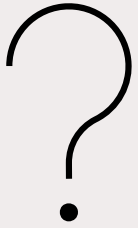


# 2023 - 2024 Economic Outlook

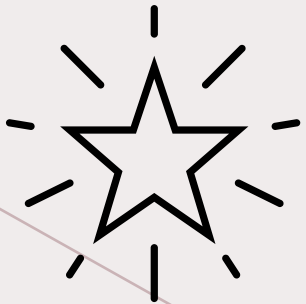
***PRESENTER:***  
MICHELE RUSSO, LEED AP  
AMERICAN INSTITUTE OF  
ARCHITECTS



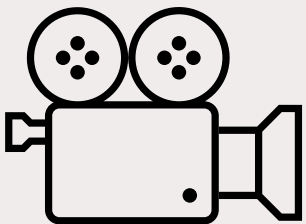
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# LEARNING OBJECTIVES



Understand the current impacts on the design and construction industry and on various building typologies.



Learn about the economic forecast for 2023 and 2024 from various entities including the Architecture Billings Index and the Consensus Construction Forecast.



Discover what's ahead for the construction industry from the nation's leading construction economists who forecast business conditions over the next 12–18 months.



Learn about the economic forecast as it relates to California, including residential and non-residential market sectors

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ARCHITECTS**





# Economic Forecast

**Michele A. Russo, LEED AP**

Vice President, Research & Practice  
American Institute of Architects

AIA California

Practice Webinar | November 9, 2023

# Agenda

- The Economy
- The Industry
- The Profession
- The Outlook

# The Economy

# Overview

- **Though economic indicators continue to be generally positive, threats to outlook are increasing.**
- **Weakness at architecture firms points to a 2024 construction slowdown.**
- **Rising long-term rates and weak demand make commercial construction the most vulnerable nonresidential sector at present.**



# Major monthly leading economic indicators remain mixed, but in general are improving

	Sep. '22	Sep. '23	Change since Sep. 2022
Consumer prices (change from year-ago)	8.2%	3.7%	-4.5 pct. points
3-mo. T-bills	3.22%	5.32%	2.1 pct. points
30-yr fixed rate mortgage	6.70%	7.31%	0.61 pct. points
Consumer sentiment (index: Q1 1966=100)	58.6	68.1	9.5 points
Housing starts (SAAR)	1.46M	1.36M	-6.8%
Retail sales (\$B, seasonally adj.)	\$679.4	\$704.9	+3.8%
Nonfarm payrolls (change in number, 000s)	350	336	+3,192

\*Data for Aug 22 and Aug 23

Sources: Bureau of Labor Statistics; Conference Board; University of Michigan; U.S. Census Bureau

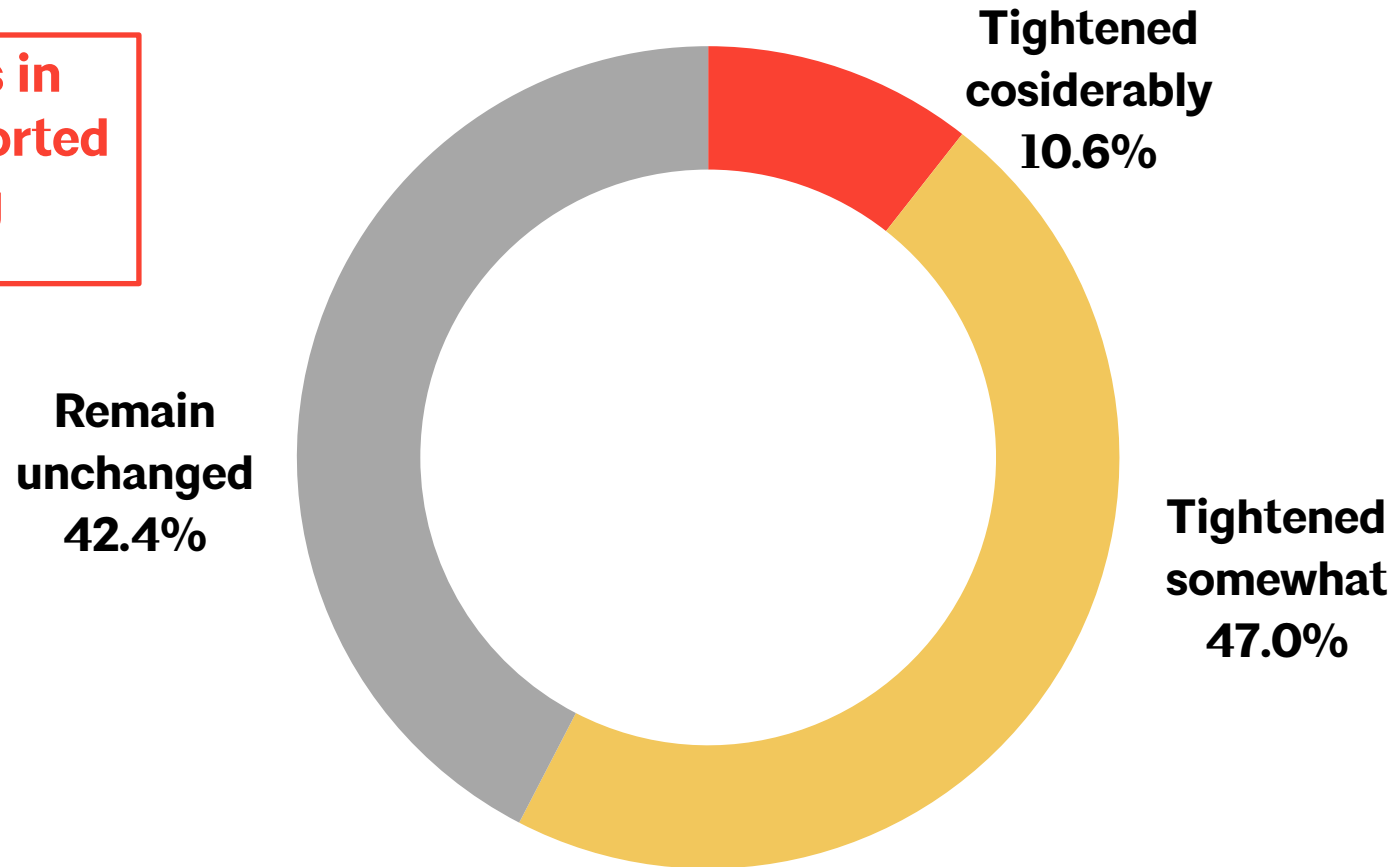
# **While overall economic outlook has improved, several dark clouds remain on the horizon**

- **Regional banking concerns persist, leading to tighter lending standards**
- **Economic fallout from likely future federal budget showdowns; return of student loan repayments; ongoing labor issues**
- **Potential reacceleration of inflation (rising oil prices; higher labor costs)**
- **Ongoing geopolitical tensions (Ukraine/Russia; China/Taiwan; Israel/Arab countries)**
- **The meltdown of the Chinese economy may be felt in the US**

# Almost 60% of banks report that credit standards for commercial real estate loans have tightened recently

Change in bank's credit standards over past three months

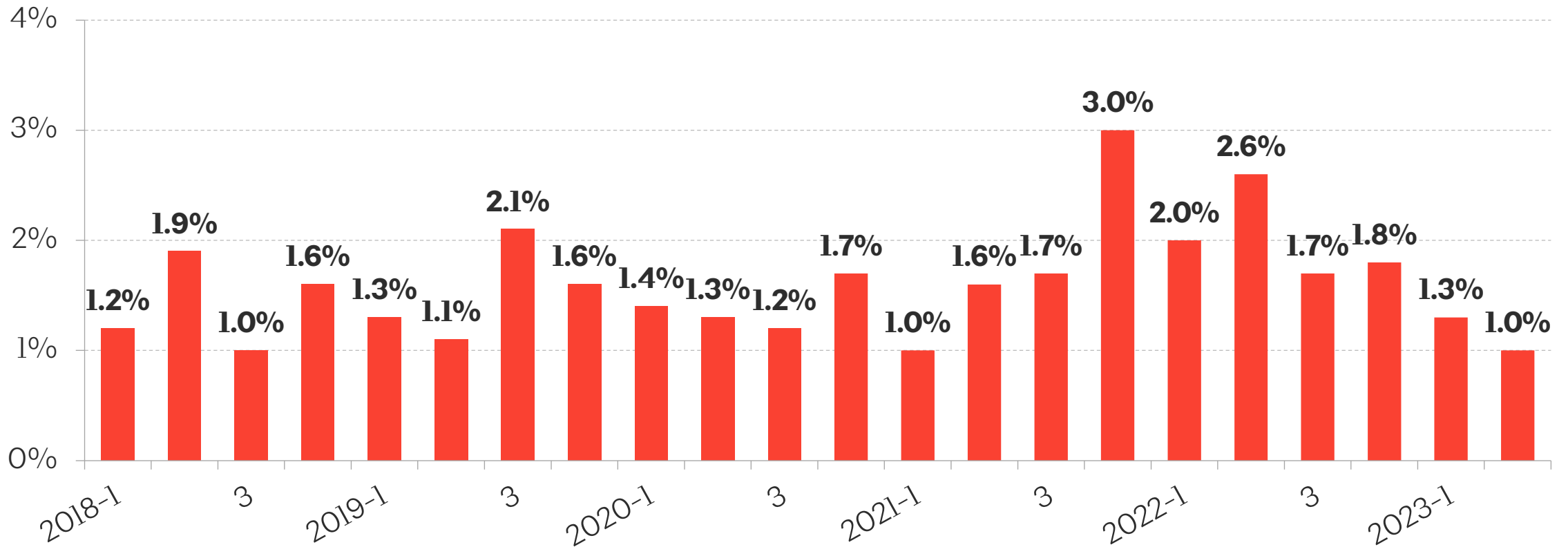
**No banks in survey reported easing**



Source: Federal Reserve Board Senior Loan Officer Opinion Survey (Table I; Q. 7) October 2023.

# After relatively strong growth over past two years, commercial real estate lending has slowed considerably

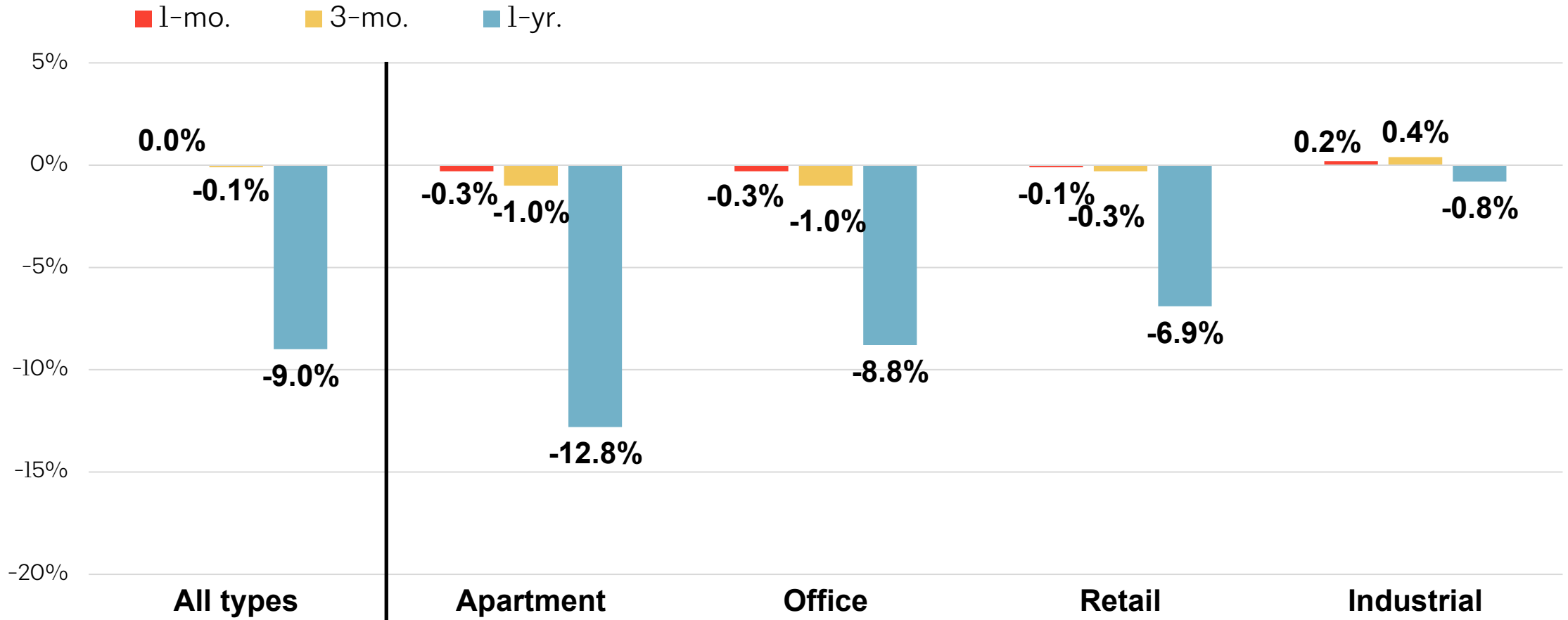
Commercial real estate debt outstanding; change from prior quarter



Source: Trepp Analysis of Federal Reserve Data, as Published in Wall Street Journal, October 31, 2023

# Values for all in commercial property types have declined over the past year, but downturn seems to be moderating

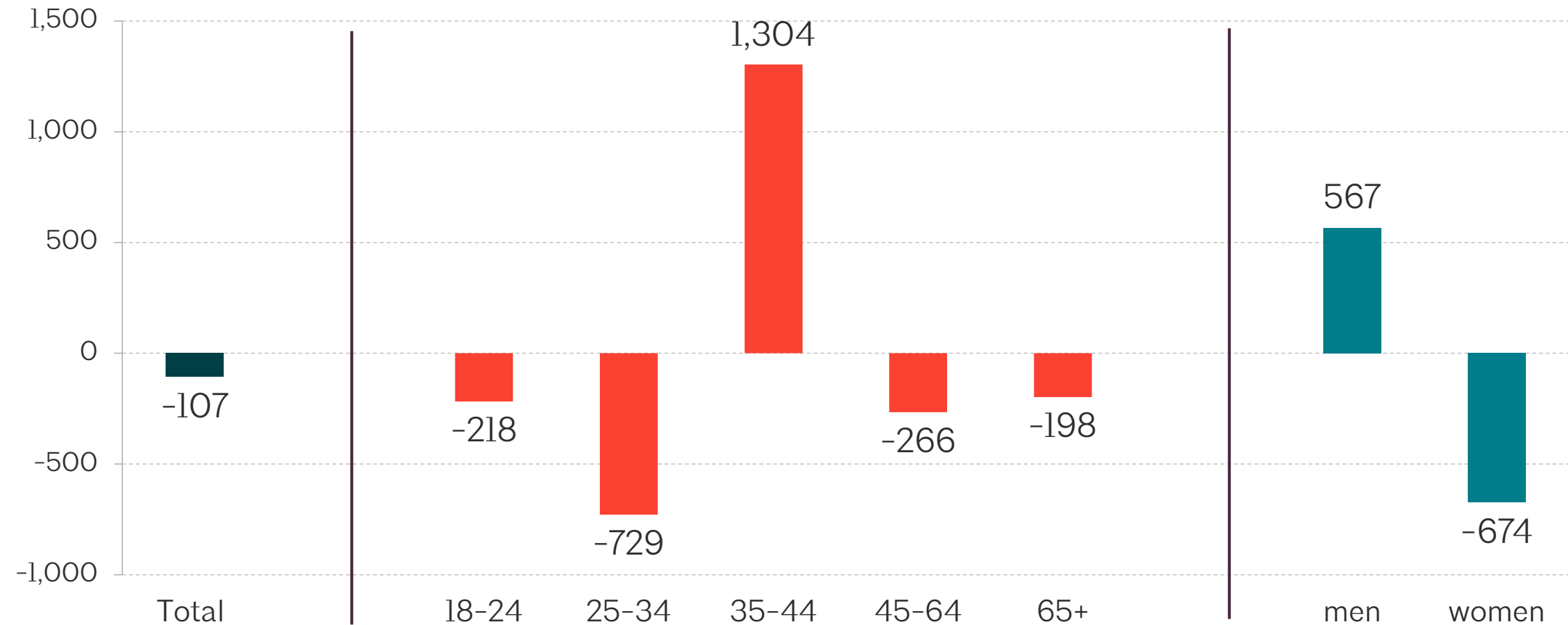
Change in price index for September 2023



