

# right-sizing your price

how architects are tweaking fee structures in a touch-and-go economy.

by cheryl weber, leed ap

**T**he optimists among us often talk about the recession's silver lining. That is, with their very survival in jeopardy, architecture firms were quickly forced to become more focused and resourceful, and their new habits will put them ahead as the economy rebounds. That's all good, but what's the next step? To sustain their businesses during what likely will be a long, slow recovery, some firms also are getting creative with their pricing, without cutting too deeply into their profit margins. Call it phase two in the survival of the fittest: When overhead is cut to the bone, the only thing left to flex is the fee.

"People aren't willing to put as much money into their house because it's worth less, and they're taking longer to get on board," says Marcie Meditch, AIA, principal of Chevy Chase, Md.-based Meditch Murphey Architects. As a result, the work slowdown has prompted the firm to slightly reduce its fees based on a percentage



Keith Negley/Munro Campagna

of construction. "We're giving clients a range, depending on how big or complicated the house is," Meditch notes, adding: "We used to charge a flat rate, but now if we're just doing the interior, we'll offer a lower rate."

Instead of requiring clients to sign up for full services, as it did during the boom years, Meditch

Murphey will work hourly and by phase, if asked. Design sketches can be turned over to a contractor (along with liability) so that clients don't feel locked in for the long haul. To make the overall numbers work, though, Meditch Murphey rebalanced its fee structure. The 15 percent of construction cost it used to charge for schematic

design in a soup-to-nuts scenario has been raised to 25 percent. "Before, the design fee was spread throughout the project, and sometimes we were short," Meditch explains. "We always spent more time up front; now we're just charging for it. It's a way to get our fees at the front rather than at the end."

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getting to yes

In the past two years, firms have been more willing to meet clients in their comfort zone. On several recent commissions, Cambridge, Mass.-based Hammer Architects dropped its price 1 percentage point

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—william s. duff jr., aia, leed ap

when the projects grew more expensive than anticipated. The clients raised the question in casual conversation, and principal Mark Hammer, AIA, agreed. But that means being more conscious of the hours devoted to such jobs. “We’re getting things done faster now, because it’s harder for people to spend money these days,” Hammer says. “Anyone hiring an architect for a custom home has funds available, but they try to be as wise about it as possible. People

are voicing concerns about the cost of things more than they used to.”

From travel cruises to car purchases, people have come to expect a discount in this economy. What they may not realize is that, when it comes to residential design, pricing rollbacks usually compromise quality. That’s why Ted Lott, AIA, LEED AP, co-principal of Lott3Metz Architecture in Grand Rapids, Mich., tries to hold the line. He’s turned down projects knowing that he couldn’t do his best work with the rate proposed, and he’s lost others because he would not negotiate. But when a plum commission comes along, he might rethink the amount of money he deserves up front, hoping to make up the difference later if the project comes through. Additionally, most of his clients ask for a price cap on the first run of drawings—basic ideas that they can test drive with builders. That way, without spending a fortune, they have enough information to decide whether to proceed.

“We’re not too ideological when it comes to fee structure,” Lott says. “We have pretty aggressive clients to begin with. I don’t know there’s been a day when we dropped a number on the table and had it accepted without question. But it’s difficult for us to understand how undercutting our prices will do a lot of good in the long run.”

construction economy

**a**raging recession might not seem like the ideal time to take on more risk. But two ideas propelled New York’s Leroy Street Studio to launch a construction management arm in 2008. One was to diversify its 15-year-old practice, 75 percent of which is residential; the other was to be able to deliver design at a lower price point. Partner Marc Turkel, AIA, LEED AP, saw the move as a way to control quality and increase the firm’s revenues without raising fees.

Instead of retreating in the downturn, the architects decided to carve out a bigger role for themselves. “We’re not interested in bargain-hunters; that’s a dangerous place to go in the construction industry,” Turkel says. “Architects have to deliver quality and make it affordable to their clients.” By changing the project delivery method—offering an alternative to the GC contract—the firm was able to lower its design fee by a few percentage points based on construction cost.

