Central Texas Data Center Market Report (Austin, San Antonio, Waco)

Introduction

Central Texas is experiencing a surge in data center development, driven by the region's tech growth and Texas's business-friendly climate. This report provides a comprehensive analysis of the data center market in **Austin**, **San Antonio**, and **Waco**, examining current conditions, infrastructure availability (land, power, water, fiber), energy costs, key industry players, market trends across hyperscale, colocation, and edge segments, regulatory and zoning factors, investment opportunities, and a 3–5 year outlook with projections and potential challenges. A summary comparison of the three cities is also included for quick reference.

Summary Comparison: Austin vs. San Antonio vs. Waco

Table 1: High-level comparison of data center market factors in Austin, San Antonio, and Waco.

Factor	**Austin** (Travis/ Williamson County)	**San Antonio** (Bexar/ Medina County)	**Waco** (McLennan County)
Market Status	Fast-growing "secondary" market; record low vacancy (~1.8%) and huge demand [1]. Under-construction capacity near all-time high (80% pre-leased) [1].	Rapid expansion hub; near-zero vacancy and major hyperscale investments (Microsoft, etc.) [2]. Historically secondary, now emerging due to spillover demand.	Nascent market; few existing facilities (small colos) but attracting interest from large projects (Meta in nearby Temple [3], other proposals).
Land Availability	Limited in city; expanding to suburbs (e.g. Hutto, Taylor). Large tracts in Williamson/ Bastrop Counties being converted to data center campuses [4] [5]. Land costs rising near Austin.	Plentiful on outskirts (Westover Hills, Castroville, etc.). Existing industrial parks and campuses; new 135–200 acre campuses under development [6]. Land costs lower than Austin.	Abundant cheap land in and around Waco and along I-35 corridor (Waco, Temple, Hillsboro) [7] [8]. Several hundred-acre sites available; low land cost.

Factor	**Austin** (Travis/ Williamson County)	**San Antonio** (Bexar/ Medina County)	**Waco** (McLennan County)
Power Infrastructure	Austin Energy in city (regulated, higher rates, capacity limits); Oncor or co-ops in suburbs (deregulated, competitive rates) [9] [10]. Access to Texas grid (ERCOT) with improving transmission. High renewable mix in Texas (wind/solar) supports sustainability [11].	CPS Energy (municipal utility) – diversified generation (gas, coal, nuclear, solar) [12]. Investing $1.3B in new transmission/generation to support data centers [13] [14]. Reliable power with ongoing grid upgrades.	Oncor (deregulated utility) serves region; proximity to major transmission lines and power plants (e.g. near Whitney) [15] [16]. Relatively low electricity costs; high available capacity with new substations planned.
Energy Costs	Low compared to coastal markets (Texas power rates ~1/6 of California's) [17], but **50% higher in Austin city** due to regulated market [10]. Many operators seek sites just outside Austin for cheaper power.	Low industrial power rates (municipal utility rates stable). CPS's diversified energy portfolio and Texas's cheap wholesale power keep costs below national average [18] [19]. Bulk users negotiate favorable rates or renewable PPAs.	Very low energy costs (deregulated market). Large projects can procure power at Texas's affordable rates (significantly below U.S. average) [18] [17]. Ample wind/solar capacity in Texas to tap for green power.
Fiber Connectivity	Excellent connectivity; multiple long-haul fiber routes along I-35 and through Austin. Carrier hotels and cloud on-ramps available; new fiber being laid to suburbs [20]. Austin's tech hub status means robust internet infrastructure.	Strong connectivity; fiber along I-35 and to Dallas/ Houston. Downtown SA has carrier-neutral facilities (e.g. H5 Data Centers) for interconnection [21]. New data center campuses typically located near fiber corridors or adding new fiber routes.	Improving fiber backbone along I-35 (state and federal broadband initiatives) [20]. Some legacy fiber through Waco; new large projects (e.g. Meta Temple) brought high-capacity fiber to the area. Still fewer carriers on-net than Austin/SA, but growing.

Factor	**Austin** (Travis/ Williamson County)	**San Antonio** (Bexar/ Medina County)	**Waco** (McLennan County)
Key Players & Projects	**Colocation:** Digital Realty, Data Foundry/ Switch (Texas 1), CyrusOne, Colovore (new high-density campus in Hutto) [22] [23], Equinix (planning). **Cloud/ Hyperscale:** Oracle HQ (Austin) uses local colos; EdgeConneX building multibillion-dollar campus in Bastrop (4 buildings, 2.8M sq ft) [5]; Meta's $800M campus in Temple (just north) [3]. **Other:** Many tech firms (Tesla, Samsung, etc.) with large footprints that could drive future data center needs.	**Hyperscalers:** Microsoft (8 data centers in operation or development; $1+ billion investment) [2]; planning multiple new facilities (Castroville site SAT80-82, Westover Hills campus) [24] [25]. **Colocation:** CyrusOne (multi-campus presence since 2012) [26] [27], Stream Data Centers (200MW campus breaking ground) [6], Vantage, QTS, CloudHQ (planned campus) [28], H5 (edge colo downtown) [21]. **Other:** Government and military data centers (e.g. NSA facility) contribute to local demand.	**Existing:** DataBank (small 1MW colo facility) [29], Lumen (CenturyLink) 4,800 sq ft data center [30], a few local enterprise data centers. **Hyperscale/ Upcoming:** Meta's 900,000+ sq ft Temple campus (by 2026) [31] [32]; reports of large proposals near Waco/ Hillsboro requiring ~800 MW of power [33] [34]. **Potential:** Other cloud players exploring I-35 sites (Google, Amazon have major TX investments in other cities) and land bankers assembling big tracts.
Competitive Advantages	Tech talent and innovation ecosystem in Austin; proximity to major cloud/software companies. Central location (low latency to coasts due to time zone and network routing) [35]. Access to renewable energy for sustainability goals [19]. State incentives and no state tax. Strong local demand from Austin's booming tech sector.	Established data center cluster with proven reliability. Supportive municipal utility (willing to invest in capacity) [13] [2]. Lower costs than Austin/ Dallas. Strategic location inland (safe from hurricanes, etc.) [36]. Military and corporate presence ensure baseline demand. City eager to attract high-tech investment (often offers tax incentives).	Low-cost land and power – ideal for massive hyperscale campuses without urban premium [7] [8]. Situated on I-35 fiber/ power corridor between Dallas and Austin. Willing local governments (incentives, fast-track permitting) for economic development. Fewer competing projects, so big fish can make a larger impact (e.g. Meta in Temple). Central TX location good for regional "edge" serving multiple metros.

Factor	**Austin** (Travis/ Williamson County)	**San Antonio** (Bexar/ Medina County)	**Waco** (McLennan County)
Challenges/ Risks	Power capacity within city limits is constrained (Austin Energy territory); large projects must go to outskirts or face higher costs [10]. High property taxes (though often abated for big projects) [37]. Water usage constraints in drought-prone area (must plan for efficient cooling). Rapid growth driving up land prices and straining infrastructure planning.	Summer heat and occasional grid strain require robust backup power (ERCOT issues in 2021 underscored need for resilience). Ensuring new transmission keeps pace with demand (hence CPS upgrades) [13] [14]. Water availability for cooling large campuses (must use recycled water or new sources). Competition from other TX cities (DFW, Austin) for investment.	Limited existing fiber and data center ecosystem – newcomers must invest in connectivity. Smaller local workforce with data center experience (may need to import skilled labor). Perception as unproven market, so dependent on a few anchor projects (if those stall, growth could slow). Grid reliability concerns in extreme weather apply here too (on ERCOT); new large loads may need on-site generation for reliability [38] [39].

Sources: Key facts drawn from industry reports and news: CBRE market trends [1], Texas Real Estate Research Center [4] [18], DataCenters.com analysis [7] [40], and multiple news outlets as cited throughout this report.

Current State of the Central Texas Data Center Market

Austin: Market Overview and Infrastructure

Austin's data center market is expanding rapidly, transitioning from a secondary market to one of the nation's fastest-growing hubs [1]. Vacancy rates in Austin are near historic lows (~1.8% as of H2 2023) due to a wave of demand [1]. In fact, available capacity is so scarce that **80% of new construction is pre-leased** – far above typical levels – causing upward pressure on pricing [1]. Recent reports note **increased interest from hyperscale cloud operators** in the Austin area [41], which is a notable shift for a market traditionally dominated by smaller colocation sites.

