



EDspaces

Designing the Future of Education

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Navigating the Uncertain Economy: Implications for Educational Facilities

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Overview

- Economic outlook remains unsettled with uncertain direction of inflation, interest rates, and job growth.
- Construction sector generally weak; reconstruction projects account for growing share of construction spending.
- Architecture firms reporting weak business conditions but generally coping with slowdown.
- Outlook is for continued overall weak market conditions; demographic trends point to slower growth ahead for school age populations.



Major monthly economic indicators point to modestly accelerating inflation and weaker job growth

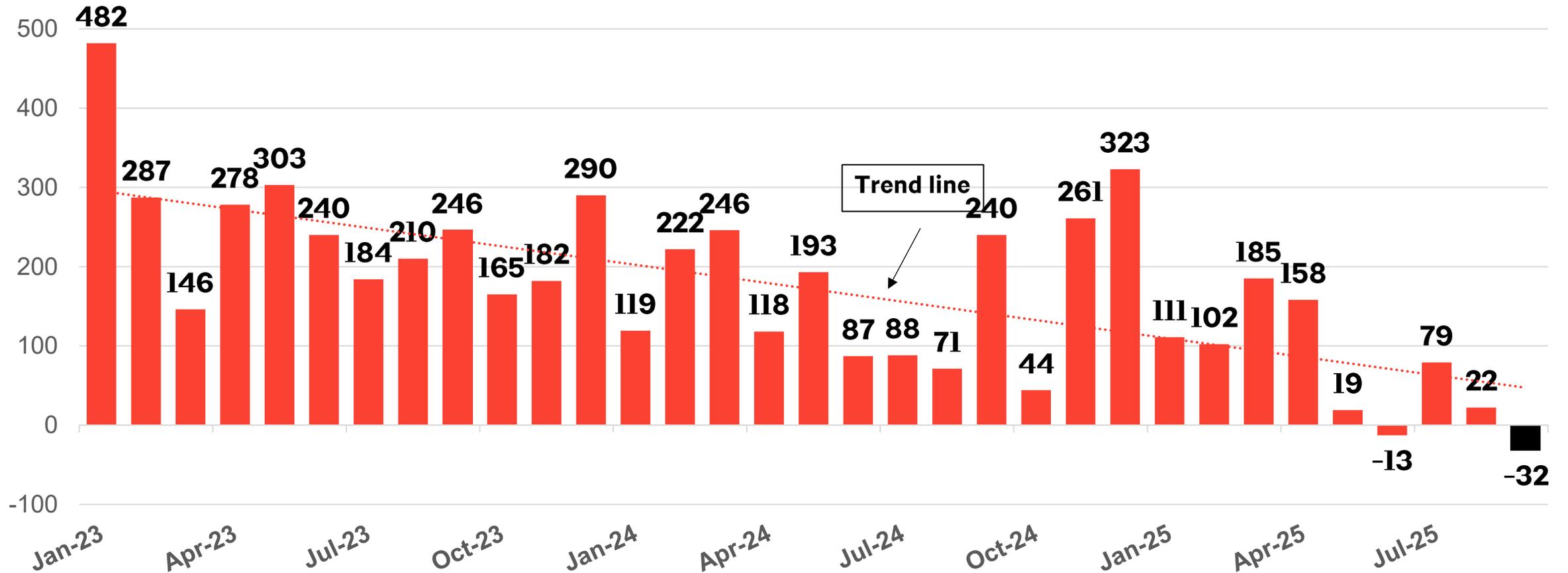
	Oct '24	Oct '25	Change since October 2024
Consumer prices (change from year-ago)**	2.4%	3.0%	+0.6 pct. points
3-mo. T-bills	4.53%	3.84%	-0.69 pct. points
30-yr fixed rate mortgage	6.72%	6.19%	0.53 pct. points
Consumer sentiment (index: Q1 1966=100)	70.5	55.0	-15.5 points
Housing starts (SAAR)**	1.39M	1.31M	-5.8%
Retail sales (\$B, seasonally adj.)**	\$697.2	\$732.0	+5.0%
Nonfarm payrolls (change in number, 000s)	227	-32*	+1,000***

* Based on Sept. ADP report. ** August 2025 figure. *** Job growth over past year estimated based on preliminary BLS annual revisions.

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

National job growth has stalled recently

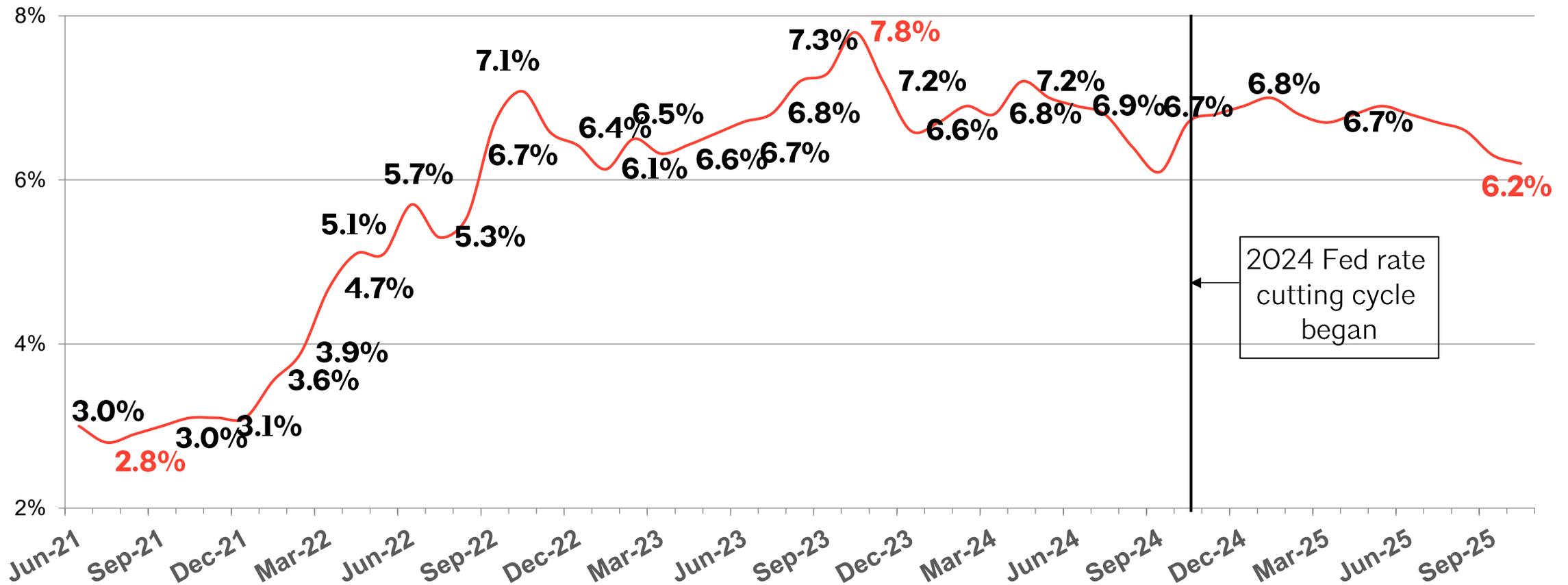
Monthly change in national payroll employment (000's)



Source: Bureau of Labor Statistics, September estimate from ADP National Employment Report

After peaking in late 2023, fixed-rate mortgages have been edging down recently

Interest rate on 30-year fixed rate mortgage

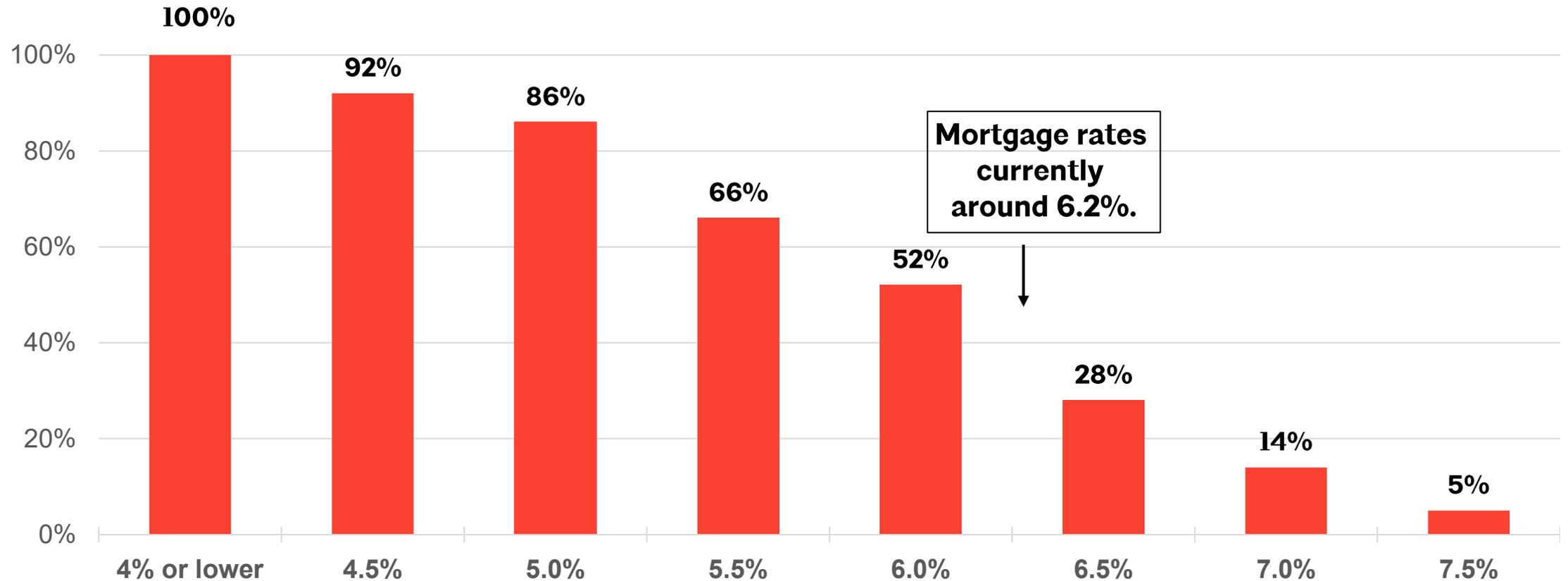


Note : mortgage rate reported at end of month.

Source: Freddie Mac

If rates were to drop another 50 to 100 basis points, there could be a significant increase in homes on the market

The highest mortgage rate U.S. households say they'd accept on their next home purchase; % of households.



Source: TurboHome ResiClub Housing Sentiment Survey, conducted between July 2 and July 23 2025.



Threats to the economy

Tariffs—

prompting trade battles; beginning to stoke inflation, create supply chain challenges

Labor market implications of immigration policy—

The construction sector is reliant on foreign-born workers to offset chronic labor shortages

Federal job losses & spending cuts—

spending by civilian agencies down almost 25%; an estimated 12% federal jobs eliminated.

Tariffs continue to be source of uncertainty for business planning

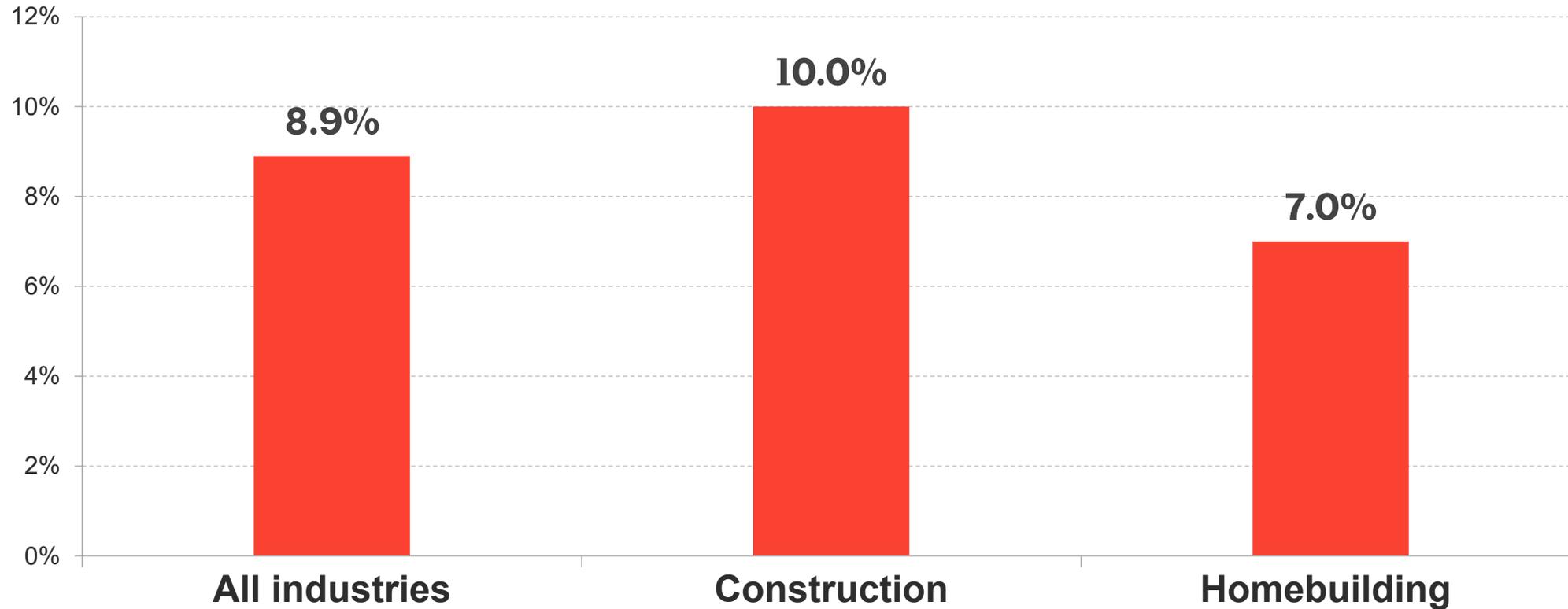


Graphic source: Clay Bennett/Chattanooga Times Free Press, July 29, 2025

- Tariffs that impact construction industry continue to be added and modified.
- Recently announced were a 50% tariff on imported kitchen cabinets and bathroom vanities; 30% tariff on upholstered furniture; and 10% on lumber products.
- U.S. has been importing an increasing share of these products in recent years.
- Current U.S. effective rate tariff rate about 18% but more likely to be levied in coming months.

Heading into tariff hikes, construction exposure to international trade at about all-industry average for U.S.