Startup for the construction management division, called BLDG, involved setting up an independent S corporation and getting a contractor’s license and construction insurance. The firm hit the ground running with two projects in hand, and to make the insurance premiums work, it needs to do at least \$1 million in construction each year, Turkel estimates. (Construction management at-risk insurance typically costs 5 percent to 8 percent of construction values per year, according to L. Lenny Waldhauser IV, vice president of Peoria, Ill.-based RLI and program manager for the company’s design professionals program.)

Leroy Street Studio, whose staff numbers in the mid-20s, was well positioned for the leap. “One of our partners used to be a contractor and our practice is construction oriented,” he says. “People with architectural background are keen to work on construction management for the exposure, so it’s an asset we can offer the architects as well.”

The architect/construction managers aren’t swinging a hammer, but they’re on the scaffolding. Having a dedicated design expert on-site eliminates the inefficiencies and costly  
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Chicago architect Mark A. Cuellar, AIA, LEED AP, agrees. A year and a half ago he slashed his billing rate by about 25 percent, which resulted in a lot of small projects that took as much time as larger ones. As a sole proprietor, “I was working more for

less money and I couldn’t handle the workload,” explains Cuellar, principal of the firm mac D+A. “Now I’m back up to my old rates and I take what I can get.”

Others aren’t just holding the line, they’re  
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raising the bar. Architect Erik Faulkner, principal of WishingRock Homes, a design/build firm in Boerne, Texas, upped his fees by 4 percent in the first quarter of 2010, after 2-percent-a-year increases from 2007 to 2009. The price hike was partly to cover rising operating costs, but also because clients are demanding more creative contracting and financing. "Clients want more flexibility to phase work in smaller pieces, and that changes the way I design and price work," says Faulkner, who has eight projects in design and one in construction. "I will re-evaluate cost structure

each quarter to decide if I maintain, increase, or reduce based on market and client activity, but I don't anticipate reducing fees to compete for work in 2010."

But at a time when many practices are operating in the red and capital for new projects is scarce, the reality that architecture is market-driven really hits home. In the short run, the right pricing strategy can mean the difference between folding and staying afloat. Working in the housing-bust hot spot of Scottsdale, Ariz., Circle West Architects occasionally is willing to lower

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delays that plague the conventional delivery model. And it may lower the labor costs associated with cutting-edge designs. "You can convince subcontractors that what seemed like such a complex idea is quite simple by working with them directly in the field," Turkel says.

Although BLDG was motivated by Leroy Street Studio's desire to deliver more architectural creativity at a lower price, the architects also were drawn to the idea of bucking a trend—not just among architects—of shying away from taking ultimate responsibility. "We're responding to the tendency [of businesses] to define responsibility narrowly," Turkel says. "We feel like it's not that great a service to the client, and in a way is less interesting. And clients are saying, 'Well, I want a point of responsibility, somebody has to step up and deal with situations.' It takes more work and you're more vulnerable, but, arguably, you can have more control, and thereby be less exposed."

The firm currently is providing construction management services for only residential jobs, but eventually it will extend those services across other project types. "We didn't start this venture because of the down economy," Turkel says, "but in this economy it's become a real asset."—c.w.



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## practice

the pricing during the schematics phase to attract the developers that form the mainstay of its work while, hopefully, recouping the difference in later phases. "We've never had no work, but we're very sensitive to what's going on economically, so we want to ensure that clients are treated fairly," says firm principal Peter M. Koliopoulos, AIA. "Everyone

two years ago."

### time and materials

In lieu of lowering fees outright, more firms are offering à la carte services. And they're taking extra time to help skittish clients find efficiencies. Some, like William Duff Architects, have even formalized the process. The San Francisco-based firm develops a binder of

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is belt-tightening, even our biggest clients."

To stay competitive in a precarious market, Circle West throws in other incentives, too. Like additional meetings at no charge during a project's initial stages—whatever it takes to get prospects to sign. Once they do, the architects use the latest technology to help recoup some of the lost revenues. "Because of our advancement in Google SketchUp and Revit, we have been able to develop design concepts in three dimensions that clients can understand visually," Koliopoulos explains. "We can prepare schematic design presentations better and more cost-effectively than we could

documents that map out each project, determining where clients get the best value from their firm and identifying services other vendors could provide for less. Clients looking to reduce costs, for example, can shop for interior finishes themselves, guided by the architects. Receiving meeting recaps by e-mail, rather than detailed in a binder, also lets them squeeze out some of the fee. It removes the formality, yet satisfies the legal requirements for documentation. The binder also covers feasibility studies, helping owners understand where the stopping points are, so they can work up to a decision.

