

Education Market Update

Industry Consulting Team | Q4 2021

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Events

NCAIS Heads, Trustees, & CFOs Conference

January 12th-14th, 2022
Pinehurst, NC

NBOA Annual Conference

February 20th-23rd, 2022
Chicago, IL

SACUBO Annual Meeting

May 8th-10th, 2022
San Antonio, TX

NACUBO Annual Meeting

July 16th-19th, 2022
Denver, CO

Institutions are rethinking the way that they strategically allocate their COVID relief funds. As the latest generation of students begin to explore all of their options post high school, higher education institutions need to find ways to demonstrate their value proposition.

Higher Education Emergency Relief Fund

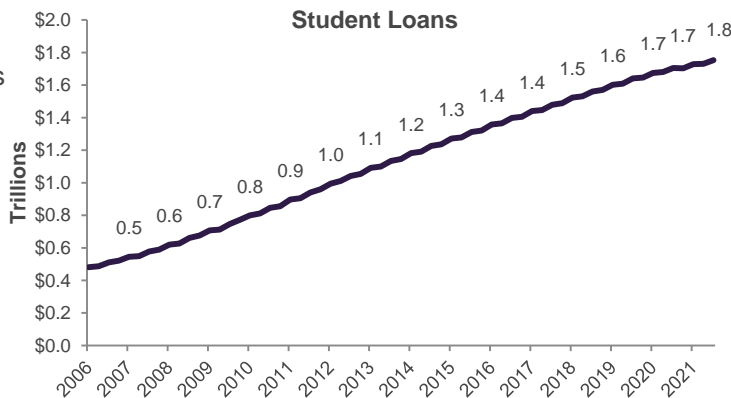
When the coronavirus pandemic struck in early 2020, higher education institutions were forced to quickly adapt to the new circumstances. As schools increased their financial burden, the government stepped in and passed 3 rounds of COVID relief funding (HEERF) totaling near \$77B. Campuses have a limited time to use their entire HEERF allocation and many schools, as the crisis recedes, could use their remaining allocation strategically to achieve short and long term needs. An article from RPK Group laid out a framework as to how a college might navigate their HEERF allocation decisions:

1. **Recoup:** Make your college whole by recouping pandemic related revenue losses from activities associated with enrollment declines. Lost revenue from tuition & fees and other auxiliary campus services are reimbursable.
2. **Spend:** Solve for short-term needs. Campuses can use HEERF funds to reimburse the cost for materials and services put in place to support public safety measures as well as investments in technology for remote learning such as laptops and Wi-Fi access.
3. **Invest:** Identify long-term infrastructure gaps. Schools should take a long term approach as to where they invest their funds. For example some colleges might decide to invest more into their physical plant by renovating classrooms for social distancing or upgrading health related systems like air filtration. Others colleges might use the funds to upgrade their cybersecurity with the increase in virtual students and staff, or to upgrade classroom technology for a better virtual experience.
4. **Transform:** Ongoing investments in student success. Recent guidance on allowable HEERF allocation encourages the use of funds to provide student support to keep students enrolled and academically engaged throughout the pandemic.

What Gen Z wants from Higher Ed

According to data from the Federal Reserve, in quarter 3 of 2021 Americans owed more than \$1.75 trillion in student loans and over the last 50 years, college tuition has increased by over 200% (inflation adjusted) for four-year private nonprofits, two-year publics and four-year publics. Today's high school students are faced with a different challenge when it comes to navigating the college selection process. According to a recent study conducted by Tallo, the top thing that students are looking for when they choose a college is "Academics and/or major" with 63% of respondents selecting this as their first choice. Second on the list was financial aid and/or scholarships at 22%.

Towards the bottom of the list fell campus life and/or extracurriculars (6%), college town and/or surrounding area (5%), admissions selectivity and/or reputation (3%), and social scene (1%). Additionally the survey asked about students top priority in regards to school and nearly half of surveyed students (48%) selected "learning." Earning good grades came in second place at 26%, preparing for postgraduate life took third at 22%, and clubs and/or extracurricular activities (2%), friends (1%), and sports (1%) were the three least popular options."



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Rising construction costs across the U.S. are causing schools to rethink their campus plans. Private schools are looking for ways to maintain any enrollment momentum gained during the pandemic.

Construction Costs in the Education Sector

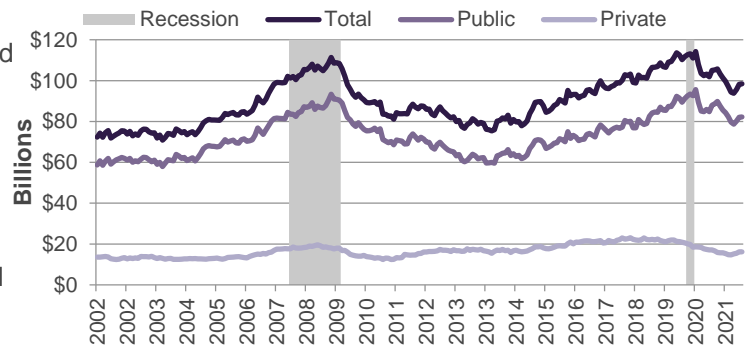
The pandemic caused many schools to put their campus modernization projects on hold. Even before the pandemic, increased labor and materials costs and complex designs coupled with increased emphasis on health and technology needs made it more difficult to get construction projects moving. Across the nation, school and university construction projects have been seeing cost increases that are making boards and trustees rethink their plans or start their planning over completely. According to an article by Construction Dive, “costs in the sector are up around 15% over the last three years. While that’s in line with other sectors of commercial construction, schools’ unique designs can lead to higher overall price tags.” As costs rise, some contractors and subs are utilizing cost escalation clauses and other additional surcharges in contracts to keep up with changing cost. Others are finding creative ways to alter the projects to try and keep costs down.

