

Future of many architectural firms in doubt

By TIMOTHY R. BROWN , 03.16.09, 01:23 PM EDT

Shawn O'Donahue knew the architectural firm where he worked was headed for financial ruin when a key foreign developer sent its employees on an abrupt vacation.

After months of overseas travel, meetings, and nonsensical excuses, it had become clear that Sienna Architecture Co.'s work in the [United Arab Emirates](#) was over. The architects were sent back to the Oregon-based headquarters and laid off.

The client who owed Sienna and its partners millions of dollars for their services in Dubai did what a growing number of developers are doing - stiffing the architect.

With the recession and credit crunch reeking havoc on the [construction industry](#), architects are often left holding the bag. The practice is becoming so common that it's threatening the future of many architectural firms across the nation.

"We were having conversations ... about who is paying and who's not. Do we stop work? Or do we suck it up and make the client happy, but continue to push that we need to get paid?" said O'Donahue, who lost his job as an architectural designer days before the Portland, Ore.-based company closed in January.

Kermit Baker, chief economist for the American Institute of Architects, said stories like Sienna's are becoming more common.

"I'm hearing a lot of reports that it has gotten worse. More and more (architects) are saying if we collect at all from some of these folks we will be happy," Baker said.

In normal times, architects get paid in 30 to 90 days. But collection times increased 12 percent last year, according to Sageworks Inc.

"It is not uncommon in this industry to have a client who's more than 120 days out on their invoices," O'Donahue said.

Projects begin with an architectural design, often drawn before all of the funding to build is in place, and many developers continue running up the tab until their project is complete.

Now a lot of projects aren't getting started let alone completed.

The AIA's monthly Architecture Billings Index sunk in January to the lowest level in its 14-year history. Meanwhile, construction spending dropped more than 3 percent in January, the fourth straight monthly decline, the Commerce Department said.

Mulvanny G2 Architecture in Bellevue, Wash., was forced to lay off 20 percent of its work force over the last six months because some clients were paying later than usual and projects slowed by limited funding.

Mulvanny G2 Architecture had to let go 90 of its 460 employees to maintain its operational [cash flow](#). It was the largest layoff in the company's 38-year history

"It's really a challenge when you're putting forth your effort and your cost so far ahead of actually receiving the compensation," said Mitch Smith, a senior partner at the firm.

Of course there are pockets of the country and niches in the building industry that are sheltered from this trend.

"I would say all of our clients are pretty much paying on time. But a lot of ours are either churches or government entities and they had their financing in place," said Doug Thornton an architect with AERC in north Mississippi near Memphis, Tenn.

But that's not the case for a lot of firms, including H.H. Furr Architecture & Development in Ocean Springs, Miss. Owner Henry Furr is still waiting for payment on a couple of projects he worked on months ago.

"They are a long overdue," said Furr, who has operated his firm since 2001. "They were a casualty of the condo market collapse, so I have reserved a lien on the property. Other than that, I just have one that's overdue, but we are a small firm so one is plenty."

The AIA's Baker said architects could require money up front, but given the downturn in every construction market, especially retail and housing, that would be nearly impossible in the current environment.

"It is a difficult time to go up and say I want cash on the barrel head before I start on this," he said.

But that's what O'Donahue is doing.

After he was laid off, O'Donahue and five architects and related workers who also recently lost their jobs at other firms started Cohesion.

O'Donahue said, "All of our current contracts ask for that (a retainer) up front."

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