

Economics Group

Anika R. Khan, Senior Economist
anika.khan@wellsfargo.com • (704) 410-3271

Architecture Billings Rebound in September

Billings by architecture firms rebounded in September after contracting in August. Activity in the multifamily sector remained in negative territory, while commercial/industrial and institutional improved.

Billings Remain on Solid Footing

Solid property fundamentals and readily available financing are stoking demand for commercial real estate properties. Valuations are at all-time highs, rent growth is steadily increasing and occupancy levels are elevated, especially in the commercial/industrial sector. The trend in billings by architecture firms reflect the ongoing improvement in the nonresidential sector, while the multifamily sector suggests some moderation is in store.

Based on a three-month moving average, billings have consistently posted readings in positive territory since mid-2014. According to the American Institute of Architects, “areas of concern are shifting to supply issues for the industry, including volatility in building costs, a lack of deep enough talent pool to keep up with demand, as well as lack of contractors to execute design work.” A ramp up in supply is typically a late-cycle factor.

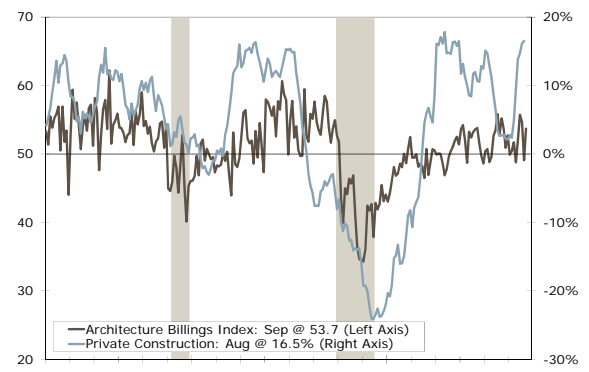
Much of the increase in billings is due to improvement in the institutional sector. The institutional construction sector has lagged in the recovery, but billings have registered a steady string of positive readings. Private institutional construction spending is up 15 percent over the past year, marking the ninth consecutive month of positive gains. Although improvement in private institutional spending is broad-based, outlays for amusement and recreation are seeing outsized gains. Spending on theme park construction is up almost 55 percent over the past year. We are seeing an outright theme park construction boom with projects at Universal and Disney increasing at a fairly rapid pace. Excluding amusement and recreation spending, institutional construction spending is still up 10 percent year over year.

It is worth noting, however, that the trend in institutional billings is slowing, suggesting that we could be looking at a moderation in the sector next year. Institutional billings remained positive during the month, but fell to its lowest score in five months at 51.3. September's reading is now 7.6 points lower than the cycle peak reached in June.

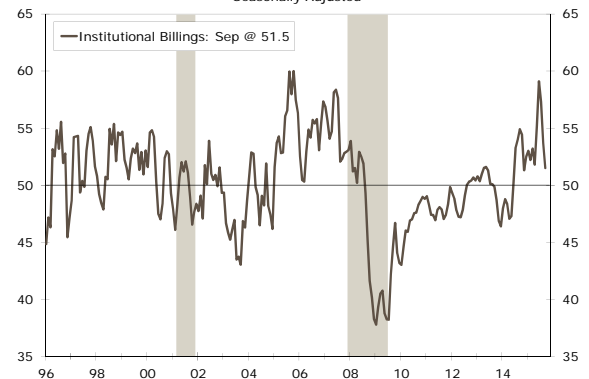
Apartment Vacancy Rate Likely Bottomed

We have been sounding the alarm on an impending moderation in multifamily and we are beginning to see early signs of it in apartment fundamentals. The REIS Apartment First Glance report for the third quarter showed that the vacancy rate for the sector rose to 4.3 percent after holding steady at 4.2 percent for two straight quarters. Although it may be too early to tell, we suspect the apartment vacancy rate bottomed in the second quarter. Multifamily billings have been in negative territory for eight straight months. Since the beginning of the series back in late-1995, there have only been two times when the multifamily component registered eight consecutive monthly readings below the breakeven mark: April 2006 and January 2008.

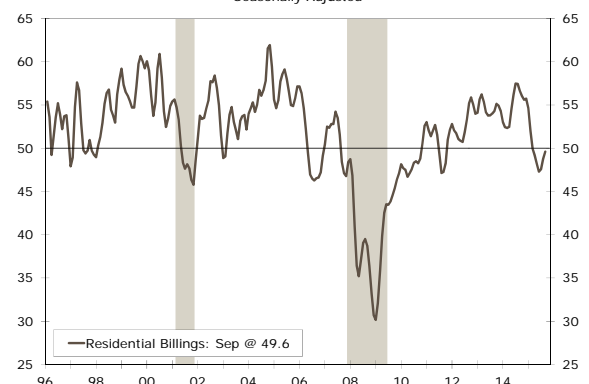
Architecture Billings vs. Construction Spending
 Index, Year-over-Year Percent Change, Seasonally Adjusted



Institutional Architecture Billings
 Seasonally Adjusted



Residential Architecture Billings
 Seasonally Adjusted



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Vilorio, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2015 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

