HBS GLOBAL corporation

THE ENROLLMENT SQUEEZE

Student-Housing Risk Near Non-Elite Private Colleges

HBS INSIGHT SERIES | AUGUST 2026

Brian Sconyers | bsconyers@HBSGlobalCorp.com

INVESTMENT THESIS

An expensive, tuition-dependent private college without a defensible market position can become the dominant hidden risk in an otherwise sound student-housing investment.

EXECUTIVE SUMMARY

Non-elite private colleges occupy an increasingly difficult middle ground. They generally cannot match the prestige, resources, or pricing power of elite universities, yet they often charge substantially more than in-state public alternatives. The average net price for aided first-time students was approximately $29,700 at private nonprofit four-year institutions versus $15,200 at public institutions in 2021–22.[1]

Many private colleges respond with institutional aid. Among institutions participating in NACUBO's study, the estimated first-year tuition discount rate reached 56.3% in 2024–25.[2] Discounting can preserve headcount, but it cannot indefinitely compensate for weak differentiation, low retention, declining regional demographics, or thin financial reserves.

For a student-housing owner, this is concentrated demand risk. Hundreds of leases may depend on one institution's ability to recruit, retain, house, and financially support a residential student body. Weakness can impair leasing years before a formal closure through smaller entering classes, program cuts, negative publicity, changes in residency policy, or new master-leasing arrangements.

This paper identifies the vulnerable institutional model, explains how enrollment weakness becomes financial distress, distinguishes durable private colleges from fragile ones, and provides an investor proof test for underwriting properties near private institutions.

1: WHY THE MIDDLE OF THE PRIVATE MARKET IS EXPOSED

Private nonprofit enrollment is not declining in a single straight line. Aggregate sector totals include globally recognized universities, large research institutions, growing professional schools, online programs, and small residential colleges. The relevant risk lies in the subset that is tuition-dependent, lightly differentiated, and unable to spread fixed costs across a large enrollment base.

THE VALUE PROPOSITION IS UNDER PRESSURE

- **Price.** Public alternatives often provide a materially lower net cost, particularly after a family establishes in-state residency.
- **Prestige.** A non-elite private institution cannot reliably justify a premium through national brand value alone.
- **Breadth.** Large public universities frequently offer more majors, research, facilities, athletics, student organizations, and graduate pathways.
- **Outcomes.** Families increasingly evaluate completion, licensure, employment, earnings, and debt rather than accepting a general promise of personal attention.
- **Risk perception.** Financial distress, program reductions, leadership turnover, and deferred maintenance can make the higher-priced choice appear less safe.

Pressure	Institutional response	Why it may fail
Fewer prospects	Increase recruiting expense	Acquisition cost rises while the pool shrinks
Public price competition	Increase merit aid	Headcount may grow while net revenue falls
Weak differentiation	Add programs or amenities	Initiatives require capital and time
Low retention	Recruit replacement students	Recruitment is usually costlier than retention
Operating deficits	Borrow, sell assets, draw endowment	Liquidity buys time without fixing demand

CORE RISK

A college can appear stable because enrollment is flat while its net tuition revenue, liquidity, and student quality are deteriorating.

2: FROM ENROLLMENT WEAKNESS TO FINANCIAL DISTRESS

Small residential colleges carry high fixed costs: faculty, administration, facilities, technology, athletics, compliance, and debt service do not fall quickly when a freshman class misses its target. A relatively modest enrollment shortfall can therefore produce a disproportionate operating deficit.

THE REINFORCING CYCLE

Stage	Observable signal	Investor meaning
Demand softens	Deposits, yield, or retention decline	The multi-year student base begins to shrink
Price is used	Discount rate rises faster than tuition	Enrollment is being purchased
Margin narrows	Net tuition per student falls	Each additional student contributes less
Liquidity tightens	Asset sales, draws, delayed projects	Capacity to absorb another weak year falls
Quality erodes	Program cuts, vacancies, deferred maintenance	Recruiting and retention can worsen
External pressure	Audit flags, covenant relief, regulatory action	Failure risk becomes externally visible
Merger or closure	Teach-out, affiliation, shutdown	A direct shock reaches the housing market

WHY THE HOUSING MARKET WEAKENS FIRST

Closure is the end of the process, not the first warning. Smaller entering classes reduce the enrollment base for several subsequent leasing years. Program eliminations change who comes to campus. Negative publicity slows deposits and housing applications. A financially stressed college may change residency requirements, add or close dormitories, master-lease private beds, or sell real estate.

The number of Title IV postsecondary institutions fell from 7,021 in 2010–11 to 5,916 in 2020–21, and NCES separately tracks degree-granting closures.[3] Federal financial-responsibility rules recognize that weakness at a private nonprofit institution can threaten continued participation in student-aid programs.[4]

UNDERWRITING PRINCIPLE

Treat the college as the property's principal demand counterparty even though it has not signed the individual leases.

