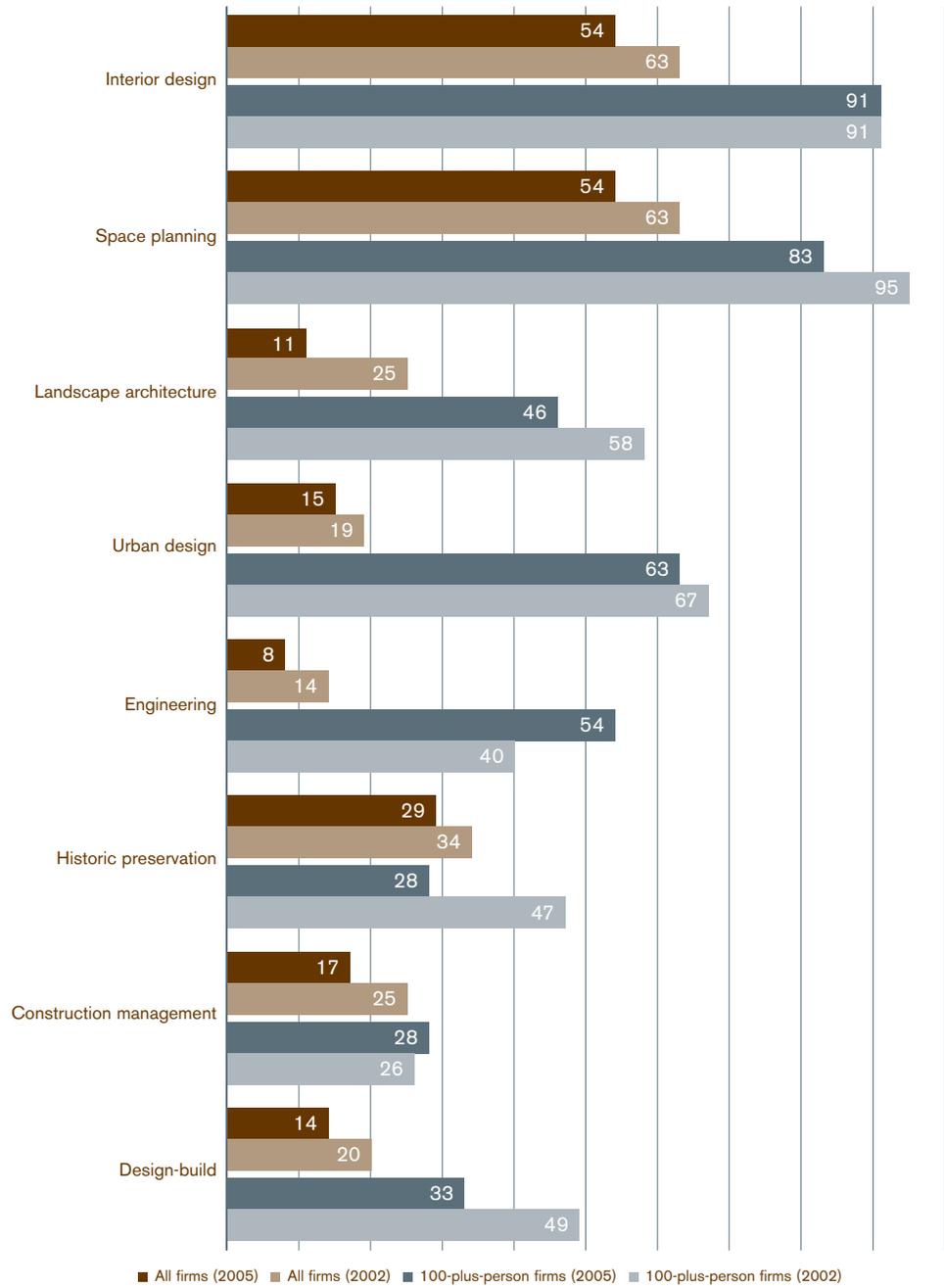
share of total staff and billings in the profession in 2005 and growth in 2004–2005, at all firms by firm size; % of firms

NUMBER OF EMPLOYEES	SHARE OF STAFF	SHARE OF GROWTH IN STAFF	SHARE OF BILLINGS	SHARE OF GROWTH IN BILLINGS
	1	2.3	0.0	1.8
2–4	11.3	9.2	6.4	6.9
5–9	12.1	10.5	8.3	9.1
10–19	14.1	17.4	12.3	13.6
20–49	18.5	22.2	19.4	17.0
50–99	14.5	14.8	18.1	18.8
100+	27.3	25.8	33.8	33.2

Source: The American Institute of Architects

FIGURE 1.3 → Firms Starting to Specialize in Services Offered;
Larger Firms Continue to Offer Broad Range of Services

% of firms offering service



to soften but, for the short run, architecture firms have gotten more engaged in residential design. Almost two-thirds (63 percent) of firms reported some residential projects, and close to 30 percent reported that at least one-half of their billings came from the residential sector. Firms that focus on housing are overwhelmingly smaller firms, as 95 percent have fewer than 10 employees.

