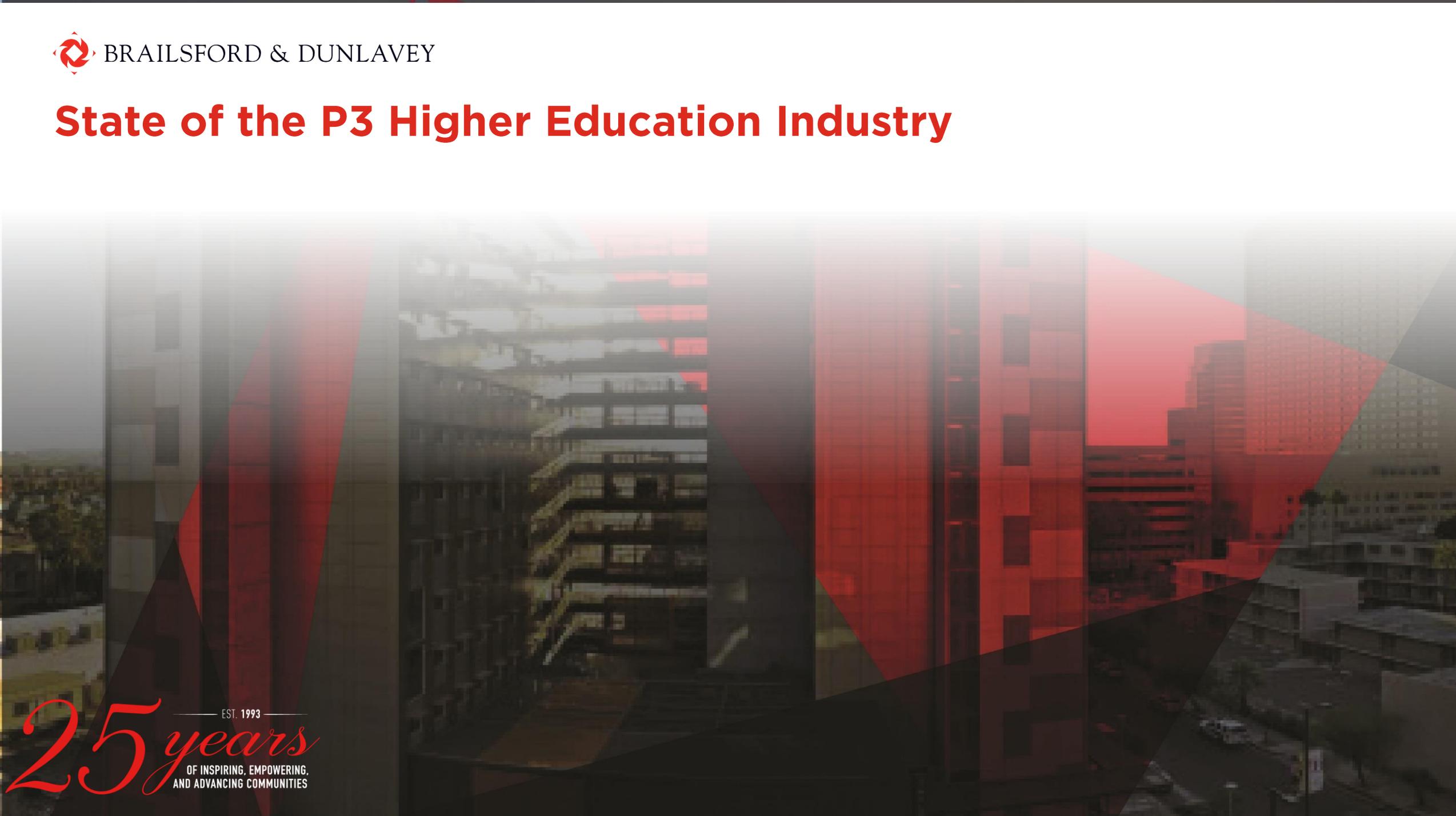


State of the P3 Higher Education Industry



25 years
EST. 1993
OF INSPIRING, EMPOWERING,
AND ADVANCING COMMUNITIES

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

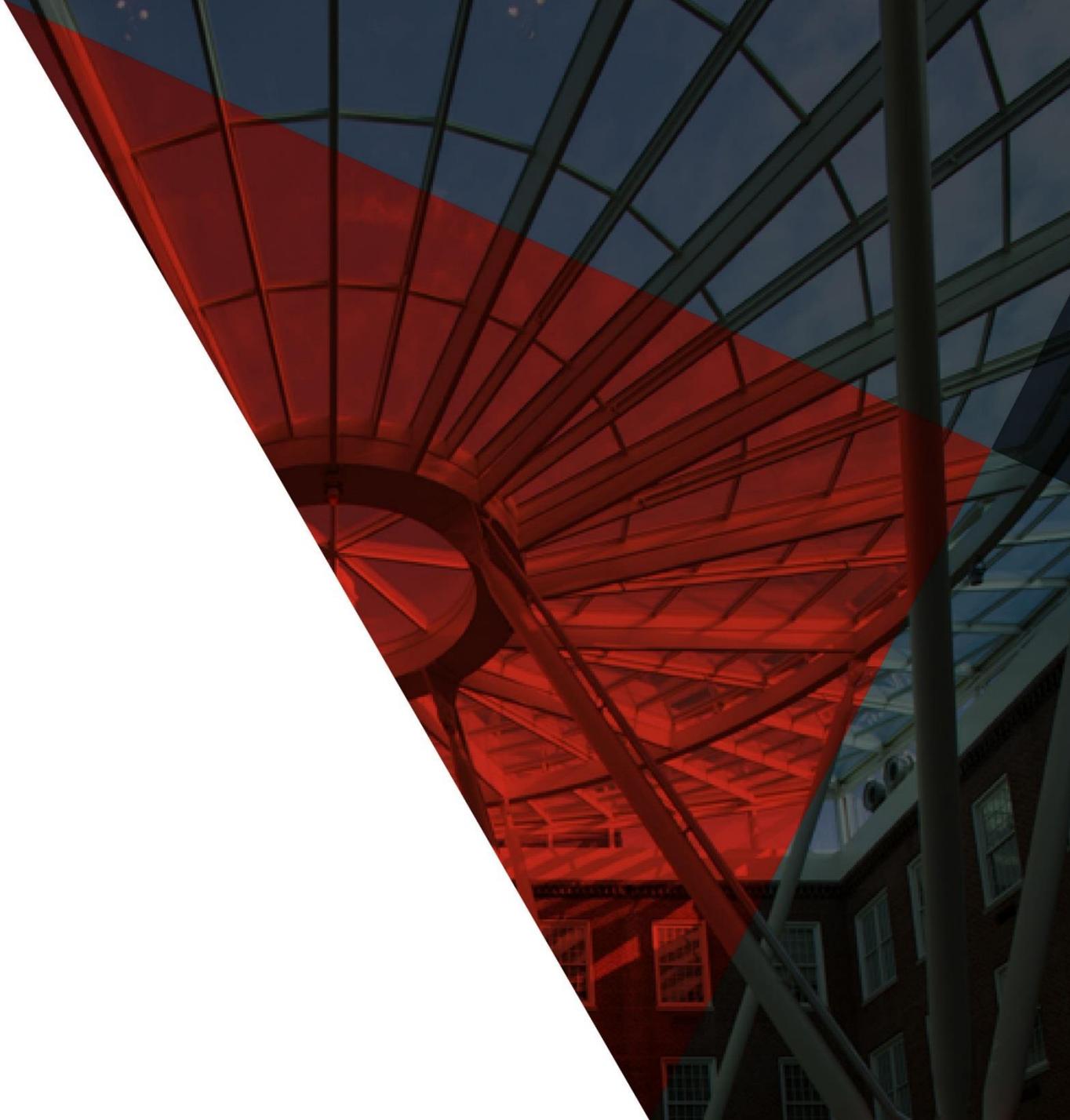


\$35B+
In developed projects

1,200+
Higher education
assignments

120
Employees Across
the Country

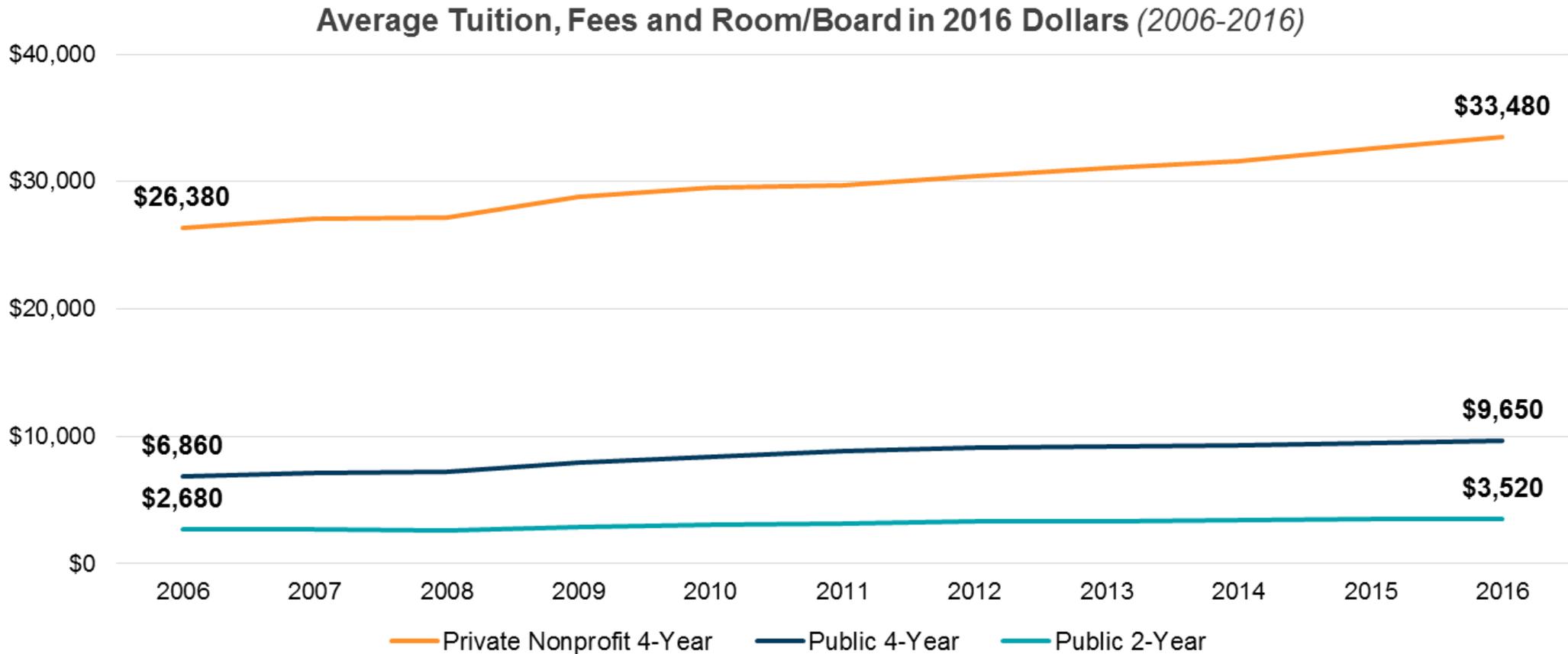
EVOLVING INDUSTRY CONTEXT



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.

EVOLVING INDUSTRY CONTEXT

Tuition Discounting Continues to Rise

