On Enterprising Architecture in the Midst of Economic Uncertainty

NATHAN RICHARDSON
Oklahoma State University

Our present age of uncertainty has and will continue to shape and mold the built environment in both predictable and yet unknown ways. As a result of the drastic change in capital flows and the decreased risk tolerance of debt and equity markets, the scope and nature of practice appears to exist in a state of change. One can't separate the impact of the current economic crisis on our built environment from its effect on the profession that is largely responsible for shaping it. This paper presents a brief survey and analysis of a long-standing yet largely unexplored form of practice: the integration of architecture and real estate development. It is more common and widespread than one would suspect, if only exposed to the routine content of architectural education and practice. The relationship between real estate and architectural practice is due more substantive consideration by those in the profession; the nature of our current economy and the uncertainty of architectural practice make such an exploration more relevant than ever. The primary and secondary research that follows first, presents current and past practitioners simultaneously engaged in real estate and architecture, second, organizes these precedents into four distinct models of practice, and third, evaluates the potential tradeoffs associated with each model.[1] This research provides those who have contemplated the role of real estate expertise and activities in their design firm an opportunity to consider the implications and decide where they stand.

INTRODUCTION

The American Institute of Architects (AIA) was established in 1857 and "promotes the cohesion of the architecture profession and enables architects to better serve their clients and improve the built environment."[2] This statement reflects the underlying loyalty of many practitioners, including those that are central to the following research. Note the emphasis on improving the built environment via client service. While this too, represents most practitioners, it is where those discussed below depart from the vast majority of the profession. This small cadre of architects has bucked the requisite client service, focusing instead on internalized entrepreneurship as a means of improving the built environment. They leverage expertise in real estate and strive to simultaneously fulfill the role of owner and designer in projects of a largely speculative nature. When architects begin to incorporate expertise in real estate, it could be argued that they are leveraging their business *of practicing* architecture by moving into the business *of* architecture. This begins to identify the central focus of this study—the integration of practice and business, design and investment, architecture and enterprise.[3] These divergent models of practice demonstrate alternative avenues that, while imposing additional operational risk, present opportunities for enhanced viability in an age of such uncertainty. Given the real estate driven nature of the recent economic crisis, this intellectually expansive model of practice is ripe for critical exploration. The following is a synthesized look at the architects and models of practice that comprise a more entrepreneurial architecture and the most relevant conclusions that can be drawn for consideration during the current uncertainty faced by the profession of architecture, the development industry, and society at large.

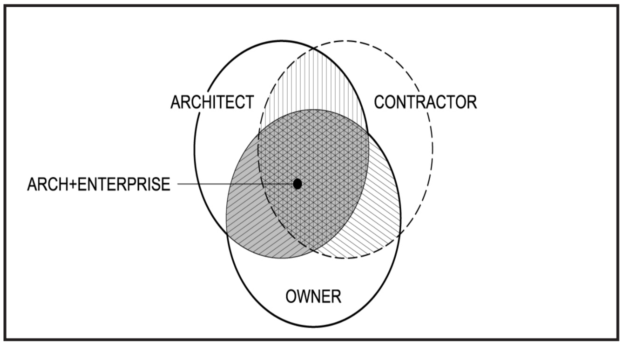

Figure 1: Architecture and enterprise, or the integration of architect and owner are central to this research, though the integration of construction is at times is considered. Note the distinction from design-build, which doesn't necessarily incorporate ownership. (Illustration by author)

In order to effectively evaluate the merit of this integrated approach, it is critical to set aside the perennial image of both architect and real estate developer. It is often held, in light of common stereotypes, that the designer is an image driven artist primarily concerned with the appearance of a building and minimally concerned with the financial performance of the investment. It is also held that the real estate developer is a financially driven profiteer with little care for design and architectural innovation. In this oversimplified dyad, the designer wants to do what has *never* been done *no matter* the cost and the developer wants only to do what *has* been done at *minimal* cost. If these hold true, there is little common ground between these centers of knowledge and little to no opportunity for a productive integration of roles. However, these are often counterproductive stereotypes that many in the development, design, and construction industries have moved beyond, as evidenced through widespread project and business level collaboration. Those enterprising architects that choose to integrate are doing so by taking on the necessary knowledge, activities, and risk in order to better accomplish their architectural aim—to improve the built environment.

