



US
Unemployment
3.6%



Texas
Unemployment
4.2%



Austin
Unemployment
3.1%



Austin
Job Growth
1.9%



Direct
Vacancy
23.30%



Under
Construction
2,160,583 SF



Quarter
Absorption
183,077 SF



Avg. Class A
Asking Rate
\$53.30



AUSTIN ECONOMY

Despite the ongoing challenges facing the national economy, local economic leaders use labels like, “solid”, a “continuation”, and “bright” – when talking about 2025. Central Texas has long been a hotbed for corporate relocations and expansions (IBM, Samsung, Oracle, Tesla, X, etc.), But jobs created from relocations and expansions fell to 10,291, the lowest since 2015 and 2016. And, while the numbers may be down in recent years, interest in Austin remains solid. Opportunity Austin reported 250 projects in the pipeline, including 5 expected to close in the 1st Quarter. Outlying metrics continue to look good. Over the last 5 years GDP in Austin has grown by 39%, the highest among the top 50 U.S. metros, and 4.5% over the last year. Unemployment continues its downward trend (3.1%), remaining below the five-year average of 4.0%. And office use jobs continued to increase (418,760) and reflected a 30.6% increase since year-end 2019. Key industries we are seeing growth from in Austin include advanced manufacturing, clean technology, AI and digital media technology.



\$1.3B CONVENTION CENTER REDEVELOPMENT UPDATE

The city plans to begin demolition of the Austin Convention Center soon after the SXSW conference and festival in March 2025. The \$1.3B project will roughly double the available event space, while lowering most of the building area below ground and reopening 2nd and 3rd Streets through the property. The convention center redevelopment is funded entirely by the facility’s revenues and civic hotel tax collections, which back nearly \$600M in bonds to get the project started. The project is expected to be completed in 2029.



TECH HUBS EXPERIENCE OFFICE LEASING GROWTH

According to software and consulting firm VTS, there has been a surge of demand in Tech hubs like Seattle, Boston and San Francisco. VTS claims they see 99% of all newly created tenant requirements within the markets it serves and publishes an index of market actions. The company says the trend of new demand for tech space is for a variety of reasons. First, a healthy but cooling job market is shifting negotiating power from employees back to employers, who prefer workers in the office. Second, job growth has become strong in the tech sector (up 1%). Venture capital funding, including for AI companies has increased by 13.3% in the past year as well. Austin is poised to be part of this growth trend among tech towns.



TESLA EXPANDING GIGA FACTORY BY 50%

The leader in EV production told state officials they have begun construction on expanding its 10M SF Texas Gigafactory, planning to add more than 5.2M SF of space to the plant by the end of 2026. While Tesla did not unveil its plans for the expansion, co-founder and CEO Elon Musk did talk recently about expanding its business to include ride-hailing in California and Texas in 2025 to the public. This is great news for the Austin market.



I-35 EXPANSION PROJECTS BREAK GROUND

The long-awaited Interstate 35 Capital Express Central project broke ground in November. Expected to cost \$5.6B and take nine (9) years to complete, the project is expected to add two non-toll, high occupancy vehicle managed lanes in each direction. In addition to lane expansion, the project will lower the main lanes from Airport Blvd to Lady Bird Lake, remove the upper decks, provide opportunities for deck plazas, improve transit connections, add boulevard style segments through downtown and, it is hoped, enhance pedestrian and bicycle paths along the corridor.



AUSTIN FASTEST GROWING METRO IN U.S. FOR 12TH STRAIGHT YEAR

Austin continues inching closer to the million person mark. According to the latest census data, Austin sits at 974,447 residents, a 1.3% increase from the 2020 census. That means Austin is bucking a national trend. Of the more than 800 cities in the U.S. with more than 50,000 residents, 53% have lost population since 2020. And the rapid growth locally is being seen even more in the suburbs surrounding Austin. Georgetown, Kyle and Leander all ranked in the top four Fastest Growing Cities in the nation. City projections forecast Austin’s population could climb to 1.1M by 2030 and 1.6M by 2060. At the same time, the forecasts for the metro area as a whole are 2.8 million residents by 2030 and 4.3M by 2060.