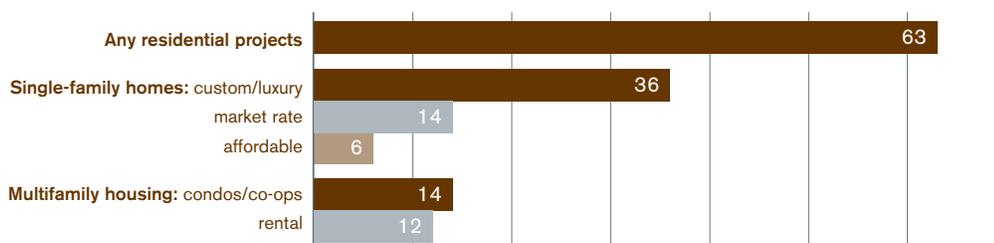
Still, there is broad architecture firm involvement across most of the key residential sectors. Within single-family housing, a significant share of firms reports some design of custom and luxury homes, with smaller shares involved in market rate and affordable (workforce) single-family homes (figure 1.4). Almost 80 percent of firms that work in the residential sector are involved in designing new homes, and more than two-thirds are involved with additions to existing homes. About the same share (69 percent) report design activity for renovations, remodels, or alterations of existing homes.

A somewhat smaller share of firms concentrates its practice in the design of multifamily homes. Those that specialize in this sector, however, tend to be larger firms. For example, less than 1 percent of firms that get a majority of their revenue from designing single-family homes have 20 or more employees. By contrast, almost 13 percent of firms that specialize in the multifamily market are this size.

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FIGURE 1.4 → Architecture Firms Have Broad Involvement in Residential Markets

% of all firms serving residential segment in 2005



Green architecture and BIM grow in popularity

With growing concern in general about the impact of construction activity on our environment, coupled with the more immediate concern over rising energy costs, the sustainable (green) design movement has grown in popularity recently. Overall, just over one-third of firms with nonresidential projects in 2005 characterized some of their projects as green (i.e., using principles of sustainable design). Of those firms with green projects in 2005, almost 14 percent of their nonresidential projects by dollar value came from projects they characterize as green. Of the projects they characterize as green, however, only about one-third (less than 5 percent of total construction contract value) was certified at any level under the LEED (Leadership in Energy and Environmental Design) Green Building Rating System®.

The share of green projects in the residential sector was a bit below that of nonresidential projects. A quarter of firms designing residential construction projects had projects they characterized as green, as did a slightly smaller share of firms designing residential remodeling projects (figure 1.5). For those firms designing green residential construction projects, about 17 percent of the total value of their projects was green projects in their estimation. Of these, only about one-quarter was certified as green by some group such as the National Association of Home Builders through its National Green Building Award program.

Building information modeling (BIM) or virtual design—a method for integrating, coordinating, and accessing information about the design and construction of a building in electronic format—is growing in popularity across the design professions. As of 2005, about 1 in 6 architecture firms had acquired BIM software and about 1 in 10 firms was using the software on billable projects.

Not surprisingly, larger firms were more likely to be using BIM. Slightly more than 60 percent of firms with 50 or more employees had acquired BIM software, and almost one-half (49 percent) were using it on billable projects. Smaller firms are beginning to adopt this technology, too, with almost 13 percent of firms with fewer than 10 employees having acquired BIM software and 8 percent using it on billable projects (figure 1.6).

FIGURE 1.5 → Significant Share of Firms Involved with Green Projects

% of firms with any projects characterized as green (using principles of sustainable architecture) as share of firms with projects in that sector, by construction sector

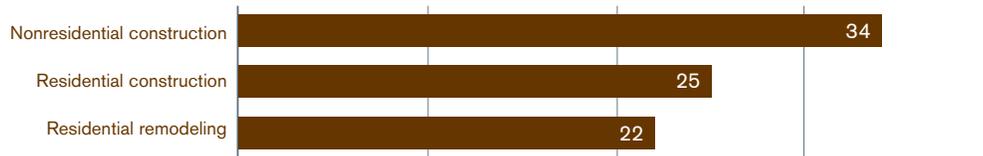


FIGURE 1.6 → Building Information Modeling/Virtual Design Makes Inroads at Design

% of firms with BIM software

