

1 Overview



With U.S. architecture firms and the related construction industry in the midst of its worst downturn of several generations, it's easy to forget the solid performance of the profession over the 2005 to 2008 period. This three-year period coincided with the end of one of the strongest housing booms in our history, as well as a time when businesses were investing in new facilities to support the healthy growth in the broader economy.

- **During the past expansion, architecture firms realized strong growth in business levels.**
- **The end-of-decade downturn produced job losses in the economy and in the profession that likely approached or exceeded total gains during the mid-decade expansion.**
- **In recent years, architecture firms experienced growing consolidation, expanded design disciplines, and greater diversity in staffing and firm ownership.**

Even when the housing downturn hit in early 2006, there was sufficient momentum in the commercial, industrial, and institutional markets to support solid growth across the profession. By 2008, however, as the economy was entering a recession, design work at architecture firms began to slow and then dropped precipitously once credit markets collapsed toward the end of summer.

For the past two decades, the American Institute of Architects has conducted periodic surveys of its member firms. The purpose of these surveys is to document emerging trends in the practice of architecture and assess how they interact with economic trends and technological developments. These *Business of Architecture* reports present benchmarks that allow firms to assess their practices and evaluate their operations in comparison to their peers. In this way, the architecture profession

can monitor its progress toward achieving financial stability while pursuing shared goals for the larger architecture community. This document reports results from a scientifically selected survey of 2,700 architecture firms conducted in early 2009, reporting firm characteristics and operations in 2008 and comparing these results to earlier surveys to assess how the profession is changing. Unless otherwise specified, all information in this report was generated by the American Institute of Architects.

Economic climate is changing

As economic expansions go, this past one generated overall favorable business conditions for architecture firms. Beginning in early 2002 as it emerged from the last recession, the U.S. economy saw steady growth until the next recession began in early 2008. The 2003–2005 period saw growth

average just about 6 percent per year before inflation adjustments, while the 2006–2008 period saw economic growth slow to just under 5 percent per year as the economy headed into recession in 2008.

Nonresidential construction saw a very different pattern over this period. Early in economic cycles, as businesses are in recovery mode, they tend to spend less on investments such as new or modernized facilities. So, for example, during the past cycle, even though an economic recovery was underway by 2002, business investment in structures didn't begin to rebound until well into 2004, according to U.S. Commerce Department figures.

However, once underway, spending accelerated very rapidly during the second half of this cycle, with the Commerce Department reporting double-

digit annual gains on average in non-residential investment in structures over the 2006–2008 period. The U.S. Census Bureau reported that nonresidential construction spending increased by more than 34 percent from the end of 2005 to the end of 2008, just about twice the total growth of the prior three-year period.

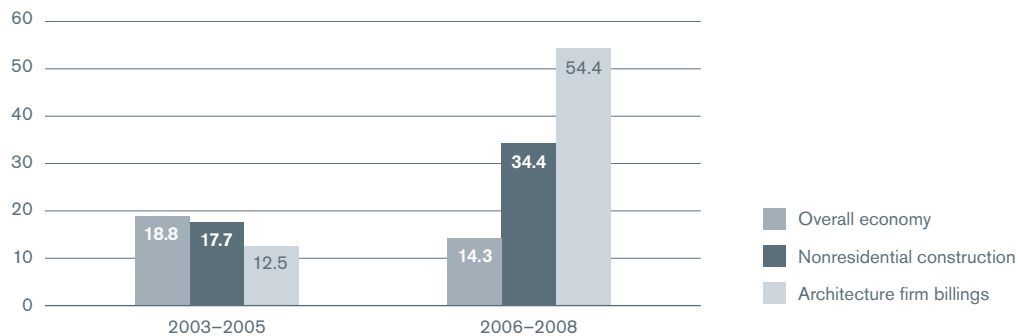
Architecture firms benefited greatly from this acceleration of nonresidential activity. Billings at firms rose sharply between 2005 and 2008: gross billings were up more than 50 percent due to the spike in pass-throughs¹, while net billings increased more than 40 percent from 2005 levels. The surprisingly strong growth in billings at firms over this period underscores the “boom or bust” nature of construction activity and the resulting volatility in revenue at design firms serving this industry. So, for example, even though the economy grew at a fairly stable rate over the 2002 to 2008 period, growth in architecture firm revenue was very modest during the first half of the period and extremely strong during the second half (figure 1.1).

This typical volatility in business conditions at architecture firms that produced strong growth during the past upturn also generally produces steep declines

¹ In this report, architecture firm billings refer to annual gross revenue. Revenue figures are further broken down into net billings and pass-throughs, where pass-throughs are payments from the client for sub-contractors and other goods and services not provided directly by the architecture firm.