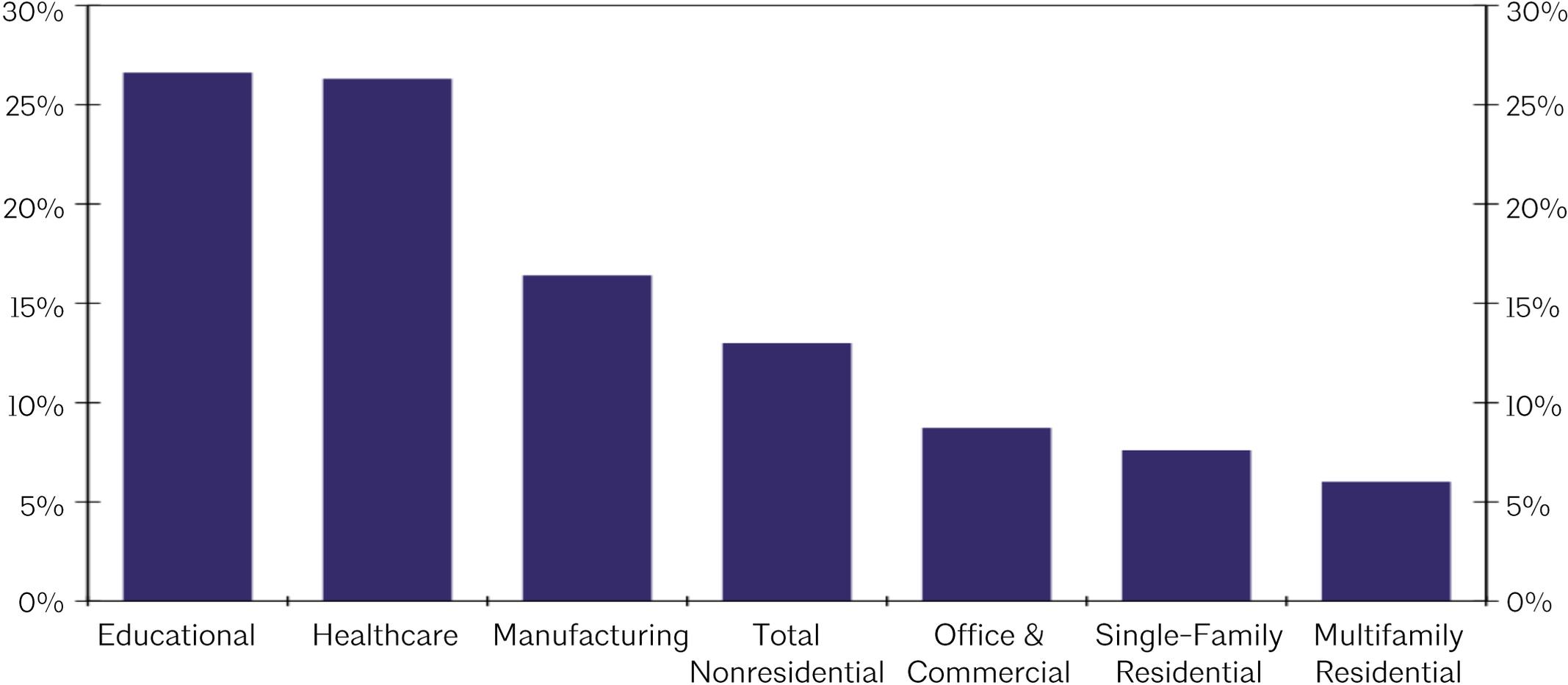
Import share of total inputs



Sources: U.S. Department of Commerce, Wells Fargo Economics, and National Association of Home Builders, 2023 data

Import share of construction inputs higher for institutional projects than for commercial or residential

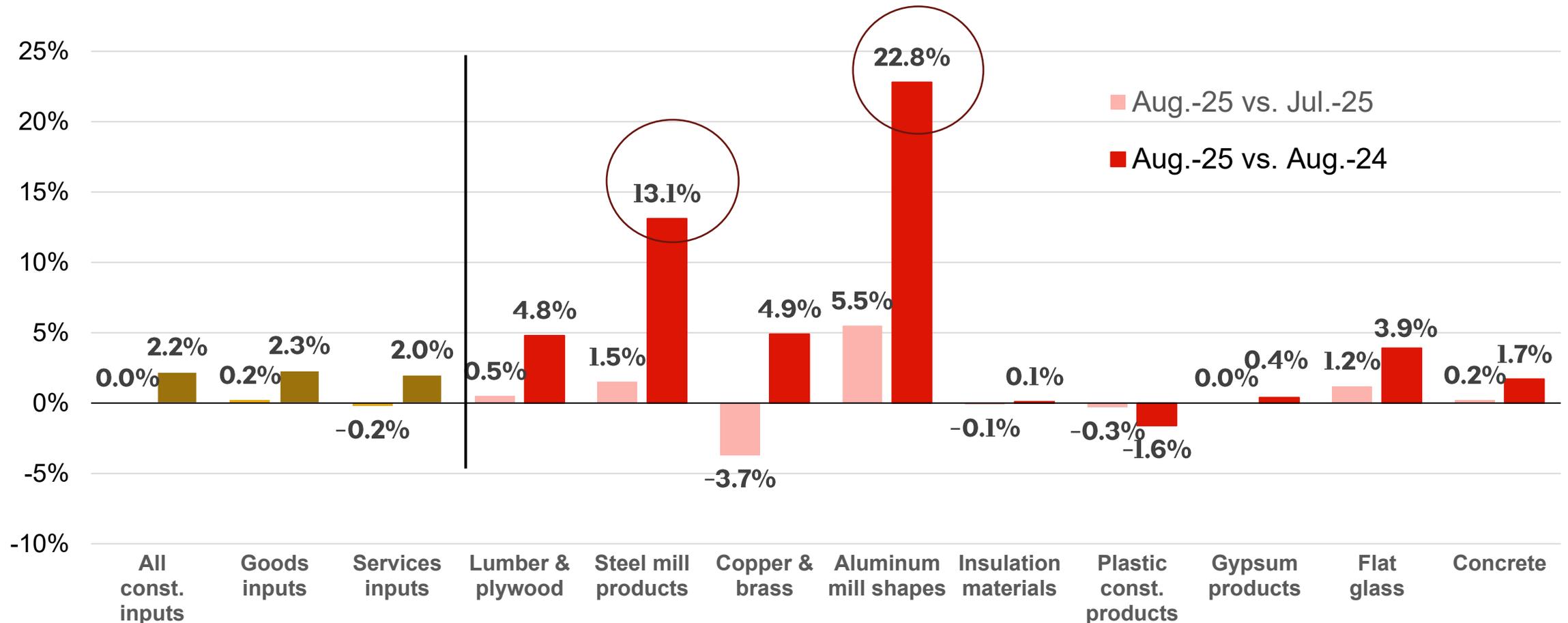
Import share of total construction inputs, 2017



Source: U.S Department of Commerce and Wells Fargo Economics

While overall construction input costs have only seen modest gains, targeted products have seen steeper jumps

Change in construction input costs, August 2025, vs. prior month and year ago



Source: Produce price indexes, Bureau of Labor Statistics, September 2025



Construction labor force

12 million workers nationally

3 million foreign born

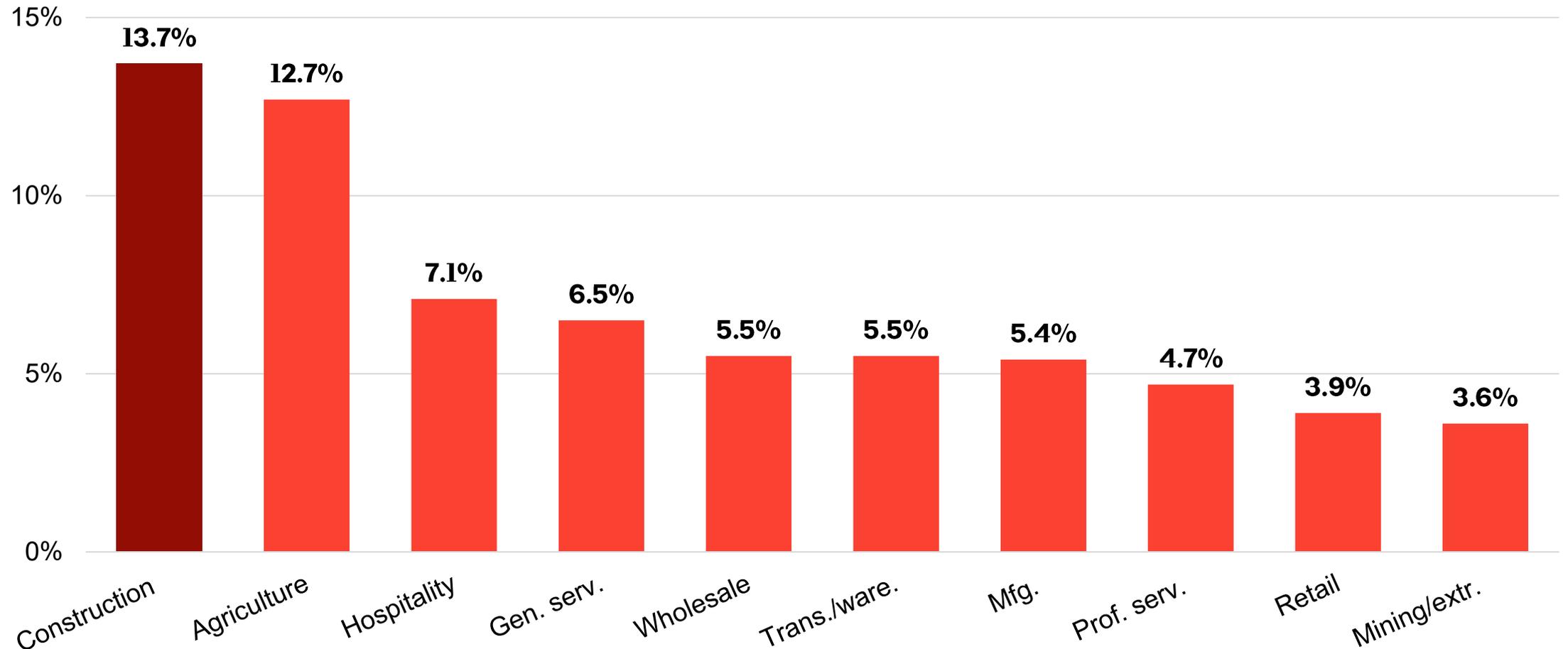
- 25% of industry total
- A third of craft workers
- Over 40% of workers in: plaster/stucco; drywall; roofers; painters; carpeting/flooring

1.5 million undocumented

- Half of foreign-born
- One in every 8 construction workers

Construction share of undocumented immigrants estimated to be higher than any other industry

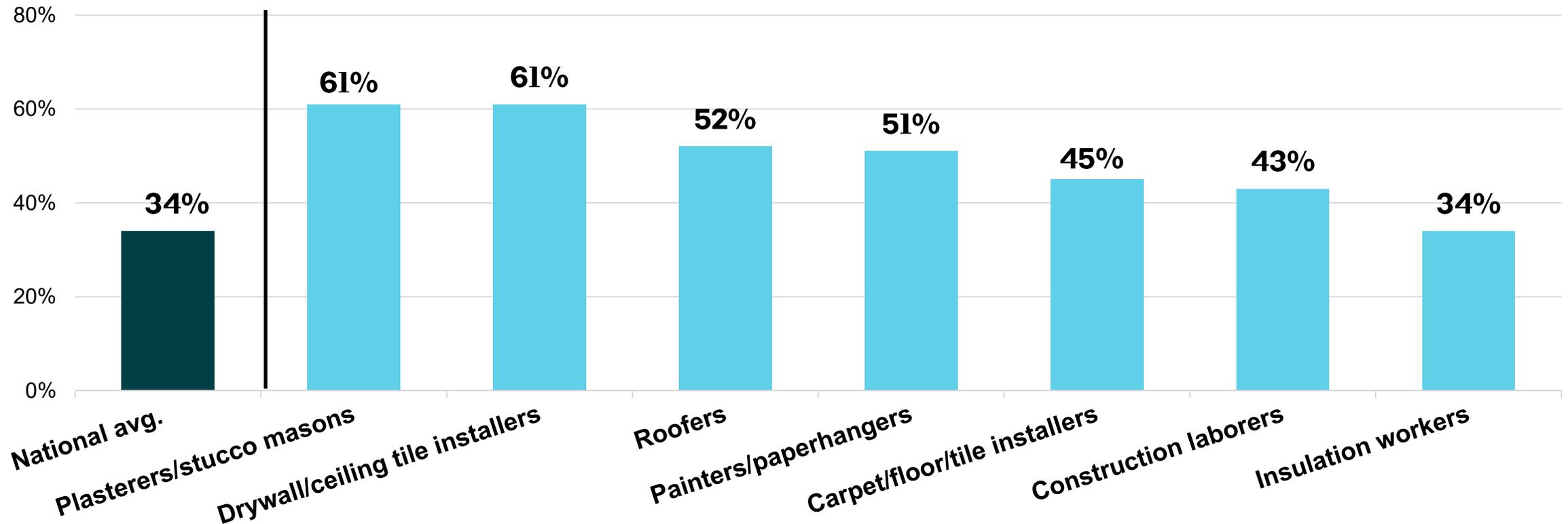
Share of undocumented immigrants in the workforce by industry, %



Sources: American Immigration Council 2022, American Community Survey, Apollo, Moody's Analytics

On average, just over a third of construction trades are foreign born; for some trades, share is much higher

Share of construction workers who are foreign born, by trade, 2023



Source: U.S. Census Bureau, American Community Survey, 2023, as compiled by Joint Center for Housing Studies.

Any scale back in immigration will add to an already significant labor shortage for construction

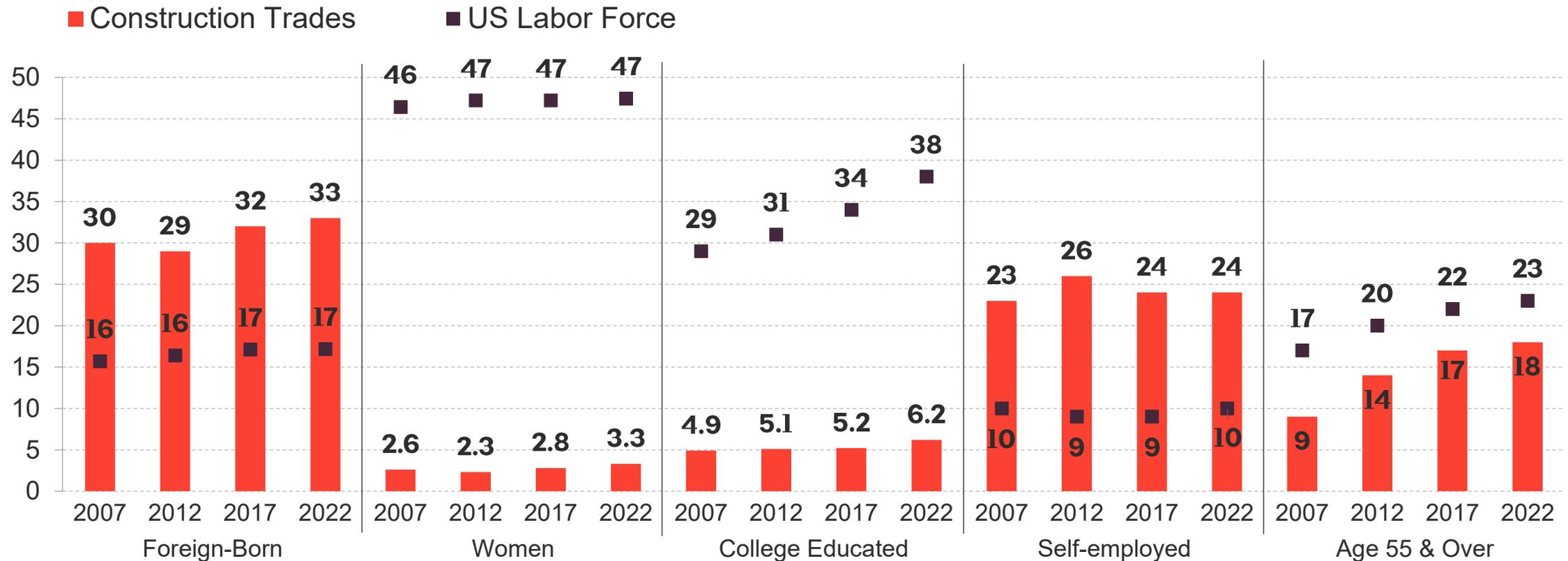
Estimated number of jobs needed to be added for 2025

Source	Estimated labor shortage
National Association of Home Builders (NAHB)	723,000
Associated General Contractors of America (AGC)	454,000
Associated Builders and Contractors (ABC)	439,000

Source: NAHB, AGC, and ABC.

