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Uniquely Austin: Stewarding growth in America's boomtown

April 2023



Preface

McKinsey formally opened its Austin office in May 2022. Like many others, McKinsey is thrilled by what Austin has achieved in recent decades and even more excited about the city's future. The firm's ambition—as with everywhere McKinsey operates—is to become a valued member of this vibrant community and for the firm's people and their collective knowledge to bring positive, enduring change to the region. This report was crafted with that in mind.

The objective of this report is to provide a fact-based, nonpartisan perspective on Greater Austin's growth and to galvanize the conversation about how the Austin community can steward growth that is both sustainable and inclusive. *Uniquely Austin: Stewarding growth in America's boomtown* was not sponsored or commissioned by any institution and is based on rigorous analysis, insights from McKinsey experts, and interviews with more than 100 of Greater Austin's senior business and civic leaders, including CEOs, university leaders, policy makers, artists, religious leaders, entrepreneurs, educators, and first responders. Their level of engagement was inspiring, and their diversity of perspectives and ideas helped shape our thinking. We are so grateful for the time they spent with us and thank them and our colleagues for their contributions.

Greater Austin is truly one of a kind, and this report celebrates just some of its attributes and why we believe it is uniquely positioned for continued growth. However, *Uniquely Austin: Stewarding growth in America's boomtown* also underscores the real work that must be done to responsibly balance that growth while managing through the challenges we see on the horizon.

McKinsey & Company Austin office leadership

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Executive summary

By any traditional measure, Austin is thriving. The city is today the 11th largest in the United States, fueled by an influx of people and businesses that has made Greater Austin one of the fastest-growing regions in the country. Since 2010, the GDP of the Greater Austin metropolitan statistical area (MSA) has nearly doubled,¹ and its population has grown by 36 percent, or the highest growth of any major metropolitan area in the country.²

The region is also a hotbed of idea generation. Abundant talent emerges from a higher-education system of more than 160,000 students in Greater Austin—anchored by the University of Texas—and entrepreneurs and venture capitalists welcome both the ease of doing business and the area’s collaborative culture.³ The result is a thriving business ecosystem: Greater Austin is the headquarters or founding location of more than 20 unicorns—privately held startup companies with a value of more than \$1 billion—and venture capital investments in the region have increased fivefold since 2016.⁴ Many ideas once considered outlandish were born in Austin, from selling computers directly to consumers (Dell) to starting a grocery store chain devoted to selling organic food (Whole Foods).

But growing pains have accompanied this ascendance. Challenges that previously affected Austin alone are now being felt at the regional level. Many residents struggle with Greater Austin’s changing identity, and significant challenges persist around everything from infrastructure to affordability and inclusivity. We believe these issues, which are common for growing metropolises, are surmountable: Greater Austin remains early enough in its evolution to change these trajectories and preserve its unique culture while making the region a pioneer of sustainable, inclusive growth and a frontier for cutting-edge science and technology.

The speed and scale necessary to relieve Austin’s growing pains can be achieved only by bold leaders, visionaries, and policy makers acting together.

¹ Real GDP chained to 2012 dollars, 2010–22. Moody’s Analytics, 2022, accessed November 10, 2022. Moody’s estimates of MSA GDP slightly differ from the corresponding series from the US Bureau of Economic Analysis because Moody’s uses employment estimates rather than wage estimates to generate GDP estimates.

² Major metropolitan area defined as the 50 largest MSAs by 2021 population; “Metropolitan and Micropolitan Statistical Areas Totals: 2010-2020” and “Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021,” US Census Bureau Population Estimates Program (PEP), accessed March 14, 2023.

³ “School enrollment,” 2021 American Community Survey 1-year estimates, US Census Bureau, accessed March 15, 2023.

⁴ Sabine Müller, “Austin is home to 20 unicorns, with more in the paddock,” Dealroom.co, August 3, 2022; PitchBook, accessed December 1, 2022. Total venture capital dollars invested, including all completed deals, all VC stages, all round numbers. Data included is representative of VC capital invested in businesses headquartered in the city of Austin. Because PitchBook uses a process of press monitoring and web scraping to collect data, it is likely that some deals are not included in the reported data.

Coming together to lead the way

We are not suggesting it will be easy: the speed and scale necessary to relieve Austin’s growing pains can be achieved only by bold leaders, visionaries, and policy makers acting together to conceive and enact innovative solutions—not just for the city of Austin but also for the Greater Austin region. But while it may require previously unrivaled commitment, scale, and cooperation, we know regional leaders are up to the challenge. By taking a nonpartisan and fact-based approach, this community of leaders can amplify existing effective work while galvanizing the broader community to address the region’s tangible problems and set goals for overcoming them.

To understand the state of the Greater Austin area, the scope of its challenges, and potential interventions, we met separately with 100 community leaders within Central Texas, including CEOs, policy makers, heads of not-for-profits, artists, and religious leaders. There was remarkable consensus in their responses: more than 90 percent said affordability was Greater Austin’s top challenge, followed by infrastructure and inclusivity (Exhibit E1). The same percentage of community leaders pointed to the need to act now.

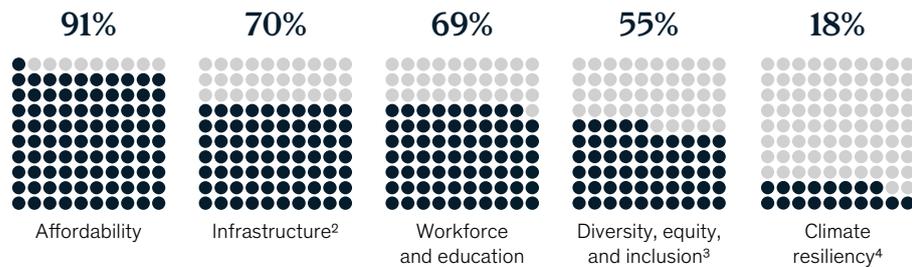
Exhibit E1

Greater Austin’s leaders agree action is needed to address the area’s challenges, with affordability at the top of the list.

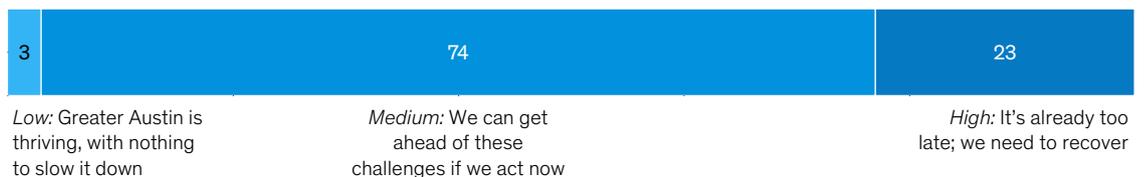
Share of respondents by background (n = 100), %



Share of respondents reporting each aspect as a top challenge for Greater Austin¹



Share of respondents reporting each urgency level, %⁵



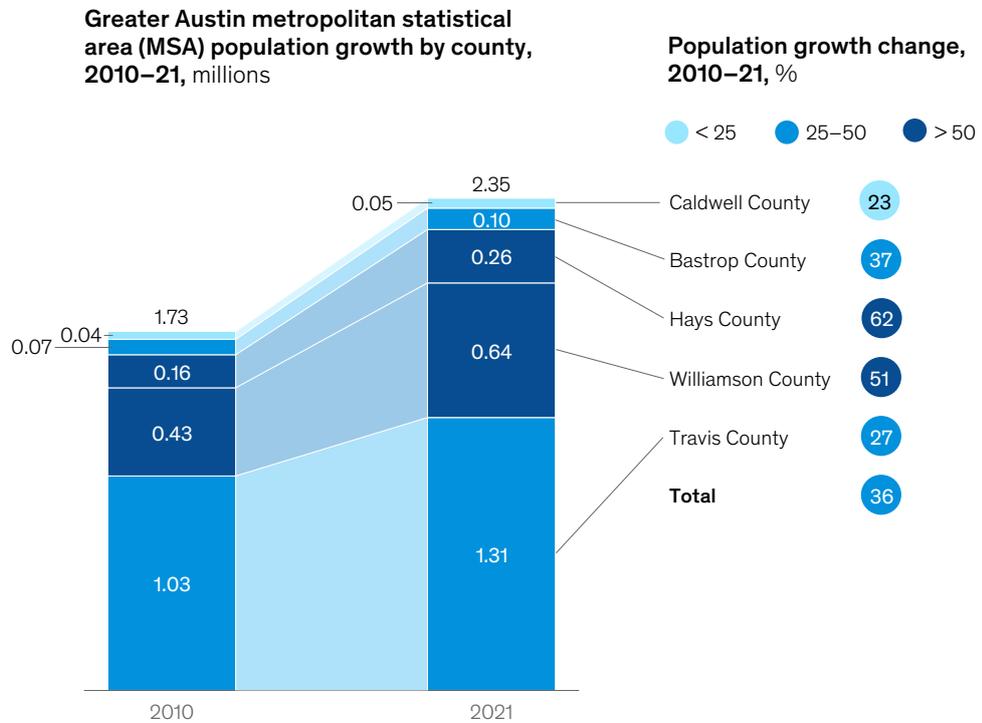
Note: Peer averages are unweighted.
¹ Respondents were allowed to report multiple aspects as top challenges. Responses are nonexclusive. Other common responses included culture (17 percent reporting) and public safety (15 percent reporting).
² Infrastructure excludes water security.
³ Diversity, equity, and inclusion includes homelessness.
⁴ Climate resiliency includes water security.

The region has become increasingly unaffordable in the past decade, particularly since 2019, as new residents have flocked to Greater Austin. Housing is in short supply, especially in Travis County, and the average home price in the Austin MSA has rocketed 170 percent since 2010—almost double the national average.⁵ Other costs, including transportation, healthcare, food, and childcare, have risen faster than housing prices in the Greater Austin MSA. One result has been a shift in the region’s population center as people move farther from the urban core to more-affordable suburbs (Exhibit E2).

As a result of this expansion and displacement, Austin has the second-highest congestion costs per commuter among all midsize US cities, and the situation is getting worse. As more people commute longer distances, the region’s infrastructure is proving it is not up to the task of continued growth.

Exhibit E2

The Greater Austin metropolitan statistical area’s population grew by 36 percent from 2010 to 2021.



Note: Figures may not sum, because of rounding. Peer averages are unweighted.
 Source: "Metropolitan and Micropolitan Statistical Areas Totals: 2010-2020" and "Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021," US Census Bureau Population Estimates Program, accessed March 14, 2023

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⁵ "Home Price Index," Texas Real Estate Research Center at Texas A&M University, accessed February 17, 2023.

Stewarding sustainable, inclusive growth

To counteract these effects and steward Greater Austin's future, leaders will need to come together and focus on three mutually beneficial elements: growth, sustainability, and inclusivity. These elements can work in tandem to drive the region's future, but reaching that sweet spot will require action across six strategic pillars: economic development and business climate; a talented workforce; affordability; diversity, equity, and inclusion; infrastructure; and environmental sustainability.

We believe stewarding sustainable and inclusive growth is a core responsibility of leaders in the community—including McKinsey. We hope this report sparks conversation, collaboration, and tangible action benefiting both our community and local businesses. After all, if one thing brings Austinites together, it is genuine care for the future of both the city and the region.



Introduction

Uniquely Austin: An evolution to celebrate

The region has become well known as one of the country's most dynamic and appealing places to live or visit. Is it possible to make great even greater?

The sustained growth streak of the Greater Austin metropolitan statistical area (MSA) has combined a flourishing economy (real GDP nearly doubled between 2010 and 2022¹) with a high level of population growth (36 percent between 2010 and 2021²) unrivaled among the 50 largest MSAs in the United States. Even through the pandemic, Austin remained the country's standard bearer, adding almost 100,000 jobs as its economy grew by 8.6 percent.³ While the city may not be as "weird" as it once was,⁴ it is firmly regarded as one of the country's most appealing, dynamic, and desirable places to live and work.

¹ Real GDP chained to 2012 dollars, 2010–22. Moody's Analytics, 2022, accessed November 10, 2022. Moody's estimates of MSA GDP slightly differ from the corresponding series from the US Bureau of Economic Analysis because Moody's uses employment estimates rather than wage estimates to generate GDP estimates.

² "Metropolitan and Micropolitan Statistical Areas Totals: 2010-2020" and "Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021," US Census Bureau Population Estimates Program (PEP), accessed March 14, 2023.

³ Moody's Analytics, 2022, accessed November 10, 2022.

⁴ Shelley Bueche, "The history of how 'Keep Austin Weird' became synonymous with the Capital City," CultureMap Austin, March 14, 2018.

While the region has undoubtedly changed, it retains a certain energy, brimming with opportunity and potential. The city sports a renowned music scene, premier higher-education institutions, an entrepreneurial yet welcoming and collaborative spirit, and access to captivating outdoor spaces; new and longtime residents alike take pride in this unique combination of features. There's just *something* about Austin. When asked to describe Austin's allure, one local start-up founder said: "Austin is a place of gathering. I think it's awesome so many people want to come here—there are obvious reasons to, after all." From South by Southwest (SXSW) to Formula One, Austin has an undeniable national profile. But at the end of the day, Austinites simply want what's best for their home. Why? One local not-for-profit (NPO) leader echoed the sentiment of many: "[It is] absolutely my favorite city in the world. There is truly no place like it."

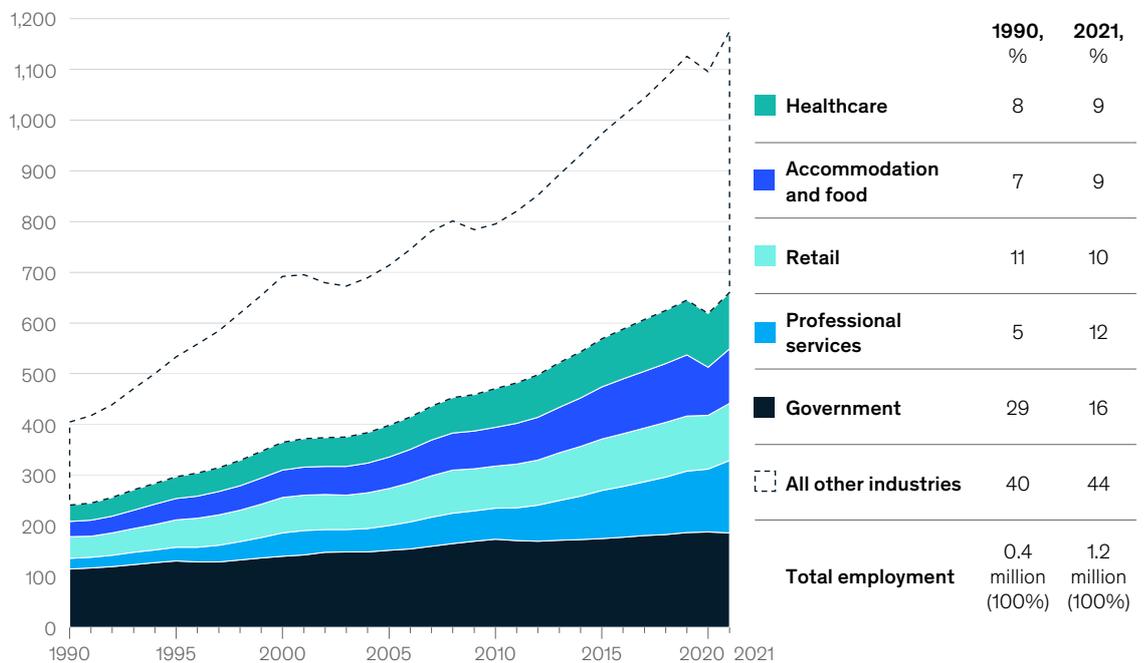
A gradual ascendancy, achieved suddenly

Not long ago, it seemed the only jobs to be found in Austin were in government or higher education. But the private sector has been the most pronounced driver of recent economic growth, and total private employment has grown four times as fast as government employment (Exhibit 1).⁵ Today's business landscape features a unique mix of unicorns, venture capital and private equity, home-grown midcap companies, relocated technology giants, and new satellite offices of trillion-dollar companies.

