January 2025

# Architecture Industry Insights

This month's report highlights the trends and strategies architects need to address today's challenges. From AIA leadership updates to key market data, it provides actionable, must-read insights to guide your practice and decisions.

## Topics

**AIA Architectural Billing Index (ABI)**

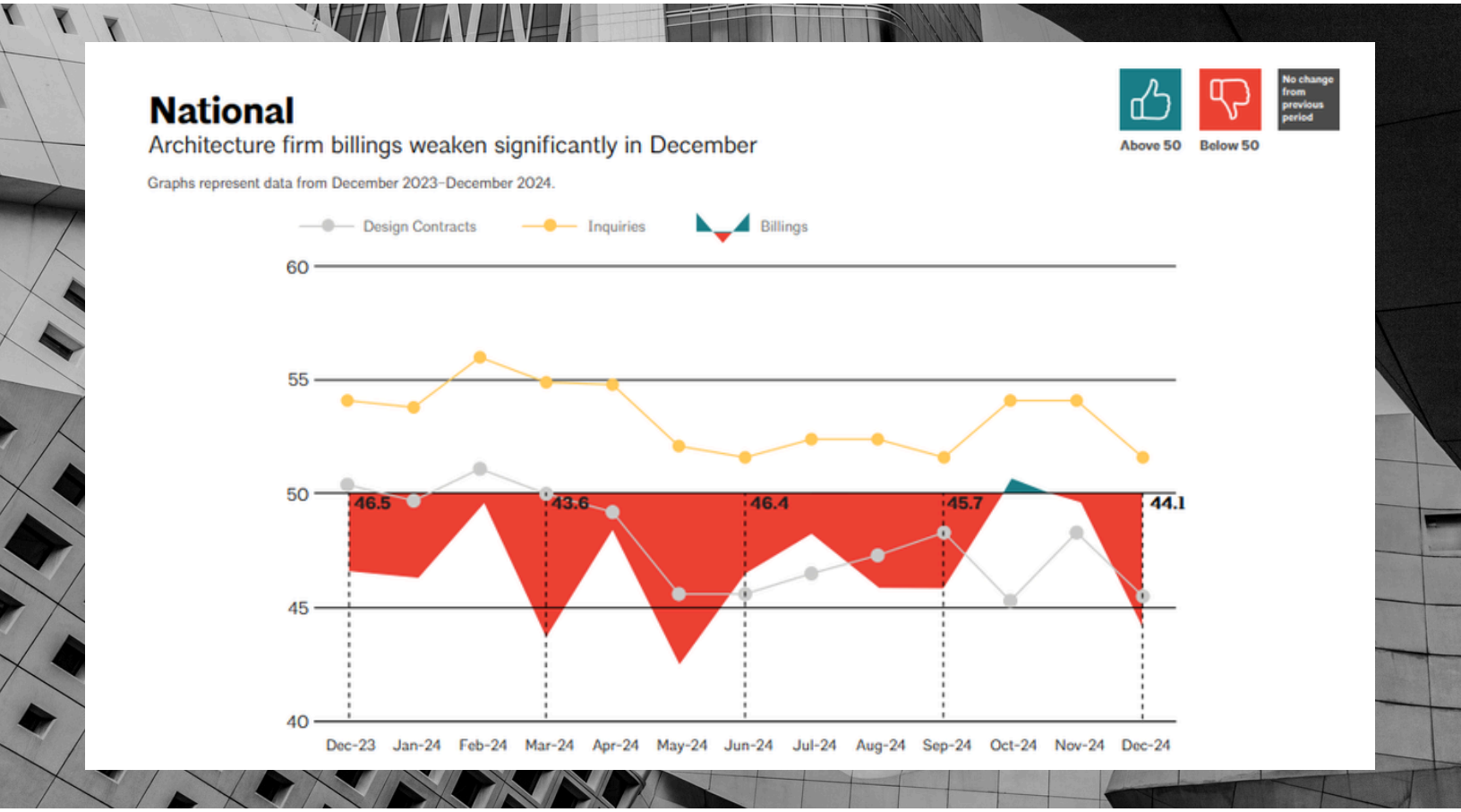
1. December 2024 ABI Highlights
2. Mapping Out 2025
3. Practice Challenges

**AIA Consensus Construction Forecast Highlights**

- Spending Expected To Slow, Policies Threaten Supply
- Sector-Specific Trends
- Architecture Firm Outlook: The Bottom Line

Curated by Ed Akins II, AIA, LEED AP
Principal Architect, cove

# 1 December 2024 ABI Highlights




## KEY INSIGHTS

- National billing score: 44.1, marked a significant decline from previous months.
- Despite a relatively stable level of project inquiries, architecture firm billings weakened in December, reflecting a slowdown in demand.

## REGIONAL PERFORMANCE

- Southern and Western region firms previously led in billing growth but only the Western region ended the year on a strong note.
- The Northeast and Midwest regions continue to see slower recovery, though indications of stabilization remain present.