Construction trades heavily reliant on foreign-born; lower shares of women, college educated, older workers

Share of workers (percent)



Notes: The construction trades labor force includes workers with construction management and trades occupations within the construction industry. Data include workers housed in non-group quarters that are either employed or unemployed but available for and seeking work.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

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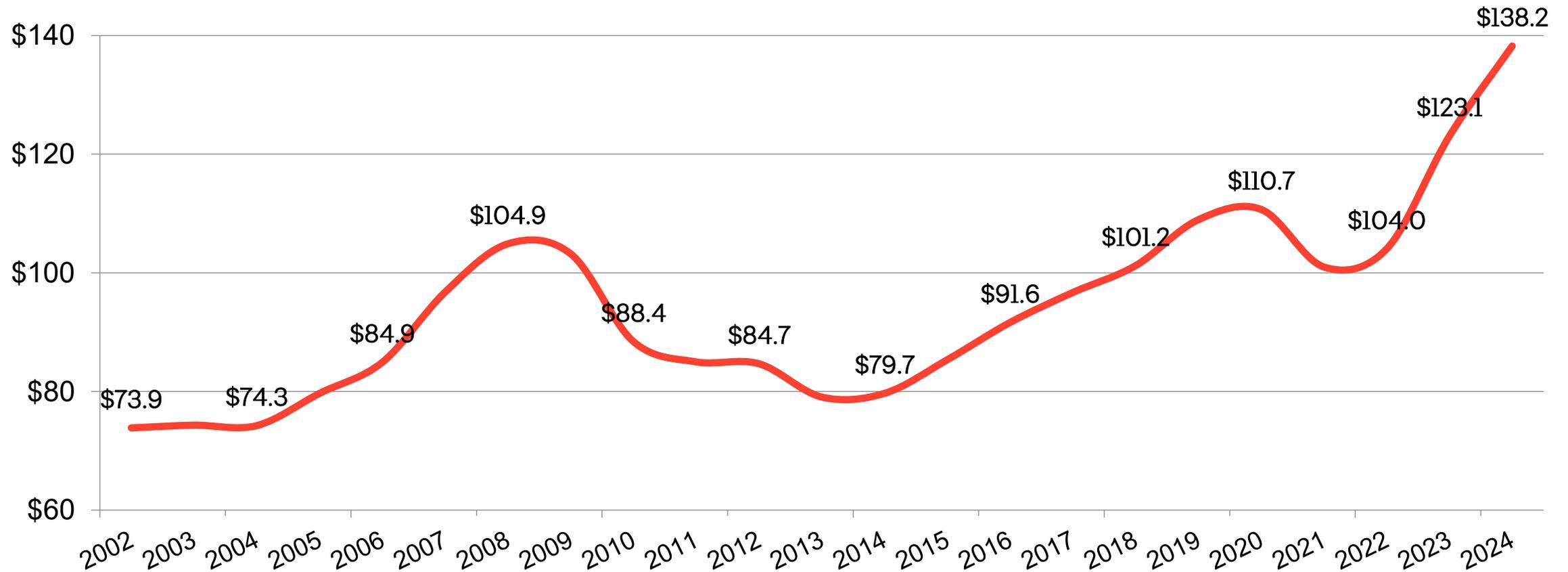
Through first seven months of 2025, construction spending is down a bit compared to last year

Billions of \$, Jan.- Jul. 2025 vs. Jan.- Jul. 2024 totals not seasonally adjusted

	2024	2025	% Change
Total Nonresidential Building Construction	\$495.1	\$485.6	-1.9%
Commercial/ Industrial	\$287.3	\$274.3	-4.5%
Lodging	\$14.1	\$13.7	-3.0%
Office	\$59.6	\$60.9	2.1%
Commercial (retail & other)	\$78.8	\$69.4	-11.9%
Manufacturing	\$134.8	\$130.3	-3.4%
Institutional	\$207.8	\$211.3	1.7%
Healthcare	\$39.5	\$39.7	0.3%
Education	\$78.8	\$79.1	0.3%
Religious	\$2.3	\$2.7	15.0%
Public Safety	\$10.5	\$11.1	5.5%
Amusement & Recreation	\$23.0	\$24.1	4.9%
Transportation	\$37.0	\$38.2	3.2%
Communication	\$16.6	\$16.5	-0.9%

Spending on education facilities – though cyclical – has almost doubled over past 20 years

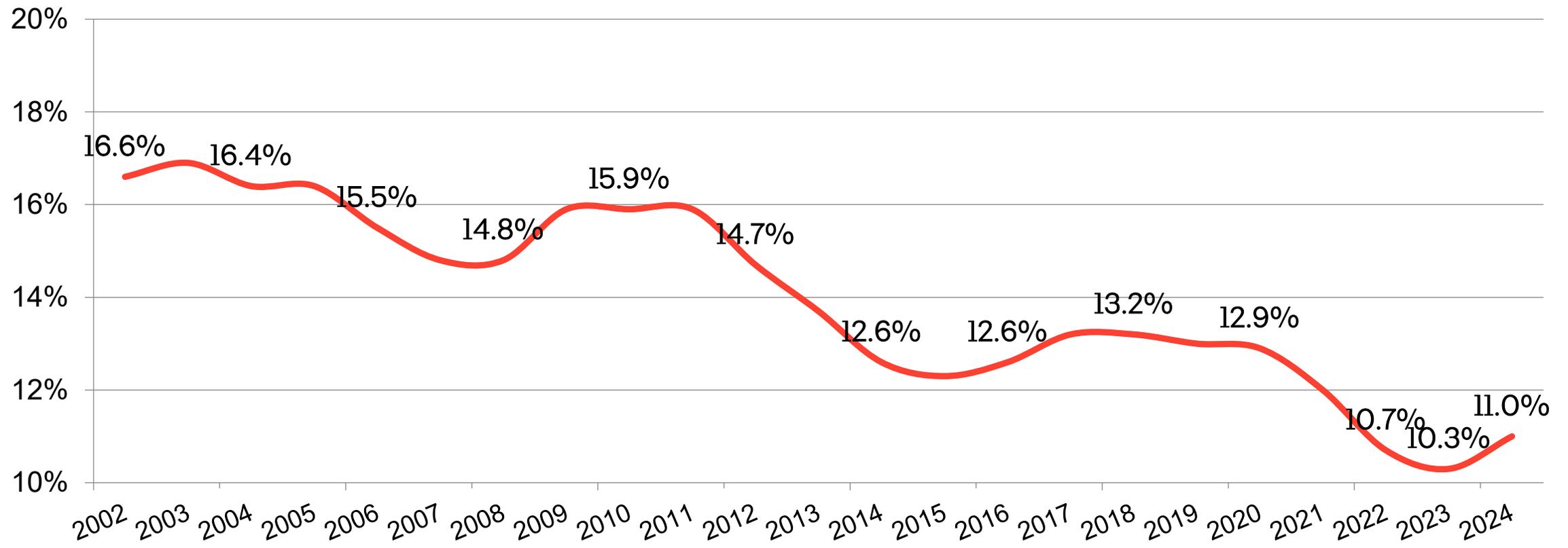
Billions of \$



Source: Construction spending put-in-place U.S. Census Bureau

However, education share of total nonresidential building construction spending has been trending down

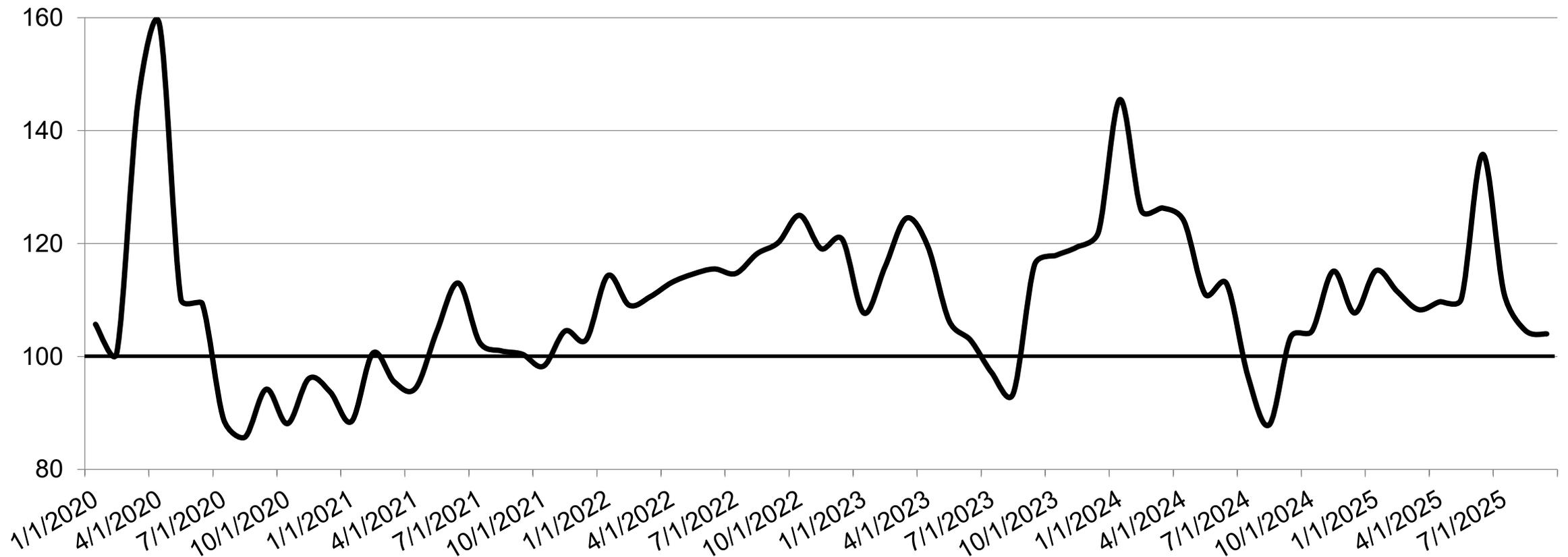
Education facility spending as share of total nonresidential (%)



Source: Construction spending put-in-place U.S. Census Bureau

ConstructConnect's Project Stress Index continues to be volatile

Project Stress Index value: calculated as comparison to the average weekly scores of 2021.

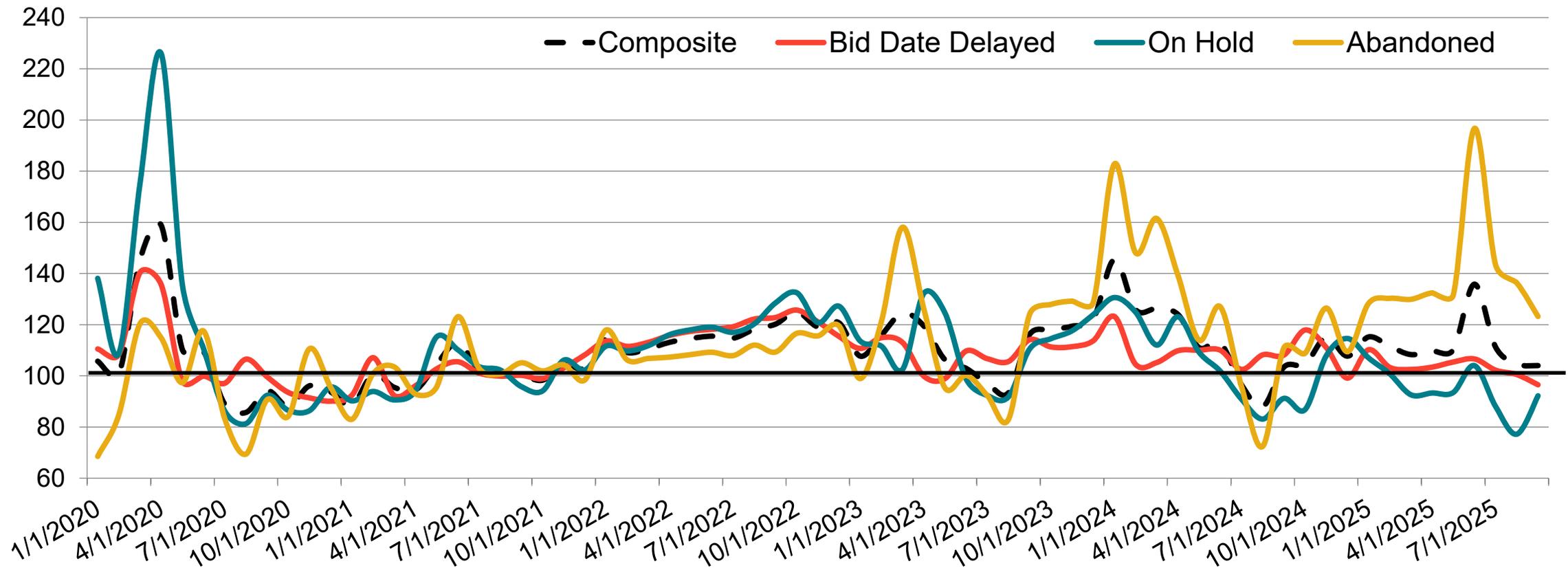


Note: composite index is an equal-weight average of indexed readings for bid date delayed, on hold, and abandoned projects

Source: ConstructConnect, September 2025

..With the volatility caused by elevated levels of abandoned projects

Project Stress Index value: calculated as compared to the average weekly result calculated during calendar year 2021.



Note: composite index is an equal-weight average of indexed readings for bid date delayed, on hold, and abandoned projects

Source: ConstructConnect, August 2024

Education facilities account for almost one in every six dollars spent on construction of nonresidential buildings

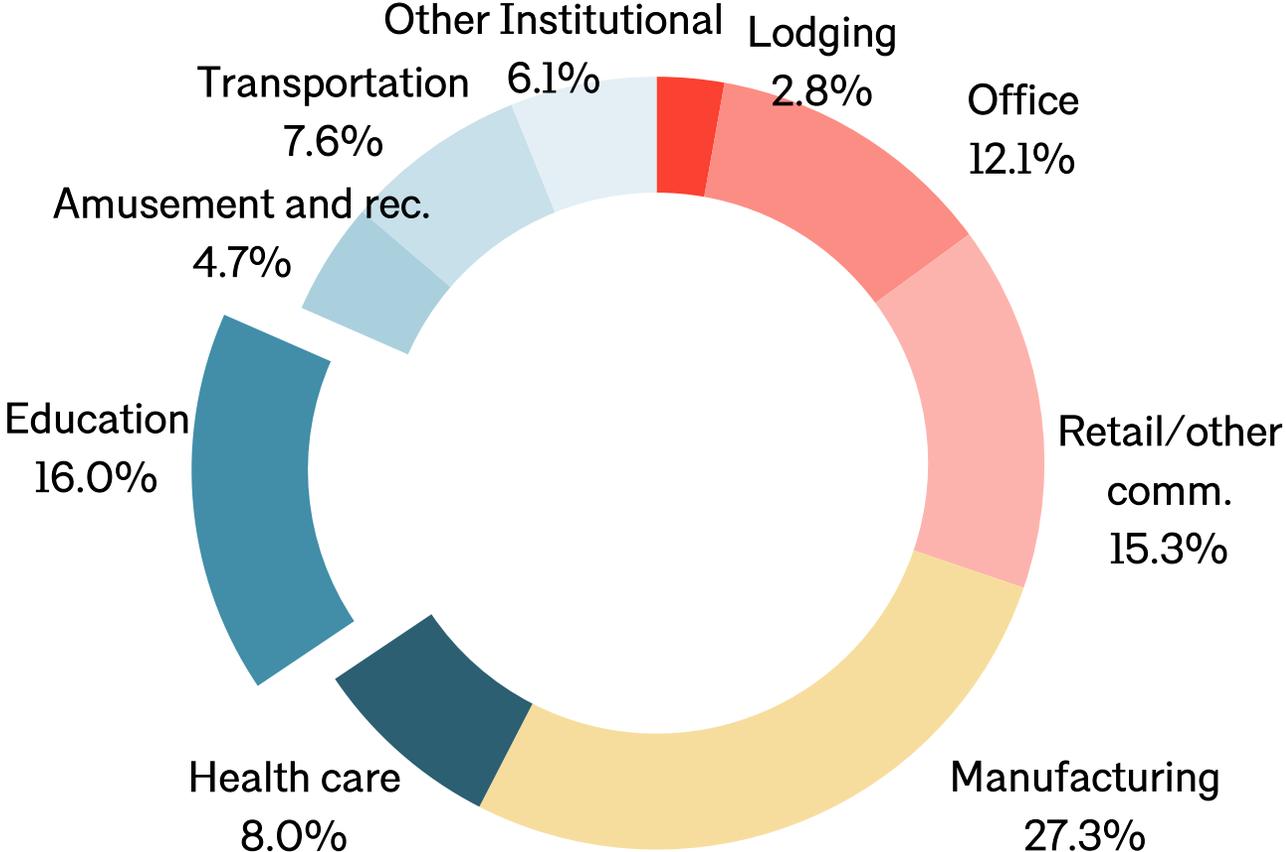
Share of spending on nonresidential buildings, 2024