“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

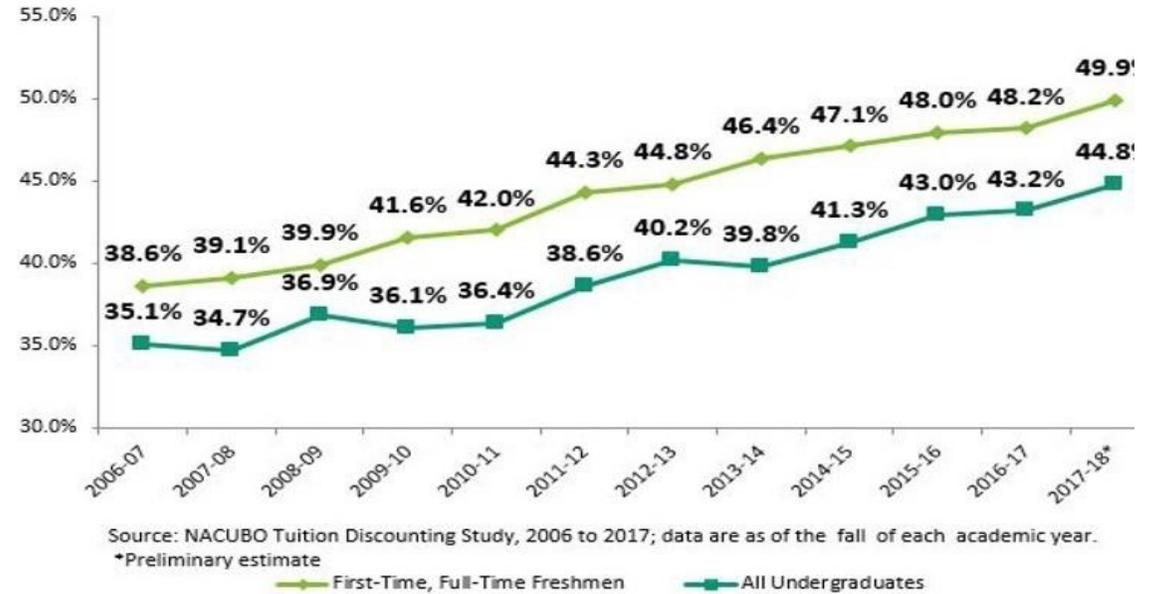


TABLE 9: AVERAGE PUBLISHED TUITION AND FEE PRICE, INSTITUTIONAL GRANT AID, AND NET TUITION RATES IN CURRENT DOLLARS PER FIRST-TIME, FULL-TIME FRESHMAN

	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

Source: “Trends in College Pricing 2017.” College Board, 2017.

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**.

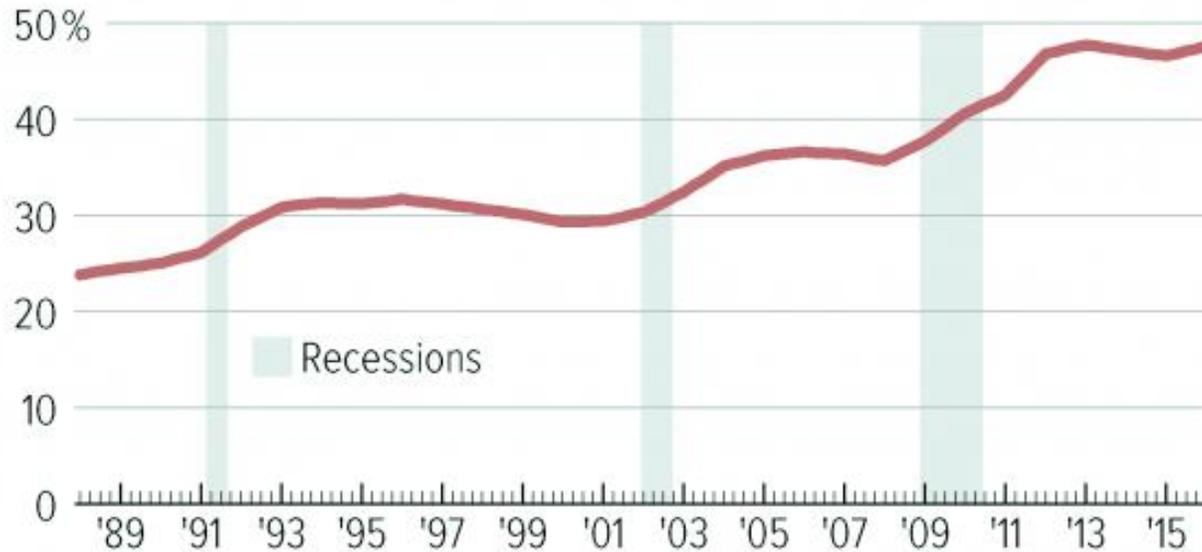


EVOLVING INDUSTRY CONTEXT

The Cost of Education is on the Rise

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).