Land and Development: Within the city of Austin, large tracts of land for data centers are limited and relatively expensive. As a result, development has pushed into the suburbs and surrounding counties. **Williamson County (north of Austin)** has become a hotbed: for example, the city of *Hutto* approved a **$500 million data center** by Colovore, a high-density colocation provider specializing in liquid-cooled infrastructure [22] [23]. That campus will span 180,000 sq. ft. on a 118-acre industrial park, demonstrating the scale of projects moving just outside Austin's city limits [22]. Likewise, **Bastrop County (east of Austin)** is courting a multibillion-dollar data center campus: EdgeConneX, a Virginia-based developer, has plans for

a **$5 billion campus** in Cedar Creek with four buildings totaling 2.8 million sq. ft. [5]. Bastrop County has offered 10-year tax abatements to secure this project, which would roughly equal one-third of the county's entire tax base – a testament to how significant these developments are for the region [42] [43]. In short, **Austin's immediate outskirts offer abundant land**, and local authorities are increasingly open to annexing and zoning industrial land for data center use to accommodate growth.

Power and Utilities: Power availability and cost in Austin vary dramatically depending on location. Inside Austin city limits, electricity is provided by the municipal utility (Austin Energy) in a regulated environment with no retail competition. This has led to **higher power costs (up to 50% higher)** and some capacity constraints for big new loads [10]. By contrast, just outside Austin in areas served by Oncor or electric co-ops, the power market is deregulated and **energy prices are significantly lower**. Texas generally enjoys some of the cheapest electricity in the U.S. – on the order of *six times cheaper than in California*, according to industry analysis [17] – thanks to a competitive wholesale market and abundant generation. This price advantage is a major draw for data center operators [9] [17]. However, the **ERCOT power grid** that covers Austin (and most of Texas) has faced challenges keeping up with rapid load growth. Peak demand records are broken regularly, and ERCOT forecasts indicate statewide peak load could reach 218 GW by 2031, more than double the 2023 record of ~85 GW [44]. Data centers are expected to be a significant component of this growth, especially as energy-intensive **AI computing** accelerates [44]. The good news is Texas is aggressively expanding capacity: it leads the nation in wind power and is quickly adding solar, providing a surplus of renewable energy that **data center firms can tap to meet sustainability goals** [19]. Austin-area data centers often sign power purchase agreements for wind or solar – for example, Meta (Facebook) secured output from a 321 MW solar farm near Waco to power its operations in Texas [45]. Still, **grid reliability** remains on the radar after events like the 2021 winter storm; operators in the Austin region now frequently invest in robust backup systems and even on-site generation (natural gas generators or microgrids) to ensure uptime in emergencies [46] [47].

Connectivity: As a longtime tech hub, Austin boasts excellent fiber connectivity. Major long-haul fiber routes run along the I-35 corridor through Austin, and the city has multiple carrier hotels and network exchange points. Many data centers in Austin are **carrier-neutral**, offering on-ramps to major cloud providers and Tier 1 network peers. For instance, the Data Foundry (Switch) Texas 1 facility in southeast Austin is a major carrier-neutral hub with access to dozens of fiber providers [48] [49]. Additionally, public-sector efforts like the Texas Broadband Infrastructure Fund are extending high-capacity fiber into smaller Central Texas communities [20], which benefits suburbs and nearby cities. One factor boosting Austin's appeal is its **central location** – data transmitted from Austin can reach both coasts of the U.S. fairly quickly, and being in the Central Time Zone aligns with business hours across regions [36]. This, plus lower risk of natural disasters (no hurricanes, low seismic risk inland) gives Central Texas an edge for reliable, low-latency network operations [36].

Key Players: Austin's data center landscape includes a mix of colocation providers and cloud/hyperscale infrastructure. Notable colocation operators with a presence include **Digital Realty** (which has a data center campus in north Austin and recently partnered with Realty Income to fund more expansion [50]), **Data Foundry** (which operated two major Austin facilities before being acquired by Switch in 2021), **CyrusOne** (which launched its first Austin data center in 2012, targeting enterprise and government clients [51]), and newcomers like **Colovore** (the Silicon Valley-based firm entering the Austin market via the Hutto project, focused on high-density AI computing) [23]. On the hyperscale side, **Oracle** is a big name – it relocated its corporate HQ to Austin and while it uses Oracle Cloud regions elsewhere, its presence signals demand for cloud infrastructure locally. **Meta Platforms (Facebook)** chose the Austin region (Temple, just 60 miles

north) for a huge $800+ million data center campus, now under construction through 2026 [3]. That facility will span roughly 900,000 sq. ft. initially [32] and is designed with AI workloads in mind (Meta paused and then resumed construction to adapt the design for AI, reflecting industry trends) [3]. **EdgeConneX**, known for distributed "edge" data centers, is taking a hyperscale turn in greater Austin with the Cedar Creek campus mentioned above – indicating that even traditionally edge-focused companies see opportunity for large-scale development here [52] [5]. Overall, Austin's current state is one of **booming construction and land acquisition** to meet surging demand. Between 2023 and 2024, the Austin-San Antonio area saw a *fourfold increase* in data center construction, reaching **463.5 MW of capacity under development**, making it the second-largest market in the U.S. behind only Northern Virginia [53] [54]. This dramatic growth underscores Austin's rise as a premier destination for data center investment.

San Antonio: Market Overview and Infrastructure

San Antonio has quietly become a key data center hub in Texas, leveraging its ample land and robust utilities. Traditionally a secondary market, San Antonio is now in the spotlight due to massive hyperscale projects and multi-tenant expansions. Like Austin, **colocation vacancy in San Antonio is extremely low (often under 2-3%)**, and hundreds of megawatts of new capacity are in the pipeline to keep up with demand [1] [55].

Land and Development: San Antonio offers large swaths of land at lower cost than Austin or Dallas, which has attracted big-footprint developments. Much of the activity is clustered in the **western and northern parts** of the metro. For example, in the Westover Hills area (far west San Antonio), Microsoft established a large campus over a decade ago and has continually expanded it. Microsoft's presence is profound: as of 2024, the company had **eight data centers in operation or development across San Antonio**, totaling over $1.2 billion invested [56] [2]. These include sites like *Texas Research Park* (where Microsoft owns 158 acres and plans 1 million sq. ft. of data center space) [25] and new builds in **Castroville** (Medina County, just west of San Antonio). In Castroville, Microsoft recently filed to build two large single-story data centers (code-named SAT80 and SAT81) and is planning a third (SAT82), with one permit alone valued at $482 million [57] [24]. Construction on those is slated from 2023 through 2028, indicating a multi-year growth trajectory [58] [59].

San Antonio is also seeing *speculative* or multi-tenant campuses by major developers. **Stream Data Centers** (a Dallas-based provider) broke ground in mid-2024 on a new **135-acre, 200MW hyperscale campus** on the city's west side [6]. This is Stream's third campus in the area, highlighting that providers see sustained demand for wholesale colocation in San Antonio. Likewise, **CyrusOne**, a leading colocation REIT (now privately held by KKR), has operated in San Antonio since 2012 and keeps expanding – it has developed multiple sites (SAT1, SAT2, etc.) and even acquired additional land in 2023 (25+ acres on Lambda Drive) to build two more data centers (SAT10 and SAT11) [60] [26]. Other players like **QTS Data Centers** run a large campus on the city's northwest side (with plans to expand on an adjacent 48-acre "Omicron" subdivision) [61] [62]. Meanwhile, **Vantage Data Centers** and **CloudHQ** have each announced or begun projects in the area [28] [63]. This flurry of development has effectively created a *data center cluster* in San Antonio's outlying areas, where there's minimal residential presence, good highway access, and proximity to existing power infrastructure (substations, transmission corridors, etc.).

Power and Utilities: San Antonio is served by **CPS Energy**, the nation's largest municipally owned utility. CPS Energy has been notably proactive in responding to data center growth. Recognizing that "AI and cloud… are extremely thirsty when it comes to power and water," CPS's chief strategy officer outlined a plan

to invest **$1.3 billion in transmission and generation upgrades over 5 years specifically to accommodate large new loads like data centers** [13] [64]. The utility already got approval for 15 new or upgraded transmission lines around the region [65]. CPS's generation mix is diverse – including natural gas, coal, a significant share of nuclear (it owns 40% of the South Texas Project nuclear plant), and a leading portfolio of solar power in Texas [66]. This diversity can enhance reliability for 24/7 facilities. San Antonio's advantage of being in ERCOT but having local generation paid off; during the 2021 winter grid crisis, major San Antonio data centers reportedly stayed online (using a combination of CPS power and their backups). Energy costs in San Antonio are generally competitive – as a municipal utility, CPS does not add profit margin like a private company might, and it often works closely with big clients on rate solutions. The city and CPS also dangle incentives: for instance, large power users can sometimes get construction cost contributions or rate discounts for off-peak usage. Overall, **power supply in San Antonio is robust and improving**, making it a selling point. It is no accident that a *single hyperscale campus near Cleburne* (north of SA) is proposed to consume more power than the entire city of Austin – Texas lawmakers have noted these enormous proposals and are planning grid improvements accordingly [38] [67].

