

*SHO Pathway Experience*

# State of the Higher Ed P3 Industry: 2017-18 Detailed Report Analysis

Presented By:

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# Introductions



**Jeffrey Turner, LEED AP  
Executive Vice President**

- Co-Leader of B&D's Higher Ed Advisory Group
- Over 400 campus projects
- Background in Real Estate Finance
- Adjunct Faculty Member



**Mckenzie Hord  
Communications Manager**

- Leads P3 Research & Database
- 7 Years with B&D
- Background in Marketing



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# AGENDA

**1** Evolving Industry Context

**2** 2018 P3 Database Key Findings

**3** A Look Ahead



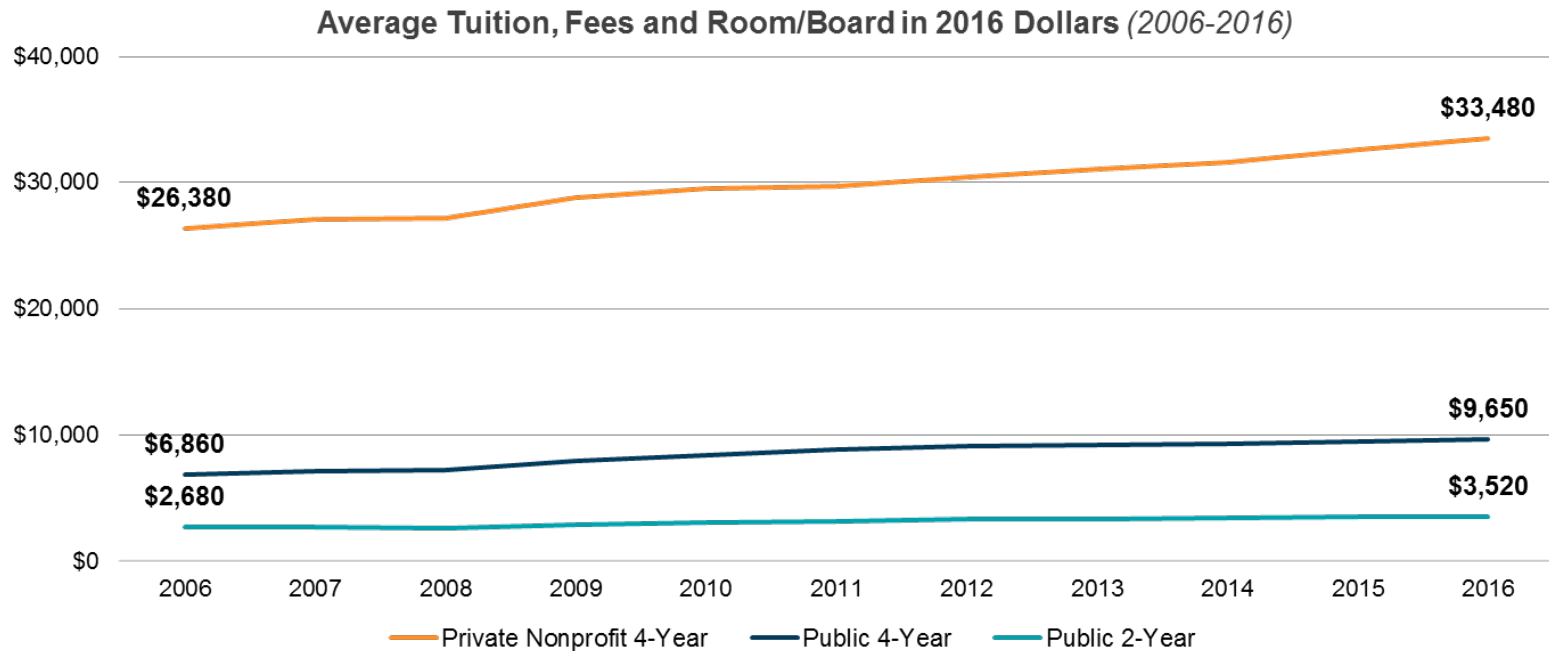
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# Evolving Industry Context

# EVOLVING INDUSTRY CONTEXT

The Cost of Education is on the Rise

In the last decade, tuition, fees, room, and board rates have risen **27%** at private institutions and **41%** at public institutions.



Source: "Trends in College Pricing 2017." College Board, 2017.



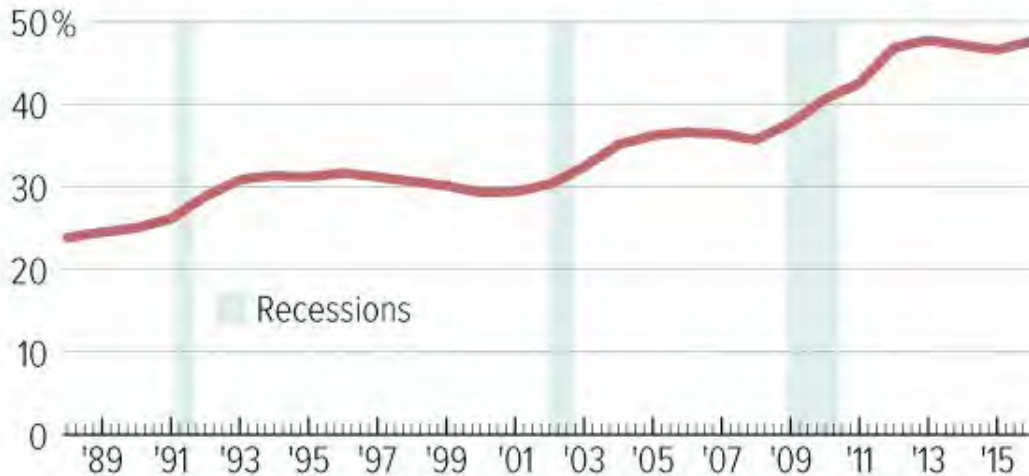
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# EVOLVING INDUSTRY CONTEXT

Students are Covering the Gap

## Students Funding Larger Share of Education Funds After Recessions

Tuition as a percent of "total educational revenue," 1988 -2016



Source: State Higher Education Financing FY2016, State Higher Education Executive Officers Association. Total educational revenue is the sum of educational appropriations and net tuition revenue excluding any tuition revenue used for capital and debt service. It measures the amount of revenue available to public institutions to support instruction (excluding medical students).

Students are covering the gap left by reductions in state funding. Between 1988 and 2016, student tuition and fees went from covering 20% to 50% of Total Educational Revenue.



CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Source: Center on Budget and Policy Priorities.

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# EVOLVING INDUSTRY CONTEXT

Or are they covering the gap?

“As students and families evaluate higher education’s value and their college-going options, they should keep in mind that the vast majority of undergraduates attending private colleges receive aid from their institutions, and **this aid covers well over half the tuition price,**” said Ken Redd of the National Association of College & University Business Officers (NACUBO). “While this is good news for students and their families, it also **means that tuition revenue at these schools remains very constrained.**”

FIGURE 1: AVERAGE INSTITUTIONAL TUITION DISCOUNT RATE BY STUDENT CATEGORY

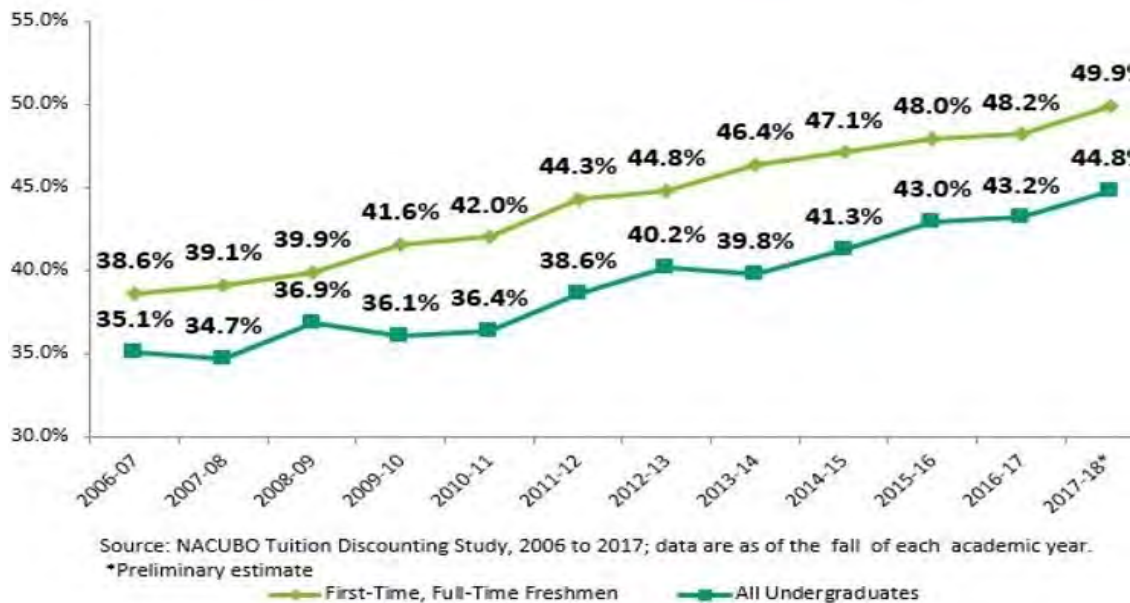


TABLE 9: AVERAGE PUBLISHED TUITION AND FEE PRICE, INSTITUTIONAL GRANT AID, AND NET TUITION RATES IN CURRENT DOLLARS PER FIRST-TIME, FULL-TIME FRESHMAN

