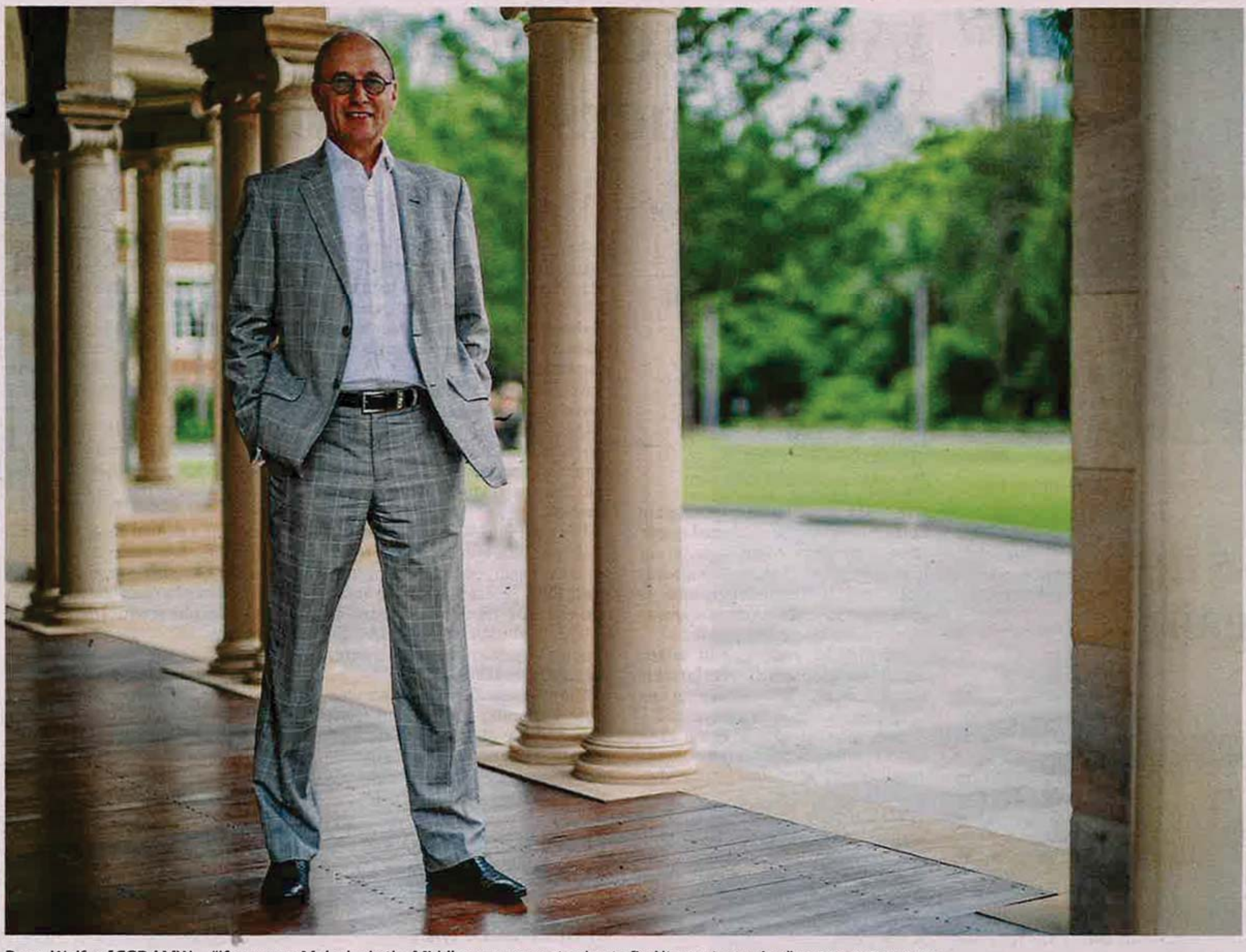

Bruce Wolfe of CGR AMW... "If you were Malcolm in the Middle, you were not going to find it easy to survive." PHOTO: GLENN HUNT

One plus one equals growth

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

Michael Bleby

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

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.

"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.

We just lost a project ... Some companies had put in fees like 0.82 per cent, including 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.

Leone Lorrimer, dwp/suters Australian CEO

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."

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.

Yes for DEXUS

The independent directors of Commonwealth Management Investment have formally and unanimously recommended that investors in the $2.9 billion Commonwealth Property Office Fund fund accept the offer from the DEXUS Property Group consortium. The bid, in two forms of cash and scrip, closes on February 7. The stock closed at $1.24 on Friday. Separately the **Commonwealth Bank** said it will not take its $5.7 million performance fee for the management of the **Commonwealth Property Office Fund** in stock as advised on Thursday. The payment has to be in cash because of the looming takeover. LARRY SCHLESINGER

Accor mourns mining

The performance of the 200 Australian hotels managed by global giant **Accor** was hurt in the final quarter of 2013 by the weakening Australian economy and the mining downturn. The weakness was primarily in Western Australia and Queensland, where occupancy and rates suffered due to the mining slowdown. The outlook is weakest for Brisbane, where the state government clampdown on travel and spending continues to bite. Accor expects Perth to turn around while Melbourne and Sydney hotels will continue to perform strongly. Accor reported that performance in the Asia-Pacific region was "satisfactory overall, despite lower business in China, as well as in Australia where the economy-hotels segment remains under pressure". Accor chairman Sebastien Bazin reported "solid improvement in its business" in 2013. LARRY SCHLESINGER

Bumper year for sales

Major commercial property sales hit record levels across the Asia-Pacific region in 2013, rising 29 per cent on the year to $US126.7 billion ($143.7 billion), a benchmark even higher than the $US120.5 billion of 2007, according to Jones Lang LaSalle (JLL). Australia also had a record turnover of $US21.9 billion, up 33 per cent on 2012. JLL noted the impact of foreign real estate investment trusts. Records were also set in the major markets of Japan, China and Singapore. Helped by a big spread between yields and very low interest rates, the activity in Japan surged by 69 per cent on the year, to $US41.7 billion, to become the third most active market in the world after the United States and Britain. JLL expects even higher transaction levels in 2014. "Given the strength of investor sentiment and ongoing demand, we expect markets to perform as well as, if not better than, 2013 for the remainder of 2014," said the company's head of research for Asia-Pacific, Megan Walters. ROBERT HARLEY

Islamic fund eyes Qld

A new Australian fund is aiming to attract $1 billion of Sharia-compliant money from Europe and Asia to invest in resorts in Queensland. The Brisbane Islamic Investment Fund has drawn interest from retail and institutional investors in China, Europe, Malaysia and the Middle East, said M. Rusydi, a member of the Australian Shari'ah Board for Islamic Finance, which started the fund with Business Custodians Ltd. The vehicle is looking to invest primarily in hotels in Brisbane and Cairns. It has plans to invest in property in Indonesia, and is looking at opportunities in Cambodia and Thailand, according to Dr Rusydi. Islamic banking assets worldwide increased 18 per cent annually over the last four years, according to EY. BLOOMBERG