

FINANCIAL REVIEW

SE **Property**
HD **One plus one equals growth**
BY Michael Bleby
WC 1,072 words
PD 18 January 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 40
LA English
CY Copyright 2014. Fairfax Media Management Pty Limited.
LP

Architecture Mid-tier practices are taking steps to escape what they see as an increasingly unviable middle ground.

To understand what's happening in the business of Australian architecture, just follow the acronyms.

TD

Fourteen months ago, Bruce Wolfe's Queensland **firm** was known as Conrad Gargett. A merger saw it become Conrad Gargett Riddel. At the end of last year, after another deal, it expanded to NSW and became Conrad Gargett Riddel Ancher Mortlock Woolley.

The increasingly clunky name – only partly improved by the new acronym CGR AMW – shows the steps some mid-tier architecture practices are taking to escape what they see as an increasingly unviable middle ground.

With a higher cost base than the small firms that dominate the highly fragmented industry, and without the diversified geographical or disciplinary reach of larger firms, architecture's middle ground is an increasingly uncomfortable space.

Definitions of "mid-sized" vary. In Wolfe's case the growth of his **firm** to 95 staff from 65 five years ago, along with expansion beyond health, defence and education and into **commercial**, small-scale projects and deeper into heritage work, has given a level of diversity he says the **firm** needs to survive.

The AMW deal also lets him expand south and have a permanent presence in Sydney.

The importance of growth has been on Mr Wolfe's mind for decades.

"In the 90s I was being told that if you're small, you're OK," he says. "If you're mega, you're OK, but if you're Malcolm in the Middle, you were not going to find it easy to survive. We were in that middle at that stage. We managed to get some larger projects and managed to get bigger."

It's hardly surprising that architecture is seeing consolidation.

The industry that earned an estimated \$6.2 billion last year is highly fragmented. The three or four largest providers of architectural services together make up less than 10 per cent of annual industry revenue, according to research **firm** IBISWorld.

Only about 2.4 per cent of all the registered 13,506 businesses employ more than 20 people.

But if the pressures are not new, they are growing more than ever before. markets have changed from local or national to global

"The markets for architects have changed from being local or national to global," says Patrick Ness, an executive director of Cox Architecture, a global Australian-based **firm**.

"The transitions over the past five or six years have been from competing locally against other practices, to a second phase, to competing nationally against other national practices, to now competing in a global environment," he says.

"The boundaries are in the process of being removed to become one market place."

Firms, especially foreign entrants, are also specialising. US-based AECOM, for example, does not practise building design in Australia, but does provide landscape architecture, master planning and urban design services.

Fellow US **firm** Gensler, which has just said it will enter the Australian market, will not initially offer architecture services, but focus on workplace design, retail, food-and-beverage and hospitality work.

The middle ground can be a difficult place to be, but not everyone sees a "hollowing out" as inevitable.

ClarkeHopkinsClarke is a Melbourne practice with 53 architects. The **firm** focuses on a range of different services, namely urban planning and renewal, mixed use, aged care and education work.

Size affects the way people see a **firm**, says ClarkeHopkinsClarke managing director Robert Goodliffe.

"There is a perception that if you're capable of doing six or seven different areas, then you're a jack of all trades and a master of none," Goodliffe says.

"You have to make sure your knowledge in each of the areas is cutting edge."

The flip side is that a wider spread of capabilities diversifies the business and the work the **firm** does in one area, such as **commercial** retail work, informs and strengthens the work in another, such as education.

Students at a vocational college with high absentee rates, for example, are less likely to desert classes or the facility if it has a feel more like the malls they prefer to hang around in, Goodliffe says.

"You've got stay as 'boutique mentality' with a capacity to service clients without the size of the practice being a limiting factor." It is about the scale of the markets

Other firms in the middle ground feel the same pressure.

"It is about the scale of the markets you're competing in," says Alex Kibble, the managing director of Tanner Kibble Denton Architects, a Sydney **firm** of 48 professionals.

"If you're really competing against big firms like Hassell and Woods Bagot, it is hard for a **firm** of 40 people to convince clients we're capable of doing it. If you've got a **firm** of 100, it's a little more believable."

Technology is also changing the market.

Woods Bagot managing director Ross Donaldson says realignment will be driven as processes like BIM – building information modelling – force a greater level of collaboration on firms than ever before.

"The industry's probably getting to a turning point in terms of how we deliver projects," **Hong Kong**-based Donaldson says.

"That integrated design process is driving a lot more alignment in the industry."

Three mid-tier firms have taken different paths out of that middle ground in the past 18 months.

Sydney-based PTW **sold** itself to **Chinese firm** CDDI; national practice Suters entered into an alliance with Bangkok-based interior design **firm** dwp; and Rice Daubney, another Sydney practice, was **purchased** by US **firm** HDR Architecture.

Each move gives the companies the chance to expand in new geographical markets and offer clients a range of skills they otherwise would not have.

For those without a distinct offering, price is the only weapon.

"The ones that don't know what to do are in a feeding frenzy of low fees, which is completely unsustainable for the profession," says Leone Lorrimer, dwp/suters Australian chief executive.

"We just lost a project that had two (smaller) projects in it. Some companies had put in fees like 0.82 per cent, including all engineering.

"That's the total fee as a percentage of the value of work. You can't even get out of bed for that."

In such an environment, rationalisation is inevitable, she says.

IN	ireest : Real Estate icre : Real Estate/Construction
NS	garchi : Architecture gart : Art gcat : Political/General News gent : Arts/Entertainment
RE	austr : Australia apacz : Asia Pacific ausnz : Australia/Oceania
PUB	Fairfax Media Management Pty Limited
AN	Document AFNR000020140117ea1i0000n