Exhibit 1

The Greater Austin economy has become more diverse since 1990.

Top 5 employment sectors in Austin, metropolitan statistical area (MSA) 1990–2021, thousands of people



Note: Peer averages are unweighted. Healthcare includes healthcare and social assistance. Professional services includes professional, scientific, and technical services.
 Source: "Current Employment Statistics" and "Quarterly Census of Employment and Wages," US Bureau of Labor Statistics, 2022, accessed November 18, 2022; Moody's Analytics Estimated, 1990–2021

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⁵ "Current Employment Statistics" and "Quarterly Census of Employment and Wages," US Bureau of Labor Statistics, 2022, accessed November 18, 2022; Moody's Analytics Estimated, 1990–2021.

This recent boom did not happen overnight. Austin was on the fast track well before the headline-grabbing news of Oracle and Tesla relocating their headquarters to the city in 2020 and 2021, respectively, put its ascendancy on the map. From 2010 to 2020, the GDP of the Austin MSA was nearly three times the national average and two times the average of comparable “high growth” MSAs.⁶ One factor behind the MSA’s seemingly sudden rise to prominence is its growth since the onset of the pandemic—GDP rocketed 20 percent from 2020 to 2022. That is not expected to slow: by 2029, Austin’s three largest sectors by GDP (real estate, professional services, and information) are each projected to grow by more than 5.8 percent annually.⁷

Keys to creating an inclusive, sustainable future

We’ve identified five principal challenges that, if addressed, can provide a path for Greater Austin to steward tomorrow’s growth. The balance of this report examines these in turn, from growing homelessness to infrastructure issues and the rising cost of doing business or simply living here. Assuming current migration rates continue, Greater Austin’s total population will nearly double to 4.4 million residents by 2050, and there could be significant consequences if this challenge is not managed with dynamic, innovative actions that reflect the best of the city.⁸ Austin cannot let the quest for a “magic bullet” to solve these issues impede the incremental progress and mitigation needed to prevent challenges from becoming crises.

But what does it mean for Greater Austin to grow inclusively and sustainably?⁹

By *growth*, we mean increased prosperity and well-being, including profitable growth for the region’s private sector and GDP growth across the region. We also mean measures such as job opportunity for citizens, derived in part from dignity of work (while recognizing that measurable definitions of well-being are still evolving). For *inclusion*, we consider equality of opportunity and broad-based progress of outcomes for all—especially sufficiency of living standards—and the narrowing of inequalities among genders, ages, ethnicities, family backgrounds, and places of residence. And for *sustainability*, we aim for sustained growth—including infrastructure to support economic growth—and environmental resilience. The latter starts with reducing climate risk but also includes emissions goals and broader preservation of natural capital as well as intergenerational fairness, all considered in terms of economic and societal costs and benefit.

As we wrote in an earlier article, “The three elements of growth, inclusion, and sustainability are deeply connected and cannot be viewed as trade-offs.”¹⁰ These elements are important because overall economic growth strengthens all aspects of the economy,¹¹ encouraging capital investment, which in turn spurs productivity, wages, and growth. Greater inclusion means that more people—most notably the most vulnerable—share in increased economic outcomes and life satisfaction while growth is promoted through new demand and investment opportunities. And sustainability enables continued increases in both inclusion and growth while lowering the cost of energy, which, in turn, increases both accessibility and productivity.¹²

⁶ Moody’s Analytics, 2022, accessed November 10, 2022; “Real Gross Domestic Product (GDPC1),” US Bureau of Economic Analysis, retrieved from Federal Reserve Bank of St. Louis (FRED), accessed March 15, 2023.

⁷ A major driver of Austin’s economic growth has been rising real-estate prices, reflecting the city’s strong population and business growth. The GDP data was retrieved via Moody’s Analytics (2021), accessed December 7, 2022.

⁸ “County Projection 1.0 Migration Scenario,” Texas Population Projections, Texas Demographic Center, 2022, accessed March 15, 2023.

⁹ Tracy Francis, Anu Madgavkar, Sven Smit, and Bob Sternfels, “Our future lives and livelihoods: Sustainable and inclusive and growing,” *McKinsey Quarterly*, October 26, 2021.

¹⁰ *Ibid.*

¹¹ “Outperformers: High-growth emerging economies and the companies that propel them,” McKinsey Global Institute, September 11, 2018.

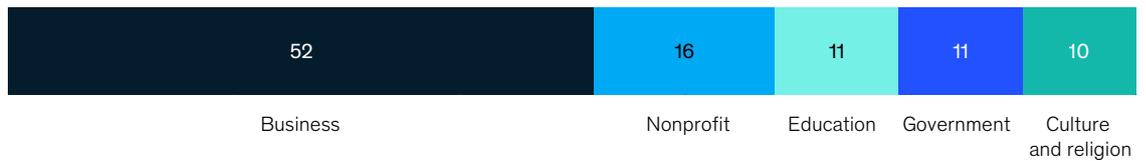
¹² “Our future lives and livelihoods,” October 26, 2021.

In-depth analyses and feedback from 100 diverse community leaders—including CEOs, NPO and religious leaders, first responders, and artists—independently confirm five challenges to driving a growing, inclusive, and sustainable future for Austin (Exhibit 2). The region has a unique opportunity to act as the standard bearer for managing growth in a sustainable and inclusive manner, but addressing each factor will require real action.

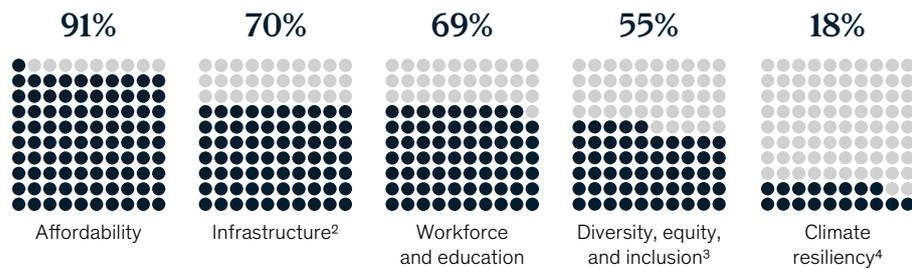
Exhibit 2

Greater Austin’s leaders agree action is needed to address the area’s challenges, with affordability at the top of the list.

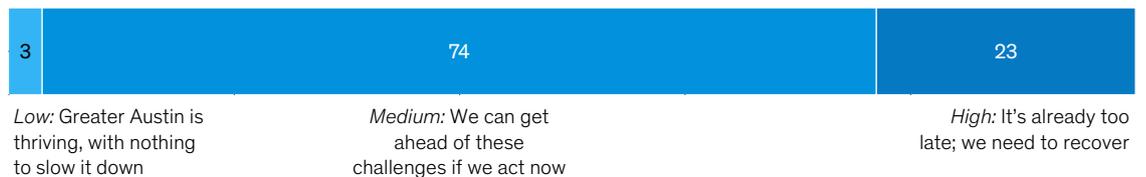
Share of respondents by background (n = 100), %



Share of respondents reporting each aspect as a top challenge for Greater Austin¹



Share of respondents reporting each urgency level, %⁵



Note: Peer averages are unweighted.
¹ Respondents were allowed to report multiple aspects as top challenges. Responses are nonexclusive. Other common responses included culture (17 percent reporting) and public safety (15 percent reporting).
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Defining Greater Austin

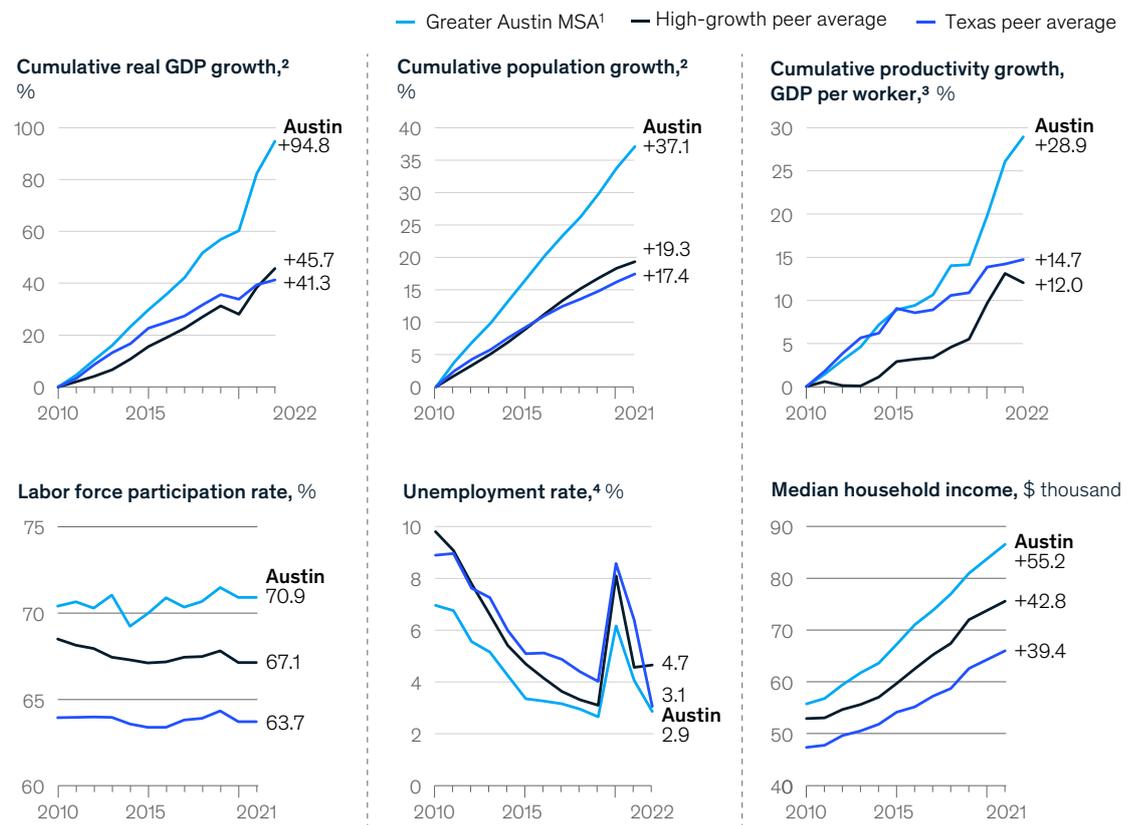
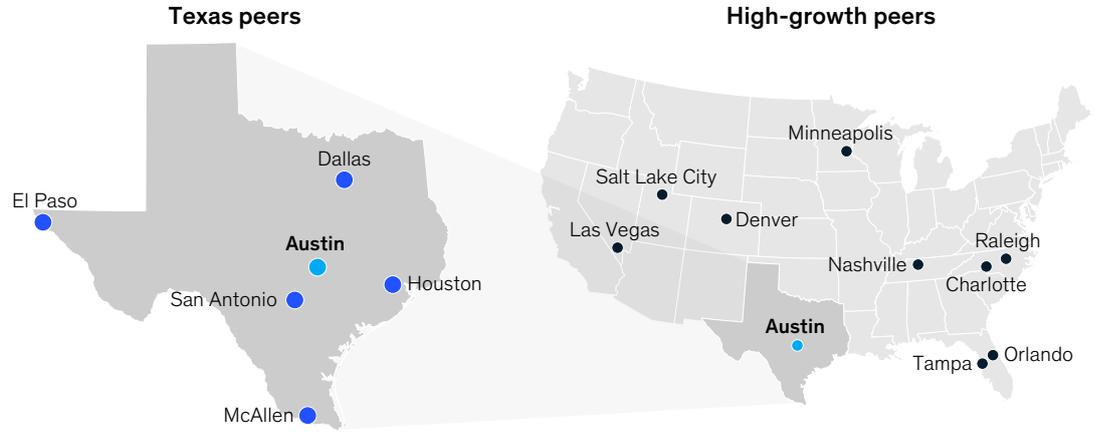
We define Greater Austin as the Austin MSA, which includes, in order of population, Travis, Williamson, Hays, Bastrop, and Caldwell Counties. We have benchmarked Greater Austin against nine US MSAs—“high growth peers” selected for their similarity in terms of population and recent economic growth—as well as against Texas’s five largest MSAs to measure Austin’s baseline sustainability, inclusivity, and growth metrics. These peers will be discussed at length throughout this report; top-line analyses reinforce that Austin’s recent growth presents a unique opportunity (Exhibit 3).

It is important to consider one final factor related to Greater Austin’s ability to address its challenges and forge growth that is both sustainable and inclusive: Austin is a liberal stronghold in a conservative state; as former governor Rick Perry put it, “Austin is kind of the blueberry in the tomato soup of the state.”¹³ In our interviews, local business and community leaders repeatedly cited political divisiveness as a challenge for the region’s future, especially when it comes to cross-jurisdiction, regional collaboration, and talent attraction and retention. Friction between political ideologies was not seen as inherently bad; the problems leaders cited were the inability to bridge divides across political lines and the potential for talent acquisition and retention to be negatively affected by policies emanating from both the Austin City Council and the Texas Legislature.

We’ve identified five principal challenges that, if addressed, can provide a path for Greater Austin to steward tomorrow’s growth.

¹³ “Perry on Jimmy Kimmel at SXSW,” *Washington Post*, March 14, 2014.

Greater Austin has outperformed both high-growth peers and Texas peer averages across key economic measures.