Source: RCA Commercial Property Price Indexes

# In 2022, US labor force almost back to pre-pandemic levels, though younger workers and women still lagged

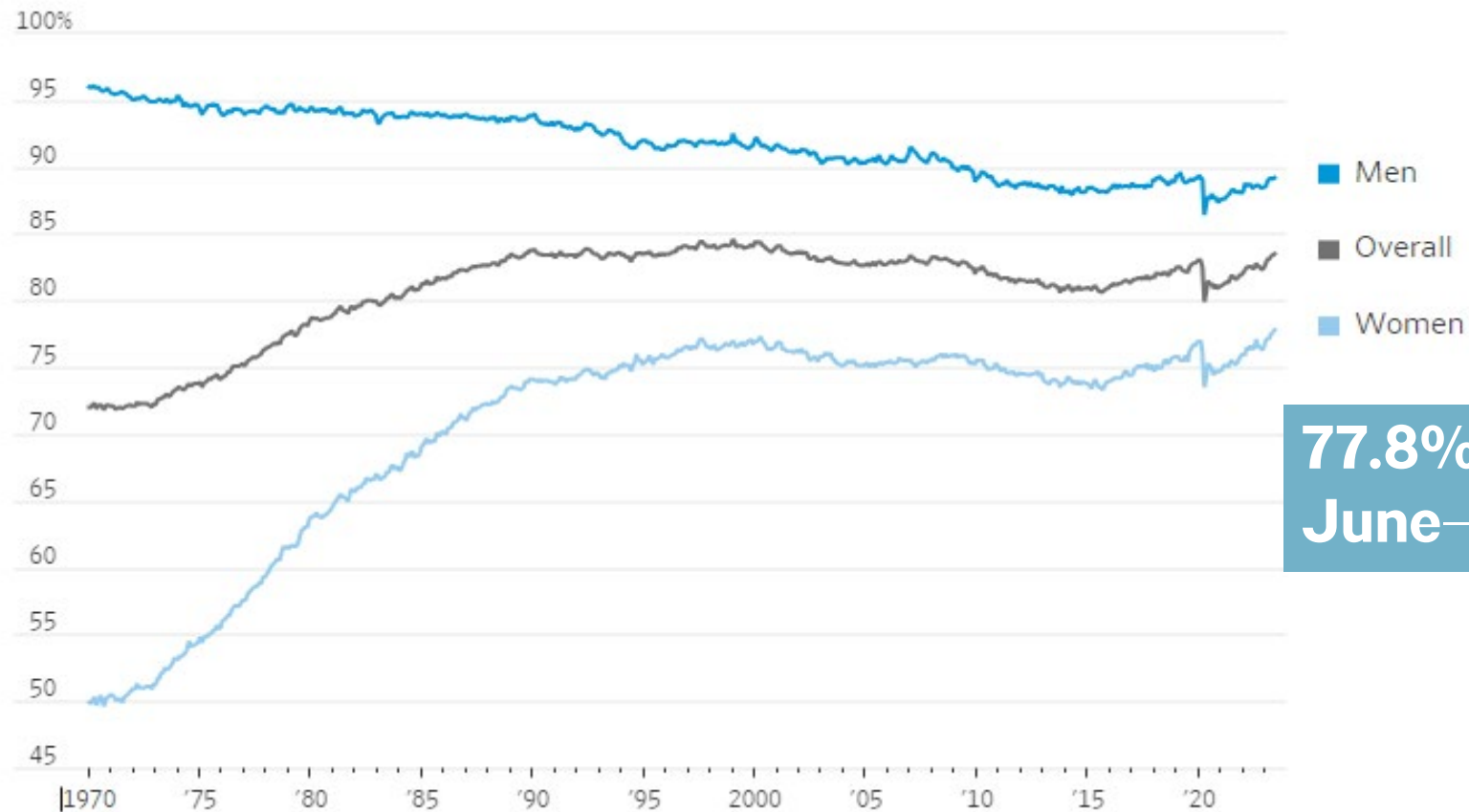
Change in civilian labor force Q1-2020 to Q1-2022 (000s)



Source: Bureau of Labor Statistics, Current Employment Statistics

# Uptick of prime-age workers increased in 2023; now exceed pre-pandemic levels, most notably for women

Share of prime-age population (25 to 54 years old) working or looking for work



**77.8% of women reported in June**—highest reported rate

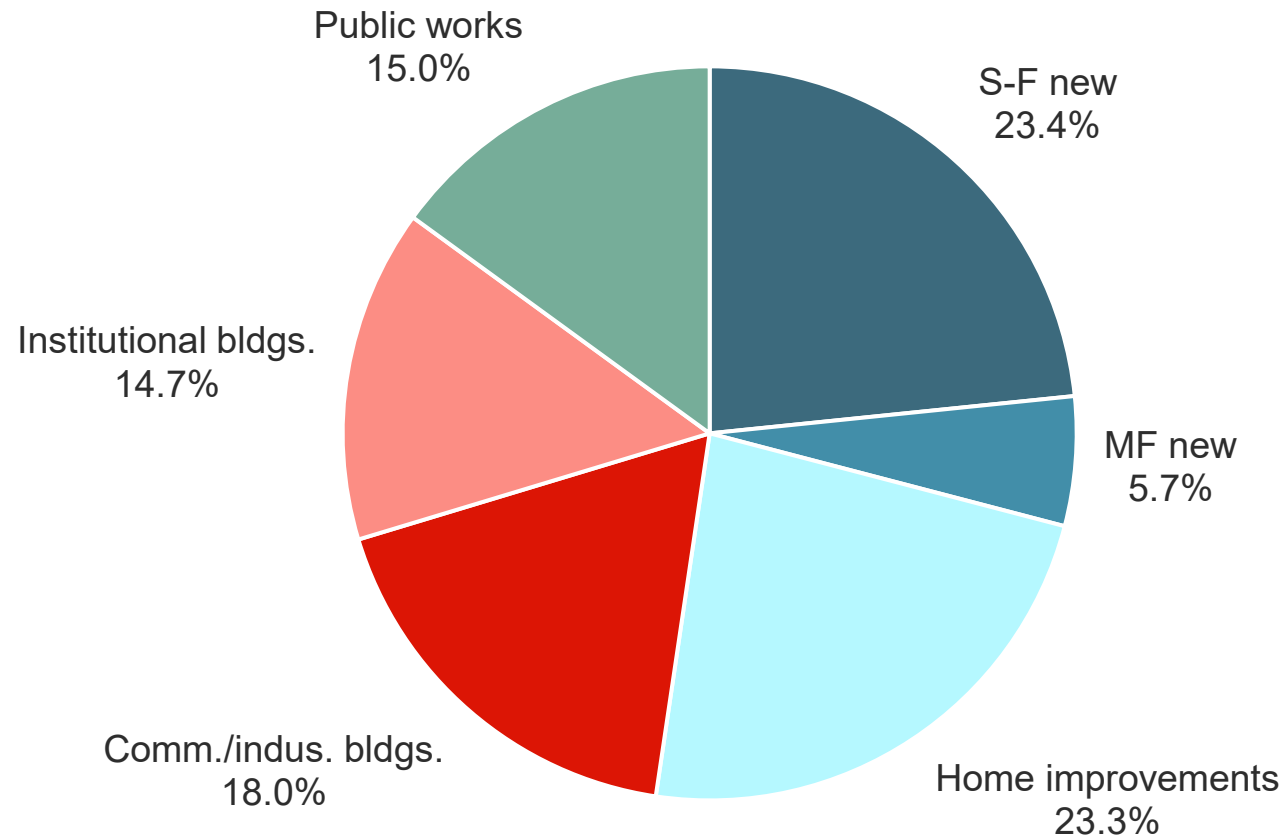
Source: Bureau of Labor Statistics, Current Employment Statistics

# The Industry



# Spending on residential and nonresidential buildings totaled over \$1.9 trillion last year, 7.6% of our GDP

Share of total US residential and nonresidential building construction market, 2022



**Total spending on construction and renovations = \$1.9 Trillion**

Note: Home Improvements Estimate Includes Improvements To Single-family And Multifamily Structures, But Not Maintenance And Repairs.

Sources: Jchs And U.S. Census Bureau, Construction Spending Put In Place

# Spending on the construction of buildings has been very strong so far in 2023

Billions of \$, Jan-Sep 2023 vs. Jan-Sep 2022 totals

	2023	2022	% Change
<b>Total Nonresidential Building Construction</b>	<b>\$561.3</b>	<b>\$465.8</b>	<b>20.5%</b>
<b>Commercial/ Industrial</b>	<b>\$327.6</b>	<b>\$253.2</b>	<b>29.4%</b>
Lodging	\$17.6	\$14.2	23.5%
Office	\$73.3	\$68.0	7.7%
Commercial (retail & other)	\$97.2	\$89.1	9.2%
Manufacturing	\$139.5	\$81.8	70.5%
<b>Institutional</b>	<b>\$233.7</b>	<b>\$212.6</b>	<b>9.9%</b>
Healthcare	\$46.1	\$40.4	14.1%
Education	\$86.5	\$77.9	11.1%
Religious	\$2.4	\$2.3	5.8%
Public Safety	\$9.5	\$8.7	8.2%
Amusement & Recreation	\$23.8	\$22.2	7.2%
Transportation	\$47.3	\$43.5	8.8%
Communication	\$18.1	\$17.7	2.4%

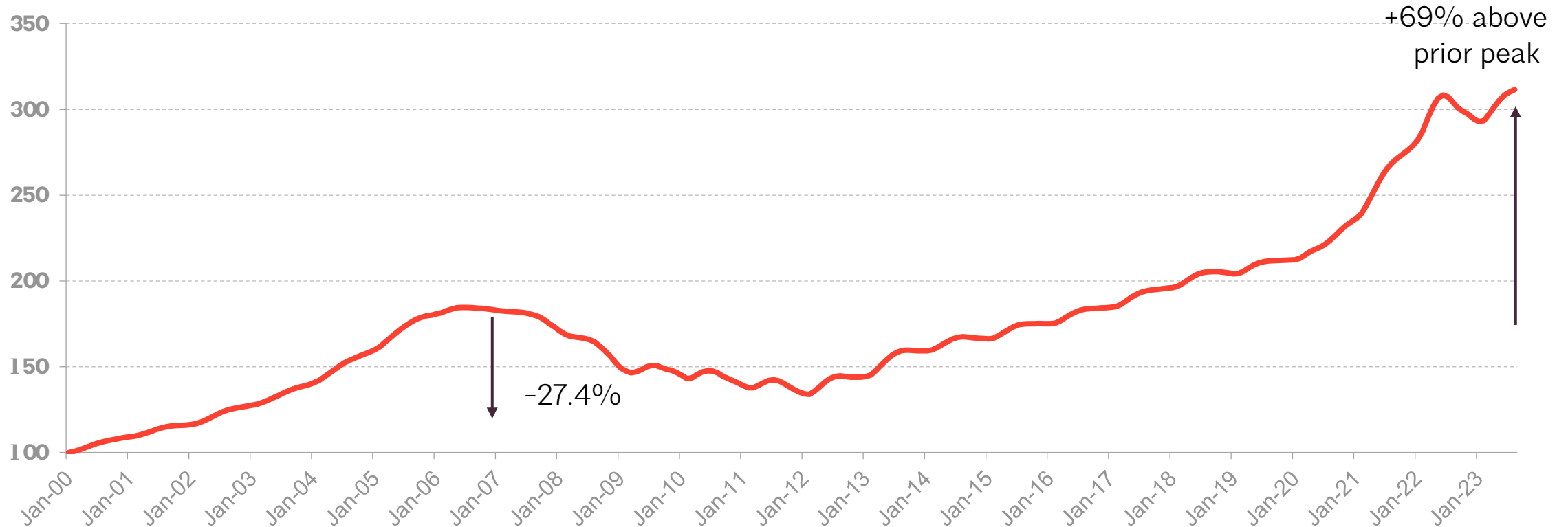
Source: U.S. Census Bureau, Value of Construction Put in Place

# Overview

- **The housing sector of our economy is facing serious headwinds at present.**
- **High house prices and rising mortgage rates have increased housing affordability problems.**
- **Strategies for increasing housing opportunities include: protecting the existing housing stock; converting excess commercial space; encouraging affordable options like ADUs.**

# Nationally, house prices have been on a tear, although higher mortgage rates have slowed the growth

CoreLogic National House Price Index (NSA, Jan. 2000=100)

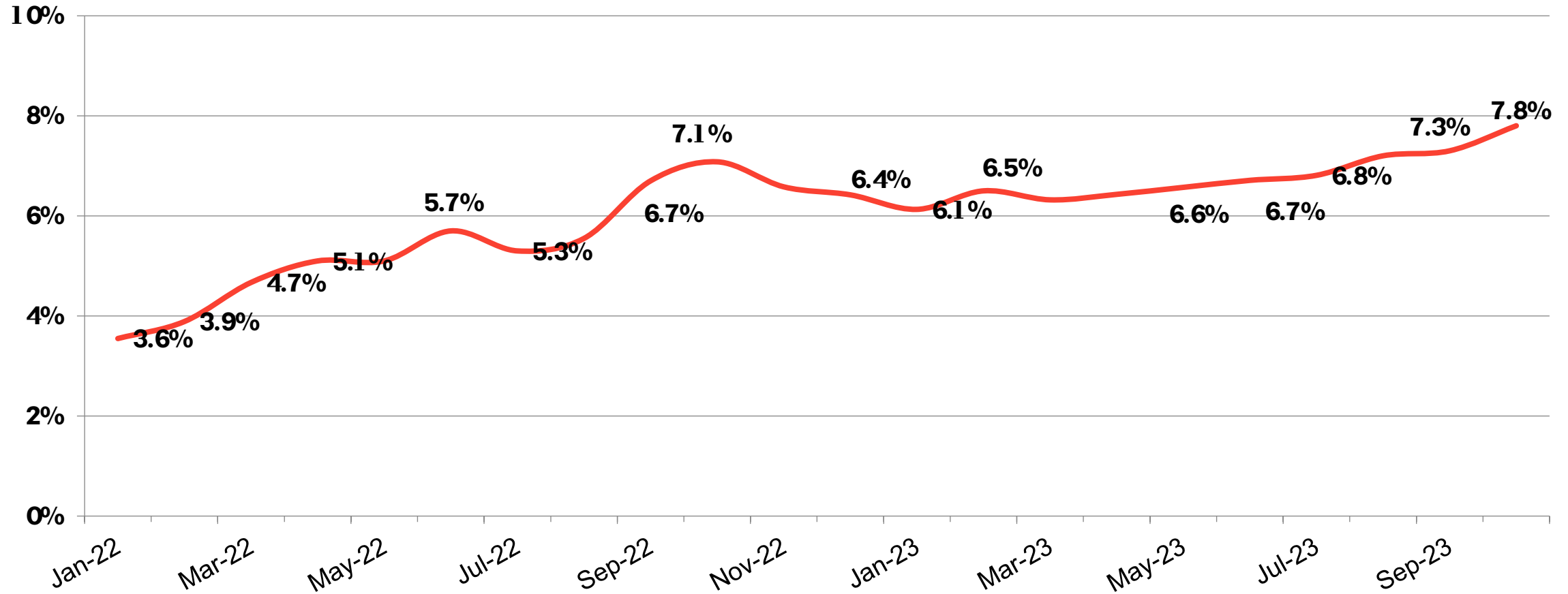


**Notes: Index Includes Single Family Attached And Detached Structures. Data Accessed On 11/1/23**

**Source: S&P Corelogic Case-shiller Home Price Indices: National Home Price Index (HPI).**

# Fixed rate mortgages have been steadily trending up over past 18 months; currently approaching 8%

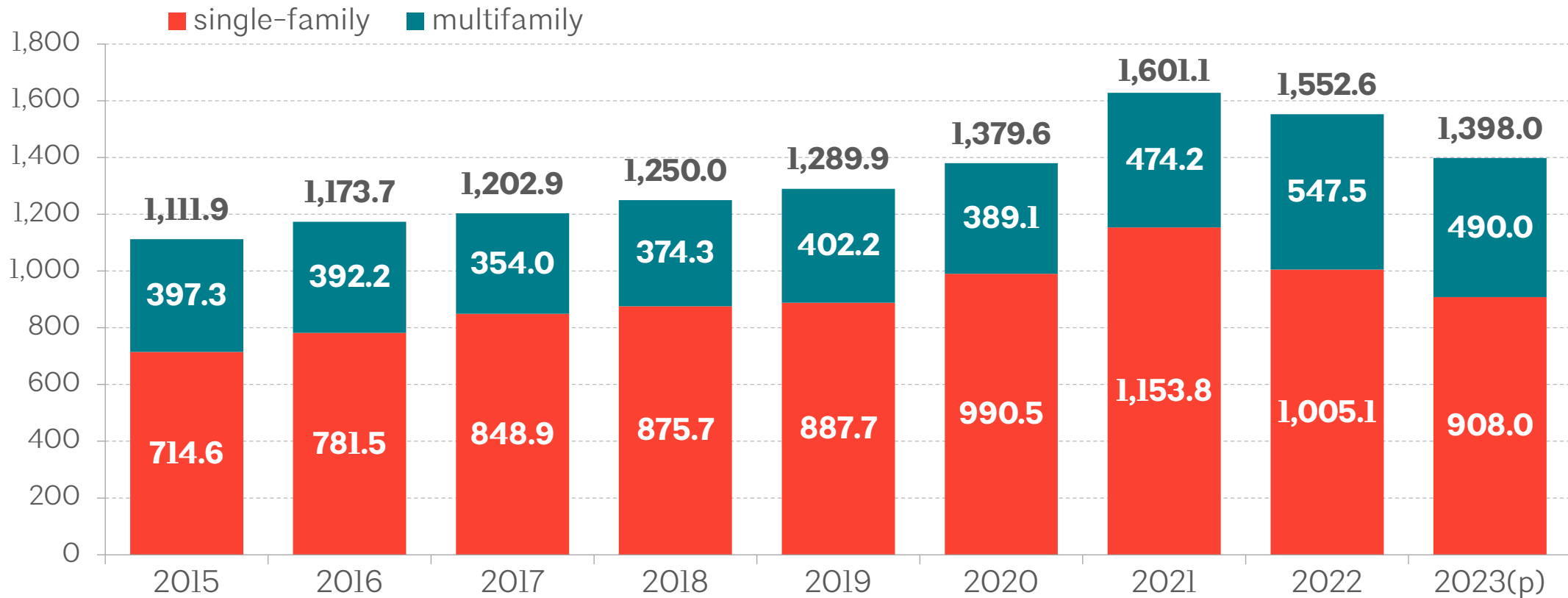
Interest rate on 30-year fixed rate mortgage



Source: Freddie Mac

# Though housing starts have declined in 2022 and 2023, they are still above pre-pandemic levels

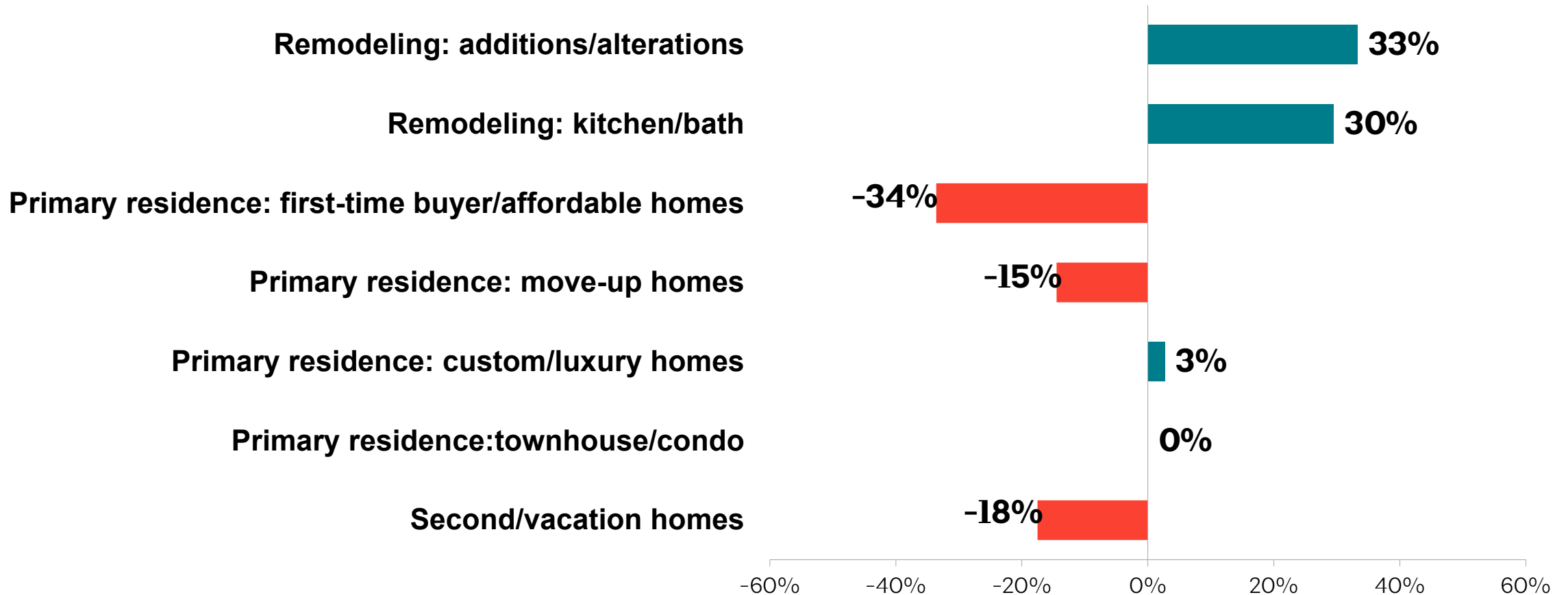
Annual housing starts (000's), 2023 figures are annualized year-to-date figures through Sept.



