

REAL-TIME A/E INDUSTRY INTELLIGENCE DURING COVID-19

GATHERED BY

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SECOND QUARTER LOOKS SOLID – ALL EYES ON THE SECOND HALF OF THE YEAR

National Industry News

- Combination of strong backlogs and PPP loans points to a strong second quarter. A common refrain from management teams across the country is that the second quarter looks to be “solid”. The industry went into March with record backlogs. PPP loans provide firms an immediate 2-month “cushion”. **Many firms are reporting they now have more cash on hand than ever.**
- Industry’s traditional aversion to debt pays dividends now. Most design firms eschew debt in favor of funding operations from earnings while keeping cash in the bank until the end of the year. (You’d be amazed at how many firms had over six months of operations in cash on hand headed into March). These cash balances provide additional room to maneuver in the short term.
- Concerns about second half of the year. Leadership teams around the country worry whether public, private and institutional clients will have funding for projects in third and fourth quarters as the crisis sucks cash out of the economy. Zero visibility as to whether this will be a V-, U-, WW- or *Nike Swoosh* recovery.
- Record-breaking utilization and profits in March. **Firms are reporting record utilization since they moved to a work from home model.** No commutes, minimal internal meetings and lunch and learns etc. all contributing. Reports of very strong profit performance in March.
- Bar raised for client responsiveness. Multiple reports that the remote working model has allowed project managers – free from typical office distractions- to be more responsive to client needs. (Leadership teams are questioning why they spend 6% to 8% of revenues on rent and utilities when remote working is delivering better bottom-line results.) We expect to see these industry expenses cut in half in the new normal.
- Diversified business strategy pays off. Firms with revenue streams from a variety of public, private and institutional markets are faring better than single market firms. A hit in one sector can be off set by the others.
- Smaller single-market firms most at risk. Particularly if they have a lot of work with one client or one project. We know one firm in the South that lost over 50% of its work overnight. This goes right to the bottom line – and not in a good way.
- U.S. firms with overseas work in general faring well. Clients report resilience and indeed increased demand from overseas operations – particularly in the Middle East and Europe.
- Industry work patterns vary by state. Remote working is mandatory in many Northeast and West Coast states. That’s not necessarily the case in the South and Southeast where many firms have employees working in-office and “work from home” is a choice.
- Proficiency with virtual reality (VR) and augmented reality (AR) will be critical for design firms to be successful with corporate and institutional clients through the crisis and beyond. Firms that have not invested in VR/AR systems and training will find it hard to compete. (Much like those that had not invested in BIM prior to the last recession.)
- Reports of pay cuts, furloughs and layoffs at architecture and AE firms. Increasing number of resumes from architects laid off from hospitality, restaurant, entertainment and retail studios are hitting the web and the street.
- Selected furloughs and layoffs taking place as **many firms are trimming administrative staff and “B players”** in anticipation of slower second half of the year.
- U.S. mergers and acquisitions down 10%. [Click here>](#)
- Savvy buyers continuing to pursue and close attractive deals but some changing of deal terms appear to be taking place.
- Interesting to see new overseas buyers aggressively ramp up courtship of M&A targets in the U.S.

Market Intelligence

NATIONAL MARKETS

- Federal Markets remain strong. Design and construction continues on the Border Wall. VA, DOD, Army Corps and NASA continue unaffected by and large for now.
- Many universities and colleges are considering the possibility of online classes through January 2021 leading to concerns of delayed or cancelled capital improvement projects in back half of the year.
- Market for oil storage facilities surges. The rush is on to create new storage capacity for surplus oil. Opportunities for design firms include site/civil design for new tank farms and inspection services to bring mothballed tanks back on-line.
- Electric utility market remains strong. Nobody wants a grid failure during the health crisis.
- Healthcare systems concerned with record low hospital census levels. While design projects are relatively unaffected in the short term the concern is for construction projects in 2021.
- Life Sciences market sees surge in demand for labs and research facilities.
- Industrial chemical market after seeing an initial slow down is back to pre-crisis levels.
- Commercial and residential development projects nationwide are continuing but at a less frenetic pace. Some regional stops and slowdowns.

REGIONAL MARKETS

Northeast

- Pretty much everyone is working from home – except field personnel where permitted.
- Massachusetts municipal infrastructure design markets remain strong.
- Robust demand in utilities and water/wastewater markets.
- K-12 design projects continue to proceed.
- Campus housing design projects proceeding. Some delays in other University/College projects.
- Non-essential construction stoppages hurting many firms.
- Some slow down in state transportation design projects.
- Some slow down being seen in commercial development design projects.
- Mixed bag in healthcare design. Acceleration of some COVID related projects while delays of others.

Midwest

- Some public university clients putting projects on hold for 6-8 months.
- Reports of healthcare construction projects stopped or delayed.
- Healthcare design projects unaffected.

South and Southeast

- South Florida cities and counties facilities design markets continue unaffected.
- Central and south Florida education clients leveraging empty classrooms to advance deferred maintenance projects.
- Some slow down in South Carolina commercial development funding as many banks have been focused on processing PPP loans.
- Alabama K-12 market continues full steam ahead.

Texas

- Despite gas taxes and tolls being close to non-existent, public infrastructure and development markets continue to hold up well. Firms remaining super busy. Many reporting “no slow down in sight.” Although some delays in RFPs and RFQs.
- TxDOT largely continues with business as usual.
- Drop in oil-prices leading to INCREASE in civil/site work for tank farms to expand storage capacity.
- Corporate office markets holding up in Austin and Dallas-Fort Worth.
- Read the latest [Economic Outlook for Texas Major Metro Areas](#) from friend of the firm [The Perryman Group](#).

Mountain States

- Developers and owners are still advancing commercial and multi-family development projects forward in Colorado.
- Many design firms reporting that staff will be close to capacity and as busy as they were in 2019 for the foreseeable future.
- Reports of slowdown in construction because contractors aren't able to easily get materials or equipment due to supply chain challenges.
- Transportation projects still strong at state, county and municipal levels.

Western States

- Access to construction sites for California designers continues to be a challenge due to social-distancing orders.
- CM/PM firms in essential California markets in high demand and seeing strong financial performance.
- Transportation planning and ITS continues to be strong in Southern California.

Arizona commercial development markets continue to be robust as is the solid waste market in the state