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Architecture and engineering industry study reports profits and hiring on the rise

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After three years of slow but continuing improvement, architecture and engineering (A&E) firms are healthier now than at any time since the start of the great recession. Profits are up and firms are busier, prompting many to increase hiring and make new investments in technology and infrastructure.

Survey Results and Trends

The 2013 Architectural and Engineering Study from DiCicco, Gulman & Company LLP (DGC) shows A&E firms reporting a 4% increase in profits in 2012. The study also shows that firms are shifting their focus from cost cutting strategies to planning for future growth. DGC's annual survey benchmarks financial performance and other key indicators based on input from over 40 architecture and engineering firms headquartered in the greater Boston area.

One reason for the continuing improvement is renewed activity in the private sector. Many companies—including a good number of the Fortune 500—have been loosening their purse strings and investing in new buildings and facilities. This reflects the growing confidence that companies have in the overall direction of the economy. At the same time, the residential and multi-family housing sector saw strong gains in certain markets across the country.

Firms are also starting to invest in new technology, installing enterprise resource planning systems that can be used for everything from scheduling and project management to bid and proposal production.

While competition and pricing remains a challenge, there are signs of these pressures easing in the marketplace. The average billing multiple for architects, for example, rose again in 2012, albeit just slightly, increasing to 3.09 from 3.08 in 2011. The rate for engineers also edged up to 2.94 from 2.92 the year earlier. Likewise, the utilization rate, which is the percentage of time worked on billable projects, rose to 65.6% for architects, putting it above 65% for the first time since the recession. The rate for engineers increased to 63.9% from 62.5% the year earlier.

While the survey focuses on 2012 data, responses indicate that 2013 will likely show continued improvement. One indication of on-going industry growth is the AIA's Architectural Billings Index, which has reported growth in design firm billings for 10 of the last 11 months.

To ensure that their projects are profitable in this competitive environment, firms are now paying more attention to best practices in the area of project management. In addition to automated project reporting tools and weekly project meetings, many firms are focusing on training staff in the art of project management.

Expectations and Challenges

Although A&E firms have come a long way since 2008, there are some challenges on the horizon. Employees, for example, are beginning to look for new opportunities as the job market eases. Turnover has been relatively low over the past two years, but that is expected to change during 2013. Firms need to be prepared for this shift and have plans in place to attract and retain good people. Wages are rising in 2013, reflecting growing competition for skilled staff. In addition, firms are implementing more incentive compensation programs to incentivize staff for high performance. Increased business means many firms are looking to expand their office space. Given a more robust rental market, many looking to negotiate new leases are finding they'll have to pay higher rent per square foot than they have in recent years. Costs are expected to continue rising.

Consolidation and succession planning also remain at the top of the A&E challenge list. The recession put pressure on the demographic shift in firm ownership being created as the baby boomer generation heads to retirement. Firm owners need to plan early to execute a successful succession plan and achieve their longer-term ownership goals for the firm.

All in all, with lower unemployment, increased demand for services, and with positive trends in profitability metrics, there is a lot of good news out there for A&E firms this year.

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