Source: U. S. Department Of Commerce

# Home improvement sectors remain healthy; affordable homes continue to report significant weakness

% of respondents reporting popularity of sector “increasing” minus % reporting “decreasing;” data from Q3 2023

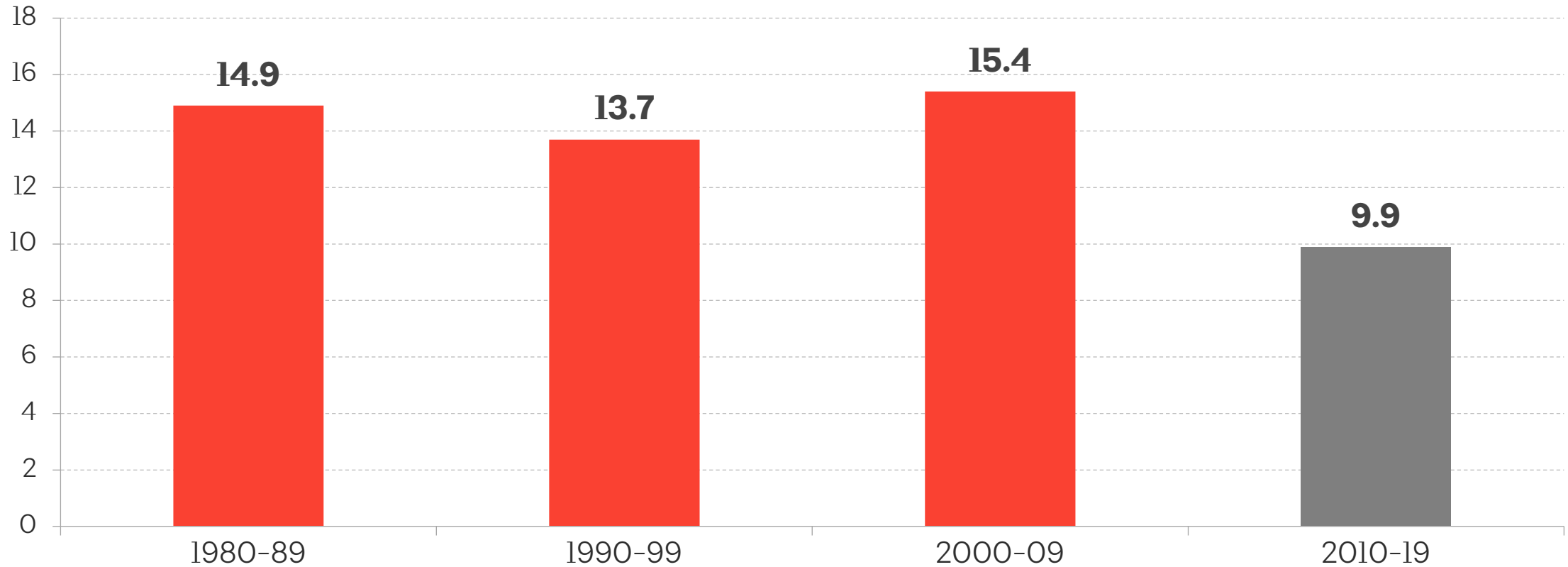


Source: The American Institute of Architects Home Design Trends Survey, Q-3 2023

# Do we have a housing shortage?

## Last decade saw historically low levels of homebuilding

Housing starts over the decade (millions of units)



Source: US Department Of Commerce



# Total new housing demand projected at just over 15 million units over coming decade

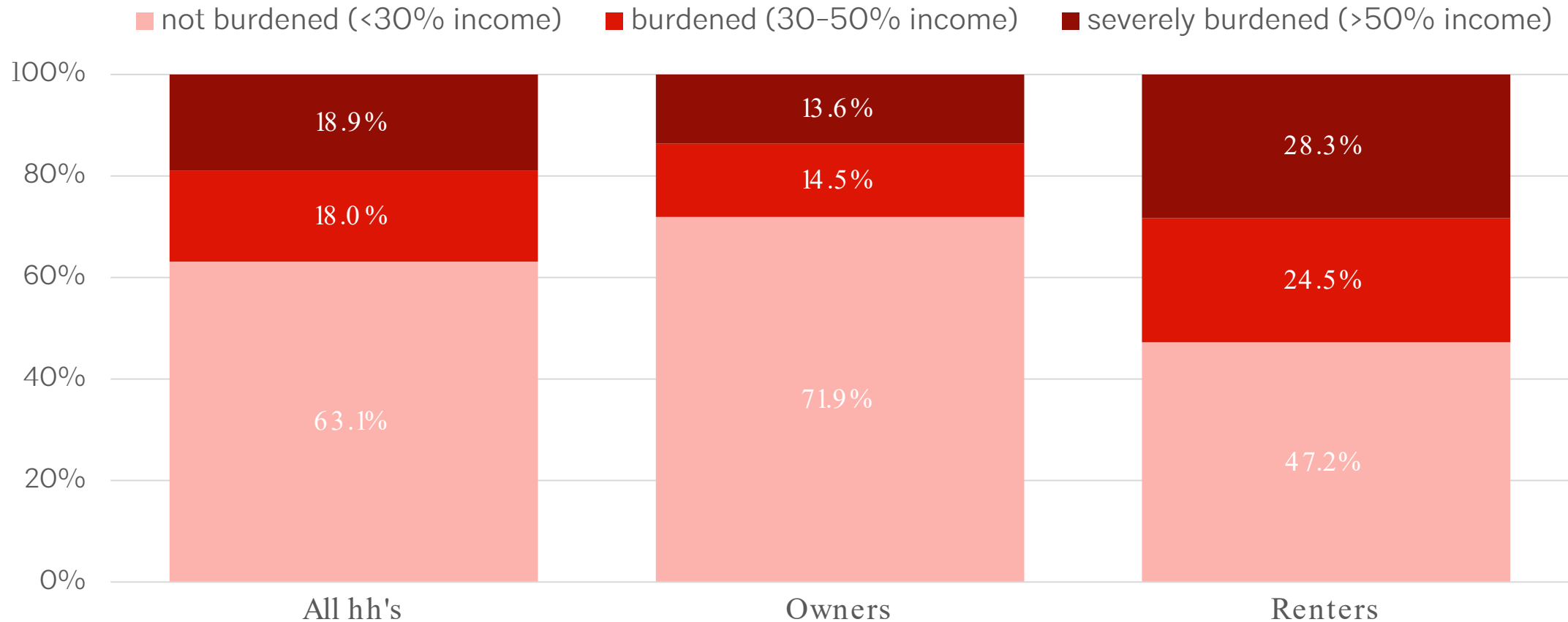
Components of projected housing demand 2018-2028, millions

Component of Growth	Projected Annual Average Increase
Household growth	12.2
Second homes, etc.	1.2
Housing stock losses	1.7
<b>Total</b>	<b>15.1</b>

Source: Dan McCue, Joint Center for Housing Studies. "JCHS Updated Household Projections: 2018-2028 and 2028-2038". Published 2018.

# Over a third of households rent or mortgage burdened; over a quarter of renters are severely rent burdened

Degree of mortgage/rental cost burden - 2021, % of households in category



Source: 2021 American Housing Survey.

# ***Strategies for Increasing Housing Opportunities***

- **Preserving the existing stock.**
- **Conversion of oversupplied commercial facilities to residential uses.**
- **Reducing the barriers to building affordable units: the ADU model.**

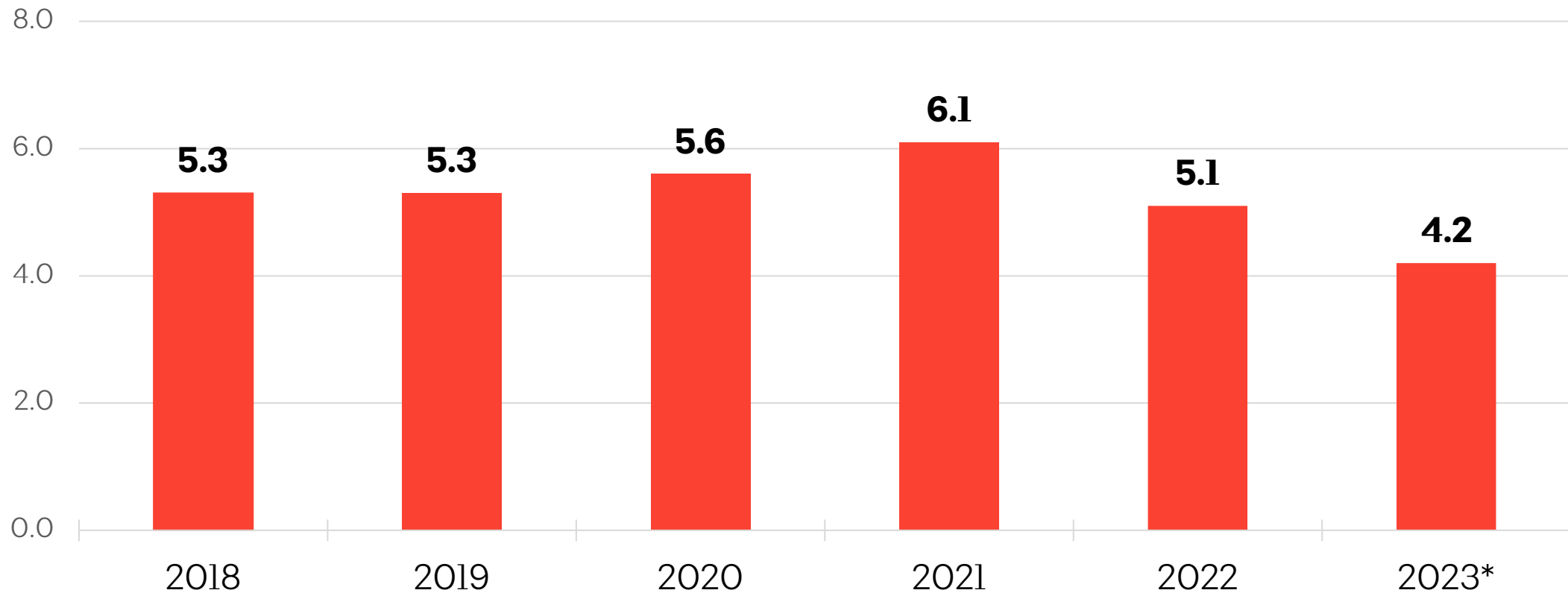
# Preserving the existing housing stock

- Opportunities for affordable housing disproportionately lie with maintaining the existing housing stock.
- About 7 million homes nationally deemed to be “inadequate” with moderate or severe physical concerns.
- Making homes more resilient becoming is becoming a more critical objective as about 170,000 are lost to the housing inventory annually.



# Existing home sales dipped over 15% in 2022, and are on track to fall almost 20% this year

Existing home sales nationally (millions)

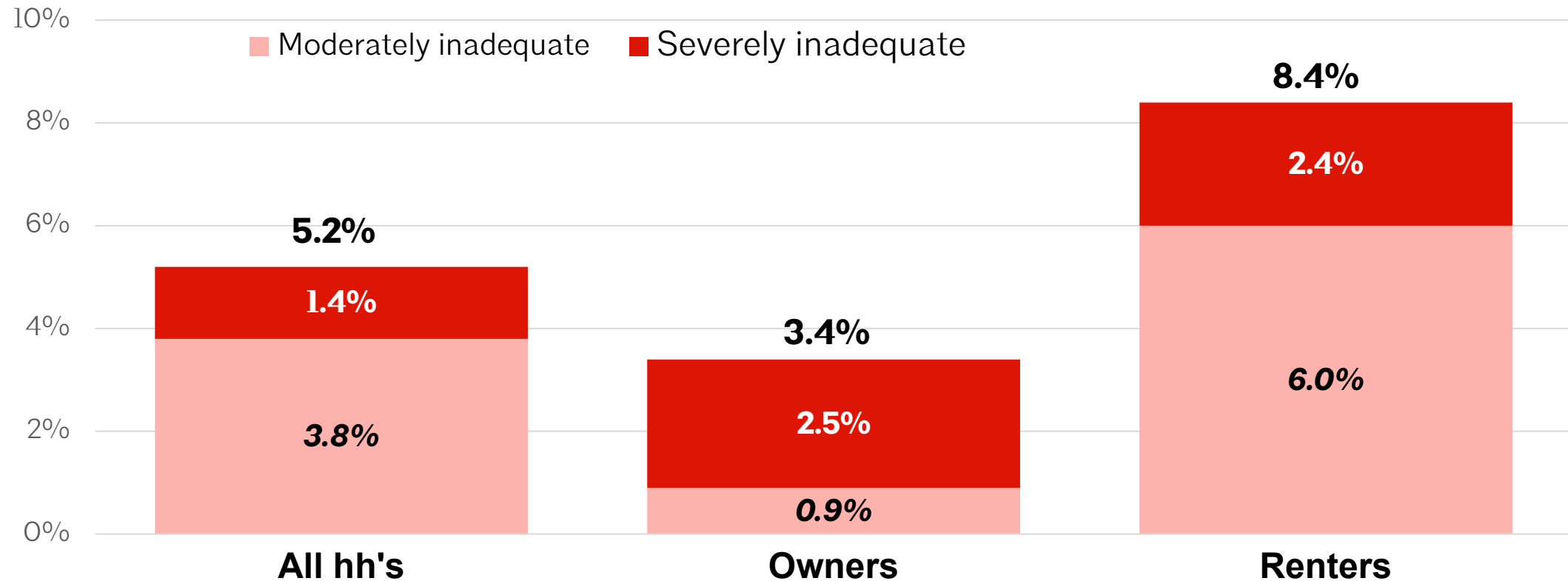


\* Average through September

Source: National Association of Realtors

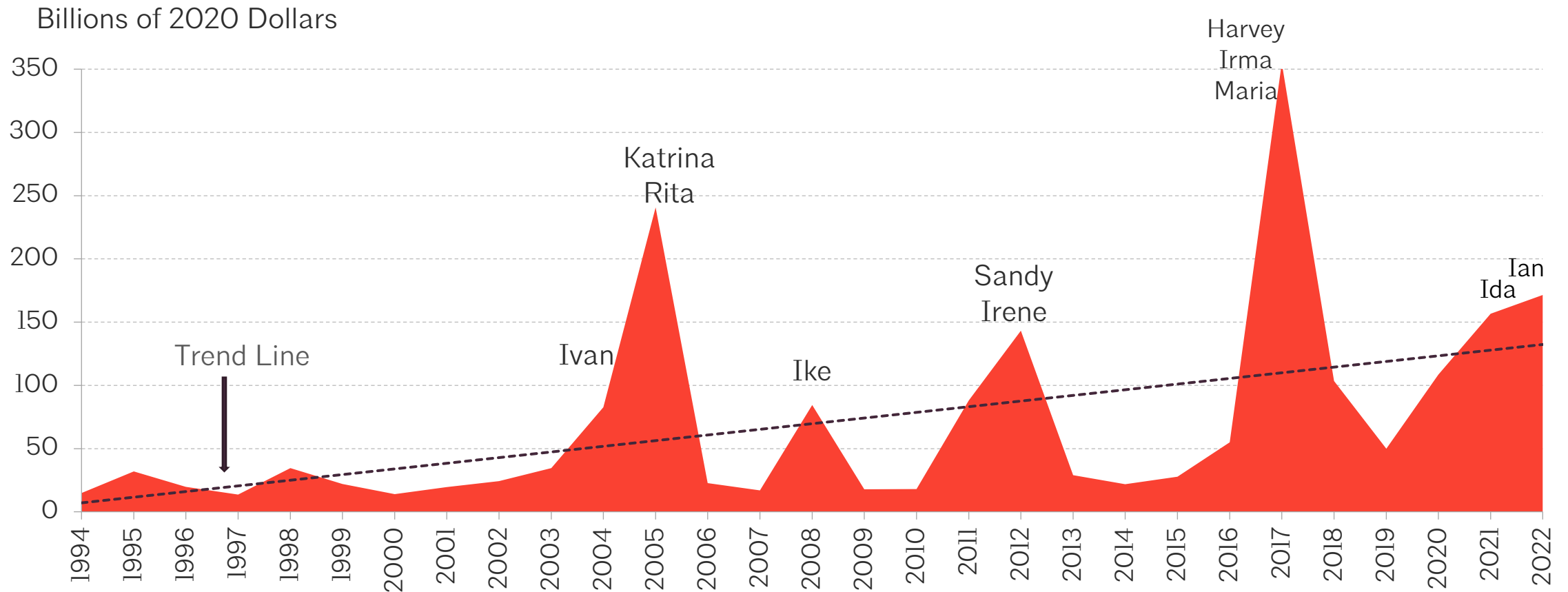
# Over 5% of all housing units are inadequate; renters have a much higher rate of housing inadequacy

Degree of housing adequacy - 2021, % of homes in category



Source: 2021 American Housing Survey.