Note: Peer averages are unweighted.
¹Metropolitan statistical area.
²Indexed to 2010.
³Indexed to 2010; productivity is defined as GDP per worker.
⁴Average 2022 unemployment rate by MSA figures are preliminary and are calculated as nonweighted averages of monthly 2022 unemployment rates.
 Source: ACS 1-Year Estimates Subject Tables, US Census Bureau, 2010–2021; “Local Area Unemployment Statistics: Smoothed Seasonally Adjusted Metropolitan Area Estimates,” US Bureau of Labor Statistics, accessed March 15, 2023; “Metropolitan and Micropolitan Statistical Areas Totals: 2010–2020” and “Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020–2021,” US Census Bureau Population Estimates Program, accessed March 14, 2023; “Real GDP chained to 2012 dollars, 2010–2022,” Moody’s Analytics, 2022, accessed November 10, 2022



1 Economic development and business climate: Becoming an economic powerhouse

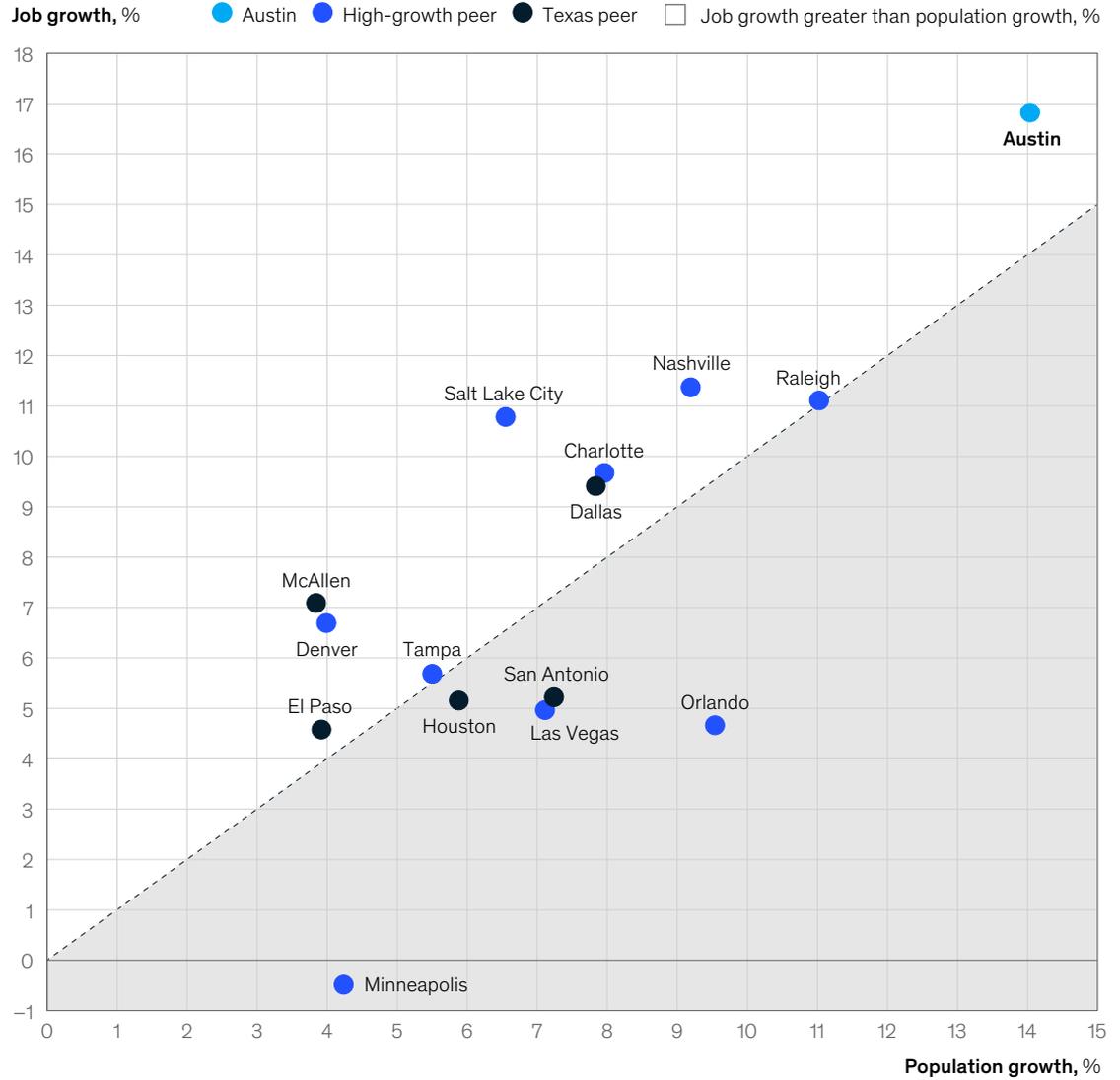
Greater Austin has led peers in nearly every growth metric, but there is still room for improvement if it is to cultivate success for a diverse mix of industries and companies.

Austin's economic growth has been a boon to local business. But it is something to celebrate for Austinites too: job growth totaled nearly 17 percent from 2016 to 2021, outpacing Austin's population growth by nearly 3 percent and the job growth of all peers (Exhibit 4). This section examines what has been driving Austin's economic growth—and what the community can do to ensure it continues—by looking at the city's strong investment community, educational institutions, and talented workforce.

Exhibit 4

Greater Austin outpaced its peers in both job and population growth.

Population growth vs job growth, metropolitan statistical area (MSA), 2016–21, %



Note: Peer averages are unweighted. MSA names abbreviated to primary city for formatting purposes.
 Source: "Metropolitan and Micropolitan Statistical Areas Totals: 2010-2020" and "Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021," US Census Bureau Population Estimates Program, accessed March 14, 2023; "Total jobs by metropolitan statistical area, 2016-2021," Lightcast, 2021, accessed November 11, 2022

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Investing in innovation and technology

Austin is a place of idea generation. The city's academic research and development spending per capita is the highest in Texas, and Greater Austin generates the most patents per capita of all peers (and nearly three times that of Texas cities Houston and Dallas).¹⁴ These ideas have often been profitable: Austin leads all peers as the headquarters or foundation location for more than 20 unicorns (privately financed companies valued at more than \$1 billion).¹⁵ Many ideas once dismissed out of hand were born in Austin and have become household names, from selling computers directly to consumers (Dell) to selling organic groceries (Whole Foods). One local private-sector leader described Austin's idea generation scene as one in which "individuals are enthusiastic to get together, share notes over a coffee, and help each other where they can."

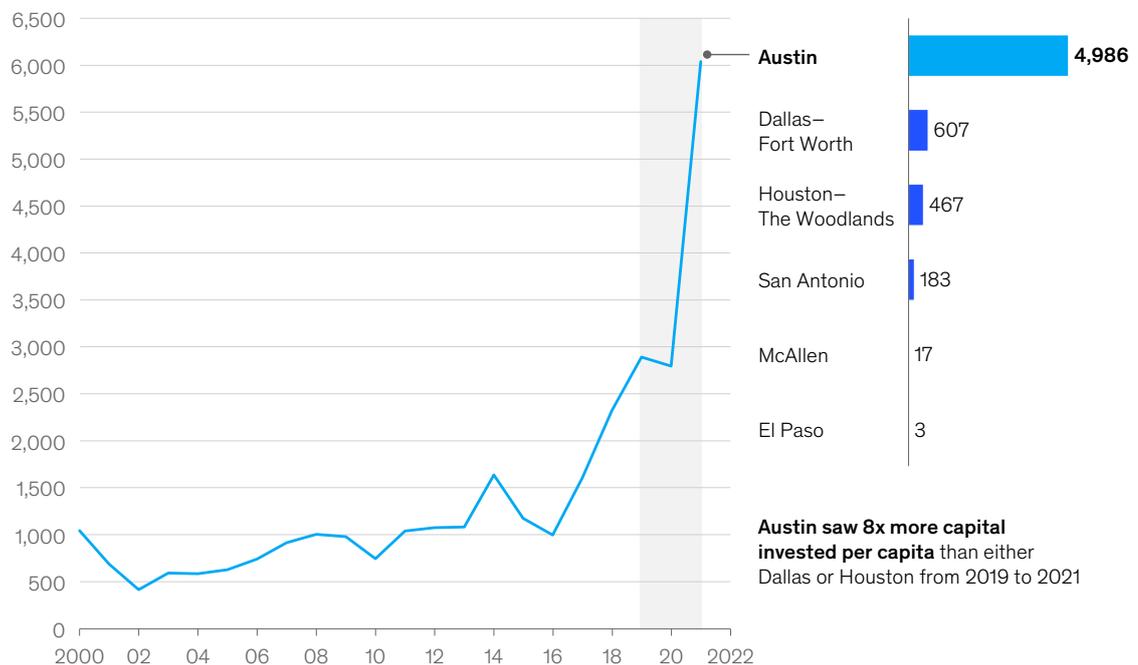
This ethos has not been lost on the investment community. Austin's attractiveness as a venture capital (VC) destination has climbed steeply since 2016, with annual VC invested growing fivefold (Exhibit 5). In fact, the \$11.6 billion in VC invested in Austin-area companies between 2019 and 2021 topped investment in all other major Texas cities combined. On a national scale, Austin ranks seventh among the top ten metropolitan areas for investment dollars per person.¹⁶

Exhibit 5

Austin is emerging as a magnet for venture capital.

Venture capital invested, City of Austin, 2000–21, \$ billion

Venture capital invested per capita, Texas peers, 2019–21 total, \$



Note: Peer averages are unweighted. Because PitchBook uses a process of press monitoring and web scraping to collect data, it is likely that some deals are not included in the reported data. Data included is representative of venture capital invested in businesses headquartered in Austin.
Source: "Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021," US Census Bureau Population Estimates Program, accessed March 14, 2023; "Total venture capital dollars invested, including all completed deals, all VC stages, all round numbers," Pitchbook, accessed December 1, 2022

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¹⁴ McKinsey analysis based on "Rankings by total R&D expenditures," 2018, National Science Foundation, accessed March 15, 2023; McKinsey analysis based on "PatentsView," 2021, US Patent and Trademark Office, accessed March 15, 2023.

¹⁵ Sabine Müller, "Austin is home to 20 unicorns, with more in the paddock," Dealroom.co, August 3, 2022.

¹⁶ Richard Florida, "The post-pandemic geography of the U.S. tech economy," Bloomberg, March 9, 2022.

This is not to suggest Austin is now a VC destination on par with the likes of the Bay Area (where \$230 billion was invested from 2019 to 2021) or even Boston (\$64 billion).¹⁷ But these investment hubs hold valuable lessons that Greater Austin can learn from to continue fostering its recent growth—spanning the cycle from inception to commercialization—and build a more robust ecosystem.

Driving VC investment: Lessons from Boston

The Greater Boston area has emerged as the country's third-largest hub for VC investment, with a total of \$33.2 billion invested in 2021 alone. This success is linked to Massachusetts's renowned healthcare innovation ecosystem; as a city, Boston received \$2.3 billion in National Institutes of Health (NIH) funding—the second highest in the nation.

- *Fostering talent to build a research and development community.* A network of research institutions and strong links between universities and business allow effective allocation of research spending and a commercialization funnel for fledgling businesses. Coupling this network with large anchor companies forms an ecosystem that is conducive for both business launches and scale-ups. Boston's concentration of biotechnology and IT companies centered around the Massachusetts Institute of Technology has been described as the “most innovative square mile on the planet.”¹⁸ There are already 53 accelerators and incubators in Austin (compared with 63 in Boston),¹⁹ and the city can continue to prioritize this effort with a particular focus on underserved sectors and minority entrepreneurs. The University of Texas's technology transfer office has been an example of commercializing research. And the rising stature of the Dell Medical School—founded only ten years ago—gives the community a chance to expand and spark medtech and life sciences innovation.
- *Scaling up existing sectors with a robust cluster-and-partner strategy.* Building two or three sectors and technologies—as Boston has with biotechnology—is critical to driving strategic prioritization in the region. This approach results in a coordinated regional workforce strategy and distinctive branding and messaging to attract businesses, talent, and investors. Austin's VC ecosystem is primarily composed of IT companies (47 percent of capital invested) and business-to-business (B2B) companies (27 percent).²⁰ Building a “brand” for the Austin VC ecosystem can help scale Austin's existing VC scene; it is easier to go from good to great than to start from scratch.
- *Attracting capital and funding.* Effectively deploying both direct and indirect government incentives can catalyze, not crowd out, private investment in targeted industry clusters. Boston has invested in creating innovation districts that are accessible to entrepreneurs and start-ups, with capital available across the full life cycle of businesses from seed to exit. One Austin VC leader said the region had “a great and growing pipeline of deal flow, but there is still a distinct lack of late-stage capital available to local start-ups.” Prioritizing access to funding and development resources for entrepreneurs throughout the business life cycle is critical to maximizing the odds of success and fostering even greater start-up activity.

¹⁷ PitchBook, accessed December 1, 2022. Reported data for Boston is representative of the Boston–Worcester–Providence combined statistical area, which includes multiple MSAs.

¹⁸ “Kendall Square Initiative,” Massachusetts Institute of Technology, accessed March 16, 2023.

¹⁹ “Accelerator & incubators in Austin,” Tracxn, updated December 30, 2022.

²⁰ PitchBook, accessed December 1, 2022. Venture capital invested by industry represents 2022 totals.

Maintaining a business-friendly environment

Austin was named the best place to start a business in 2020 in large part because of the environment of both the city and the state of Texas.²¹ For the region to maintain its attractiveness to businesses, the Greater Austin community can prioritize the following:

- *Retaining a favorable regulatory environment.* Austin and Texas have generally created a regulatory environment that fosters innovation. Taxes remain low for corporations, providing further incentive to locate in Texas. However, many leaders point to ambiguity about policy as a potential threat to business and talent acquisition, with one saying the business community “really is not sure what [politics] will do next.” Retaining these advantages and leading from the front in regulations that support innovation and economic growth will be crucial to maintaining the results already seen in the city.
- *Lowering the cost of doing business and developing business infrastructure.* Despite relatively low taxes, the combination of high labor, office, and energy costs makes the overall cost of doing business in Austin the highest among its high-growth peers.²² One local real estate leader said, “Our high office space costs come down to a supply-and-demand issue at the end of the day. When businesses move here, they need office space, but we just don’t have enough room for them yet. Streamlining the development process for additional office space, especially in lower-cost areas, could be a real unlock.”
- *Offering incentives for increased corporate citizenship.* Austin is attracting new businesses that were founded somewhere else. If Austin is to remain an attractive place to do business—rather than just a place to harvest talent, benefit from the local brand, or merely take a step on the corporate ladder before heading back to an out-of-town headquarters—it is important that new companies and their employees feel invited and are provided the avenues to become active members of the community. Community leaders could do more to involve companies and create partnerships that are mutually beneficial for civic and corporate interests, particularly with some of the large satellite offices of companies headquartered elsewhere.

There is no shortage of organizations for companies to partner with. Greater Austin has the most NPOs per capita in Texas and the second most among its national peer cities—a total of more than 13,500 organizations.²³ Yet many of our interviewees said there is an overabundance of local NPOs, which limits the impact of philanthropic initiatives. One prominent local NPO leader summed it up as follows: “We have so many NPOs that funds and strategic thinking are being fractured to a point of being ineffective. If we could increase coordination across our NPOs, Austin could really unlock its philanthropic potential.” Another admitted that while “there is great work already going on,” the work is often not achieving the necessary scale to have an impact. “Even just partnerships between some of our organizations could have great impact without having to do the heavy lifting of a full merger,” she said.

²¹ “These are the 50 best places in America for starting a business,” *Inc.*, 2020.

²² Moody’s Analytics, 2020.

²³ “Metropolitan and Micropolitan Statistical Areas Totals: 2010-2020” and “Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020-2021,” accessed March 14, 2023; “Austin area nonprofits,” Cause IQ, accessed November 11, 2022.



2 Talented workforce: Sharpening a competitive edge

Greater Austin today originates, attracts, and retains the top talent needed to be a global leader of innovation. But both college graduates and tradespeople are critical to continued success.

A talented workforce has long been Austin's secret weapon, even before the city had jobs to match the quality of its residents. "Your bartender would have a PhD, and you wouldn't think twice," one longtime leader said, and many point to the University of Texas (UT) as the reason they originally moved to Austin. Yet while its reputation as a city of the "underemployed" added to Austin's quirky image, the net result of not having jobs to cater to its population ultimately was a brain drain.

Austin today has an opportunity to parlay its continued economic growth to foster a local workforce equipped to meet the future needs of the region's economy. One local CEO said Greater Austin's future needs are "more than just UT graduates. We need more tradespeople, more first responders, more educators, more service industry professionals . . . more everyone." More can be done to ensure that the workers emerging from Greater Austin's schools and universities are equipped to excel in local jobs, and it will require action at all levels from pre-K to tertiary education to develop a workforce prepared to meet the needs of Austin's future economy.

