

Idle architects tap new markets

Look overseas and in public sector, try development and niche services

May 18, 2008 12:06AMBy: Tina Traster

Costas Kondylis and Partners, a Manhattan-based firm of 120 architects and designers that specializes in mixed-use retail and commercial projects, is bracing for a 25% drop in revenue from U.S. projects this year.

To make up for that shortfall, the firm has gone after international business more aggressively. It is already working on projects in Kazakhstan, South Korea, Qatar, Russia and Turkey.

“I’m not keeping all my eggs in the American basket,” says Chief Executive Costas Kondylis.

In addition to courting clients overseas, architecture firms are employing a host of strategies to deal with a downturn in business, including doing more public sector work for schools and hospitals, branching out into development, and offering niche services that create new profit streams. While most say they have work in the pipeline, they are preparing for a slowdown that could portend a decline in construction activity as early as next year.

In March, the Architecture Billings Index, a leading indicator of construction activity nine to 12 months in the future, dropped two points. Coming on top of a nine-point plunge in February, the index now stands at 39.7—the lowest monthly reading in 13 years. (Any reading above 50 indicates an increase in billings; a reading below 50 means billings declined.)

Uncertain future

“It will be tough times ahead for architecture firms,” says Kermit Baker, chief economist for the American Institute of Architects, which publishes the index.

Architectural firms that typically experienced 10% annual growth every year for the past four years are adjusting their expectations for 2008 and 2009.

“We don’t anticipate any growth this year because a lot of domestic work is slowing down,” says Stanton Eckstut, a principal at Manhattan-based architectural firm Ehrenkrantz Eckstut & Kuhn.

Nevertheless, Mr. Eckstut expects to remain busy on waterfront projects in Yonkers and Buffalo, and on transportation and infrastructure projects in Los Angeles, Houston and Washington, D.C. The company is also taking on regional institutional clients, including New York University, Einstein Medical College and Rutgers University.

“The public sector still has legs,” says Mr. Eckstut.

Other architects are also banking on the vitality in the institutional sector, with construction projects still on track for schools, hospitals, government buildings and transportation infrastructure.

Growth area

“The demand for modernization in science and technology continues to grow,” says Ken Drucker, senior principal at HOK's New York office, which is designing Brooklyn BioBAT Phase Three, the Harlem Hospital New Patient Pavilion and the SUNY Downstate Ambulatory Pavilion.

Apart from public-sector work, new commercial construction is spotty and often depends on geography.

“The Manhattan market is still a bright spot,” says James Davidson, a partner at SCLE Architects, which is working on several residential projects in west Chelsea, the Upper East Side, the Upper West Side and Brooklyn. “But projects in the greater metro area are definitely being stalled because lenders are not as free with cash.”

Some architects have branched out, hoping diversification will help them survive the down cycle.

Architect Gary Silver diversified his business by becoming a developer. Rather than rely solely on design work from building managers, he assembled a team of 10 investors and has just completed a condominium building on East 104th Street in Harlem. Nearly 30% of the units, which range in price from \$330,000 to \$1.2 million, are sold, and Mr. Silver and his team are planning two more residential buildings nearby.

“We will use the revenue from these projects to ride the downturn,” says Mr. Silver, principal of Manhattan firm Gary H. Silver Architects, a firm of nine with annual revenues of \$1.6 million.

Some architecture firms turn recessions to their benefit.

“Whenever the economy nosedives, our renovation and forensic work accelerates,” says Dan Cuoco, president and chief executive of Thornton Tomasetti Inc., which has developed niche services.

In leaner times, building owners focus on fixing, renovating and adding on. In addition, the firm is hired by lawyers who negotiate disputes arising from development projects. And there is more of that when times get tough.