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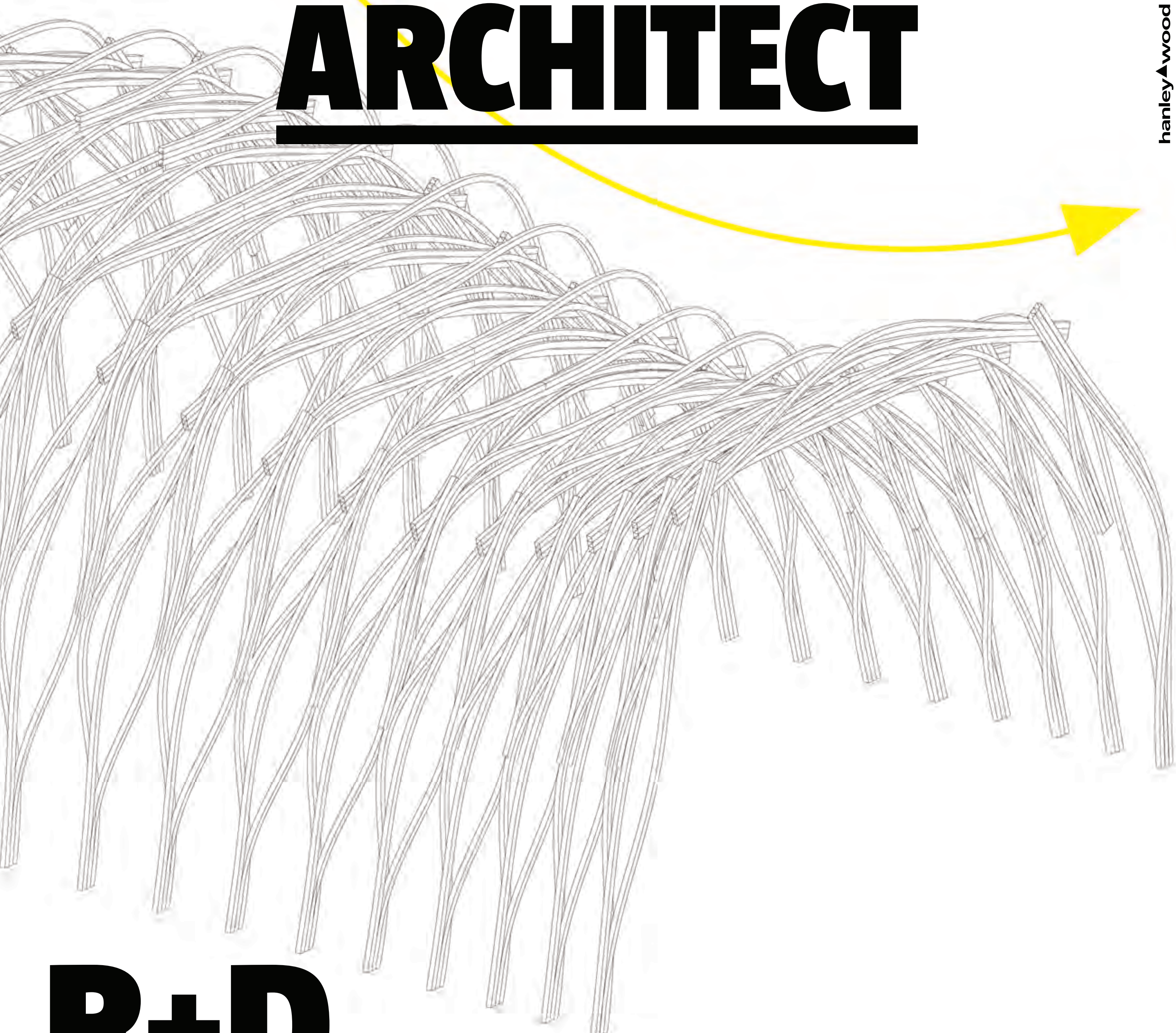

