

# Advisory Blog

Timely insights on the issues that matter most to advisors and their clients

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## Higher Education Sector Under Pressure: Assessing the Challenges

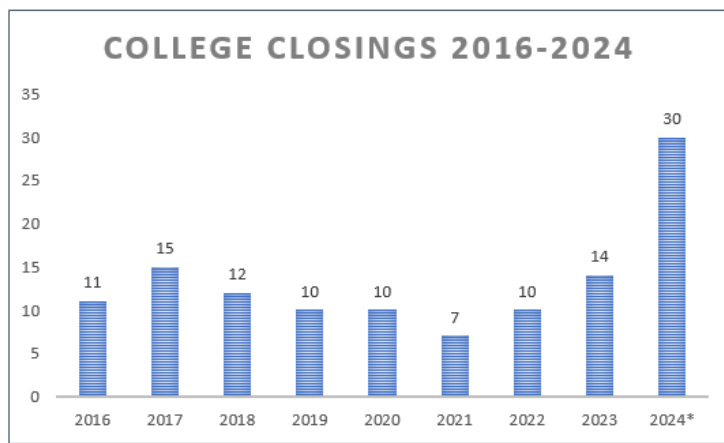
By: Colin Shaw | August 6, 2024

Higher education in the U.S. currently faces unprecedented challenges from rising labor costs, spiraling tuition, a shrinking student pool and questions about its very role and future. Further, we have seen a sharp uptick in college and university closures. When investing in this sector, we have found applying fundamental, bottom-up analysis is critical as no two schools (even those identically rated) are the same.

While the education sector remains highly attractive from an S&P ratings perspective, we think navigating its complexity requires professional research and management. Below, we take a closer look at the issues.

### College closures on the rise

- College and university closings—either through merger, acquisition or simply ceasing operations (both planned and unexpected)—have been a persistent trend in recent years.
- Multiple rounds of pandemic-era relief, to the tune of \$76.3 billion,<sup>1</sup> temporarily slowed the wave of closings.
- In 2024, however, we are seeing a sharp acceleration of college closings, a trend we expect to continue.

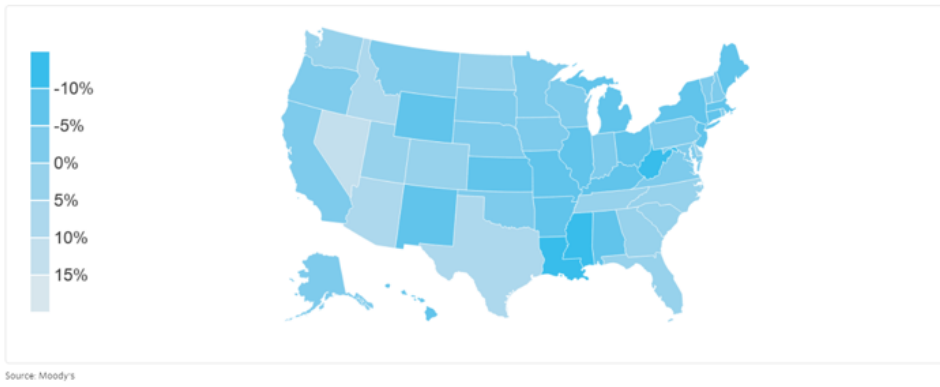


\*Includes schools closed in 2024 and announced future closures. YTD through 7/16/24.