Total 2024 spending: \$853 B

Commercial - 30.2%

Industrial - 27.2%

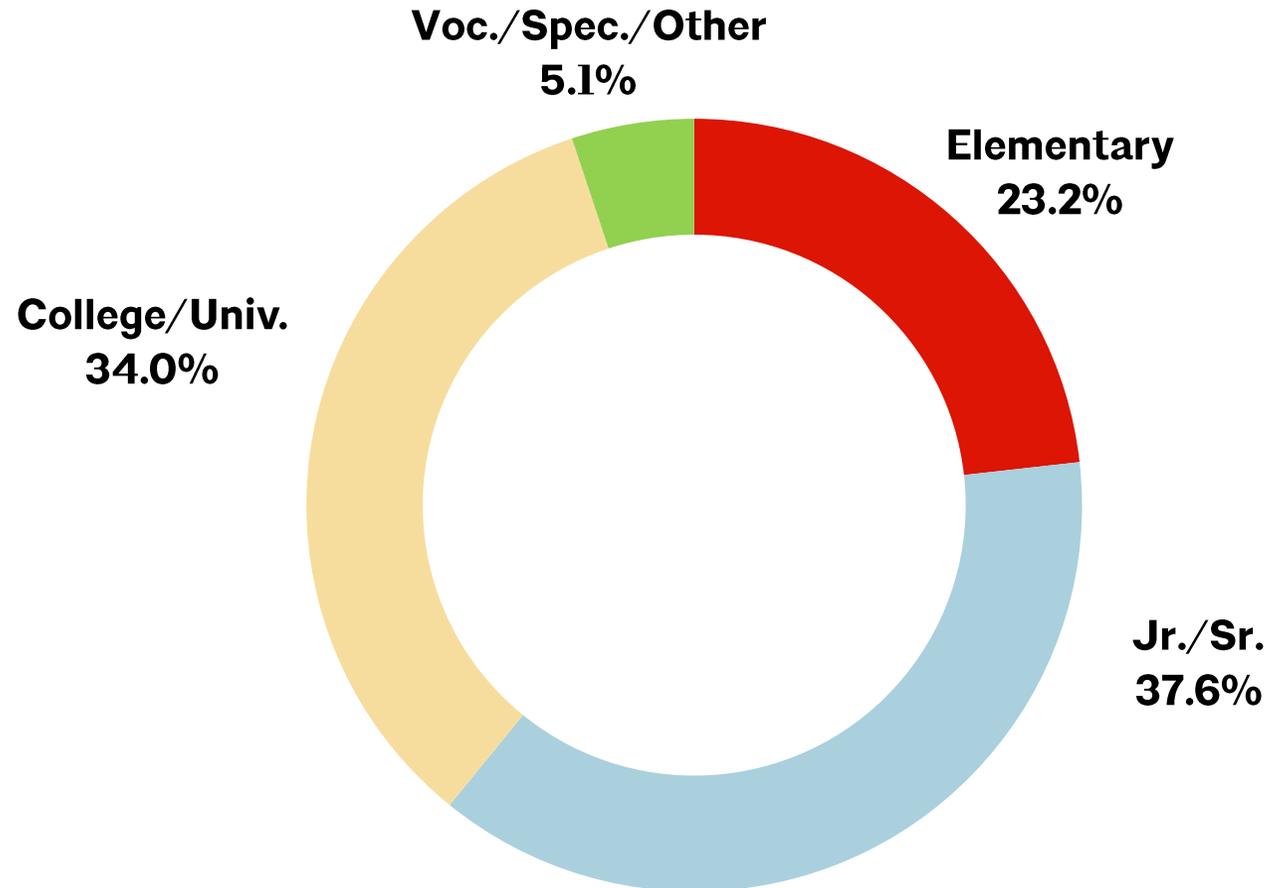
Institutional - 42.4%



Source: Construction spending put-in-place.

Education construction market fairly balanced between three major sectors

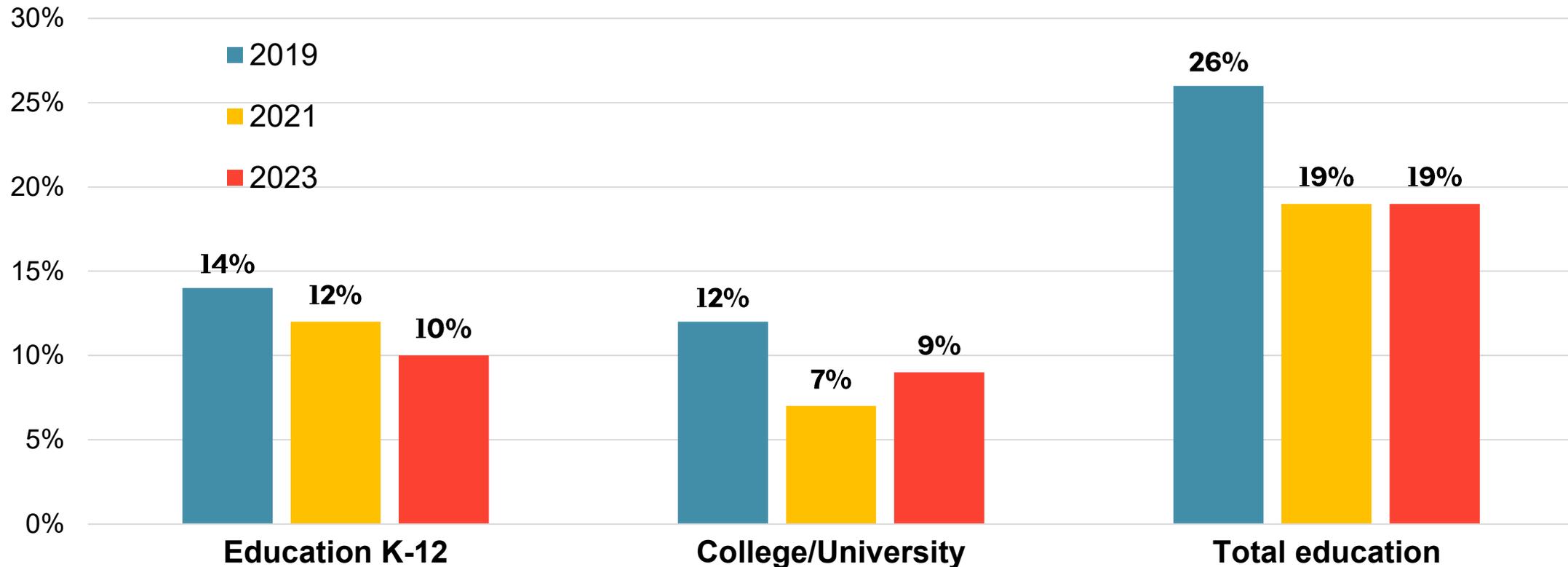
Share of spending on educational facilities by educational sector, 2024



Source: Construction spending put-in-place, U.S. Census Bureau, 2024

By 2023, education market accounted for almost one in five dollars of architecture firm fees nationally

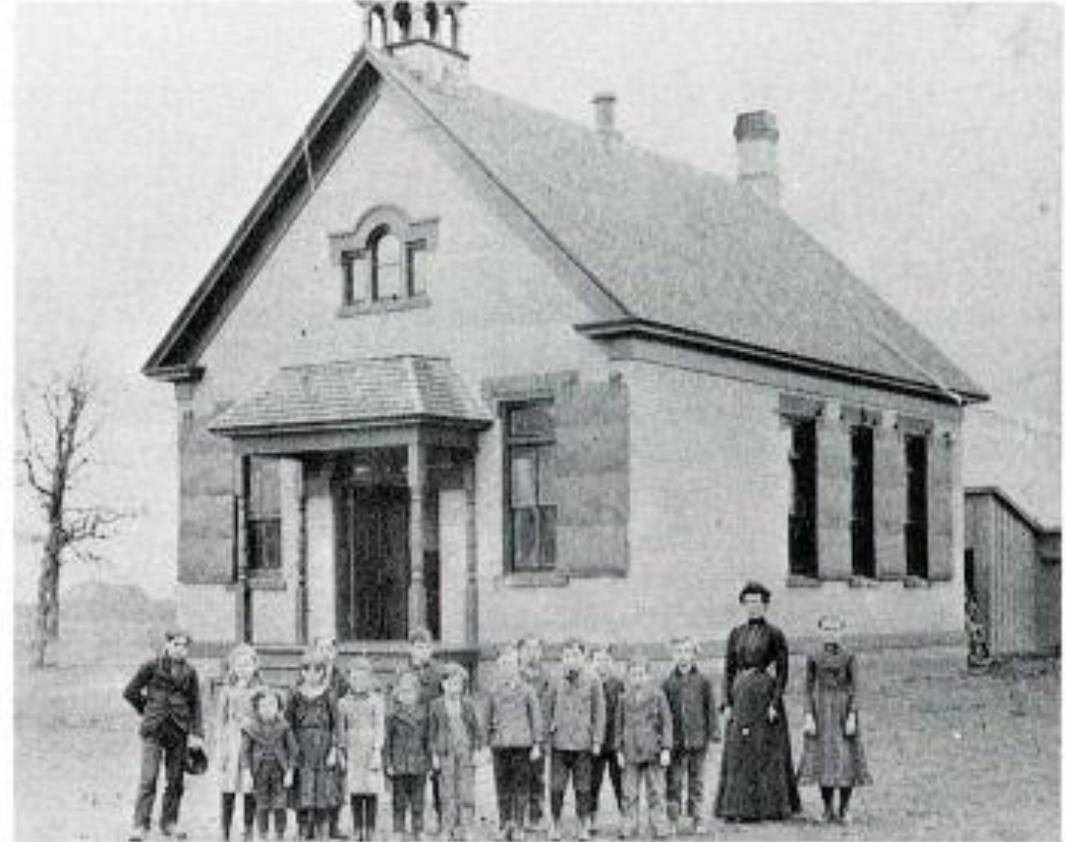
Share of architecture firm billings nationally



Source: AIA Firm Survey reports, 2020, 2022, and 2024

ASCE schools report card: “D+” 53% of schools need improvements to reach “good” condition

- Almost a quarter (24%) of public school buildings were rated as being in “fair” or “poor” condition.
- Windows, plumbing and HVAC systems are considered in “fair” or “poor” condition in 30% of public school facilities.
- 40% of public school systems do not have long-term educational facilities plan in place to address operations and maintenance.



2024 NCES report documents aging public school stock in need of renovation

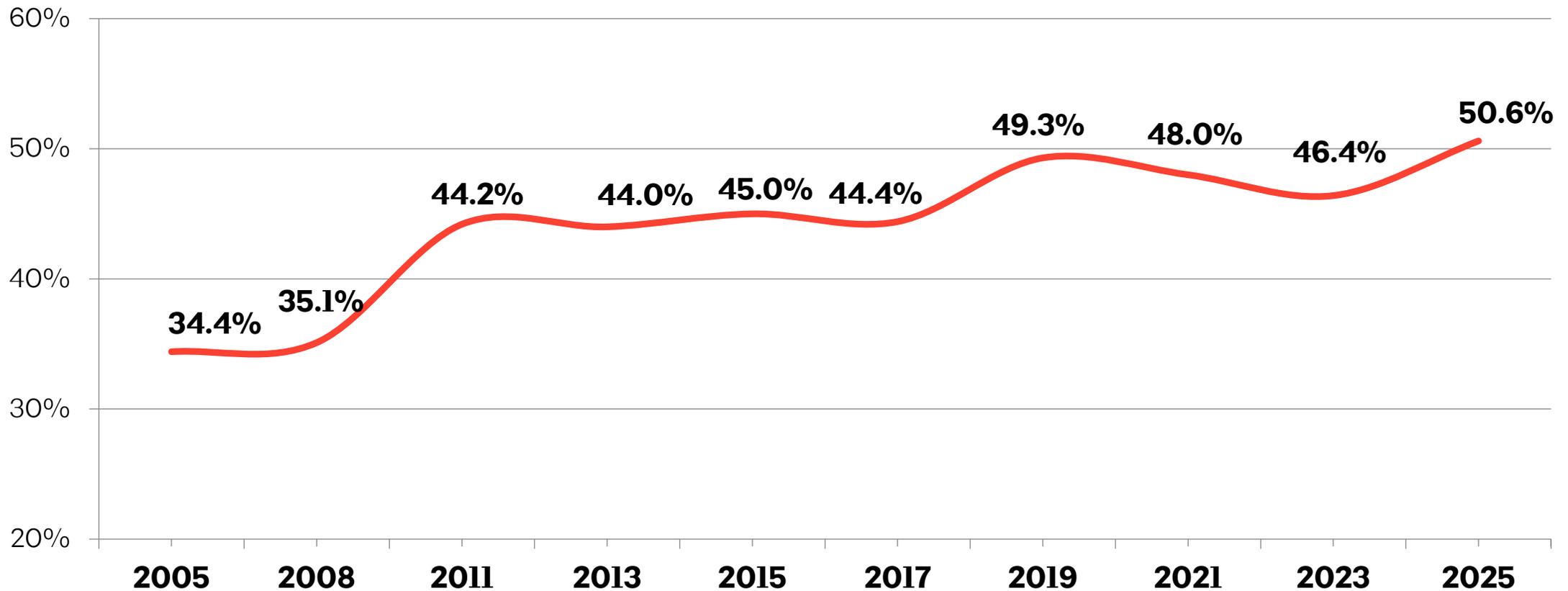
- Average age of main school buildings is 49 years; 38% were built pre-1970.
- 46% have had a major building replacement or addition since the school was built.
- 21% of schools reported having major repair, renovation or modernization currently being performed.



National Center for Education Statistics 2024. 1625 public schools were surveyed for this study.