PRACTITIONERS

The integration of architectural practice and real estate enterprise extends well into history, though it isn't an established part of the architecture profession's historical narrative. Among the ranks of enterprising architects is John Wood the Elder and Younger, The Brothers Adam, John Nash, Otto Wagner, Charles Bulfinch, Auguste Perret, Luis Barragán, and John Portman. The following conclusions are evident from the work of these architects. First, one can see the broad range of capacities in which these architects engaged real estate development. John Wood the Elder for instance, initially functioned as an agent for landowner Robert Gay and then moved into a primary role by securing a land lease to develop Gay's property.[4] Robert and James Adam were directly involved in the conception, financing, construction, and promotion of their street schemes. Their Adelphi Terrace is an excellent example of the implications of additional risk in the storm of a financial crisis[5] not too dissimilar from America's in 2008. John Nash functioned as an agent, investor, and advisor to clients and the crown during his professional career. While Nash also engaged in ownership, most of his experience leads one to consider a more expansive understanding of the integration of real estate, primarily advisory in nature, based on specialized expertise. Charles Bulfinch and Luis Barragán both formed partnerships to take on their developments, to varying degrees of success. Sir Clough Williams Ellis and John Portman operated to conceive, design, develop, and even operate the business that would lease their buildings. Similarly, Otto Wagner conceived, constructed, and leased out his own projects.

The range of activities represented by these architects, particularly in the realm of real estate, hasn't drastically changed if one considers contemporary architects. Among them are Bruner Cott, Randy Brown, David Nielson, Campbell Ellsworth, Perkins Eastman, KRDB, Tom Allisma, Sebastian Mariscal, and Jonathan Segal. These practitioners have engaged in the conception, design, and delivery of speculative building projects at some point in their careers. Bruner Cott engaged in development early in their firm's history as a strategy to more fully establish their firm. While the firm no longer develops properties, ownership and property management remain a key part of their organizational success. Similarly, Campbell Ellsworth of Cambridge, Massachusetts, KRDB of Austin, Texas, and Jonathan Segal of San Diego, California have engaged in some form of direct investment of real estate. For these practitioners, this model has allowed them more discretion in taking on certain types of consulting and development related work. Other practitioners, such as Brad Perkins at Perkins Eastman and David Nielson of Boston, Massachusetts have simply shared additional risk with clients in the course of certain projects. There is much to glean