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18*	Percentage Change from 2008-09 to 2017-18
Published Tuition & Fee Price	\$26,075	\$26,980	\$28,629	\$29,586	\$31,319	\$32,246	\$33,297	\$34,469	\$35,710	\$37,040	42.1%
Avg. Inst. Grant Aid	\$10,586	\$11,249	\$12,182	\$13,078	\$14,366	\$15,165	\$15,643	\$16,714	\$17,503	\$18,798	77.6%
Net Tuition Rate	\$15,561	\$15,808	\$16,664	\$16,618	\$17,182	\$17,365	\$18,004	\$17,698	\$18,508	\$18,488	18.8%

Source: NACUBO Tuition Discounting Survey 2008 to 2017. Data are as of the fall of each academic year.  
\*Preliminary estimate

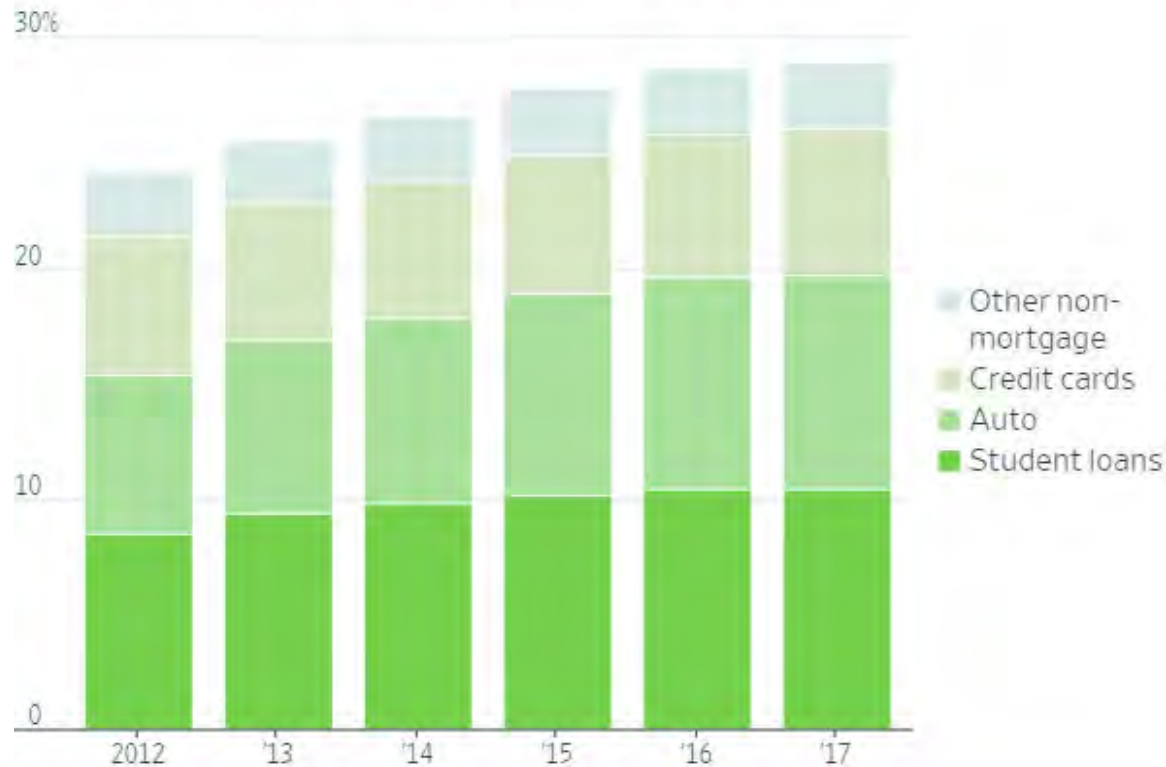


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# EVOLVING INDUSTRY CONTEXT

## Student Debt Has Surpassed All But Mortgage Debt in America

Non-mortgage debt as a share of overall consumer balances



Note: All data are as of the fourth quarter of each year. The 'other non-mortgage' category includes personal loans and private-label store credit cards.

