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Economics Group

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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.

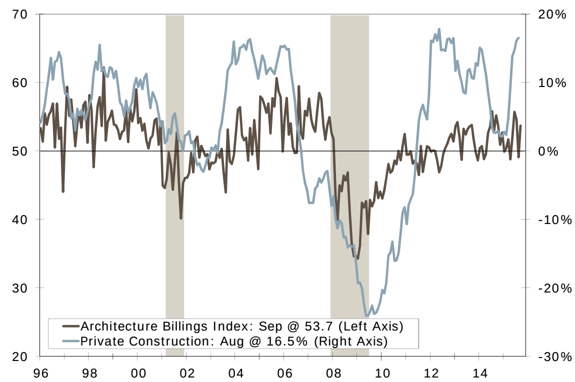
Much of the increase in billings is due to improvement in the institutional sector. The institutional construction sector has lagged in the recovery, but billings have registered a steady string of positive readings. Private institutional construction spending is up 15 percent over the past year, marking 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.

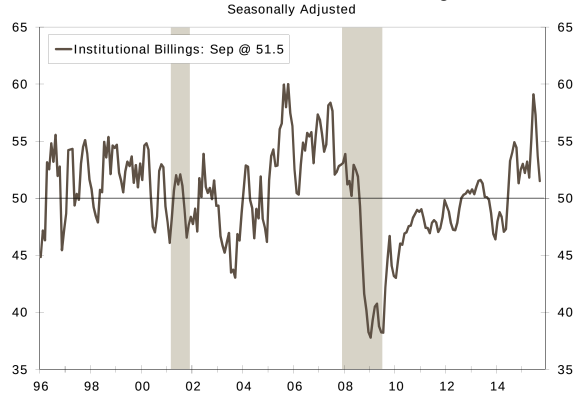
Apartment Vacancy Rate Likely Bottomed

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.

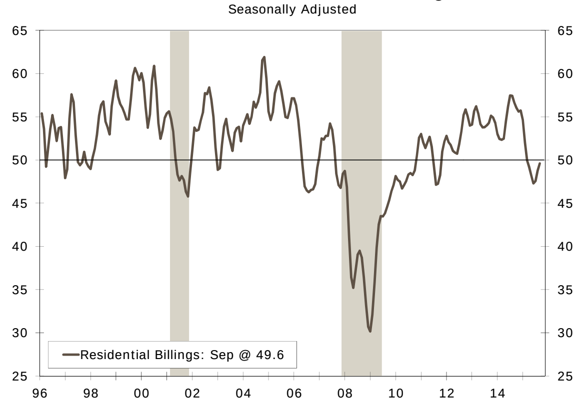
Architecture Billings vs. Construction Spending
Index, Year-over-Year Percent Change, Seasonally Adjusted



Institutional Architecture Billings
Seasonally Adjusted



Residential Architecture Billings
Seasonally Adjusted



Source: The American Institute of Architects, U.S. Department of Commerce and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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