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David Sullivan - Architectural & engineering firms showing signs of recovery

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To accurately assess the current state of the architectural and engineering (A&E) industry, let's start by putting things in perspective. During the recent recession, the A&E industry in New England was hit harder than most. Over 90% of firms experienced layoffs and/or pay cuts and over half of the firms were operating at a loss. If we were talking about a patient in the hospital, physicians would have listed them in "critical" condition. It was touch-and-go for most.

Initial findings of the 2011 Architectural Study from DiCicco, Gulman & Company LLP (DGC) indicate that Boston-area architectural firms could finally be on the mend. The annual survey, which benchmarks financial performance, is based on input from over 30 prominent firms in the Greater Boston marketplace.

The good news is that, on average, firms saw 7.5% of their net fees drop to the bottom line compared to last year when the average firm realized a meager profit of 0.4% of net fees. The average utilization rate of A&E firms for 2010 increased to 61.5% after dropping to 58.9% in 2009, the lowest chargeability rate on record.

Still, the industry has a long way to go before it returns to pre-recession levels. The numbers may show that firms are busier, but backlog levels remain a concern. Firms are continuing to run very lean and will likely continue to do so until the industry sees more consistent improvement.

The survey also shows that the direct labor billing multiple appears to be a healthy 3.23. However, we caution that this may be artificially high when compared to historical trends because of the impact of severe pay cuts. It is important to note that average total hourly wage rates remain relatively flat in 2010 after seeing a 5% deflation in wages in 2009.

And in reality, the industry is still hindered by financing issues, high unemployment, poor cash flow and heavy competition for few projects. Project pricing continues to be a challenge, as some firms lowered their rates to bring in new work.

Right now, A&E firms can make the most of the recovery by carefully evaluating their business strategies and plans for growth. They should examine their business models and determine whether they need to be altered. They should ask themselves whether they are in the right markets and providing the right level of client service. Most importantly, however, firms need to evaluate whether they have the right people in the right places for the future growth of their firm.

To come full circle with our health analogy, we would say that Boston-area architectural firms have been upgraded to "serious but stable" condition. Recovery is taking place at a slower pace than the industry would like, but it appears that the worst is behind us.

David Sullivan, CPA is a partner and Chad DaGraca, CPA is a principal in the architecture &

engineering group at DiCicco, Gulman & Co. LLP, Woburn, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540