THE JAMES G. MARTIN CENTER FOR ACADEMIC RENEWAL

POLICY BRIEF

From Empty Classrooms to Efficient Campuses:

A Market-Based Approach to University Facilities

By Richard K. Vedder
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College campuses require buildings to operate, and larger institutions typically own millions of square feet of classroom and office space, laboratories, dormitories, eating facilities, conference centers, student unions, stadiums, etc. Some own vast hospitals and clinics; a new hospital at Ohio State has more than two million square feet, about the same as the Empire State Building. Unsurprisingly, of the many inefficiencies of American higher education, probably none is greater than the misuse of campus facilities.[1]

Problems abound. Six big ones are:

1. Buildings are typically grossly underutilized. Most campuses are largely deserted for about four months a year, with little instruction occurring on the weekends and often on Fridays during the school year. Computer-based instruction has made many classrooms and other facilities look like parts of a vast, deserted academic village.
2. There are few incentives for campus leaders to try to remedy the situation. Indeed, perverse incentives exist that tend to perpetuate and accentuate these inefficiencies.
3. In some public universities, outmoded labor legislation or other rules inflate the cost of constructing new facilities.

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1. I am deeply indebted to Marty Kotis, himself a real estate developer and builder, who is a trustee of the University of North Carolina at Chapel Hill, for his assistance on this essay.

4. Many university buildings, especially student housing and cafeterias, appropriately belong in the private sector where market incentives would encourage better occupancy and lower operating costs.
5. The modern birth dearth suggests campus enrollments will not grow robustly and indeed may shrink in coming years, but many schools continue to embrace an "Edifice Complex," building costly facilities in the risky hope that they will lure students.
6. Many campuses fail to provide adequately for the maintenance of facilities, including such routine things as repainting surfaces and replacing roofs. This ultimately results in extremely expensive renovations or the premature replacement of buildings.

Building Underutilization

Campus buildings are often nearly deserted even at typically peak midmorning or afternoon hours. As I write this at 9:20 a.m. on a normal weekday in the midst of the academic year, of the 32 faculty offices on my floor in my building, only two (one mine) are occupied. Data from the UNC System's 2022 Facilities Inventory and Utilization Study confirms that the problem isn't limited to my university. The study revealed that, "[i]n 2022, total average weekly hours of instruction systemwide in classrooms was 22.6 hours per week. […] Total average weekly hours of instruction systemwide in class labs was 13.0 hours per week."[2] Part of the problem relates to academic schedules. Classes are in session for most students only about 30-32 weeks a year. When students are gone, so, too often, are faculty. The use of year-round academic scheduling, perhaps in the service of three-year bachelor's degrees, could significantly reduce this problem and save students large sums of money. They are commonplace in Europe but are resisted in this country.

Adding to the problem is that units within universities often claim to have "ownership" of certain facilities. The history department may claim, based on past usage patterns, that the first-floor classroom and third-floor offices of a certain building belong to them. Yet, as history enrollments have declined over time, classrooms increasingly are grossly underutilized, with perhaps 20 students sitting in a room capable of seating 100.[3] Meanwhile, enrollments in classes in business and computer science may be booming, and students are crammed into classrooms or labs in buildings dedicated to these academic areas built when enrollments were lower.

Perverse Incentives

Many of the perverse-incentive problems relate to issues of ownership, control, and not using markets to allocate resources. Unlike their counterparts in profit-maximizing businesses in the private sector, university leaders usually lack incentives to minimize capital costs. As previously mentioned, occupants of buildings typically think they have ownership rights that give them the right to allocate space. The

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2. 2022 Facilities Inventory and Utilization Study for The University of North Carolina System, Fifty-Sixth Edition.
3. Marty Kotis observes that modern high-tech sensory devices can measure precisely the student usage of a room without added human effort.

English department thinks it "owns" Alpha Hall even though its enrollments don't justify its controlling all of the space. The psychology department may need the main lecture room in Alpha Hall for an introductory psych course far more than the English Department needs it.

Contrast this with what many for-profit educational institutions do. They often rent space rather than own it, reasoning that they are experts in education, not real-estate management. If space needs decline, they fail to renew rental leases; if they expand, they rent more. To fully utilize space, they schedule lots of classes at somewhat less popular times—in the evenings or on weekends. If necessary to induce student usage, they offer some tuition discounts for taking classes at unpopular times. Why don't traditional non-profit universities do the same? Why not offer traditionally low-enrollment summer courses at a meaningful tuition discount to improve space utilization?

