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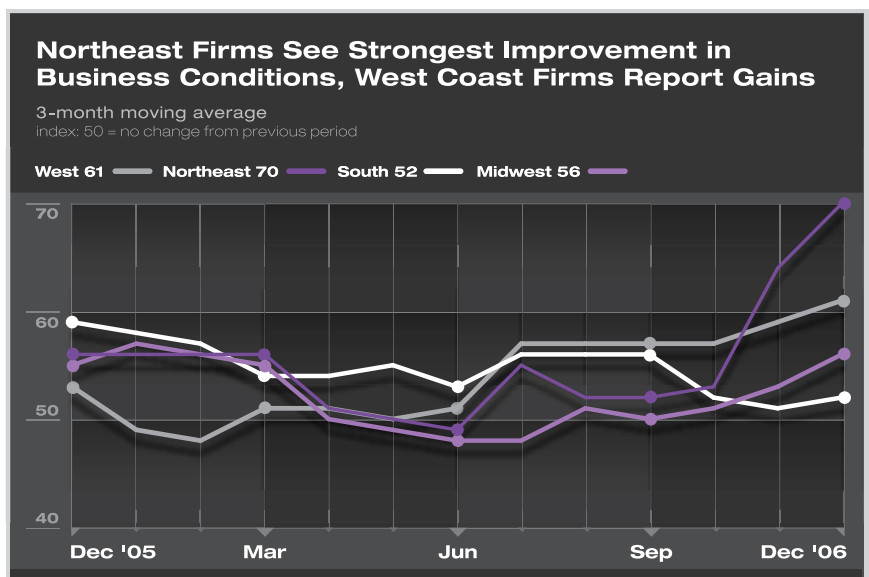
Year-End Figures Confirm an Upturn in Architecture Firm Business

Firms report considerable variation in profitability of projects

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Summary: Billings at architecture firms showed their strongest growth in a year and a half in December after seasonal adjustments, reflecting continued strength in the nonresidential sector, as well as mild weather patterns that may have pushed projects along at a faster pace. The AIA's Architecture Billings Index rose to 59.5 in December, up from 57.4 in November. Inquiries for new work eased off from the past several months, indicating that billings are likely to slip a bit as we enter 2007.

Billings were particularly strong in the Northeast, but also showed a rebound in the Midwest. Both of these regions have had unusually mild weather conditions so far this winter. Firms in the West are reporting very healthy conditions, while those in the South have seen a moderation of growth recently. Firms that concentrate in the



commercial/industrial sectors reported the sharpest upturn in December, but institutional practices also indicated improved growth.

Economy's weakness still lingers

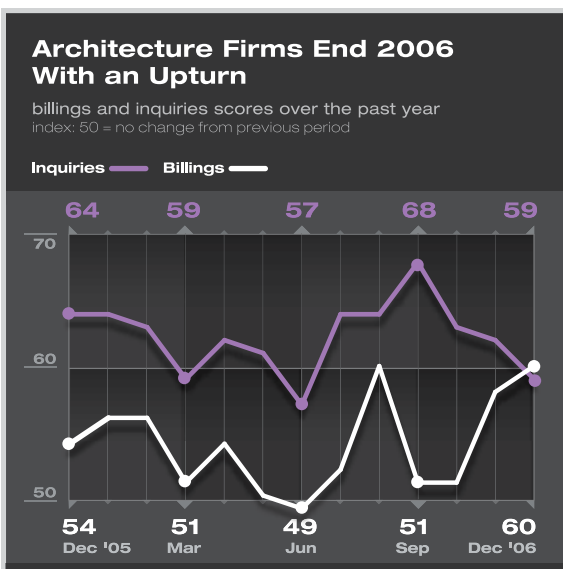
Despite an upturn in the ABI at the end of 2006, the overall economy was somewhat weaker. Retail sales increased 4.3 percent in the fourth quarter compared to a year ago, while the December figures increased only 3.6 percent. For the year, retail sales rose 6.0 percent as the pace of growth slowed toward the end of the year. A slower rate of increase in consumer spending reflects the greater debt levels that consumers are carrying, and higher

interest rates that they are paying on their revolving credit.

The employment picture continues to show modest gains. There were 167,000 net payroll positions added nationally in December, which was above the October or November figures. Still, there were only 1.8 million jobs added in 2006, down from almost 2 million in 2005. The construction employment picture is even weaker currently as December was the fourth straight month that payrolls at construction firms declined.

Profits vary considerably

Independent of general business conditions, architecture firms find that there can be considerable variation in the profitability of individual projects. When asked to evaluate the profitability of design projects over the past five years, firms responded that about one in five is very profitable, about two in five is somewhat profitable, about one



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in five is neither profitable nor unprofitable, while the remainder is either somewhat or very unprofitable.

Larger firms report having a higher share of projects that are profitable (70.2 percent reported as very profitable or somewhat profitable) and a lower share unprofitable (13.7 percent somewhat or very unprofitable). Institutional firms report the highest share of very profitable projects (25.2 percent), while commercial/industrial firms report the lowest share of very unprofitable projects (4.6 percent).

Factors that make some projects are more profitable than others include:

- Projects for repeat clients with similar work, where the firm has demonstrated expertise
- Projects in which there is considerable client involvement and decisiveness
- Larger projects
- Projects in which there is a good understanding of the scope of work and well-written contracts
- Projects done by the most productive staff at the firm.

Reference:

This month, Work-on-the-Boards participants are saying:

- Everyone is still busy, but a lot of work is for the same speculative developments. It could be that some/many of these projects will never get off the ground.
—9-person firm in the South, mixed specialization
- Recruiting new staff is nearly impossible.
—11-person firm in the Northeast, commercial/industrial specialization
- Lots of inquiries, but slow to sign the contract and make the commit-

While Most Projects Classified as Profitable, Firms Report Significant Share to Be Break-Even or Losses

units: of projects worked on over the past five years, degree of profitability; project averages across all firms