One specific consideration is **water**. Data centers in San Antonio (as elsewhere) often use water for cooling (evaporative cooling systems). CPS Energy's leader highlighted that these AI-centric facilities are thirsty for water as well as power [68]. San Antonio's climate is hot in summers, so efficient cooling is crucial. Many operators are now shifting to hybrid cooling or requesting recycled water from the local utility for their cooling towers. San Antonio Water System (SAWS) has worked with some data centers to provide *non-potable recycled water*, reducing the impact on drinking supplies. Zoning usually places data centers in industrial zones where high water usage is permissible, but as a precaution, some new designs (especially AI-focused ones) are moving toward **water-free cooling** (like liquid-to-air cooling) to mitigate any future water constraints.

Connectivity: San Antonio might not be the first city people associate with internet infrastructure, but it has solid connectivity. Several long-haul fiber routes between Dallas, Austin, and Houston pass through or near San Antonio, and the city is home to a major Level 3 (Lumen) fiber node and other telco infrastructure inherited from its history as a military and telecom hub. Downtown San Antonio hosts *"edge" colocation sites*, such as **H5 Data Centers' facility**, which recently expanded its Tier III space to add more capacity for network and edge customers [21]. That site offers additional carrier cabinet capacity and UPS power for network gear, indicating demand for low-latency service to local businesses and government in the urban core [21]. Meanwhile, the large campuses on the city's edge typically bring in fiber from multiple providers. Many new developments have **dark fiber rings** connecting them to carrier hotels in Austin or Dallas for broader connectivity. Notably, **Google Fiber** deployed in San Antonio a few years ago (for residential service), which also meant more fiber in the ground that enterprises and data centers can sometimes leverage. Additionally, San Antonio's proximity to *Mexico and Latin America* (via fiber corridors heading south) could position it as an interconnection point for traffic heading to/from those regions, complementing Dallas's status as a North Texas crossroads.

Key Players: San Antonio's poster child is **Microsoft**. The city hosts Microsoft's Azure cloud "South Central US" region, one of the company's major U.S. cloud availability zones. Since building its first San Antonio data center in 2008, Microsoft has steadily expanded: recent filings show plans for **five or more new large data halls** between 2023 and 2028, including sites at Westover Hills (SAT14–16) and Castroville (SAT80–82) [69] [25]. Microsoft's growth is tied to exploding demand for Azure and AI services (like ChatGPT, which Azure powers) – in fact, Microsoft accelerated some builds to support AI computing, investing an extra $176M in expansions according to reports [70]. Aside from Microsoft, **other hyperscalers** are present indirectly: for

instance, *Meta* chose nearby Temple for its data center, *Google* has a large data center in Midlothian (Dallas region) but not in SA, and *Amazon Web Services (AWS)* does not have a known region in SA (AWS's Texas footprint is more in Dallas and Houston via collaboration with locals). However, *Oracle* and *TikTok* have placed cloud infrastructure in colocation facilities in the San Antonio area as customers of providers like CyrusOne, according to market insiders.

On the colocation front, **CyrusOne** has a dominant footprint – it had *14+ data centers in Texas* (mostly DFW and Houston) and at least **four campuses in San Antonio** (with multiple buildings each) [27] [71]. These serve a mix of enterprise and federal clients. **QTS** and **Stream** are aggressively courting hyperscale leases, as evidenced by Stream's new 200MW campus where entire buildings can be dedicated to single cloud tenants [6]. **Vantage Data Centers**, which acquired legacy facilities from Data Foundry's parent company, also signaled intent by buying land on the "Omicron Drive" subdivision and starting a 242,000 sq. ft. build [63]. Meanwhile, **CloudHQ**, a newer player backed by big investors, is planning a multi-building campus (with sites labeled SAT2, SAT3, etc. in plans) aiming to attract large cloud deals [28]. Rounding out the scene, **H5 Data Centers** and **DataBank** (which acquired some smaller facilities in TX) handle edge and retail colocation needs for local businesses. The ecosystem is thus a healthy mix of cloud-owned and multi-tenant facilities.

San Antonio's current state can be summarized as **high growth mode**. Recent data from CBRE showed **Austin/San Antonio combined had ~190 MW of data center leases in 2022**, a record for the market [72]. Local leaders acknowledge data centers as a growth engine – one article noted that proposals around San Antonio (Alvarado, Waco, Hillsboro) have load projections far above existing city consumption, which officials see as both a challenge and an opportunity [33] [73]. In response, legislation (Senate Bill 6 in 2023–24) was crafted to ensure these "large flexible loads" like data centers pay for needed grid upgrades and don't strain residents' rates [74] [75]. This cooperative approach between industry and government in San Antonio is contributing to a stable environment for continued expansion.

Waco: Market Overview and Infrastructure

Waco is the smallest of the three markets in focus, but it occupies a strategic position along the I-35 corridor between Dallas and Austin. Historically, Waco did not feature prominently in data center maps – it has had only a handful of small facilities – but recently it has attracted interest as **large operators seek out cheap land and power in Central Texas's smaller cities**.

Existing Facilities: As of mid-2025, Waco proper hosts a few colocation and enterprise data centers, but on a much smaller scale than Austin or San Antonio. **DataBank**, a national colocation provider, operates a 1MW data center in Waco (a facility it acquired from zColo/Zayo) [29]. This site offers about 4MW utility capacity and a few thousand square feet of colocation space for local customers and disaster-recovery deployments [30]. **Lumen Technologies (formerly CenturyLink)** has a modest data center in Waco (around 4,800 sq. ft. total) mainly for network equipment and regional clients [30]. There is also at least one local provider (Clearview) offering cloud/colocation from a Waco facility, though these are boutique operations. In total, industry databases list only **3 data center facilities in Waco** [76], underscoring that the market is currently nascent.

Land and Emerging Projects: The picture changes when looking at the broader **Waco-Temple-Killeen region**. Immediately north of Waco, in **Hill County (Hillsboro)**, and south in **Bell County (Temple/Belton)**, there have been significant developments: - **Temple, TX (45 minutes south of Waco):** Meta (Facebook) is

constructing a massive campus here. Announced in 2022, this hyperscale data center is an $800+ million investment and will span at least 900,000 sq. ft. in its first phase [31] [32]. After a brief pause in late 2022 (as Meta retooled designs for AI infrastructure), construction resumed on what is now billed as an *AI-optimized* data center slated to complete the first phase by Q2 2024 [77] [3]. This project alone is putting the Central Texas region on the radar – it signifies that the area between Austin and Waco meets key criteria (land, power, connectivity) for the largest tech companies. Temple's site offers dual substations and long-haul fiber access, showing that even "Tier-2" cities can host world-class facilities [32] [78]. - **Hillsboro, TX (30 minutes north of Waco):** State lawmakers have cited a *planned data center near Hillsboro* that is requesting **828 MW of power** – an astonishing number that **exceeds the combined power usage of Waco and Hillsboro** in 2023 [33] [34]. While details on this project (or cluster of projects) are not public, it's likely a hyperscale campus proposal eyeing the I-35 corridor. The Hillsboro area is attractive because it's roughly equidistant from Dallas and Austin, has Interstate access, and available transmission capacity (there are major Oncor power lines and a large power plant in that vicinity). The mention of 828 MW/year suggests a cluster of data center buildings or a very large multi-phase campus. This aligns with a broader trend of **"rural data boom" in Texas – from Hillsboro to Hutto, Temple to Taylor, rural sites are being scooped up for hyperscale development by firms like Digital Realty, QTS, Meta, Google, Microsoft, etc.** [79] [80]**.** - **CyrusOne's Whitney Project:** In late 2024, colocation giant CyrusOne filed to build a **250,000 sq. ft. data center near Whitney, TX** (Bosque County, just northwest of Waco) [81]. The site is strategically chosen next to a large 800MW Bosque natural gas power plant and substation, ensuring robust power supply [15]. CyrusOne plans to invest $750 million in this project (dubbed "DFW10" even though it's outside DFW proper) [82] [83]. This reflects a spillover of Dallas-Fort Worth demand into the Waco area – essentially, providers consider greater Waco as part of the extended Dallas/Austin *mega-region* for site selection. The Whitney facility is scheduled from Dec 2024 to Mar 2025 (likely initial phase), and signals that top-tier developers see Waco's periphery as ripe for large-scale data centers.

