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Boston area architectural firms likely to post strong 2008 despite economy

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In 2006 and 2007, Greater Boston-based architectural firms enjoyed record profits and performance levels thanks to their ability to bring in top-notch projects, effectively utilize staff and efficiently manage the number of hours dedicated to direct projects.

Firms able to strike the right balance between the number of employees on the payroll and the amount of available projects have been quite successful in the past few years. We know this as a result of Tofias' annual architectural survey, which analyzes key industry statistics for a cross-section of area architectural firms. By studying trends in measures such as average profit per direct hour and direct labor utilization rate we can develop a picture of the industry and compare it with past performance.

According to the survey, area firms met with unparalleled success in 2006 and 2007. Average profit per direct hour increased from \$5.50 in 2003 to \$13.40 in 2006 and \$14.29 in 2007, while the direct labor utilization rate rose from 59% in 2003 to 63.8% in 2006 and 66.6% in 2007, for instance. Most projects were in the U.S., though many firms have been slowly increasing the proportion of global projects they accept as a way to insulate themselves in the event that U.S.-based work dries up.

That day may be here. The picture for 2008, while still rosy, is somewhat different from the record setting achieved over the past two years. In light of the faltering U.S. economy it is somewhat naive to think that 2008 will reach the same heights. But, it is possible. At TRO Jung Brannen, the company has successfully generated new business this year and is optimistic that the firm can post as strong a year as it did in 2007. Maybe stronger.

To foster success despite a challenging domestic marketplace where many U.S. companies have found it difficult to secure the financing for major construction projects, TRO Jung Brannen has expanded its operations in global markets, particularly the Middle East. The firm has worked tirelessly building on its long-time presence in the UAE and Saudi Arabia, two countries enjoying record growth and prosperity.

Overall, the company is taking a three-pronged approach to ensure a profitable 2008 and 2009. First, the firm is growing its global operations in markets with great potential, such as China, the Middle East and Eastern Europe. Second, it is spreading domestic and foreign projects across the company's various divisions. (TRO Jung Brannen has practices focusing on commercial real estate, laboratories, health care facilities, residential and hospitality structures, and arts and education facilities.) And third, the firm is continuing to build long-term value for its U.S.-based clients. Ultimately, the firm would like to increase its domestic workload, while maintaining its global gains, as soon as the U.S. economy recovers.

For companies with diversified operations similar to TRO Jung Brannen, 2008 isn't frightening. In fact, it is exhilarating. However, the story is markedly different for area firms focused primarily on

hard-hit niches. To survive, these companies may need to reconsider how they operate. For example, they might need to develop more projects offshore, abandon depressed markets entirely, or maintain tighter staffing levels while the U.S. economy remains in its current weakened state. Despite these challenges, Tofias expects most area architectural firms to weather the current economic storm and maintain solid financial positions. With two decades of surveys to reflect upon, we know that even difficult economic times can deliver significant profit for firms with carefully crafted and well-executed strategies.

The bottom line for 2008: most area firms may not have quite the record-breaking years they did in 2007 and 2006, but all indications are that 2008 will still be a strong year for many firms.

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