FIGURE 1.1 Prior to Downturn, Architecture Firms Were Outpacing Growth in Broader Economy as Well as Within the Construction Industry

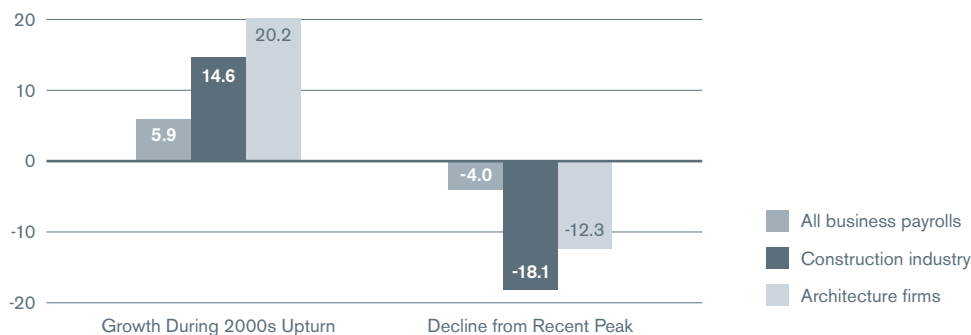
total % growth over period, not adjusted for inflation



Sources: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Census Bureau, and the American Institute of Architects

FIGURE 1.2 Recent Downturn Has Been Very Steep for the Construction Sector

total % change in annual payrolls during upturn, and through 2009–Q2 for downturn



Notes: 2000s upturn was 2003–2007 for all payrolls, 2002–2006 for construction, and 2003–2009 for architecture firms; downturn measured from end of upturn through Q-2, 2009.
Source: U.S. Department of Labor

during downturns. At the time of this report, the full extent of the downturn from the recession is unknown, but it is clear that it will be substantial. Payroll figures, which are available from the U.S. Department of Labor for a wide range of industries, already point to a major downsizing of staff at many businesses. For example, from their peak in 2007 through midyear 2009, U.S. business payrolls have declined by 5.5 million positions; this decline translates into 4 percent of all payroll positions nationally, which almost offsets the total number of payroll jobs added during the upturn earlier in the decade.

The construction industry has seen a more dramatic downturn. From its high-water mark in 2006, when the residential sector began to weaken, through mid-2009, payrolls at construction firms declined by over 18 percent, more than offsetting all of the job gains during the upturn earlier in the decade. Payrolls at architecture firms have followed a similar path. The downturn began later, however, as the annual peak was in 2008. Still, through the middle of 2009, payrolls at architecture firms declined by over 12 percent, offsetting a majority of the gains realized during the upturn (figure 1.2).

With changing construction sector, firms see shifting workloads

Not only did workloads at architecture firms grow dramatically over the 2006–2008 period, but the composition of

FIGURE 1.3 Architecture Firms Have Seen an Increased Share of Activity from Institutional Buildings and a Reduced Share from Commercial and Industrial Facilities

% of gross billings at architecture firms

FIRM TYPE	1996	1999	2002	2005	2008
Residential ¹	11	9	12	18	11
Commercial ²	34	33	28	27	29
Institutional ³	44	48	52	49	53
Other construction	7	6	5	4	6
Nonconstruction	4	4	3	2	1

¹ Includes single-family and multifamily construction and home improvements

² Includes office, retail, and other commercial; hotel/hospitality; and manufacturing and distribution facilities

³ Includes education, health care, justice, other government, religious, cultural, recreational, and transportation facilities

those workloads also shifted. Since the mid-1990s, work on residential facilities has averaged about 10 percent to 12 percent of total billings at architecture firms. However, with the strong growth in homebuilding earlier this decade, by 2005 residential projects accounted for 18 percent of billings. By 2008, this share had fallen back closer to its longer term average.

The increased share of residential work in 2005 offset a downward trend in commercial construction. That year was still early in the nonresidential recovery, so commercial design activity was still below its longer term trend. By 2008, however, commercial activity had recovered closer to its normal share. Institutional activity, in contrast, has gradually been increasing its share of design activity at architecture firms. There was a brief step back in this trend in 2005, but

by 2008 the institutional share was at its highest level in at least the past 15 years.

The share of activity by construction sector is likely to continue to shift depending on the position of the construction cycle. As the economy begins to head in to the next recovery, the residential market should be the first to rebound, and therefore residential billings can be expected to increase in share. The nonresidential downturn is likely to last longer and is expected to be the most severe for commercial facilities, so the commercial share probably will decline in the near-term (figure 1.3).

In spite of some high-profile mergers over the past several years, architecture firms remain highly fragmented. Almost 80 percent of AIA member-owned architecture firms had fewer than 10 employees as of the end of 2008, with

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just 2 percent of firms reporting 100 or more employees. With the extensive downsizing at many firms in the latter part of 2008 and into 2009, it's likely that many downsized architects set up smaller practices, further reducing the firm size concentration.