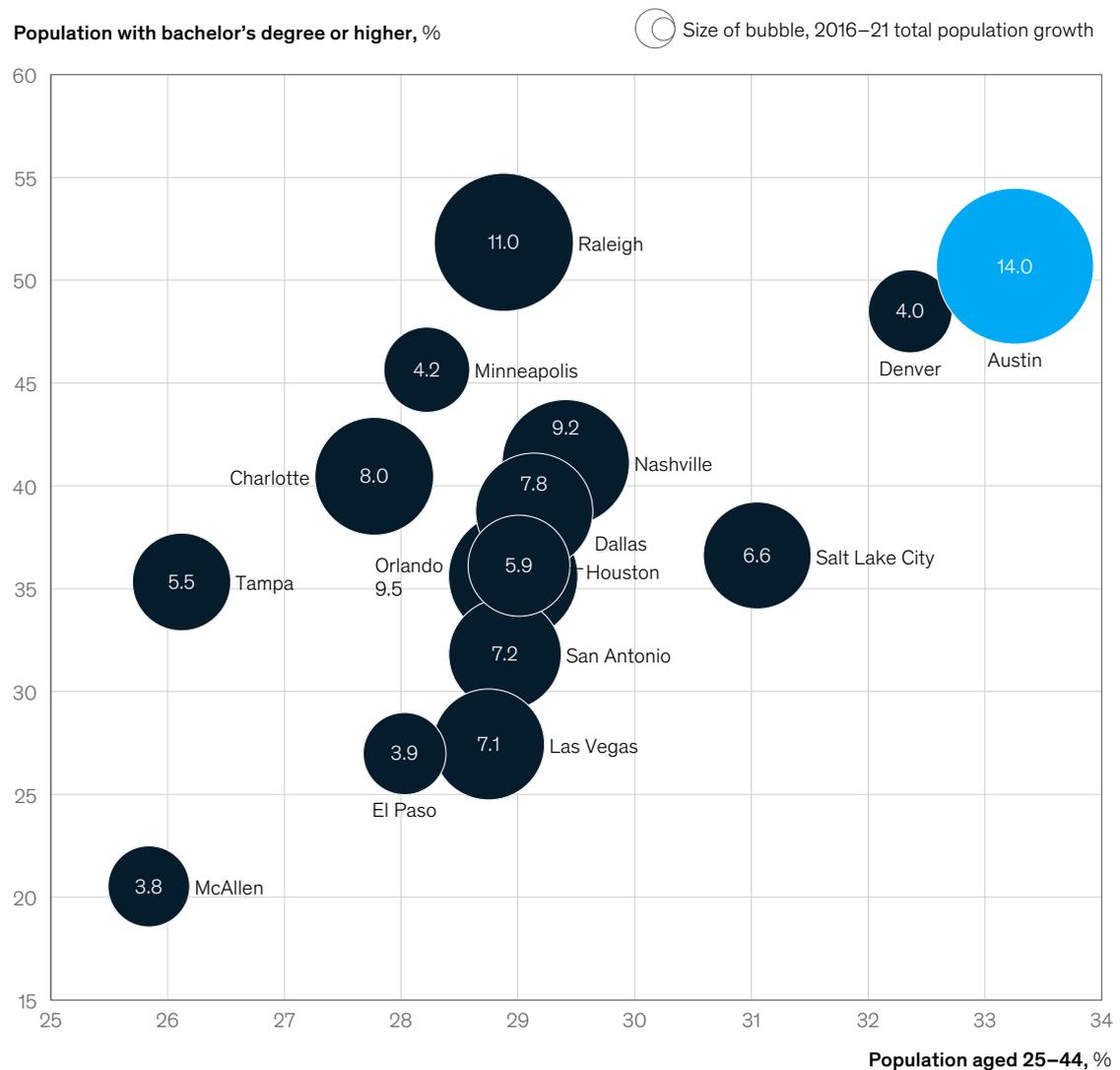
Building the workforce of Austin's future

Austin's economic growth has been fueled by the development of local talent and the influx of new residents. Fifty percent of adult residents have a bachelor's degree or higher; the population is young compared with peers (33 percent of residents are aged 25 to 44, highest of all peers²⁴); and the overall population grew faster than that of any peer MSA between 2016 and 2021 (Exhibit 6).²⁵

Exhibit 6

Austin's workforce is young, highly educated, and growing.

Austin and peer metropolitan statistical area (MSA) population breakdown, %



Note: Peer averages are unweighted.

Source: "Metropolitan and Micropolitan Statistical Areas Totals: 2010–2020" and "Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020–2021," US Census Bureau Population Estimates Program, accessed March 14, 2023; Population 25 years and over with a Bachelor's Degree 2021: ACS 1-Year Estimates Subject Tables, US Census Bureau, 2021; Total population aged 25–44, 2021: ACS 1-Year Estimates Subject Tables, US Census Bureau, 2021.

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²⁴ One-year estimates for the Austin–Round Rock–Georgetown, Texas metro area taken from "DP05: Demographic and housing estimates," 2021 American Community Survey (ACS), accessed March 16, 2023.

²⁵ Educational Attainment 2020: ACS 5-Year Estimates Subject Tables, US Census Bureau, 2020; Educational Attainment 2021: ACS 1-Year Estimates Subject Tables, US Census Bureau, 2021.

Recent high levels of population growth in Austin have been driven largely by domestic migration. Contrary to popular belief, it is not California that is the primary source of new Austinites but other Texas MSAs. Indeed, Houston, Dallas, and San Antonio are the top three MSAs of origin, while Los Angeles is a distant fourth.²⁶ Even with an influx of new workers, the region has consistently had the lowest unemployment rate and highest labor force participation rate among Texas MSAs, indicating new Austinites are finding jobs in the diverse economic landscape.²⁷ For employers, however, this signifies there is both more competition for Greater Austin's workers and less untapped capacity. This competition is accentuated for small businesses that do not have the capabilities to recruit out-of-town talent as their larger counterparts do.²⁸

So, while top local CEOs agree that Greater Austin's talent is a distinct competitive advantage, action is required to ensure that the region's workforce can sustain and benefit from continued economic growth. Three actions may help build Greater Austin's workforce of the future: supporting greater equity in education, leveraging higher-education institutions, and reskilling and retaining homegrown talent.

Supporting greater equity in K–12 education to originate untapped talent pools

There is a divide in Greater Austin's public-education system. The Austin Independent School District (AISD) serves 75,000 students—70 percent of whom are people of color—and 52 percent of its students are classified as economically disadvantaged.²⁹ AISD ranks lowest of Greater Austin's three largest school districts in terms of average teacher experience and test scores; it has seen attendance drop 10 percent in the past six years; and it received a "Needs Help" designation despite a "B" rating by the Texas Education Agency. Compounding any attempt to boost AISD's performance through increases in funding is the state's recapture or "Robin Hood" plan: AISD contributed \$707 million (around \$10,000 per student) in recapture payments to the State of Texas in the 2020–21 school year—the highest in the state and 257 percent more than the second highest contributor, Houston ISD.

By contrast, the neighboring Eanes Independent School District (EISD) is small, wealthy, and highly successful, with 67.0 percent White students and only 3.3 percent of students classified as disadvantaged.³⁰ Around 93.0 percent of EISD graduates are considered college-, career-, or military-ready, compared with 84.7 percent of AISD graduates.

However, while AISD may receive the bluntest criticism of Austin's school districts, it is certainly not alone. For the 2021–22 school year, the Hays Consolidated Independent School District (HCISD)—which serves 21,000 students in and around San Marcos, 72 percent of whom are people of color—had only 51 percent of its graduates ready for college, a career, or the military.³¹ In other words, Austin missed the opportunity to add 650 career-ready workers to its local economy—from just one school district's graduating class. The opportunity and the need to tap previously overlooked and underinvested talent pools within Greater Austin are clear: improving talent pools starts with supporting districts like AISD and HCISD (see sidebar "The role community can play").

²⁶ County-level migration data for the Austin MSA, Lightcast, 2020. Lightcast data only reports domestic taxpayer migration among all states; this taxpayer-based data set excludes certain groups of people and thus does not represent the entire population but rather is a good indicator of migrating workers within the labor force.

²⁷ "Local Area Unemployment Statistics," US Bureau of Labor Statistics, accessed March 15, 2023; ACS one-year estimates, 2010–21.

²⁸ Texas Workforce Commission, 2021; Moody's Analytics, 2021.

²⁹ 2021–22 Texas Academic Performance Report (TAPR): Austin ISD, Texas Education Agency, 2022.

³⁰ 2021–22 Texas Academic Performance Report (TAPR): Eanes ISD, Texas Education Agency, 2022.

³¹ 2021–22 Texas Academic Performance Report (TAPR): Hays ISD, Texas Education Agency, 2022.

The role community can play

Austin's K–12 education could be more effective if the community and its business and civic leaders took a more active role in ensuring its success. Business leaders can collaborate with local school districts to align curriculum and credentials with the skills needed for local jobs. Leaders can help accelerate access to high-quality tutoring, provide citywide summer acceleration academies, and support telehealth services for students. Additionally, they can provide leadership training for principals and create a community of practice for school leaders. And making the region a great place to live for teachers by providing affordable housing and loan forgiveness can help attract and retain high-quality educators. Business and civic leaders can provide the expertise, funding, and cross-district collaboration necessary to make these initiatives a reality.

Leveraging higher-education institutions

Located in the heart of Central Austin, the University of Texas at Austin is the poster child of Greater Austin's higher-education landscape. It is home to more than 52,000 students; its football team is the highest grossing in the country (generating \$162 million in revenue in the academic year 2021–22)³²; and its graduates include celebrated local business icons and celebrities alike. UT Austin also boasts an 88 percent six-year graduation rate and spends more than \$780 million annually on research and development.³³

But the university is just one piece of Greater Austin's rich educational landscape. As of 2019, a total of 172,000 students were enrolled in colleges within a 60-mile radius of downtown Austin³⁴ at institutions ranging from Austin Community College (40,000 total students), Texas State University (38,000) in San Marcos, and Southwestern University (1,500) to minority-serving institutions St. Edward's University (3,500), Concordia University (2,200), and Huston-Tillotson University (1,000).³⁵ Collectively, these institutions have nurtured an innovation and talent pipeline contributing to the success of Austin's economy and entrepreneurial scene.

More than 50 percent of Greater Austin's residents have a bachelor's degree or higher, and Greater Austin produces the second-highest share of STEM graduates relative to all fields of study compared with its high-growth peers, trailing only Raleigh, North Carolina.³⁶

Yet many interviewees agreed that more can be done to leverage Greater Austin's higher-education landscape as a catalyst of innovation. The ongoing development of Austin's new Innovation District provides an opportunity to create a collaborative vision and brand centered around innovation—such as Kendall Square in Cambridge, Massachusetts, or Raleigh–Durham's Research Triangle—that capitalizes on existing momentum and leverages the full weight of Austin's local higher-education institutions in a structured manner.

Such a unified brand could amplify the respective strengths of the individual institutions' missions and promote the success of Austin's higher-education sector and economy. But building a collaborative brand and vision will require leadership from an anchor institution. Given that UT Austin's Dell Medical School is already an anchor of the growing downtown Innovation District, this role seems to benefit Austin's largest research university.

³² Equity in Athletics Data Analysis Cutting Tool, US Department of Education Office of Postsecondary Education, accessed March 20, 2023.

³³ "Texas research highlights," University of Texas at Austin, accessed March 15, 2023; "UT Austin admits largest first-year class and enrolls record-high number of historically underrepresented students," UT News, September 20, 2021.

³⁴ "Colleges & universities in the Austin area," Austin Chamber, accessed March 16, 2023.

³⁵ Ibid.

³⁶ McKinsey analysis of data from Integrated Postsecondary Education Data System (IPEDS), National Center for Education Statistics (NCES), accessed September 1, 2022.

Reskilling and retaining homegrown talent

As companies relocate to Austin for its business climate and people move there for its culture, there does not appear to be a shortage of sought-after individuals or of-interest jobs. Yet the workforce cannot be taken for granted, especially as the skills required by Austin's employers shift. One local manufacturing-sector leader said an acute lack of workers limited the economy's potential, and employment data corroborates this view: demand for workers in the manufacturing sector exceeds supply by 1.5 times, and supply-and-demand gaps are also being experienced in government (2.1 demand-to-supply gap); educational services (1.6); accommodation and food services (1.4); and arts, entertainment, and recreation (1.4).

The same need to retain talent locally applies to transplants to Central Texas, an area that should not be seen as a pit stop on a career journey. Greater Austin can promote the retention of transplanted employees by supporting community-building efforts, particularly for underserved populations, including professional mentorship, networking events, and learning and development opportunities. The purpose is to make Austin feel like home and improve talent retention in the region.

In addition, many of Austin's existing workers are at risk of being left behind. Reskilling and upskilling these workers is critical to both individual outcomes and the success of Austin-based companies. While Austin has strong college attainment rates, the importance of traditional noncollege occupations such as mechanics, welders, and carpenters has grown with Austin's population increase. After all, most entry-level positions in the industry with one of Austin's biggest labor shortages—food services—do not require a college degree. Upskilling and training local workers to fill the supply gap in critical industries and roles is integral to Austin's ability to sustain economic growth (see sidebar "Rework America Alliance").

Rework America Alliance

The Rework America Alliance is a nationwide collaboration of employers, not-for-profits, educators, government entities, and public and private organizations dedicated to opening opportunities for unemployed and low-wage workers to move into good-quality jobs that are resilient to automation and accessible based on skills and experience rather than academic credentials alone.¹ Completed in tandem with the Alliance, McKinsey research predicts that 13,000 jobs in good, viable occupations accessible to low-income workers will be created by 2025. Based on projected job growth, the top viable occupations include software developers and software quality assurance analysts, registered nurses, and service sales representatives.² On average, these jobs would provide a \$21,000 increase in annual salary for the "origin" workers and potentially act as a gateway to even higher-wage occupations.³

Yet reskilling Austin's low-income workers to fill these jobs will require commitment from career seekers and employers alike. Significant skills gaps exist for origin workers looking to transition into the top good, viable occupations, and most origin workers would need upskilling for skills such as leadership, management, and proficiency with the Microsoft Office suite.⁴ Potential upskilling programs are provided by Austin Community College and other local training providers for 13 out of the 15 good, viable occupations. Worker-serving organizations also have a role to play and can maximize their impact by identifying and supporting local-origin talent pools that can upskill and find job placement in their good, viable occupations. Change will take a community, but upskilling local-origin workers to fill good, viable occupations will be a boon to both residents and businesses.

¹ "Job Progression Tool: Bringing job insights to the front line," McKinsey, accessed May 1, 2022.

² State-by-state certification requirements are a barrier to entry for the registered nurses occupation. Filling registered nurse positions necessitates that reskilling also be met with state certification assistance programs.

³ McKinsey analysis using Lightcast, MGI LaborCube, and US Bureau of Labor Statistics data. "Origin" workers are those in low- and mid-wage occupations with high unemployment among workers without four-year degrees.

⁴ Ibid.



3 Affordability: Finding solutions to the region's most visible challenge

Greater Austin's population influx has increased prices for all, with a particular impact on the lowest earners. Ensuring all Austinites can access housing and essential services is critical.

Austin's high levels of population growth and rising median incomes have made the city increasingly unaffordable. Greater Austin's cost of living index (117) is highest among peers and rose 11 percent from 2008 to 2020, outpacing cost of living growth in the likes of Los Angeles and Boston.³⁷ Greater Austin has the highest median family income (MFI) among its Texas peers—the MFI in Greater Austin was \$110,300 in 2022 (by comparison, McAllen is one of the poorest MSAs in the country, and its 2022 MFI was \$52,000). But the region's increasing unaffordability directly affects Austin's workforce (many teachers and first responders don't earn enough to afford housing near downtown jobs), culture (low-income

³⁷ Cost of living, Metropolitan Statistical Area, Moody's Analytics, accessed December 14, 2022.