Power and Infrastructure: Waco benefits from Texas's overall strengths in power. It's served by **Oncor**, the transmission utility for much of Texas, and lies in a deregulated retail market. That means data center operators in Waco can shop for competitive electricity rates from various providers, often locking in long-term rates or renewable energy deals at well below the national average cost. The region's location on the ERCOT grid is advantageous – being centrally located, power can be routed from West Texas wind farms or other generation sources with relative ease. In fact, one reason hyperscalers are interested in places like Waco is the **proximity to abundant wind and solar energy** resources. Texas leads the U.S. in wind power generation and is second in solar capacity [84] [85], and much of that generation is in West Texas/Panhandle, with transmission lines carrying power eastward (some passing near Waco).

Oncor and the state have also been expanding infrastructure near Waco. For instance, Oncor announced substation expansions in Waco to improve reliability and presumably to handle potential industrial load growth [86]. The local government and electric providers have been quietly preparing for large energy users; a Guidehouse executive noted that along the I-35 corridor including Waco, new kinds of "folks… come in" with big power needs (a likely allusion to data centers or crypto farms) [87]. Waco's water supply (from Lake Waco and the Brazos River) is relatively robust, which could support data center cooling needs better than some arid West Texas locales. There have been no publicized conflicts over water for data centers in Waco, but any huge campus would need to work with local authorities to secure water rights or use advanced cooling.

Connectivity: Historically, Waco was not a major internet hub, but fiber connectivity has improved. **Fiber along I-35** means Waco sits on one of the main data arteries between Dallas and Austin/San Antonio.

Additionally, some Tier 1 providers have regeneration or routing facilities in the area. The presence of Baylor University in Waco has ensured that there is at least some high-bandwidth infrastructure for research and education networks, which commercial networks can piggyback on. Still, compared to Austin or Dallas, Waco has fewer fiber providers and might require new fiber builds to support a large data center campus. Recognizing this, many of the big projects plan to bring fiber with them – for example, Meta's Temple site was attractive partly because of fiber access, and it's likely being augmented with dedicated fiber routes to Dallas (where many content networks peer). We are also seeing statewide initiatives (like the federal BEAD program funding broadband) that could bring multi-terabit capacity into mid-sized cities like Waco [20]. In summary, Waco's connectivity is *sufficient and improving*. If a hyperscale builds there, typically they'll ensure multiple redundant fiber paths to connect back to major interconnection hubs (Dallas, etc.). The latency from Waco to Dallas or Austin is on the order of only a few milliseconds, which is negligible for cloud services – meaning a data center in Waco can effectively serve end-users in any Texas metro with ease.

Key Players and Prospects: At present, Waco's key "players" are more prospective than existing. **DataBank** is the main multi-tenant provider with an operational site, catering to local demand. **Meta** is a confirmed major player just outside Waco (Temple), bringing not just a massive facility but also investments in the community (jobs, partnerships with local schools for STEM training, etc. as part of their incentives deal) [88] [89]. The **mentions of other tech giants** in connection with rural Texas bode well for Waco: Google, Microsoft, Digital Realty, QTS have all been "eyeing" or building in rural Texas, according to a recent real estate analysis [80] [90]. It explicitly cites **"from Hillsboro to Hutto, and from Temple to Taylor, rural counties are being eyed by the likes of Meta, Google, Microsoft, and Digital Realty"** [80]. This places Waco in the trajectory of interest. Indeed, **reports to Texas lawmakers** indicated multiple proposals around Waco: besides the 828 MW Hillsboro project, cities like Alvarado (north of Waco) and others have seen similar interest [46] [38].

If these materialize, the Waco market in 3–5 years could leapfrog from near-zero to hundreds of megawatts of capacity. Local authorities (Waco city and McLennan County) have Economic Development corporations likely willing to offer tax abatements (similar to how Bastrop County or Hutto did) to land a big fish. One challenge will be workforce and visibility: Waco doesn't have the same tech workforce as Austin, but data centers don't require large staffs (a 100MW data center might employ 50–100 people). Training programs can be put in place (like how Meta in Temple partners with local colleges for data center technician training [88]). In fact, a **Data Center Coalition study** found each data center job supports five to six jobs in the economy (construction, maintenance, etc.) [91], so Waco's community leaders are likely enthusiastic about attracting facilities as a diversification from traditional manufacturing or logistics jobs.

In summary, Waco's current data center market is *small but on the cusp of significant growth*. It has the core ingredients: **cheap land, low taxes, abundant power, and highway/fiber access** [92] [93]. These factors are precisely why Texas's rural locales are in play for the next wave of hyperscale and edge developments. As one industry publication put it, "places most people have never heard of" in Texas are now sought after because they offer exactly what big data center operators need [92]. Waco fits that description and could well become home to one or more large-scale data centers in the near future.

Market Trends by Segment: Hyperscale, Colocation, and Edge

The Central Texas market exhibits trends in all three major segments of the data center industry: **hyperscale (cloud)**, **colocation (wholesale/retail)**, and **edge computing**. Each segment is growing, though at different paces and scales, and often the lines between them are blurring as demand surges.

Hyperscale Data Centers (Cloud and Large Enterprise)

Hyperscale refers to the massive, custom-built data centers for major cloud providers (like AWS, Microsoft Azure, Google Cloud, Oracle, Meta, etc.) or other very large-scale operators. Central Texas has traditionally been secondary to Dallas for hyperscalers, but this is rapidly changing: - **Record Hyperscale Growth:** Austin and San Antonio together saw hyperscalers drive under-construction capacity to **quadruple between 2023 and 2024, reaching 463.5 MW under development** [4] [94]**.** This astonishing growth rate positioned Central TX as the **#2 data center market in the U.S., second only to Northern Virginia** by mid-2024 [4] [95]. This is largely due to hyperscalers either building their own campuses or leasing entire buildings from developers. For instance, Microsoft's expansions in San Antonio (several hundred million dollars' worth of projects in flight) and Meta's campus in Temple (nearly $1B) are significant contributors. - **Shift to Suburban/Rural Mega-Campuses:** Hyperscalers are trending toward *campus-style developments on large land parcels*, as opposed to single facilities in business parks. In Central Texas, we see that with Meta's multi-building plan in Temple, EdgeConneX's four-building Bastrop campus for an unnamed hyperscale client [5], and potentially CyrusOne's Bosque County site aimed to serve cloud customers. The drivers are clear: these large players need 100+ MW per site, which requires tens or hundreds of acres, heavy power infrastructure, and buffer zones – easier to obtain in rural/suburban areas. As an example, EdgeConneX's planned Cedar Creek campus will span 112 acres and up to **2.8M sq. ft. over 5–8 years** to meet a single hyperscaler's demand [5] [96]. - **AI and High-Density Computing:** A major trend influencing hyperscale design is the rise of artificial intelligence and machine learning workloads, which require high power density (GPUs, specialized chips) and often new cooling approaches. Colovore's entry into the Austin area is illustrative: their Hutto facility will specialize in **liquid-cooled, high-density colocation for AI and HPC** (high-performance computing) workloads [97] [23]. Hyperscalers like Microsoft and Google similarly are redesigning parts of their cloud regions to accommodate AI gear. This means new data centers in Central TX are being built with more megawatts per square foot than previous generations. AI also drives *urgent timeline* – e.g., Microsoft's rapid San Antonio expansions in 2023–24 were partly to support AI services (ChatGPT etc.), leading to multi-billion investments in short order [70] [25]. - **Geographic Diversification:** Another trend is hyperscalers diversifying away from the ultra-concentrated hubs like Silicon Valley or Northern Virginia due to space, cost, and regulatory pressures. Texas, and specifically Central Texas, is a prime beneficiary. Texas offers not only lower costs but also *geographic resilience*. Being inland and on its own grid, Texas is free from some risks (no hurricanes in Austin/SA, minimal earthquake risk, independent grid operations) [36]. Hyperscalers value this diversity for disaster recovery – for instance, having a region in Texas ensures continuity if a storm hits Virginia or an earthquake hits California. Oracle's investment as part of the **"Stargate" project** (a massive AI infrastructure initiative announced in early 2025) highlights this: Oracle, along with OpenAI and SoftBank, chose Texas as the "ground zero" for a $500B AI data center program, with 10 data centers already under construction in the state and 10 more planned [98] [99]. The *first* of these is in Abilene, West Texas, but given the scale, it's likely some of the 20 sites will be in Central Texas. Stargate's announcement (coming from the highest political levels) cements that hyperscale momentum in Texas is expected to continue for years. - **Pre-Leasing and Build-to-Suit:** Hyperscalers often pre-lease or pre-commit to facilities that colocation developers are building. In Central TX, **80% of under-construction capacity was pre-leased as of late 2023** [1], much of that to hyperscale tenants. For

example, Stream's new 200MW campus in SA likely has anchor tenant commitments (Stream wouldn't build on spec at that size without demand in hand). We also see partnerships like **Digital Realty and Realty Income** teaming up to fund build-to-suit data centers for a cloud client in Northern Virginia [50] – similar deals could easily transpire in Texas given demand. Essentially, the trend is that hyperscalers secure capacity years in advance now, which is why land banking and speculative power infrastructure (like 400MW substations in DataBank's Dallas campus plan) are happening [100] [101]. Central Texas developers are following suit by acquiring big land parcels before tenants arrive, knowing that hyperscalers will come looking (Tract's 2,000-acre Uhland site near Austin is one such example, being readied for "dozens of buildings" for future clients) [102].