Overall, work on existing nonresidential building facilities currently accounts for about half of design activity

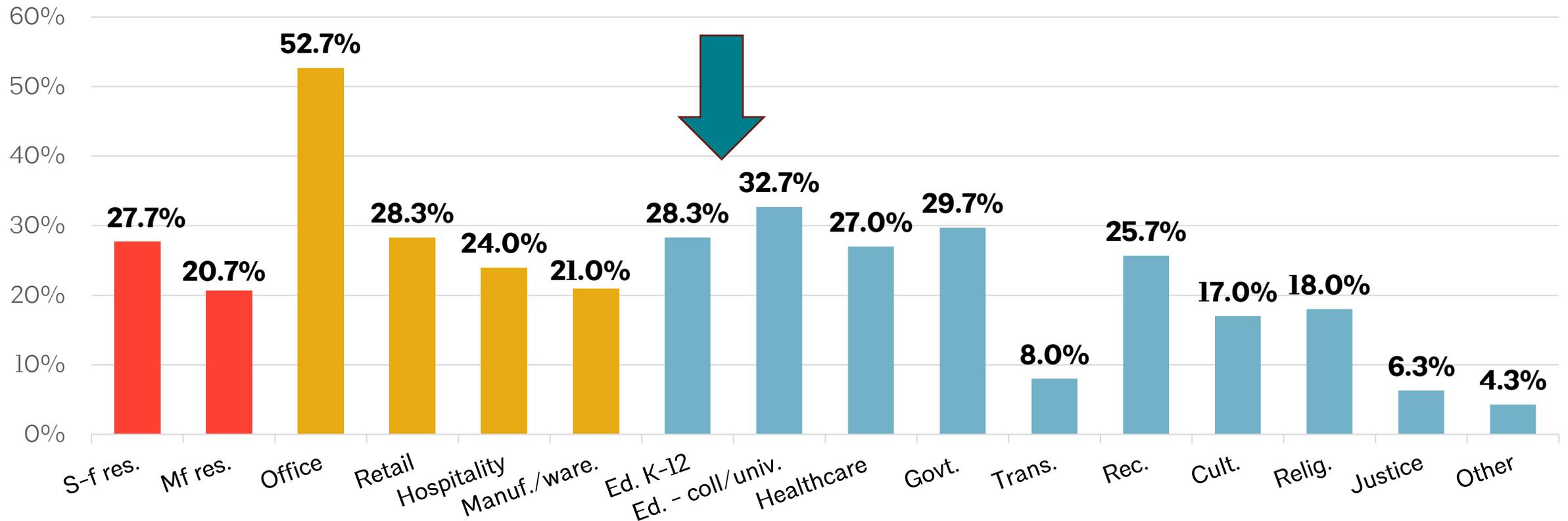
Renovations, rehabilitations, additions, and historic preservation as percent of firm building design billings



Source: AIA Firm Survey Report, The Business of Architecture, various years; 2025 % estimated from October 2025 AIA Work-on-the-Boards survey.

Reconstruction projects undertaken by architecture firms over past year common for virtually every building type

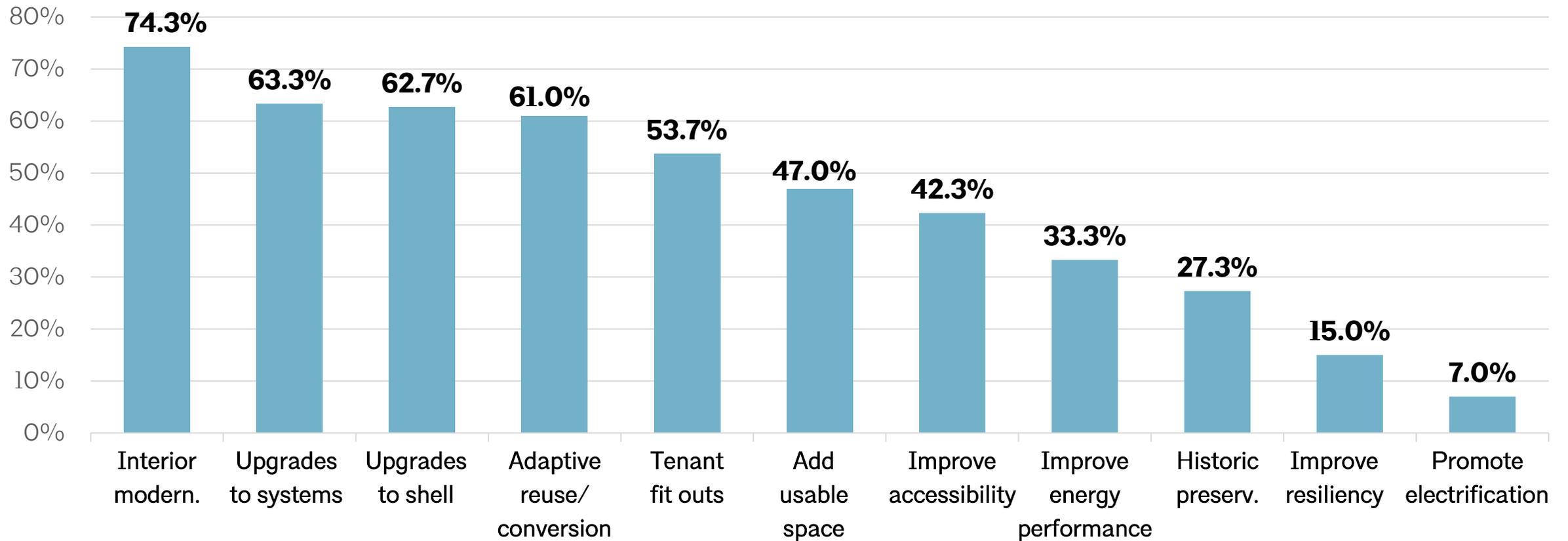
Of reconstruction projects firm has worked on over over past year, what building types were projects undertaken (% of firms)



Source: AIA Work-on-the-Boards survey, October 2025

Modernization and systems upgrades are most common goals of reconstruction projects

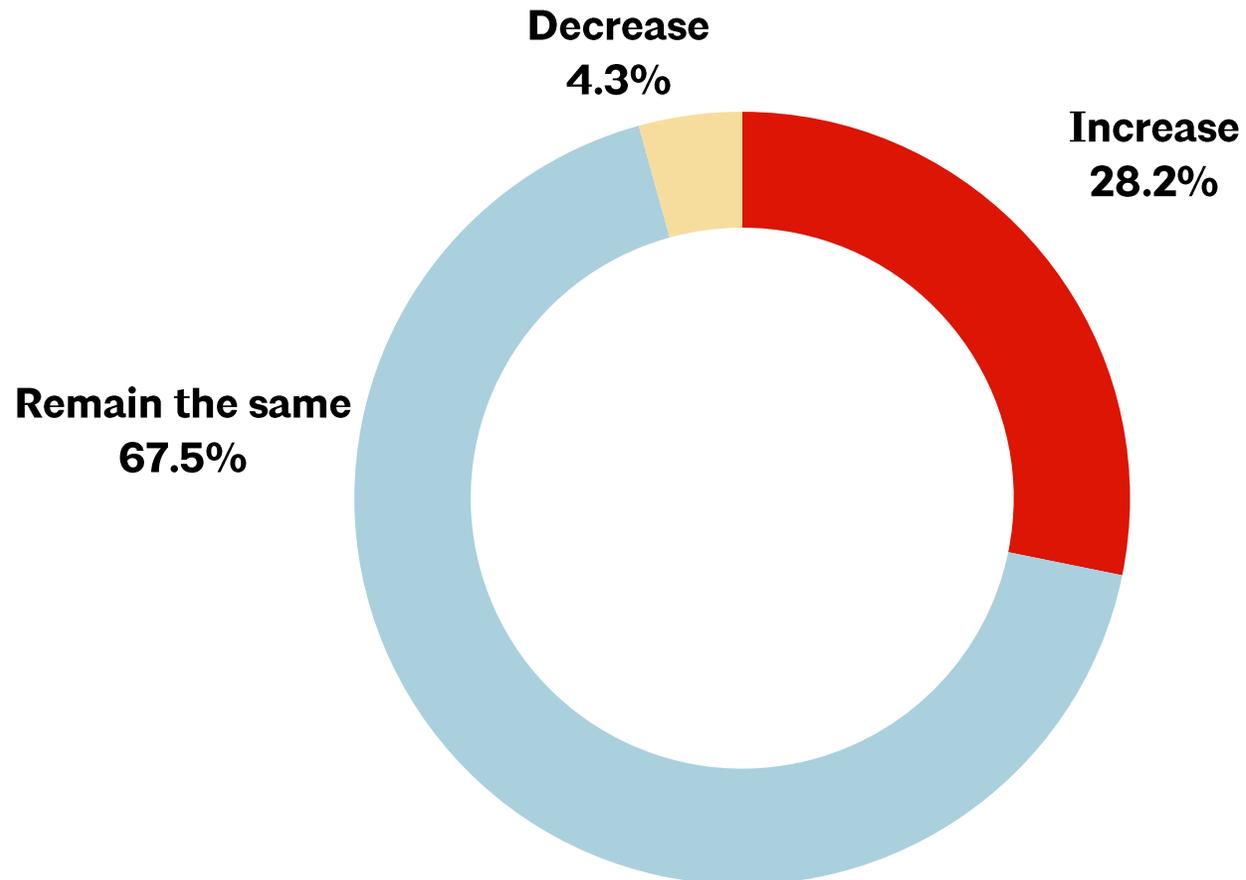
The principal goals of reconstruction projects that their firm has worked on over the past few years (% of firms reporting, multiple responses accepted)



Source: AIA Work-on-the-Boards survey, October 2025

Many architecture firms expect share of billings from reconstruction projects will increase in coming years

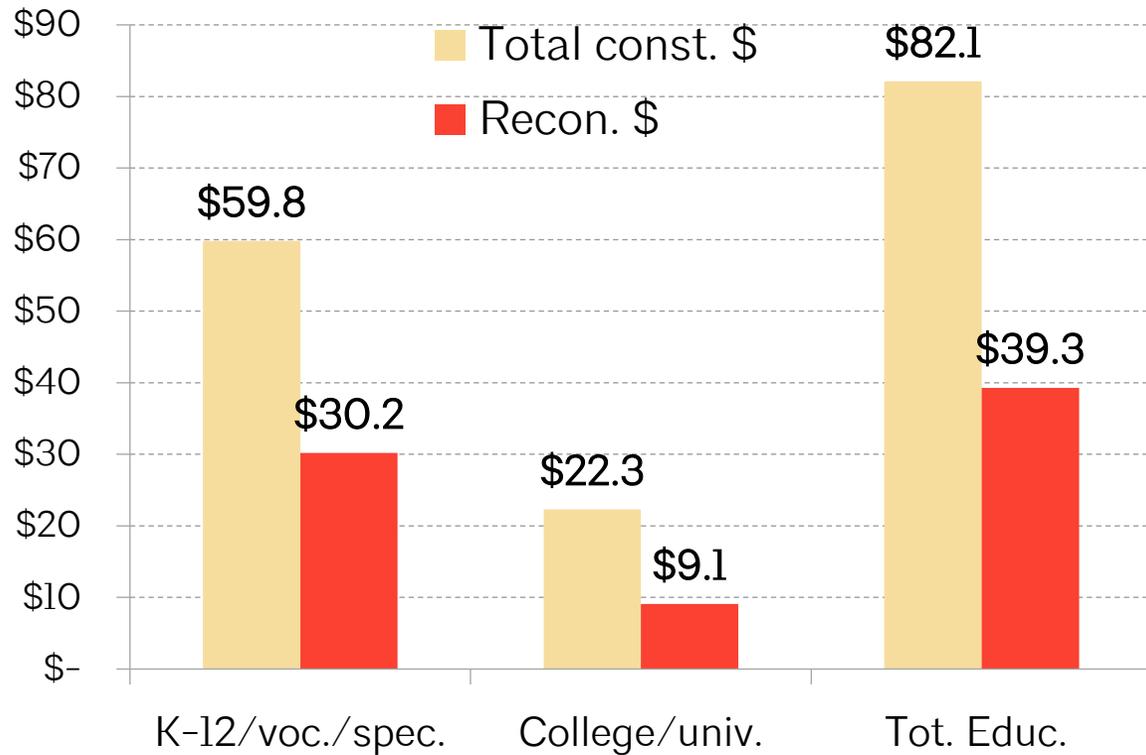
Expectations for change in share of work from reconstruction projects in coming years, % of firms



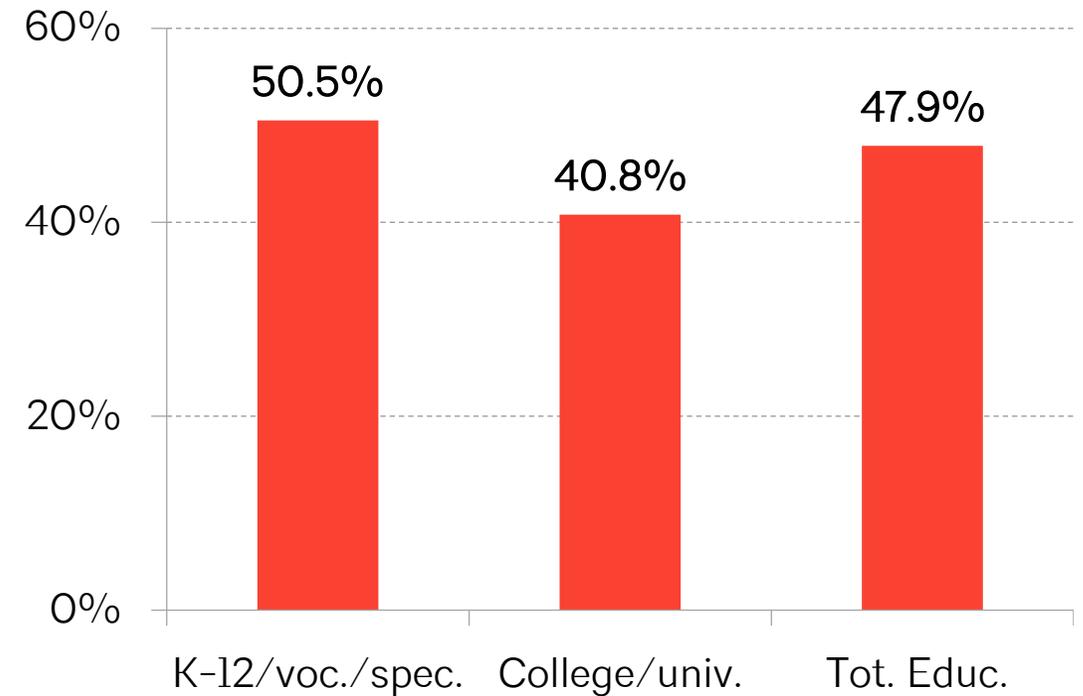
Source: AIA Work-on-the-Boards survey, October 2025

Thru Q-3 of 2025, reconstruction share accounted for almost half of all of education construction activity nationally

Construction starts (billions \$)



Reconstruction share (%)