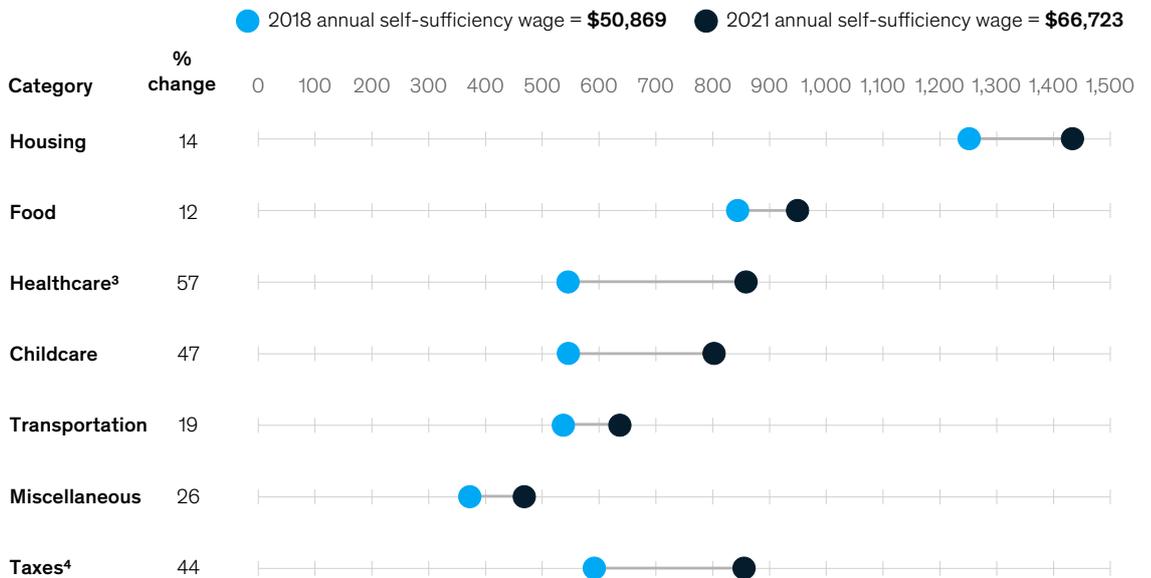
earners in the arts), and diversity (minority populations). “It’s no secret it’s becoming harder for us to recruit talent—even with some higher-paying jobs,” one local business leader said.

While housing is the highest monthly expenditure for Austin families,³⁸ it isn’t the only expense that’s putting a burden on Austinites. A range of essentials have become more expensive for Austin families at rates beyond the rest of the state, except for transportation (Exhibit 7). The net result? The average annual earnings a family of four needs to make in order to be self-sufficient in Greater Austin has increased from around \$50,900 per year in 2018 to \$66,700 in 2021, a period in which the cost of childcare rose 47 percent and healthcare 57 percent.³⁹ And while the region has slightly lower income inequality compared with the average of its high-growth peers, 29 percent of households make less than \$50,000, well below the 2021 self-sufficiency wage.⁴⁰

Exhibit 7

A family of four must now make \$67,000 annually to be self-sufficient in Greater Austin.

Monthly self-sufficiency wage for Austin MSA,¹ family of 4,² 2018–21



Note: Peer averages are unweighted.
¹Metropolitan statistical area. Self-sufficiency standard defines the minimum yet adequate level of income working families need to make to cover expenses by category, considering family composition, ages of children, and geographic differences in costs. Data represents weighted average of Austin MSA counties.
²Analysis of family of 4 includes 2 adults, 1 school-age child (6–12), and 1 teenager.
³Healthcare is calculated using average premiums from the health insurance companies with the largest market shares or with the widest coverage in a specific geography.
⁴Taxes calculation includes earned income tax credit, childcare tax credit, and child tax credit.
 Source: “Metropolitan and Micropolitan Statistical Areas Totals: 2010–2020” and “Metropolitan and Micropolitan Statistical Area Population by Characteristics: 2020–2021,” US Census Bureau Population Estimates Program, accessed March 14, 2023; McKinsey analysis of data from “Self-Sufficiency Standard: Texas,” University of Washington, 2018 and 2021 data

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³⁸ McKinsey analysis of data from “Self-Sufficiency Standard: Texas,” University of Washington, 2018 and 2021 data.
³⁹ Ibid.
⁴⁰ Income in the past 12 months (in 2021 inflation-adjusted dollars), 2021 American Community Survey 1-year estimates, US Census Bureau, 2021.

Making housing more affordable

About 91 percent of interviewees pointed to affordability, particularly housing affordability, as the most pressing issue facing Greater Austin today. The driver is demand: the Austin MSA leads all peers in the relative share of new residents to total population, and population growth in suburban counties is up to three times higher than in Travis County during the past three years.

While housing volume and number of new builds have increased in response to this discrepancy (Austin leads all peers in new residential units per capita), it has not been enough—median home valuations rose nearly 70 percent in some of the best school districts from 2021 to 2022 and 54 percent on average year over year to a median of \$632,000.⁴¹ Housing is unaffordable to many Austinites: 48 percent of renters in 2021 were cost-burdened (spending more than 30 percent of their income on rent and utilities).⁴²

While housing affordability has affected all Austinites, it has hit the vulnerable populations of Travis County the hardest. For instance, there are only 22 affordable and available housing units for every 100 families classified as extremely low income in Greater Austin, and just 0.9 percent of the new housing units built since 2018 in the City of Austin are affordable to extremely low-income families (who represent 17 percent of Austin's population).⁴³ In 2018, the City of Austin set an ambitious goal to produce 20,000 affordable units for extremely low-income families within ten years—but in four years, only 295 affordable units have been added, or just 4 percent of the prorated target.⁴⁴ Greater Austin faces the ninth-worst housing shortage for extremely low-income households, though many peers such as Las Vegas, Orlando, Houston, and Dallas are facing similar issues. Lessons can be learned from the experiences of other cities across the country, including Los Angeles (LA).⁴⁵

Learning from Los Angeles

LA is struggling with housing affordability on a much larger scale than Austin is. In the final three months of 2022, the median sale price of a single-family home in the LA MSA was \$829,000, or the sixth highest in the nation.⁴⁶ While the City of LA produced 88,000 new housing units from 2010 to 2019 (more units relative to its population growth than every city in California except Irvine), only 9 percent of new housing units built since 2014 are affordable to Angelenos earning less than the area's median income. In tandem, rent has outpaced wage growth to the extent that 70 percent of all households in Los Angeles report having to financially stretch themselves to pay for housing.⁴⁷ A 2019 McKinsey report, *Affordable housing in Los Angeles: Delivering more—and doing it faster*,⁴⁸ recommended six actions Los Angeles could take to accelerate the progress of building affordable housing. A similar approach could help Austin get ahead of the curve.

- *Create a fully integrated and cross-jurisdiction plan.* Instead of neighborhoods individually seeking to building affordable housing, city planners and local governing bodies could create an overarching plan and framework that facilitates an integrated approach. For Greater Austin, this means acknowledging that the problem of housing goes beyond

⁴¹ "New privately owned housing units authorized," 2021 Building Permits Survey, US Census Bureau, 2021); "2022 appraisal notices on their way to Travis County property owners," Travis Central Appraisal District, April 14, 2022.

⁴² Housing characteristics, 2021 American Community Survey 1-year estimates, US Census Bureau, 2021.

⁴³ *The gap: A shortage of affordable homes*, National Low Income Housing Coalition, April 2022; "Austin Strategic Housing Blueprint Scorecard," HousingWorks Austin, 2021.

⁴⁴ "Blueprint Scorecard," 2021. Four-year production target is estimated to be 8,000 units, or 40 percent of the total 20,000 ten-year target.

⁴⁵ ACS 1-year estimates (note: ACS did not release data for 2020 due to the COVID-19 pandemic); United States Department of Housing and Urban Development; *The gap*, April 2022; "Tackling the world's affordable housing challenge," McKinsey Global Institute, October 1, 2014.

⁴⁶ "Median sales price of existing single-family homes for metropolitan areas," Q4 2022, National Association of Realtors, February 2023; the same report noted the Austin MSA's median home sales price was \$555,000 in the fourth quarter of 2022.

⁴⁷ "Affordable housing in Los Angeles: Delivering more—and doing it faster," McKinsey Global Institute, November 21, 2019.

⁴⁸ *Ibid.*

the city of Austin and that new levels of coordination among local governing bodies across the Austin MSA may be the only way to enable a cross-cutting plan.

- *Streamline the approval and permitting process.* Developers in both Austin and LA cite long approval processes for obtaining land and building permits as a major challenge to housing development. The 2019 McKinsey report estimated the total development time in LA could be reduced by as much as 35 percent by fully digitalizing and integrating the approval and permitting processes and making targeted operational changes. These could lower the total cost to deliver housing and help developers undertake more affordable housing projects by reducing the carrying costs of capital between the time of development and when the project first generates occupancy-related income.
- *Adopt innovative construction approaches to cut costs and accelerate development.* When standardized construction techniques, such as prefabricated development, are adopted at scale, the cost of multifamily housing can be reduced by 5 to 15 percent. This approach also facilitates standardized developments that speed the approval and construction processes. Greater Austin is home to innovative building companies—such as startup ICON Technology, which 3-D prints modular homes—whose techniques can be leveraged locally.
- *Raise set-aside requirements to reflect achieved savings.* As innovative construction techniques lower development costs, multifamily developments will be able to support a greater proportion of affordable units while maintaining sufficient returns to secure financing. Austin can consider gradually raising set-aside requirements over time as these innovative techniques are implemented at scale. Without higher requirements, it is unlikely that developers will voluntarily add affordable-housing units to market-driven projects.
- *Stabilize and consolidate public financing for affordable developments.* Austin could prioritize bringing greater coordination, predictability, and transparency to its current slate of affordable-development incentives, such as density bonuses and Affordability Unlocked and SMART Housing programs. Doing so while simplifying the approval processes could create more consistency in time and funding, allowing faster and more-reliable development.⁴⁹ In addition, establishing professional management of city-owned land, as New York City and London have done, could maximize the potential of unused or underused city-owned land for additional affordable developments.
- *Support the most vulnerable tenants.* It will take time to develop housing for Austin's most vulnerable families, so protections and support for this population may need to be expanded. More than 80 percent of Greater Austin's extremely low-income families face severe housing cost burdens. After the end of the COVID-19 eviction moratorium, a social safety net may be critical in keeping these families from homelessness.⁵⁰

⁴⁹ "Affordable housing development funding," City of Austin, accessed February 22, 2023.

⁵⁰ *The gap*, April 2022.



4 Diversity, equity, and inclusion: Sharing Austin's prosperity

Much can be done to push Greater Austin toward becoming a multicultural epicenter that champions economic success for all, regardless of race, gender, or socioeconomic status.

Greater Austin is, by most metrics, a diverse region: its overall diversity increased from 2010 to 2020, and Greater Austin is now a majority-minority region (non-Hispanic White residents accounted for 49 percent of the total 2021 population).⁵¹ Between 2010 and 2021, Greater Austin's White population grew by 23 percent to 1,156,000—the slowest of every major racial group. During the same time period, the Hispanic or Latino population grew by 43 percent to 770,000 people to represent nearly 33 percent of the Austin MSA's population. Meanwhile, the Asian population nearly doubled to 160,000 residents, growing 2.5 times as fast as the overall population, and the Black population grew 28 percent, reaching nearly 155,000 residents in 2021.⁵²

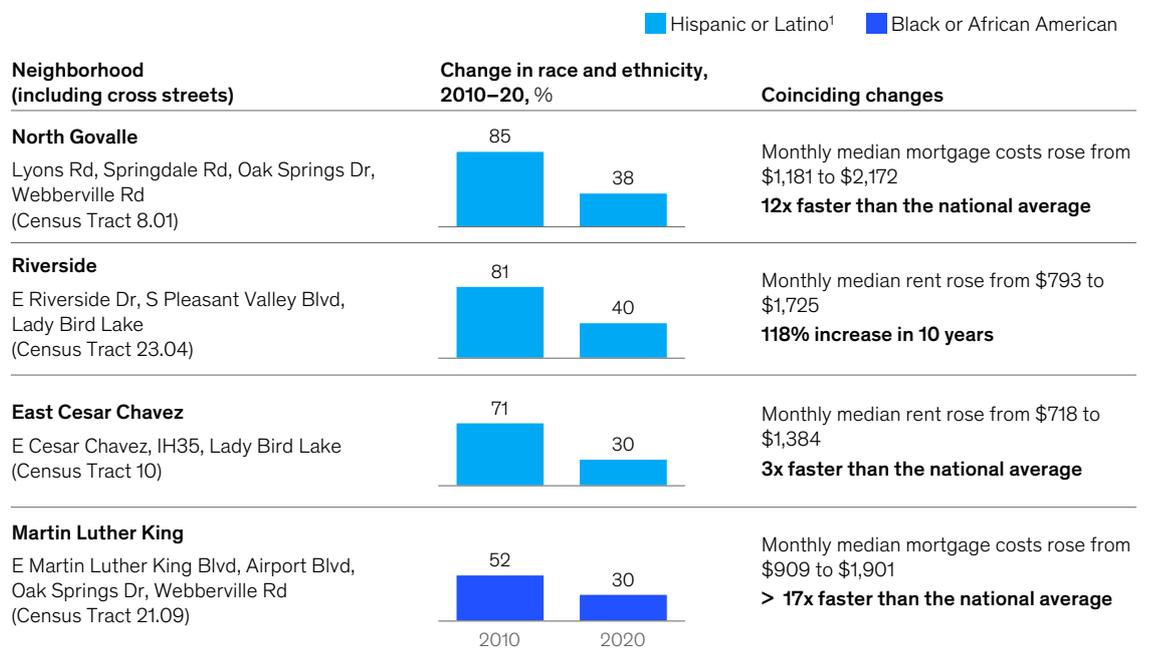
⁵¹ QuickFacts: Austin city, Texas, US Census Bureau, accessed March 3, 2023; 2021 American Community Survey one-year estimates.

⁵² Demographic and housing estimates, 2021 American Community Survey one-year estimates; 2010: DEC National Redistricting Data, Decennial census, US Census Bureau, accessed March 15, 2023. Race definitions are "White alone," "Hispanic or Latino, any race," "Black alone," and "Asian alone."

However, a diverse community is not the lived experience for many, and gentrification has led to the displacement of long-standing communities. As a prime example of this dynamic, longtime locals point to Central East Austin, a haven for young people moving to Austin from coastal cities such as LA. Central East Austin neighborhoods have become increasingly homogenous, yet they buzz with hipster coffee shops, chic restaurants, and community workspaces. What new residents may not see are the effects of rapid gentrification. Under the 1928 Master Plan, Black and Latino Austinites were segregated to present-day East Austin, where they formed long-standing minority-majority neighborhoods.⁵³ But these neighborhoods have felt the pinch of housing issues, and today their descendants have been uprooted from Central East Austin by the hike in housing costs accompanying growth (Exhibit 8).

Exhibit 8

Historically majority-minority neighborhoods in Central East Austin have seen a drastic change in race and ethnicity since 2010.



Note: Peer averages are unweighted. 2020 census tracts were mapped to 2010 census tracts for an equal comparison using the "National 2020 Census Tract to 2010 Census Tract Relationship File."

¹Combines all Hispanic or Latino groups as defined in the US Census, regardless of race.

Source: Demographic and housing estimates, 2010 and 2020 American Community Survey five-year estimates, accessed March 15, 2023 (race definitions are "White alone," "Hispanic or Latino, any race," and "Black alone")

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Consider the Martin Luther King neighborhood, which was 52 percent Black in 2010. In the following decade, monthly mortgage costs rose at 17 times the national average, and by 2020, the share of Black residents was just 30 percent.⁵⁴ Similar trends have left Austin's only historically Black university, Huston-Tillotson University, in a neighborhood where only 13 percent of residents are Black, while Austin's minority communities are pushed to the suburbs, especially northward and eastward.

⁵³ Jene Shepherd, "Looking back to look forward: The 1928 Master Plan," United Way for Greater Austin, March 30, 2021.

⁵⁴ QuickFacts, accessed March 3, 2023; 2020 American Community Survey 5-year estimates.

In short, while Austin's economic tide has risen dramatically, not all boats are rising equally. Relative to White Austinites, Latino and Black residents are twice as likely to be living in poverty and about 50 percent as likely to hold a bachelor's degree, and they earn about 50 percent less per capita.⁵⁵ While minorities make up almost half of the city's population, they own just one-fourth of Austin's businesses⁵⁶ (see sidebar "Latino economic mobility").