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

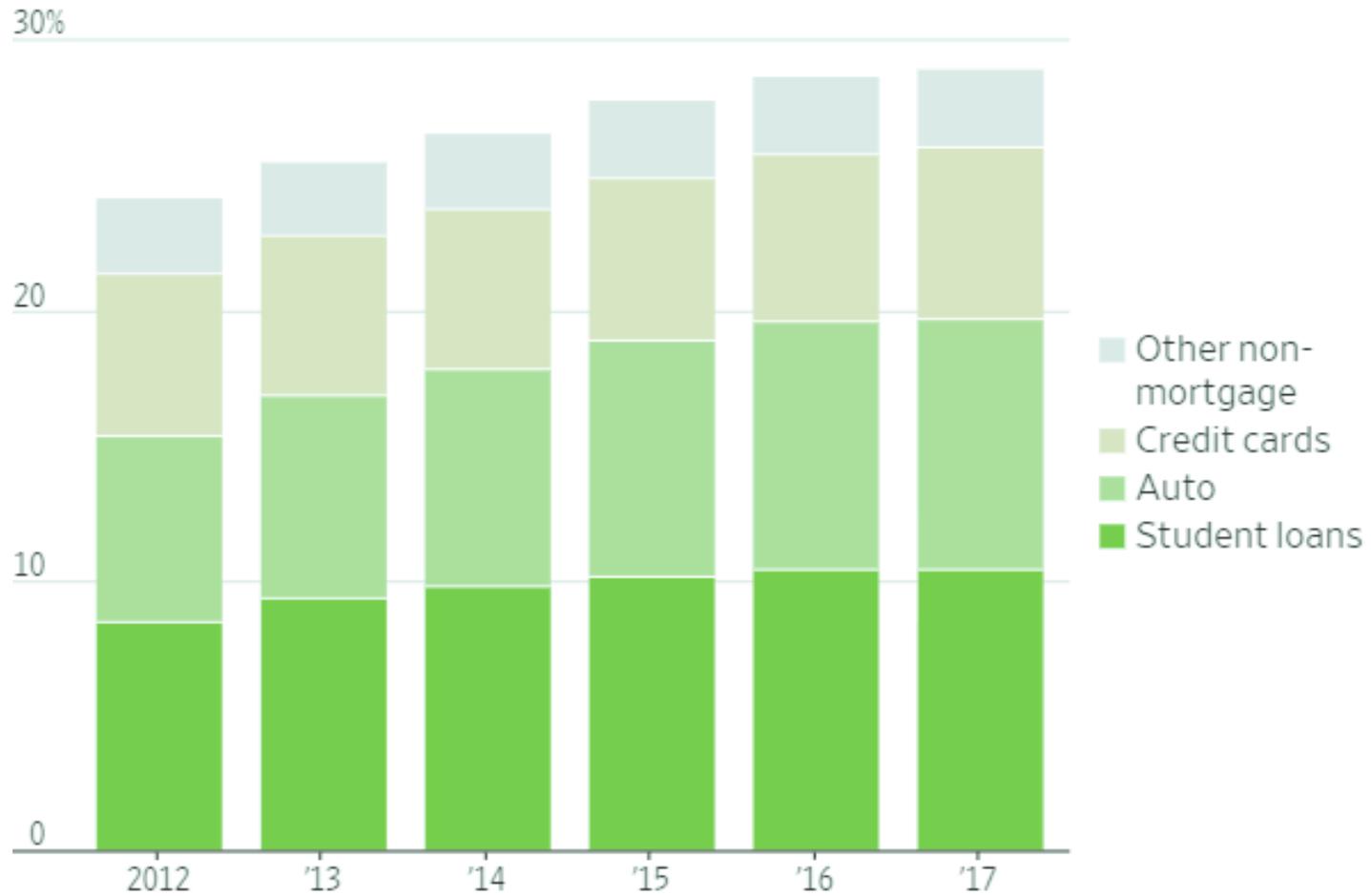
Source: Center on Budget and Policy Priorities.

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.

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

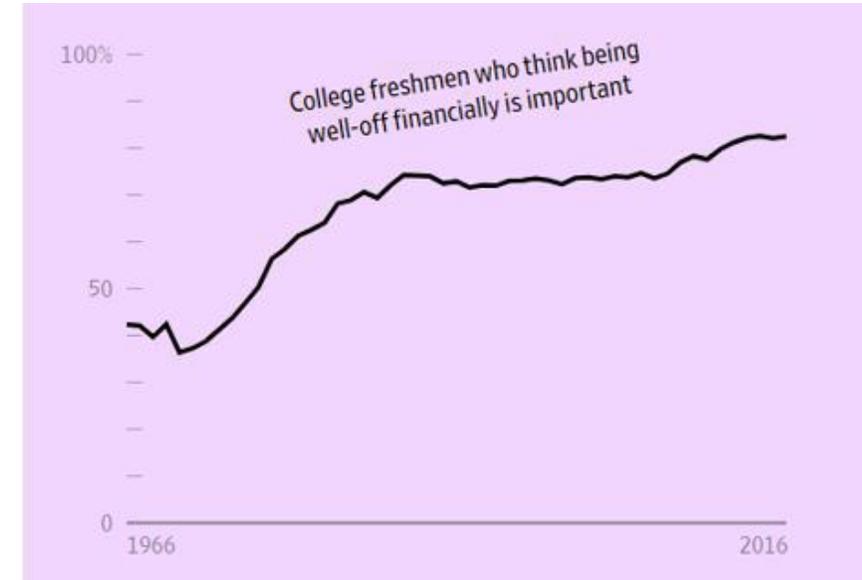
The Student Body Continues to Shift

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)



(Source: “GEN Z Is Coming to Your Office. Get Ready To Adapt.” *The Wall Street Journal*, September 6, 2018)