# Though volatile, natural disaster losses from large-scale events have dramatically increased

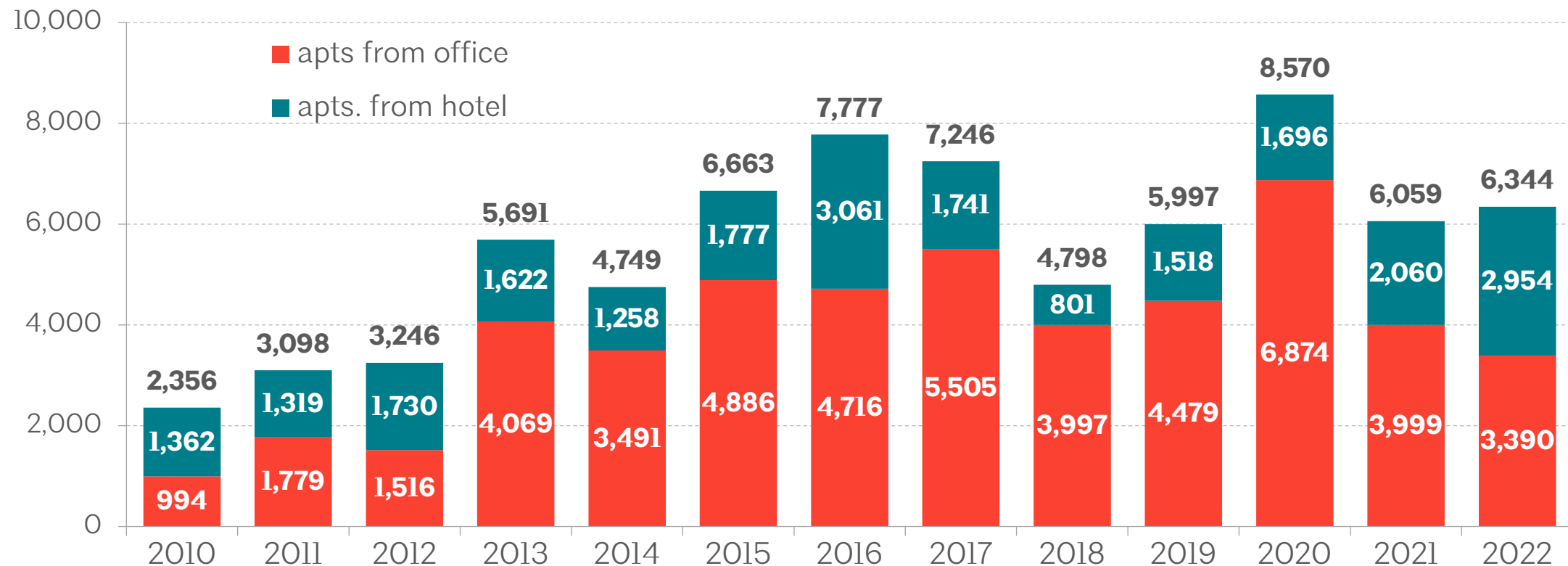


Notes: Dollar Values Are Adjusted For Inflation Using CPI-U. Costs Include Only Natural Disaster Events That Generate Over \$1 Billion In Damages After Adjusting For Inflation

Source: JCHS Tabulations Of National Oceanic And Atmospheric Administration (NOAA) National Centers For Environmental Information (NCEI) U.S. Billion-dollar Weather And Climate Disasters, <https://www.ncdc.noaa.gov/billions/>

# Conversion of commercial facilities likely to become growing share of total rental production in coming years

Number of converted rental units nationally

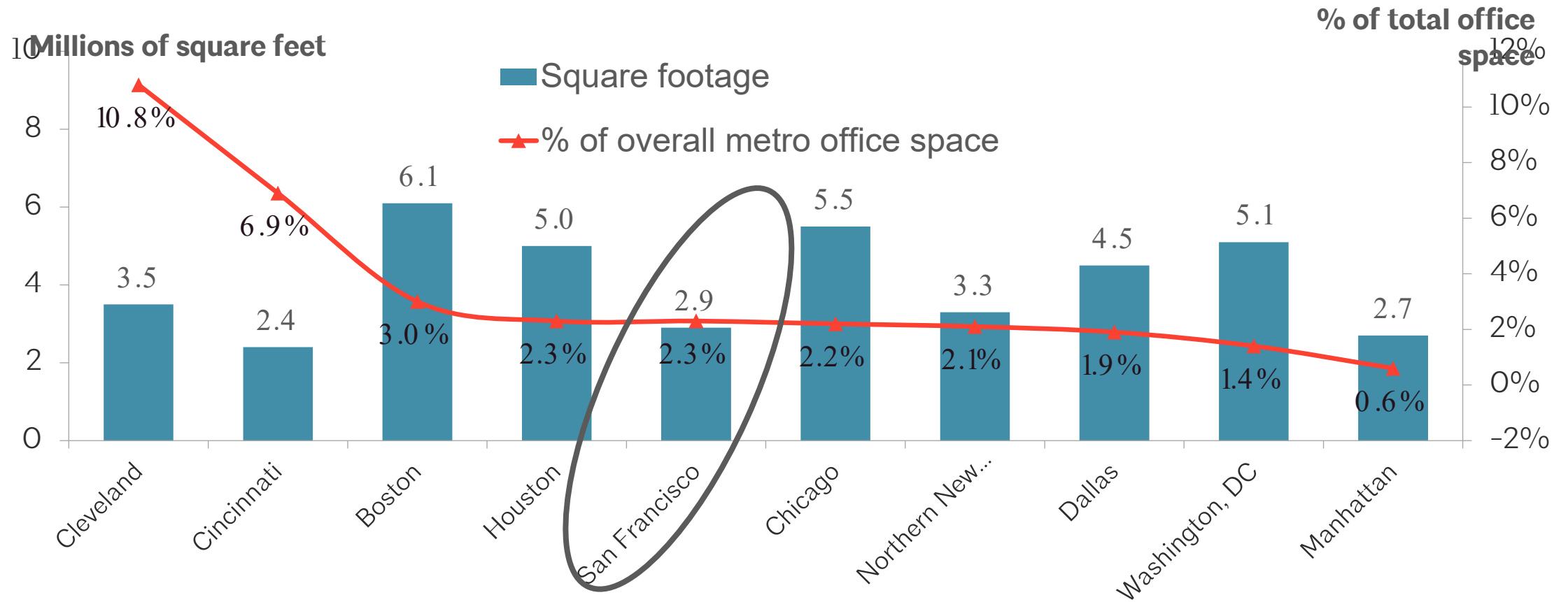


Source: Rentcafe Analysis Of Yardi Matrix Data.



# Almost 60 million square feet of office conversion planned or underway nationally in 2023—1.4% of all office space

Top 10 markets for office conversion planned or underway in 2023



Source: "Rise In Office Buildings May Help To Reinvigorate Cities". CBRE, September 27, 2023.

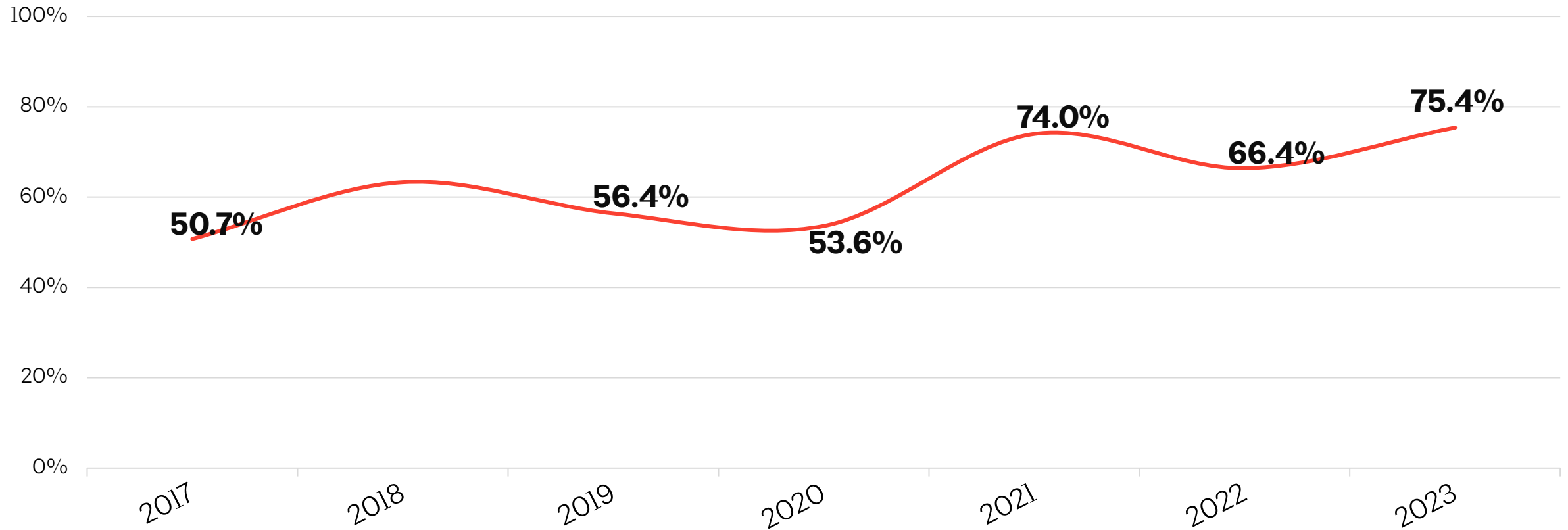
# Accessory dwelling units can offer affordable housing options

- Freddie Mac 2020 study identified 1.4 million s-f homes with ADUs nationally (likely an undercount).
- Calif., Oregon, Maine and other states have passed laws to encourage ADU construction.
- Over 20% of remodelers undertook a project within the past year that created an ADU according to a NAHB 2019 study.



# According to residential architects, the popularity of accessory dwelling units has increased recently

% of respondents reporting popularity of accessory dwelling units “increasing” minus % reporting “decreasing; data from Q1 2017–Q1 2023

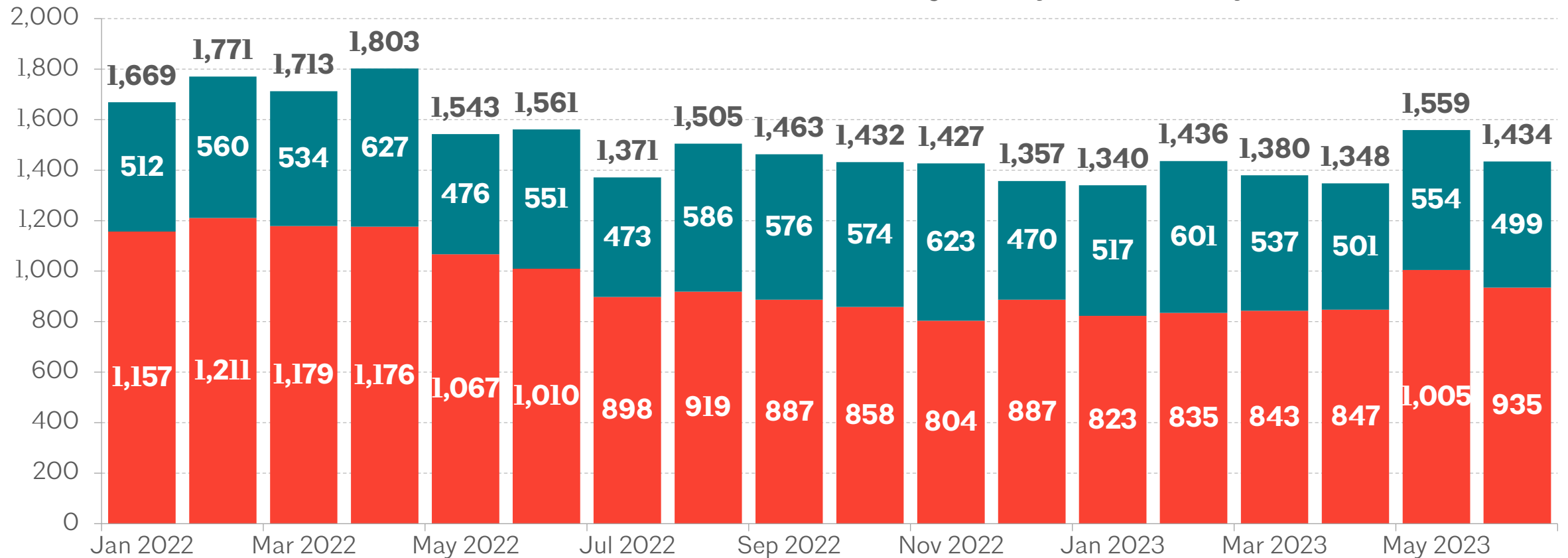


Source: The American Institute of Architects Home Design Trends Survey

# In spite of high house prices & elevated mortgage rates, many feel housing market has bottomed for this cycle

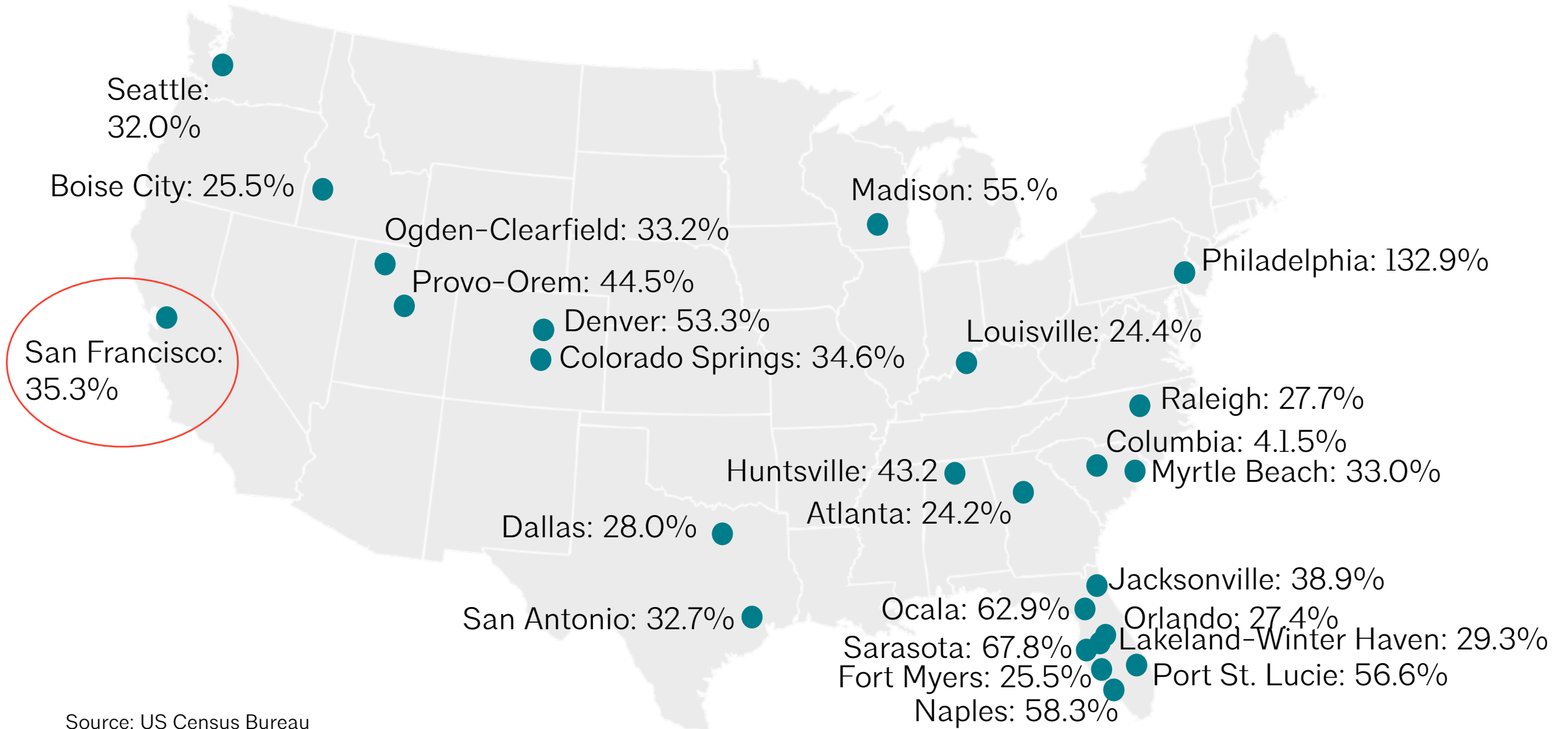
Housing starts (000's), seasonally adjusted and annualized

■ single-family ■ multifamily



Source: U. S. Department Of Commerce

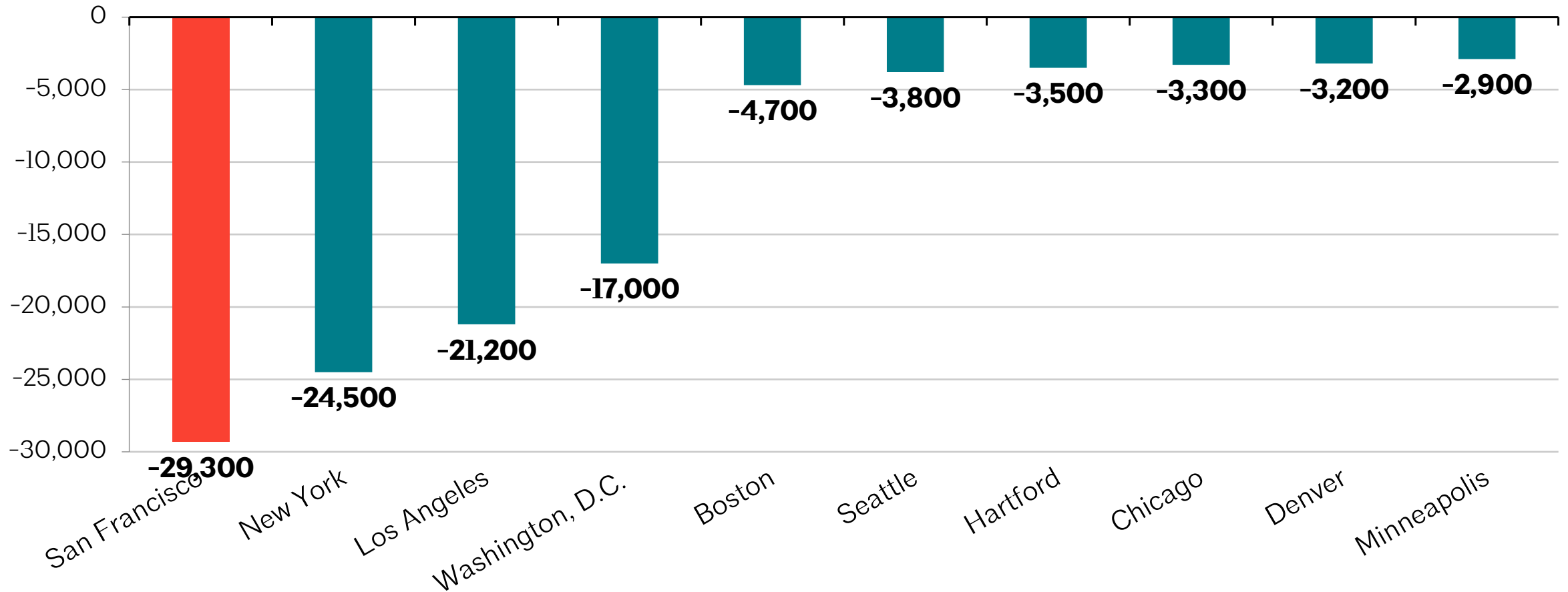
# San Francisco stays in the top 25 markets for homebuilding despite heavier concentration in South