In summary, **hyperscale growth in Austin/San Antonio/Waco is robust and accelerating**, driven by cloud and AI demand. The region is transitioning from having a few isolated big data centers to hosting numerous **huge campuses that rank among the world's largest**. This segment is the primary engine behind Central Texas's data center boom.

Colocation Data Centers (Wholesale & Retail)

Colocation providers serve multiple customers by offering space, power, and cooling in shared facilities. This includes wholesale colocation (entire dedicated halls or buildings for one customer) and retail colocation (smaller space for many customers). Trends in Central Texas's colo market include:

- **Tight Supply and Expansion:** Colocation space in Austin and San Antonio has been extremely tight. The combined market had a vacancy of only ~1.8% recently [1], meaning essentially full. This has prompted **expansions by existing players** and entrance of new players. Data Foundry (now part of Switch) expanded its Austin Texas 1 campus with a second building to meet demand, and Switch indicated plans for further growth after its 2021 acquisition of Data Foundry, leveraging Switch's capital to enhance Austin facilities. In San Antonio, **wholesale providers like CyrusOne, QTS, Stream, Vantage** are all adding capacity (either building new or fitting out shell space) to lease to cloud and large enterprise clients [27] [71]. Even smaller retail colos, like H5 Data Centers, added 1.5MW downtown just to cater to edge and enterprise cabinets [21]. Essentially, **colos are racing to add inventory** because any ready supply gets gobbled up quickly by customers who can't wait for a build. CBRE noted a **lack of readily available supply is causing pricing to increase** for colocation in Austin/SA [1] [103]. Customers are paying a premium for space now, which in turn incentivizes operators to invest more in new builds.

- **High-Density & Liquid Cooling Offerings:** As densities rise (thanks to AI, etc.), colocation providers in Central TX are adapting by offering high-density racks and even liquid cooling solutions as a service. Colovore's entire business model is built on this trend – delivering liquid-cooled colocation for GPUs in Austin's market [97]. Other providers like Digital Realty have introduced pods that can handle 30–50 kW per rack in their Austin facilities to accommodate customers with dense computing needs (like gaming companies or research labs in Austin's tech scene). This trend aligns with global colocation moves – offering more power per rack and novel cooling methods to differentiate services.

- **Edge and Regional Expansion:** Colocation is also pushing to the edge in Central Texas. While major colos focus on big campuses, some providers target smaller cities and edge locations. **DataBank** is an example: branding itself as an "edge" colo provider, DataBank acquired facilities not just in Austin

but also in secondary cities like Waco and Houston. They see value in a presence in **more metros than any other provider** (DataBank boasts 65+ data centers in 25+ markets) to serve latency-sensitive workloads [104] [105]. In Waco, DataBank's small site likely serves local needs and provides a DR option for Dallas/Austin clients [29]. **EdgeConneX**, though building big in Bastrop, historically deployed small edge data centers near secondary markets (their name comes from that strategy). They might in the future deploy micro-edge sites in places like Waco or along carrier hotels in multiple cities to support 5G, CDNs, etc., complementing their large builds. Additionally, telcos (AT&T, Verizon) and tower companies (American Tower, Crown Castle) are extending edge computing nodes in the region (for instance, Crown Castle after buying VaporIO has micro data center pods at base of cell towers in some Texas cities). While not highly publicized, these edge sites mean content caching and 5G applications will increasingly be served from locations like Central Texas cities rather than far-away hubs.

- **Customer Profile Shifts:** Traditional enterprise demand (banks, insurance, government agencies) for colocation remains, but in Central TX a lot of the absorption is now driven by **cloud "overflow" and content companies**. Essentially, even if a hyperscaler builds its own campus, it might colocate certain less core workloads in a multi-tenant facility for flexibility. For example, a cloud provider might quickly lease 10MW from Digital Realty in Austin if user growth outpaces its own build timeline. Also, **Austin's vibrant startup and tech company scene** fuels demand for retail colo and connectivity. Many SaaS companies or gaming companies in Austin prefer to colocate their equipment (for performance or hybrid cloud setups) rather than rely purely on public cloud. This keeps retail colocation (single rack to a few racks customers) in healthy shape. On the wholesale side, **government and military** presence around San Antonio (e.g., NSA's data center at Lackland, or various military IT facilities) spurs private colos to host contractors or provide off-base continuity sites. CyrusOne historically has counted some government contracts in San Antonio for that reason.

- **M&A and Consolidation:** The data center industry has been consolidating, and Central Texas has seen its share. As mentioned, **Data Foundry was acquired by Switch for $420M** in 2021, giving Switch a Texas footprint [106]. Switch itself was later taken private by investors in late 2022, but the integration means Austin's Data Foundry facilities may be upgraded to Switch's high-resilience designs. Similarly, **Cyxtera**, a large colo operator (with a presence in Dallas and Austin via CenturyLink heritage), went bankrupt in 2023; its assets were slated to be acquired by Brookfield (a major infrastructure fund) [107]. If that includes any Central TX presence, it could mean new ownership and investment. **CyrusOne** went from public to private (KKR) in 2022 but continues expansion unabated [108] [109]. These consolidations often bring fresh capital for expansion. The net effect in Central Texas is that colocation providers are well-funded and scaling up, either through new builds or acquisitions, to capture the growth.

Edge Computing and Emerging Trends

"Edge" data centers refer to smaller facilities or deployments closer to end-users or devices, to reduce latency and improve performance for certain applications (like IoT, AR/VR, autonomous systems, etc.). In Central Texas, edge computing is still in early stages but trending upward:

- **Regional Edge Hubs:** Both Austin and San Antonio can be considered edge hubs relative to larger Internet centers (like Dallas or Los Angeles). By having data centers in Austin/SA, content providers (Netflix, gaming networks, etc.) shorten the path to millions of end-users in Texas. We see evidence

of this: Akamai and Cloudflare (CDN companies) have servers in Austin and SA data centers (often via arrangements with colos). The recent expansion of **H5 Data Centers in downtown San Antonio (adding 340 cabinets and 1.5MW)** [21] was explicitly to meet edge demand – likely from network carriers and content providers needing space to distribute content locally. The same is true for Austin: a smaller facility like CyrusOne's or Data Foundry's sees a mix of enterprise and edge tenants (for instance, a VR streaming service might host servers in Austin to serve the central U.S. region with low latency).

- **5G and Telecom Edge:** The rollout of 5G networks is pushing compute and caching closer to cell towers. In cities like Austin, telecoms have started placing mini data centers at central offices or tower sites. **AT&T** and **Verizon** have publicized edge testbeds in Austin for low-latency services. While these may not be large "data centers" in the traditional sense (some are just a few racks in a hardened enclosure), they collectively form an emerging edge layer. Over the next few years, expect to see partnerships between wireless carriers and data center operators in Central Texas to host edge infrastructure – for example, tower companies might lease space for edge compute at their sites to cloud providers. Given Austin's tech-savvy population and traffic (think self-driving car R&D by companies like Argo AI that was in Austin), the city could be a venue for advanced edge deployments.

- **Micro Data Centers & Far Edge:** Even outside the big cities, Texas's rural data boom includes smaller edge facilities. EdgeData or Modular data center firms have talked about placing units in places like *oil fields for IoT processing* or *at renewable energy sites for data aggregation*. Along the I-35 corridor, one could envision micro-edge containers every 50-100 miles to feed content to smaller communities. While largely theoretical now, the state is funding broadband to rural areas, which could make it viable to have mini edge data centers in towns around Waco or between SA and Austin to, say, cache video content or support future smart highway infrastructure.

