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Recent architecture and engineering survey shows profits are up in Greater Boston

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On the surface, the architecture and engineering (A&E) industry in the Greater Boston area appears to have recovered and is growing again. The northeast is prospering relative to the rest of the country, but it is not clear just how sustainable that advantage will be.

Survey Results and Industry Trends

On average, initial findings of the 2012 Architectural Study from DiCicco, Gulman & Co. LLP (DGC) show that A&E firms profits are up and firms are hitting important benchmarks for their utilization rate and billing multiple. DGC's annual survey benchmarks financial performance based on input from more than 30 prominent architectural firms in the Greater Boston marketplace.

Overall, firm profitability increased from an average of $9.27 per direct hour to $11.40 per direct hour, a healthy 23% increase. Profit percentages represented about 11% of net fees, compared with 8.7% in 2010 and just 0.4% in 2009. While firms overall fared better in 2011, improvements were not across the board. Hourly profits ranged from a loss of approximately $8 per hour to a profit of $40 per hour. Such broad ranges indicate that some firms are fully recovered and growing, while others continue to struggle.

Competition for projects continues to be fierce. This is forcing many firms to "low ball" project pricing which could have an adverse effect on firm profitability in the long run. This plays itself out in the survey averages. The average billing rate per direct hour fell from $106.70 in 2010 to $101.75 and the direct labor billing multiplier of 3.03 is down from 3.21 in 2010. These increased levels of competition for projects continue to put pressure on project pricing and will require firms to become more efficient and adhere to best practices of project management. Given the pricing pressures in the marketplace, there is much less room for inefficiencies when managing multiple projects if a firm wants to improve profitability. Many firms will be better off in the long run, saying no to low-ball pricing; especially as it relates to long-term multi-year contracts.

Cost containment continues to be a focus for firms. Many firms are still running lean and have not made the investments that you would expect during a period of anticipated growth. This is further evidence that there is still uncertainty in the industry and firms are reluctant to jump back in until they see that there is a real, sustainable recovery. During 2011 the average overhead cost per direct hour decreased to $56.77 from $64.19 in 2010. In addition the breakeven multiple, a measure of the multiple of direct labor that needs to be billed in order to break even, dropped from 2.93 in 2010 to 2.69 in 2011. A primary driver of the decrease in these indirect expense statistics was a stabilization of staffing levels for many firms as the average utilization rate increased to 65.4% from 61.6% in 2010 and 58.9% in 2009. A rate of 65% is a widely accepted target. The utilization rate is the percentage of total hours worked that is billable to clients.

During the recession years of 2008 and 2009, average wage rates in the A&E industry took a hit.

The impacts of layoffs and pay cuts contributed to unprecedented levels of unemployment in the industry and deflation in wage rates in some areas of the country. During 2010 and 2011, average wage rates in the study showed modest growth. The average wage rate increased 3.2% during 2011. Firms appear to be back to normal compensation practices. Although there are still some firms going through restructuring efforts, on an overall basis, the average wage rates being paid have stabilized and are expected to rise again in 2012.

DGC's findings are in line with those of the American Institute of Architects (AIA), which recorded an Architecture Billings Index (ABI) score of 50.4 nationally in March 2012 and a score of 53.9 in the northeast. Scores above 50 indicate an increase in billings, while scores below 50 indicate a decrease in billings.

Doing business in the northeast appears to have its advantages at this time. For that advantage to be sustainable, investment dollars and funding sources will have to be readily available to potential developers. There are still many projects on hold and when projects do move forward, on average, they move slowly. Rather than developers giving the approval to move full steam ahead, they are cautious and approvals happen in phases.

Looking Ahead

Hot markets in 2011 continued to include life sciences, energy and mixed use developments. In the Boston market there is still university work, but that appears to be slowing down for the moment. Projects in areas such as the Seaport Innovation District will likely lead to other development, as long as developable space is available. It will be interesting to see the impact that any new casino development will have on the industry. Conversely, with stimulus programs winding down, government contracts and education projects are diminishing.

Consolidation in the industry continues with large multi-national firms entering the Boston market with acquisitions of smaller firms. This trend is continuing into 2012 and will continue to change the competitive arena in New England. Over 70% of A&E firm owners are 55 or older. This will put more pressure on succession planning for firms and will be one of the drivers of 2012 merger and acquisition activity. 2012 will continue to be a year of change in the industry. Make sure your firm is prepared and has taken the time to develop its plan for the future.

David Sullivan, CPA and Chad DaGraca, CPA are partners in the A&E group at DiCicco, Gulman & Co. LLP, Woburn, Mass.