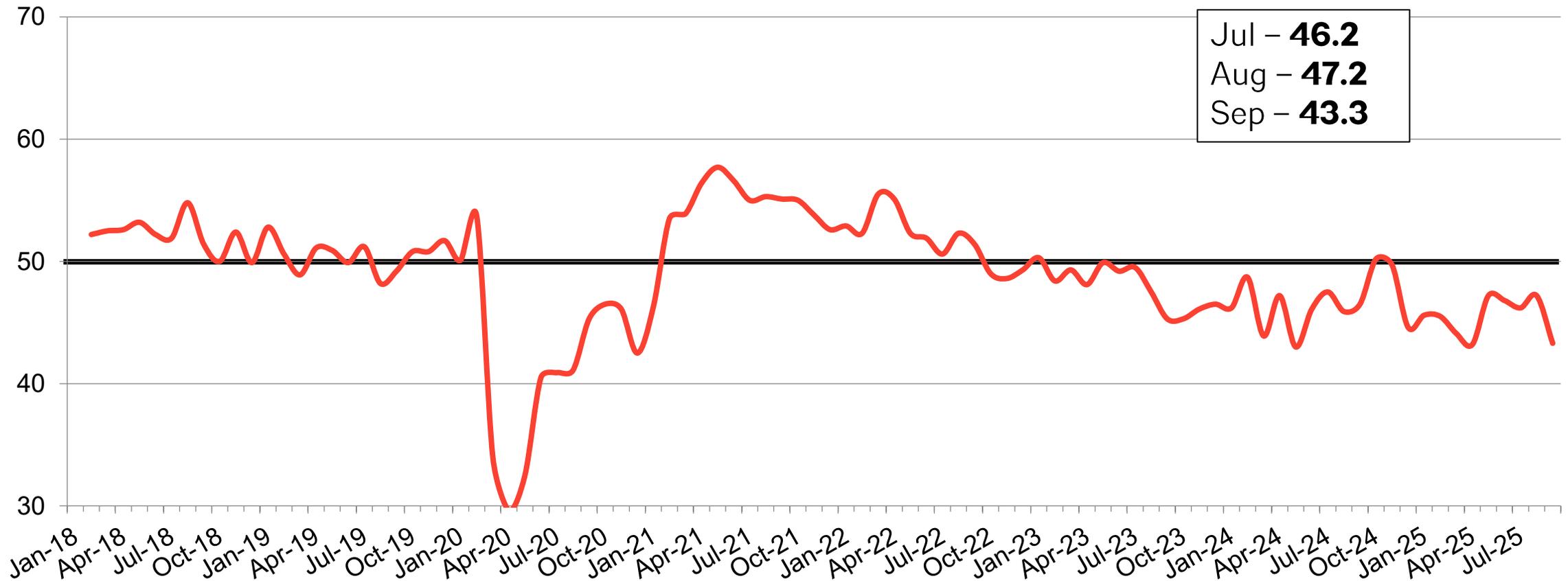
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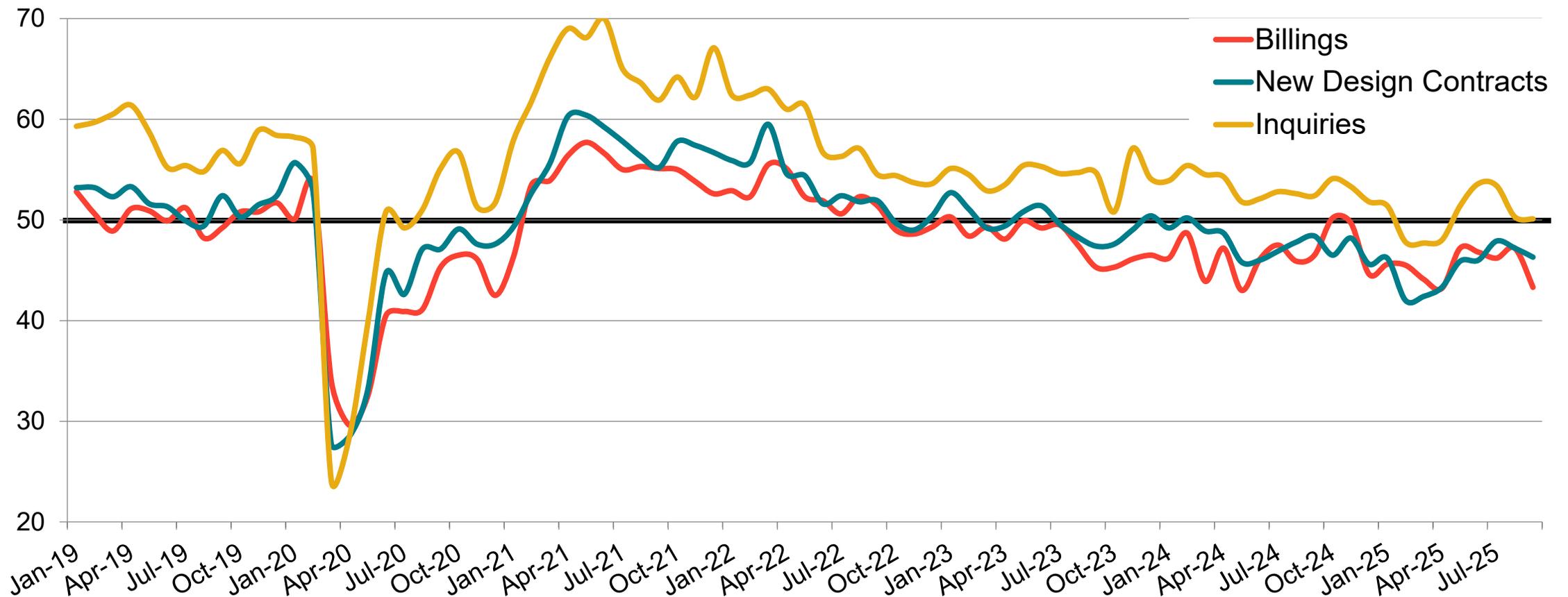
Architecture firm billings have been soft since late 2022; recently more volatile

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



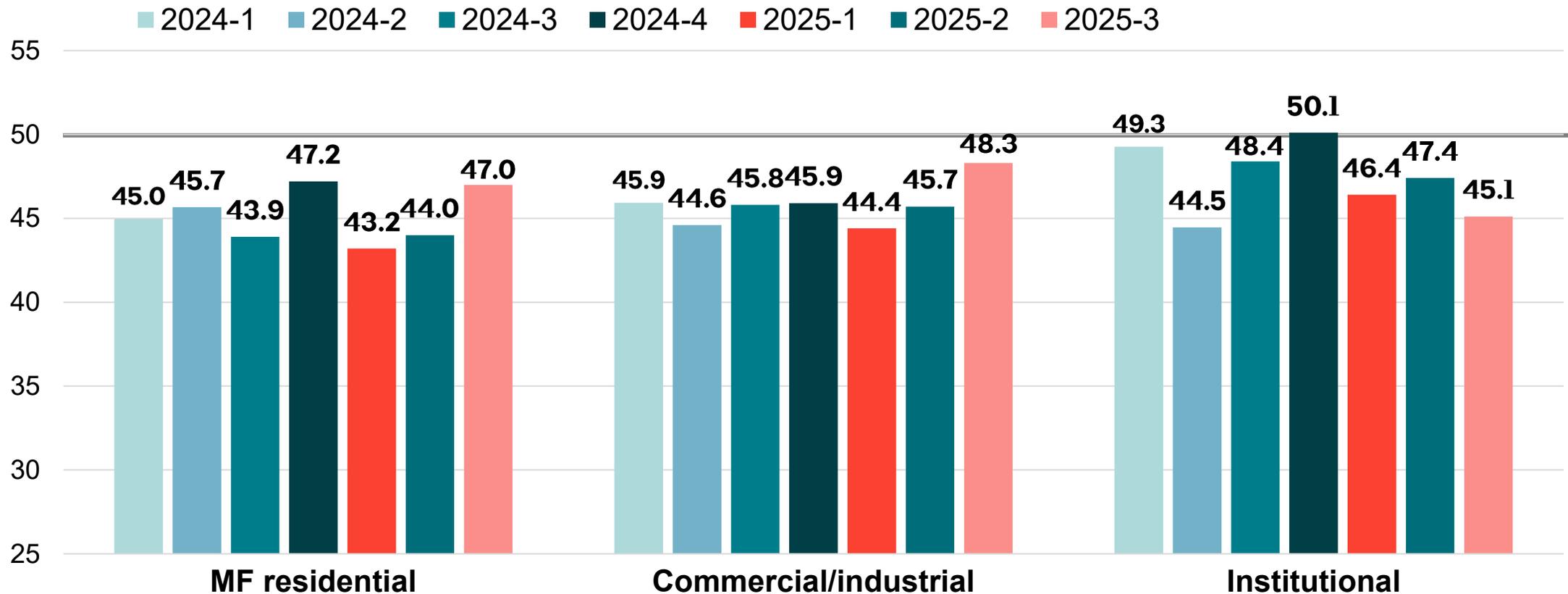
Billings and new design contracts have remained weak recently; inquiries have strengthened a bit

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



All major specializations have been weak; mf residential and commercial/industrial firms report slowdown easing

ABI scores by quarter for 2024 and 2025

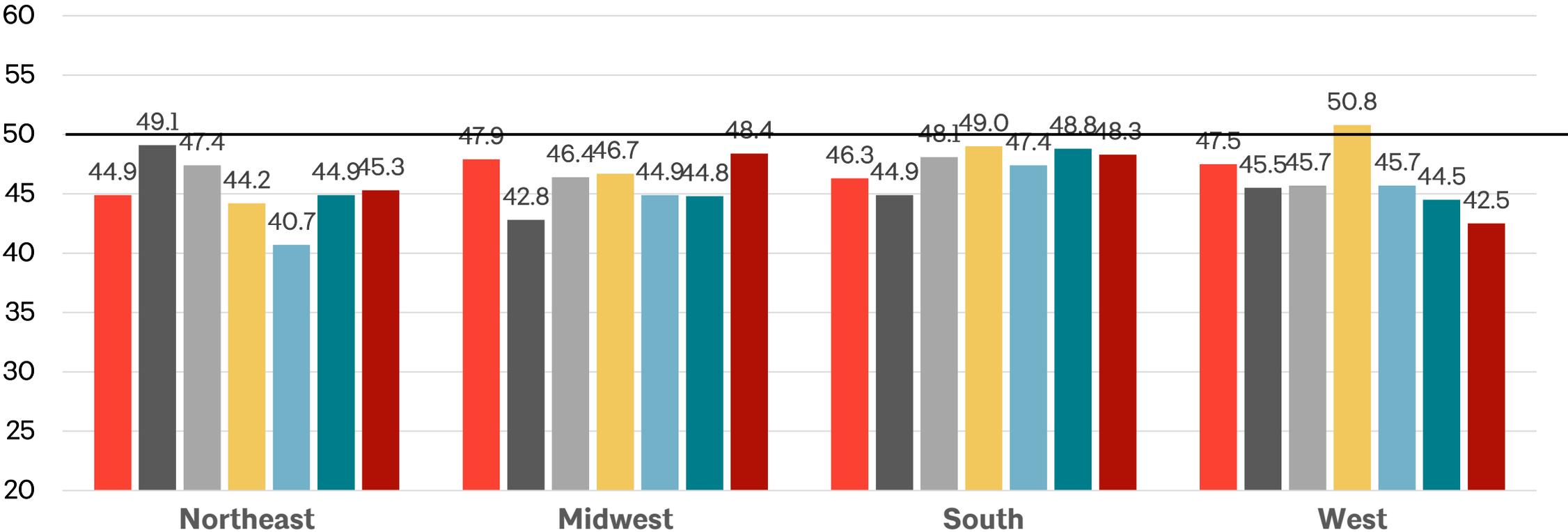


Source: AIA/Deltek Architecture Billings Index

Firms in all regions currently reporting weakness; firms in Midwest and South currently seeing mildest downturn

ABI scores by quarter 2024 to present

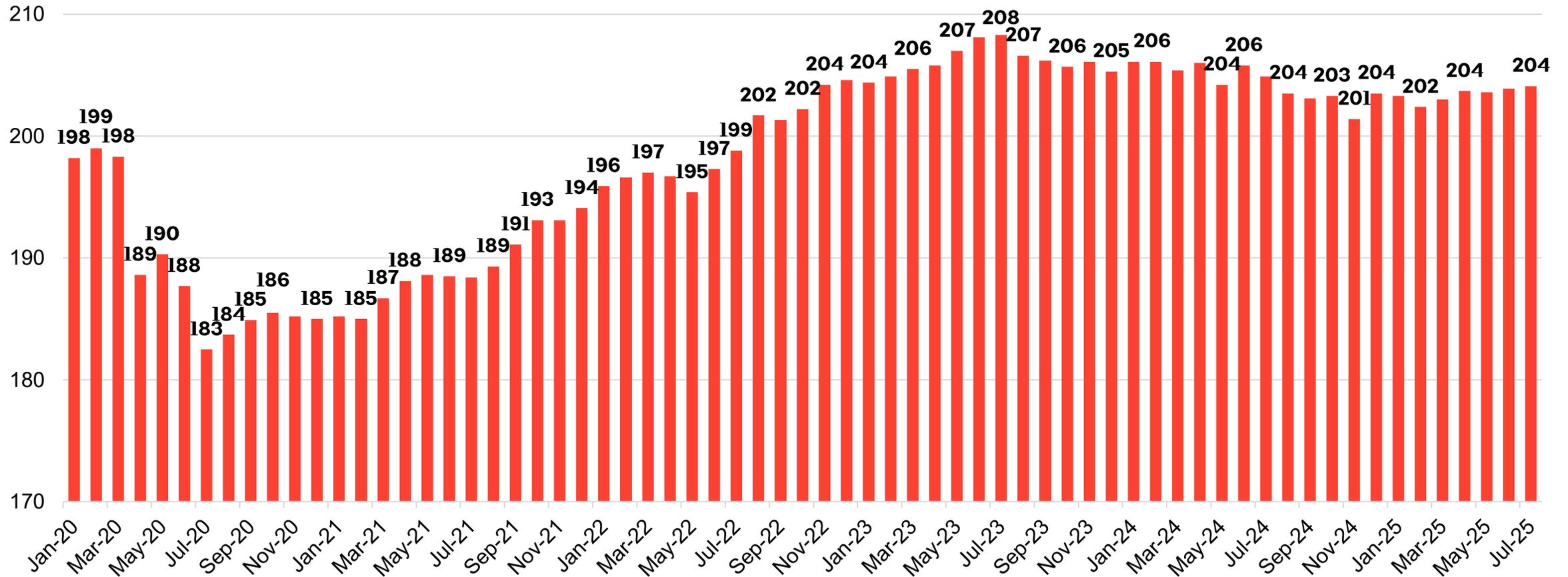
2024-1 2024-2 2024-3 2024-4 2025-1 2025-2 2025-3



Source: AIA/Deltek Architecture Billings Index

Architecture firm employment has returned to pre-pandemic levels, and has been fairly stable recently

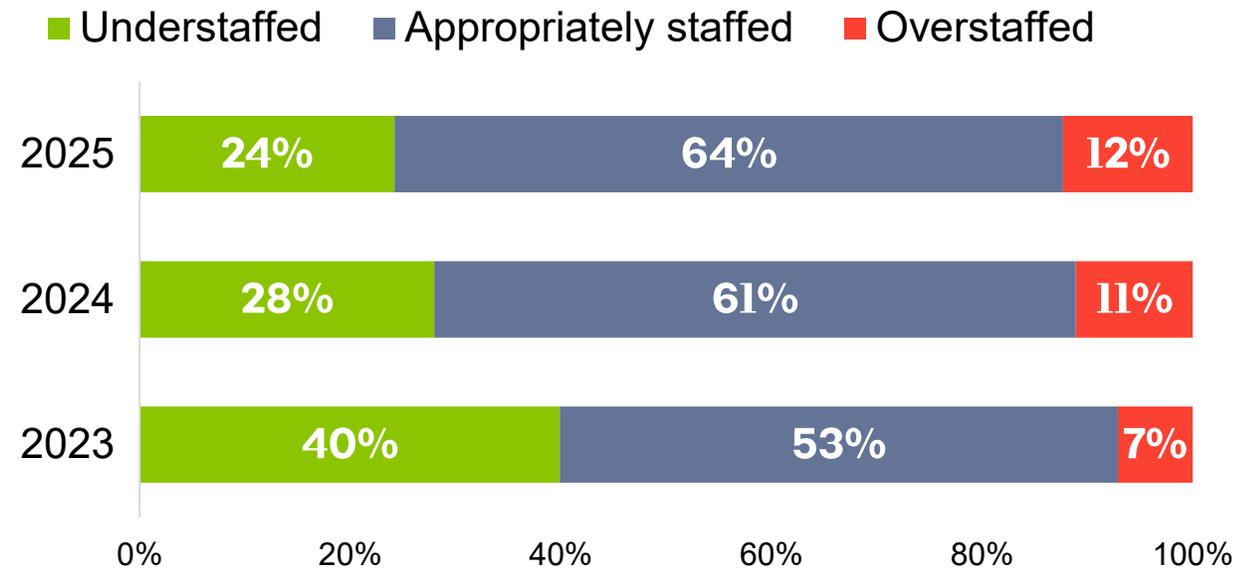
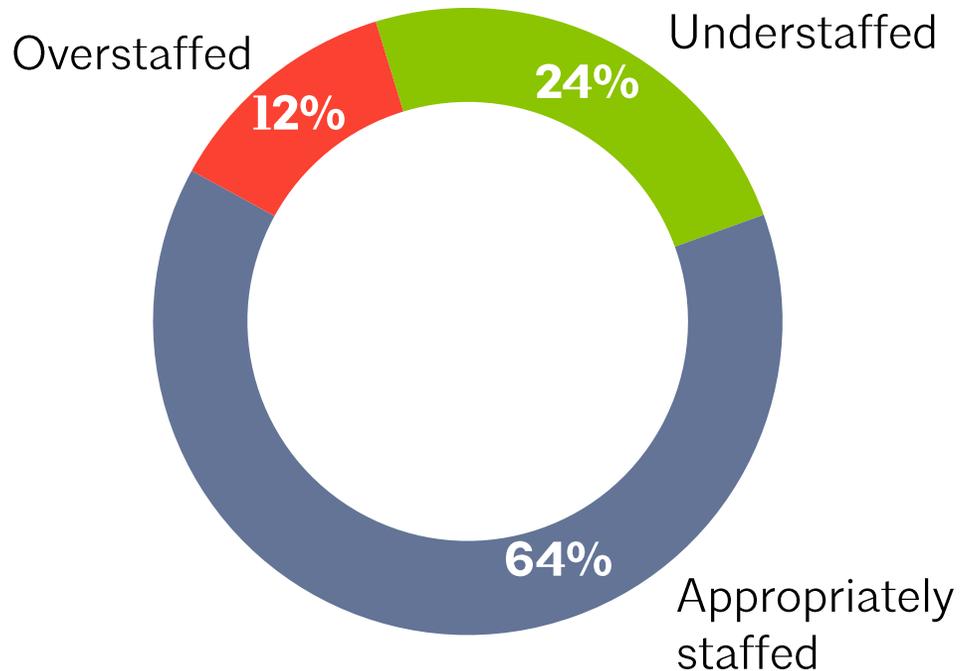
All employees, thousands, architectural services, seasonally adjusted