- **Latency-Sensitive Use Cases:** Central Texas, particularly Austin, is growing a startup ecosystem in gaming, AR/VR, and telemedicine, which benefit from edge computing. As these industries demand <10ms latency, there's pressure to have computing nodes *in-city* rather than in a distant region. For example, online multiplayer gaming platforms prefer to host game servers in Austin to serve Texas gamers with minimal lag (some use AWS or Azure regions in Dallas, but having an Austin node can improve experience for Austin/San Antonio gamers). Edge providers like **StackPath** or **EdgeMicro** have previously launched micro data center projects in Austin as a pilot for such use cases. We will likely see more of these pop up.

- **Interconnection Ecosystem:** A big trend in edge is building rich interconnection (lots of networks exchanging traffic locally). Dallas has historically been the interconnection hub in Texas, but now **Austin and San Antonio are building their own ecosystems.** The presence of multiple competitive fiber providers and Internet exchanges (like the *Austin Internet Exchange* started a few years back) fosters edge growth. Data center operators are contributing by making their facilities carrier-neutral and by hosting Internet exchange points. Over time, this reduces reliance on Dallas for exchange of local traffic and strengthens the case for more local edge infrastructure.

In summary, edge computing in Central Texas is on the rise, albeit from a small base. The main manifestation now is the expansion of small colocation facilities in city centers for network nodes and content caches (as seen with H5 in SA) [21]. As 5G, IoT, and other low-latency apps grow, Central Texas is

well-positioned – it has large metros (Austin ~1M people, SA ~1.5M) that justify local edge sites and it sits between major hubs, which means it can serve as an intermediary processing location for data traveling long distances (for example, caching content in Waco to serve both Dallas and Austin markets efficiently).

Regulatory and Zoning Considerations

Texas is famously business-friendly, and this extends to data center development. However, there are specific **regulatory, tax, and zoning factors** prospective data center developers and investors must consider in Central Texas:

- **State Tax Incentives:** One of the biggest draws in Texas is the **Texas Data Center Tax Exemption Program**. This program provides **sales tax exemptions** on a wide range of data center investments – including servers, networking equipment, power infrastructure, and building materials – for qualifying projects [110] [111]. To qualify, a data center must meet certain minimum investment (often $150–$200 million) and job creation thresholds and maintain operations for a fixed period. In return, operators can save substantially (sales tax in Texas is ~6.25% state + local add-ons; exempting that on, say, a $500M hardware purchase saves tens of millions). According to industry sources, this program **has already saved operators hundreds of millions of dollars** and is a major reason companies choose Texas over other states [110] [111]. For example, a large Google or Facebook deployment in Texas could see a nine-figure reduction in costs via these abatements. Investors should note that these **incentives are typically baked into project financials** – meaning, if you invest via a REIT or partnership in a Texas data center, part of the attractive ROI is thanks to these tax savings.

- **Local Property Tax and Abatements:** Texas has no state income tax, but it does have relatively high property taxes. Large industrial projects can face significant property tax bills. To mitigate this, **cities and counties frequently offer property tax abatements or rebates** to data center projects. Central Texas examples abound: *Bastrop County* offering a 10-year abatement for the EdgeConneX campus (worth millions in savings) [112] [113]; *Hutto* likely provided incentives or infrastructure support for the Colovore site; *Temple* and the State of Texas provided Meta with incentives (Meta's project was under the state's Chapter 313 incentive program before it expired, granting a decade of school property tax discounts). These deals are often negotiated case-by-case. The trend is **local governments competing to attract data centers through generous incentive packages** because, from their perspective, even after abatements, a $5 billion campus (like EdgeConneX) will hugely expand the tax base and create jobs [114] [42]. One note: the Texas Legislature allowed Chapter 313 (school tax abatements) to lapse at end of 2022, but there's discussion of new incentive mechanisms to replace it, given the importance of attracting tech infrastructure.

- **Zoning and Land Use:** Data centers are generally allowed in industrial or heavy commercial zones. In Austin, land use can be a hurdle due to strict zoning codes and an emphasis on environmental protection (e.g., watershed protection for the Edwards Aquifer). Certain parts of Austin have "development caps" or requirements for green space that might conflict with a large concrete-and-steel data center. However, many data center developers sidestep this by choosing sites in **extra-territorial jurisdictions (ETJs)** or in municipalities with more permissive zoning. For instance, the Hutto site was part of an industrial park that the city proactively annexed and zoned for industrial use in 2022 [115] [116]. That made the approval relatively smooth (Hutto City Council readily approved the data center project) [117]. In San Antonio, much of the land on the fringes is either

unincorporated or zoned for agriculture – to build data centers, these often get rezoned to light industrial. Counties in Texas have limited zoning power (most zoning is city-level), but they often cooperate by improving roads or utilities for the site. So far, **Central Texas has seen little NIMBY opposition** to data centers, unlike Northern Virginia where residents have pushed back. The Bastrop meeting for EdgeConneX saw county commissioners supportive, noting it's better than a 2,000-home subdivision on the same land (less strain on services) [118] [119]. This sentiment ("we'd rather have a data center than lots of homes or factories") is common in smaller Texas communities looking for high-dollar, low-impact development.

- **Environmental and Water Regulations:** Environmental regulations in Texas are generally less onerous than in coastal states, but developers must still navigate them. Data centers need air permits for backup generators (diesel gensets emit NOx, so large sites might need Texas Commission on Environmental Quality – TCEQ – permits). Thus far no Central TX project has had notable issues obtaining gen-set permits; the air quality in these regions is good, making compliance easier than in, say, Los Angeles. Water usage is a growing concern: large data centers using millions of gallons for cooling could draw scrutiny if located in a drought-prone area. Texas water rights are mostly local-managed. For example, *Austin Energy* requires new data center customers to have an efficiency plan if they'll use city water for cooling, and *SAWS* in San Antonio might negotiate water supply contracts for big users. Some areas might encourage using **reclaimed water**; Austin has a "purple pipe" network of reclaimed water that some data centers tap into. In regulatory terms, there isn't yet a cap on data center water use, but public perception could change if droughts worsen. Forward-looking developers in Central TX are considering **waterless cooling** (like immersion cooling) to avoid this issue entirely.

- **Electric Grid Interconnection and ERCOT Rules:** One unique "regulatory" aspect is dealing with ERCOT (the grid operator). Any large load (over 10 MW) has to go through an interconnection study process to ensure the grid can supply that power. The flood of data center interconnection requests (over 50% of new large-load requests to ERCOT are data centers now [46] [38]) has prompted ERCOT to refine its processes. It even coined a term "Large Flexible Load" for data centers and crypto miners. Senate Bill 6 (being considered in 2024) aimed to have these large loads coordinate closely with grid planners and possibly **bear some costs of transmission upgrades** so that ordinary ratepayers aren't burdened [74] [120]. So far, companies like Microsoft or Google have willingly paid for on-site substations and such (like EdgeConneX is building a 400MW substation with Oncor for its campus [101] [121]). The evolving rule is: if you need a giant amount of power, you may have to fund the necessary grid upgrades (but then you often get a dedicated feed, which data centers like anyway). One should keep an eye on ERCOT's policies – if they implement demand response programs, large data centers might even get incentives to curtail during grid emergencies (some already voluntarily do so, since they have backups).

- **Security and Compliance:** Though not a zoning issue, it's worth noting regulatory compliance like *texas's cybersecurity and data privacy laws* can influence data center operations. Austin, home to government agencies and defense contractors, has data centers needing FedRAMP or DoD IL5 secure facilities – hence some providers build to those specs (e.g., CyrusOne's campuses often meet high security standards, which is a selling point to government clients). This is a trend where colos align with regulatory needs of customers (HIPAA for health data hosting, CJIS for criminal justice data, etc.). Central Texas colos advertise compliance readiness in marketing.

In summary, **Texas provides a very accommodating regulatory environment for data centers**: strong tax incentives, relatively easy zoning (especially in suburban/rural areas that welcome the projects), and a state government that is actively adjusting policies to facilitate big investments while shoring up the grid. Challenges like property tax can be mitigated via abatements, and the freedom to negotiate power contracts in much of Central TX is a huge plus (contrast with California where you're stuck with the utility's rates and sometimes moratoria on new hookups). The key considerations for a developer are to choose the right location jurisdiction (one that will support the project), secure incentive agreements early, and coordinate with ERCOT/utilities on power delivery. When done, as seen, the result can be very favorable – companies often cite **Texas's light regulatory touch and quick permitting** as reasons projects can go from conception to construction faster than in other states [37] [122].