There are other challenges to ensuring sustainable and inclusive growth in the workplace for residents of all socioeconomic backgrounds. Minority workers are overrepresented in occupations vulnerable to replacement by automation, especially in food preparation and serving, transportation and material moving, and cleaning and maintenance.⁵⁷ As the CEO of one NPO said: "Our inclusivity issues are economic issues."

Latino economic mobility

US Latinos are a driving force of the country's economy and account for the fastest-growing portion of US GDP.¹ Their household spending has, during the past decade, increased by 6 percent annually to become a cumulative \$1 trillion market in 2021.² This is expected to continue and, if the parity gap between Latinos and non-Latino Whites is addressed, the unmet needs of Latino consumers could grow sixfold to \$660 billion. But several areas require attention, including from improving Latino representation and inclusion in decision-making bodies to expanding product portfolios, targeting marketing and sales strategies for Latino consumers, increasing access to capital for Latino entrepreneurs, and eliminating bias and discrimination.

¹ "The economic state of Latinos in the US: Determined to thrive," McKinsey, November 14, 2022.

² Ibid.

Confronting increasing homelessness

Although the tents have left Cesar Chavez Street, the facts remain: Austin's total homeless population has risen 8 percent annually since 2015. The city has Texas's highest per capita rate of people experiencing homelessness and the highest proportion of unsheltered homeless.⁵⁸ On a given night in 2022, Travis County alone had approximately the same number of people experiencing homelessness (about 3,150) as the entire Houston MSA, despite having less than a fifth the population. Homelessness in Austin affects people disproportionately, too: 56 percent of the homeless population is male, 36 percent are Black, and 22 percent are under the age of 18.⁵⁹ In addition, 9 percent of people experiencing homelessness in Austin are military veterans. While Austin has worked hard to resolve homelessness, more needs to be done to prevent it from becoming intractable.

Austin has struggled to deal with homelessness for decades. In 2019, the Austin City Council voted to lift a public-camping ban that had been in place for 23 years, only for voters to overwhelmingly pass Proposition B in 2021 to reinstate it.⁶⁰ Almost two years later, the ban has decreased the number of visible tents in downtown Austin, but homelessness has actually increased. Proponents of the ban argue the city wasn't doing enough to address

⁵⁵ 2020 American Community Survey 5-year estimates, accessed October 31, 2022.

⁵⁶ McKinsey analysis of data from 2020 Annual Business Survey, US Census Bureau, accessed March 15, 2023.

⁵⁷ Total jobs, US Automation Index, hourly wage, Lightcast, 2021, accessed November 28, 2022.

⁵⁸ *The 2022 Annual Homelessness Assessment Report (AHAR) to Congress, Part 1: Point-in-time estimates of homelessness*, US Department of Housing and Urban Development, December 2022; "PIT and HIC Data Since 2007," HUD Exchange, February 2023.

⁵⁹ *The 2022 Annual Homelessness Assessment Report*, December 2022.

⁶⁰ "Proposition B and homeless in Austin," City of Austin, updated August 11, 2021.

homelessness, while opponents argue it is an effort to push homeless individuals out of sight without providing real solutions.

Allocation of capital resources by city and county leaders is one of the tools for addressing the problem, but it should not be the sole focus. Throwing money at the problem will not solve it. Local organizations have begun working together more closely over the past couple of years to support unsheltered individuals as well as those in danger of becoming homeless, but this coordination needs to happen on a larger scale and with a robust, integrated strategic plan that recognizes that different organizations address different parts of the problem (see sidebar “Lessons from Houston”).

A diverse community is not the lived experience for many, and gentrification has led to the displacement of long-standing communities.

Lessons from Houston

In Houston, cross-organization collaboration has been successful in reducing chronic homelessness by prioritizing a housing-first strategy. Over the past ten years, the Houston MSA's homeless population has decreased by 56 percent, falling from 7,200 individuals in 2012 to 3,150 in 2022.¹ The decline continues to be visible: Houston closed its largest homeless encampment in February 2023, moving most of its residents into a new housing navigation center.²

The Coalition for the Homeless, the lead agency of The Way Home, is a catalyst that unites the efforts of local partners, from not-for-profits to corporations and government entities, into a cohesive and focused homelessness response.³ Many Houston leaders point to the coalition's cross-organization coordination as the ultimate reason for success. As former Houston mayor Annise Parker said, "The bottom line is that nearly everybody in Houston involved in homelessness got together around what works. That's our secret sauce."⁴

Coming together to dramatically reduce homelessness in Austin will require integrated and coordinated action from a diverse set of stakeholder organizations. Three stages of homelessness interventions can be considered⁵:

- *Preventing entry to homelessness.* Homelessness is typically rooted in a complex and overlapping web of mental health issues, loss of family, substance use, and systems such as criminal justice and foster care. Income insecurity, unstable housing, and failed diversion efforts are also prime causes of the initial entry to homelessness. Business leaders can play a crucial role in supporting their at-risk employees with in-house support services such as flexible work schedules (so employees can attend housing appointments), transportation to and from work (such as public-transit credits), and personal-finance planning. City and community leaders also have a role to play and can provide employment and training programs, when possible; prioritize the affordable-housing supply; and create diversion and temporary assistance programs that will help house at-risk populations. But these efforts are most effective when mutually supportive of local healthcare infrastructure.
- *Sheltering and supporting people experiencing homelessness.* One local not-for-profit leader said, "The shelter infrastructure in Austin just hasn't kept up with our population growth. [Austin's] homelessness population has grown a lot too, and we just don't have enough beds now." However, supporting and sheltering Austin's homeless involves more than just building emergency shelters, day services, and transitional housing. It will require a cross-organization, coordinated effort to ensure that shelter and support infrastructures are mutually supportive and that homeless individuals can access them via housing navigation support and employment services.
- *Improving exits to permanent housing.* Expanding the stock of affordable housing can help prevent entries to homelessness, but exiting homelessness typically requires services such as counseling. Dedicating some public housing to rehoming the homeless with support from programs such as housing vouchers is one potential way to help people who are experiencing homelessness make the shift to self-sustained housing.

¹ *The 2022 Annual Homelessness Assessment Report*, December 2022.

² Lucio Vasquez, "Houston closes its largest homeless encampment as many move to new housing navigation center," Houston Public Media, February 10, 2023.

³ "Frequently asked questions," Coalition for the Homeless, accessed February 8, 2023.

⁴ Michael Kimmelman, "How Houston moved 25,000 people from the streets into homes of their own," *New York Times*, June 14, 2022.

⁵ Kate Anthony, Kunal Modi, Kausik Rajgopal, and Gordon Yu, "Homelessness in the San Francisco Bay Area: The crisis and a path forward," McKinsey, July 11, 2019.



5 Infrastructure: Getting ahead of the population boom

Bigger thinking is needed to meet the region's future economic development and mobility needs. But social infrastructure continues to contribute to Greater Austin's strengths as a livable region.

Gone are the days of the “don’t build it and they won’t come” mantra from Austin, as some respondents described it, yet its effects, exacerbated by recent growth trends, continue to be felt today. Many people are moving to the suburban areas outside Austin, but the infrastructure to support this burgeoning suburban population has not expanded quickly enough, resulting in significant road congestion.

The natural amenities of the region, such as the Barton Creek Greenbelt or the San Marcos River, are often cited as what brings people to Austin. But its infrastructure has the potential to restrict residents from accessing both these amenities and their jobs. Because the populations of Bastrop, Caldwell, Hays, and Williamson Counties are growing faster than that of Travis County, the physical infrastructure will need to grow as well to connect those living outside of downtown to their jobs. Traffic problems are common in major cities, but Greater Austin has an opportunity to dream big and address its future mobility needs today by taking bold steps.

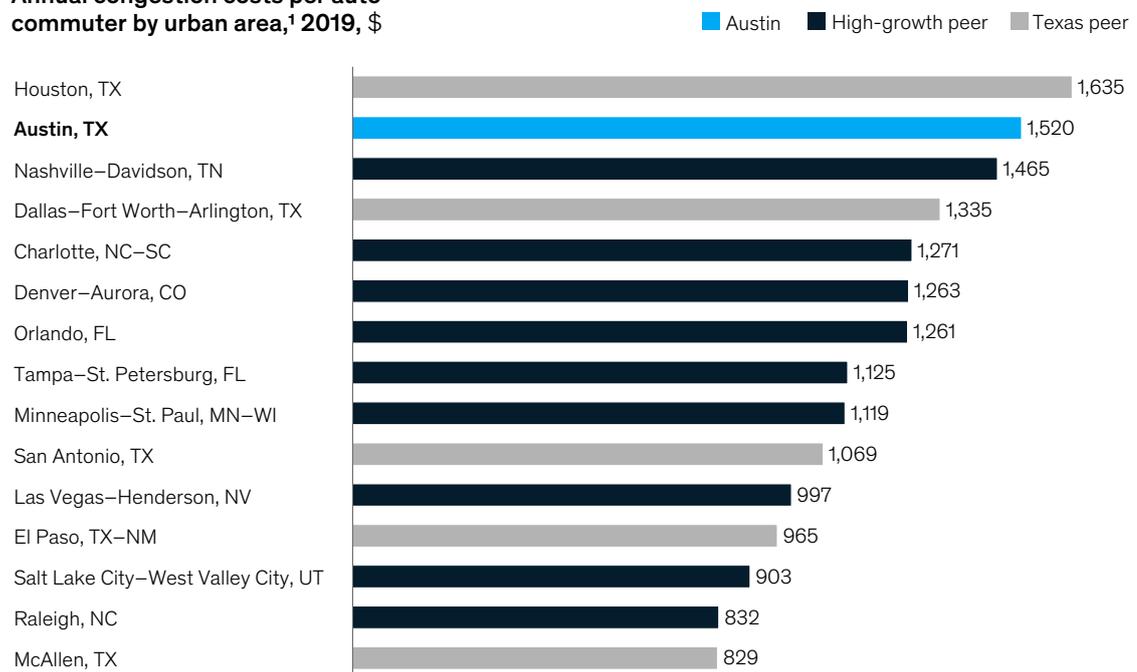
Easing the congestion crunch

Congestion is nothing new to the average Austinite, but it may only get worse as the population center of the Austin MSA shifts further from Central Austin. Austin ranks first among all high-growth peers and second among Texas peers (trailing Houston) in annual congestion cost per auto commuter. Congestion costs the average Austin commuter \$1,520 annually, some 14 percent more than Dallas and 80 percent more than peer Raleigh (Exhibit 9).⁶¹

Exhibit 9

Pre-COVID-19, traffic congestion cost Austin more per commuter than any other high-growth peer.

Annual congestion costs per auto commuter by urban area,¹ 2019, \$



Note: Peer averages are unweighted. Congestion cost is defined as the value of travel time delay (estimated at \$18.12 per hour of person travel and \$52.14 per hour of truck time) and excess fuel consumption (estimated using state average cost per gallon for gasoline and diesel).

¹Data unavailable for metropolitan statistical areas (MSAs). Austin urban area does not include the majority of Bastrop County, Caldwell County, or Hays County (including San Marcos).

Source: *Urban mobility report 2019*, Texas A&M Transportation Institute and INRIX, August 2019

McKinsey & Company

From 2015 to 2020, Williamson County added more net new commuters than Travis County. But because 71 percent of jobs in the region are in Travis County, about 50 percent of workers from Williamson County and the other suburban counties are traveling across county lines, sometimes driving long distances, to get from home to work.⁶² Mitigating Greater Austin's congestion is critical, and failing to do so may have broad repercussions for everything from affordability to economic growth in Austin and surrounding counties. For example, if Austin's congestion reaches a point of no return, residents who have moved to the suburbs to find affordable housing will be cut off from their jobs and historical communities. Furthermore,

⁶¹ *Urban mobility report 2019*, Texas A&M Transportation Institute and INRIX, August 2019.

⁶² Commuting patterns, 2020 American Community Survey five-year estimates, US Census Bureau, accessed March 15, 2023.

companies located in downtown Austin will have to pay more to attract talent, and more companies may look to locate closer to their workforce.

Mitigating Austin's worsening congestion will require coordinated and innovative action on multiple fronts—there is no silver bullet. Congestion mitigation efforts can range from small efficiency improvements, such as adjusting the timing of traffic signals, to large capital projects, such as adding highway lanes. Yet the Texas A&M Transportation Institute, in its 2021 urban mobility report, recommended a balanced approach to combating congestion—“one that focuses on more of everything; more policies, programs, projects, flexibility, options, and understanding.”⁶³

In the following sections, we examine two critical mobility solutions for easing Greater Austin's congestion crunch: providing commuters with choices of alternative modes of transportation and adding capacity in critical corridors.

Thinking big to increase access to alternative modes of transportation

True to the city's Texan roots, most Austin residents use a personal vehicle as their primary mode of commuting.⁶⁴ But many residents do not have a viable alternative. CapMetro, Greater Austin's public-transit authority, only services 59 percent of the Austin MSA population as of 2021, and the majority of residents in Hays, Williamson, Bastrop, and Caldwell Counties do not have viable access to public transit.⁶⁵ As a result, 96 percent of suburban commuters report using personal vehicles to commute, compared with 92 percent in Travis County.⁶⁶ At the same time, usage of public transit in Austin remains at only about 50 percent of pre-COVID-19 ridership levels.⁶⁷

Project Connect will provide Central Austin residents with additional transit access. Costing a now-estimated \$10.3 billion, the project's expanded bus routes and new light-rail and passenger rail options will connect existing transit nodes and provide urban commuters with safe, reliable, and cheap alternatives to commuting in rush hour traffic.⁶⁸ To many, public light-rail may make Austin feel as though it has “established its place” among the urban metropolitan areas of the United States.

Yet statistics published by the City of Austin's Housing and Planning Department show that nearly 39 percent of residential areas within one mile of the project's proposed rail lines classify as active resident displacement risk; 15 percent classify as chronic displacement risk; and 67 percent of residents classify as low income.⁶⁹ The opening of new light-rail lines will likely cause adjacent land prices to rise, presenting a real problem: as land prices increase in Central Austin, residents most in need of affordable housing and public transit may be forced move to the suburbs, where they will not have access to the CapMetro service areas meant to serve their needs.

Community leaders need to dream bigger. Even after Project Connect is completed, most residents in the suburbs of surrounding counties—including San Marcos, Dripping Springs, Round Rock, and Georgetown—will still not have meaningful access to public transit. Even residents in Buda will not be serviced by CapMetro, despite living just 15 miles from downtown Austin. That is why Austin leaders need to start thinking about the potential for unifying public transit and infrastructure to further growth and allow broader access to the opportunities that are to come (sidebar “Learning from Seattle's transit expansion”).

⁶³ 2021 urban mobility report, Texas A&M Transportation Institute, June 2021.

⁶⁴ Commuting patterns, 2020 American Community Survey five-year estimates.

⁶⁵ McKinsey analysis of “Population serviced by transit authority in MSAs,” 2020 National Transit Database, US Federal Transit Administration, 2020; National Population Totals: 2010-2020, US Census Bureau, October 8, 2021; “Service Area Maps,” Capital Metropolitan Transportation Authority, accessed March 20, 2023.

⁶⁶ McKinsey analysis of data from “Commuting patterns,” 2020 American Community Survey five-year estimates.

⁶⁷ “Ridership,” CapMetro, December 31, 2022.

⁶⁸ David Couch, “Memorandum: Update on program including light rail project cost drivers and estimates,” Project Connect and CapMetro, April 7, 2022.

⁶⁹ Project Connect Anti-Displacement Maps and Dashboard, City of Austin Housing and Planning Department, accessed November 3, 2022.

