Survey: Banner year leads to uncertainty

> Metro Boston market looked rosy for A/E firms in 2007, but things have changed drastically.

Last year was a banner year for A/E firms in the Boston area, according to the 2008 *Architectural Study* from accounting firm **DiCicco, Gulman & Company (DGC)** (Woburn, MA), with record profits and high utilization rates, but stern warnings were already being circulated about 2008 and beyond.

Firm leaders who participated in the study predicted a marked slowdown in the A/E market in the metro Boston area with projects stalling amidst the credit market crisis and a pending recession.

Those predictions proved to be conservative.

"The magnitude is probably the one thing I don't think anyone anticipated," says Dave Sullivan, partner-in-charge of the A/E practice within DGC. "Things have slowed down quite dramatically. (Firms) are finding themselves overstaffed; there are a lot of layoffs going on."

First, the good news

By all accounts, 2007 was a good year for A/E firms in the Boston area. Among the 26 firms that participated in the study, project profitability, as measured by the firm's average billing multiple, increased to 3.17 in 2007 from 3.11 in 2006; the highest rate since the study's inception in 2003.

The average firm billing rate rose to $103.62 in 2007, breaking the $100 mark for the first time in history, according to the study. The overall hourly wage rate increased by 5.9% in 2007 to a five-year high of $35.45 due to a combination of base rate increases and continued increases in staff bonuses, the study found.

The average firm utilization rate (direct ratio)— widely considered to be the most influential statistic on firm profitability— for 2007 increased to 64.6% from 64.4% in 2006, according to the study.

"We're very pleased. In 2007 we had a very good year," says Jose Silveira, CFO at **Cambridge Seven Associates** (Cambridge, MA), a 65-person architecture firm that continues to perform despite the downturn.

"We've actually done fairly well," Silveira says, adding that Cambridge Seven is a boutique firm that caters to select projects and competes in a very specific market.

Such projects include aquariums, museum exhibits, and other high-end projects such as the Patriot Place shopping mall in Foxboro, Massachusetts, home of the New England Patriots and New England Revolution.

Dark clouds approach

The warning in the study about 2008 and 2009 was quite stern, with firm leaders citing that a lack of financing was stalling many major construction deals.

"It's not pure loss of business as much as it is stretching the timeframe for decisions," says Jeffrey Tompkins, a principal at **Spagnolo Gisness & Associates** (Boston, MA), a 40-person architecture firm, confirming the study's prediction. "People want to definitely do things, but it's taking longer."

Tompkins says his firm is having a good 2008 despite being "in all the sectors that should be doing poorly." However, he predicts that 2009 is going to be a very difficult year for architects in Boston.

"There's just an interesting confluence out there in the market," he says, with developers reluctant to fund improvements because "they can't get financing terms that are favorable."

He says the confluence of factors will likely drive down fees and increase overheads.

Silveira agrees and says the impact of the slowdown could be greater in 2009 because work has spilled from 2007 to 2008, but the same can't be said about that happening next year.

"As a general rule I think there's a general uneasiness in the industry," Silveira says.

Sound advice

"We anticipate conditions in the coming year will continue to deteriorate before getting better, and new trends will take shape going into 2009," the study's executive summary reads. "This means architectural firms will need to respond quickly to market conditions and focus on prudent fiscal planning now more than ever."

The study offers a six-point list with strategies firms should follow to survive the downturn, including monitoring financial trends, thinking globally, outsourcing, capitalizing on technology, being vigilant of cash flow, and keeping the staff informed.

"Firms are looking inward," Sullivan says. "This has happened very fast. The best firms are trying to put in place the best practices."— JOÃO FERREIRA *(jferreira@zweigwhite.com)* ■

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