

Metro DC

Architectural Confidence Index



We are pleased to provide you with the summary results of the second edition, Q3 2009 Metro DC Architectural Confidence Index. The inspiration for the ACI came from a roundtable discussion of the Real Estate Community's thought leaders with the intent to index past, current, and projected Architectural Confidence across a variety of local market segments.

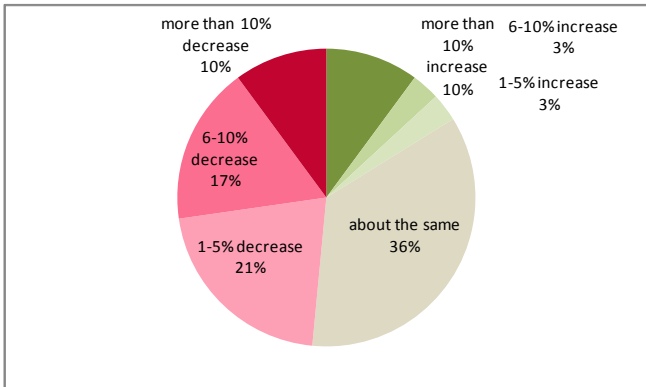
The ACI Survey was sent to the area's senior leaders in the Architectural Community and was met again with an overwhelming response. We received a tremendous number of responses and accolades about the value of the data collected from the Q2 2009 inaugural edition. 75% of the respondents were Partners/Owners, many of whom are with firms that have over 25 architects on staff. The ACI is based on a 100 point scale, with 50 representing a neutral confidence level. Above 50 represents a positive confidence level while below 50 represents a negative confidence level.

The ACI index for Q3 2009 stands at 34 on a 100 point scale – **a drop of 5 points from Q2 2009**. Whereas in Q2 2009 64% of the firms surveyed experienced a decrease in billings from Q2 2008 to Q2 2009, 73% of firms reported Q3 2009 billings declining from Q3 2008 levels. Almost 50% of those firms had decreased billings in excess of 10%.

In the Q2 2009 survey, **43% of local firms anticipated Q3 2009 billings to increase. Unfortunately, billings increased for only 14% of them.** This time around, local firms are less optimistic – only 31% of area firms believe that their billings will increase in Q4 2009 from Q4 2008.

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Compared to Previous Quarter.



Looking at the previous quarter, Q3 2009 billings decreased again for 48% of local firms while billings remained about the same for 35% and increased for only 16%, or about 1 in 6 firms. The general sentiment can be summed up as one respondent put it, "The Summer of 2009 marked the end of a long, busy, profitable period. These days we are making the most of small jobs which formerly would have been "fill-in" projects."

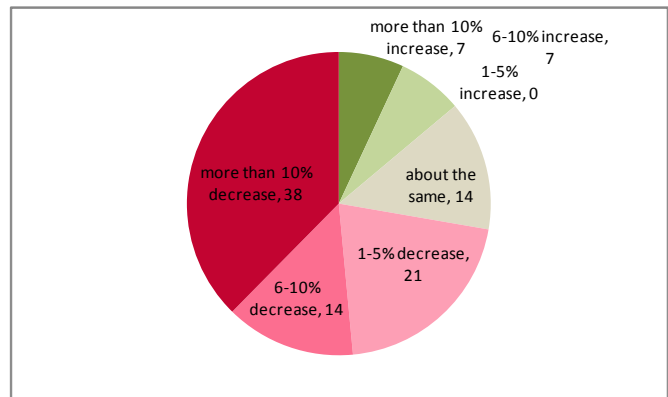
The market that appeared to contribute most to increased billings from Q2 to Q3 2009 was again Tenant Interiors. Of interest though, the Multifamily Residential market was ranked second for the market type that most contributed to increased billings.

“ Clients are taking much longer to make real estate decisions. ”

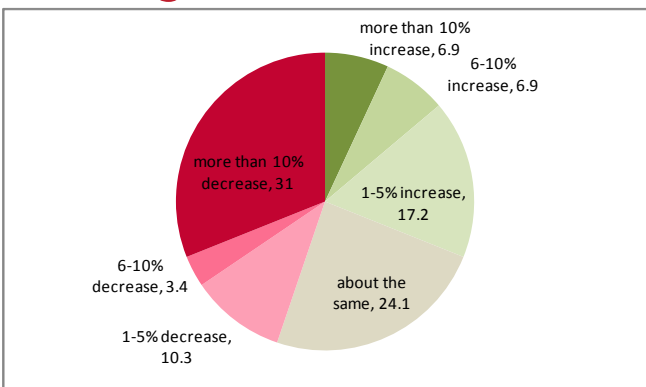
Compared to Last Year.