Learning from Seattle's transit expansion

The effort to increase bus ridership in Seattle, Washington, in the context of a national decline has been a success story of 21st-century public-transit projects. The growth in public-transit ridership, notably bus ridership, can largely be attributed to Seattle's transit demand management (TDM) policies, the buy-in of private local employers, and a new fare district to subsidize struggling bus routes.¹

While the origins of Seattle's TDM policies date back to the 1990s, the city's recent success is built on employer-mandated commute trip reduction plans that include transit subsidies for employees via a new regional transit card. Launched in 2009, the One Regional Card for All (ORCA) enables commuters to pay for different transit options (for example, ferries and buses) across the region under one account and encourages transit use by setting up employer-sponsored benefit programs. In fact, employer-related transit benefit programs accounted for more than half of ORCA's initial adoption because the cards offered businesses competitive employee perks and pricing and tax benefits.

Since 2015, owners or tenants of large commercial buildings have been required to offer transit pass subsidies of at least 50 percent to all building employees.² And in 2014, Seattle voters approved the Seattle Transit Benefit District (STBD) to expand service and subsidize struggling bus routes via a 0.1 percent increase in sales tax and a \$60 city vehicle registration fee.³

Seattle's transit transformation

The net result of these changes was a dramatic increase in Seattle's public-transit ridership and a decrease in the proportion of car commuters before the COVID-19 pandemic. By 2019, nearly 11 percent of Seattle commuters traveled to work via public transit—an increase of 15 percent since 2015—which is nearly six times the rate of public-transit use in Austin.⁴ Among Austin's high-growth peers, only Denver experienced an increase in public-transit use over the same period (rising 13 percent). Even more impressive was that nearly half of Seattle's downtown workers commuted via transit in 2019, or nearly double the proportion who drove alone.⁵ The Seattle area also experienced a 2.3 percent decrease in the percentage of workers commuting via automobiles from 2015 to 2019, and the city saw a decrease in annual congestion costs per commuter in 2019, the first decrease since 2008.⁶

While the COVID-19 pandemic has dramatically changed commuting behavior, this innovative and cooperative approach to public-transit solutions could hold lessons for cities like Austin in how to improve mobility choices for residents and reduce traffic congestion.

¹ "Success in Seattle with transportation demand management," Shared-Use Mobility Center, May 30, 2018. TDM policies aim to relieve the demand for commute trips through measures such as congestion pricing (for example, tolls), subsidized transit passes, incentives for ride-sharing, and improved public-transit offerings and facilities. Coinciding with TDM policy changes, Seattle voters also passed a \$53.8 billion transportation bill called Sound Transit 3 (ST3) in 2016, a 25-year plan to expand the city's light-rail network by 62 miles to less-accessible neighborhoods and other cities in the region, such as Tacoma and Everett. ST3 is the third voter-approved expansion of the Sound Transit authority, which operates across three counties in the Greater Seattle metropolitan area. However, the build-out of ST3 has barely begun and cannot be considered the source of growth in bus ridership in the 2010s.

² "Seattle Transportation Management Program: DPD Director's Rule 27-2015 and SDOT Director's Rule 09-2015, Seattle, Washington, 2015," Shared-Use Mobility Center, October 26, 2015.

³ "Seattle Transportation Benefit District," Seattle City Council, accessed March 6, 2023.

⁴ "Commuting patterns," 2019 and 2015 American Community Survey five-year estimates.

⁵ Madeline Feig, "2021 Center City Modesplit Survey results," Commute Seattle, March 10, 2022.

⁶ *Urban mobility report 2019*, August 2019.

Committing to adding road and airport capacity

Congestion is unmistakable on Austin's roads and highways, but it is also occurring in Austin's lone commercial airport, Austin Bergstrom International Airport (AUS). Below, we examine the mounting congestion and the marquee mitigation plans for Austin's road congestion and airport overcapacity.

Easing road congestion. COVID-19 offered Austin commuters a temporary reprieve in 2020: both traffic and total road usage across the Austin MSA decreased dramatically. Total road usage trends, however, suggest congestion has rebounded: 2021 daily vehicle miles traveled in the Austin MSA bounced back to 96 percent of its pre-COVID-19 highs.⁷⁰ Austin's worst congestion is concentrated in the Interstate 35 (I-35) north-south corridor, disproportionately affecting commuters coming from Hays and Williamson Counties, who must travel on I-35 to reach downtown.⁷¹ In fact, the eight-mile stretch of I-35 through Central Austin plays an outsize role in congesting the region's roadways: it accounts for 700,000 person-hours in annual delays per mile, or about ten times more than the central ten-mile stretch of MoPac.⁷²

The I-35 Capital Express project features a three-phase expansion of I-35 from State Highway 45 North to State Highway 71 designed to alleviate this congestion, with the bulk of its \$5.6 billion price tag committed to the Central I-35 stretch.⁷³ Induced demand is a well-known problem of adding capacity to critical roadways, and roadway expansions cannot be the only solution to getting workers from suburbs to downtown.

Increasing airport capacity. The city has the second-smallest airport by annual enplaned passengers among its high-growth peers but experienced the second-highest growth rate in passengers pre-COVID-19 (2016-19).⁷⁴ In fact, the Austin-Bergstrom International Airport is designed to serve 17.1 million total annual passengers following expansions in 2017 but served almost 21.1 million total passengers in 2022 alone—an overcapacity of nearly 25 percent.

Austin-Bergstrom International Airport's AUS 2040 Master Plan includes an expansion to serve 31.0 million passengers by 2040 by increasing the total number of gates to 64 from 36.⁷⁵ Yet high growth has left the airport already operating above capacity, with a record-setting 2.02 million total passengers in May 2022 alone compared with a current operational capacity of 1.20 million monthly passengers. Should 2017-22 growth rates remain constant, Austin-Bergstrom will eclipse 31 million passengers by 2027, ten years ahead of the Master Plan's schedule to meet that mark.⁷⁶ To serve the continued growth of Greater Austin into a major metropolitan area, community leaders need to commit to prioritizing the Master Plan for the airport and consider further expansion. Such an airport expansion will benefit not only residents and visitors but also the economy and its attractiveness for foreign direct investment.

⁷⁰ *Roadway inventory annual reports 2021: Data management, transportation planning & programming*, Texas Department of Transportation, 2021.

⁷¹ *2021 urban mobility report*, June 2021.

⁷² *Ibid.*

⁷³ "I-35 Capital Express Central," Texas Department of Transportation, accessed February 10, 2023.

⁷⁴ "Passenger boarding (enplanement) and all-cargo data for U.S. airports," Federal Aviation Administration, November 29, 2022.

⁷⁵ "AUS Master Plan," Austin-Bergstrom International Airport, accessed March 14, 2023.

⁷⁶ McKinsey analysis of 2022 Austin-Bergstrom International Airport monthly activity reports.

Amplifying Greater Austin’s strengths as a livable region

Some of the downsides of rapid population and economic growth are easily quantified, such as congestion and housing unaffordability. But what about the less tangible costs of growth? While Austin ranks middle to high among its peers on metrics such as safety, arguably the reason people come to or stay in Austin is because it is Austin—it has an atmosphere that cannot be re-created, complemented by social infrastructure including parks, trails, music venues, performing arts, dog parks, and access to water, all of which are implicitly part of the Austin way of life.⁷⁷ But the same holds true for surrounding cities such as Georgetown, and maintaining a strong cultural proposition in Greater Austin’s growing suburban cities will require thoughtful leadership.

The challenge is retaining that X factor that has contributed so much to Austin’s profile and recent growth while recent changes threaten to undermine it. A small yet vocal subset of local leaders spoke of the need to “double down” on public safety. Only about one in seven leaders pointed to public safety as a pressing challenge for Austin, but for those who did, public safety was at the top of their lists. One local business leader said, “We have real systemic issues with public safety right now. I’m really worried we are trending in the wrong direction.” Others pointed to the loss of a strong brand. “I’m very worried about cultural strip-mining,” one NPO leader said. “We have lost a lot of our identity with this new growth.”

If Austin wants to preserve its unique identity and amplify social infrastructure such as its renowned music and outdoors scenes, leaders will need to prioritize the city’s brand.

- *Music and arts.* Austin’s self-proclaimed title as the “Live Music Capital of the World” is both well deserved and misleading. On the surface, Austin leads the country in live-music venues per capita, and music lovers have many established venues and events to rely upon—SXSW, Austin City Limits Live at the Moody Theater, Stubb’s, and Broken Spoke are just a few Austin favorites.⁷⁸ Yet one local music producer described an opportunity to bolster support for the backbone of this renowned music scene—the artists. He said that Austin’s music scene is best characterized as a “tale of two cities. If you’re a live musician, there is always a demand for you. But for recording artists, producers, and technicians, Austin is a backhouse music scene. There is such a lack of affordable studio space for up-and-coming artists that the only place they seem to find is in backhouses and garage apartments.” A prominent local artist had a similar point of view, saying that most peer artists and musicians have already left East Austin for San Marcos and Lockhart, Texas. The reason? Lack of affordable studio space. Some options for overcoming this hurdle include enhancing support grants for music venues and subsidizing creative spaces for artists, providing professional development workshops and training (such as business planning and budgeting), and supporting public–private partnerships that promote “music hubs.”

⁷⁷ *Crime in the U.S. (CIUS)*, US Federal Bureau of Investigation, September 2020. In 2019, Austin MSA had the third-lowest violent crime rate compared with high-growth peers (below median; out of eight) but the third-highest property crime rate (above median).

⁷⁸ Joe Roberts, “Best cities for people who love live music,” Move.org, September 16, 2019. Based on 2018 data.

- *Nature*. Austinites takes pride in the region's parks, trails, and water amenities, with 19.1 acres available per 1,000 people and 26.9 total trail miles per 100,000 people.⁷⁹ Austin has the highest Trust for Public Land Park score of any major Texas city (39). But one local sector leader suggested Austin could be doing more to bolster its reputation as a nation-leading outdoors city, and the data agrees: Austin's ranking in the Trust for Public Land Park has slipped from 19 in 2012 and is today far behind peers such as Minneapolis (five) and Denver (18).⁸⁰ Proactively preserving and amplifying park access could allow Austin to keep up with its fast-growing population. And with an abundance of beautiful scenery, the city has a chance to earn its place as an epicenter for access to the outdoors not only in Texas but also in the nation. However, this will take investment and action.

First, Austin could prioritize and develop parks in currently underserved areas while ensuring equitable upkeep of parks in West and East Austin. Several community leaders pointed to the Waterloo Greenway's success in attracting corporate partners as a model, with corporate sponsors and developers investing in public green space knowing the projects will benefit their business, employees, and local residents.⁸¹ Although Austin is already spending \$178 per capita to maintain and expand the city's park system (more than any other major Texas city), it's well behind peers such as Washington, DC (ranked first in ParkScore, spending \$284 per capita per year), and Minneapolis (\$317).⁸²

Traffic problems are common in major cities, but Greater Austin has an opportunity to dream big and address its future mobility needs today by taking bold steps.

⁷⁹"ParkScore," Trust for Public Land, accessed September 14, 2022. Total trail miles is inclusive of improved trails and nature trails.

⁸⁰"2012 ParkScore final results," Trust for Public Land, 2012.

⁸¹"Corporate partners," Waterloo Greenway, accessed September 14, 2022.

⁸²"ParkScore," accessed September 14, 2022.



6 Environmental sustainability: Building climate resiliency

Austin is at the forefront of sustainability, but can it lead the region to long-term environmental resilience?

A hotter and drier future looms for Greater Austin. If global warming reaches the 2°C threshold, Central Texas will face drastic increases in water and heat stress (see sidebar “Warming warning”). This will have downstream effects on businesses and residents, including on quality of life, outdoor working hours, and tourism. Preventive actions need to be taken to protect the sustainability of Austin’s growth in the face of a changing climate. Yet because only one in five respondents said climate resiliency was a top challenge for the future of the region, the first step in building climate resiliency is for the community to understand what is at stake.

Warming warning

As of 2021, the planet had already warmed 1.1°C above preindustrial levels (1850–1900).¹ Under the Paris Agreement, adopted by 196 parties in 2015, global leaders are striving to limit the Earth's warming to below 2.0°C (or about 3.6°F) and to limit the increase to 1.5°C (or 2.7°F) above preindustrial levels to avoid severe climate disruptions that could exacerbate severe weather events, conflict, and hunger worldwide.²

¹ Lauren Sommer, "This is what the world looks like if we pass the crucial 1.5-degree climate threshold," NPR, November 8, 2021.

² The Paris Agreement, adopted by 196 parties in 2015, agrees to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." For more, see "The Paris Agreement," UN Framework Convention on Climate Change, accessed February 13, 2023.

To address sustainability for the region, we primarily examine how Austin's economic development and future can be both climate resilient and decarbonized. After all, the City of Austin has set lofty sustainability goals under the Climate Equity Plan, and Austin Energy is targeting 100 percent carbon-free electric generation by 2035 (see sidebar "Austin's Climate Equity Plan").⁸³

Austin's Climate Equity Plan

Austin's leaders have been vocal about combating climate change, pledging in the city's Climate Equity Plan to reach net-zero greenhouse-gas (GHG) emissions by 2040. It's the most ambitious climate pledge among Austin's peers and is on par with major cities such as New York City and Seattle. The Climate Equity Plan focuses on five areas: sustainable buildings, transportation and land use, transportation electrification, food and product consumption, and natural systems. Immediate efforts are focused on buildings, an area in which increased renewable-energy use has helped reduce emissions by 20 percent despite 20 percent population growth in the past eight years. But the largest contributors to GHG emissions in 2019 were transportation (39 percent), electricity (38 percent), and industrials (8 percent).¹

¹ *Austin climate equity plan*, City of Austin, 2021. Comparison to other cities' climate pledges was conducted via McKinsey analysis and is current as of October 2022.

⁸³ Austin Energy Resource, Generation and Climate Protection Plan to 2030," Austin Energy, March 9, 2020. Austin Energy's total renewables capacity is currently about 2,900 megawatts, or 63 percent of the total 4,600-megawatt generation capacity (from wind, solar, and biomass).

A region already under climate stress

Climate forecasts suggest an increasingly dry future for Austin, which could be exacerbated without proactive management. Most of Greater Austin sources its water from Texas's Colorado River. The Highland Lakes, including Greater Austin's Lake Travis, Lake Austin, and Ladybird Lake, provide both drinking water and recreation for the region.⁸⁴ In fact, many residents point to this water access (which also includes celebrated springs such as Barton Springs) as the underpinning of Austin's lifestyle appeal. But without proactive management, Austin could face an increasingly dry future. In the past decade, Central Texas experienced one of its worst recorded droughts, fueling the Bastrop County Complex fire of 2011 (the most destructive in state history) and creating images of dry lakes, dead rivers, shriveled landscape, and absent wildlife that remain fresh in the memory of residents.⁸⁵ Given an additional 2°C of global warming, water stress will increase by up to 50 percent in parts of Greater Austin. Meanwhile, the region is projected to experience up to seven years of hydrological drought—years with two- to four-month-long periods of significantly below average precipitation—each decade.

Such projections suggest the supply of water into these systems may invert the imbalance between supply and demand (Exhibit 10). Despite Central Texas's high levels of population growth, the real problem of increased water stress lies upstream of Austin, where water stress projections are even more drastic (with some areas projecting to see 150 percent increases).⁸⁶ Higher projected temperatures and lower precipitation totals reduce the inflows to the Colorado River's midbasin, which generates most of the water that downstream customers rely on, and increase the evapotranspiration of water stored in the Highland Lakes.⁸⁷ In fact, water curtailments are already a reality for downstream users. In 2021, agricultural customers on the Texas coast (primarily rice farmers) used more water than the City of Austin and its 960,000 residents.⁸⁸ Given 2022's extraordinary drought conditions, however, these agricultural customers were cut off from Highland Lakes water for the year under the Lower Colorado River Authority's Water Management Plan.⁸⁹

⁸⁴ "LCRA water use summary," Lower Colorado River Authority, 2021.