EVOLVING INDUSTRY CONTEXT

Deferred Maintenance Getting Worse





THE ANNUAL SURVEY OF HIGHER EDUCATION P3 TRANSACTIONS

HIGHER EDUCATION P3 SURVEY

Thank You



HIGHER EDUCATION P3 SURVEY

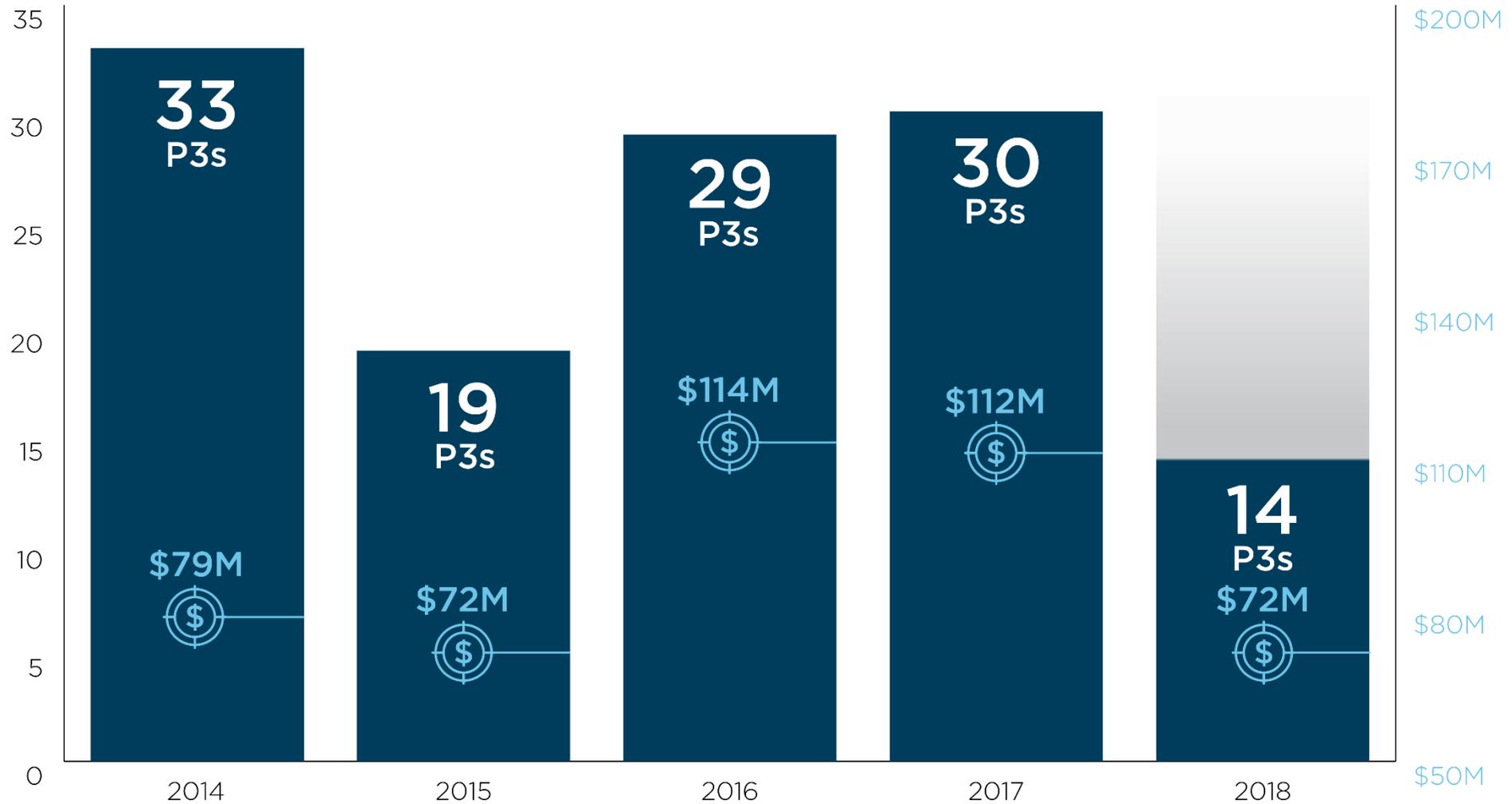
Guidelines

- 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

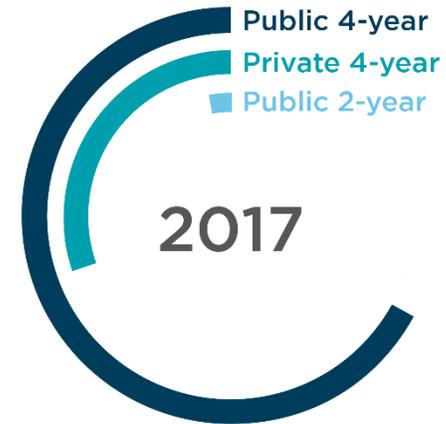
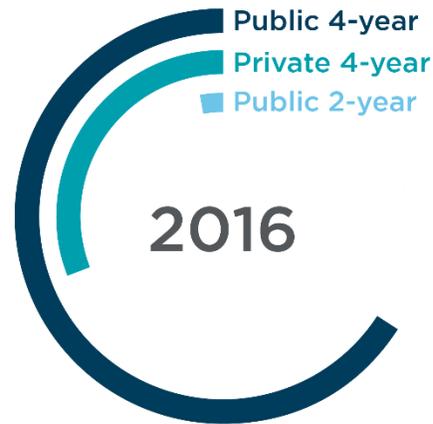
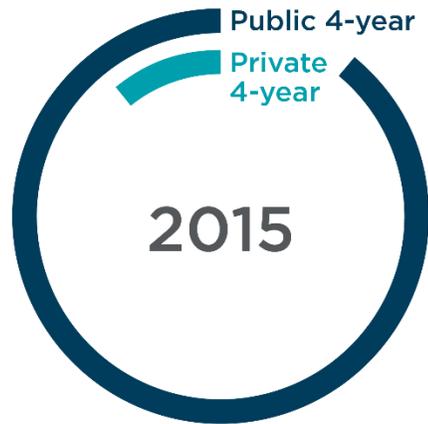
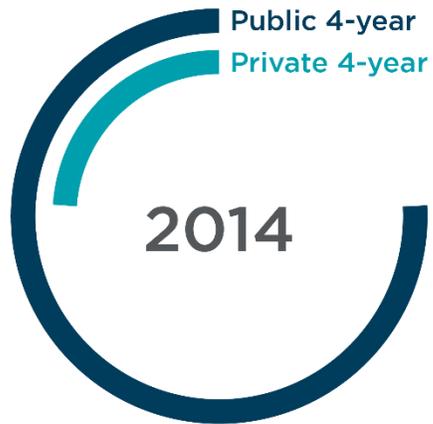
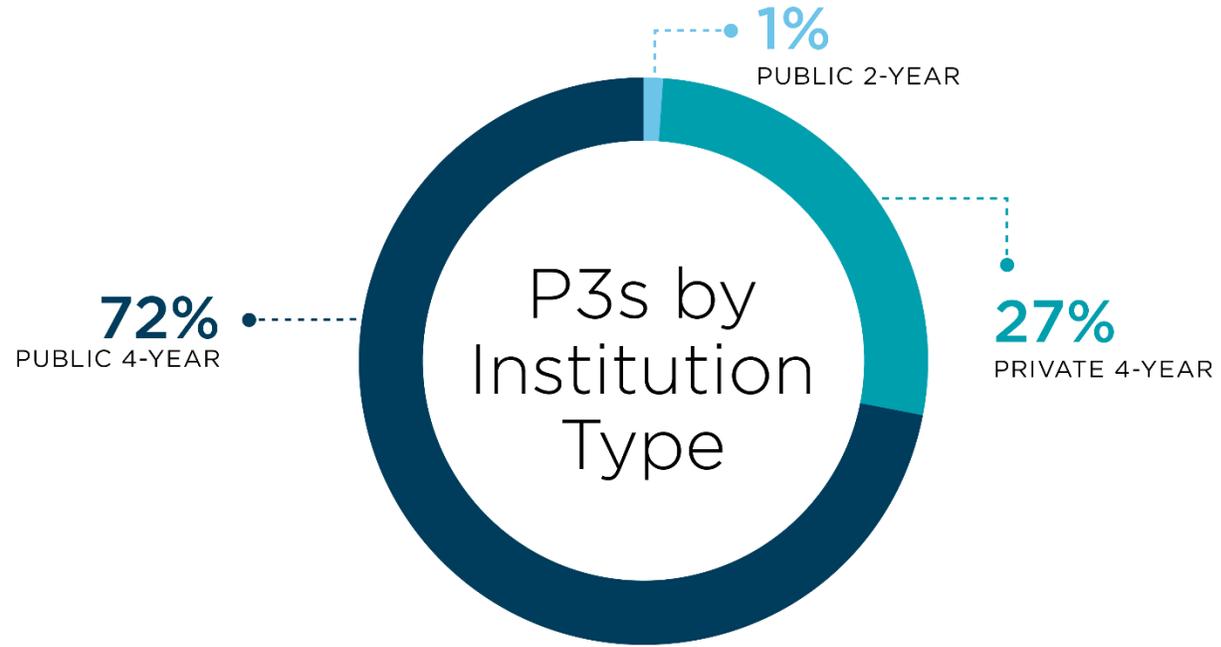
Key Findings