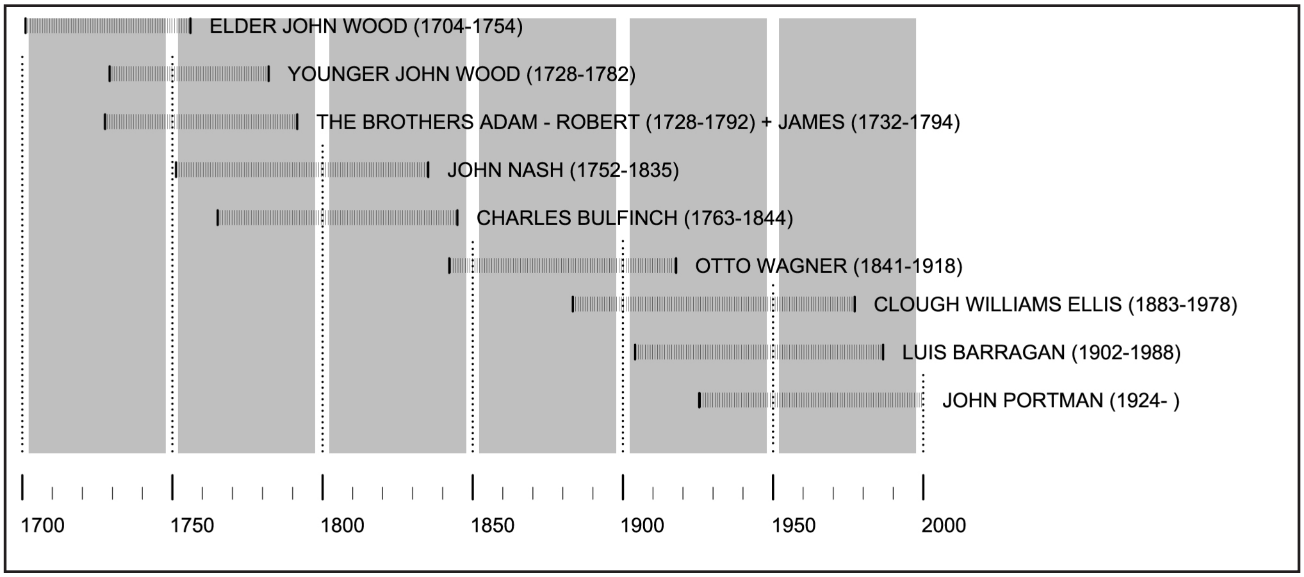

Figure 2: Timeline of selected historic practitioners engaging in real estate and architecture. It represents a practice-oriented thread of history often left untold. (Illustration by author)

from a review of the activities of these current and past practitioners at the intersection of architecture and real estate.

First, these practitioners took a sequence of key steps: integrate expertise, form strategic partnerships, and take on investment risk when necessary. This sequence is particularly important as one considers an extension into real estate as a part of the current economy. While opportunities are certain to exist, they need not all revolve around direct investment—expertise should come first. Second, their method of operation is mostly necessitated by their values. Each of them, in addition to financial returns, aimed to bring something uniquely valuable to the marketplace. One could make a significant argument that the current process of design and development simply doesn't bring enough alternatives to the marketplace. This hybrid approach is one way to circumvent such limitations. Many of the preceding practitioners were able to bring something of unique value to the marketplace successfully. Third, one should note that the integration of such diverse roles can lead to a complicated set of identity conflicts and ethical challenges.[6] This is particularly true as one considers the integration of both internal investment related work and external client driven work. Fourth, these professionals and their work demonstrate what should be known to the industry otherwise; design innovation and investment performance aren't inherently at odds. Some of the most transformative works in the design profession, which receive much attention from architects, were speculative buildings conceived, developed, and built by entrepreneurial architects.[7] While this research doesn't pretend to sufficiently analyze the architectural quality of their work or quantify the precise nature of their profit, it does acknowledge the architectural contributions made by these architects while seeking enhanced financial returns. Naturally, there are bare successes and entire failures too, as evidenced in part by the work of the Brothers Adam, Charles Bulfinch, and John Nash. Many current practitioners, however, note their ability to deliver a product more consistent with their vision than they could through traditional channels of practice, even if projected profits aren't entirely realized. As such, these architects provide an indication of the potential for substantive success through some form of integration. As these issues are sifted from a broad review of historic and contemporary precedents, it is necessary to consider a framework which can better inform the current practice of enterprising architecture.

MODELS OF PRACTICE

The following models of practice have been identified in the current professional context through literature review, primary research, and practitioner interviews. Each of these models of practice can be classified by the level to which they integrate expertise, risk, resources, and identity. These models, and the firms who exhibit them, demonstrate one range of options within this integrated framework. The *Service* model describes a firm that still relies on a fee-for-services income, but has internalized a level of expertise in real estate development which differentiates itself from traditional architectural counterparts. The *Alliance* model describes the same type of firm that also takes on certain project risks through partnerships, such as exchanging fee-based income for an equity stake in a given project or placing some portion of their fee at risk, pending certain project outcomes. The *Multilateral* model represents a group of organizations that share certain expertise, risk, and resources often acting in concert. The *Unilateral* model represents the organization that most fully integrates expertise, risk, resources, and identity, retaining the ability to act independently on projects.