R+D

STEAM-BENDING, DECARBONIZATION, AND RUBBER SINKS—**THE PRECISE ALCHEMY OF BUILDING TECHNOLOGY**

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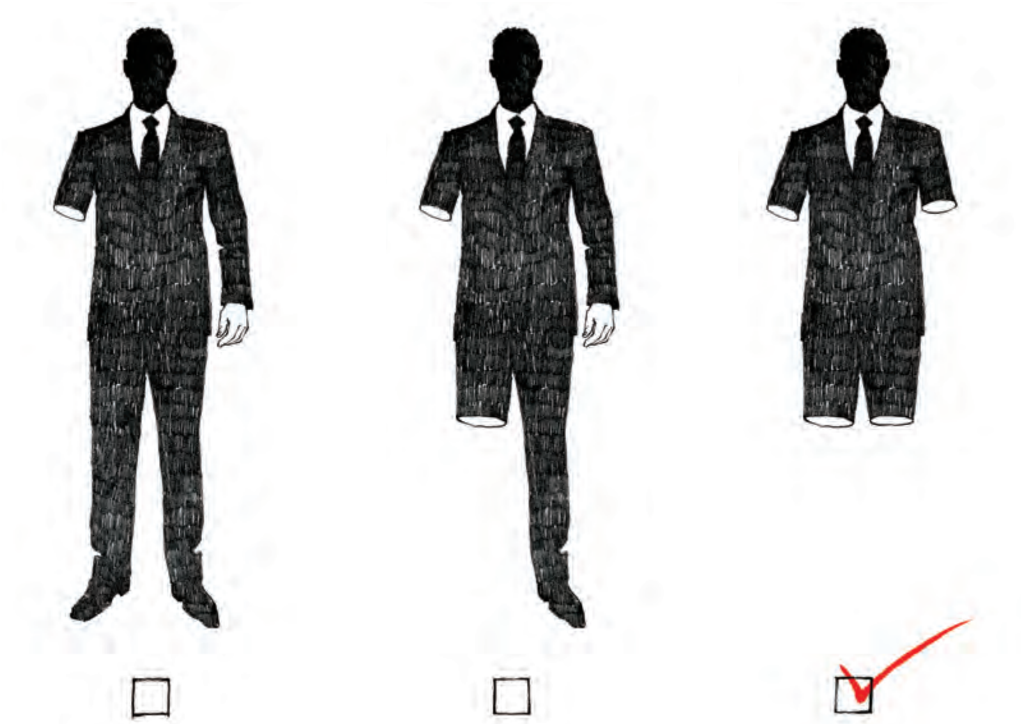
→STRATEGY

Self-Inflicted Losses

THE SECOND INSTALLMENT OF OUR SERIES ON ARCHITECTURAL FEES FINDS THAT INCREASED COMPETITION FOR EVEN THE SMALLEST OF PROJECTS IS LEADING FIRMS TO SLASH RATES. BUT HAVE THINGS GONE TOO FAR?



TEXT BY ERNEST BECK
ILLUSTRATION BY LAUREN NASSEF

WHEN A MAJOR New York financial institution asked three architecture firms to submit bids for a high-end office renovation last year, it was a relatively small project, but one that was eagerly sought by the bidders to keep revenue flowing in tough times. What transpired reflects the cutthroat nature of the industry these days: Two firms came in at around $175,000, while the third offered a bargain-basement price of $100,000, according to one of the participants, who asked to remain anonymous to protect client confidentiality.

Not surprisingly, the low bidder won, prompting an angry response from one of the other bidders. "If we went in at $160,000, it would have been low-balling—and dangerously low—but not impossible," says this person, principal of a small New York design boutique that specializes in interior renovations. "But bidding $100,000 is impossible. ... [T]hey won't make any money."