Investment Opportunities in the Data Center Market

The data center boom in Central Texas presents numerous investment avenues, ranging from direct real estate development to more accessible financial instruments. Below we outline how individuals or organizations can invest in this market, including Real Estate Investment Trusts (REITs), private equity and infrastructure funds, partnerships/joint ventures, and other emerging opportunities.

Investing via Data Center REITs and Public Companies

One of the simplest ways for investors to gain exposure to the data center sector (including Central Texas) is through publicly traded REITs or companies that operate data centers: - **Digital Realty Trust (DLR):** Digital Realty is one of the world's largest data center REITs and has a notable presence in Texas. In Central Texas, Digital Realty operates an Austin data center and possibly plans an Austin expansion by 2026 [123] [124]. Investing in DLR gives exposure to their global portfolio, which includes Dallas and Austin facilities. Digital's scale and client base (cloud and enterprise) position it to benefit from Central TX growth. Recent moves like partnering with Realty Income to fund NoVa developments [50] free up its capital to invest elsewhere (potentially Austin). - **Equinix (EQIX):** Equinix is the largest retail colocation provider globally. While Equinix historically has a big Dallas presence and none in Austin as of yet, it's not far-fetched that Equinix could enter Austin via acquisition or new build given market momentum. Regardless, an Equinix investment gives broad data center market exposure (not a pure Texas play, but they benefit from general demand trends). - **Crown Castle International (CCI) and American Tower (AMT):** These are tower REITs that have diversified into data centers and fiber. American Tower notably acquired CoreSite (a data center REIT) in 2021, thereby indirectly owning data centers (though CoreSite is more in major markets, none in Austin). Crown Castle runs fiber networks in Texas and has small edge data centers. If one believes in edge growth along with towers/5G, these can be part of a strategy. - **Iron Mountain (IRM):** Better known for storage, IRM runs a growing data center division. They have a large data center in Dallas and could eye other Texas expansion. IRM gives a blend of traditional storage and data center exposure, often with a focus on highly secure and enterprise clients. - **Tech Companies with Data Center Assets:** Companies like Amazon, Google, Microsoft – investing in their stock gives indirect exposure to their cloud growth, though these are so diversified that it's not a pure data center play. However, the cloud growth driving Central TX data center builds is part of their valuation narratives. Oracle (ORCL) might be a special case: Oracle is headquartered in Austin and is part of the aforementioned Stargate JV for AI data centers [98]. Investing in Oracle is partially a bet on its cloud expansion, which includes Texas data centers (Oracle opened a Cloud region in San Antonio in 2020 and is investing in AI infrastructure now). - **Specialty ETFs:** There are now ETFs that focus on digital infrastructure – for example, the Pacer Data & Infrastructure ETF (SRVR) or Global X Data Center REITs & Digital Infrastructure ETF (VPN). These hold baskets of data center REITs, tower companies, and related

firms. An investor can use these to get diversified exposure to the theme. As Central Texas grows in importance, the companies in these ETFs likely benefit.

Private Equity and Infrastructure Funds

If one has access to private markets, many private equity (PE) and infrastructure funds are actively investing in data centers: - **KKR, Blackstone, Brookfield, DigitalBridge, etc.:** These big-name firms have made huge bets on data centers. KKR took CyrusOne private in 2022 and thus indirectly owns CyrusOne's Texas portfolio [108] [109]. Blackstone's infrastructure arm took QTS Realty private in 2021 – QTS has a San Antonio campus and possibly expanding there. Brookfield is acquiring Cyxtera's assets from bankruptcy (Cyxtera had presence in Houston and Dallas, possibly some network nodes in Austin) [107]. DigitalBridge (which used to be Colony Capital) owns Vantage Data Centers and DataBank, both active in Texas (DataBank just announced a giant 480MW Dallas campus [125] [126] and operates in Waco/Austin). These PE players often look for co-investors or issue debt that accredited investors can participate in. For example, an investor might invest in a fund that specifically targets data center development in emerging markets like Central TX or invest in **infrastructure bonds** issued by these companies for expansions. - **Opportunity Zone Funds:** Parts of Central Texas, especially outside the core city areas, are designated Opportunity Zones (tax-advantaged areas for investment). A data center project in such a zone could allow investors to defer or reduce capital gains taxes. For instance, if a Waco or Temple site falls in an Opportunity Zone, a specialized fund could raise money to develop a data center there giving investors both the project return and the tax benefit. - **Joint Ventures with Local Developers:** Real estate developers in Texas sometimes seek capital partners for big projects. A number of local Texas developers are now pivoting to data centers. For example, *Velocis*, *Ironwood Realty*, and *MBK* partnered on the Hutto industrial park where the data center is locating [115]. An investor could align with such developers or through real estate private equity funds that target industrial tech infrastructure. The advantage is getting in at the ground floor of development (highest return if executed well). The risk is higher too, as these are large capital intensive builds. - **Investing in Utility/Power Infrastructure:** Another angle is investing in the *supporting infrastructure*. Utilities like Oncor are privately owned (majority by Sempra Energy), but one could invest in Sempra (SRE) to indirectly benefit from all the new transmission and distribution construction driven by data centers. Likewise, equipment suppliers (e.g., companies making transformers, backup generators, cooling systems) will see increased sales. For instance, *Vertiv* (VRT) and *Schneider Electric* supply power/cooling equipment to data centers; their fortunes rise with more builds. While not Central TX-specific, they profit from the overall boom. An investor bullish on the build-out may consider such stocks.

Partnerships and Direct Investment

For those able to commit larger capital or with industry connections: - **Direct Real Estate Ownership:** Buying land in strategic locations and either flipping it to data center developers or developing a "powered shell" to lease out is a strategy some investors use. In Central Texas, land near power substations or fiber routes (like along I-35, or near the new Tesla/Samsung plants which often coincide with infrastructure) could be valuable. A caution: data center site selection is very specific – it's not just any land, it's land with the right utilities. However, real estate brokers note that **land values in areas like east Austin and around Temple have surged due to data center and chip fab interest** [127] [8]. Some early investors in land around Taylor (where Samsung is building a semiconductor fab and possibly a data center) have seen large gains. One could form a partnership to acquire large acreage and then market it to big operators (akin to how Quantum Loophole acquired 1,500 acres near Austin for a "data center city" and is now lining up tenants). - **Colocation and Managed Services Businesses:** Investing in or acquiring a small data center

business can be an avenue. For example, a local IT firm in Austin that runs a small data center might seek investors to expand. The data center colocation business can be lucrative if run efficiently (with ~50-60% EBITDA margins for well-run sites). However, scale is key nowadays, so this might only make sense for niche market players (like a niche Waco colo focusing on local government or something). - **Real Estate Investment Partnerships:** Many large data center projects are structured as joint ventures between an operator and a capital partner. For instance, a common pattern is a cloud operator signs a lease for a build-to-suit; a developer builds it; and an investor like a pension fund or insurance company provides capital in exchange for stable long-term returns (the lease to a Microsoft or Meta is as good as it gets credit-wise). Such partnerships often happen behind the scenes, but opportunities exist to invest in funds or trusts that hold these long-term leased data centers. Some insurance companies and sovereign funds have explicitly stated they are increasing allocation to data center real estate because of the *bond-like* income from triple-net leases to tech giants. - **Public-Private Partnerships:** Occasionally, investments can take the form of PPPs, especially around infrastructure. A city might partner with a data center operator to build out utility infrastructure that also benefits the public. An investor might indirectly partake by, say, buying municipal bonds issued to fund a new substation that a data center will use (with the data center maybe guaranteeing revenue). CPS Energy's $1.3B grid upgrade could involve bond issuances – an investor can thus invest in those bonds, effectively financing the infrastructure underlying the data center expansion and earning interest.

- **Stocks of Tech Hardware Companies:** Another somewhat indirect angle: the data center boom means more servers (good for Dell, HPE), more chips (good for Nvidia, AMD, Intel), and more construction (good for construction firms like Jacobs or Fluor that often build these facilities). If one is looking at the broader picture, those are investment ideas too. For instance, *McKinsey* projected $6.7 trillion in data center investment needed globally by 2030 [128] – many industries stand to gain. Texas's chunk of that will funnel into various pockets.

In essence, **investors can choose between real estate-focused approaches, corporate equity, or infrastructure financing**. Central Texas's data center market is growing so quickly that even traditionally conservative entities (like pension funds) are taking notice. The combination of **stable, long-term cash flows** (from tenant leases) and **asset appreciation** (land and facility value rising in a sought-after market) is attractive.

