

INVESTMENT FORECAST

Office
Austin Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Population Growth Helps Balance Strong Supply Pressures as Local Retail Needs Move Southward

Consumer demand growing across the market. Grocery chain H-E-B has committed to expanding their influence across the metro with at least four new locations slated to open over the next three years, starting with the Manor and Georgetown stores in 2025. This effort is being driven by sustained net in-migration, which is expected to heighten consumer demand for necessities in certain parts of the metro. Suburban areas, including Hays County, have received much of these relocations. This county is likely to continue growing after reporting a 16.4 percent population increase from 2020 to 2023 — a gain that facilitated four consecutive years of retail vacancy compression that lowered the area's rate to 1.3 percent. Another submarket that recorded vacancy decreases in four of the past five years was the area around Pflugerville, culminating in a rate 60 basis points below the metrowide mean in December 2024. The Downtown-University submarket, meanwhile, could also be poised for another year of vacancy compression, fueled by complex zoning requirements limiting new supply.

Growing resident count may prime investor demand. In previous years, investors have targeted areas further from the CBD like Georgetown and Round Rock. The aforementioned submarket has held a large portion of sales activity over the last three years, as buyers acted on vacancy compression and strong rent growth over this period. This trend, however, may begin to shift as fundamentals strengthen closer to the city center. East Austin could garner attention from investors after multiple years of rent increases culminated in the submarket entering 2025 with the second-highest asking rent in the metro — nearly \$36 per square foot. Consumer demand for nearby retail is likely to grow further here following a notable recent uptick in local apartment leasing.

2025 MARKET FORECAST

+1.8%



EMPLOYMENT: The metro's total job count will increase by 25,000 this year. Health care and social services positions will likely constitute a large portion of these new roles.

1,500,000
sq. ft.



CONSTRUCTION: The construction pipeline expands inventory by 1.5 percent in 2025. Georgetown and the area around Pflugerville will account for about half of the incoming supply.

+20 bps



VACANCY: A third consecutive year of completions totaling over 1 million square feet will keep local vacancy on an upward trend, lifting the rate to 3.6 percent by year-end.

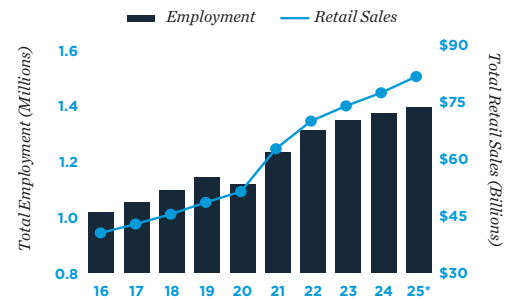
+2.3%



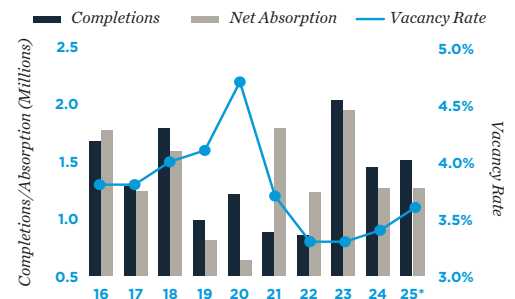
RENT: While rent growth continues to moderate this year, another stretch of strong net absorption will push the average asking rate to its highest level on record, reaching \$28.50 per square foot.

INVESTMENT: Buyers seeking occupied single-tenant assets may be interested in Bastrop County, where the segment vacancy rate has been one of the lowest in the metro since 2022, entering this year at 1.3 percent.

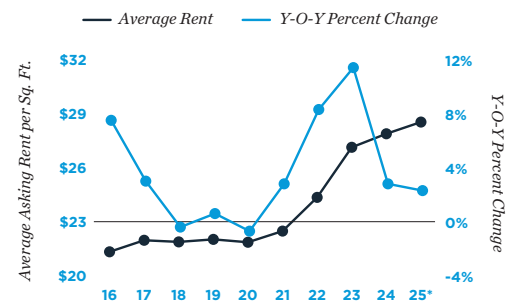
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.