Source: Federal Reserve Bank of New York / Wall Street Journal 02142018



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# EVOLVING INDUSTRY CONTEXT

Deferred Maintenance Getting Worse

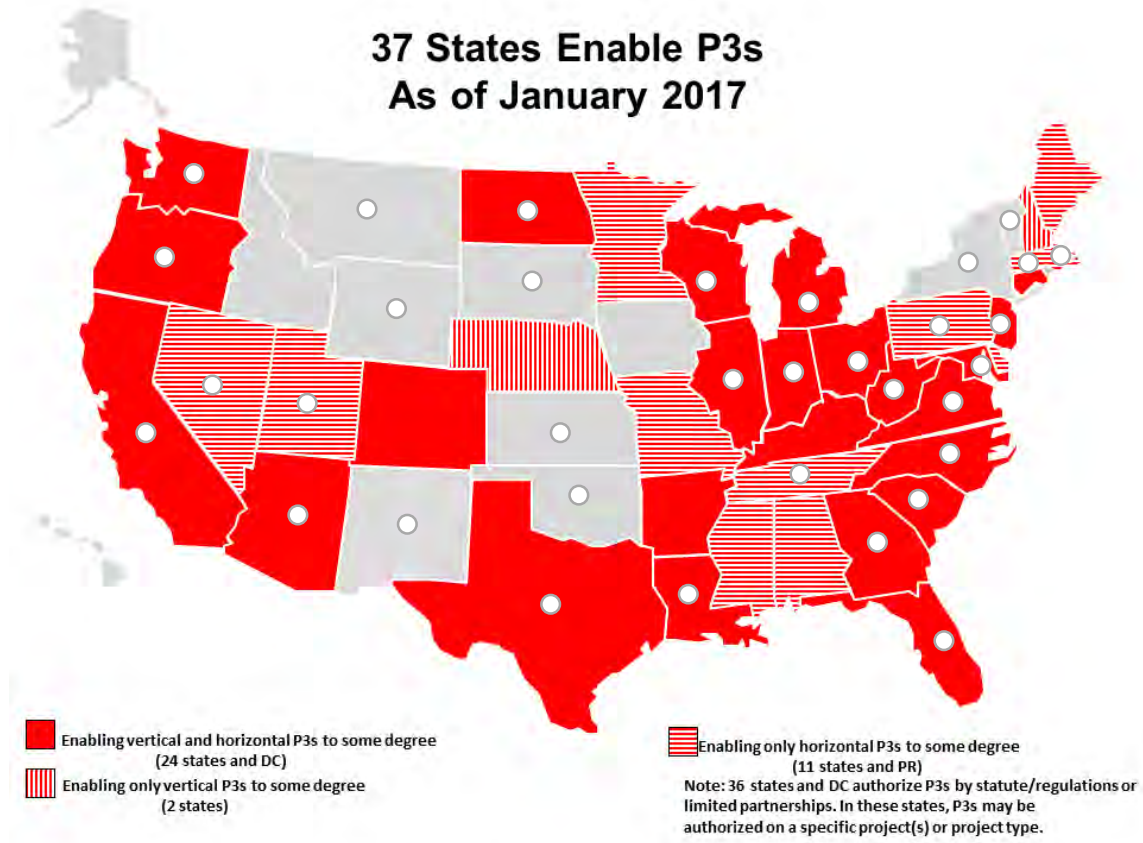


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Source: Sightlines

# EVOLVING INDUSTRY CONTEXT

States Have Taken Notice of Private Sector Interests

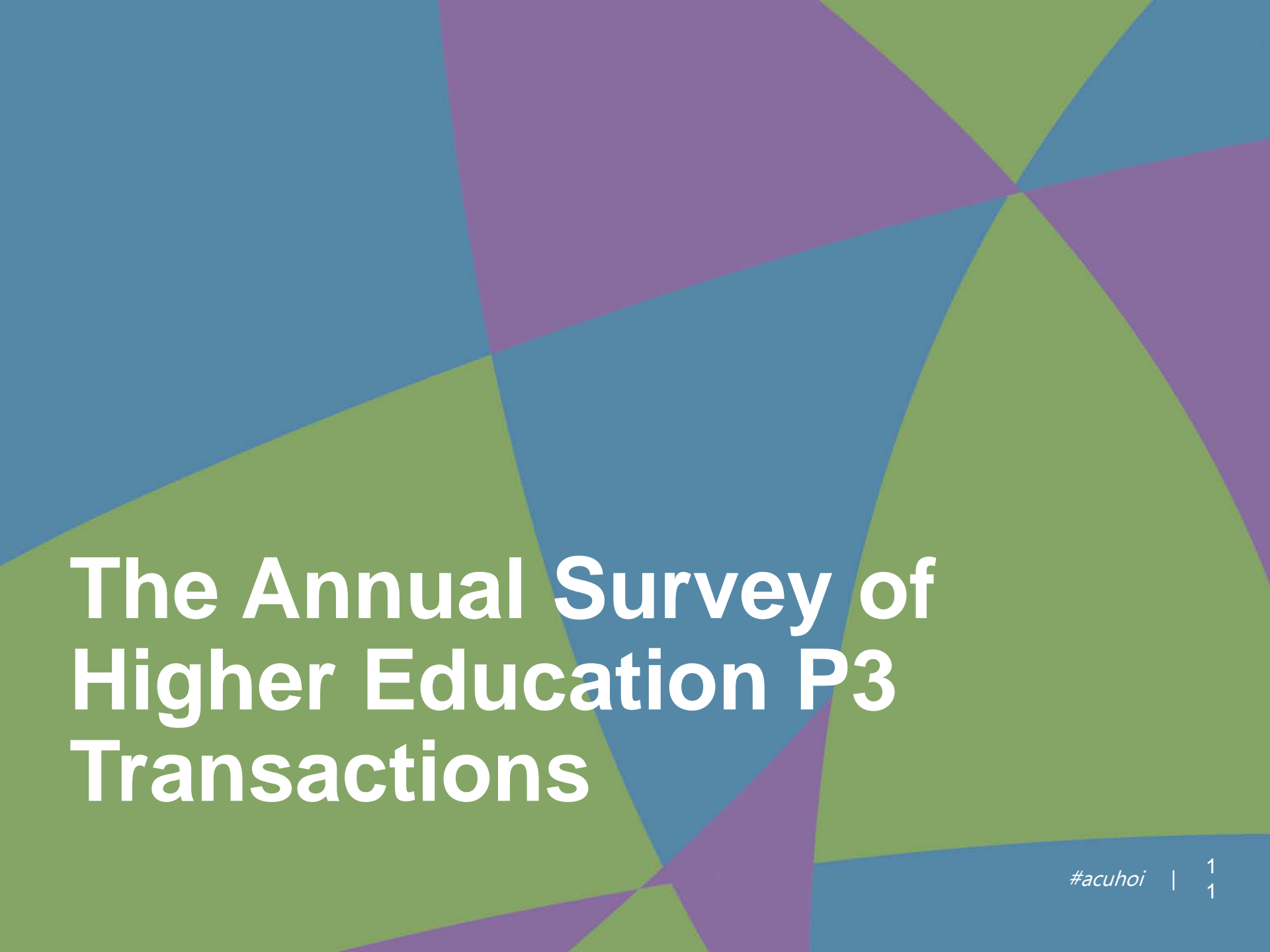


(Source: Associated Builders and Contractors, Inc)



- B&D Involvement in Higher Education

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# The Annual Survey of Higher Education P3 Transactions

# P3 Guidelines

- Must be on the University or University Foundation's land
- May include equity, 501c3, affiliated or unaffiliated foundations, fee development, or concessionaire structure
- May or may not be privately managed
- Project data shown for only P3 projects that include student housing