Source: Bureau of Labor Statistics

Even with extended slowdown, few firms feel that they are overstaffed at present...though increasing over time

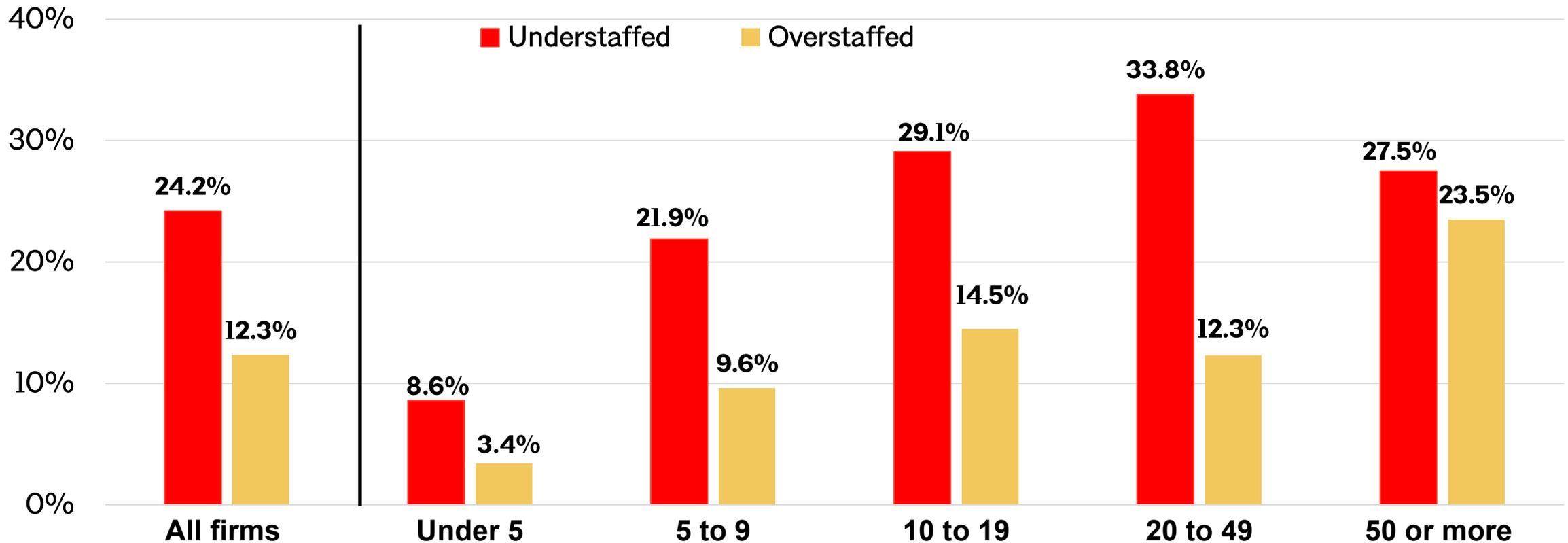
Perspective of adequacy of current architectural staff, share of firms, midyear surveys



Source: AIA Work-on-the-Boards, 2023-2025

Larger firms are more likely to feel that they are overstaffed

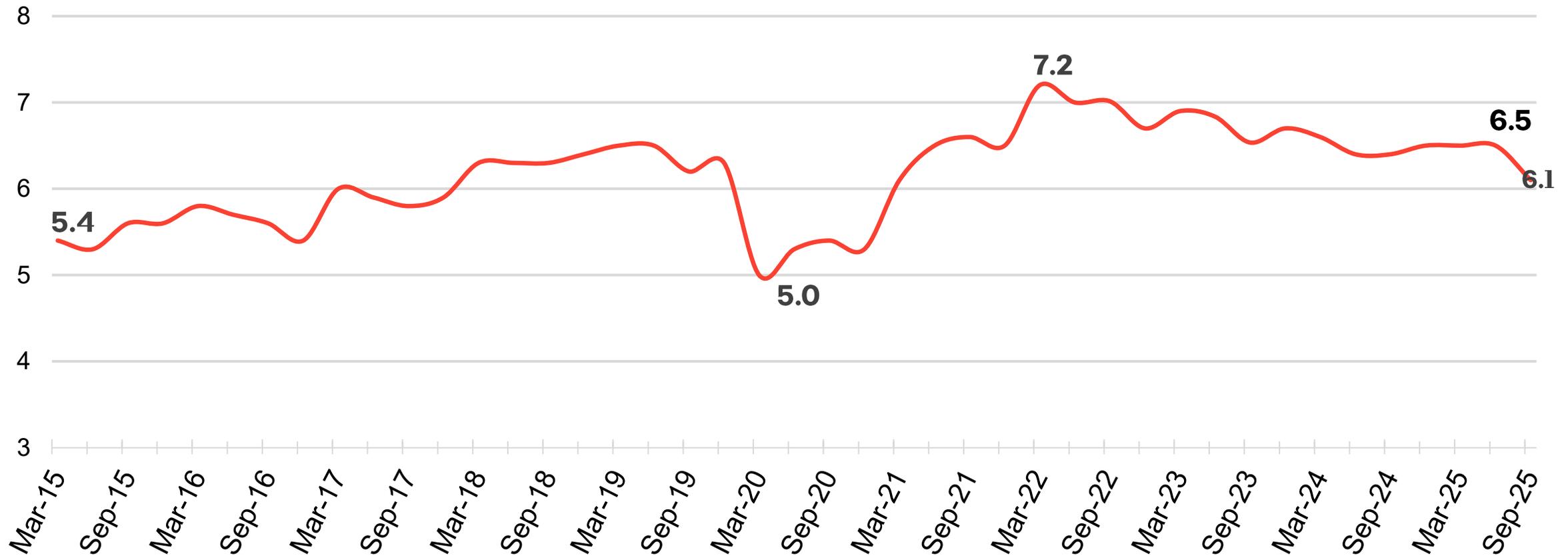
Perspective of adequacy of current architectural staff, share of firms by number of employees, 2025



Source: AIA Work on the Board survey, July 2025

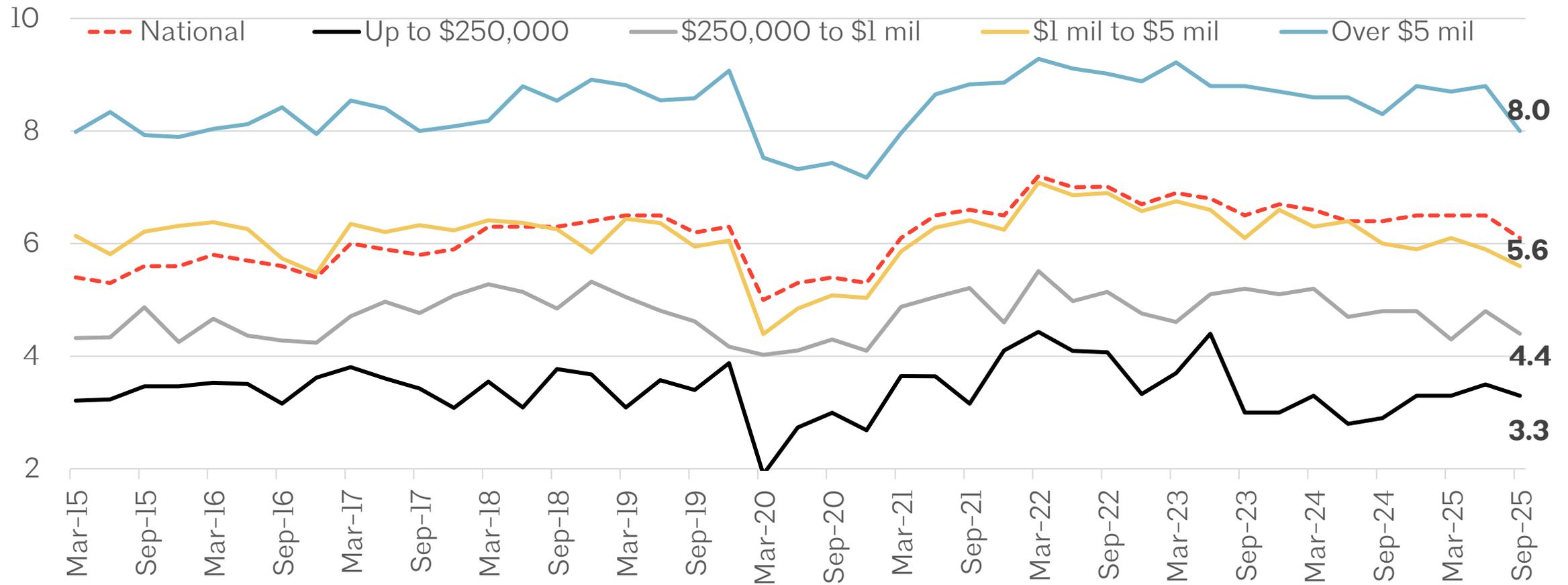
Architecture firm backlogs – averaging 6.1 months – have fallen about a month during this slowdown

Average backlog at architecture firms (months)



...However, they vary considerably by firm size and recently dropped more for larger firms

Average backlog at architecture firms by annual billings (months)



Source: AIA Work on the Boards survey

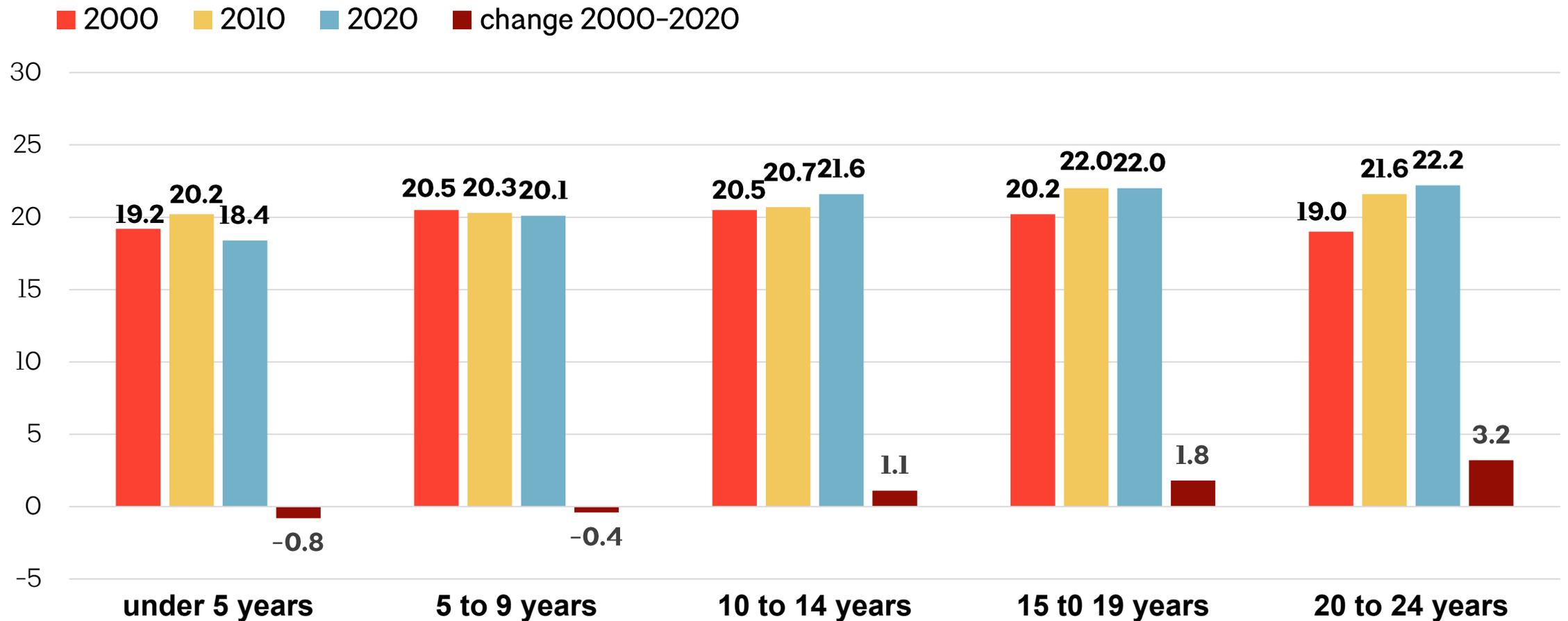
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Nationally, since 2000 the school age population has grown for older age categories

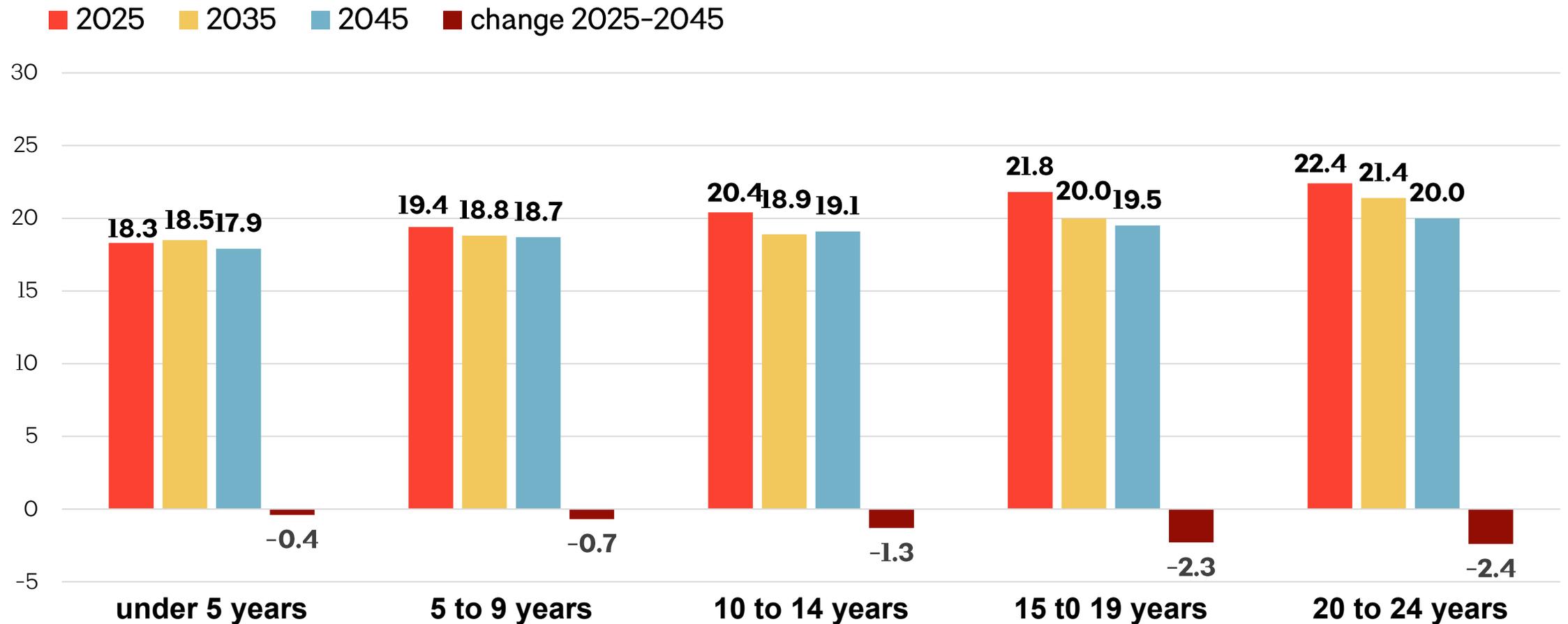
Millions of people



Source: U.S. Census Bureau decennial census 2000, 2010, and 2020

However, the school age population projected to decline over the next two decades, particularly for older age ranges