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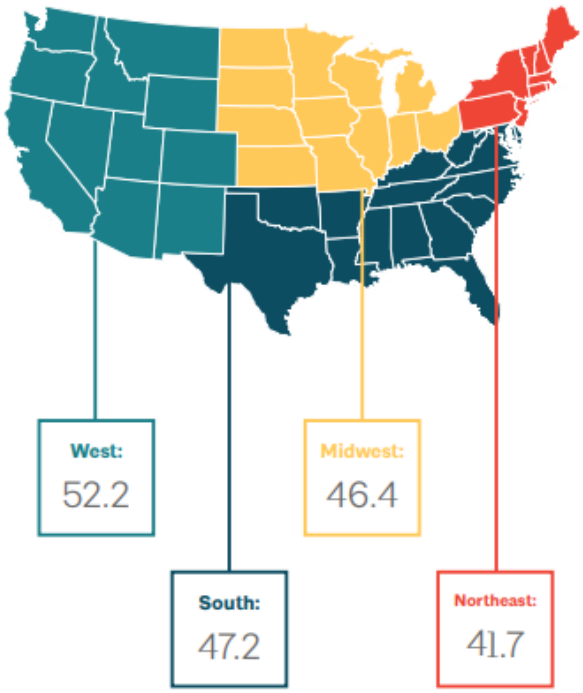
# 2 Mapping Out 2025




## FUTURE WATCHPOINTS

Continue to keep an eye on tariffs, material costs, labor shortages, and immigration policies, which will have an impact the pace of recovery.

Track your project budgets closely with the contractor to help overcome delays and cancellations. Opportunities will continue in adaptive reuse with institutional remaining strong.

## BILLINGS WEAKENED

- The Architectural Billings Index (ABI) fell to 44.1 in December, signaling a slowdown.
- Inquiries remain steady, with some regions staying resilient with billings growth (West).
- Construction project spending could grow in the West (ABI of 52.2) while the South (47.2), Midwest (46.4) and Northeast (41.7) may witness limited construction gains regionally.

## SECTORS TO WATCH

- Multifamily/Residential: Interest rate stabilization could continue to help fuel a recovery in the housing sector.
- Institutional: Continues to hold steady, with sustained investment in healthcare and education projects.
- Commercial/Industrial: Potential for growth as office space adaptation and return-to-office trends evolve in 2025.

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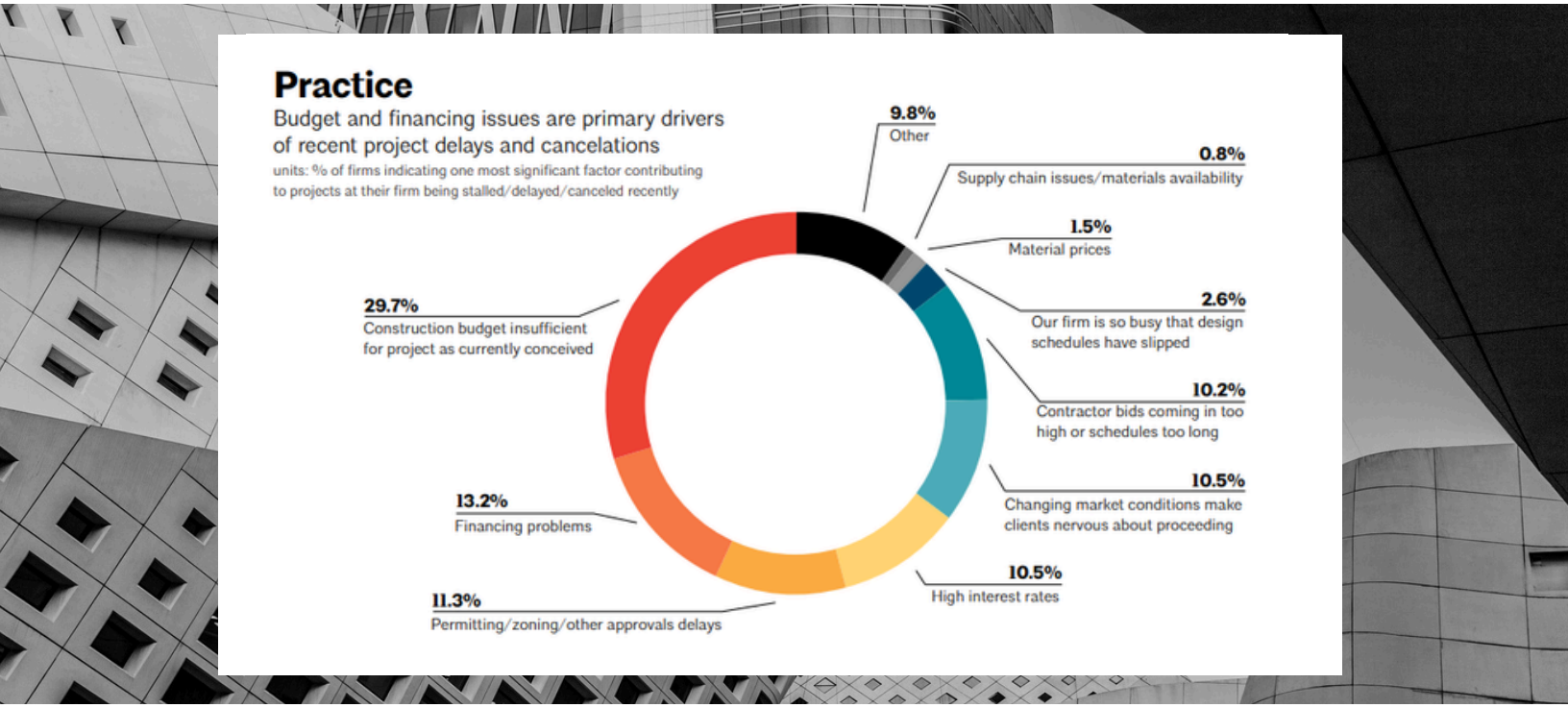
# 3 Practice Challenges