⁸⁵ "Bastrop State Park," Texas Parks and Wildlife Department, accessed February 13, 2023.

⁸⁶ McKinsey analysis of World Resources Institute Aqueduct 3.0, based on Shared Socioeconomic Pathway 3 (SSP3) (approximate 2°C warming scenario).

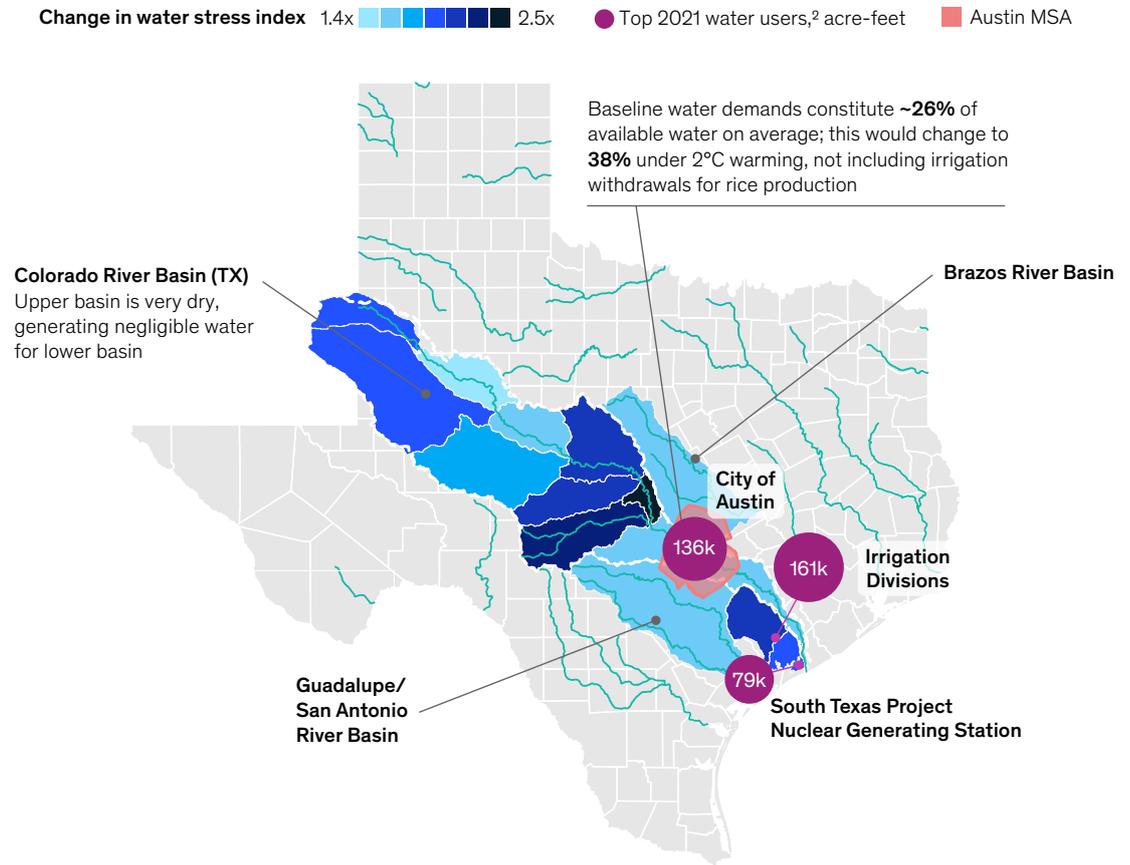
⁸⁷ *Ibid.*

⁸⁸ LCRA water rights are subject to the 2020 Water Management Plan and Drought Contingency Plan; "LCRA water use summary," Lower Colorado River Authority, 2021.

⁸⁹ "Drought conditions require LCRA to cut off Highland Lakes water for agricultural customers," LCRA, July 2, 2022.

Water stress in Greater Austin is projected to rise by as much as 50 percent, increasing competition with downstream users.

Impact on water stress index under 2°C future relative to baseline¹



Note: Peer averages are unweighted. Results shown only for World Resources Institute (WRI) subbasins within the Colorado River Basin and relevant neighboring basins.
¹Baseline refers to the 1986–2005 period. Water stress index (WSI) is defined as the quotient of water withdrawal divided by water availability.
²Water users include only Lower Colorado River water users. Listed water use includes water stored in lakes and naturally flowing in the Colorado River. The storage capacity of the Highland Lakes was consistent with historical averages in 2021. As of Nov 1, 2022, the water supply condition is "extraordinary drought," under which the water supply to the coastal irrigation divisions is curtailed.
 Source: "LCRA water use summary," Lower Colorado River Authority, 2021; McKinsey analysis of World Resources Institute Aqueduct 3.0, based on Shared Socioeconomic Pathway 3 (SSP3) (approximate 2°C warming scenario)

McKinsey & Company

Rising water stress may heighten tensions over Colorado River water rights. As one manufacturing sector leader noted, "Water is business continuity—simple as that. No water, and our growth could stop." While some respondents hailed the City of Austin's Water Forward plan as a sign that improvement of aquifer management systems is coming, one industry professional painted a more dire picture. "It's time for the region as a whole to really commit to water security investments—there will no more unaccounted water in our lakes in a decade," he said. "I understand that making investments for future water security is not glamorous, but then again, a lack of water could cause everything to come to a halt." (See sidebar "Water woes out West.")

Water woes out West

The Colorado River that runs through Texas has the same name as a larger river to the west. From its origins in the Rocky Mountains, the other Colorado River and its tributaries wind through seven western US states before crossing the Mexican border. It is also the most visible sign of water shortages to come in the nation. Forty million US residents in the western United States depend on the Colorado River for water (including those in the California cities of Los Angeles and San Diego, which lie outside of the basin).¹ However, 70 percent of Colorado River water supplies are used for agriculture, primarily in Arizona.² Prolonged record drought has reduced Colorado River flow by an average of nearly 20 percent in the 21st century, and continued warming temperatures in the upper basin will likely contribute to flow reductions of 35 percent or more by the end of the century.³ In August 2022, the US Department of Interior announced a tier-two water shortage on the Colorado River, calling for a two- to four-million-acre-feet curtailment of water from the river in 2023, causing Arizona, for example, to face a 21 percent reduction in water use.⁴ This announcement is just one example of a water supply crunch in the region and a ripple effect on water allocation to municipal and agricultural sources and cherished ecosystems such as the Grand Canyon. While Texas's Colorado River is not projected to face the same level of water shortages, these water woes can provide the Greater Austin community with a valuable look ahead into the future of water shortages.

¹ *Management of the Colorado River: Water allocations, drought, and the federal role*, Congressional Research Service, September 7, 2022.

² *Colorado River Basin: SECURE Water Act Section 9503(c) report to Congress*, US Department of the Interior, March 2021.

³ Jonathan Overpeck and Bradley Udall, "The twenty-first century Colorado River hot drought and implications for the future," *Water Resources Research*, March 2017, Volume 53, Number 3.

⁴ "Interior Department announces actions to protect Colorado River System, sets 2023 operating conditions for Lake Powell and Lake Mead," US Department of the Interior, August 16, 2022.

Extreme heat. Outdoor labor is the bedrock of the Austin economy, building the infrastructure necessary to support a growing region and providing jobs and financial security to many people who call Texas home. The implications of 2°C warming, however, pose a serious threat to outdoor work: high temperatures could render five out of seven midsummer workdays unworkable, reducing working hours and wages, and low-income populations would be the most vulnerable.⁹⁰ Construction firms may need to adapt their field force operating protocols, shifting hours into the early days or nights, providing climate-protective work gear, and potentially running businesses on a seasonal basis in cooler months. Heat waves are projected to lengthen in duration, with 200 percent increases expected in Greater Austin, approaching nearly three months of heat wave conditions annually.⁹¹ The effects on Austin include an increased strain on the electrical grid, potentially leading to blackouts, and an increased risk of air pollution, drought, and wildfire.

Taking action to decarbonize economic development

For Austin to meet its ambitious sustainability goals, and for the region to become more climate resilient, finding a way to grow economically while decarbonizing is key.⁹² The biggest opportunities lie in power generation, transportation, and buildings.

⁹⁰ McKinsey Climate Analytics; CMIP6 bias-corrected and downscaled data; Bureau of Labor Statistics (BLS) Occupational Employment and Wage Statistics (OEWS); workability is calculated as the simplified wet-bulb globe temperature, which accounts for heat and humidity. Days with workability below 50 percent are deemed to be "unworkable."

⁹¹ McKinsey Climate Analytics; CMIP6 bias-corrected and downscaled data.

⁹² "The energy transition: A region-by-region agenda for near-term action," McKinsey, December 15, 2022.

Power. Austin Energy electrons are the greenest in the history of the city, with grams of CO₂ per kilowatt-hour declining 37 percent from 2011 to 2019 as the grid shifted from coal to gas and renewables.⁹³ More than 70 percent of Austin Energy's generation is now carbon-free, and on a per capita basis, CO₂ emissions have decreased by 25 percent annually. Yet Austin Energy missed a critical goal of exiting its Fayette Power Plant by 2022.⁹⁴ The plant alone accounts for 80 percent of Austin Energy's generation-related emissions (and 28 percent of all of Austin's GHG emissions), and its continued operation reduces the feasibility of fulfilling the climate pledges of both Austin Energy and the City of Austin.⁹⁵ Replacing those 600 megawatts with "always on" renewables enabled by batteries would significantly improve the emissions profile, and the batteries could be sited near existing plants to provide additional local jobs for construction and upkeep. But green energy will hardly benefit Austin residents if it cannot reliably keep the power on during unexpected weather events.⁹⁶

Transportation. Another 36 percent of emissions comes from transportation.⁹⁷ Austin is well positioned to roll out electric vehicles (EVs); the city's robust EV infrastructure is second highest among its national high-growth peers (trailing only Salt Lake City), which befits the home of leading EV manufacturer Tesla.⁹⁸ With gasoline prices hitting highs in 2022, a shift to EVs could save the average commuter money while improving local air quality (Austin currently leads Texas peers in good air quality days and is fourth among all high-growth and Texas peers).⁹⁹ Further investment in public transportation, specifically light-rail, can lower the cost of transportation and improve the ability of Austin's low-income population to participate in its vibrant central economy.

Buildings. Even excluding their electricity usage, buildings account for an additional 12 percent of Austin's emissions through natural-gas hookups to power heaters, stoves, dryers, and generators.¹⁰⁰ Although building codes have improved the efficiency of new homes, much of the building stock was built prior to 1960. Insulation retrofitting (for example, R-30 wall insulation, double-paned windows, weather-sealed thresholds) could further cut emissions, energy, and bills, while switching to more-efficient electrical appliances could also help households save on energy costs (see sidebar "Decarbonizing Ithaca"). Austin has begun building with Leadership in Energy and Environmental Design (LEED) certifications in mind. As of January 2021, the city had 36 LEED-certified buildings with 46 more certifications under way.¹⁰¹

⁹³"CO₂ per kWh," Austin Open Data portal, accessed March 14, 2023.

⁹⁴Austin Energy Resource, Generation and Climate Protection Plan to 2030," March 9, 2020.

⁹⁵20160727-03B: Fayette Power Plant Retirement Plan," City of Austin Joint Sustainability Committee, July 27, 2016; Pat Sweeney, "Generation portfolio update: Fayette Power Project, Decker Unit 2 and Nacogdoches Power Project," Austin Energy, November 16, 2021.

⁹⁶ Luz Moreno-Lozano, "'We have let the people down': Austin mayor apologizes for city's response to power outages," *Austin American-Statesman*, February 3, 2023.

⁹⁷"Austin Climate Equity Plan," City of Austin Office of Sustainability, accessed September 15, 2022.

⁹⁸ McKinsey analysis of data from "Alternative Fueling Station Locator," Alternative Fuels Data Center, US Department of Energy, accessed March 15, 2023. Total EV chargers (including EV Level 1, EV Level 2, and EV DC Fast).

⁹⁹ *Air Quality Index report*, US Environmental Protection Agency, 2021.

¹⁰⁰"Austin Climate Equity Plan," accessed February 14, 2023.

¹⁰¹"Municipal LEED buildings," Office of the City Architect, accessed February 14, 2023.

Decarbonizing Ithaca

Ithaca, New York, made headlines in 2021 as the first city to establish and approve a plan to decarbonize and electrify all its buildings by 2030.¹ Home to Cornell University, Ithaca is a small city of about 32,000 residents that generates about \$82 million in total revenue annually, so financing its estimated \$600 million complete retrofit has required the city to get creative.² Ithaca has partnered with a start-up climate tech company and a private equity firm to secure more than \$100 million in funding. Using a city-backed rebate and loan model allows Ithaca to reduce the cost up front for homeowners who otherwise couldn't afford these changes, allowing equitable access to retrofits that are both profitable and carbon-neutral in the long term. This is a new initiative but one to keep an eye on as a model to reapply elsewhere.

¹ Deepa Shivaram, "To fight climate change, Ithaca votes to decarbonize its buildings by 2030," NPR, November 6, 2021.

² *City of Ithaca 2022 final budget*, City of Ithaca, 2022.

The first step in building climate resiliency is for the community to understand what is at stake.



Conclusion

Forging a united path forward

Through a collaborative approach, Greater Austin has the potential to set the standard for how a metropolis can steward sustainable and inclusive growth.

Greater Austin is at a crossroads. The Greater Austin region has the opportunity to define the path forward for other metropolitan areas addressing the inevitable challenges of transitioning to a large and thriving metropolis. Capitalizing on momentum is critical to unlocking this future, but success demands buy-in from the entire community. All need to come together to shepherd Greater Austin toward future growth that is both sustainable and inclusive.

Elsewhere in the United States, employer-led civic alliances have succeeded in driving impact around societal challenges through sustained, multilateral engagement. They have been particularly successful in offering a targeted, data-driven, and action-oriented approach to tackling social challenges. One example of a particularly successful regional civic partnership is the Itasca Project in Minnesota.¹⁰² Itasca shares four common values with other successful civic partnerships:

¹⁰²Mary Brainerd, Jim Campbell, and Richard Davis, "Doing well by doing good: A leader's guide," *McKinsey Quarterly*, September 1, 2013.

- *a fact-based, societal focus*, addressing the broad social and economic challenges facing a city or community
- *broad, nonpartisan membership*, engaging a diverse group of leaders across different types of organizations
- *sustained engagement*, requiring a consistent commitment from senior leaders of member organizations
- *an impact orientation*, driving tangible results

When business and civic leaders in Minneapolis began to worry in the early 2000s that Minneapolis had lost its competitive edge, a small group of business leaders decided that something needed to be done. Itasca would later be born from an organic and genuine desire to effect positive social change among Minneapolis’s business leaders, and the earliest iterations of Itasca meetings were weekly breakfast meetings. At the first official meeting in September 2003, the Minnesota governor at the time, Tim Pawlenty, said, “This could be the most important meeting in the state, or it could be nothing.” Twenty years later, the former holds some truth—the meeting galvanized CEOs and leaders to take aligned action on Minneapolis’ pressing issues. Today, Itasca is a trisector partnership that drives impact through CEO-led task forces and has tackled local challenges from housing affordability and improving higher education to closing socioeconomic employment gaps.

For all its recent growth, Greater Austin remains early in its evolution. That is why it can embrace the unique opportunity to model what it means to be a region that champions diversity and multiculturalism, supports open cross-aisle dialogue, and remains a vibrant, welcoming community. It is not alone in grappling with changes wrought by being a desirable place to live—but Greater Austin does control its destiny when it comes to solutions. In that respect, the changes that must be made, the actions that must be prioritized, and the coalitions that must be formed are not about making Austin the next Silicon Valley or Seattle. They are about making Greater Austin an even better steward of its growth and a more sustainable and inclusive version of itself.

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