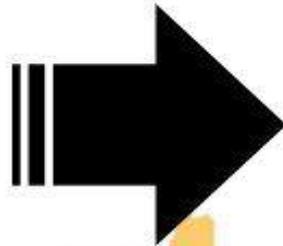
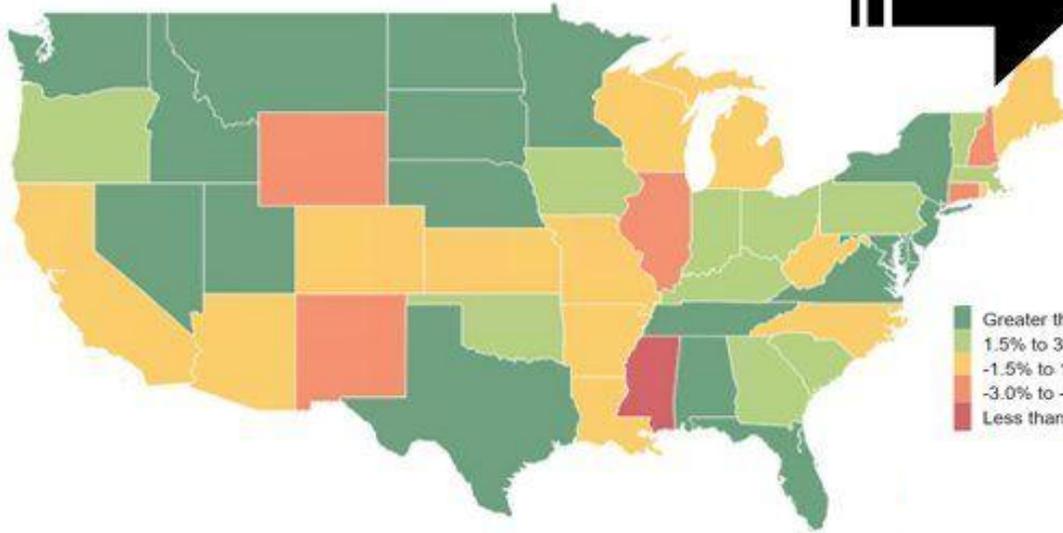
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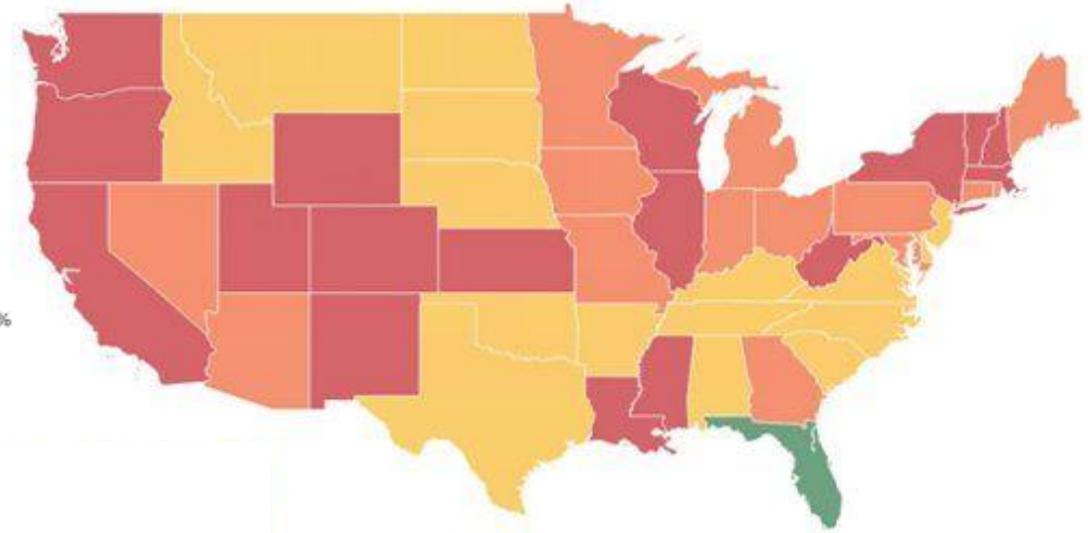
Source: U.S. Census Bureau population projections

In recent years, there has been a dramatic falloff in the age 5–13 population in virtually all states

Age 5–13 Population Change by State
4-year percent change (2017–2020)



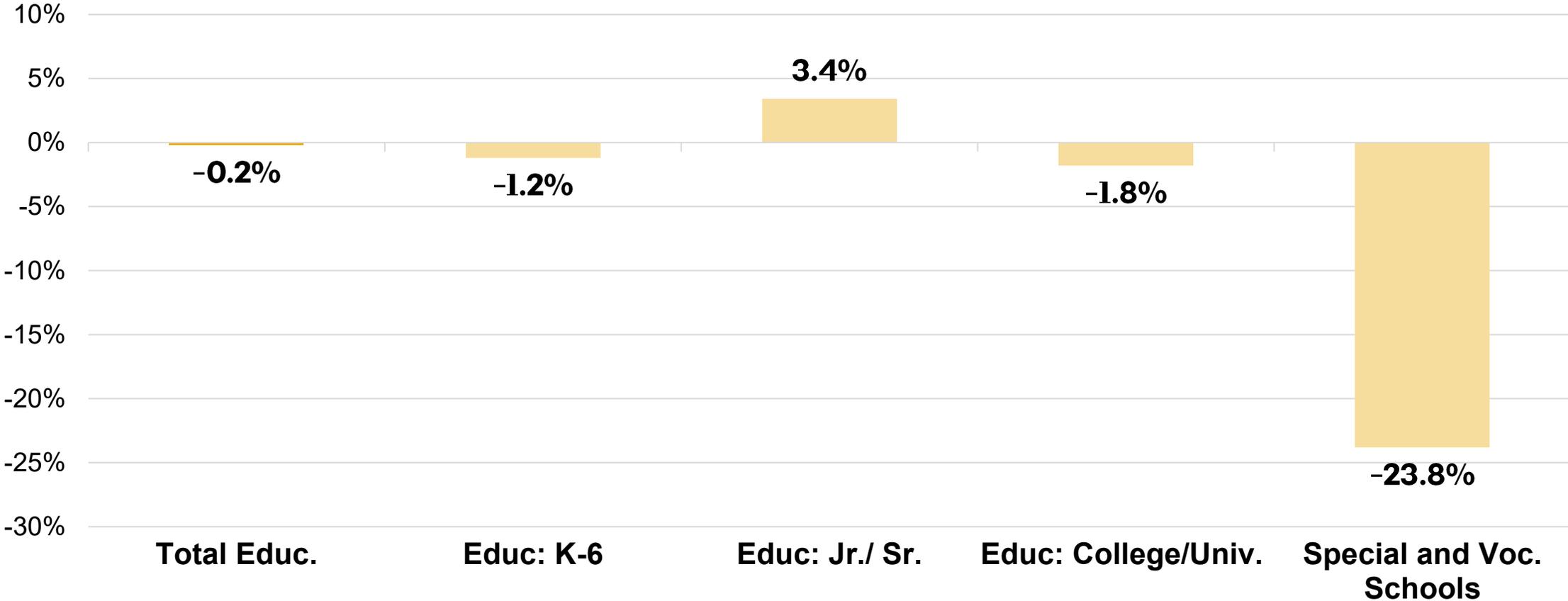
Age 5–13 Population Change by State
4-year percent change (2021–2024)



Source: US Census, John Burns Research and Consulting, LLC

Education construction starts flat overall, but weak for special and vocational segment

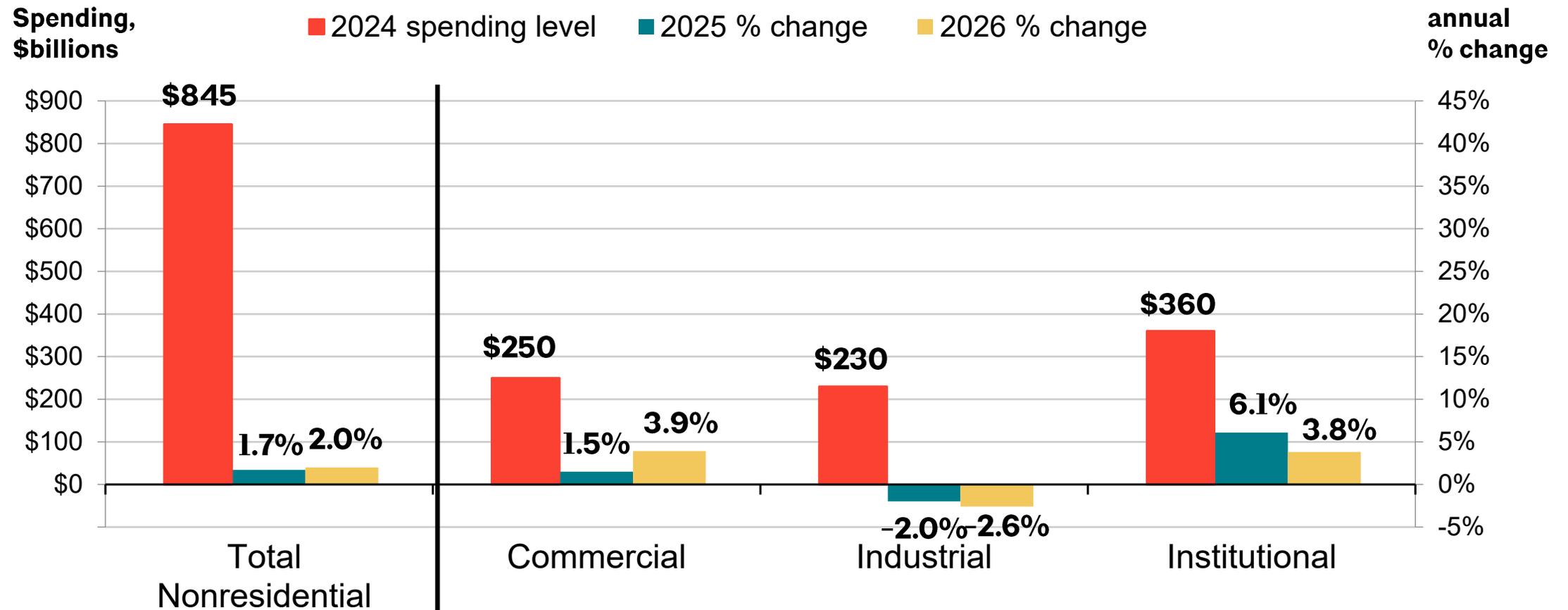
Percentage change in value of education construction starts, Jan-Sep 2025 vs. Jan-Sep 2024



Source: ConstructConnect, Oct. 2025

Construction spending expected to see slow growth this year and next

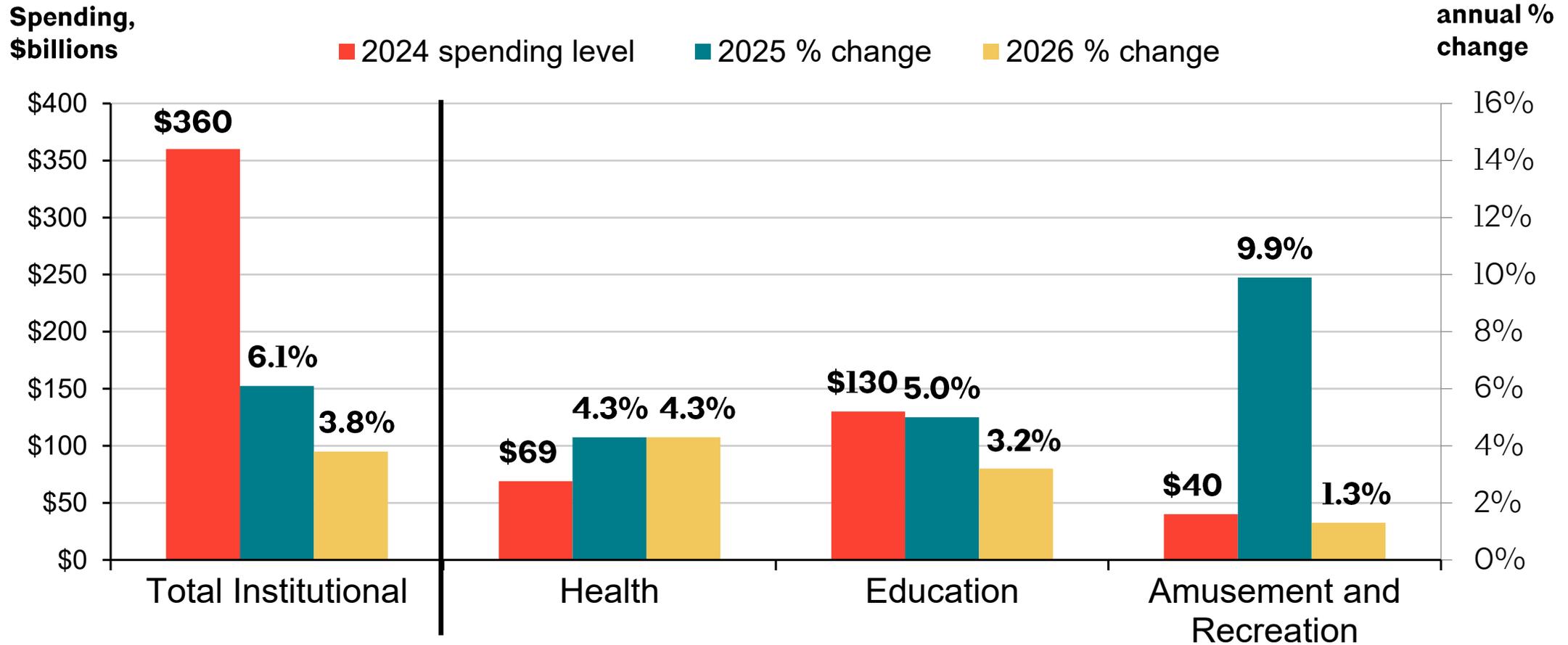
Billions \$ / % change—construction spending on nonresidential buildings



Source: AIA Consensus Construction Forecast Panel, July 2025

Major institutional sectors expected to see healthy growth this year before moderating a bit in 2026

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



Note: Not all institutional categories reported in chart
 Source: AIA Consensus Construction Forecast Panel, July 2025