# HIGHER ED P3 SURVEY

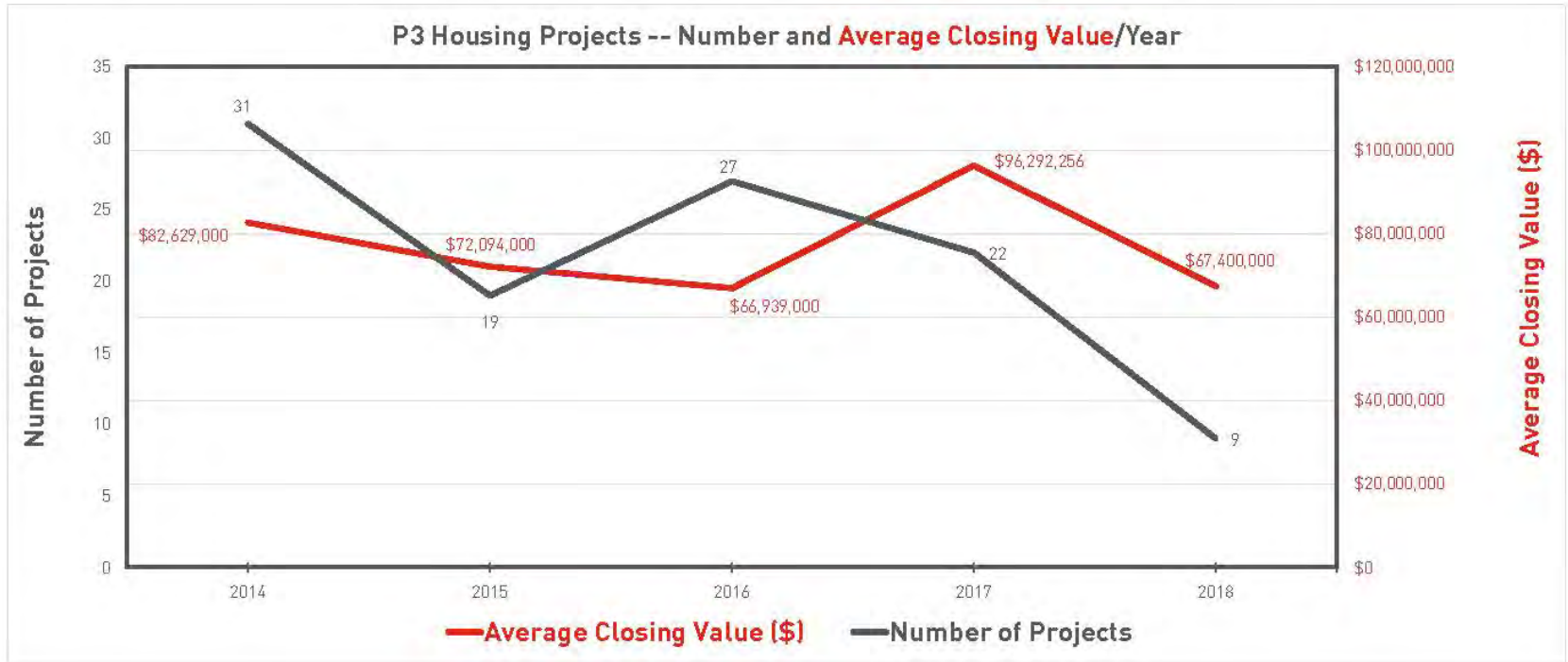
2018 Survey



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# HIGHER ED P3 SURVEY

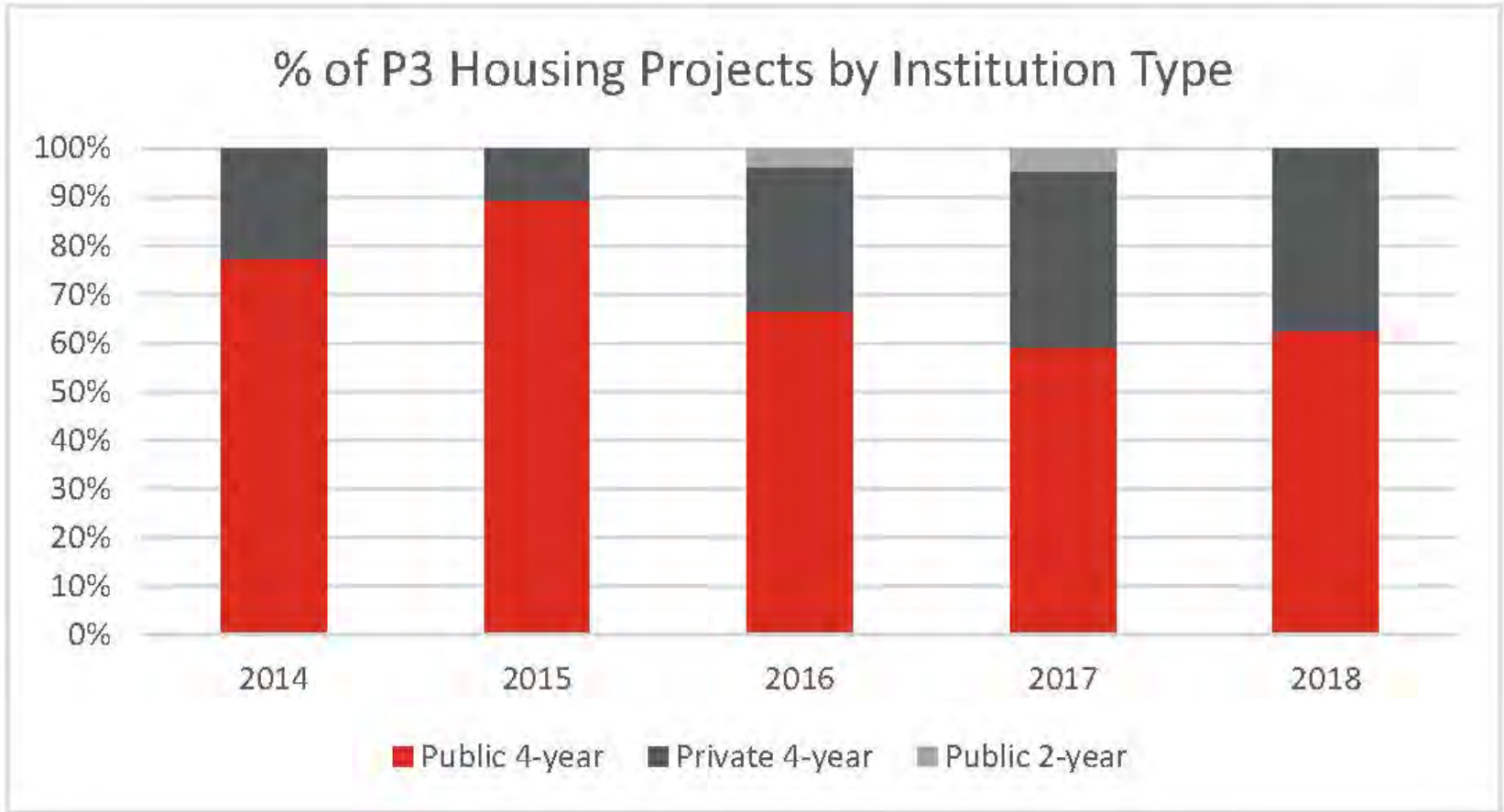
## Key Findings



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# HIGHER ED P3 SURVEY

## Key Findings

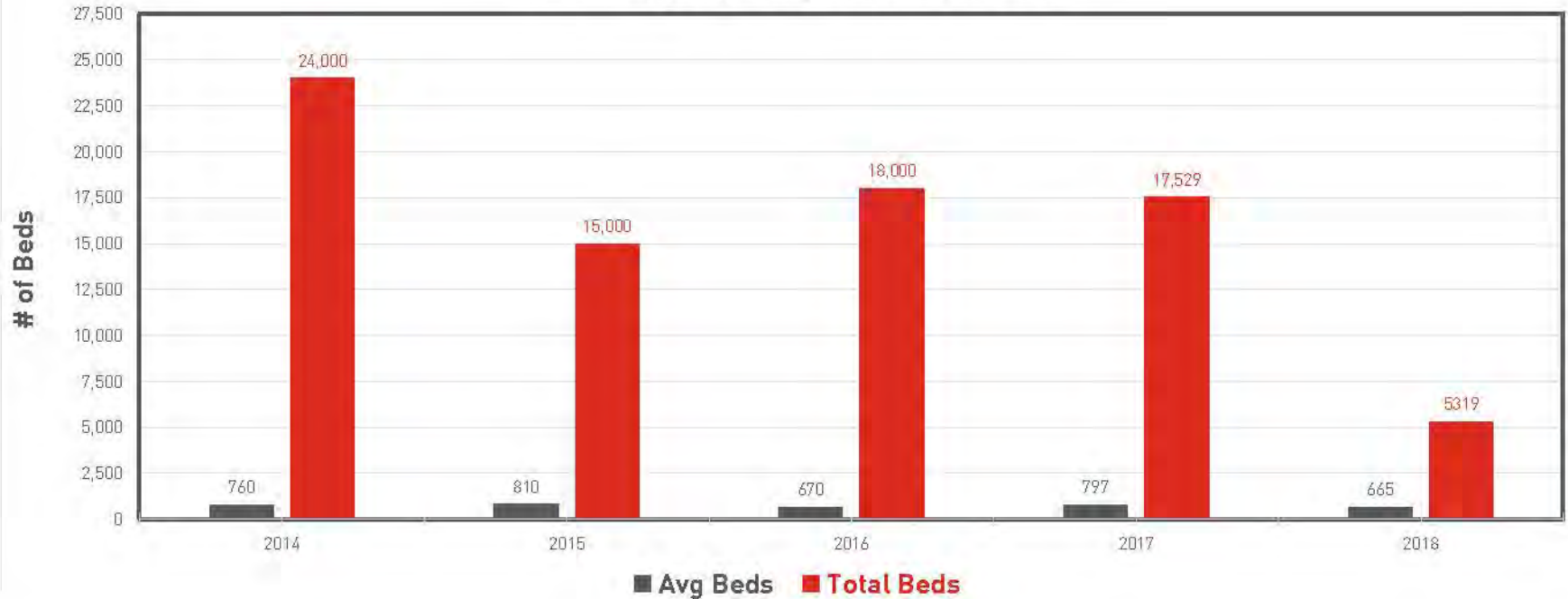


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# HIGHER ED P3 SURVEY

## Key Findings

P3 Housing Projects by Year and # of Beds

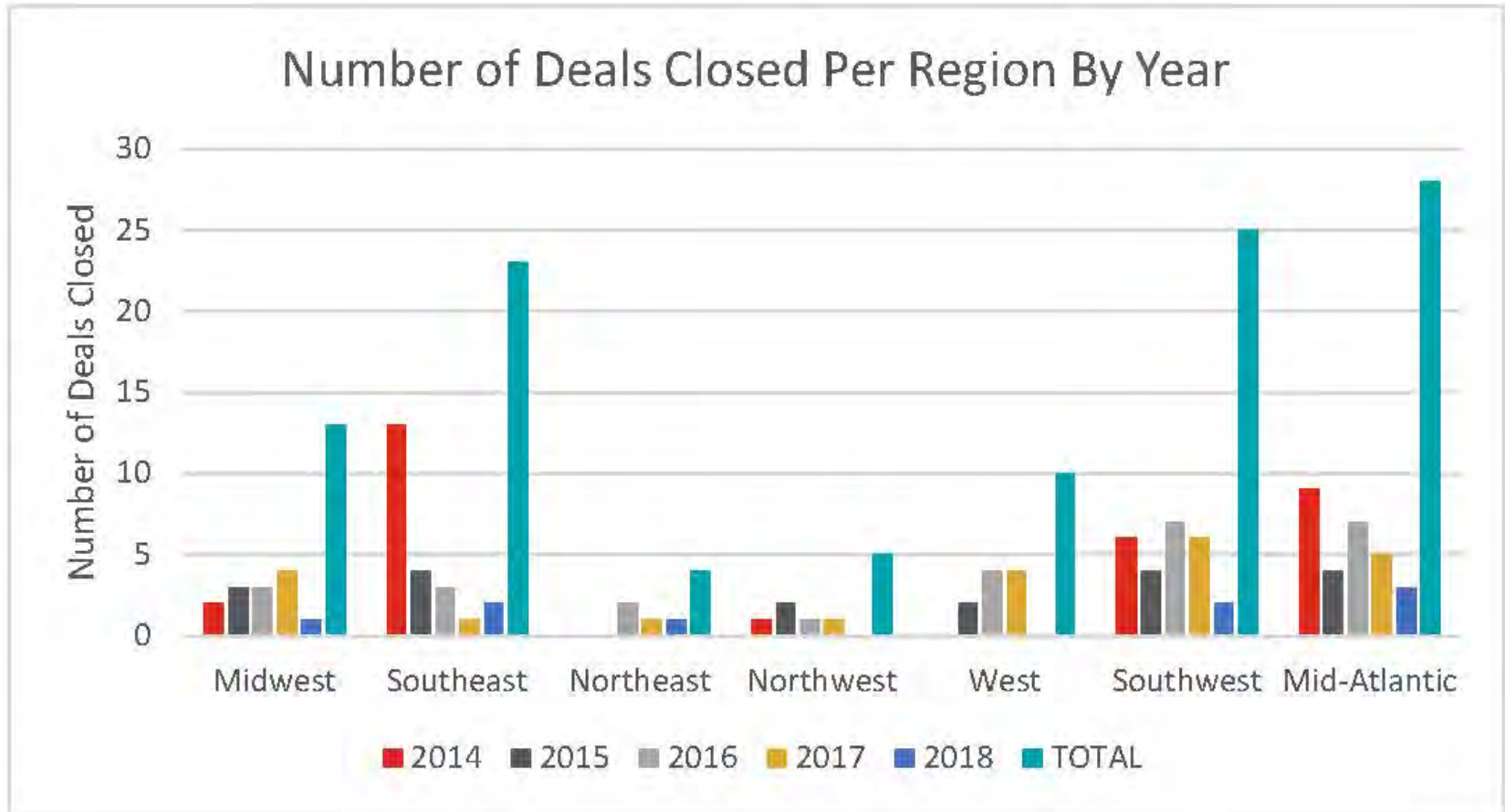


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# HIGHER ED P3 SURVEY

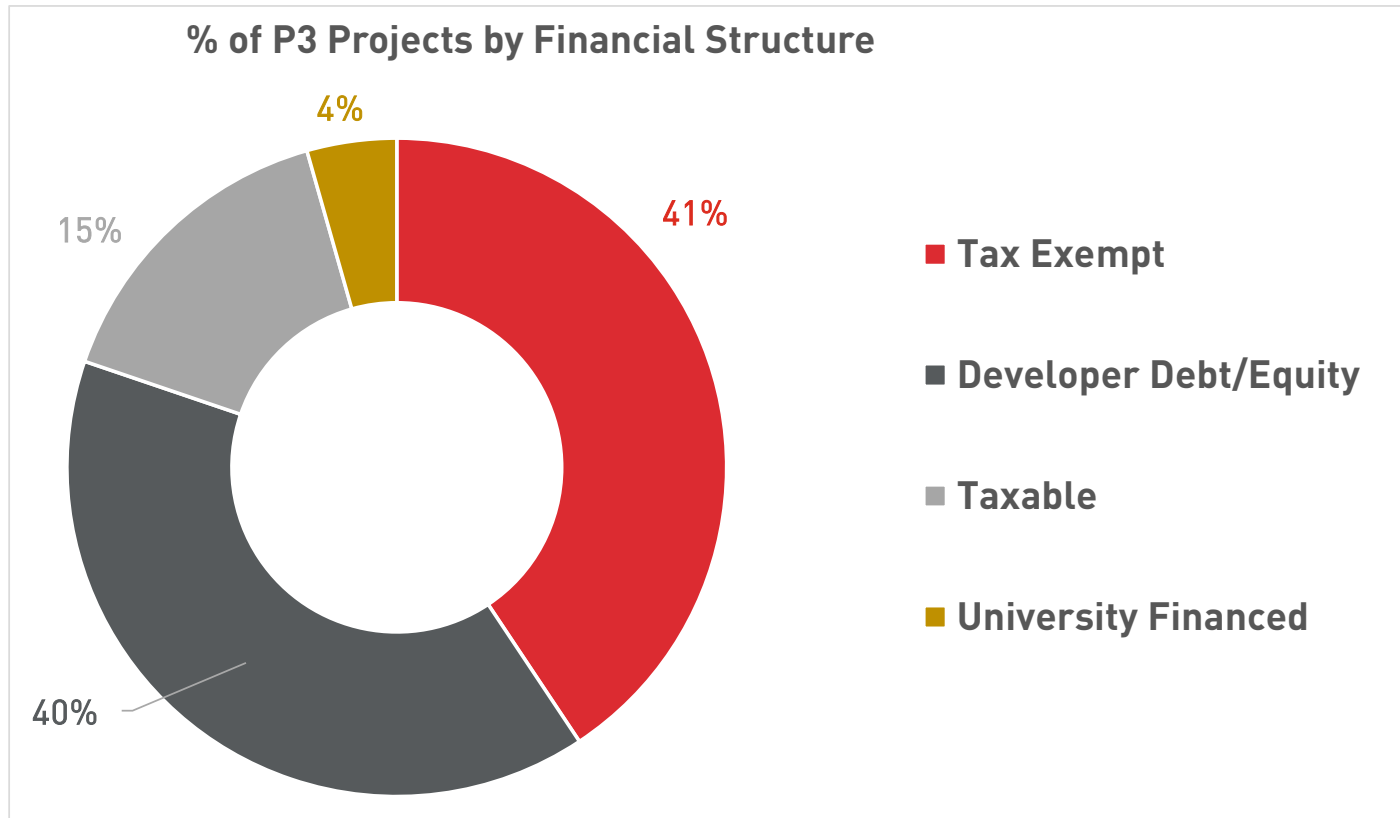
## Key Findings



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# HIGHER ED P3 SURVEY

## Key Findings



# A Look Ahead

# A LOOK AHEAD

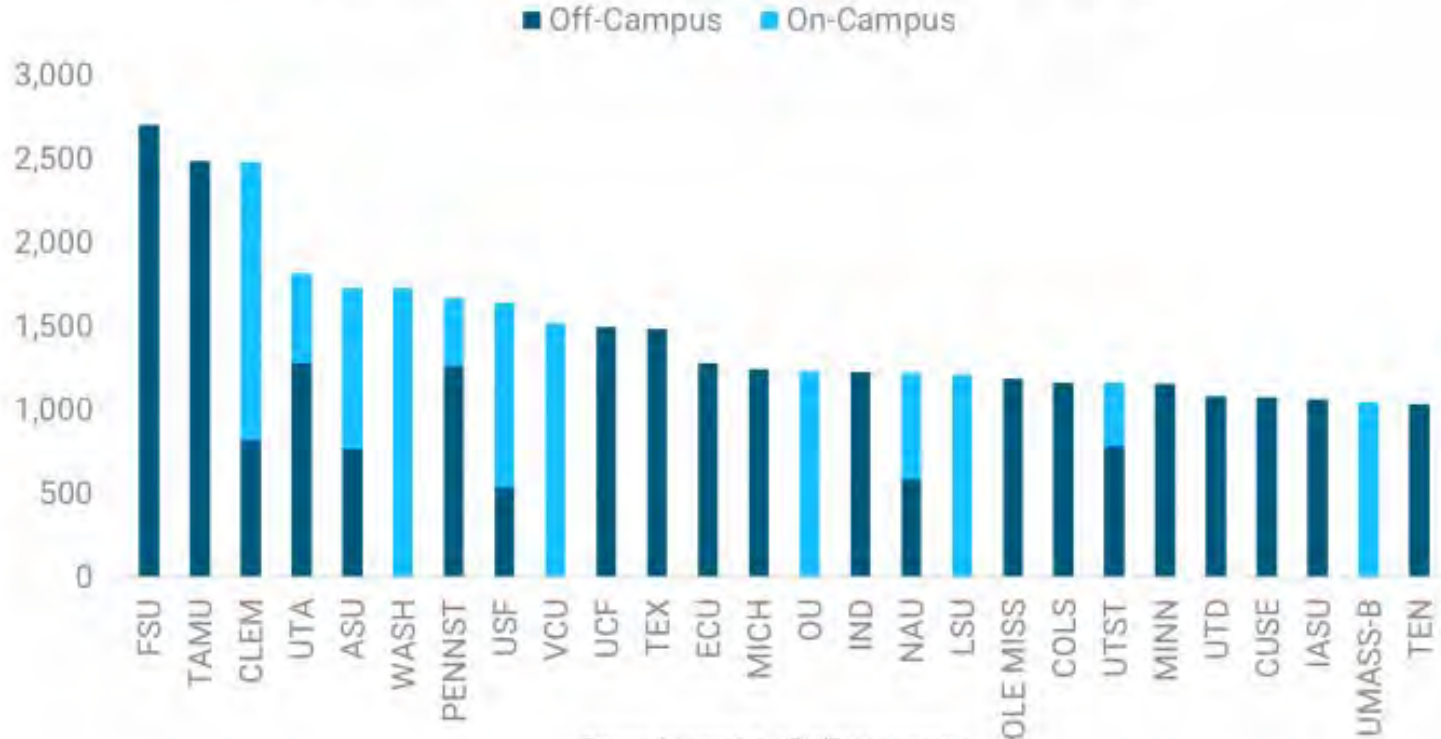
What's in the Pipeline?

- Currently tracking more than **70** potential projects
- Pipeline of **more than \$7 billion** new student housing and mixed-used projects developed through a **P3** in the next few years
- **More than half** of those projects are in the **Southeast** and **West**

# A LOOK AHEAD

Top state schools getting inundated with new supply