Even with the high share of smaller firms, larger firms continue to account for a large share of activity. By the end of 2008, firms with 50 or more employees accounted for 44 percent of all staff employed at architecture firms nationally and over half of all revenue generated by architecture firms. The small share of firms with 100 or more employees accounted for 30 percent of all employment and over a third of all billings. As the construction markets recover and expand, it is likely that the architecture profession will see a new round of consolidation. Before the current downturn, many firms were diversifying into foreign markets to take advantage of international growth opportunities. Others were diversifying into other regions of the country and across a broader mix of facility types. This diversification is generally associated with organic internal growth or merger and acquisition activity, so as diversification continues in all likelihood so will greater consolidation of firms (figure 1.4).

Composition of firms changing to accommodate transformation

As the types of construction projects and services offered by architecture

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firms have evolved, so has the composition of these firms. One sign of this is the makeup of the staff at firms. Over the past several years, the share of architecture staff at firms has generally trended downward, standing at 60 percent at the end of 2008.

Even more significant than the portion of the staff that provides architectural services is the composition of this staff. The share of licensed architects on staff has been trending down, while the share of nonlicensed graduates of architecture programs not currently on a licensure path has been steadily increasing. As of this survey, interns and students as a share of architecture staff declined substantially, which may be just a temporary trend as firms were scaling back on less experienced

staff when workloads began to slow in 2008.

However, there are likely to be long-term implications of what may appear to be short-term downsizing. When laid off, interns and other younger staff have a more difficult time finding work in the architecture profession. Few other architecture firms are hiring, and it is very difficult for younger professionals to set up their own practice in this economic environment. Some will be able to wait out the downturn and rejoin the profession after the industry recovers. Others will seek employment in alternative professions, and for these young professionals, the longer they are outside of the profession the more difficult it will be for them ever to reintegrate. Their technical skills may erode over

FIGURE 1.4 While Most Firms Remain Small, Larger Firms Account for a Majority of Billings in the Profession

% of total firms, staff, and billings in the profession by firm size

NUMBER OF EMPLOYEES	SHARE OF FIRMS	SHARE OF STAFF	SHARE OF BILLINGS
1	24	2	1
2-4	37	10	6
5-9	18	12	7
10-19	11	14	12
20-49	6	18	23
50-99	2	14	15
100 or more	2	30	36

time, and they may take on financial commitments that make starting over at an architecture firm a difficult financial choice. Experience shows that during previous major construction industry downturns, large shares of younger professionals who temporarily cannot find employment at architecture firms move on to other careers and never return to architecture, thereby creating a “lost legion” of younger professionals. During subsequent expansions, many firms note a shortage of experienced staff due to these previous losses (figure 1.5).

The shifting composition of architecture staff at firms in recent years has been accompanied by a fairly dramatic shift in their diversity. Women now account for over a quarter of all architecture staff at firms, and this share has been slowly increasing. However, there has been very little change in the composition of firm principals and partners or in other licensed architects by gender. Rather, most of the change has come in other positions, as the female share of nonlicensed architects increased from 30 percent to 33 percent between 2005 and 2008, while their share of interns increased from 36 percent to 40 percent. Increases in shares in these positions may portend future increases in shares for women in licensed architect and principal/partner positions, or it may indicate that there are other barriers to women achieving these positions in shares comparable to their composition in the broader profession.

FIGURE 1.5 Architecture Staff Accounts for More Than 60 Percent of Positions at Architecture Firms, but Nonlicensed Share Growing

average percentages across all architecture firms

	2002	2005	2008
Architecture Staff			
Licensed	35	31	32
Nonlicensed graduates*	12	14	16
Interns/students	14	18	12
Other Design Professionals			
Engineers	5	5	7
Interior designers	6	5	5
Landscape architects	**	1	1
Planners	1	1	1
Other design/nondesign professionals	9	7	7
Technical/nontechnical***			
Technical	8	5	5
Nontechnical	10	13	14

* Nonlicensed graduates of accredited architecture programs not currently on licensure path

** Landscape architects included with other design professionals

*** Includes nonbillable technical and administrative staff

Recent trends have been somewhat different for racial minorities. Not only has there been more significant growth in the share of racial minorities in architecture positions at firms in recent years, but the incidence of this increase across architecture positions has been more balanced. The most significant increases in share have been in licensed architect (up 7 percentage points between 2005 and 2008) and nonlicensed graduate (up 6 points over this period) positions, but there also has been considerable growth in share for principal/partner and intern positions. Still, there remains a sizable gap between the racial minority share in intern and nonlicensed graduate positions (over a quarter of the total in each) as compared to their share of licensed architect or principal/partner positions (under 20 percent) (figure 1.6).

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FIGURE 1.6 In Recent Years, Minority Share of Architecture Staff Has Increased Faster Than Female Share

female and racial minority share of architecture positions, averages across all staffing at firms

