

## Few firms are untouched by the economic downturn

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By [Steve Setzer](#)

...and higher education,” says PageSoutherlandPage’s Cryer. “The international market is still a very bright spot, along with federal project opportunities.”

Several firms report increased federal design work based on economic stimulus funding. Most of the work is for projects already in design that have been delayed for lack of funding. One example is a \$25-million renovation of the Smithsonian’s Arts and Industries Building on the Mall in Washington, D.C. “We were selected quite some time ago for this significant restoration and modernization project, but it is now moving ahead because of the stimulus funding,” says Carl Roehling, Detroit-based SmithGroup’s CEO.

There is life in the international arena as well, although at a diminished level. While a number of mega-projects in the Middle East have been canceled or delayed, design work is moving forward on a huge corporate campus for Qatar Petroleum north of Doha, the capital of Qatar. The 137-acre campus will house more than 1.8 million sq ft of space, including office towers, housing and medical and sports facilities for about 5,000 employees. SOM is finalizing construction documents for groundbreaking in the fourth quarter of 2009, with completion currently scheduled for mid-2013.

### The Big Get Bigger

The sharp downturn will inevitably accelerate the ongoing consolidation among design firms that has been under way for decades, say executives. “The tough, competitive environment of a recession and the demands clients place on firms will prompt rapid consolidation of midsize, regional players,” says Noel Watson, chairman of the board at Jacobs, Pasadena, Calif. “We believe in the future there will be a few, very large professional service firms of more than 100,000 people serving a wide array of public and private clients across the globe.”

The analysts at EFCG Inc., New York City, who work with a number of the largest design firms on mergers, acquisitions and strategy, also see more consolidation ahead. “The larger firms are weathering the storm much better,” says Andrej Avelini, managing partner at EFCG. “A big part of that is diversification.” He sees a “bifurcation” of the market in which larger firms increase market share at the expense of smaller firms. “It is not unusual to see double-digit declines at smaller firms,” he says. The majority of larger firms are expecting real revenue growth in 2009, according to an EFCG survey of 100 A/E CFOs in April 2009.

Merger and acquisition activity has been relatively slow so far during the recession, says Avelini, but he expects it to pick up. “Most of these mid-tier firms have little debt and a small ownership pool. They may not be doing that well, but they do not want to sell for a bargain,” he says. “They figure they can hunker down for a few years.”

As a result, there is a standoff between buyers and sellers similar to that in the commercial real-estate market. “Sellers want to get 2008 prices, and buyers are making offers based on the outlook going forward, where valuations are considerably lower,” Avelini explains.

“We expect there will be continued consolidation,” adds PB’s Pierson. “We do not see a significant spike yet, but we expect more activity going forward.” He says mid-tier firms “have to go through the stages of disbelief, then realization their market position is unsustainable, then capitulation or acceptance. I think we’re getting into the latter stages of that.”

### Assessing the Future

Despite the very real potential for gloom and doom, principals at some A/E firms reject the notion that the core focus of their profession—performing quality design work—will be less important in the future. “Even as we go through a severe economic downturn, the forces that are making design more relevant in our society are not changing. In this environment, quality matters,” says Phil Harrison, CEO of Chicago-based Perkins & Will.

## THE TOP 50 IN GENERAL BUILDING

<b>Rank*</b>	<b>Firm</b>
1	AECOM Technology Corp.
2	Jacobs
3	URS Corp.
4	Gensler
5	HOK
6	HKS Inc.
7	Perkins+Will
8	Skidmore Owings & Merrill LLP
9	HDR
10	RTKL Associates Inc.
11	Tetra Tech Inc.
12	RMJM
13	NBBJ
14	Parsons Brinckerhoff Inc.
15	Kimley-Horn and Associates Inc.
16	Callison
17	Terracon Consultants Inc.
18	Burt Hill
19	KBR
20	SmithGroup Inc.
21	CH2M HILL
22	Perkins Eastman
23	WSP USA
24	Parsons
25	Cannon Design
26	Professional Service Indus. (PSI)
27	Zimmer Gunsul Frasca Architects LLP
28	Dewberry
29	Stantec Inc.
30	Thornton Tomasetti Inc.
31	DLR Group
32	WATG (Wimberly Allison Tong & Goo)
33	HNTB Cos.
34	Hammel Green and Abrahamson Inc.
35	Leo A Daly
36	MACTEC Inc.
37	Rafael Vinoly Architects PC
38	KPF Consulting Engineers
39	HMC Architects
40	Arquitectonica
41	PageSoutherlandPage
42	KlingStubbins
43	Ellerbe Becket Inc.
44	Ingenium International Inc.
45	Anshen+Allen Architects
46	MulvannyG2 Architecture
47	SHW Group
48	Black & Veatch
49	Gresham, Smith and Partners
50	Sasaki Associates Inc.

“If you define the Bilbao Decade as a period of patron-led investment in iconic and often excessive architecture, then I agree this era is coming to an end,” says Harrison. In its place, he sees a new era of “authenticity” in which high-end design is “more socially relevant, more connected to the environment, more performance-based and less image-based.” He adds, “If we do it right, designers will have a seat at the table solving global problems, not just providing an aesthetic backdrop.”

Thomas Scarangelo, chairman of New York City-based Thornton Thomasetti Inc., says the fundamentals of this recession and recovery remain the same as in past downturns. “While this recession may have some characteristics that look unique at the moment, I believe that when we look back at this period the lessons will be timeless,” he says. “The firms that have the greatest diversity of services and the ability to quickly adapt to the changing marketplace will thrive and bounce back stronger and faster than the rest.”

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