According to data from the St. Louis Federal Reserve and the U.S. Census Bureau, overall education construction spending has increased around 36% (approximately \$26B) over the last 20 years, but has dropped nearly 14% (approximately \$15.8B) since the peak in May of 2020. A few major U.S. cities have seen construction costs for educational building sharply increase over the last five years. In the Higher Ed space some of the larger increases were in San Francisco (82% increase in average cost per square foot), New York (65%), Seattle (61%), and Chicago (52%). In the Primary & Secondary school space some of the larger movers have been Seattle (77%), Phoenix (65%), New York (57%) and Portland (56%).

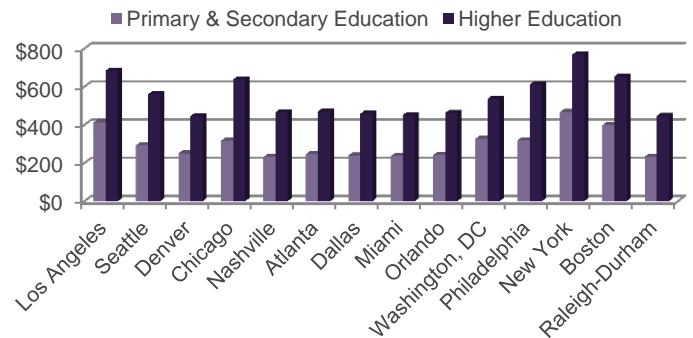
Student Retention Post Pandemic

When the pandemic first hit in early 2020 many schools instituted strategies to try and keep retention high such as extending contract deadlines and creating COVID relief funds to offer tuition assistance and these strategies worked. Many private schools actually saw an increase in applications and enrollment as many of their public school peers were only able to offer virtual or hybrid learning. A recent article in NBOA’s November/December issue of Net Assets magazine conducted a deep dive into the strategies that private schools are utilizing to keep the enrollment and retention gains acquired during the pandemic.

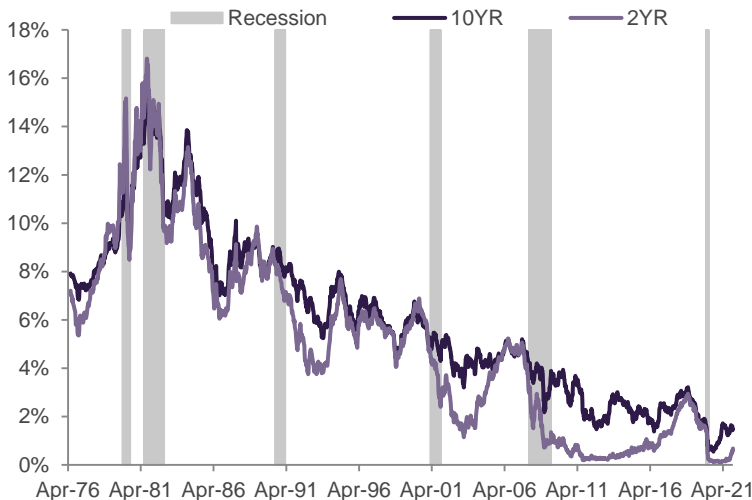
U.S. Educational Construction Spending



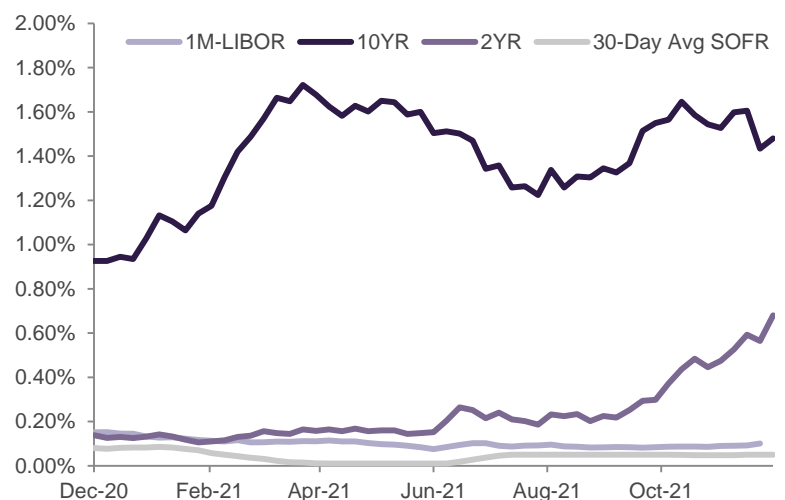
Avg. U.S. Cost per Square Foot of Gross Area 2021



Historical 2yr & 10yr Treasury Maturity Rate



Treasury Maturity Rates, 1M LIBOR & 30-Day SOFR (Last 12M)



Sources: RPK Group; Tallo; BrokeScholar; University Business; U.S. Dept of Education; St. Louis Federal Reserve / FRED; Education Dive; Construction Dive; Cumming Insights; Statista; NBOA Net Assets; U.S. Census Bureau;

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