



## Economic Focus

Last quarter we looked at the impact Tesla is having on the Austin economy. This quarter I want to focus on another Austin economic cylinder – Military Defense. In 2018 Austin was chosen as the HQ for the newly created Army Futures Command Center. Its purpose is to transform the military to ensure war-winning future readiness. What began seven (7) years ago as a think tank for military readiness has morphed into the development of new products and systems that have driven growth in the Austin defense and aerospace technology sectors. Because of the DoD's willingness to think outside the box, investment in robotics, micro processing, artificial intelligence and automation systems has exploded in Central Texas. Drone development, AI powered weapon systems, and aerospace companies have all taken up residency in Austin. In addition, it was recently announced that the DoD's innovation wing (DARPA) picked the Texas Institute for Electronics (located at the University of Texas) for a major investment to help establish a new semi-conductor research and fabrication facility in Austin.

## Most HQ relocations occurring in Texas

With its pro-business policies and lower cost of living, Texas is attracting scores of corporate headquarters. According to the publication Visual Capitalist, since 2018 Dallas (100 relocations) and Austin (81 relocations) have led the country in corporate relocation additions. In fact, it's not even close. Coming in at a distant third is Nashville with 35 relocations followed by Phoenix and Houston with 31. The big losers? No surprise here, San Francisco has lost 156 corporate HQ's with Los Angeles following at 106 losses since 2018. Rounding out the Top 5 in losses are New York City (-27), Chicago (-15) and finally San Diego (-14). Expect this trend to continue for the foreseeable future.


## Austin Tech Update

For decades Austin has mostly seen itself climbing the charts in start-up activity and big tech growth. Recently, however, Austin has seen another side of the charts as start-up employment declined (5%) and employment by big tech fell 1.6%. Some have blamed lagging infrastructure, rising housing costs and return-to-office policies. But before you throw Austin into the dustbin of has-been tech giants, you need to apply some perspective to these falling statistics. First, this slowdown was inevitable given the exceptional growth that Austin experienced beginning in 2010. "There is no growth that could be sustainable the way Austin has experienced growth over the last decade" said Thom Singer of the Austin Technology Council. In fact, from 2019 to the end of 2023 Austin's venture capital


## Austin Market Snapshot

4.2% 


US Unemployment

4.0% 

Texas Unemployment

3.4% 


Austin Unemployment

1.6% 

Austin Job Growth

23.60% 

Direct Vacancy

1,700,583 SF 

Under Construction

31,273 SF 

YTD Absorption

\$54.08 

Avg. Class A Asking Rate

backed start-up employment grew by 23% while expansion in big tech had 44% growth. However, Austin is not unaware of the rise and fall of tech dependency. In many ways Austin is charting a different path grounded in innovation, workforce development and long-term economic sustainability. For instance, innovation jobs have grown by 46% in the past 5 years as over 30K jobs were created in software publishing, IT services and computer system design. And that 1.6% decline in big tech employment, was actually one of the smallest dips among major US markets. You might call it a normalization rather than a contraction given Silicon Valley also declined 45%. One last note – Austin tech GDP increased 7.79% in 2024, 2nd highest in the country and since 2020 Austin's tech GDP has grown faster than any major metro in the U.S. Austin's tech scene is not changing, but rather maturing and innovating to adapt to the ebbs and flows every major industry eventually faces.

## Austin Airport Has Big Plans

Don't expect construction at Austin Bergstrom International Airport to end anytime soon. Although ABIA is undergoing a \$4B expansion that includes a new terminal (20+ new gates) and upgrades that will expand capacity to 30 million passengers annually, chief development officer Shane Harbinson said there is a master plan to add even more gates down the line. Currently ABIA handles around 21.5 to 22.1 passengers per year. The goal is to not only handle more travelers, but to attract a major airline to designate ABIA as a HUB.

## Quick Headlines for Q2

- Tesla Takes Another Big Building Near Gigafactory – 300,000 SF at the Austin Hills Commerce Center.
- Data Centers Rising in Austin area – Central Texas is becoming a hub for data center development. In the past few years, 19 data center projects have been developed in the greater Austin area, which is expected to include at least \$25B in capital investment.
- Austin ranks #5 in most affordable places to live in America according to a recent report by Motley Fool Money. The study was based on relative cost of living and high median household income. Austin's income-to-expense ratio of 1.29 was fifth, with the Dallas suburb of McKinney ranking first at 1.55.
- Forbes annual list of American's Most Innovative Companies included 21 from Texas and four from Austin. The four? Oracle (#6), Tesla (#11), Dell (#14), TTEC Holdings (#219).
- Austin ranked #15 on a recent Best Cities in the U.S. published by Canadian real estate and tourism marketing firm Resonance Consultancy, who ranks cities based on qualities of livability, cultural lovability and economic prosperity.