## 2018 New Supply by University



Source: Axiometrics, a RealPage company



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# A LOOK AHEAD

Still Healthy Outlook

Exhibit 3  
Sector maintains solid median occupancy



Source: Moody's Investors Service



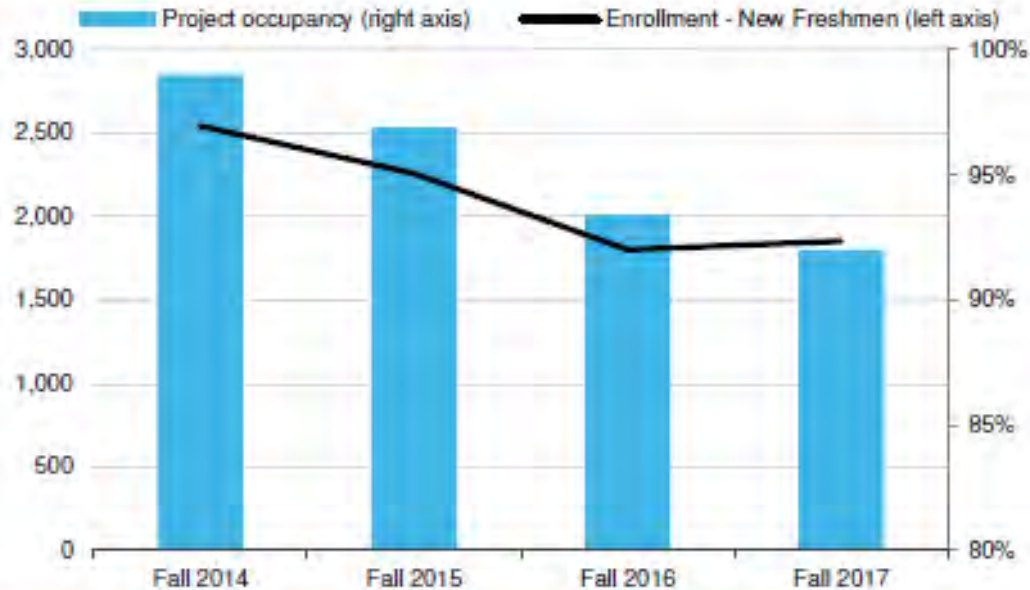
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# A LOOK AHEAD

Enrollment impacting occupancy

Exhibit 5

Occupancy drop linked to 27% enrollment decline of new freshmen  
DSC declines to 1.26x from 1.44x amid 0% rent increases over same period



Northern Illinois University is one example of how operating environment impacts performance

Sources: Moody's Investors Service; <http://www.niu.edu/effectiveness/files/fall-student-profile.pdf>



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# A LOOK AHEAD

## Declining Undergraduate Enrollments

### By the numbers from the NSCRC Fall 2017 Enrollment Report

- **224,000 fewer** undergrads than last year
- Overall, **1.5 million fewer** adult students compared to 2010
- **63,000 fewer** new first-time undergrads
- **25,000 fewer** 18 to 24-year olds
- **7 of 10 biggest** state declines this year are in the Midwest