### Firm Management & Strategy

- Budget and financing issues are the leading causes of project delays and cancellations.
  - Nearly 30% of firms report that construction budgets are insufficient
  - 13.2% cite financing problems
  - 10.2% state bids come in too high
- Firms should prioritize cost estimating, keeping talent, leveraging technology, and policy awareness to navigate uncertainty and improve project completion viability.

### Profitability Drivers

- Staff utilization will be key as well as maintaining staff.
- Monitor markets for policy and pricing insights that you can communicate to your clients.
- Streamline workflows through partnerships, technology, and other overhead reductions throughout 2025.

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# AIA Consensus Construction Forecast Highlights

## Spending Expected To Slow
## Policies Threaten Labor and Material Supply

### Construction Spending Slowdown

- Strong construction spending growth in 2023 (+20%) and 2024 (+6%) will be followed by modest growth in 2025 (+2.2%) and 2026 (+2.6%).
- Institutional facilities expect a 6.0% growth in 2025 and 3.4% in 2026.
- Commercial construction expects growth in 2025 (1.7%) and 2026 (4.2%).
- Industrial is anticipated to be even across a two-year period 2025_2026.

### Headwinds Impacting Growth

- Tariffs on imports from Canada, Mexico, and China could increase costs and limit material availability.
- Stricter immigration policies threaten construction labor supply. This will be felt differently across the market regions within the US.
  - An estimated 1 in 8 workers are considered to be undocumented.
  - A “chilling effect” on new or other laborers entering the market legally.
- Projected census population estimates show limited need for new education facilities and a tightening of the labor market.

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# AIA Consensus Construction Forecast Highlights

## Sector-Specific Trends

Manufacturing, warehouses, and data centers have dominated growth, accounting for 40% of spending in recent years. Manufacturing construction, driven by reshoring efforts, has focused on computer/electronics (33%) and chemicals/plastics (25%).

Retail, commercial, and lodging sectors saw declines in 2024, with only modest recoveries expected.

Office construction appears to grow, but this is largely due to data centers, while traditional office space declines.

Health care (+5-10%) benefits from aging demographics, shifting toward neighborhood health centers.

Education construction is under pressure due to declining student populations across all levels.

## Takeaway:

Larger firms, institutional specialists, and firms in the South are the most optimistic heading into 2025.

(Additional link: https://www.contractormag.com/construction-data/article/55263756/aia-consensus-forecast-predicts-slower-growth)

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# In Summary

The architectural market shows signs of stabilization as firms prepare for cautious growth.

## 2025 MARKET OUTLOOK

- Although the economy ended the year in a strong position, it will be necessary to continue monitoring inflationary pressures, labor force shortages, and material costs.
- Construction spending growth is predicted to slow in 2025 and 2026 to roughly 2%, with institutional projects leading all sectors at a predicted 6% growth.
- Tariffs and immigration policy form the key risks as we exit cylical adjustment and enter a policy “fog” with a new administration.

## REGIONAL HIGHLIGHTS

- **Western Region** | Billings continue to grow at the close of 2024 and entering 2025.
- **Southern Regions** | Remain optimistic, especially larger firms with diverse project types
- **Northeast and Mid-West Region** | Billings remain weak with some bright spots

## STRATEGIC ACTIONS

- **Policy** | Monitor tariffs, labor, and material costs to mitigate project financial risks. Communicate frequently with the client on potential impacts to the project.
- **Profitability Focus** | Enhance staff utilization, adjust project fees, and streamline operations to reduce overhead.
- **Service Expansion** | Market diversification into adaptive reuse, institutional growth, and some commercial sector activity may drive revenue.

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# Meet the Expert

## Ed Akins II, AIA

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Ed Akins II, AIA is an architect and educator with a passion for sustainable design and innovative thinking. A former Sustainable Fellow and Interim Chair of the College of Architecture and Construction Management at Kennesaw State University, he holds a Master of Architecture from Georgia Tech and has earned multiple industry accolades.