Costly Regulations

A large number of states have labor laws forcing the payment of "prevailing wages," usually high union-negotiated wage rates, on publicly constructed projects. That is another argument for universities to rent space provided by private real-estate providers or simply to buy existing privately owned buildings. Other state laws might require minority contractors to be given preference on building construction, giving some bidders a semi-monopolistic bargaining position and likely raising construction costs.
Regulations also add to the cost of public-university buildings. "Public and community facilities are among the most expensive structures to build," reports Autodesk Construction Cloud. "[R]egular [university] classroom buildings cost around $580, while laboratory buildings cost about $756 per square foot. University buildings cost $596 per square foot, and dormitories [cost] $322 per square foot."[4]

Inappropriate University Activity

In large parts of the world, for example most continental European countries, universities own few if any dormitories or apartments for student housing and cafeterias. Students stay in privately owned apartments or with relatives. What is the rationale for university ownership of this non-academic function? In reality, many universities mandate that some students (typically freshmen and sophomores) stay in their housing, ostensibly to control their behavior but using their monopoly power to charge inflated prices.

The Education Data Initiative found that "at four-year public schools, on-campus students pay an average of $11,520 for room and board; off-campus students pay $11,365. At private schools, the on-campus average is $13,028 and the off-campus average is $11,260."[5]

The Edifice Complex

In an era of relatively stagnant or even declining enrollments, colleges are engaging in ever more costly

4. Autodesk. "Commercial Construction Cost per Square Foot." Digital Builder, July 2, 2024.
5. As reported by debt.org

means of gaining students. Relevant here: the construction of ever fancier (and more costly) facilities, such as classroom facilities with big atriums, administrative offices with ornamental fireplaces and expensive conference tables, or fancy recreational facilities with huge climbing walls or lazy rivers. Some schools that did this in the last decade are suffering huge debt burdens as enrollments decline in spite of their efforts.

One example of university extravagance is the University of Nebraska's new $165-million football "performance center" that "features a locker room three times the size of the current space" as well as a 32,000 square foot weight room.[6] Should loyal college donors get tax breaks for contributing money for resort-like amenities for affluent teenagers and young adults?

Shoddy Building Maintenance

Various campus constituencies—faculty, administrators, football- or basketball-crazed alums, even students—pester school leadership for fancy new facilities. But buildings themselves are speechless—they cannot lobby for resources, so institutions neglect the real non-popular needs of buildings, for painting, updated landscaping, improved lighting, new roofs, etc. (For example, the SUNY System recently reported that it had more than $8 billion in deferred maintenance.[7]) Because of this neglect, buildings often at a young age (less than 40 years) are in such bad shape that tearing them down often seems like a better option than continued careful maintenance, even though, in the long run, that actually raises capital costs and may even leave a less attractive campus.

Solutions

Legislatures and trustees have wide latitude to address these problems. They should consider the following steps:

- **Create an internal market for space utilization:** Give all budgetary units significant additional dollars, then charge them rent for the use of facilities (classrooms, labs, and offices). Using a trial-and-error process similar to that implicitly guiding private-market-sector pricing decisions, administrations should charge academic units from their newly augmented budgets the maximum amount possible, consistent with high levels of space utilization. Charge lower rents for use of facilities at unpopular times—very early mornings, evenings, Fridays, weekends, and especially summer. Suppose the psychology, economics and English departments all want a popular lecture hall at 10 a.m. on Monday, Tuesday, and Wednesday. Hold an auction for the space! If we win the bid for Alpha Hall, Room 100, our budget may force us to economize elsewhere, perhaps by making seldom seen professors share offices.

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6. Nietzel, Michael T. "The Latest College Extravagance: $100 Million 'Football Operations Centers.'" Forbes, March 8, 2023.
7. King, John B. "2025/26 Campus and Hospital Operating and Capital Budget Requests." The State University of New York, December 17, 2024.

- **Make the market universal:** The concept can be extended further. Give every full professor a $15,000 facility budget, with $12,000 allocations to associate professors and $10,000 to assistant professors—and then make them rent their office and parking space. Charge them for use of graduate assistants and perhaps the use of photocopy facilities. Perhaps even make them buy their own computer equipment. Maybe give them a free parking space at the stadium six blocks away, but make them pay $750 annually for a parking sticker allowing them to park very near their office.

- **Budget for repair and renovations up front:** Any time a new building is constructed, include repair and maintenance costs as part of the total projected expenditures.

- **Longer term, get out of the real-estate business altogether:** One major university netted hundreds of millions by selling or leasing parking garages near popular university clinics and hospitals used by the public—with the new private operators charging fees. Even within university-owned facilities, contract out routine janitorial and maintenance operations to private companies. At some schools, the ultimate privatization move would be to sell the stadium and control over the football and basketball teams to private operators, generating perhaps hundreds of millions in cash (ball-throwing games are not a core academic mission at most of the world's great universities).

Conclusion

Colleges and universities exist to create and disseminate knowledge and creative endeavors. They are specialists in teaching old insights to students and discovering new ideas for the betterment of humankind. Buildings help provide a means to that end but are not ends themselves. Universities can be very good at inventing ways to extend human lives or offer new thoughts on solving long-undiscovered mysteries. But they should leave the important job of constructing and optimally utilizing facilities to others, or at least use market-allocation principles that are highly effective in the competitive-market economy.

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