



COVID-19: Will the pandemic worsen U.S. higher education's excess capacity?

Most higher education institutions (HEIs) today are facing increasing financial strain because of the pandemic. Yet even prior to 2020, financial pressures on HEIs were intense. Of the many drivers of this stress, one of the most pervasive and powerful economic distortions today—and one that is not readily recognized—is that at its core, higher education is overbuilt, with excess and unused capacity.

The estimation of higher education's excess capacity begins with enrollment trends. In 2018, there were 1.5 million fewer undergraduate students in degree-granting postsecondary institutions than in 2000 (16.6 million vs. 18.1 million students, respectively).¹ We can use this difference of 1.5 million undergraduate slots as the starting measure of higher education's excess capacity today.

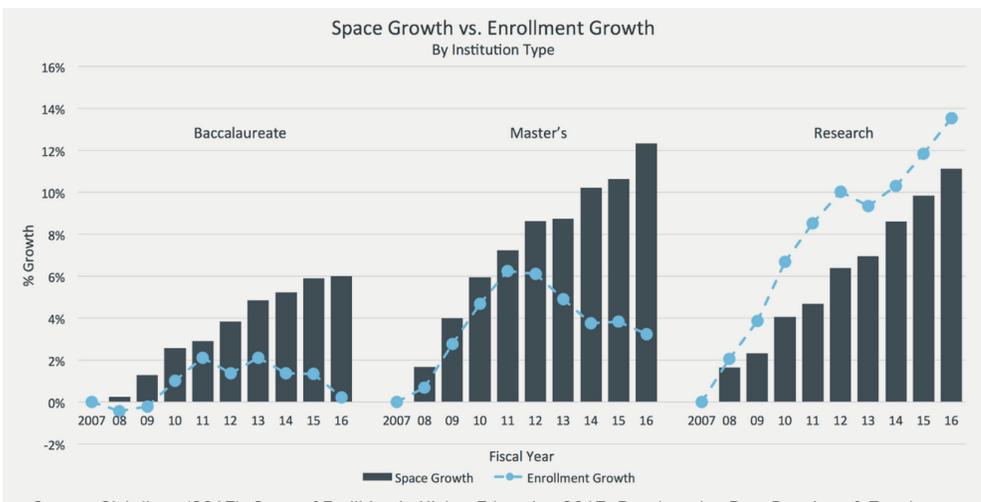
However, this approximation likely represents a significant underestimation. First, it assumes that somehow in 2010 HEIs were operating at maximum capacity, which is very unlikely. Secondly, it assumes that campus capacity has remained static since 2010, which it has not. Despite relatively flat enrollment, space growth has continued, increasing the campus square footage to student enrollment discordance.² This growth is often fueled by increasing competition for the dwindling number of students, even when more and more education is available online. The discordance is most pronounced for smaller institutions, as shown in Figure 1.



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Figure 1. Space vs. enrollment growth by institution type, 2007-2016



Source: Sightlines (2017). *State of Facilities in Higher Education 2017: Benchmarks, Best Practices & Trends*. Guilford, CT: Sightlines.

¹ National Center for Education Statistics (2020). *Undergraduate Enrollment*. National Center for Education Statistics: Washington, D.C. (https://nces.ed.gov/programs/coe/indicator_cha.asp, accessed Sep. 19, 2020).

² Sightlines (2017). *State of Facilities in Higher Education 2017: Benchmarks, Best Practices & Trends*. Guilford, CT: Sightlines (<http://www.gordian.com/uploads/2019/12/The-State-of-Facilities-in-Higher-Education-2017-Benchmarks-Best-Practices-Trends.pdf>, accessed Sep. 19, 2020).

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Thirdly, teaching capacity also has increased disproportionate to student numbers. From 1999 to 2018, the total number of faculty in HEIs increased by 49% (from 1.0 to 1.5 million), with full-time faculty increasing 40% and part-time faculty increasing 72%.³ Notably, the ratio of students to faculty FTEs dropped from 16:1 in 2009 to 14:1 in 2018, despite the opportunity to expand teaching capacity through shared faculty agreements and online and virtual education.

Why this excess capacity in higher education? In part it is the result of outdated planning. Many public university systems were built for growing, not shrinking, populations. Consequently, their capacity now far exceeds their regions' needs. In addition, growth of both private and public institutions was fueled by a strong rise in college enrollment and governmental support for education in the three decades preceding 2010—trends that are now reversing.

What does this mean for individual institutions? Two-thirds of U.S. HEIs can be considered “small to very small” by enrollment (less than 5,000 students).⁴ It is these smaller schools that are at greatest risk for financial failure, as they have higher relative administrative burdens, tend to already be financially fragile, gain less bounce from rankings, generally cannot offset declining undergraduate enrollment with an increase in graduate students, and often do not have a robust online portfolio.

In fact, if we accept the minimum estimate of an excess of 1.5 million undergraduate student slots, this number represents the equivalent of the enrollment of approximately 750 smaller schools with 2,000 students each. Like all other industries with marked excess capacity, market and institutional consolidation should be inevitable, accelerating the rate of mergers, acquisitions, and closures.

Leaders and policymakers need to recognize the excess capacity inherent in higher education today, and that the pandemic will only worsen this excess. Further, many need to urgently begin to address the real likelihood that their institutions will (or should) not make it to the next decade in their current form. While some leaders may be hoping that the current pandemic-related recession will drive many more students back into higher education, as occurred during the Great Recession of 2007-08,⁵ that is unlikely to absorb significant excess capacity and, furthermore, will likely benefit larger schools the most.

For many smaller schools, the chances of surviving the post-COVID-19 era without finding a consolidation partner will be limited. Institutional leaders should remember that “hope is not a plan” and that the longer they wait, the less likely their institution will be a suitable or desirable merger candidate, as they become more indebted, their enrollment drops further, and their political capital dwindles—leaving closure as the only option.

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³ National Center for Education Statistics (2020). *Characteristics of Postsecondary Faculty*. National Center for Education Statistics: Washington, D.C. (https://nces.ed.gov/programs/coe/indicator_csc.asp, accessed Sep. 19, 2020).

⁴ Integrated Postsecondary Education Data System (2018). *Table 317.40. Number of degree-granting postsecondary institutions and enrollment in these institutions, by enrollment size, control, and classification of institution: Fall 2017*. National Center for Education Statistics: Washington, D.C. (<https://nces.ed.gov/ipeds/Search?query=size%20of%20institution&query2=size%20of%20institution&resultType=all&page=1&sortBy=relevance&overlayDigestTableId=200440>, accessed Sep. 13, 2020).

⁵ Schmidt, Erik P. (2018). *Postsecondary Enrollment Before, During, and Since the Great Recession*. P20- 580, Current Population Reports. U.S. Census Bureau: Washington, D.C. (<https://www.census.gov/content/dam/Census/library/publications/2018/demo/P20-580.pdf>, accessed Sep. 19, 2020).

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Read more:

Azziz, Ricardo, et al. (2017). *Mergers in Higher Education: A Proactive Strategy to a Better Future?* TIAA Institute: New York.

Azziz, Ricardo, et al. (2019). *Strategic Mergers in Higher Education*. Johns Hopkins University Press: Baltimore.

Azziz, Ricardo (2020). *COVID-19: What the pandemic might mean for mergers in higher education*. TIAA Institute: New York.

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