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Good Times Ahead for Big Ten

Tom Errath

Harrison Street Real Estate Capital

Universities look to the private sector to meet high demand for in-state, public degrees.



Tom Errath

As a new school year is upon us, the recession's economic ripple effect continues to be felt, even in higher education.

While university enrollments continue to grow, we believe that stark economic realities brought on by the recession have caused and will continue to cause a rethinking of college expectations and outcomes. Students and parents are increasingly focused on a school's quality, the value of the individual degree and, more than ever, the total cost of a college education.

The best higher education "value" remains an in-state, public university.

We would suggest this trend will only grow in the coming years, and here's why: The average tuition and fees in 2011-12 for a Big Ten university were \$11,300 for in-state students and \$27,000 for out-of-state students.¹

These tuition numbers are pre-financial aid and don't include, room and board (\$10,000) and miscellaneous expenses (\$3,000). The prospect of paying almost three times more for a private college versus the in-state, public alternative is receiving more scrutiny as parents are less willing and able to afford the difference; often have multiple children to put through college; and believe that the academic programs are often comparable.

Public universities rely heavily on state support for funding, which is not healthy in a recessionary environment. States have faced several years of severe budget cuts and in 2011, state appropriations per full-time enrolled undergraduate fell to \$6,520, a 25-year low.²

To compensate for diminishing state support, universities have routinely raised tuition. For the Big Ten universities, since 2007, tuition and fees have increased 27 percent for in-state students and 19 percent for out-of-state students.

Despite the tuition increases, enrollments are growing at Big Ten universities, and the in-state, state-school, option remains the best higher education value for students.

Big Ten universities are also increasingly accepting more of the high-paying out-of-state students to compensate for diminished state funding. Today, Iowa, Michigan, Indiana, Wisconsin, Purdue and Penn State all have 29 percent or more out-of-state undergraduate student populations.³ Anecdotally, we have heard that that it is becoming harder for in-state students to gain admittance to their public universities.

To test this notion, we analyzed the change in composite ACT scores at Big Ten universities over the past five years. Of those Big Ten enrollees who scored a 30-36 on the ACT, (the top 5 percent of all US students), 19 percent of Big Ten enrollees scored in the 30-36 range in 2007. By 2012, 25 percent of Big Ten enrollees scored in this top range, a 31 percent increase in absolute numbers.⁴

This suggests stronger students are enrolling at Big Ten universities, making admission more difficult for others. No data exists to explain why students choose one university over another, but Big Ten admission standards are rising measured by the increase in ACT scores.

We think these trends reinforce the notion that state universities have quietly become the "best value" in higher education. They are becoming stronger, enrolling better students and are positioned to sustain and grow enrollments at the expense of other competing universities.

What we do not expect to change anytime in the near future is the on-campus housing shortage Big Ten universities experience. Big Ten universities are only able to house an average of 34 percent of their students on campus. State universities do not possess the financial capacity to solve on-campus housing shortages and they won't be helped by projected state budget limitations. State universities must continue to rely on the private sector to solve student housing issues, both off campus and on campus.

The increasing value of a Big Ten education and the need for the private sector to provide off-campus housing portends good things for investors in student housing serving Big Ten universities.

- 1) HSRE Research and Common Data Set, (Northwestern not included)
- 2) State Higher Education Finance Report 2011
- 3) HSRE Research and Common Data Set, (Northwestern not included)
- 4) HSRE Research and Common Data Set, (Northwestern not included)

— Tom Errath is the vice president and director of research and strategy at Harrison Street Real Estate Capital.



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