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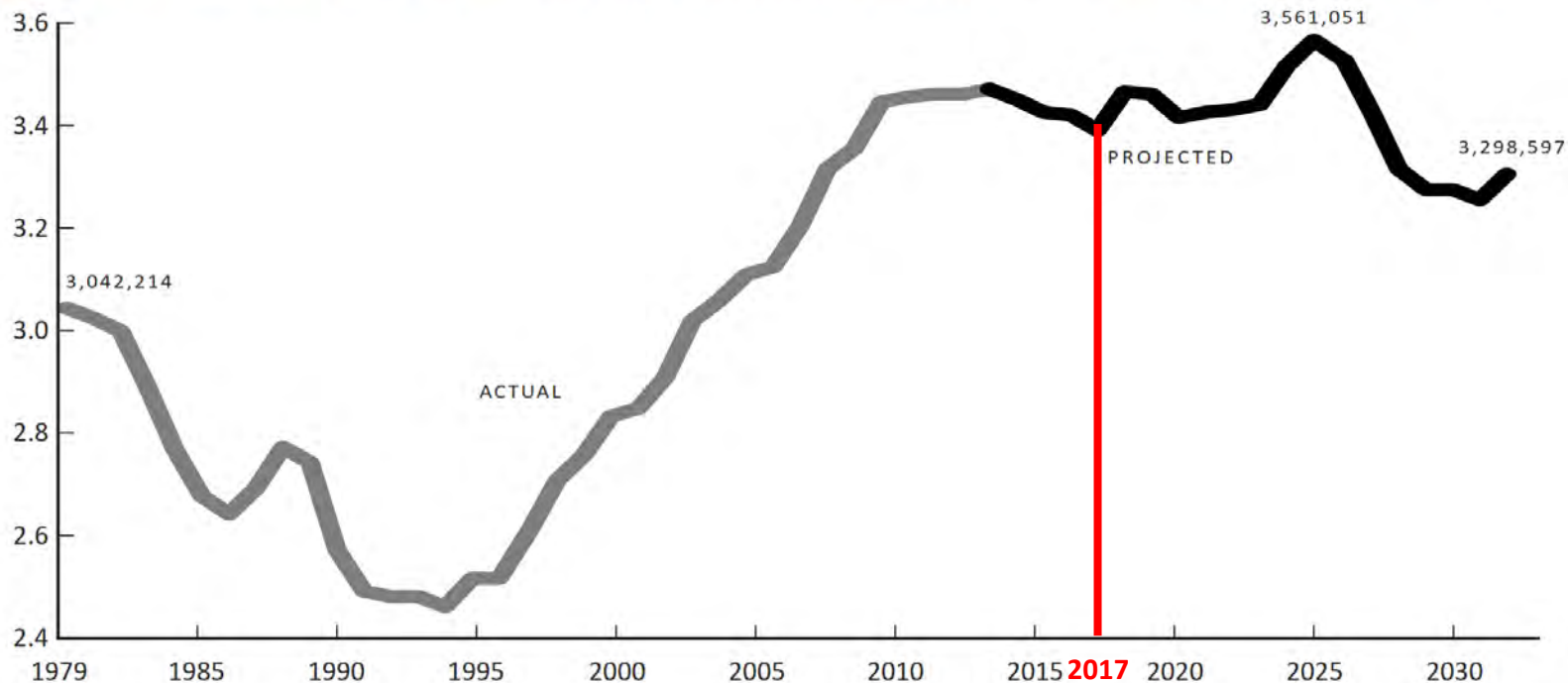


# A LOOK AHEAD

## Declining Undergraduate Enrollments

### What's the future look like?

Total U.S. Public and Private High School Graduates (Actual and Projected) 1979 to 2032



Source: William J. Hussar and Tabitha M. Bailey. "Projections of Education Statistics to 2024: Forty-Third Edition", Table 9 (1979 to 2012). And, Western Interstate Commission for Higher Education, "Knocking at the College Door", 2016 (2013 to 2032).



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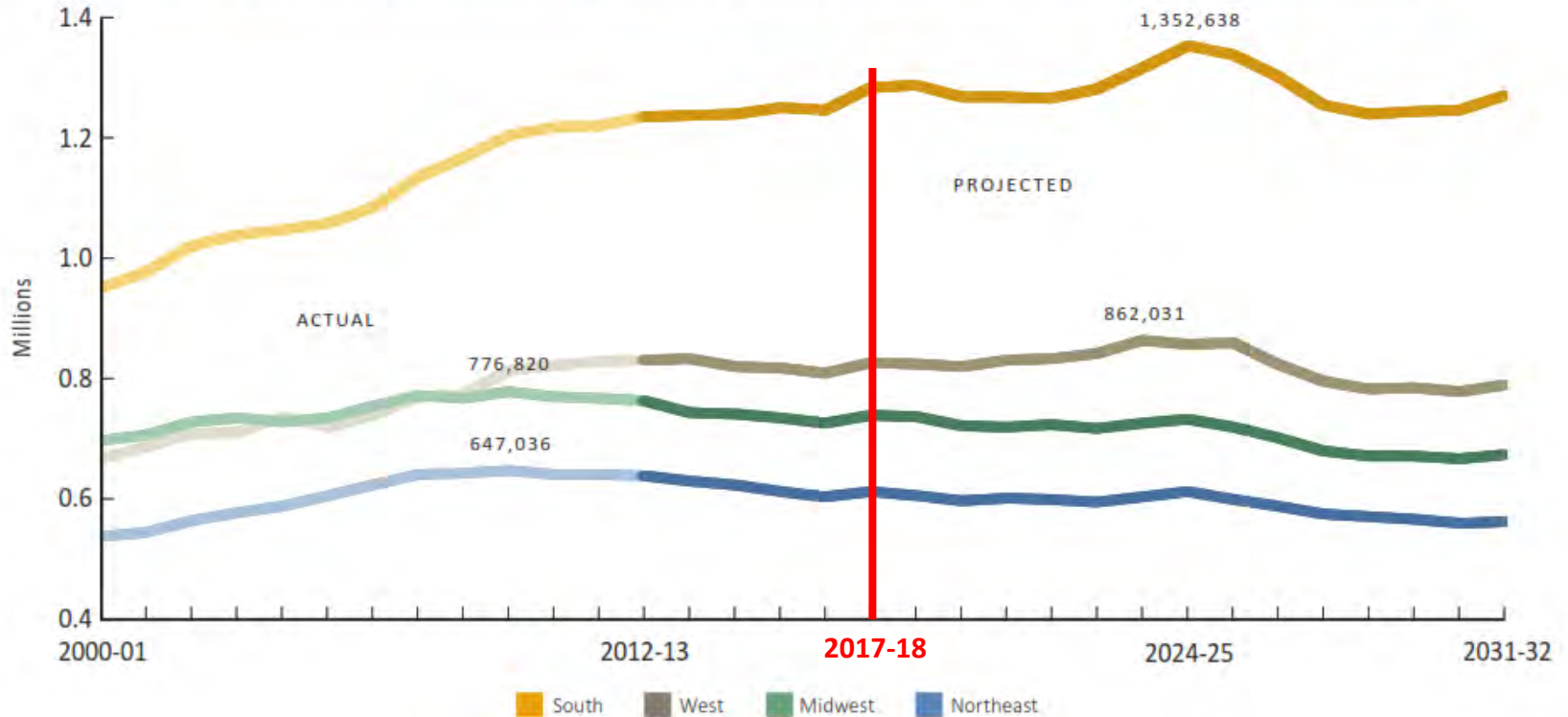


# A LOOK AHEAD

## Declining Undergraduate Enrollments

### What's the future look like?

Total Public and Private High School Graduates, by Region, 2000-01 through 2031-32



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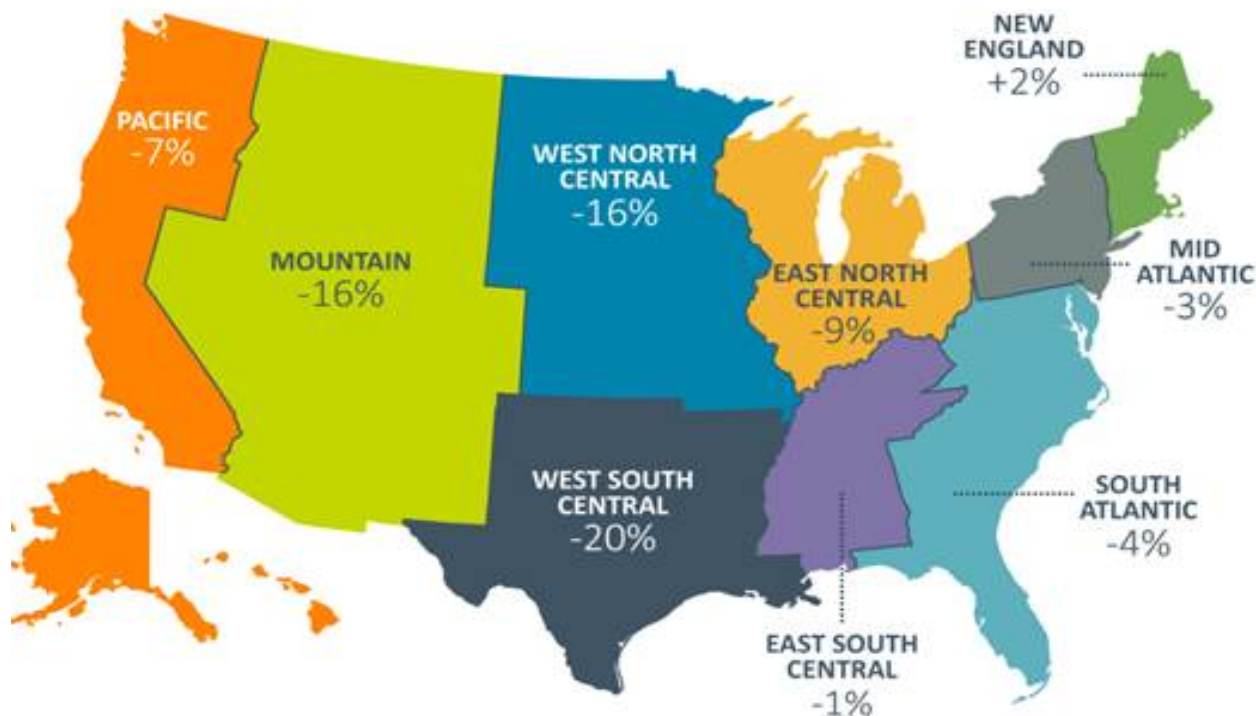