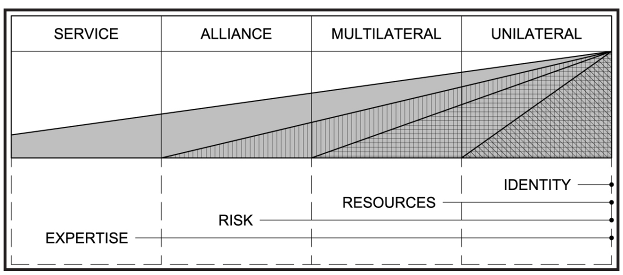

Figure 3: Illustration of models of integration based on key factors. (Illustration by author)

Naturally, there are tradeoffs to be recognized in pursuing one model over others. They are particularly relevant in the context of today's economy, representing key components of shaping an organizational strategy that is appropriate and adaptable under uncertain economic conditions. The following are illustrated in Figure 4, below. First, it should be noted that the multilateral and unilateral models engage a higher risk and return framework as compared to other models. Likewise, they are primarily based in equity income as opposed to fee-for-services income. Second, the autonomy concept recognizes the ability of an organization to act independently as it has internalized a broad range of knowledge and activities, and as such, can operate with relatively less dependence on other firms. Third, product diversity and geographic range reflects the estimation that a firm of a given size will have a greater ability to take on a more diverse range of product types in a broader geographic range when their activities are limited in services, such as a more pure form of architectural practice. Alternatively, the highly integrated models take on a broad range of in-house activities which can limit the firm's ability to take on diverse product types with an extensive geographic reach. There are certainly exceptions to these factors, but the practitioners studied in this research generally support the issues matrix. It is also recognized that firms of any substantial size more commonly exhibit the service, alliance, or multilateral models, whereas the unilateral model is commonly exhibited by small firms. Although this research doesn't extensively address the concept of adaptability over time, it is estimated that those firms that incorporate a full range of activities set themselves apart in their ability to adapt to a given project or economic climate. This research uncovered anecdotal evidence among practitioners to support this claim. It is important to remember that while these models are drawn from historic and contemporary models of practice and do provide meaningful insight into the distinct ways that one may organize an integrated real estate and architecture business, they aren't always bright distinctions. Firms and practitioners can find themselves moving across these boundaries over time or on a specific project for any number of reasons. Practitioners should understand the implications of each model in order to make informed decisions about the way they integrate, operate, and market their organizations.

LESSONS FOR THE ENTERPRISING

In a review of entrepreneurial architects, practices, and their products, certain key conclusions are evident. First, external constraints, such as the current economic uncertainty represent opportunities for entrepreneurial architects to reconsider their expertise and how it's applied. Architects over time have demonstrated the viability of fundamentally redefining their practice in the face of these and other external limitations. Second, the profession at large stands to gain from integrating a basic level of real estate expertise, even if many are not prepared to take on real estate investment risk. Clearly the profession is a

	SERVICE	ALLIANCE	MULTILATERAL	UNILATERAL
INCOME BASE	FEE ONLY	FEE PRIMARY	FEE/EQUITY	EQUITY PRIMARY
RISK/RETURN	LOW	MODERATE	HIGH	HIGH
AUTONOMY	LOW	MODERATE	MODERATE	HIGH
PRODUCT DIVERSITY	HIGH	MODERATE	MODERATE	LOW
GEOGRAPHIC RANGE	HIGH	MODERATE	MODERATE	LOW
FIRM SCALABILITY	HIGH	HIGH	HIGH	LOW
FIRM ADAPTABILITY	MODERATE	MODERATE	HIGH	HIGH