Number of P3s and Average Closing Value



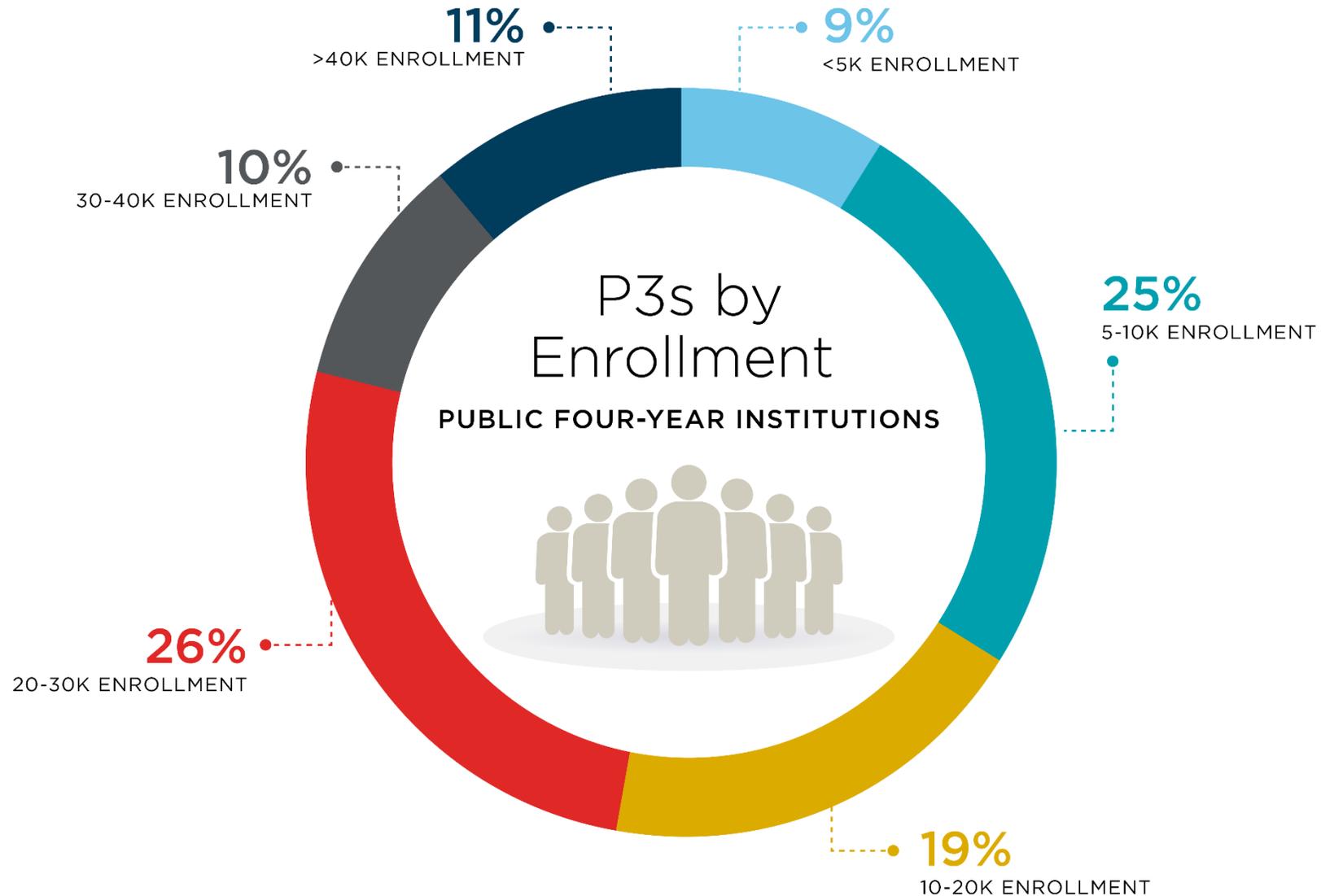
HIGHER EDUCATION P3 SURVEY

Key Findings



HIGHER EDUCATION P3 SURVEY

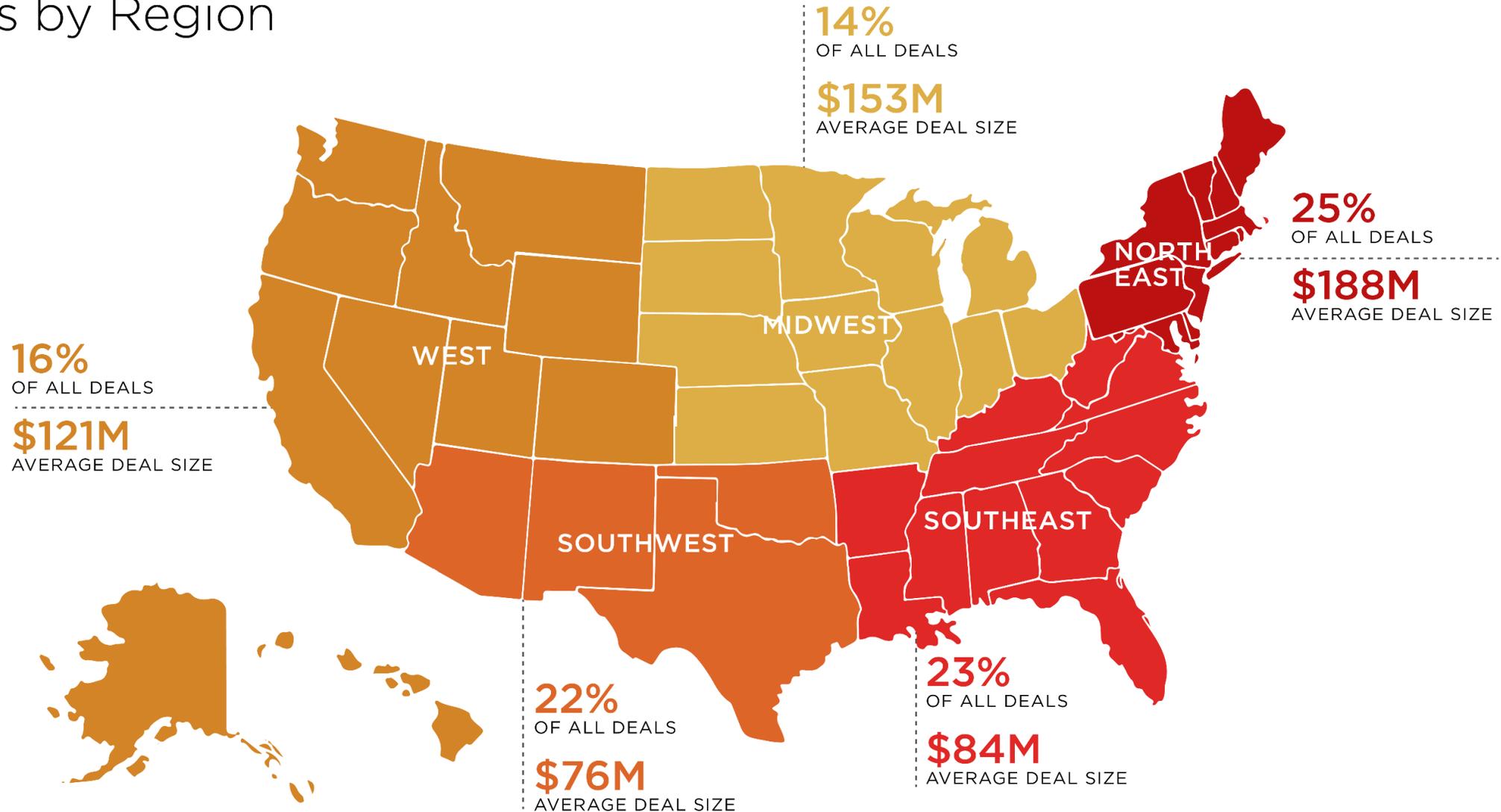
Key Findings



HIGHER EDUCATION P3 SURVEY

Key Findings

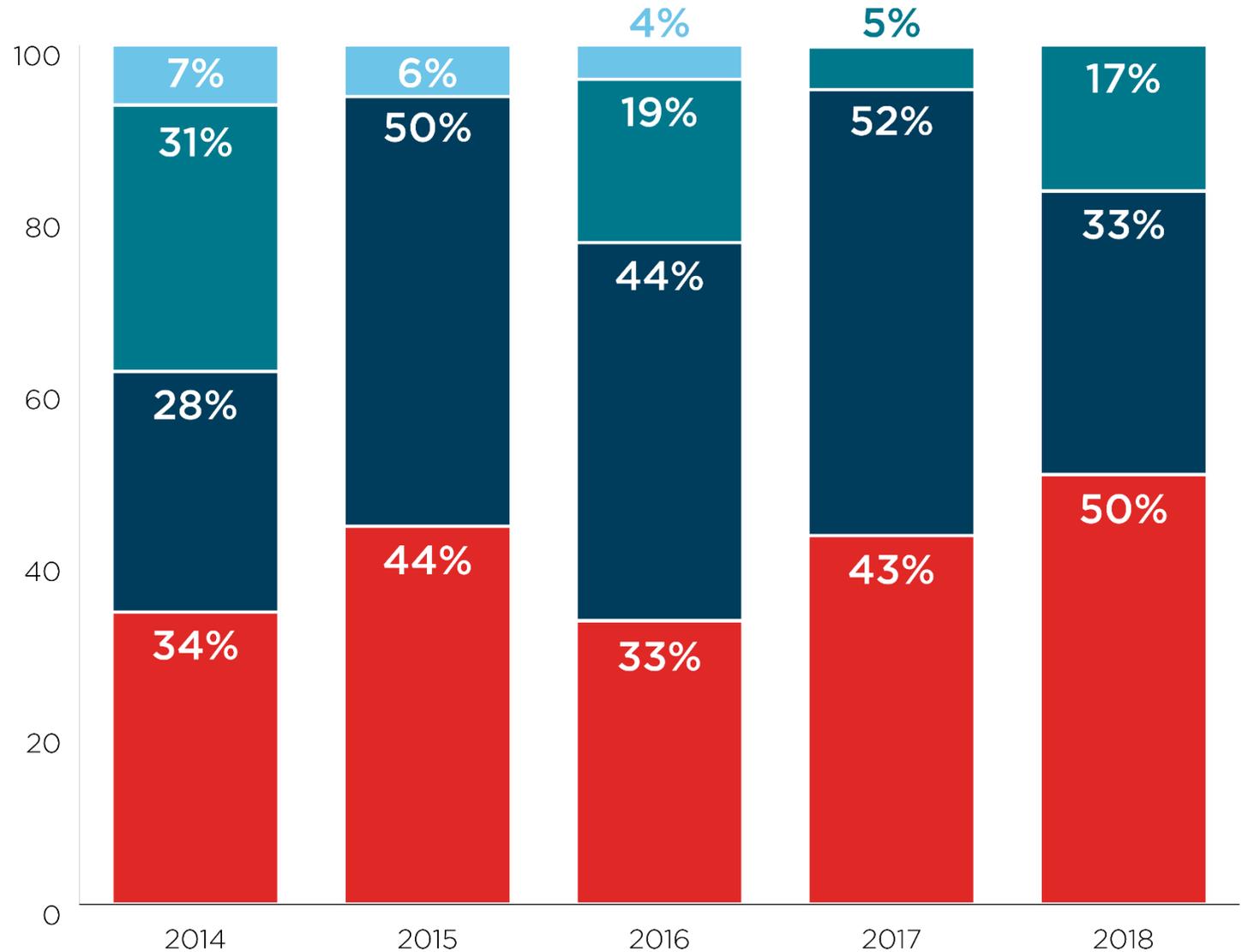
P3s by Region



HIGHER EDUCATION P3 SURVEY

