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A time for optimism

More than ever, understanding economics an obligation of firms' leaders

THE CELEBRATORY BALLS IN WASHINGTON, D.C., occurred simultaneously with the writing of this article, and January's extraordinary inauguration – one's individual political views aside, it was indeed an extraordinary event – compels me to think about its implications on the architecture profession. I don't claim to have the answers, but some things come to mind.

First and foremost, I observe that many people applaud the electorate's decision, and I hope that with that decision goes an ample degree of self-fulfilling prophecy that will contribute to accelerating an economic turnaround. So let's talk about the economy, and with these next paragraphs, please take a dose of salt (and *whatever* you do, do not make investment decisions on the basis of what is written here).

First, here's a bit of recent history. About two years ago, in various forums, I opined that the stock market was 30 percent overvalued. As one of several measuring scales, refer to the Dow Jones Industrial Average (the DJIA), which on January 19, 2007, was 12,566. Few agreed at that time, but most became believers as events and stock market data told the story. In fact, the market is now *more* than 30 percent lower, which means that my prediction was inaccurate, although the trend line was correct. Stated differently, the markets have overcorrected, and now I predict that in the next six months the pendulum will swing back to where it "should" have settled: 30 percent lower than where it was two years ago, pegging the DJIA at 8,800. From that point, the trend line will show a gradual but steady increase. The slow climb will continue, a consequence of modest increases in consumer confidence,

the beginning of moderate increases in employment, more rational and less panic-driven behavior by banks, more home sales at modestly increasing prices and, in general, an understanding of the new economy.

The market decline and the simultaneous erosion of debt financing have created what appears to be a deflationary effect, with a corresponding decline in prices, most evident in the real estate market, with the price decline enhanced by huge surplus on the supply side. As an indication of price decline, I just purchased a round-trip ticket – Seattle to Denver – for \$132.20 for travel in 35 days. A month ago that same ticket would have been three times as much. Yes, the airlines are hurting, and yes, fuel prices have dropped from their record highs, but I think there is deflation as well.

If the stock markets hold little interest for you, or if you are simply depressed by the loss of a few trillion dollars in stock value, turn to something else, such as the Consumer Confidence Index, which is tracked by the University of Michigan, to have a different barometer of the economy.

Without dwelling on the absurdity (just a bit of editorializing) of how the federal government doled out its bailout funds, such as the shortage of strings that allows Bank of America to get *another* multi-billion-dollar chunk because the plain ol' folks in the bank "underestimated" the cost of acquiring Merrill Lynch just a few months ago, the overall stimulus program is a good thing. It may be inappropriate to criticize the handling of this emergency program, given the fact that it was put together initially in a week, but on the other hand, I for one cannot accept that with all the resources within and available to the legislative and executive branches, the events of last fall were a complete surprise. Yet surprise seems to be the *modus operandi*, and I hope that with the

next seven or eight hundred billion dollars, the executive branch and Congress and the involved agencies behave more wisely. Commentary on the details of the bailout aside, the stimulation package has the potential to revitalize the credit markets and catalyze the equity market, which to a very large degree has been sitting on the sidelines.

The point of this topic appearing in a newsletter for architects is quite simple: Understanding economics and the effects on markets and clients are more importantly than ever an *obligation* of firms' leaders and managers, who accept the privilege and responsibility of guiding their firms.

Most readers are no doubt aware of the recent demise of a long-established Portland architecture firm. Without professing to have any current, relevant information, I will nonetheless observe that the decision to close the doors was one of several viable options available to firms in similar circumstances. It was likely gut wrenching to conclude that closing the doors was the best choice, a decision probably reached after considering other strategies, and not a decision that I question. For other firms, an option, and indeed the path most firms would have chosen, is to ride out the storm, with reductions in staff and operating costs, while maintaining client relationships and positioning the firm for the rebound. This is the strategy for which most firms in similar straits would opt... and most would survive.

Another option is to seek a white knight to infuse work and perhaps working capital and to accelerate a move to other markets.

A third option, likely not one that would have readily come to mind, is to dramatically reduce the firm to a core size focusing only on the very best client and project opportunities – with "best" being those that are most consistent with where the leaders want to take the firm – and with the reduced overhead, redesign the firm to be exactly what the leaders want it to be. The strength of this approach is that it removes the baggage of sustaining a larger practice, a strategy that would most likely require the firm to take on less desirable clients (that is, clients whose values and goals don't match well with the firm's). A key in this strategy is in the first sentence of this paragraph – "where the leaders want to take the firm" – which requires that, in fact, they decide and commit to a vision and associated goals.

A fourth option that some firms are taking today is to move forward as though nothing is wrong, drawing on cash reserves from the highly profitable period of 2005–2008 to maintain staff

even as utilization of that staff drops. Some firms are shifting some of their project energies to projects for their own account (which raises a huge "be very careful" sign), while others are investing energy in design competitions.

This, in a roundabout way, brings us back to the concept of *optimism*, which perhaps curiously finds itself in the title of this article. The more a practitioner understands the economy and forecasts its direction as it pertains to the firm's clients and target clients and to the firm's own goals, the better able that practitioner is to lead the firm to a bright future. The longer one squanders valuable time mulling over the notion of "AIA" – in the context of "ain't it awful" (as my friend and colleague, David Dunning, refers to a group of architects lamenting bad times) – rather than envisioning and striving toward an exciting future, the longer gloominess is likely to prevail. This is not to suggest that a single architect can by sheer will and vision turn around a global economy. This does, however, suggest that by understanding the economy and speculating how public policy and private enterprise will affect the firm's market sectors and specific clients, a practitioner can, in effect, influence that aspect of the economy that affects the firm directly.

This also points to the wisdom of thinking more about where the leaders want the firm to be tomorrow than where it is today. The words of Wayne Gretzky (the "Great One" of hockey fame) come to mind: The key is not knowing where the puck *is*, but where *it's going to be*.

For those optimistic enough and forward thinking enough not to allow the current market condition to consume all their energies, this points to a few tenets worthy of following. One is to continue to invest in things that are critical to success, notably aligning with the "right" clients and the "right" talent. A second is to invest energies that keep the firm contemporary and forward-looking, both culturally and operationally. In other words, don't retreat from such things that some firms in today's economy consider to be completely discretionary, such as professional development and professional dialogue both internally and externally. A third is to explore *with* clients and *on behalf of* clients how they can move their projects forward to capitalize on current opportunities afforded by contractors looking for something to build and equity partners looking for places in which to invest. A fourth is to *lead* the firm by articulating an inspiring vision and helping people in the firm and in clients' organizations see light at the end of tunnel. An extreme alternative to leading through troubling times is simply to manage what will become, by virtue of a self-fulfilling prophecy, a slide down an increasingly slippery slope, to which I say, "Why bother?" ■

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