The recession has wreaked havoc on the architecture industry in many ways, from a rollback in projects to staff layoffs to declining revenue. One of the most devastating aftershocks, however, has been the practice of fee-cutting, as firms struggle to survive by meeting client demands to save money and tighten budgets.

While no exact numbers are available, architects say fee-cutting is widespread. Scott Kuehn, partner at Denver-based H+L Architecture, an 85-person firm that specializes in healthcare, education, science, and technology, had one long-term client ask for a 10 percent cut on all future work. This client, Kuehn says, "indicated that economic pressure and uncertainties ... were driving similar requests to all business partners, suppliers, and vendors."

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"CLIENTS ARE SHOPPING THE HELL OUT OF FEES. THEY ARE AWARE THERE IS DESPERATION, AND THEY ARE EXPLOITING IT. SO THEY WILL TALK TO ENDLESS NUMBERS OF ARCHITECTS. ... THEN WE END UP WITH STUPID-LOW NUMBERS."

— NEW YORK CITY ARCHITECT

Kuehn adds that H+L is seeing significant competition and fee-cutting in the Denver metropolitan area and the front range of Colorado. For example, in the healthcare market there, Kuehn says, fees are now in the 8-percent-to-10-percent range, down from the 9 percent to 12 percent possible before 2008. And in education, he adds, fees as a percentage of new construction have fallen to the 4-percent-to-6-percent range, down two percentage points.

Firms are grappling with the issue in a variety of ways. Some are trying to bring fees down by slicing and dicing costs, lowering overhead, or outsourcing various project elements to low-cost providers. "We try to hold the line, but did adjust some top rates down a bit," Kuehn says. "We are reducing fees because we have to."

And fee-cutting is taking place even as the number of firms competing for the same business multiplies. (The situation is so bad, architects say, that a running joke in the industry is that every competition "looks like an AIA convention.") For every $5 million to $10 million project in the Denver metro area, Kuehn notes, there are now 30 to 40 firms showing up at preproposal conferences, including many that had not previously worked in that sector or geographic location. The fierce competition naturally lends itself to bidding wars. In a reflection of this, the U.S. General Services Administration noted in a mid-2009 press release that bids for stimulus-funded projects came in "lower than expected."

Yet some firms say they don't discount. "Our philosophy is: If the fee is too low, let the other guy lose money," says Michael Hickok, founding principal of Hickok Cole Architects, a commercial architecture and interiors firm of about 70 in Washington, D.C. Hickok says that his clients, who are sophisticated customers, know that "squeezing another 25 cents a square foot isn't necessarily in their best interest, because that means they might get 25 cents less service."

Another downside to the fee-slashing phenomenon is that it is eroding relations not only between architects and clients but also among architects. "Clients are shopping the hell out of fees," says the New York architect whose firm bid for the office renovation. "They are aware there is desperation, and they are exploiting it. So they will talk to endless numbers of architects and get the lowest possible number, and then they might go back and say, 'Can you match that?' Then we end up with stupid-low numbers." He wonders how other architects are delivering at that price and what kind of design services they are providing.

There is a general consensus that although cutting fees might be a short-term remedy to a fiscal crisis, it can pose long-term problems, making it tougher to get fees back to previous levels. Michael Strogoff, a management consultant to designers and an advisory group member of the AIA's Practice Management Knowledge Community, suggests that instead of cutting fees, architects try to "find better ways of communicating the value of their services."

Benjamin Rook, chief executive of Design Strategies in Greenville, S.C., a 60-person firm, suggests that fee-cutting should be done only under special circumstances—when entering a new market, for example, or to salvage a firm's survival. The problem, he explains, is that cutting fees means firms have to provide more for less pay, or they will be forced to skimp on innovation to keep costs within the reduced fee. Either way, Rook adds, cutting fees "is no way to build a practice."

How long will rock-bottom prices continue to plague the profession? Only time, and the economy, will tell. Hickock, for one, is cautiously optimistic. "We have just begun to inch up fees," he says, but "we can't tell yet whether they are sticking or not." □