Key Findings

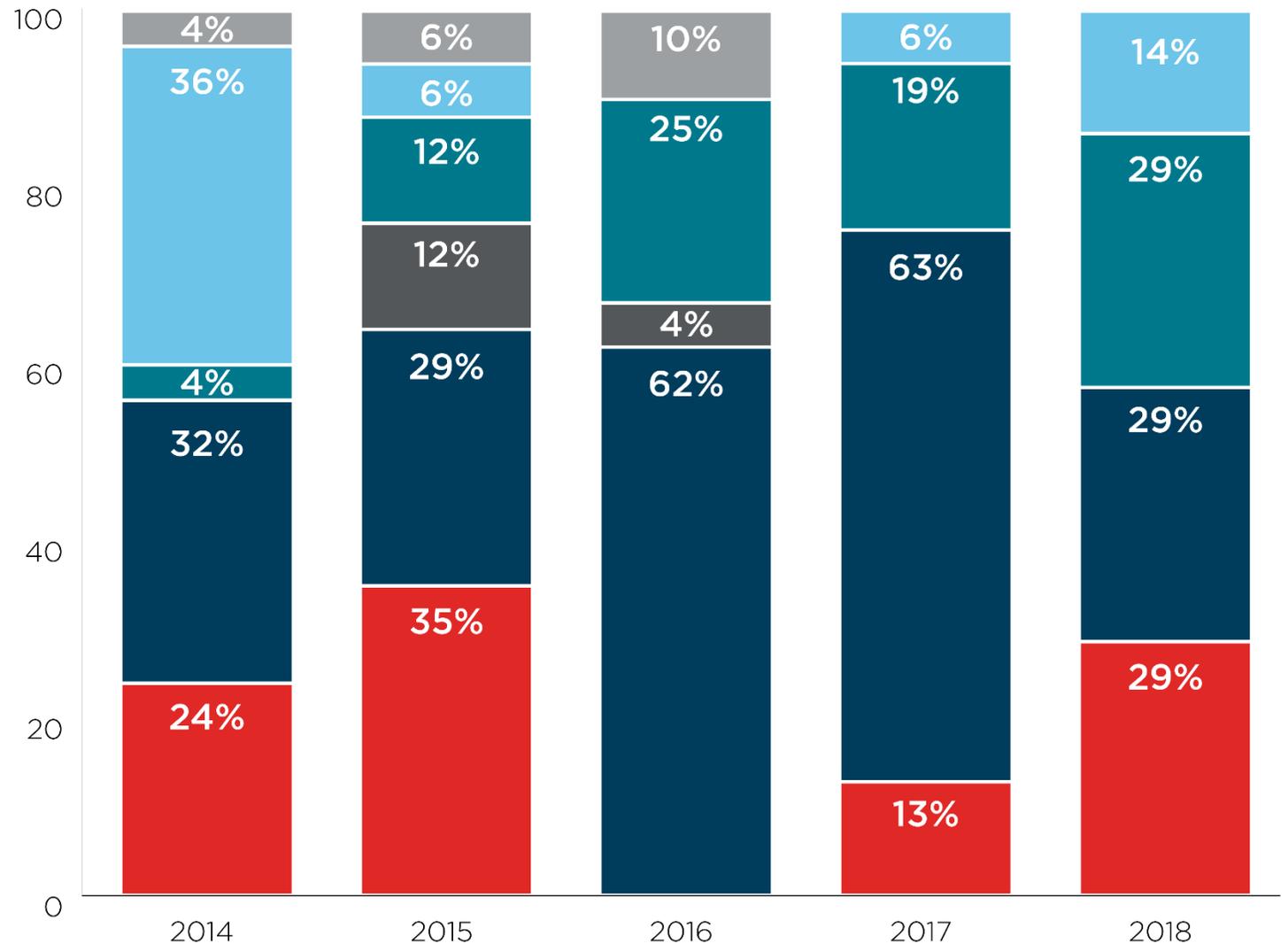
P3s by Financial Structure



HIGHER EDUCATION P3 SURVEY

Key Findings

P3s by Ground Lease Durations



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



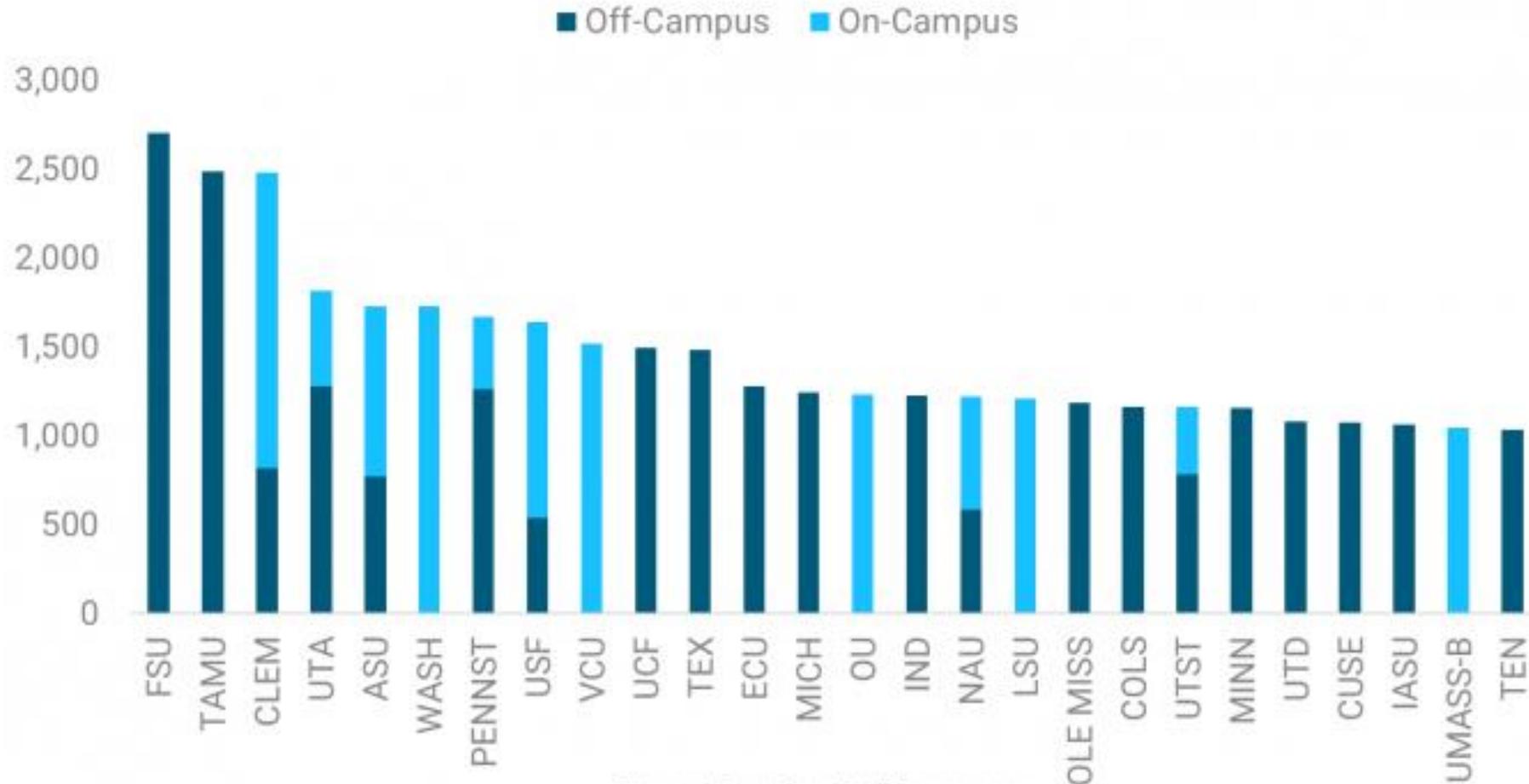
More than
half
OF THOSE
PROJECTS ARE IN
THE SOUTHEAST
AND WEST