Source: US Census Bureau

# Searching homebuyers in major coastal metros & North Central region disproportionately looking to relocate

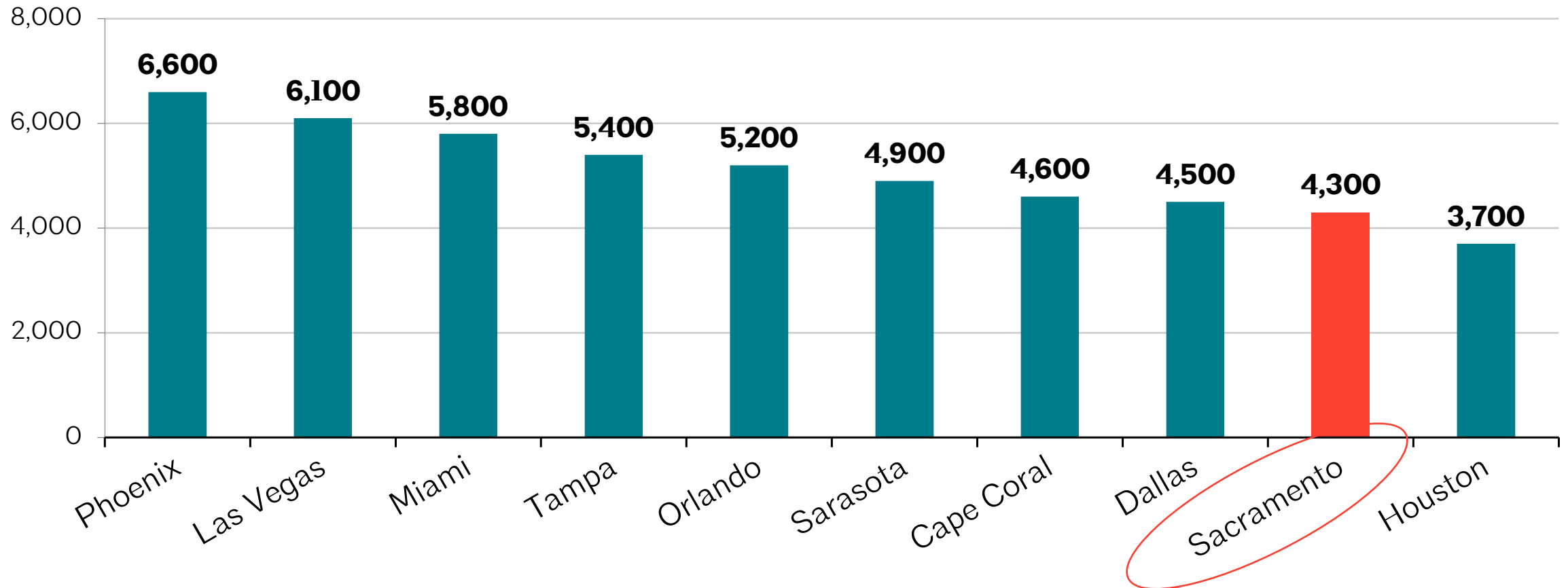
Net outflow = Number of Redfin home searchers looking to leave a metro area minus the number of searchers looking to move in, May 2023



Source: Redfin

# Searching homebuyers from around the country target major metros in Southwest, primarily Florida

Net inflow = Number of Redfin home searchers looking to move into a metro area minus number of searchers looking to leave, May 2023

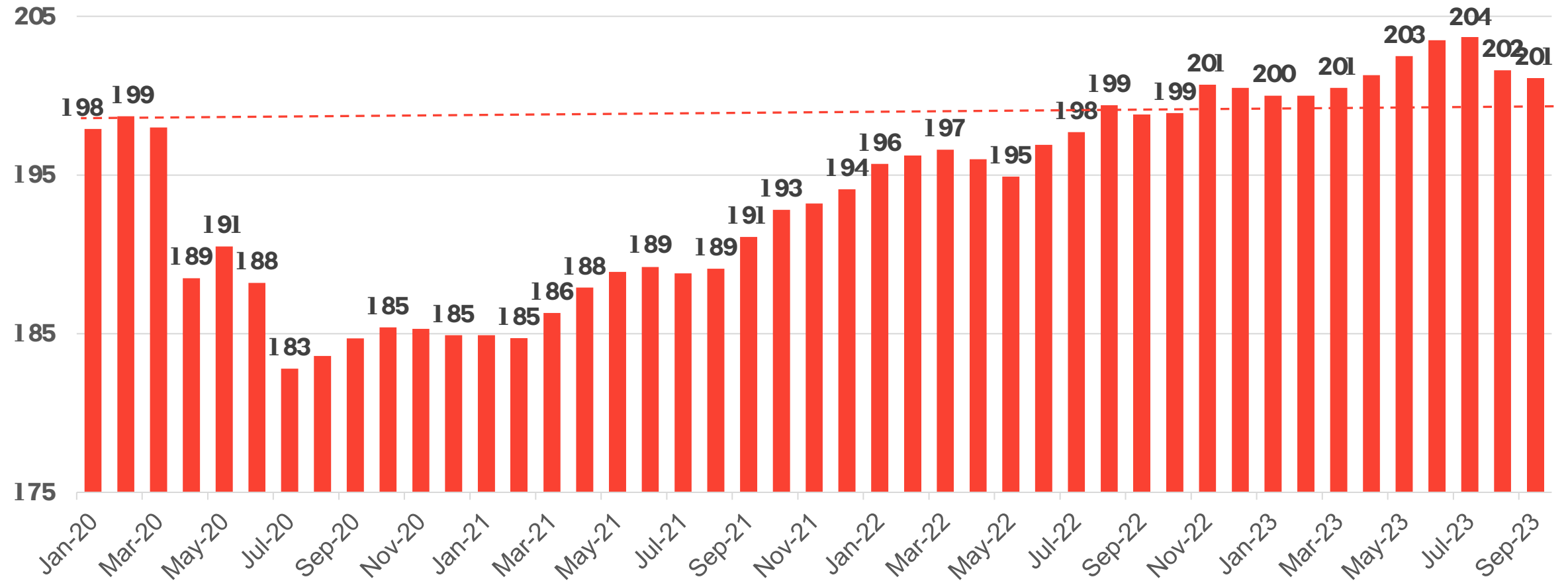


# The Profession



# Architecture firm employment has returned to pre-pandemic levels, but has recently been easing

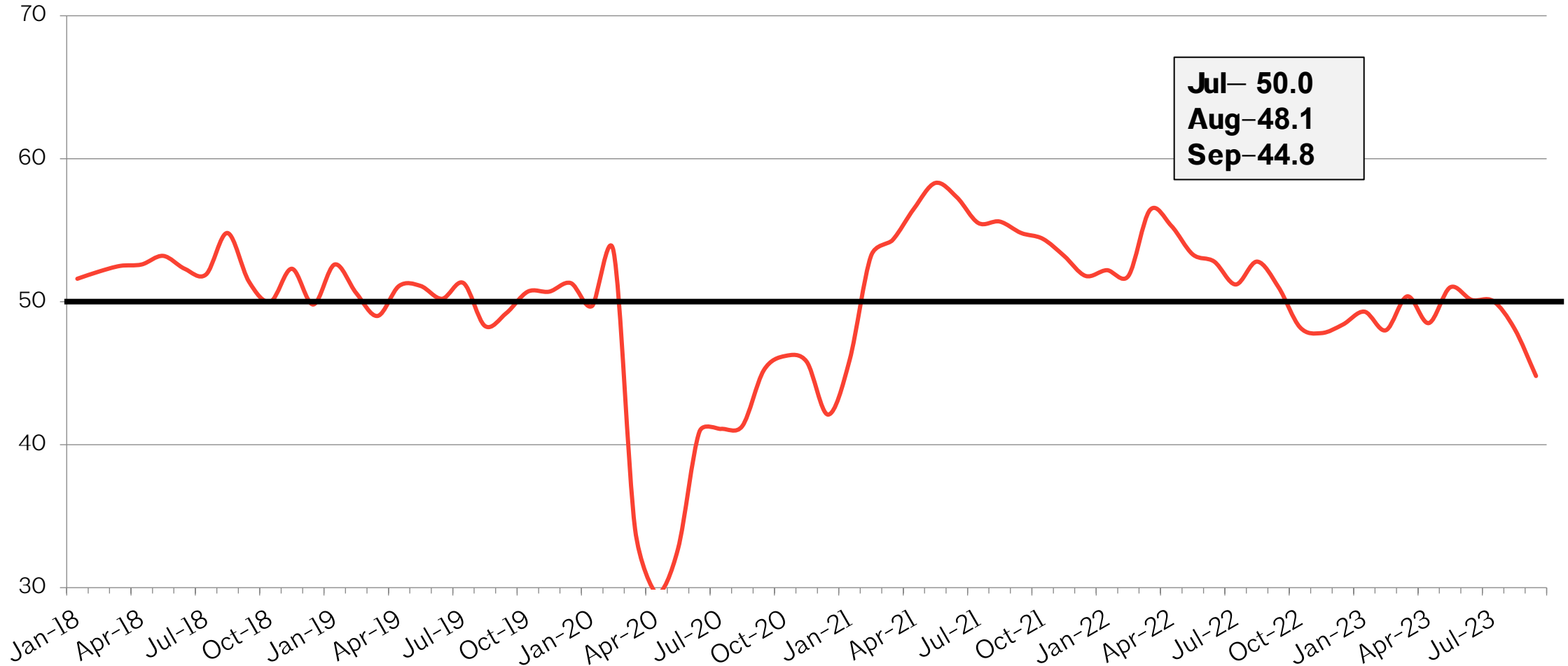
All employees, thousands, architectural services, seasonally adjusted



Source: Bureau of Labor Statistics

# Architecture firm billings have been weak since Q-3 2022, but took a tumble in September

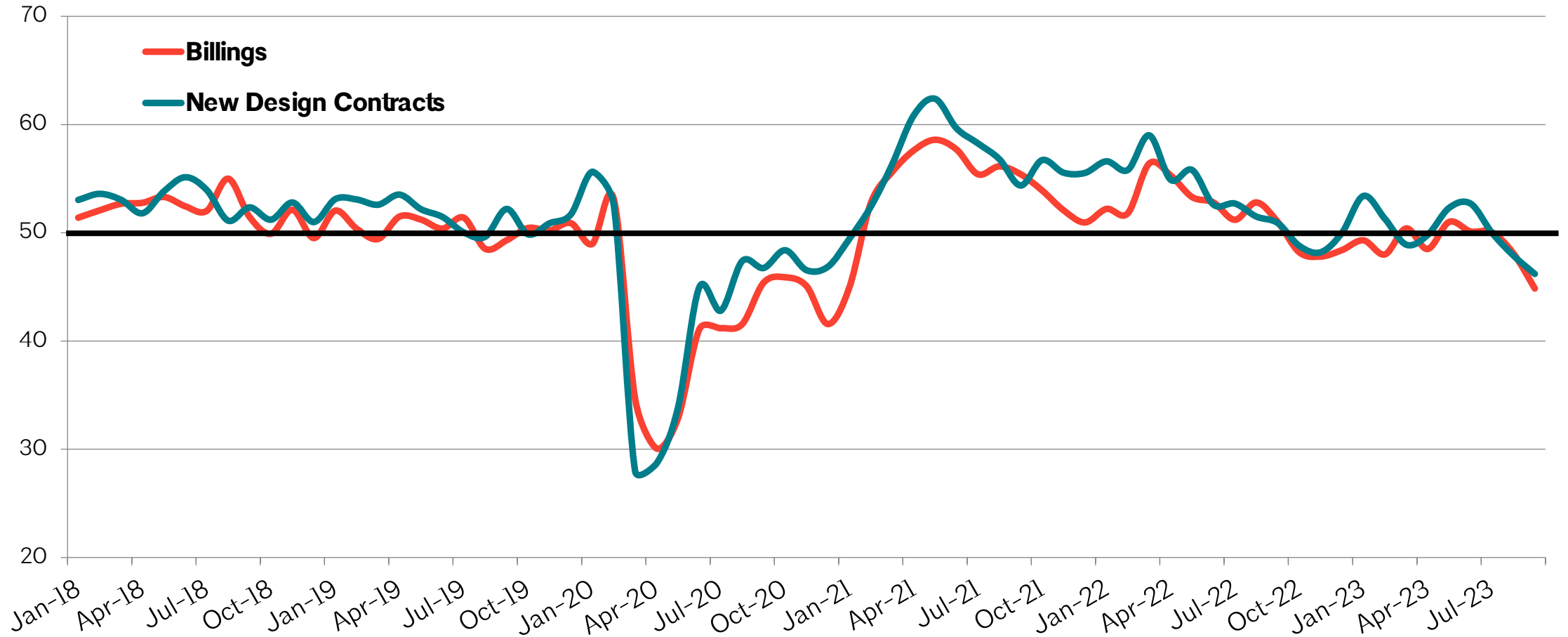
Diffusion index: 50 = no change from previous month, seasonally adjusted



Source: AIA/Deltek Architecture Billings Index

# New design contracts have also moved down, suggesting workloads are unlikely to rebound anytime soon

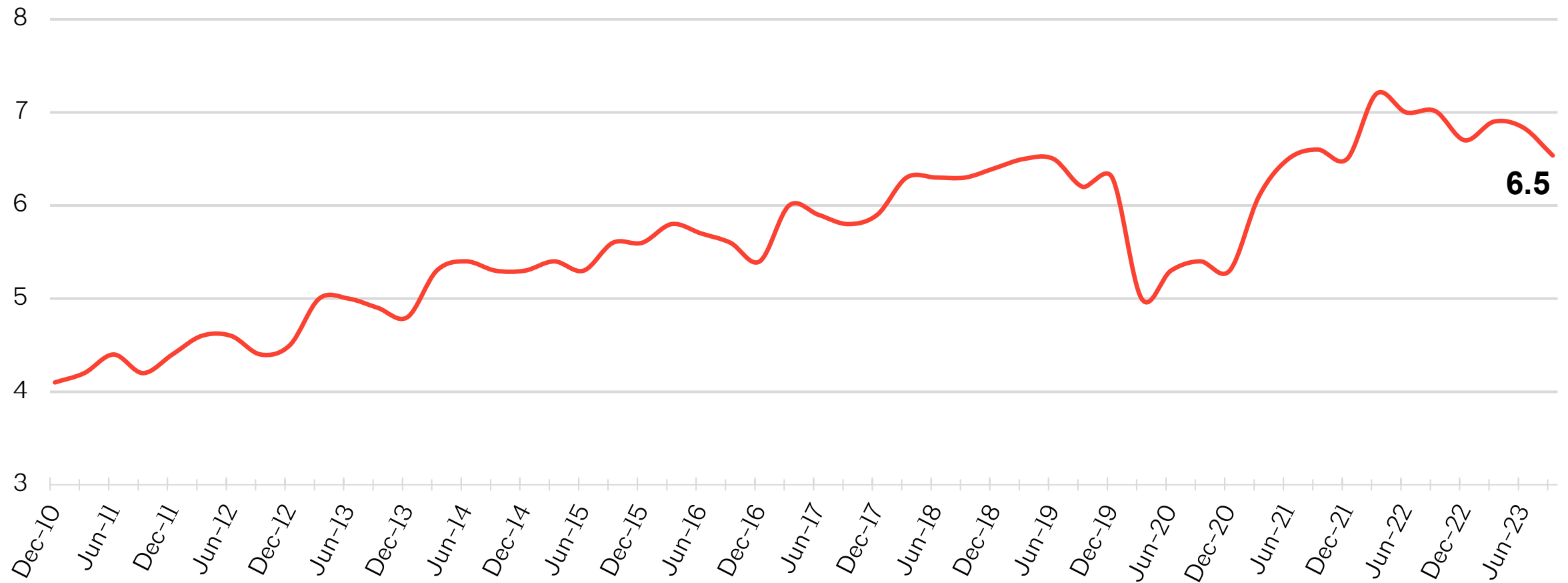
Diffusion index: 50 = no change from previous month, seasonally adjusted