# A LOOK AHEAD

## Declining Undergraduate Enrollments

INSIDE  
HIGHER ED

New International Student Enrollment  
Fall 2016 to Fall 2017 Year Over Year Change by Region



- Of 500 institutions surveyed fall 2017, 45% had new int'l student enrollment declines that averaged - 20%
- Thirty-one percent reported increases that averaged + 5%
- Twenty-four percent reported no change
- Selective universities continued to report growth in new int'l student enrollment
- Master's-level institutions had steepest declines with new int'l enrollment down 20% percent

# A LOOK AHEAD

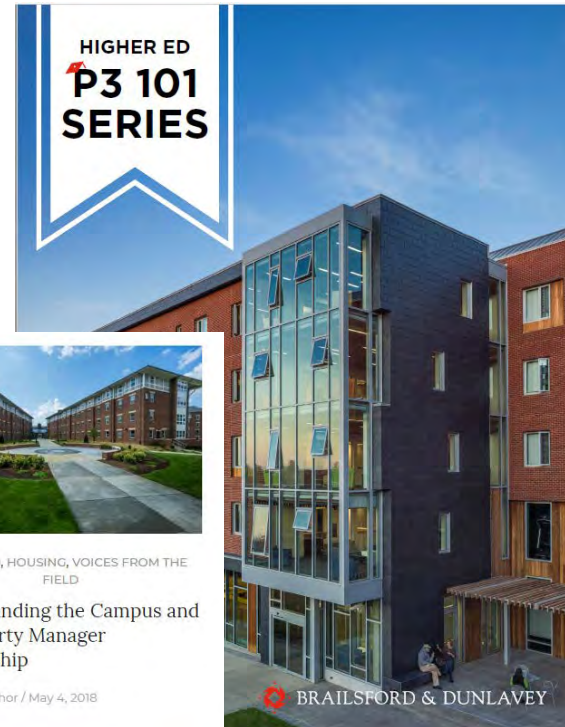
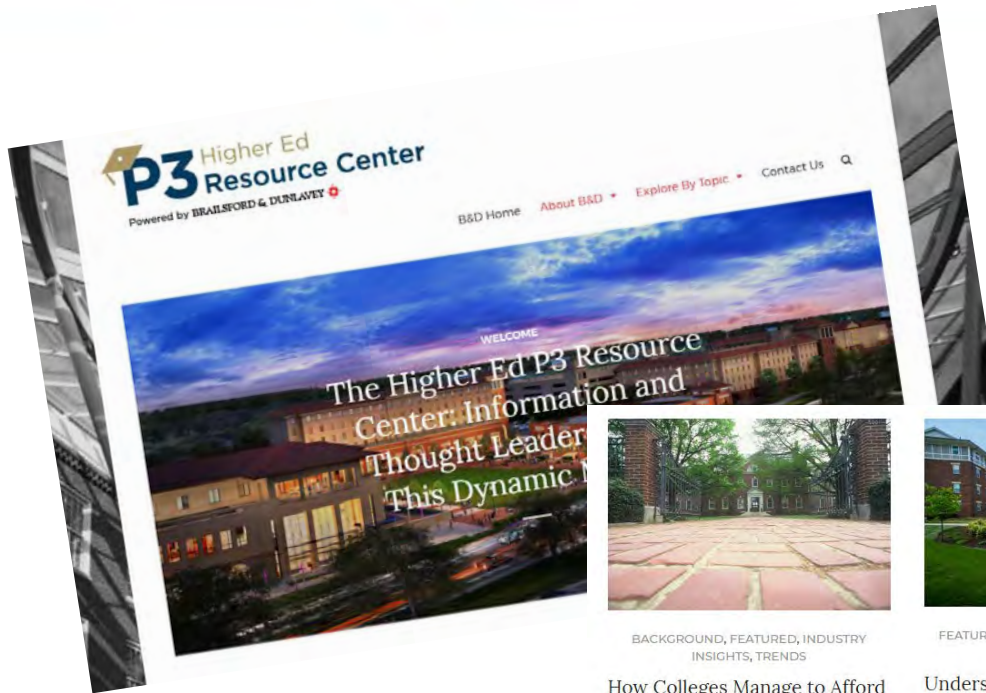
Where are we heading?

- Pre-development Risks – Many projects failing to close
- More political involvement and pressure to consider P3
- An increasing number of developers are getting in the on-campus business; however, developers are being more strategic on which projects/procurements to respond to
- Exploration of other sources of funds like tax credits
- Growth in schools looking at first time housing
- Shared governance continues to grow
- Larger, more complex P3 projects including long term concessions, availability payment models, Key Performance Indicators (KPIs)
- Bundling of Procurements (food, housing (including faculty), academic buildings, energy, facility maintenance, etc)



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# ADDITIONAL RESOURCES



BACKGROUND, FEATURED, INDUSTRY INSIGHTS, TRENDS

How Colleges Manage to Afford Big Projects in Lean Times

By B&D / May 8, 2018



FEATURED, HOUSING, VOICES FROM THE FIELD

Understanding the Campus and Third-Party Manager Relationship

By Guest Author / May 4, 2018



FEATURED, VENUES

Thinking Innovatively About Athletics Facilities Partnerships (Part 2)

By Guest Author / April 19, 2018



HOUSING, VOICES FROM THE FIELD

Universities Don't Have to Surrender Control With a Public-Private Partnership

By Guest Author / April 12, 2018



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# Group Discussion

# Contact Information



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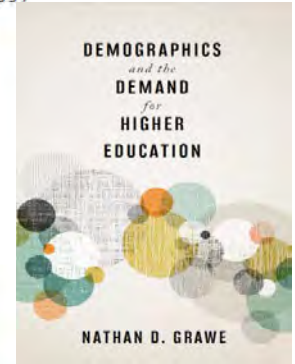
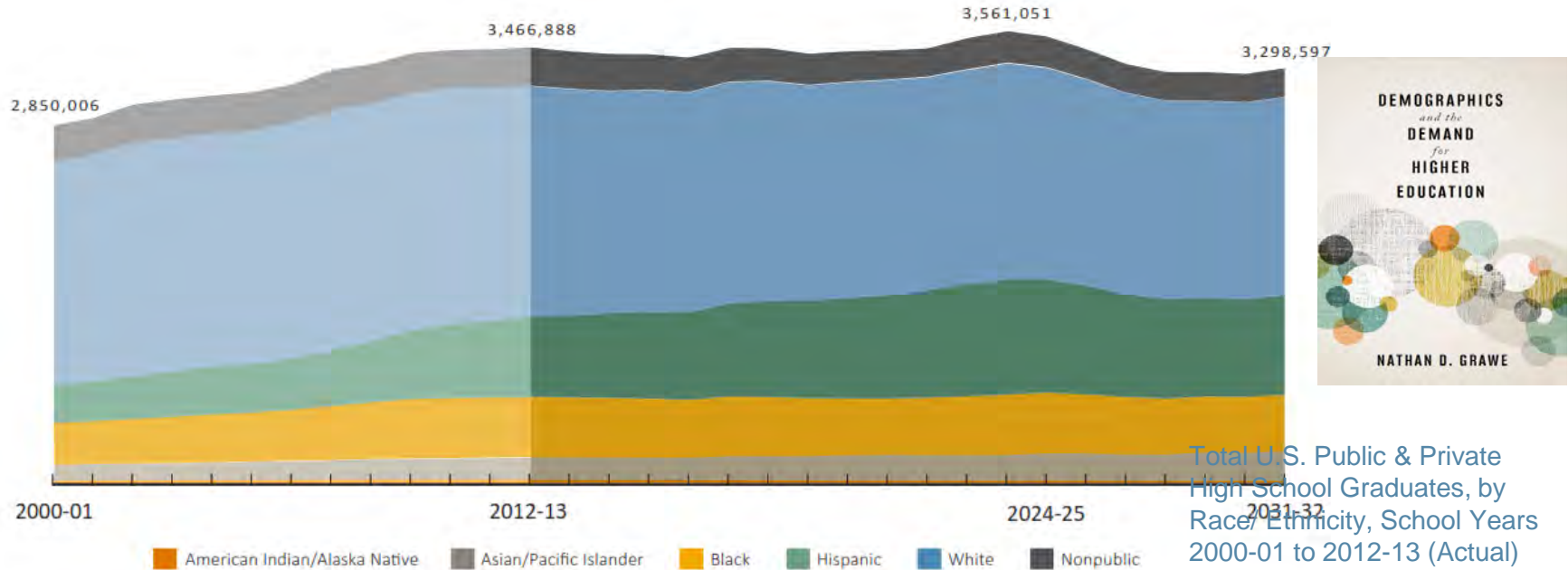


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# A LOOK AHEAD

## Declining Undergraduate Enrollments Through 2032

- The emerging “*birth dearth...*” decline over time in overall # of children per couple.