Source: [College Closings 2016-2024](#)

### What is driving this trend?

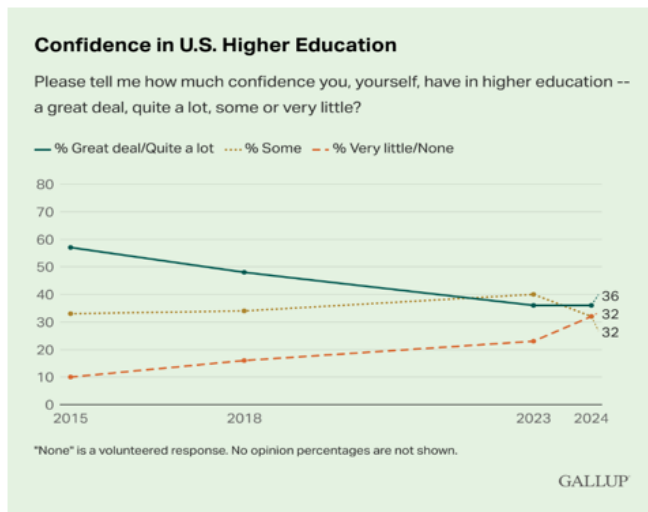
**Demographics:** The map below shows the projected decline in population of 15-19-year-olds from 2022-2032, with the largest drops in the Midwest and Northeast. There is simply an ever-smaller pool of students ("customers") for colleges and universities to recruit from.



**Saturation:** There are far too many small, independent institutions, many lacking any differentiation from their peers. As of July 2024, there are approximately 2,300 accredited four-year institutions in the U.S. This is not sustainable, in our view.

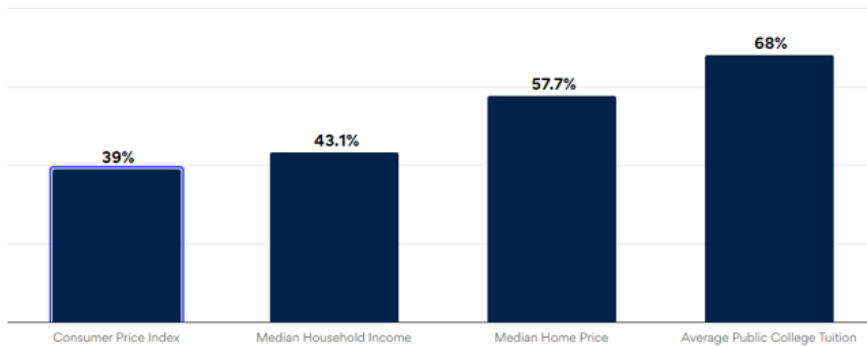
**Perception:** According to a 2024 Gallup poll, 32% of adults see "very little/no" value in a college degree. This is up from just 10% in 2015.

- The trend is clearly negative. Close to 60% of respondents in 2015 had a "great deal/quite a lot" of confidence in U.S. higher education; that number is down to 36% in 2024.
- The many campus demonstrations in spring 2024 over the Israeli/Hamas war only served to reinforce public concerns.



**Cost:** While rising inflation is widely discussed, higher education costs have outpaced any metric of inflation for the past two decades.

### Cost Inflation From 2002-2022



Sources: NCES<sup>[1]</sup>, Bureau of Labor Statistics<sup>[2]</sup>, Federal Reserve Bank of St. Louis<sup>[3]</sup>, Census Bureau<sup>[4]</sup>

Source: [College Cost Inflation](#)

**Bottom line:** Higher education in the U.S. faces many headwinds. A glut of institutions with entrenched faculty and staff, a shrinking applicant pool, higher costs, lower wages post-graduation, and the fundamental question about the role of higher education in this country all hang over the sector.

With these challenges in mind, it is important to note that not every institution is subject to these same pressures. There are hundreds of schools that will weather this storm and potentially even benefit from further consolidation. However, we believe it requires a team of experts to

sort through these institutions, one by one. As analysts, our job is to distinguish between weak and strong institutions, seeking to ensure our portfolios are invested in schools with solid balance sheets, brand recognition, pricing power and consistently strong operating performance.

<sup>1</sup>CARES Act (Coronavirus, Aid, Relief and Economic Security Act), March 2020: \$14 billion (B); CRRSAA (Coronavirus Response and Relief Supplemental Appropriations Act), December 2020: \$22.7B; ARP (American Rescue Plan Act), March 2021: \$39.6B.

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Colin Shaw  
Research Analyst  
Municipals

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