Compared to 2008's Q3 billings, 73% of area firms saw a reduction in billings, with almost 50% of firms experiencing a greater than 10% decrease. The most frequently cited reason for the decrease in billings: lack of available financing for new projects and length of time clients are taking to make real estate related decisions.

Not surprisingly, the decline in Commercial Office Buildings was the main culprit in decreased billings from Q3 2009 – as it was in Q2 2009 – but at a significantly lower level. From Q2 2008 to Q2 2009 the Commercial Office Building Market represented 34% of local firm's decreased billings. It appears that the decline in this market is slowing as the Commercial Office Building Market represented only 17% of the decrease in billings from Q3 2008 to Q3 2009.



Looking Forward.



Overall, the outlook for Q4 2009 remains negative at 16 points off neutral – surprising since the recession is officially over and stimulus money is flowing. When polled about the percentage of 2009 billings derived from Public Sector Clients, 40% of local firms derived up to 20% of their billings from Public Sector Clients. Of local firms, 50% derived between 21% - 80% of their billings from Public Sector Clients and 10% of firms derived over 80% of their billings from Public Sector Clients. Of particular interest is the fact that ARRA funds represented only 20% of local firms Public Sector Billings.

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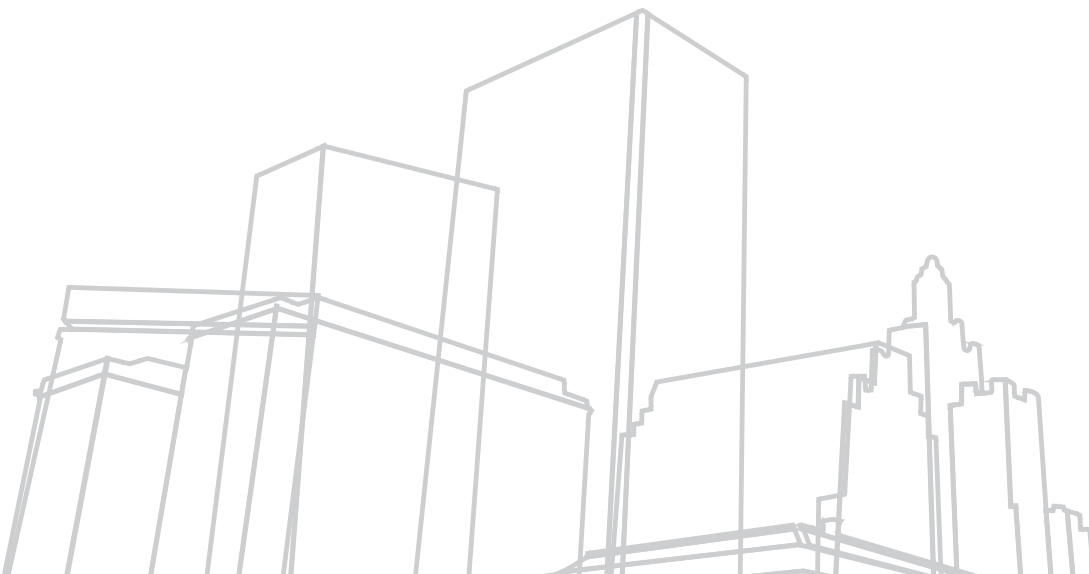
Observations.

Area firms that participated in the survey were extremely candid with their thoughts and observations on local market trends. Overall, the majority of firms that participated had a heavy stake in the Office Building and Multifamily Residential markets and experienced setbacks due to those markets driving of a rather steep cliff. However, area firms are exhibiting resiliency and adaptability by rapidly shifting resources. As one survey respondent put it, "The market has generally stabilized. Everyone morphed in early 09 to meet the decreased demand."

Navigating the road ahead is going to take serious resolve. Many firms expressed that they are placing significant resources into understanding the Federal Market and providing solutions to the Government on how to leverage the unspent ARRA funds to extract the highest value. Furthermore, the majority of firms stated they are repositioning their firms toward greater flexibility while investing in critical infrastructure like BIM and enhancing firm-wide technology. It appears as though the hard work is yet to come and as another respondent put it, "Waste is a thing of the past."

Comments from Survey.

- Clients are taking much longer to make real estate decisions.
- Inquiries are up as well as billings. We are up to our staffing levels that we saw at our peak.
- Still very flat in commercial, steady in public, no multifamily residential.
- We see a slow rise in billings in the coming year and are looking to expand our target markets.
- Finally seeing new project start-ups in October.
- Opportunities seem to be increasing slightly at the moment.
- Private development continues its downward path.
- Summer of 2009 marked the end of a long, busy, profitable period. These days we are making the most of small jobs which formerly would have been "fill-in" projects.



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