EDITOR'S OBSERVATION

As Covid, the economy and inflation started to choke the office market in 2021, at LPC Austin we coined the phrase "Survive till '25". Well, here we are and for all practical purposes - we survived! As 2024 comes to an end we can now reflect on some difficult times we have faced over the past several years. Navigating the impact of Covid and the growth of a remote workforce. Watching as interest rates impacted the capital markets and caused re-finance nightmares for both equity and debt markets. The result was what you would expect: transaction velocity slowed dramatically resulting in negative absorption, overwhelming sublease inventory and user leverage that resulted in skyrocketing concessions. After an unprecedented run from 2010-2019, the tables had truly turned. So now that we have survived to 2025, what does the near future look like? With Austin's already strong economic fundamentals such as job growth, population growth and continued diversification growth (AI, Life Science) we see a continuing improvement in the local Austin economy. Which we believe will lead to improved office fundamentals, namely deal velocity {currently 80 active deals = 2.5M SF} driven by momentum in back-to-the-office mandates. That, coupled with sublease inventory dying off, new construction declining rapidly and interest rates continuing to decline (we hope!), we believe it will lead to positive absorption (> 2024) and modest rental rate growth. Concessions will fluctuate depending on the asset, but we are hoping to see these flatten out or even make a slight "correction" in 2025.

RENTAL RATES

There was a slight decrease in year over year rental rates (\$53.60 vs \$53.30), but under the economic circumstances a flat line on rental rates is seen as a net positive. Expect rates to grow, albeit modestly in 2025 as leasing velocity improves.

CONCESSIONS

Just as rental rates remained comparatively flat in 2024, concessions did not fluctuate either – they remained HIGH. The degree of how high depended on how stressed your asset was, but needless to say, even in the trophy assets concessions remained at an all time high with TI and free rent in the \$10 p/yr + 1 mo/yr range (based on term).

ABSORPTION/OCCUPANCY

We added another 360 basis points of vacancy (20.8% to 23.3%) in 2025. This was due primarily to adding over 2M SF of new product and sublease converting to direct space. We did however end the year with 368,892 SF of positive absorption, breaking a 2-year absorption drought. A trend we fully expect to continue in 2025.

UNDER CONSTRUCTION

The amount of square footage under construction continues to shrink as new product delivers to the market. Austin is down to 2.1 M square feet. New construction has dropped dramatically in the past several years going from a peak of 5.9M SF in 2022 to finishing 2024 at just slightly more than 2M SF. In addition, we are not hearing of any new office projects of significance even being rumored at this point. I would anticipate that by mid-2026 we could see new construction fall to under 500K SF.

AUSTIN OFFICE MARKET

MARKET AREA	MARKET SIZE	ABSORPTION	VACANCY	CLASS A RATES	UNDER CONSTRUCTION
CBD	15,368,076	40,715	23.4%	\$67.41	1,810,583
Central/North	4,301,116	12,590	22.5%	\$54.05	-
East	3,937,800	25,180	43.7%	\$54.75	350,000
Domain	4,971,340	48,250	13.4%	\$55.90	-
Far NW	13,031,788	69,443	23.7%	\$44.58	-
Northeast	3,478,690	(18,371)	36.4%	\$32.93	-
Northwest	4,837,752	42,670	17.2%	\$41.44	-
Round Rock	1,421,548	8,321	13.4%	\$37.84	-
S. Central	2,763,883	16,688	26.3%	\$58.09	-
Southeast	1,542,553	12,476	9.3%	\$35.18	-
Southwest	11,657,781	(74,885)	16.2%	\$48.01	-
TOTALS	67,312,327	183,077	23.3%	\$53.30	2,160,583