Figure 4: Key implications of proposed models of integration. Low, moderate, and high represent the degree to which factors apply to a given model. (Illustration by author)

stakeholder in the real estate industry—indirectly sharing industry risk—and would be wise to leverage an expanded knowledge of real estate in making decisions. Third, for those that do pursue a hybrid enterprise, a clear vision and definition of purpose is essential. The following objectives have been integral components of vision for enterprising practitioners: environmental, economic, urban, social, theoretical, and typological objectives. Among the manifestation of these objectives are, for example, an increased emphasis on sustainability, different patterns of development, or unique characteristics in architectural style, function, or program. At the core of these objectives is the architect's ability to initiate a project with certain aims, even when those aims or values aren't shared by their traditional clientele. Fourth, there are significant costs and benefits associated with integration that must be considered, though many are difficult to quantify. Some of the significant issues that elude quantification are expanded organizational independence, effects on marketplace image, and achievement of certain professional objectives, such as the goals mentioned above. Fifth, those architects that engage in the real estate marketplace as speculators must recognize their relative strength in product differentiation as compared to those firms primarily operating a real estate enterprise. Competing on a low-cost basis does not appear to be a likely path to success.[8] Sixth, professionals must gauge their underlying loyalty to the traditional model of practice, given the peculiar conflicts that are present when orchestrating development projects in conjunction with design services for third party clients.

CONCLUSION

Both historic and current practitioners demonstrate the viability and value in integration. The traditional practice of architecture as a consultant to a client will most likely continue to be the primary avenue for architects to contribute to the built environment. There is opportunity, however, for those in the profession committed to this traditional form of practice to embrace a more extensive range of their client's interests, and incorporate practical issues that comprise the knowledge base in real estate as an integral part of the architect's competency.

For other professionals, the traditional method of project delivery simply doesn't provide sufficient opportunities for them to make the contribution they intend. A lack of opportunity would likely only have been exacerbated by the recent economic downturn. As the economy begins to recover over the next few years, some practitioners may find attractive alternatives by internalizing expertise and business activities in real estate. What's clear—from having studied and interviewed a number of practitioners—is that the profession lacks a rigorous framework for understanding and organizing the issues inherent in such hybrid organizations. Through the course of this study, clear and relevant models emerged that begin to give more definition to the organizational variations available to potentially integrated practices. These models provide a framework that allows architect-practitioners interested in the integration of real estate to consider a broader range of associated opportunities. Their choice among these options should and can be grounded in their organizational vision and strategy. While it's difficult to ascertain the growth that may occur in these integrated forms of practice, there continues to be opportunities for a select few to take on the entrepreneurial challenges associated with conceiving, designing, and implementing their vision for the built environment. These opportunities are only likely to increase for those committed to pursuing them over the next few years. One thing is certain, the occasion provided by the current economic crisis, will force many to take their stand on the risk and opportunities presented by such divergent activities within their architectural practice.

ENDNOTES

1 For a more thorough review, refer to Nathan Richardson, "Architecture & Enterprise: A History, Practice, and Analysis of Architectural Extensions into Real Estate" (Master's Thesis, Harvard University Graduate School of Design, 2009).

2 American Institute of Architects, "The Business of Architecture: 2003 AIA Firm Survey," American Institute of Architects in partnership with McGraw-Hill Construction (2003).

3 Edward William Henry implies the categorization of these activities as architecture and enterprise in the title of his dissertation, *Portman, Architect and Entrepreneur: The opportunities, Advantages, and Disadvantages of His Design-Development Process* (Ph. D. thesis, University of Pennsylvania, 1985). This resource represents a critical look at Portman and his hybrid practice.

4 Howard Colvin, *A Biographical Dictionary of British Architects 1660-1840* (London: J. Murray, 1954), 908-909.

5 Ibid., 48.

6 In particular, see John Nash, Charles Bulfinch, and Jonathan Portman.

7 Among others, consider Wagner's Majolicahaus, Perret's 25 bis rue Franklin, and Barragán's Las Arboledas.

8 For more, see Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, (New York: Free Press, 1985), 12. See also Michael E. Porter, *Competitive Strategy*, Techniques for analyzing industries and competitoins (New York, NY: The Free Press, 1980).