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Economic Downturn Brings Prosperity and Opportunities to For-Profit Colleges

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For-profit colleges, unlike the rest of higher education, are enjoying a financial boon that is likely to improve in the next couple of years.

Enrollments this fall at nine major publicly traded college companies grew at a pace faster than the average annual rate of growth for the past three years, while profit margins for this year are projected to be higher than they have been since 2005.

And the grim financial outlook, which has led to freezes on hiring and new construction at many nonprofit colleges, isn't having the same effect on the for-profit sector, which accounts for about 5 percent of all postsecondary enrollments.

If anything, many of the bad-news trends now roiling the economy — projected unemployment of 10 percent, state budget cuts, declining support for nonprofit institutions, even the near-collapse of the Big Three automakers — are likely to translate into even higher enrollments and higher profit margins for the companies.

"If this is not our moment, I'm not sure when it will be," said Rene Champagne, chairman of the Career College Association and a retired chairman and chief executive of ITT Educational Services Inc.

While many experts have predicted that this recession, like previous ones, will result in higher college enrollments over all, as laid-off workers enroll for retraining, many public and private institutions will be hard-pressed to accommodate them because other sources of financing will be squeezed. Last month, for example, the California State University system said it would cap enrollment for the fall of 2009, even if it meant turning away 10,000 students, because it couldn't afford to take that many.

Analysts from the Stifel Nicolaus investment bank said the for-profit sector, by contrast, is well positioned to benefit from the inflow of new students. For one thing, changes in federal student-aid policies have made grants and subsidized loans more available, so more students can find the money to pay for the colleges' programs.

'Trouncing the S&P'

Concerns about loan availability sent the public companies' stocks into a tailspin earlier this year, but they have rebounded. "We've been trouncing the S&P," said Robert L. Craig, one of the analysts. As of November 28, the stock prices of nine major public higher-education companies were up by 4 percent for the year, compared with a 39-percent decline in the Standard & Poor's 500.

Many of the colleges raised their tuition prices after the loan and grant limits went up.

And while students with poorer credit histories are finding it harder to secure unsubsidized private loans because some lenders have left the market altogether, several for-profit college companies, including Corinthian Colleges Inc., have the resources to create their own loans and have been doing so.

Other factors also work to the for-profit colleges' advantage. They have improved their efficiency in terms of use of space, giving them the physical capacity to handle enrollment growth. And they have honed their growing online-education programs to be more profitable.

The colleges, which are known to spend a lot of money on recruiting students, have also recently seen a slight decline in those costs.

What's more, if automobile companies and recession-hobbled retailers spend less money advertising in newspapers and on the Internet, then ad rates will go down, and for-profit colleges, which now spend in excess of $1-billion a year on advertising, will find marketing themselves more affordable.

The colleges' main concern about the economy is whether it will turn around quickly enough that the students who enroll in programs that train them for careers in health care, information technology, business, and the culinary arts will be able to land jobs once they graduate. "Now's the time to really shore up your activity with employers," said Mr. Champagne, the college association's chairman.

There is "clearly a tailwind," said Mr. Craig. "The key is, for how long."

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