



Economic Focus

In 2025 I plan to highlight several key economic “cylinders” that make up the Austin economic engine. This quarter the focus is on two relatively new cylinders to our economy: military defense (U.S. Army Command Center – “AFC”) and automotive engineering (Tesla). The AFC and its strategic partners have contributed 970 direct jobs and 8,757 indirect jobs and \$1.8B to the Texas economy. Companies that focus on robotics, hyper-sonics, AI, and bio defense are flocking to Austin. Likewise, Tesla’s gigafactory has provided an entirely new ecosystem that focuses not just on automobile manufacturing, but battery technology, parts supply, navigation technology, R&D, not to mention supply chain expansion. Some analysts have suggested that Tesla’s presence in Central Texas has generated \$11.1B in economic activity, reshaping the Austin economic landscape. We are just now beginning to see the impact these two relatively new industries have on the Austin economy. You can expect growth to continue in these sectors for the foreseeable future.

Job Growth & Wages

Thanks to a highly diverse economy, Austin has continued to show modest growth in jobs and wages. Over the past 12 months the region added nearly 22,700 jobs (1.7% growth), which made it one of the top performing large U.S. metros. According to the Texas Workforce Commission, the top growing industries in Austin are technology, health care and manufacturing. During the same period, hourly wages rose 2.9%, which also ranked among the top U.S. cities. In addition, Austin continues to rank first in return-to-work metrics with an average building occupancy rate of 72.8%.


Austin’s Light Rail RE Update

The buildout of the 9.8-mile system is expected to displace 59 businesses, entailing over 300 property acquisitions totaling 85 acres and involve 277 land parcels. These figures could change because Austin Transit Partnership (ATP) continues to refine the plans, but needless to say the new light rail system, while complicated, will bring commercial real estate opportunities. ATP intends to build 15 rail stations, as well as 3 park-and-ride locations that each would have a parking lot or garage. Land along the rail line and particularly the stations will be prime targets for developers looking to redevelop old buildings are underused sites in these areas. Land acquisition for the rail line is expected to begin in 2026 and construction of the light rail system to begin in 2027.


Market Snapshot

4.0% 


US Unemployment

4.1% 

Texas Unemployment

3.5% 

Austin Unemployment

1.7% 


Austin Job Growth

23.76% 

Direct Vacancy

1,700,583 SF 

Under Construction

-120,865 SF 

Quarter Absorption

\$53.86 

Avg. Class A
Asking Rate

Austin Convention Center Redevelopment

Demolition of the existing Austin Convention Center has started. The new convention center will be built over the next 4 years (by 2029) and will have plenty of open space, large windows, and public art. Features include open-air terraces, public plazas and more ways to connect the indoors of the center to its exterior in order to maximize natural light. The new facility will have 620,000 SF of rentable convention space, 70% more than the current facility. Cross streets at 2nd & 3rd Street between Trinity and Red River will be opened since the largest exhibit hall space is planned to be underground.

Industrial Sales Soar

The Austin and San Antonio markets led the state and were 3rd and 4th in the nation in industrial sales activity. Both cities have experienced an industrial construction explosion over the past five years, developing over 83 million square feet of inventory during that period. The new construction led to more interest on the institutional level, with larger buyers and developers becoming increasingly common in both markets. In Austin, investors have been drawn to larger, newly built warehouses and distribution centers. Nearly 60% of sales volume in 2024 consisted of those buildings developed in 2022 or later.

Austin Metro Tops 2.5 Million Residents

The Austin 5 county region became the 25th largest metro in the country after experiencing the arrival of hundreds of thousands of new residents since the start of the decade. Entering 2020 the Austin metro ranked #28, but following years of steady population increases, the region now has an estimated 2.55 million residents, a nearly 11% increase. Travis County, which is where Austin is located, surpassed 1.36 million residents in 2024, nearly double the next largest county's total.

Austin Office Market

Note from the Editor

As with any real estate market in these current times, Austin had some good news, and Austin had some bad news in the first quarter. What do you want to hear first? Let's get the bad out of the way... Austin's vacancy hill continues to be a steep climb. With another 300K of new deliveries, vacancy increased slightly in the first quarter (50 basis points), which also resulted in approximately 120K square feet of negative absorption. The good news is activity is up, and we are seeing deal flow momentum. As of March, there were slightly over 110 tenants actively seeking space totaling up to 3.75M square feet. This is up from 80 deals and 2.5M square feet at year-end 2024. So where does this put us? As Leo Tolstoy once said, "the two most powerful warriors are patience and time." Austin's economic fundamentals are still sound, job growth and population growth are still trending upward, and new businesses are exploring Austin daily. We just need to balance our patience with the time it takes to get to the top of the next bell curve.

Rental Rates

Rents actually increased by \$.50 in the first quarter. As has been the trend since 2023, owners continue to hold firm on their proforma rents in an effort to stimulate value, particularly in Class AA properties where demand is the greatest.

Concessions

As rents have slightly increased in Q1, concessions have remained relatively unchanged. This is the lever landlords are willing to pull to maintain their face-rates, particularly for decent size transactions in poorly occupied projects. It is not uncommon to see \$12.00 - \$14.00 PSF in TIs per year of term, plus 1-2 months of abatement per year of term. And, for the most part, these concessions don't necessarily discriminate between new deals or renewals.

Absorption/Vacancy

As was previously mentioned above, vacancy increased slightly due to new deliveries which also resulted in negative absorption. From a submarket perspective, the vacancy in the CBD increased by 90 basis points (220,000 SF of deliveries), but office space in East Austin (0.8%), The Domain (0.8%), S. Central (1.7%) and Southwest Austin (1.0%) actually gained occupancy.

New Construction

Austin is basically tracking two projects: The Republic (816,000 SF) and Waterline (703,000 SF) are the only notable office projects under construction. Both are located in the CBD, both are trend-setters in design/location, and both are being developed by Lincoln Property Company. The Republic will deliver later this summer (currently 52% preleased) and Waterline is slated for Q2-Q3 2026. To the best of our knowledge there are no other significant office projects planned to break ground in the foreseeable future in any submarket.

Market Area	Market Size	Absorption	Vacancy	Class A Rates	Under Construction
CBD	15,450,180	(19,095)	24.2%	\$67.38	1,700,583
Central/North	4,195,269	(5,936)	22.6%	\$51.87	-
East	4,056,535	1,993	42.9%	\$55.35	-
Domain	4,971,340	27,533	12.3%	\$55.90	-
Far NW	13,007,813	(9,985)	25.1%	\$44.12	-
Northeast	3,367,688	(124,394)	41.2%	\$32.94	-
Northwest	4,859,783	(94,212)	18.4%	\$41.45	-
Round Rock	1,408,546	(15,544)	15.5%	\$38.19	-
S. Central	2,743,150	6,068	24.5%	\$60.10	-
Southeast	1,520,330	18,445	8.6%	\$34.78	-
Southwest	11,450,307	94,262	15.2%	\$48.38	-
TOTALS	67,030,940	(120,865)	23.8%	\$53.86	1,700,583

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