State of the P3 Higher Education Industry
TODAY’S AGENDA

1. Evolving Industry Context
2. 2018 P3 Database Key Findings
3. A Look Ahead
4. The University Perspective

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
HIGHER EDUCATION P3 LEADERS

$35B+
In developed projects

1,200+
Higher education assignments

120
Employees Across the Country
Evolving Industry Context
In the last decade, *tuition, fees, room, and board* rates have risen **27%** at private institutions and **41%** at public institutions.

“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.”

Evolving Industry Context

But Some States/Schools are dropping tuition, so what’s actually rising?

Drew University, Sweet Briar College, Birmingham-Southern College, Benedict College and the University of Sioux Falls all reduced their advertised tuition starting this year. Old Dominion University is lowering the price of undergraduate tuition for active-duty military service members. Champlain College cut tuition in half for students in its online program, part of a strategy to increase enrollment.

The same was true at New Jersey’s Drew University, where the sticker price is dropping from $48,336 to $38,668 this fall. The high price was “completely disproportionate” to the market, said President MaryAnn Baenninger. “Higher-income students were saying, ‘You cost the same as Princeton. If I can get into Princeton, why would I choose Drew?’” Baenninger said. “The sticker price was untenable.”

Concerned about Illinois high school graduates leaving for colleges in other states, the University of Illinois system is in the fourth year of a tuition freeze. The University of Colorado has cut fees. Five South Dakota universities are offering lower in-state tuition this fall to freshmen and transfer students from Nebraska; the University of Nebraska at Kearney will extend the deal next year to residents of Colorado and Kansas.

Source: (“Bending to Law of Supply & Demand, Some Colleges are Dropping Their Prices.” The Hechinger Report. August 30, 2018)
Evolving Industry Context
The Cost of Education is on the Rise

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.

Source: Center on Budget and Policy Priorities.
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
Evolving Industry Context
The Student Body Continues to Shift

GenZ (those born ~1997 to a couple years ago)
- More risk adverse (financially, socially, etc.) and student priorities are changing
  - The **country club era is over on campus as students are more acutely aware of who is paying for that**, said Raymond Maggi, an architect who has built more than 20 student life projects on college campuses over the past decade. That means shared, fluid and public spaces for tutoring and meeting. Libraries need cafes, he said, and academic departments need lounges with “comfortable seats and cafe tables” with writable surfaces. – (“The iGen Shift: Colleges Changing to Reach the Next Generation.” *The New York Times*. August 2, 2018)

Number of Students Dropping
- “Today, however, because of a decline in the number of 18- to 24-year-olds and an improving economy that is sucking people straight into the workforce, **colleges have 2.9 million fewer customers** than they did at the last peak, in 2011, according to the National Student Clearinghouse, which tracks this.” – (“Bending to Law of Supply & Demand, Some Colleges are Dropping Their Prices.” *The Hechinger Report*. August 30, 2018)
Evolving Industry Context
Deferred Maintenance Getting Worse
THE ANNUAL SURVEY OF HIGHER EDUCATION P3 TRANSACTIONS
Thank You
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
HIGHER EDUCATION P3 SURVEY

Key Findings

Number of P3s and Average Closing Value

- 33 P3s in 2014 with $79M average closing value
- 19 P3s in 2015 with $72M average closing value
- 29 P3s in 2016 with $114M average closing value
- 30 P3s in 2017 with $112M average closing value
- 14 P3s in 2018 with $72M average closing value
HIGHER EDUCATION P3 SURVEY
Key Findings

- **P3s by Institution Type**
  - 72% Public 4-year
  - 27% Private 4-year
  - 1% Public 2-year

Yearly Breakdown:
- 2014: Public 4-year
- 2015: Public 4-year
- 2016: Public 4-year
- 2017: Public 4-year
- 2018: Public 4-year
HIGHER EDUCATION P3 SURVEY

Key Findings

P3s by Enrollment
PUBLIC FOUR-YEAR INSTITUTIONS

- 26% 20-30K ENROLLMENT
- 19% 10-20K ENROLLMENT
- 25% 5-10K ENROLLMENT
- 10% 30-40K ENROLLMENT
- 9% <5K ENROLLMENT
- 11% >40K ENROLLMENT
HIGHER EDUCATION P3 SURVEY
Key Findings

P3s by Region

- **14% of all deals**
  - **$153M average deal size**

- **25% of all deals**
  - **$188M average deal size**

- **16% of all deals**
  - **$121M average deal size**

- **22% of all deals**
  - **$76M average deal size**

- **23% of all deals**
  - **$84M average deal size**
HIGHER EDUCATION P3 SURVEY

Key Findings

P3s by Financial Structure

- Developer Debt/Equity
- Tax Exempt
- Taxable
- University-Financed

<table>
<thead>
<tr>
<th>Year</th>
<th>Developer Debt/Equity</th>
<th>Tax Exempt</th>
<th>Taxable</th>
<th>University-Financed</th>
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<tbody>
<tr>
<td>2014</td>
<td>34%</td>
<td>44%</td>
<td>28%</td>
<td>5%</td>
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<td>2015</td>
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<tr>
<td>2018</td>
<td>50%</td>
<td>33%</td>
<td>17%</td>
<td>5%</td>
</tr>
</tbody>
</table>
HIGHER EDUCATION P3 SURVEY

Key Findings

P3s by Ground Lease Durations

- 30-39 Years
- 40-50 Years
- 40 Year + 10 Year Extension
- 50-59 Years
- 60-69 Years
- 70+ Years

![Bar chart showing P3 lease durations from 2014 to 2018.](image-url)
HIGHER EDUCATION P3 SURVEY

Key Findings

$90.6M
AVERAGE DEAL
HOUSING ONLY

$173.5M
AVERAGE DEAL
HOUSING + COMPONENTS
HIGHER EDUCATION P3 SURVEY
Key Findings

Pipeline Projects

- Tracking 70+ potential projects
- More than $7B new 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
A LOOK AHEAD
Top State Schools Getting Inundated with New Supply

2018 New Supply by University

Source: Axiometrics, a RealPage company
A LOOK AHEAD
Still a Healthy Outlook

Exhibit 3
Sector maintains solid median occupancy
Decrease because of PASSHE projects experiencing enrollment declines

Source: Moody’s Investors Service
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
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
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

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

- South
- West
- Midwest
- Northeast

Western Interstate Commission for Higher Education
A LOOK AHEAD
Declining International Student Enrollments

• 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
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
A LOOK AHEAD
Where Are We Heading?

• More *political involvement and pressure* to consider P3

• *Pre-development Risks* – Many projects failing to close

• Issues with *Construction Pricing & Labor Shortages*

• 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, USDA, and opportunity zones

• *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, hotel, energy, facility maintenance, etc.)
TODAY’S PANEL

MODERATOR

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