Total U.S. Public & Private High School Graduates, by Race/Ethnicity, School Years 2000-01 to 2012-13 (Actual) Through 2013-14 to 2031-32 (Projected)

Source: *Knocking at the College Door: Projections of High School Graduates, 9th Edition* Boulder, CO: Western Interstate Commission for Higher Education, 2016.



# P3 Discussion

## Various Reasons Drive a University to do a P3... or Not

### REASONS FOR A UNIVERSITY TO DO A P3

- Limited debt capacity or an inability to finance
- Avoiding cumbersome procurement structures
- Faster delivery (Time = Money)
- Ability to consider a range of construction standards
- Development expertise
- Land assemblage
- Management and operating expertise
- Financial return (ground lease revenue, net cash flow participation)
- Risk transfer (initial costs, budget, financing and schedule)

### REASONS FOR A UNIVERSITY NOT TO DO A P3

- Cheaper Cost of Capital
- Better access to the capital markets
- Additional Project Costs
- Concerned about Control
- In House Development Expertise
- In House Management Expertise
- University Owns the Land
- Few University/State Construction Standards
- No Procurement Concerns
- Impact on Existing Housing Operation
- Off Balance Sheet, but still on credit



# P3 Discussion

## Overview of P3 Industry and Trends

### KEY INGREDIENTS TO A SUCCESSFUL P3

- Stated common commitment to a strategic vision
- Clear project champion & key stakeholder alignment and support
- Clear definition of project framework (no fishing expeditions!)
  - Essential defined facility need
  - Established feasibility / business case
  - Definition of any funding gap and necessary economic parameters
  - Definition of institutional risk profile and tolerance
- Organized, fair, transparent procurement process
- Partnership oriented rather than exclusively a transactional focus
- Advisors & expertise from initial stages through implementation



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# EVOLVING INDUSTRY CONTEXT

## Deferred Maintenance



Again, backlogs at public and private institution diverge. In 2015, public campuses had an average backlog of over \$108 per GSF. Maintenance backlogs for private campuses averaged \$88 per GSF, about 19 percent lower. Remember that private campuses invest about \$0.50 more per GSF than public campuses, which may explain some of the difference. Still, the backlog in maintenance, modernization, and infrastructure has grown steadily for both public and private institutions since 2007.



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Source: Sightlines

# A LOOK AHEAD

## Declining Undergraduate Enrollments Through 2032

“Dearth” will unfold unevenly across the US:

- Midwest and northeast will continue to lose numbers of younger people
- Nearly all of the anticipated growth will be found west of the Mississippi River
- Decline mainly in the White population and counterbalanced by growth in the number of non-White public school graduates – Hispanics and Asian/Pacific Islanders, in particular.

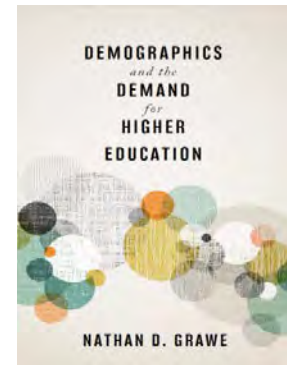
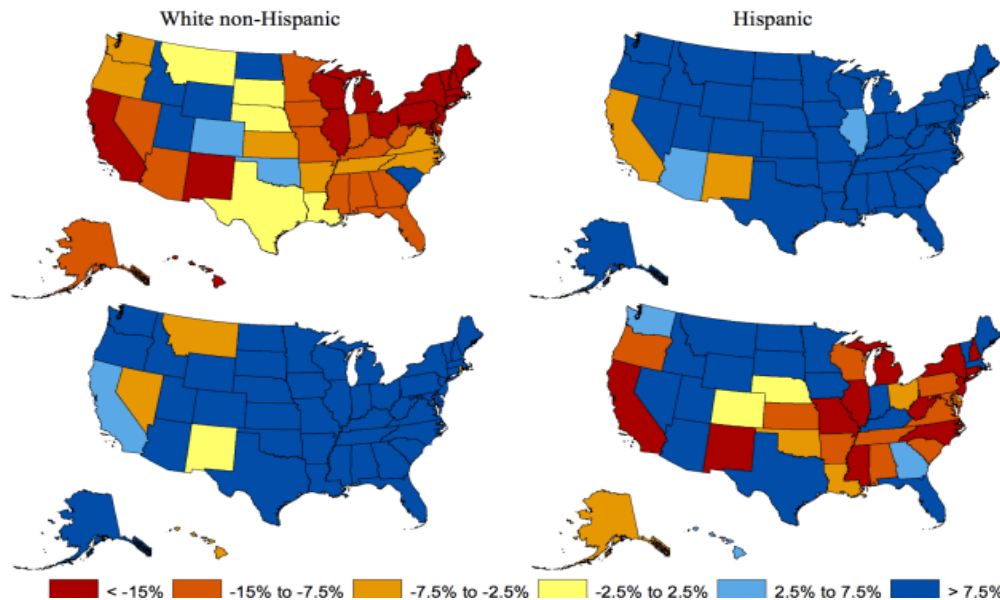
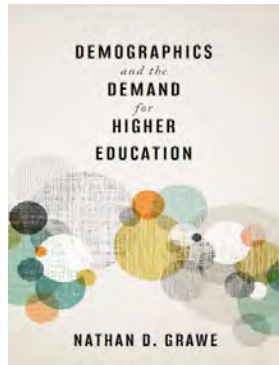


Figure 1.6 Forecasted growth in public high school graduates by race/ethnicity 2012 to 2032

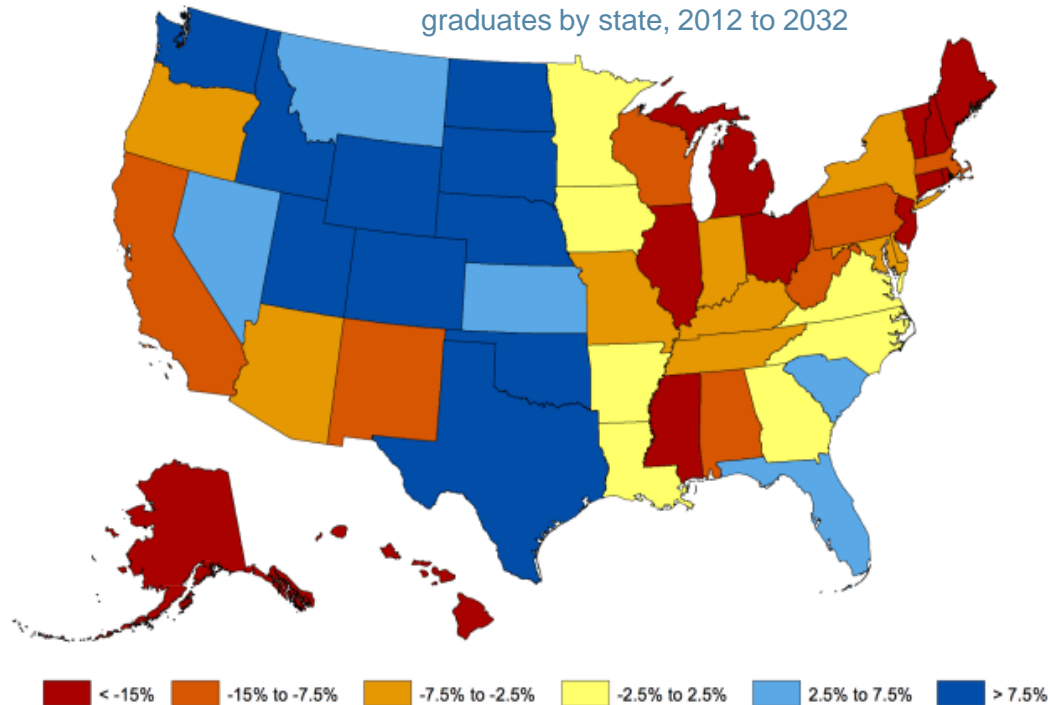
# A LOOK AHEAD

## Declining Undergraduate Enrollments Through 2032

- Last 15 years' steady increase in number of high school graduates is reversing...U.S. is headed into a period of stagnation
- WICHE projects number of graduates / year will average around 3.44 million through 2023, before peaking at 3.56 million prior to 2026



Forecasted growth in high school graduates by state, 2012 to 2032



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# A LOOK AHEAD

## Construction Costs

The year-over-year increases  
in the index values for  
the 'Big 5' commodities  
have been as follows:

gasoline, +37.9%;

lumber, +15.4%;

steel, +15.3%; copper, +7.8%;

and cement, +2.1%.



*Source: Bureau of Labor Statistics & Construction Connect*



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