A LOOK AHEAD

A LOOK AHEAD

Top State Schools Getting Inundated with New Supply

2018 New Supply by University



Source: Axiometrics, a RealPage company

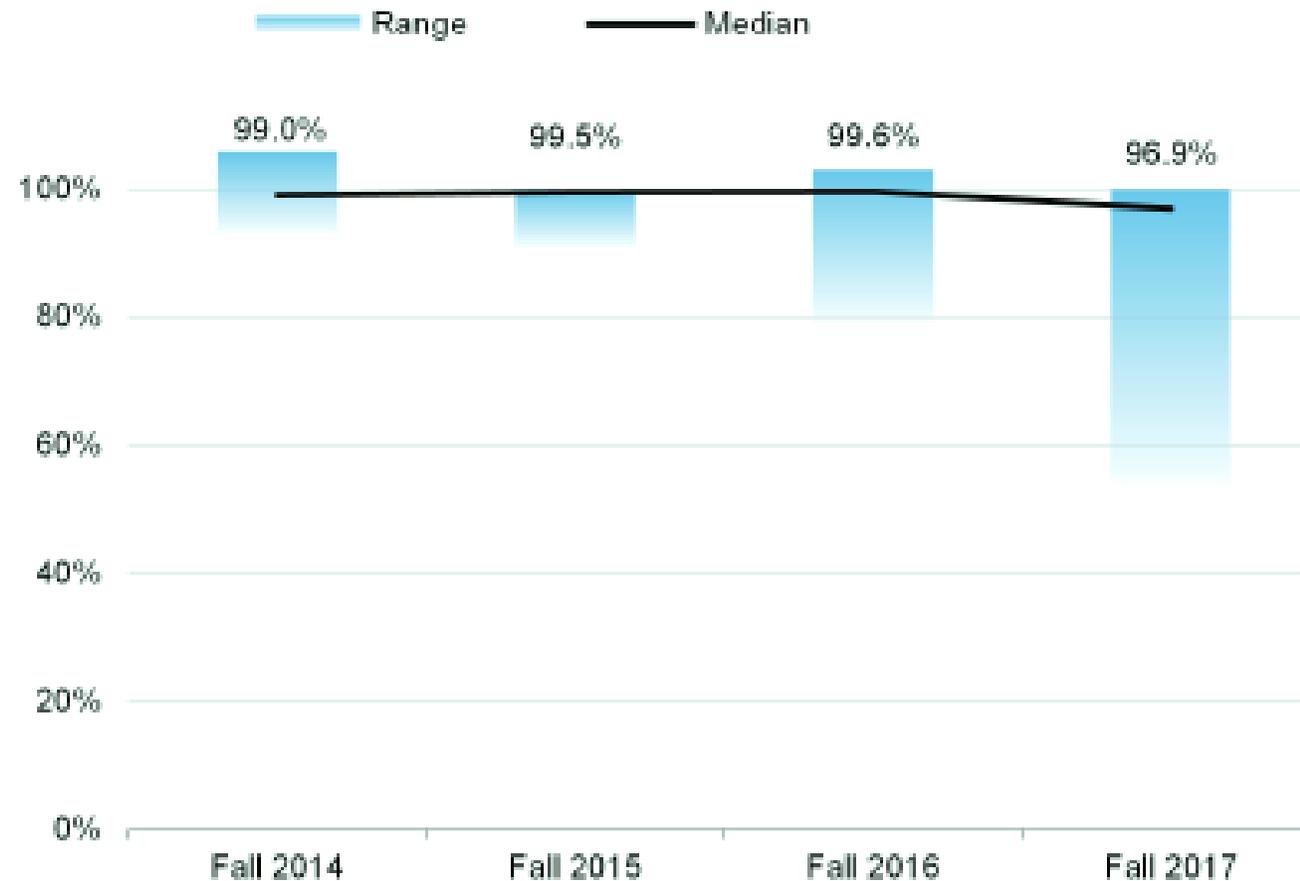
A LOOK AHEAD

Still a Healthy Outlook

Exhibit 3

Sector maintains solid median occupancy

Decrease because of PASSHE projects experiencing enrollment declines

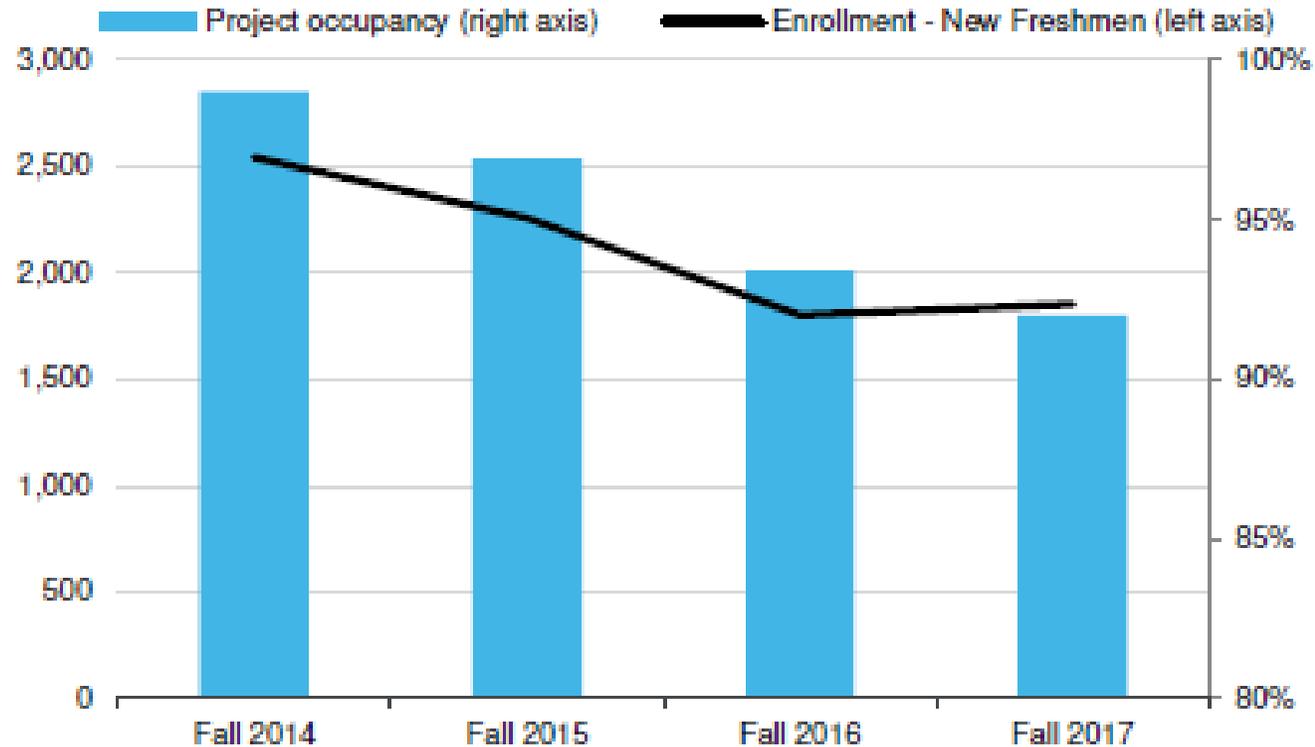


A LOOK AHEAD

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

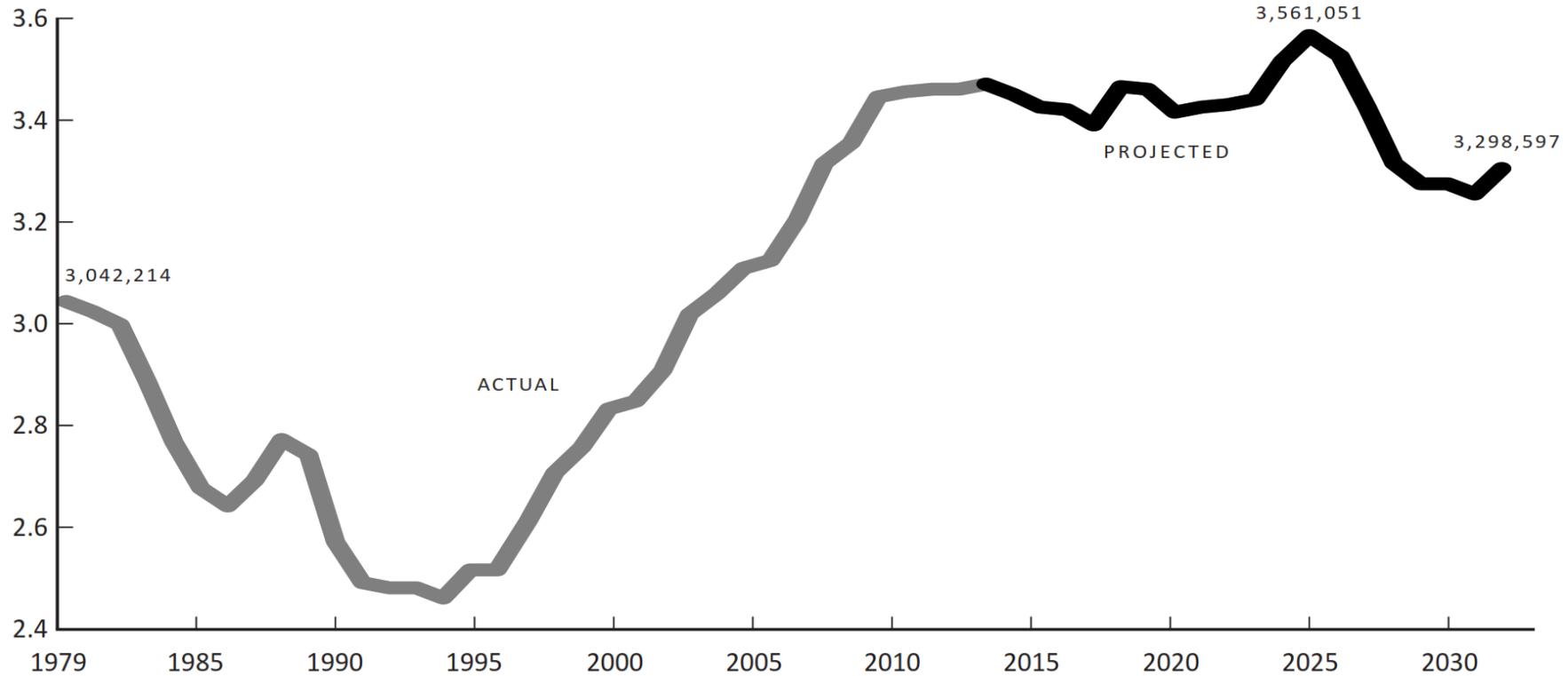
- **224,000 fewer** undergrads than last year
- Overall, **1.5 million fewer** adult students compared to 2010
- **63,000 fewer** new first-time undergrads
- **25,000 fewer** 18 to 24-year olds
- **7 of 10 biggest** state declines this year are in the Midwest