Source: AIA/Deltek Architecture Billings Index

# Architecture firm backlogs—averaging around 6.5 months—have been easing somewhat recently

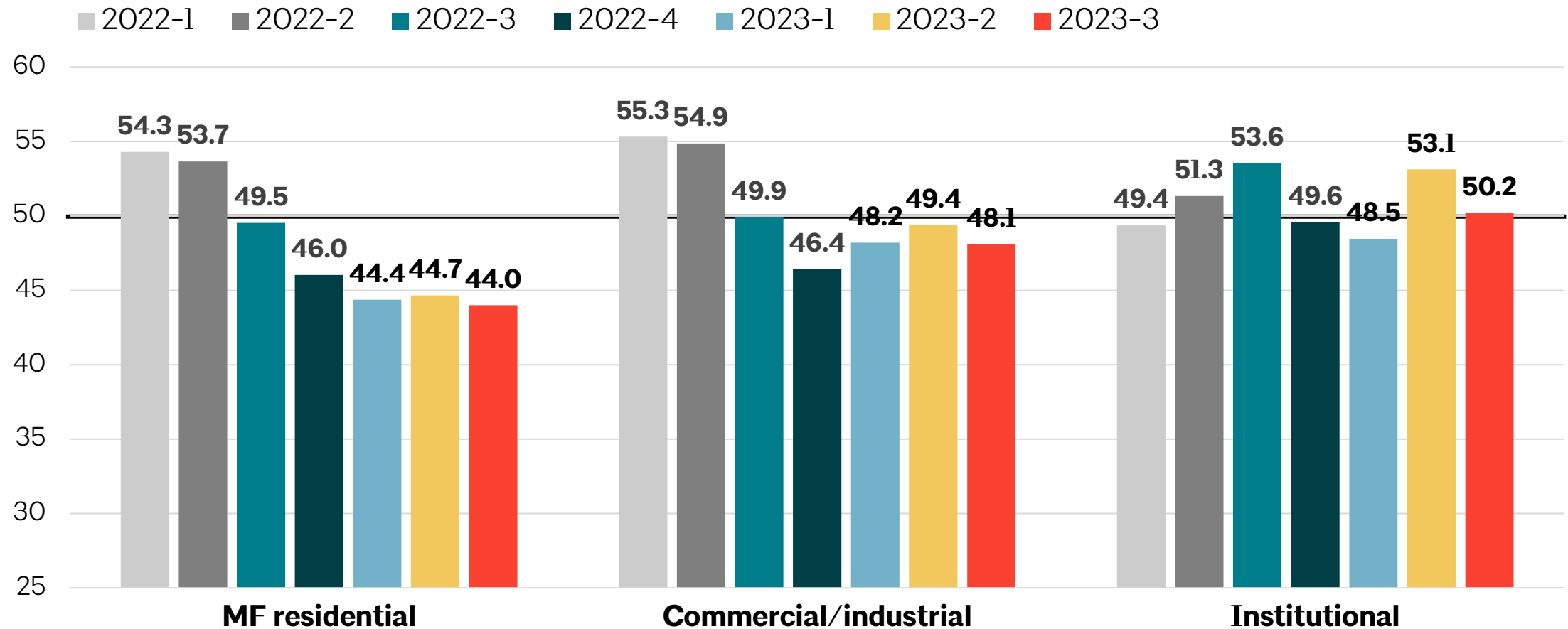
Average backlog at architecture firms (months)



Source: AIA Work-on-the-Boards survey

# MF residential is main sector pulling down scores; Institutional sector seems to have most upside potential

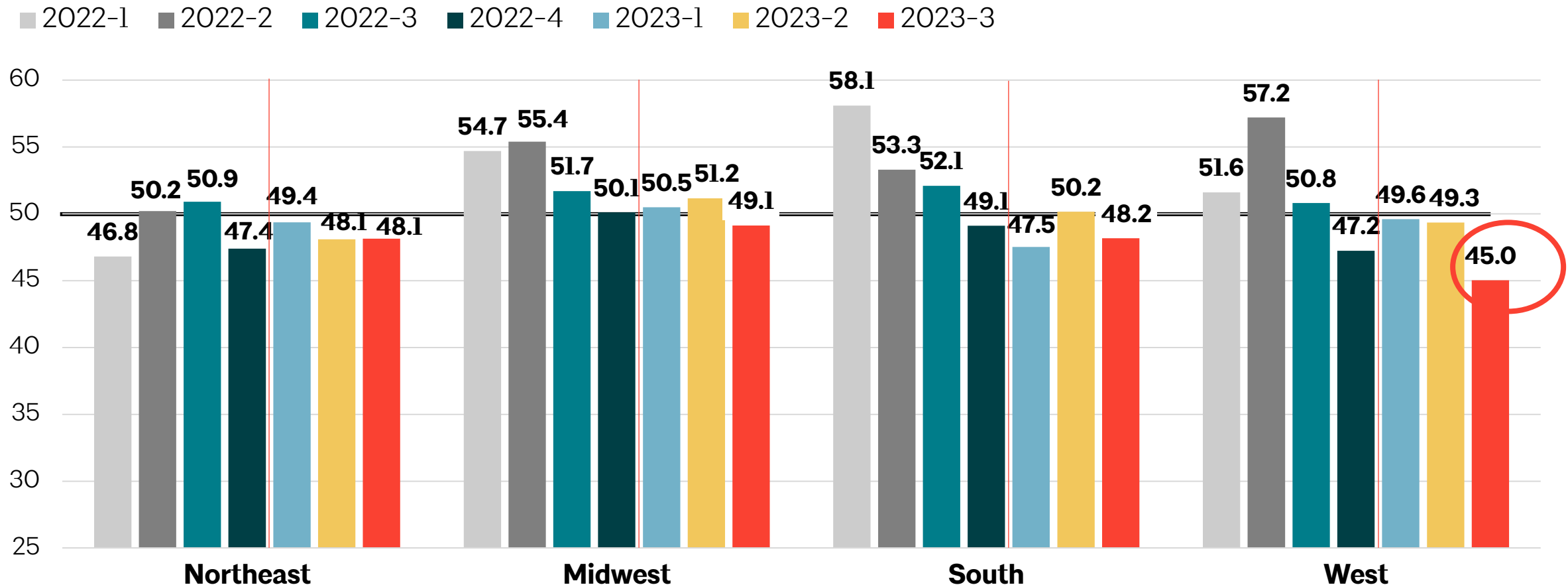
ABI scores by quarter for 2022 and 2023



Source: AIA/Deltek Architecture Billings Index

# Most regions had strong billings in 2022; drops across the board in 2023, with notable drop in September

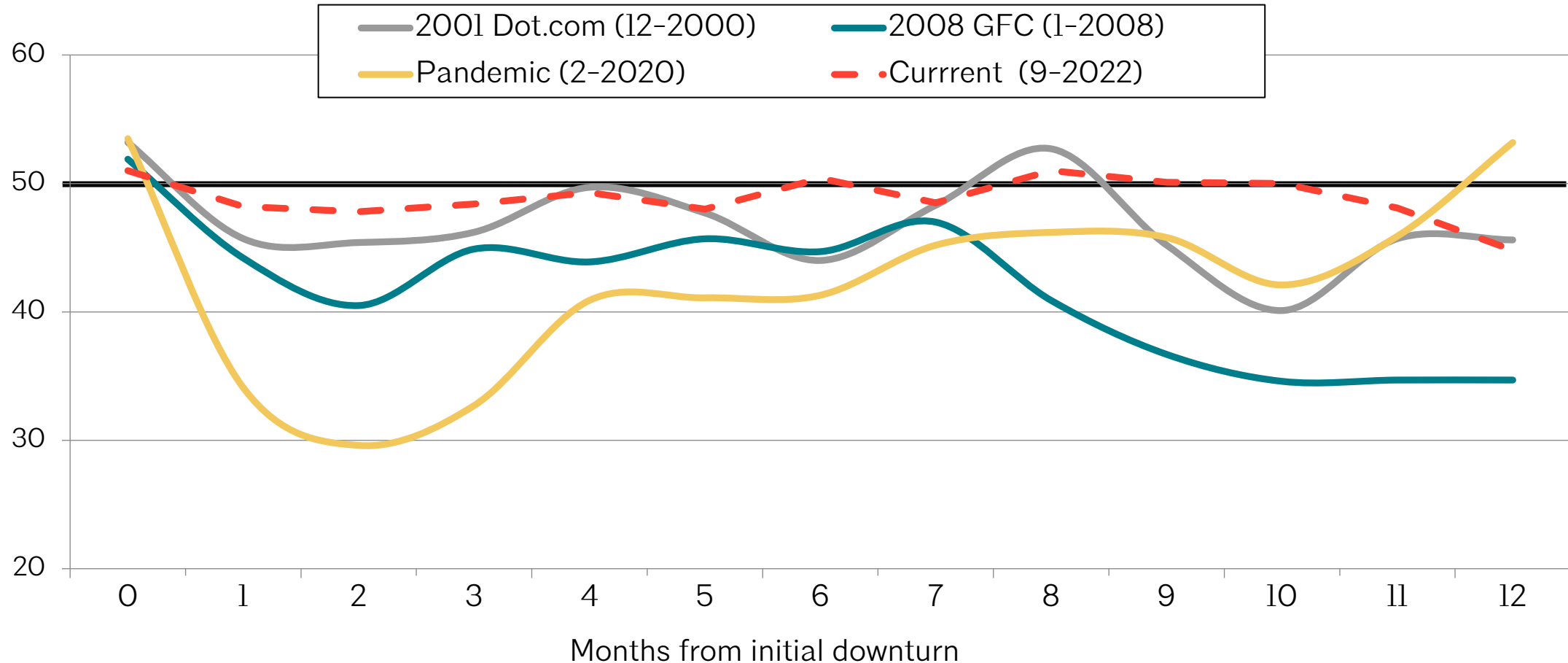
ABI average quarterly scores by region



Source: AIA/Deltek Architecture Billings Index

# In previous three recessions, ABI downturn at onset was much sharper

Diffusion index: 50 = no change from previous month, seasonally adjusted



# Key trends



**Profitability**



**Productivity**



**Technology**



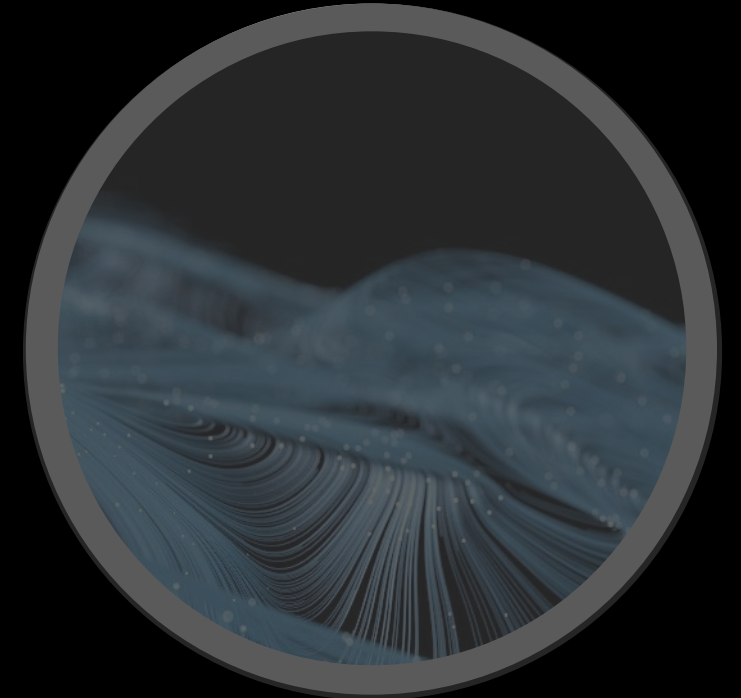
# Key trends



**Profitability**



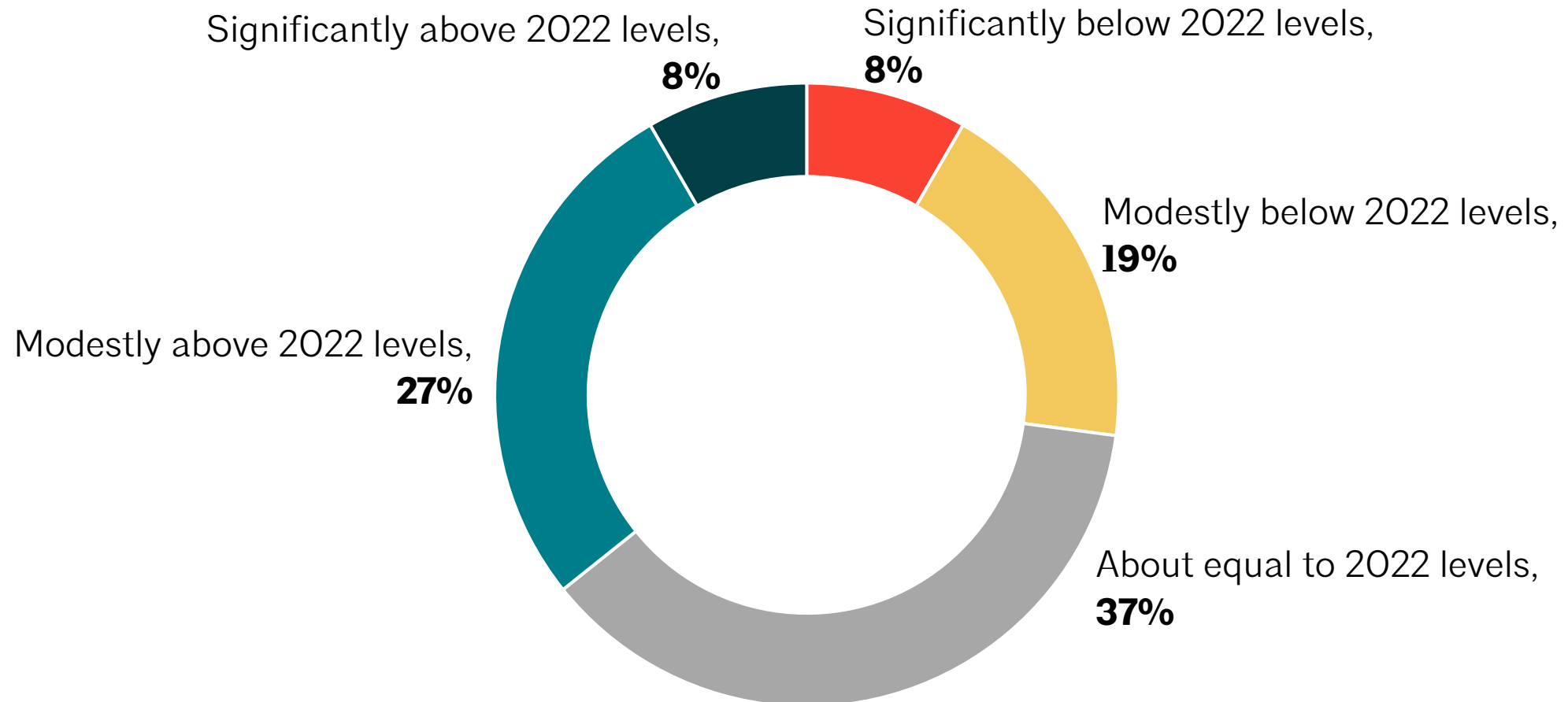
**Productivity**



**Technology**

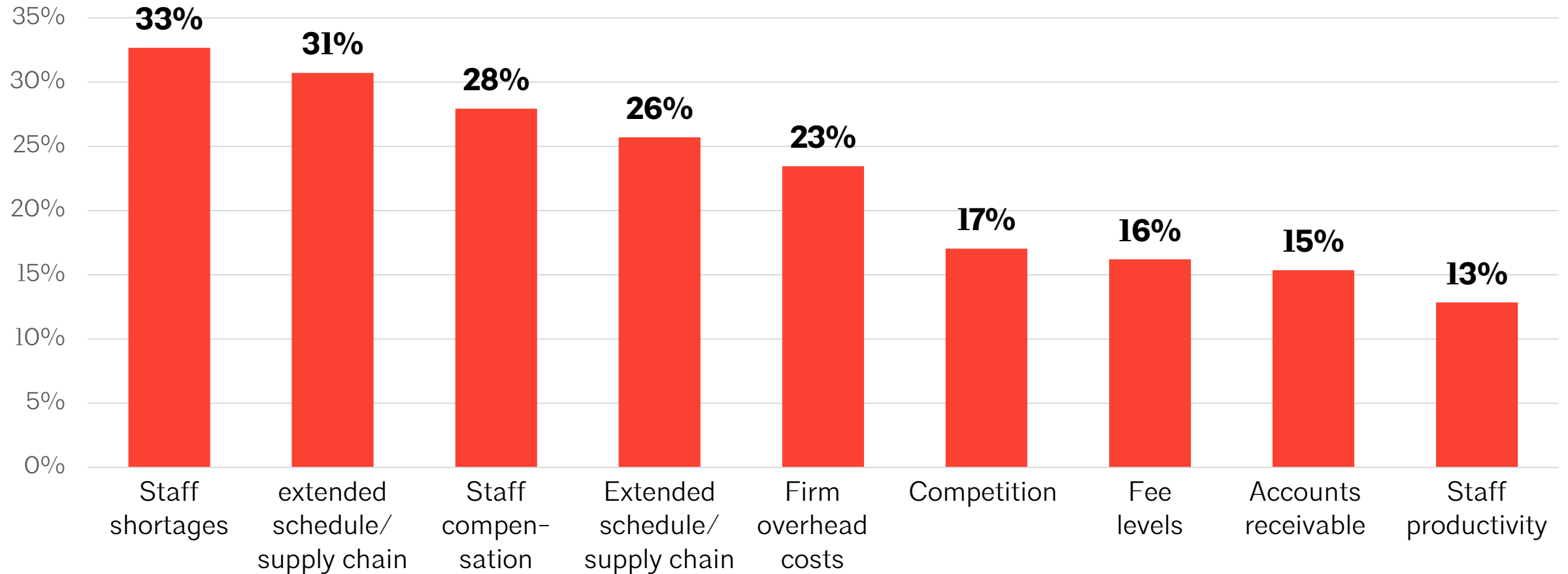
# Firms have varied projections for 2023 profitability; on average profits expected to be comparable to 2022

Share of firms estimate of how their firm's profitability in 2023, compared to 2022



# Staff shortages, stalled projects seen as major obstacles to profitability this year

Share of firms reporting which top 3 factors will likely have the greatest negative impact on firm profitability for 2023