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“The line in the sand was Lehman Brothers’ collapse,” says principal William S. Duff Jr., AIA, LEED AP. “We had used some of this material before, but we really built it out and became more active at engaging clients early on.” It’s a lesson he learned during his first recession in business. “After the dot-com crash, I reduced all my fees, but when the recovery hit we were locked into those prices and had to finish the projects,” Duff explains. “That didn’t allow us to service our new clients as well. So this time, we focused on changing our structure and organization. Maybe that’s because we didn’t have inflated fees going into the recession. We were properly priced to deliver a high level of service.”

Borrowing a page from his years designing \$40 million commercial projects, Baltimore residential architect Thomas Clark will even write contracts that let owners buy roofing, windows, and siding. The contractor then charges a 5 percent to 8 percent coordination fee, rather than the 25 percent to 40 percent markup taken if the items were run through the books. “It depends on whether we think the client is savvy enough to be able to buy those things,” explains Clark, principal of Thomas Clark Architects. “We backed into that out of necessity a couple of years ago.”

Invariably, even firms whose pricing is intact are giving away more of their time. Tucson, Ariz.-based architect Teresa Rosano, AIA, LEED AP, says she’s taking on smaller jobs—many of them remodels—that demand more work than new construction. With billings based on a percentage of construction, the net result is a smaller fee. “We are trying to work with clients and absorb

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—martha yunker, aia

some of those costs, but we’re also trying not to lower fees too much, because the danger is ending up with too many projects and not being able to spend the proper amount of time on them,” explains Rosano, a partner at Ibara Rosano Design Architects. “It’s a slippery slope on which we’ve tried to find a reasonable balance.”

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## practice

It took four meetings—two with the client, two with an interior designer—for Santa Ana, Calif.-based architect Ruth Hasell, AIA, to land her most recent commission. Ordinarily, only the initial consult is free. “It turned into a

don’t want to spend more than X amount,” Yunker explains. “Now we’re spelling out each task needed to get an early estimate, and how long each will take, so people can plan for what they’re spending before taking the second step.”

Walker, FAIA, principal of Memphis, Tenn.-based Archimania, met with an attorney who wanted to build a small house on a beautiful Ozarks property. After the first office consult, the client hesitated. So Walker got in the car and made the two-hour drive to the site, gratis, where he spent several hours sketching ideas.

“I began to paint a picture that was acceptable to him, and was able to reduce our fee based on the fact that the house would be simpler than I initially imagined,” Walker says, adding: “Our tendency as architects is to think about things in a more complex manner than may actually be necessary because we don’t have a deep understanding, early on, of what we’re designing.” That led to an unintended upside: The visit was a springboard to design, putting the project two weeks ahead of a typical timeline.

At some point in the future—perhaps several years from now—the coffers will be flush again. But some architects may never go back to business as usual. As Duff puts it, “The recession has honed our skills in some areas and helped us learn how to deliver greater value to clients going forward. It’s a painful transition, but you adapt or die.” ra

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—marcie meditch, aia

good project; there are a lot of concessions I don’t mind giving now,” says Hasell, principal of Ruth Hasell AIA Architect, who lost all four employees when the economy went down.

To some extent, the architect-client courtship has been reprogrammed; love is no longer blind, if it ever was. Before committing, prospects want a more thorough exploration of all the costs involved—and a peek at the creative vision. Martha Yunker, AIA, principal of Yunker Associates Architecture in Minneapolis, hasn’t changed her hourly rate, but she is breaking the predesign phase into smaller and more palatable pieces. “In the past people would say, ‘I don’t need a precise estimate; I just

In Grand Rapids, Lott is doing the same for developers, occasionally going so far as to offer free feasibility studies in hopes it will turn into a fee. “We’re very aggressive about working existing partnerships with developers and contractors, using everything in our toolkit,” he says. “My partner and I do a lot of this by feel because one thing we’ve learned is that every client is idiosyncratic.”

Indeed, in a time when commissions are extraordinarily hard to get, architects are equipping for combat duty, and invention replaces the tried and true. Todd Walker’s story about signing a recent client illustrates what it takes to close the deal these days, for better or worse.

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