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



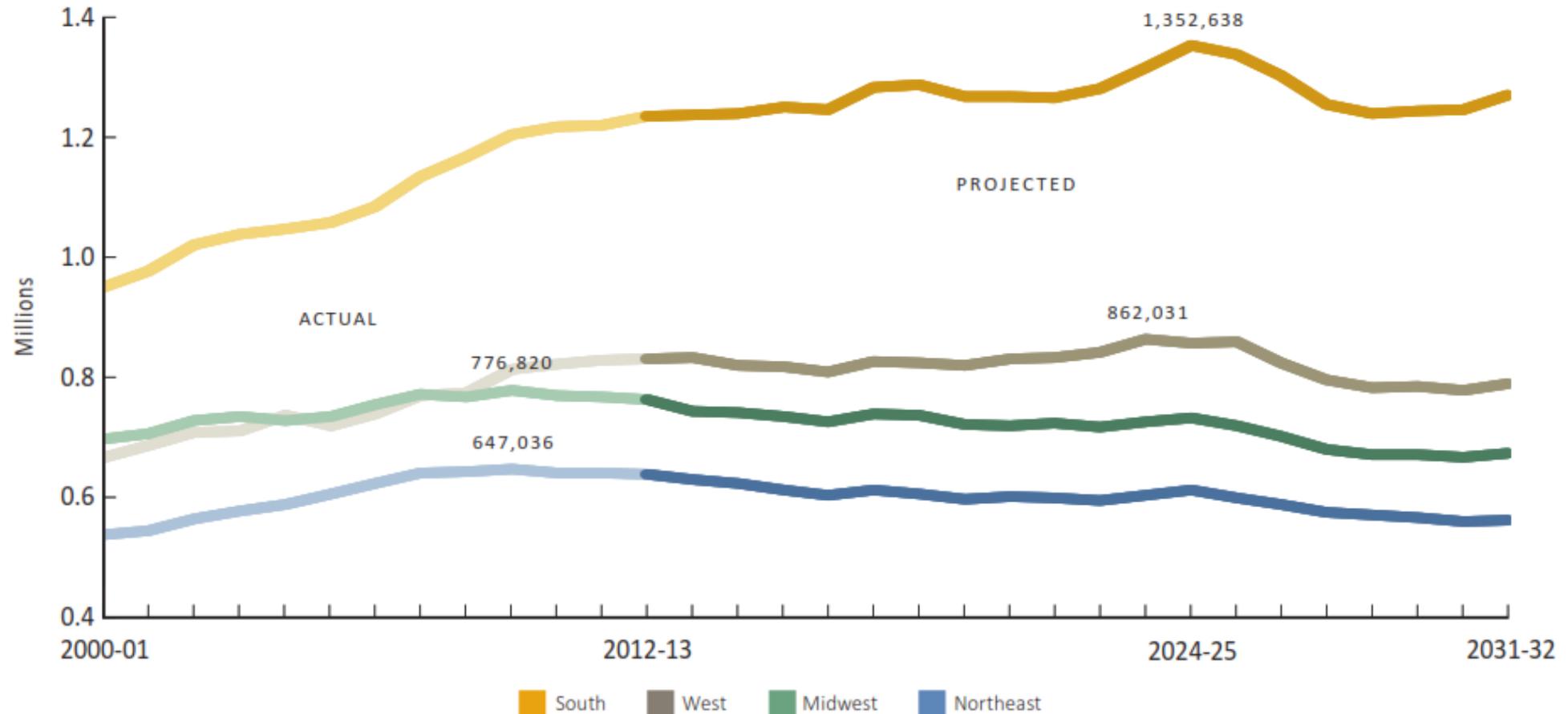
Source: William J. Hussar and Tabitha M. Bailey. "Projections of Education Statistics to 2024: Forty-Third Edition", Table 9 (1979 to 2012). And, Western Interstate Commission for Higher Education, "Knocking at the College Door", 2016 (2013 to 2032).

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



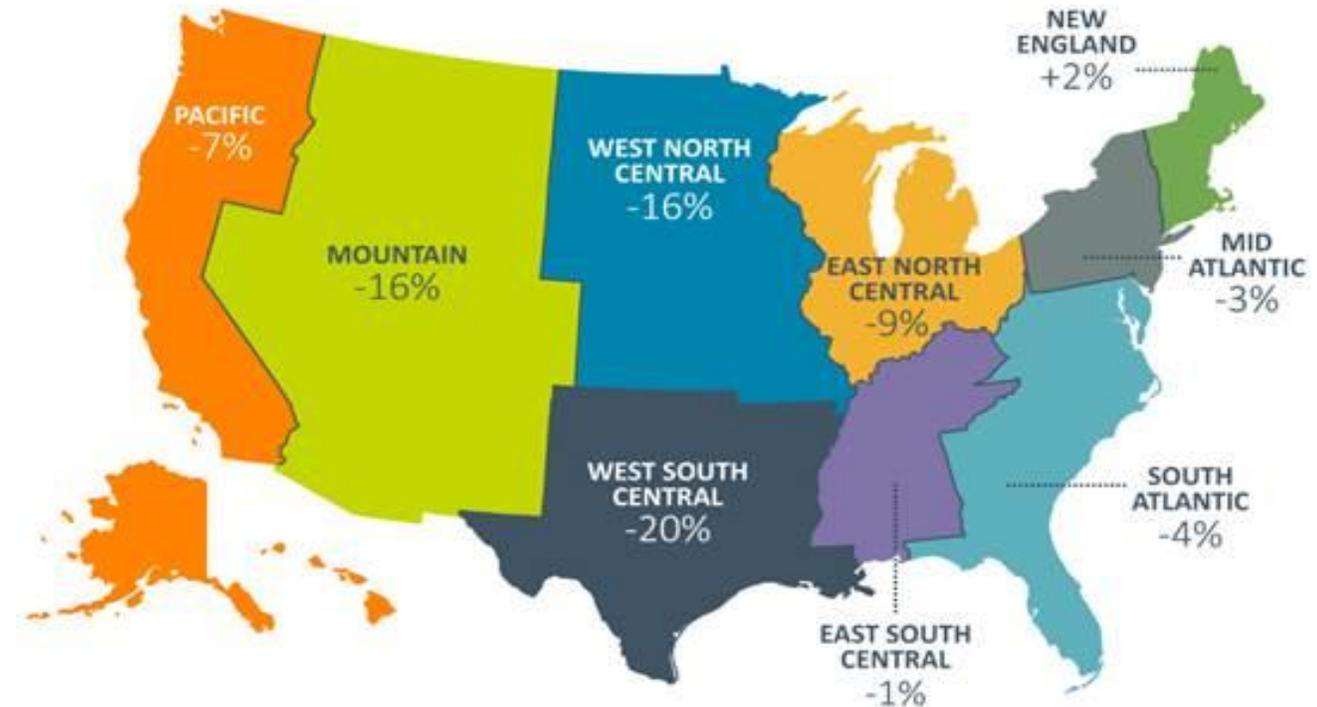
A LOOK AHEAD

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

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

INSIDE
HIGHER ED



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.)

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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THE UNIVERSITY PERSPECTIVE

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