## Austin Office Market

### Note from the Editor

The second quarter felt a whole lot like the first quarter as the market seems to be doing everything it can to tread water and not fall farther behind in achieving the market's highest vacancy rate in decades. While lease volume is solid, the lack of large tenants in the market is starting to take its toll. Since 2020 Austin has delivered nearly 13 million square feet of new office product, pushing vacancy levels to record highs. Since Meta signed their lease at Sixth and Guadalupe in 2022 (589,112 SF), no other "elephants" have roamed the market looking for space. In fact, no deals over 100K have been signed in the market since October of 2024, compared to six in the first three quarters of that year. With another 1.7M square feet set to deliver in the next 12-14 months, we can expect vacancy to continue to increase. The good news (I knew you were wondering!!) is that leasing activity is solid quarter over quarter at 1.8M square feet ranking 5th in the country. Small to mid-size tenants are moving forward with real estate decisions and are willing to make commitments. Metrics are also promising for the new product as we continue to see a flight to quality as is evident by the absorption numbers in Q2. In

Class A product we saw absorption well over 200,000 SF while Class B absorption was negative 50,000 SF +/- . What's on the horizon? According to Opportunity Austin companies are still showing strong interest in Austin, whether it be relocation from outside the city or expansion from within. Unfortunately, decisions continue to be put off or tabled. As U.S. economic policy (tariffs/interest rates) continues to develop we are hoping the current attitude will change and we will begin to see more activity by the end of the year.

## Rental Rates

Class A rates continue to be stable at \$54.08 average across the market. This is a slight increase (\$0.22) in Q2 as landlord's hold firm to asking rents. The CBD, Domain and South Central submarkets continue to be the leaders at pushing rents as we saw increases from \$0.34 to \$0.59 quarter over quarter.

## Concessions

No real change in strategy when it comes to landlord concessions. They continue to remain high as landlords try and outbid their competition for deals using Ti and free rent. TI's are usually \$12-\$14 per year of term with free rent 1-2 months of term regardless of transaction type (new or renewal).

## Absorption/Vacancy

Vacancy remained relatively flat from the first quarter rising ever so slightly by 20 basis points. Absorption was positive 158K square feet, thanks to Class A leasing activity. Significant deals signed in the 2nd Quarter included Nvidia (99,370 SF) at Uptown ATX, LJA Engineering (61,500 SF) at The Park at Barton Creek and SonarSource (37,454 SF) at Capitol Tower.

## New Construction

Approximately 1.7M square feet remain under construction in Austin with this being comprised of mainly two (2) office projects. The Republic (800,000 SF) which is scheduled to open in the 3rd quarter and Waterline (703,000 SF) which is on pace to open Q3 2026. The good news is there will be no new office buildings under construction once Waterline delivers next year. Several developers have said they are scratching or delaying indefinitely office components of mixed use projects, opting instead to focus on multi-family and retail. 2027 could be the first time in over 20 years where no cranes will be on the Austin horizon.

Market Area	Market Size	Absorption	Vacancy	Class A Rates	Under Construction
CBD	15,436,558	(52,818)	24.7%	\$67.97	1,700,583
Central/North	4,117,922	(12,532)	24.0%	\$51.71	-
East	4,054,712	(17,253)	42.1%	\$54.71	-
Domain	3,754,124	67,780	11.2%	\$56.24	-
Far NW	14,189,984	38,881	23.4%	\$44.47	-
Northeast	3,367,688	14,950	40.8%	\$34.86	-
Northwest	4,817,056	(37,361)	20.0%	\$40.69	-
Round Rock	1,408,545	(11,030)	15.4%	\$38.42	-
S. Central	2,743,150	45,992	25.0%	\$64.38	-
Southeast	1,507,830	(11,741)	9.3%	\$34.83	-
Southwest	11,376,389	195,050	14.0%	\$48.53	-
<b>TOTALS</b>	<b>66,773,956</b>	<b>152,138</b>	<b>23.6%</b>	<b>\$54.08</b>	<b>1,700,583</b>

**Andy Smith**  
512.322.3225  
asmith@lpc.com

**Mark Miller**  
512.322.3224  
mmiller@lpc.com

**Trish Williams**  
512.322.3203  
trwilliams@lpc.com

Lincoln Property Company  
201 W. 5th Street | Suite 1200  
Austin, TX 78701  
512.322.3210