Section
Six

Outlook for the U.S. A/E/C Industry

INTRODUCTION

The problem with the economic news is that there's so much of it. It seems that the business media puts too much stock into every market blip, every good or bad earnings report, every up or down indicator. It's reminiscent of the good news-bad news cycle with nutrition and food—one day wine (or coffee or chocolate) is healthy, the next it's deadly.

Methodology

For a publication such as this, we must be careful to focus on the longer-term trends that are more likely to sustain through the daily and weekly vagaries of business and free trade. Otherwise, the conclusions we draw and research we report could be unfairly tainted by what, in the end, may just have been a bad day, week, or month.

It's a tough balance, because we like to use the latest, most pertinent data. We do our best to avoid getting caught in trap of drawing long-term conclusions from short-term situations.

We don't do estimated growth rates because, simply put, we think they're often irrelevant and not worth the trouble. How valid is the numerical estimate from even the most competent economist when we're talking about volatile design and construction markets in a turbulent national economy?

All you need to do is look at the massive differences among the various prognostications to question their relevance. For example, in its projections for 2018, Moody's Economy.com of Lexington, Massachusetts, called for 10.9 percent growth in the retail and other commercial sector. For that same period, IHS Economics projected a paltry 0.2 percent gain for the same category. This is according to the AIA Consensus Construction Forecast.

An explanation for the discrepancy could range from a simple difference of opinion on where the market is going, to inconsistent methods of categorizing the market or even emphasizing a different measure for the category (e.g., Construction Put in Place vs. Construction Starts). Nevertheless, the projections vary widely, (as noted below in the columns showing the best and worst projected outcomes for market growth according to the consensus forecast).

Even if these numbers could lay claim to absolute accuracy—and we do applaud the economists for trying and appreciate their efforts—how important is it really to the average A/E/C firm? Does it matter to a 50-person Oakland-based architecture firm working exclusively on senior housing projects in California if the $25 billion U.S. healthcare design and construction market ticks up 2.1 percent or 2.2 percent?

Sure, that 0.1 percent is a lot of money in the big picture, but if this firm is only capable of capturing $5 to $10 million of the total take, there are far more important factors to consider.

Let's face it; these things are hard to quantify. We don't even try. (If you like these numbers, though, the consensus projections are in the table below.)

Table 11: Consensus Construction Forecast*

Source: American Institute of Architects

Consensus Forecast	2017	2018	Max '18 Growth	Min '18 Growth
Overall nonresidential	3.8%	3.6%	5.5%	1.7%
Commercial Total	8.8%	4.0%	6.5%	-1.4%
Industrial	-6.6%	1.1%	8.0%	-3.7%
Hotels	6.1%	2.4%	5.9%	-2.4%
Retail & Other Comm.	10.0%	4.6%	10.9%	0.2%
Office buildings	8.9%	4.0%	7.6%	-2.6%
Institutional Total	3.5%	4.1%	6.0%	1.2%
Healthcare facilities	0.9%	3.5%	10.7%	-5.0%
Education	4.9%	4.8%	7.9%	2.3%
Amusement/recreation	7.1%	3.0%	6.3%	-2.4%
Public safety	1.4%	3.7%	7.1%	1.2%
Religious	-9.2%	-1.0%	9.5%	-12.4%

*The AIA Consensus Construction Forecast Averages the Estimated Growth Rates from eight sources: Dodge Data & Analytics, IHS Economics, Moody's Economy.com, ConstructConnect, FMI, Associated Builders & Contractors and Wells Fargo Securities. Both 2012 and 2013 are forecasts based on estimated 2011 data.

Instead, we prefer to consider factors such as whether the right metrics are in place for growth in the sector, the overall economic health of a geographic area, and trends and developments in the industry. (Which is what economists use to make their predictions.) Most importantly, we want to find out and assess what owners and investors are saying, seeing and feeling about specific markets.

For this reason, we try to incorporate as much of the viewpoint of the owners, clients, experts, and practitioners in each market sector. We do this through interviews and countless hours reviewing secondary research sources (as you'll see in the Appendix). We believe this serves our reader better. We hope you agree.

RESIDENTIAL OUTLOOK

The prevailing theory for the U.S. residential market heading into 2018 was for a slowly, but steadily rising single-family market to slightly offset a mildly cooling multi-family market coming off an impressive, multiyear run.

Statistical data through the first nine months of 2017 concur. Single-family permits through September 2017 showed a solid 9.3 percent growth compared with the previous year's numbers, while the monthly improvement was a more modest 2.4 percent. Meanwhile, multifamily units, though only about half the total of single-family permits, fell sufficiently to bring the overall totals down.

Table 12: New Privately-Owned Housing Units Authorized (Permits) September 2016 to September 2017

Source: U.S. Census Bureau (Seasonally Adjusted Annual Rate)

	United States			
Period	**Total**	**1 unit**	**2 to 4 units**	**5 units or more**
2016				
September	1,270	749	39	482
October	1,285	779	32	474
November	1,255	786	41	428
December	1,266	830	39	397
2017				
January	1,300	806	29	465
February	1,219	834	45	340
March	1,260	826	37	397
April	1,228	794	36	398
May	1,168	779	32	357
June	1,275	811	35	429
July	1,230	812	40	378
August	1,272	800	36	436
September (preliminary)	1,215	819	36	360
Percent Change				
Sep 2017 from Aug 2017	***-4.5%***	***2.4%***	***0.0%***	***-17.4%***
Sep 2017 from Sep 2016	***-4.3%***	***9.3%***	***-7.7%***	***-25.3%***

These numbers are, of course, national. Experiences at the regional and local level often differ, as is illustrated later in this section.

Housing and construction experts foresee a relatively healthy overall residential market for the next few years, albeit one that is insufficient to meet anticipated demand. The Harvard Joint Center for Housing Studies, in its “The State of the Nation’s Housing 2017” report, observed:

“A decade after the onset of the Great Recession, the national housing market has, by many measures, returned to normal … Housing demand, home prices, and construction volumes are all on the rise, and the number of distressed homeowners has fallen sharply. However, along with strengthening demand, extremely tight supplies of both for-sale and for-rent homes are pushing up housing costs and adding to ongoing concerns about affordability.”

The Center’s director, Chris Hebert, noted, “While the recovery in home prices reflects a welcome pickup in demand, it is also being driven by very tight supply. Any excess housing that may have been built during the boom years has been absorbed, and a stronger supply response is going to be needed to keep pace with demand—particularly for moderately priced homes.”

The report notes that even after seven straight years of construction growth, the U.S. added less new housing over the last decade than in any other 10-year period since at least the 1970s.