Source: AIA Work-on-the-Boards survey, May 2023

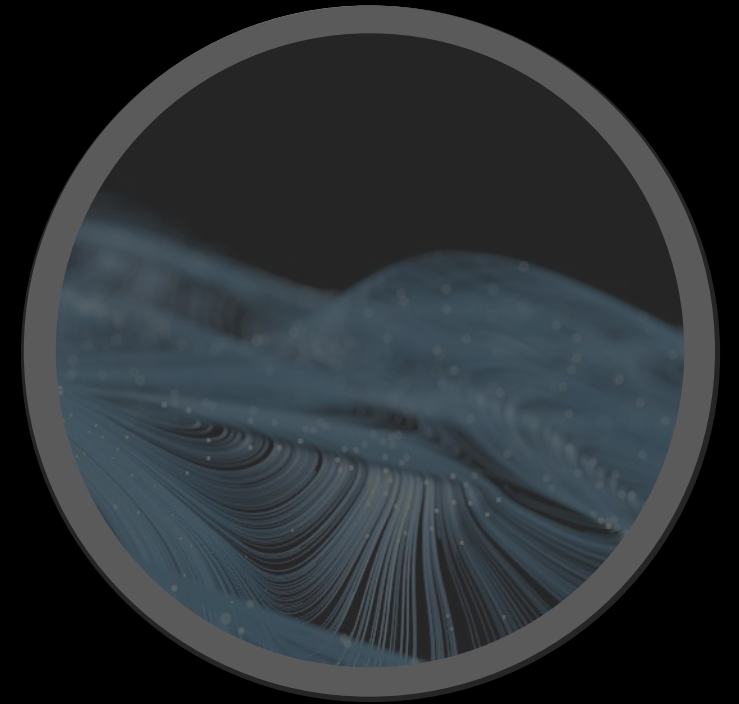
# Key trends



**Profitability**



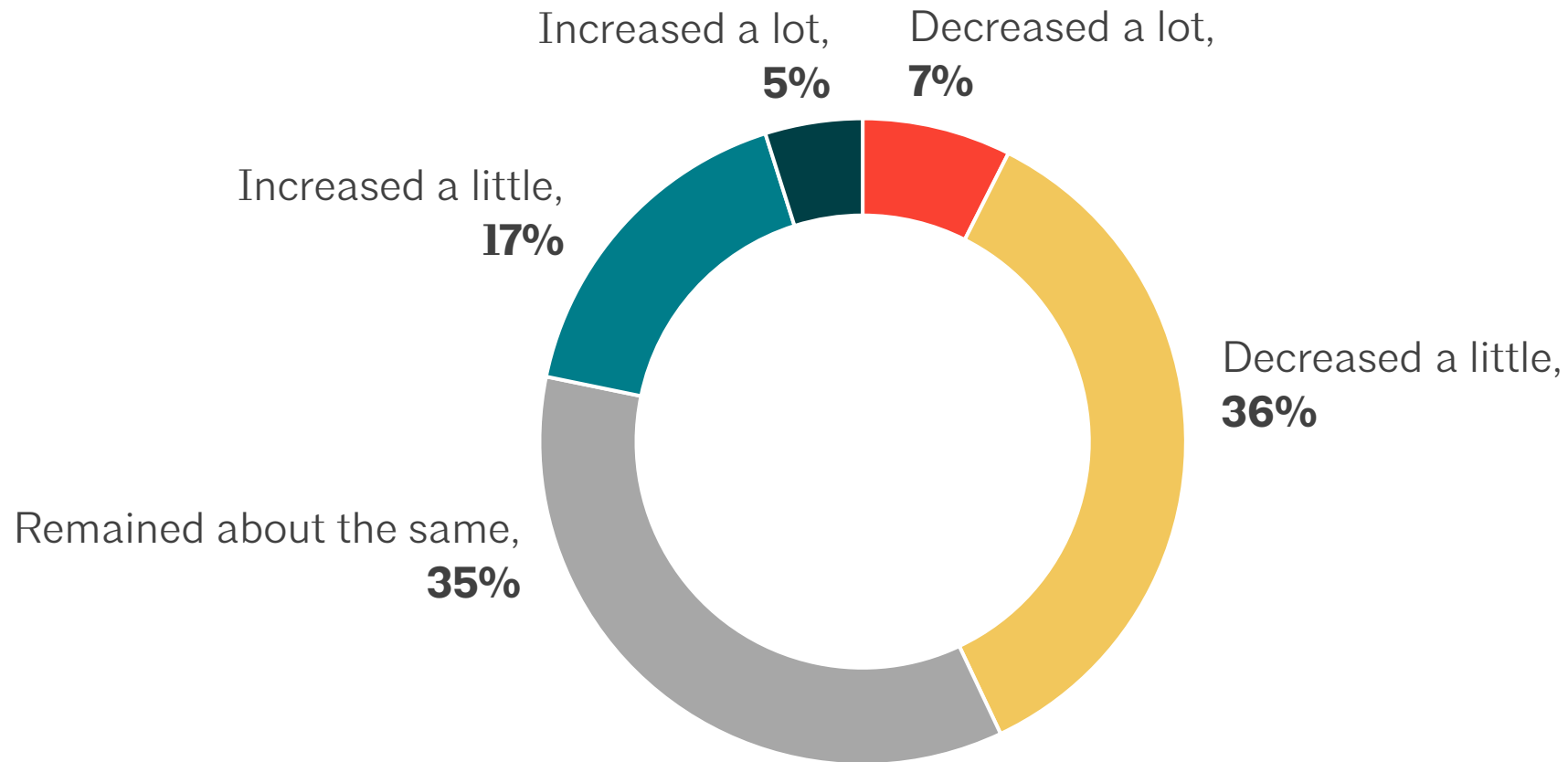
**Productivity**



**Technology**

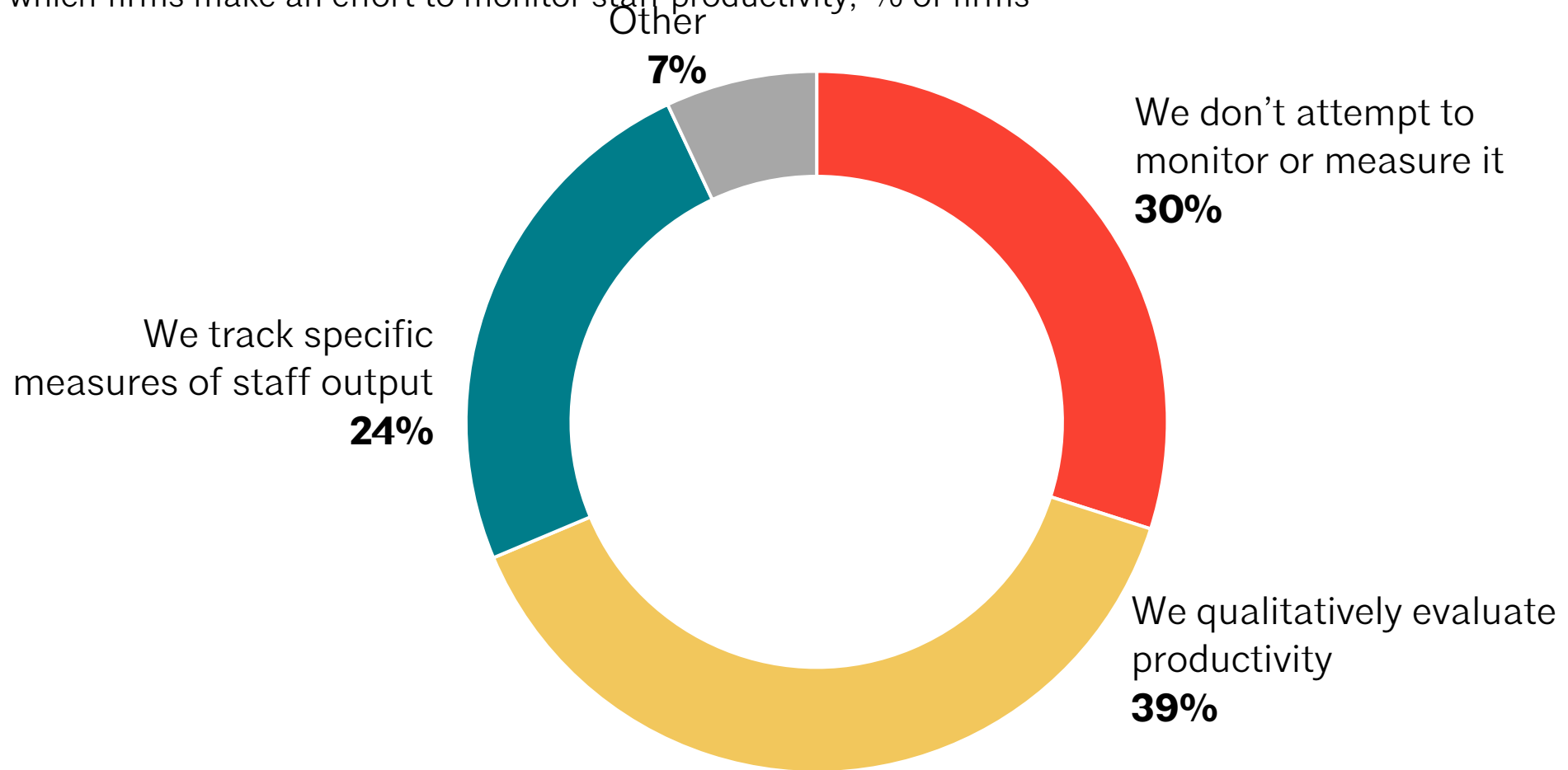
# Perceptions of staff productivity levels compared to pre-pandemic are mixed

Share of firm leaders reporting how they feel architecture staff productivity levels at their firm have changed compared to pre-pandemic levels



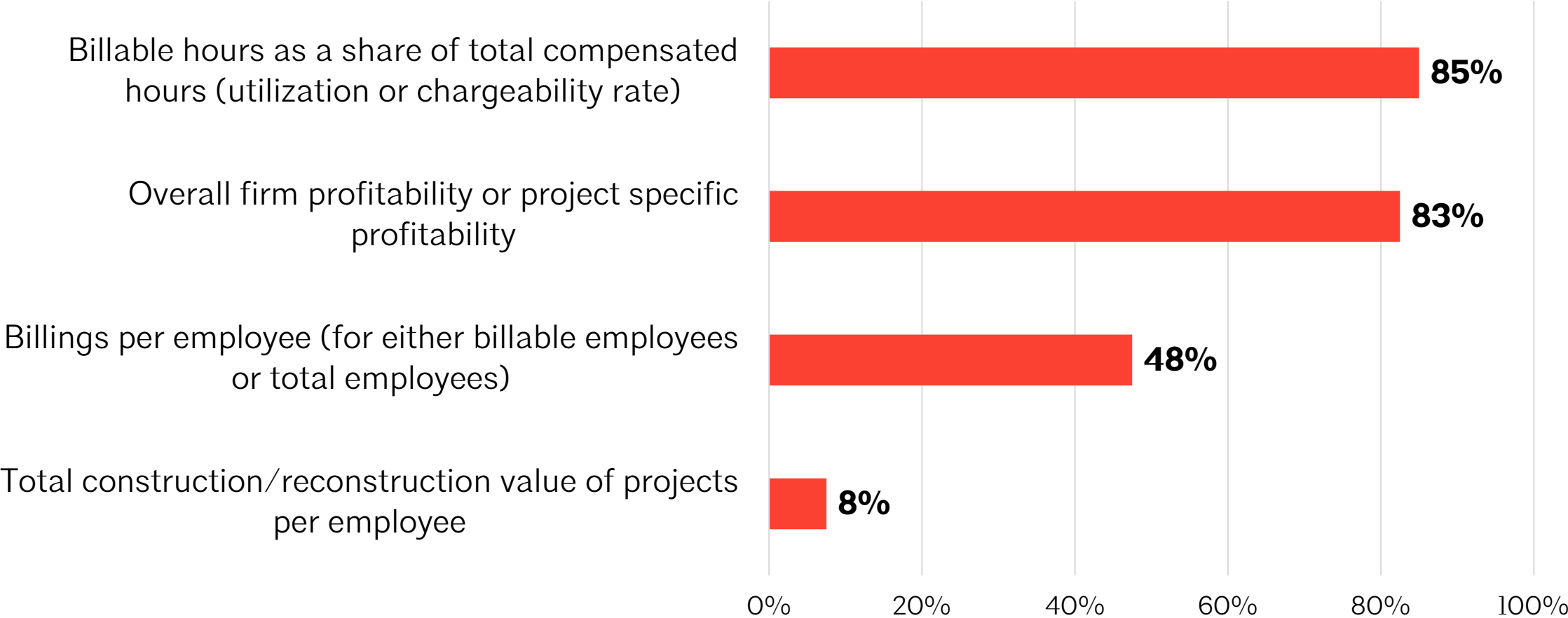
# Only about a quarter of architecture firms monitor specific measures of staff output

Extent to which firms make an effort to monitor staff productivity; % of firms



# Of firms that track productivity, billable hours and profitability most common measures used

Share of firm leaders reporting what measures of staff productivity their firm attempts to quantify



Source: AIA Work-on-the-Boards survey, June 2023

# Key trends



**Profitability**



**Productivity**

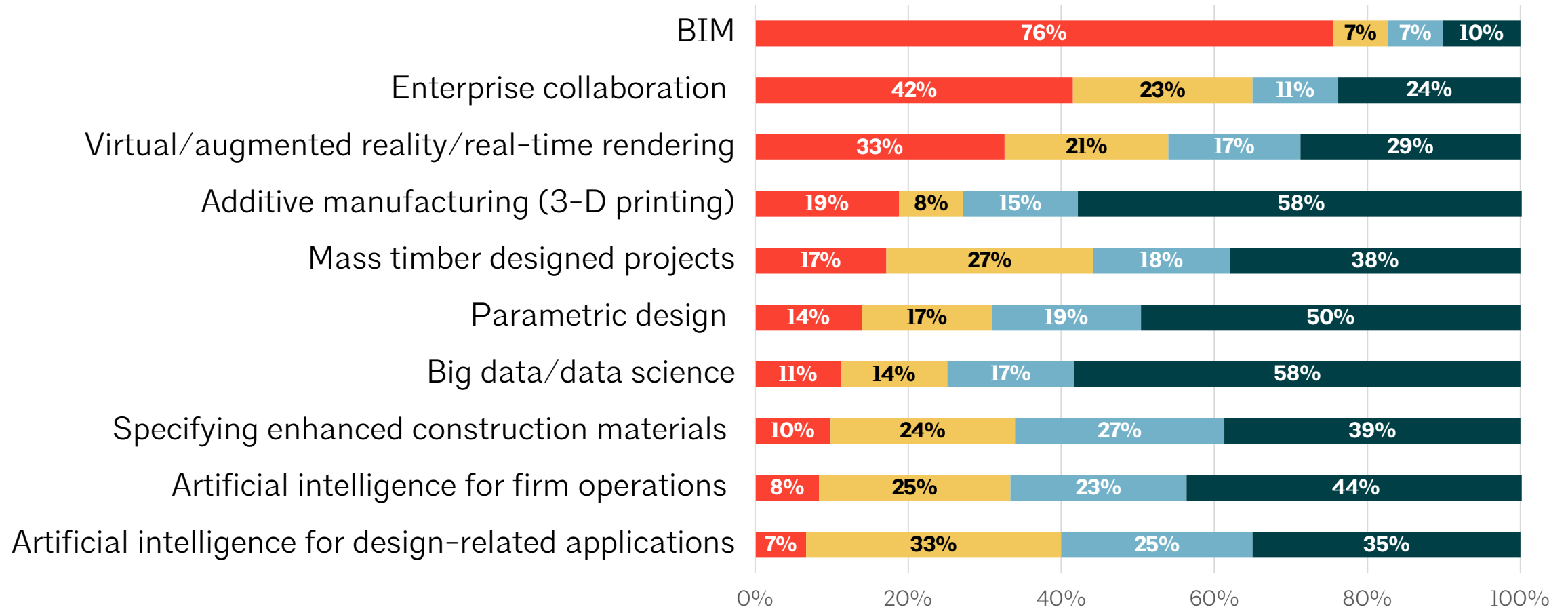


**Technology**



# Architecture firms are using collaboration and standard tools like BIM, but still in the exploratory stages with AI

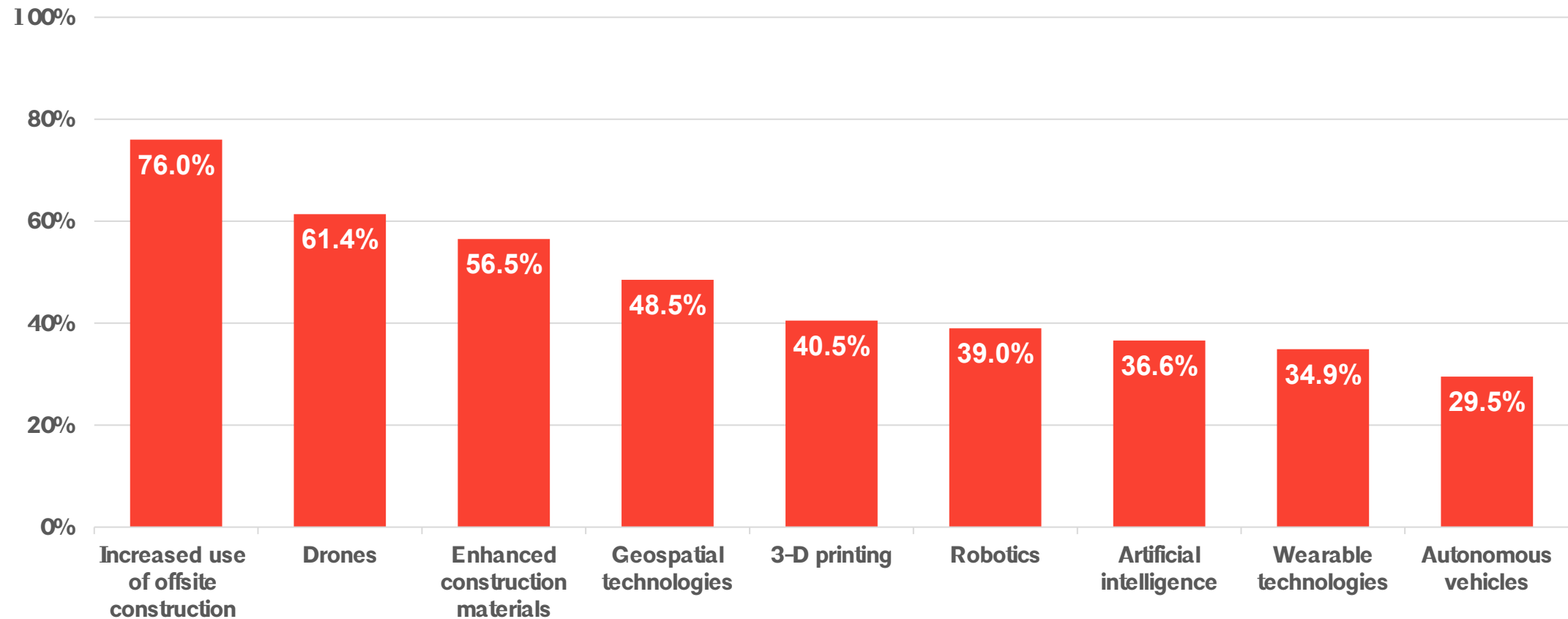
Share of firm leaders reporting on current and future expected technology uses