3: BIRMINGHAM-SOUTHERN AND THE LIMITS OF RESCUE

Birmingham-Southern College illustrates the interaction of historical financial mistakes and a weakened competitive position. The college acknowledged that it struggled for two decades to stabilize its finances, relied too heavily on a shrinking endowment, and failed to rebuild unrestricted resources.[5] It ultimately closed in May 2024 after it could not secure the public financial support needed to continue.

The lesson is not that tuition competition alone caused the closure. Financial mismanagement created the vulnerability. But the institution could not recruit and retain enough students at a sustainable net price to grow out of that vulnerability. Its location in a growing southern state did not overcome competition from well-capitalized public universities offering lower in-state prices, broader programs, and stronger amenities.

THE MOST VULNERABLE PROFILE

- Small enrollment and heavy dependence on undergraduate tuition
- Limited national or regional brand recognition
- Undifferentiated programs available at lower-cost public institutions
- High and rising tuition discounting without net-revenue growth
- Low retention or repeated misses in entering-class targets
- Thin unrestricted liquidity, debt pressure, or recurring operating deficits
- Deferred maintenance and debt secured by a campus with limited alternative use

WHICH PRIVATE COLLEGES CAN REMAIN DURABLE?

A non-elite college can be durable when it dominates a defensible regional or programmatic niche. Nursing, engineering, aviation, health sciences, teacher preparation, faith-based identity, arts training, employer-connected programs, or a genuinely distinctive residential experience can provide a reason to pay more. Strong retention, positive net tuition economics, manageable debt, and credible governance turn that demand advantage into financial runway.

NECESSARY DISTINCTION

"Private" is not the risk factor by itself. The risk is a premium price without premium differentiation, outcomes, or financial capacity.

4: THE INVESTOR'S PROOF TEST

Investors should ask what evidence demonstrates that an institution is stable—not what its strategic plan promises. Three to five years of trend data are more valuable than one unusually large entering class or one fundraising announcement.

College claim	Evidence required	Acceptable interpretation
"Enrollment is recovering."	Applications, admits, deposits, yield, census enrollment, and persistence by cohort	Deposits and census headcount improve for multiple cohorts
"We are more affordable."	Gross tuition, institutional aid, discount rate, and net tuition revenue	Affordability does not destroy contribution margin
"New programs are working."	Starts, capacity, completion, licensure, placement, and employer ties	Students are incremental and programs are operational
"Retention is improving."	First-to-second-year retention, credits completed, withdrawals, housing rebooking	At least two cohorts confirm the gain
"Finances are stable."	Audits, unrestricted liquidity, cash flow, debt service, covenants, going-concern language	Liquidity covers a downside admissions cycle
"Housing is strong."	Resident enrollment, residency rules, campus inventory, occupancy, exemptions, planned beds	Off-campus bed demand is directly supportable

RED FLAGS

- Applications rise, but deposits, yield, or census enrollment do not.
- Enrollment rises while discounting increases and net tuition revenue falls.
- Online, graduate, dual-enrollment, or commuter students drive the reported gain.
- The college announces programs without accreditation, faculty, placements, or enrolled cohorts.
- Housing policy or campus-bed construction changes without transparent demand analysis.

5: IMPLICATIONS FOR STUDENT-HOUSING UNDERWRITING

A property near a vulnerable private college should be valued as a specialized asset, not ordinary multifamily with a convenient demand amenity. The base case should translate institutional enrollment into addressable off-campus beds: full-time undergraduates, less commuters and online students, adjusted for residency requirements, campus capacity, study abroad, attrition, and competing supply.

RECOMMENDED ACTIONS

- Model 5%, 10%, and 20% resident-enrollment declines rather than relying only on conventional rent stress.
- Reconcile institutional releases with IPEDS or College Scorecard data, audits, bond disclosures, accreditation records, and fall census figures.
- Track deposits, housing applications, residence-hall occupancy, retention, and residency-policy changes before each leasing season.
- Value evidence reflected in two or more cohorts more heavily than plans, consultant studies, or application counts.
- Price alternative-use risk. Conventional layouts, diversified demand, transportation, and feasible conversion reduce dependence on the institution.

CONCLUSION

Non-elite private colleges will not disappear as a category. The market will separate institutions with genuine reasons to enroll and the resources to adapt from those preserving the appearance of stability through discounting, borrowing, asset sales, or nonresident enrollment. For investors, the proper response is not to avoid every private-college market. It is to demand proof of resident enrollment, sustainable net economics, retention, and financial runway before capitalizing the college's plans into property value.

Sources

[1] National Center for Education Statistics, "Price of Attending an Undergraduate Institution."

[2] NACUBO, 2024 Tuition Discounting Study results (published 2025).

[3] NCES, Fast Facts: Educational Institutions; Digest Table 317.50, Degree-Granting Postsecondary Institutions That Have Closed.

[4] U.S. Department of Education, Federal Student Aid Handbook and financial-responsibility regulations, 34 C.F.R. Part 668.

[5] Birmingham-Southern College, institutional history and closure information.

HBS GLOBAL corporation