Source: AIA Work-on-the-Boards survey, September 2023

# Architects expect increased offsite construction, drones, to be commonly used in construction within 5 years

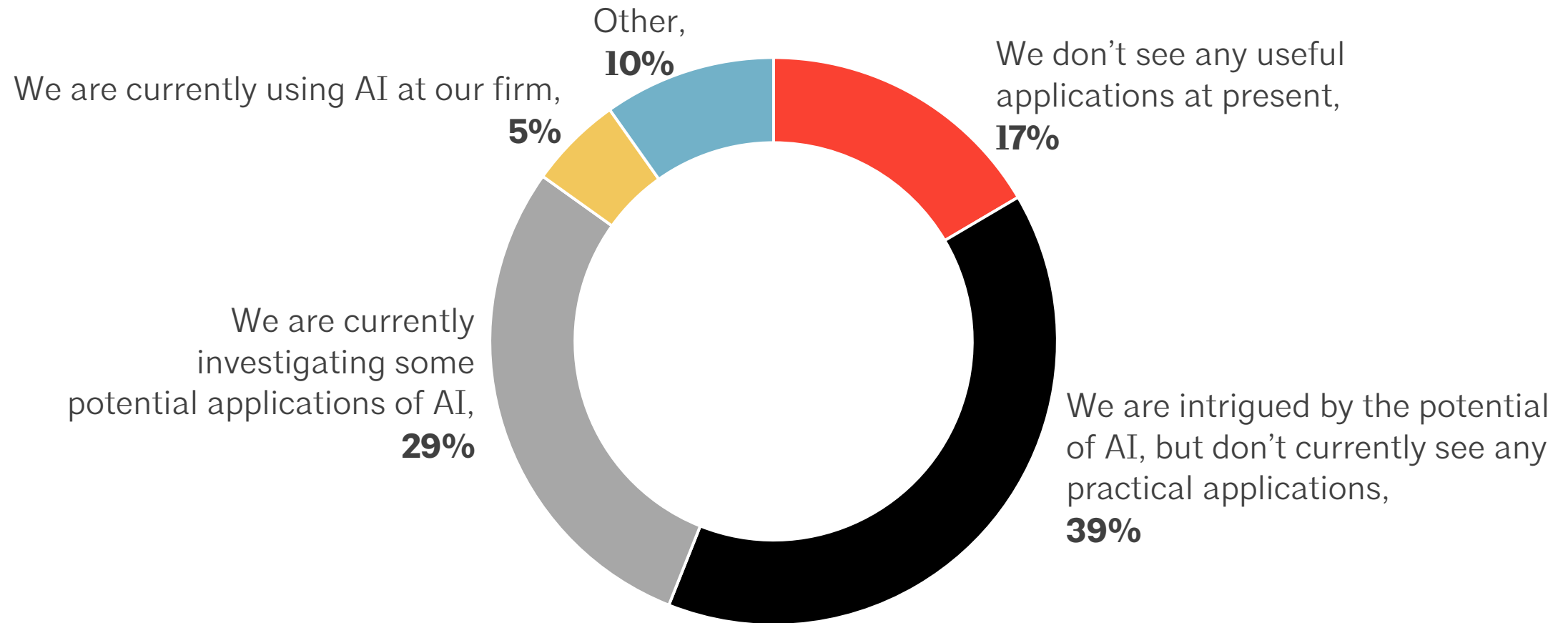
Share of firms reporting as “very likely” that construction-related technology is for being incorporated into construction processes over the next five years



Source: AIA Work on the Boards survey, October 2023

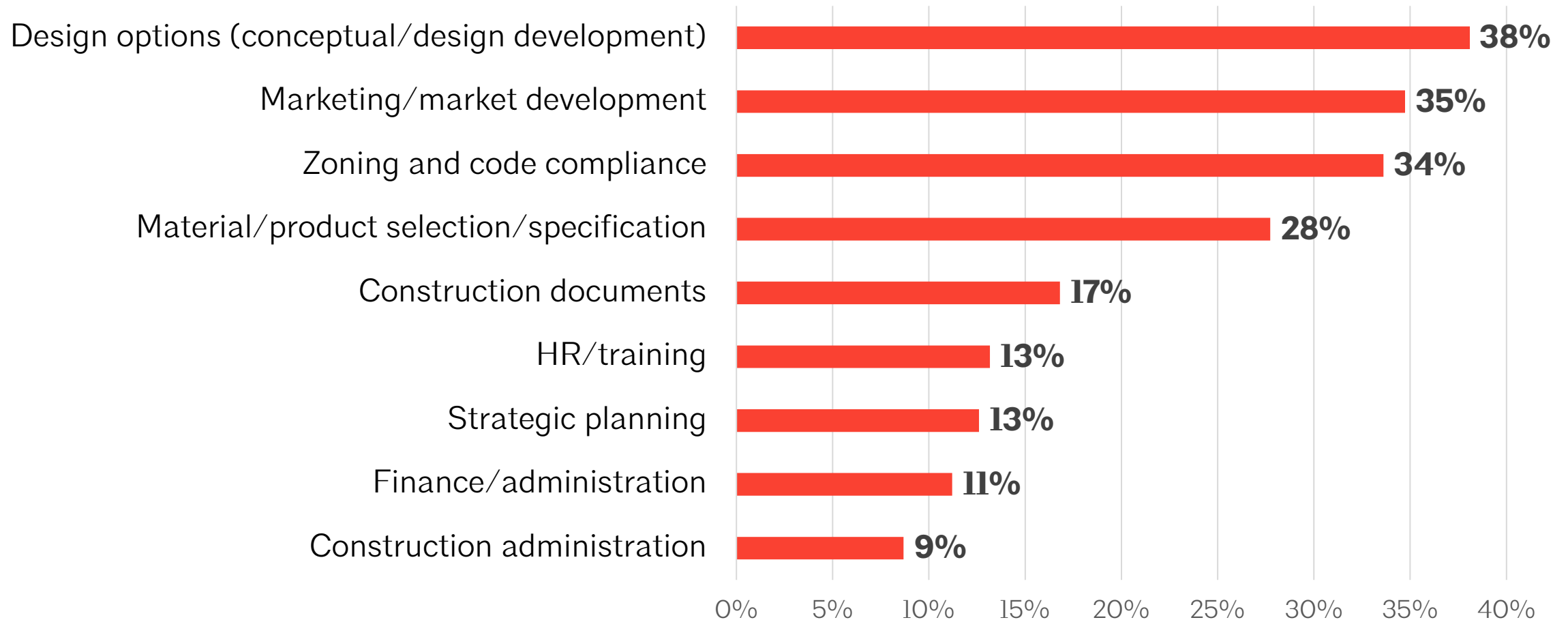
# Few architecture firms actively using artificial intelligence, but many investigating applications

Share of firm leaders reporting their firm's current attitude toward artificial intelligence (AI) in their daily operations



# Of firms using or considering AI, design options, marketing, and zoning/code compliance popular options

Share of firm leaders reporting which of their firm activities they see the most long-term potential of AI

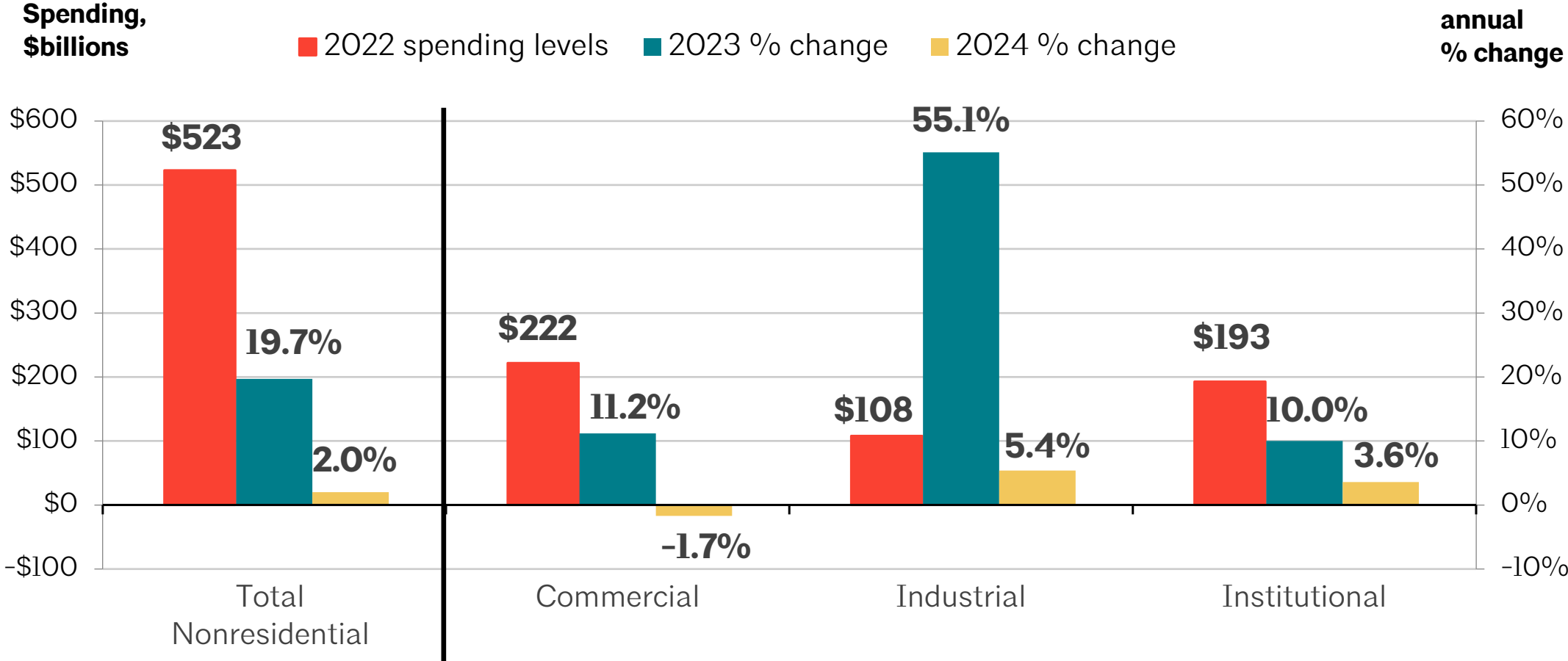


Source: AIA Work-on-the-Boards survey, July 2023

# The Outlook

# Construction spending expected to accelerate this year before slowing significantly in 2024

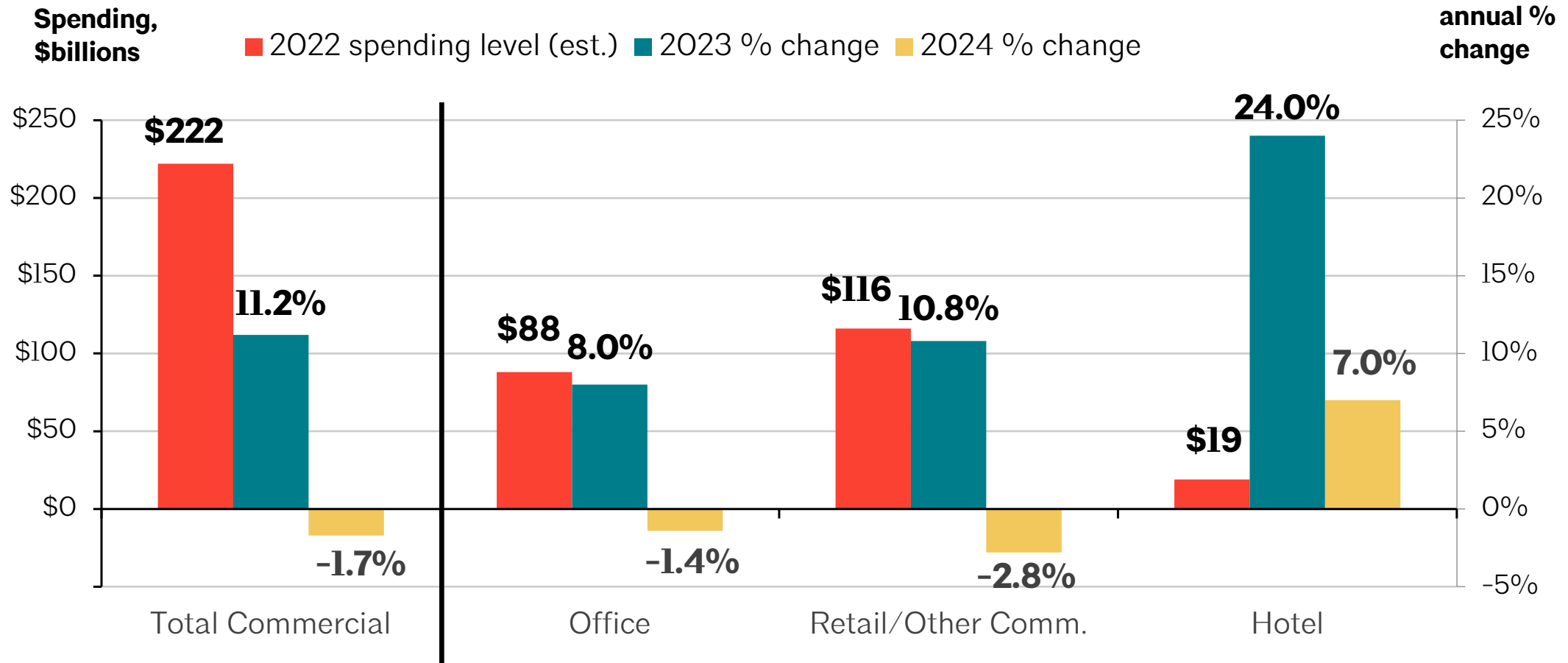
Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast Panel, June 2023

# Hotel construction seeing healthy growth this year; retail along with offices expected to slip next year

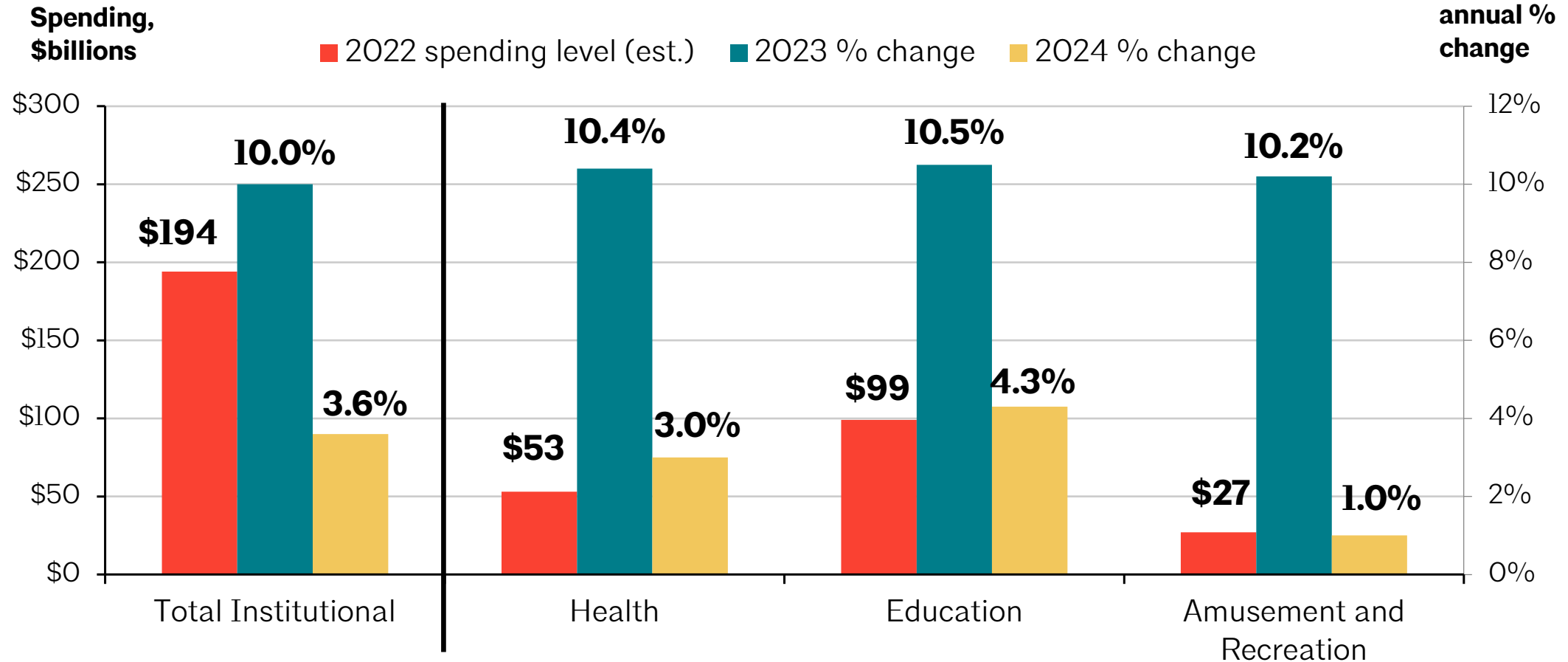
Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast Panel, June 2023

# Institutional sector recovery underway; spending projected to relatively stable in 2024

Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast Panel, June 2023



The image features a man in a white shirt, seen from behind, with his hands clasped behind his head. He is positioned in the lower center of the frame. The background is a dense, blue-tinted collage of financial and data-related icons. These include various line graphs, bar charts, pie charts, and arrows pointing upwards, all set against a backdrop of binary code (0s and 1s). The overall aesthetic is that of a digital or financial dashboard. A semi-transparent dark blue rectangular box is overlaid on the left side of the image, containing the text 'Questions?'.

**Questions?**

# Economic & business resources from the AIA

- AIA Architectural Billings Index (ABI): [aia.org/abi](https://aia.org/abi)
- AIA Consensus Construction Forecast: [aia.org/ccf](https://aia.org/ccf)
- Economic indicators to track leading economic Key Performance Indicators (KPIs): [aia.org/indicators](https://aia.org/indicators)
- 2023 AIA Compensation Survey: [www.aia.org/compensation](https://www.aia.org/compensation)
- AIA Salary Calculator: [info.aia.org/salary](https://info.aia.org/salary)
- 2022 AIA Business of Architecture firm survey report: [aia.org/firmsurvey](https://aia.org/firmsurvey)
- AIA Guides for Equitable Practice: [www.aia.org/equityguides](https://www.aia.org/equityguides)
- AIA Home Design Trend Survey (HDTS): [aia.org/hdts](https://aia.org/hdts)
- AIA Best Practices: [www.aia.org/bestpractices](https://www.aia.org/bestpractices)

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