For individual investors who are not part of large funds, **REITs and ETFs are the most straightforward route**, giving a liquid investment that tracks the sector's performance. For those with more capital or risk appetite, **participating in development or PE funds** targeting data centers can yield higher returns, though with more complexity and lock-up of capital.

Finally, it's worth noting that with ESG (Environmental, Social, Governance) investing trends, some may worry about data centers' environmental impact. But many data center companies are leaders in renewable energy procurement and energy efficiency. In Texas, they are big offtakers of wind/solar. From an ESG perspective, investing in data centers that pledge carbon neutrality (many do) can align with sustainable mandates, especially as these centers power the digital economy in a more carbon-efficient way than distributed computing might.

Outlook for the Next 3–5 Years

Central Texas's data center market is poised for significant growth in the next several years. Based on current project pipelines, industry forecasts, and regional trends, we can anticipate:

Growth Projections and Expansion Plans

- **Continued Capacity Growth:** The region will likely at least **double its current data center capacity in the next 3–5 years**. With 463.5 MW under development as of 2024 [4] [94], much of that will be coming online through 2025 and 2026. Additionally, new announcements keep coming. For example, if the EdgeConneX Bastrop campus proceeds, that's up to ~300MW spread over phases. Stream's 200MW in San Antonio, CyrusOne's 75MW (estimated) in Whitney, Microsoft's incremental builds (each of those Castroville/SAT sites could be ~30–50MW each), Meta's Temple (~150MW+ planned), all these suggest **hundreds of megawatts of new capacity** operational by 2027. CBRE's identification of Austin/San Antonio as a top growth market is likely to hold; we might see the region rival Northern Virginia for absorption in certain years if a few hyperscalers decide to go big simultaneously. The Texas Real Estate Research Center phrased it vividly: *"The AI revolution isn't just happening online, it's being built acre by acre right here in Texas… a full-on infrastructure rush"* [129] [130]. This indicates a boom mentality is expected to persist near-term.
- **New Entrants:** A number of data center operators that are not yet in Central Texas may enter soon. **Examples**: Equinix has no data center in Austin/San Antonio – this gap is glaring since they thrive in tech markets. It would not be surprising if Equinix either acquires a local player or builds a facility by 2025-26. **NTT Global** (which built in Dallas) might eye Austin, especially given Japanese companies (like NTT and SoftBank via Stargate) are interested. **EdgeCore** or **Aligned** (other big wholesale providers) are also candidates – Aligned just expanded in Dallas and could extend their footprint down the I-35 corridor. In Waco, if one large hyperscaler comes, it might attract a supporting ecosystem, including maybe a colo provider to serve suppliers or smaller tenants that want to be near the big campus.
- **Hyperscaler Strategy – Texas as a Core Hub:** The major cloud firms (AWS, Microsoft, Google, Oracle) are clearly treating Texas as a strategic region for new capacity. Oracle's involvement in a giant AI campus plan (Stargate) implies a big portion of that $100B initial investment will land in Texas [98] [131]. That project alone envisions **20 data centers nationwide, with up to 10 in Texas** [98] [132]. While West Texas (Abilene) gets the first one, Central Texas could easily host a few given our analysis of power and connectivity. If even a fraction of that comes to fruition, it's transformative – those 20 sites likely mean on the order of 20 x (several hundred MW each) across the US. So potentially a couple thousand MW in Texas in next 5–7 years from that initiative alone.
- **Edge and 5G Ramp-Up:** By 2028, we should see tangible deployments of edge compute tied to 5G and IoT in Central TX. This might not massively add to MW capacity (edge nodes are small), but it will change the *distribution* of infrastructure. We might see *micro-data centers at dozens of cell tower sites* in the region, or enterprise campuses (like a university or hospital network in Waco) using on-prem edge boxes that then connect to larger regional data centers.
- **Economic Impact:** The economic projections are strong. Data centers will inject capital investment and jobs. For instance, the Bastrop EdgeConneX project if it lands, valued at $5B, would create thousands of construction jobs and hundreds of operational roles, and it was mentioned it could increase Bastrop County's tax base by ~33% [114] [133]. Multiply that across a few counties (Travis, Williamson, Bexar, Bell, etc.) and the impact is enormous. One estimate from the Data Center

Coalition claims data centers in Texas paid $3.2 billion in state/local taxes in 2022 [134] – expect that number to climb steeply, benefiting public coffers (hence why local governments remain supportive).

Anticipated Developments

- **Large-Scale Power Projects:** To support data center growth, we anticipate new power generation or microgrid projects. The LinkedIn article by a microgrid exec suggests **natural gas microgrids will proliferate to support data centers' high reliability needs** [47] [135]. Already, companies like Enchanted Rock are deploying large gas generator farms at some data centers in Houston; this trend will come to Central TX – a new campus might build, say, a 100MW on-site gas plant to both supply itself and help the grid at peak times. This could be an anticipated development given ERCOT's push for more *dispatchable* power to complement renewables [136] [137].
- **Renewable Energy Investments:** Hand-in-hand, data center operators will invest in renewables. We can expect additional solar farms in Central Texas dedicated to powering data centers (like Meta's use of True North Solar near Waco). Possibly, some operators might try something novel like *on-site solar plus battery* at their campuses (though space for solar on-site is usually limited relative to load). At minimum, more **renewable PPA announcements** tied to these data centers will come – e.g., "X operator signs 200MW solar PPA to power new Austin data center cluster."
- **Zoning Changes and Data Center Districts:** As growth continues, some local governments might create specific **"data center districts"** or overlay zones. This happened in other markets (Loudoun County, VA has specific data center zones). For instance, Austin or San Antonio might designate certain corridors for data center development to streamline approvals. Waco, seeing potential, could market an industrial park specifically for data centers (with ready fiber and dual power feeds) as a way to lure a project. We might hear about new business parks in places like **Seguin, New Braunfels, Round Rock, or Killeen** aiming to attract data centers, riding the wave.
- **Infrastructure Strains & Responses:** On the flip side, with so much growth, we may encounter some growing pains:
- **Power Grid Strain:** If Texas hits those projected load increases (ERCOT sees large flexible loads growing to 54 TWh in 2025, up 60% from 2024 [138]), summer peaks will be challenging. We might see occasional *calls for voluntary curtailment*. Data centers, ironically, could become stabilizers – some can feed power back or reduce use at critical moments. But if extreme events cause rolling outages, it will test the resiliency planning (backup generators, etc.). The industry will likely respond by lobbying for (and even co-investing in) grid upgrades – similar to CPS's effort, perhaps Austin Energy will announce a major capacity expansion plan if multiple big projects land in its territory.
- **Supply Chain and Construction:** Building dozens of data centers simultaneously could strain the construction labor pool and equipment supply. Lead times for generators, switchgear, transformers have grown (sometimes 12-18 months now). If every project hits go, expect some delays or cost inflation. Texas has a solid construction industry, but skilled labor (electricians, commissioning engineers) might be a bottleneck. Training programs (like those Meta and others are doing with community colleges) will need to scale up to supply enough technicians to operate all these new sites [88].
- **Environmental Pushback:** As awareness grows, large water consumption or carbon emissions might draw some pushback from communities or activists. We saw minimal pushback so far, but if, say, an extreme drought hits and residents are on water restrictions while a data center uses water for cooling, that could create controversy. Data centers will have to be good corporate citizens – using recycled water, minimizing noise from cooling towers and generators (installing sound walls, etc.), and engaging with communities (like EdgeConneX promised to "engage in the community" in Bastrop [139] [140]). We anticipate **more emphasis on sustainability measures**: green building

certifications, pledges for water-use efficiency, and adding community benefits (e.g., funding local infrastructure like the Bastrop project's huge boost to school tax revenue [141] [142]).

Challenges and Risks

The bullish outlook comes with several challenges and risks to monitor: - **Energy Availability and Cost Volatility:** While Texas power is cheap on average, it's also volatile. The infamous winter storm and some summer spikes saw electricity prices skyrocket. Data centers typically hedge with long-term contracts, but there's risk if extreme weather becomes more frequent. Additionally, if data centers drive huge demand increases, ERCOT might see sustained higher prices or even implement new "capacity market" mechanisms that could raise costs. Data center operators might respond by building more on-site generation as mentioned, but energy risk is something to watch. A related risk is regulatory: to keep the grid stable, Texas might impose new requirements on big loads (e.g., having interruptible contracts or minimum onsite backup fuel). These aren't deal-breakers but could add cost or complexity. - **Regulatory Changes:** At the state level, any major change in tax policy could affect attractiveness. The current legislature is pro-data center, but for instance, if Texas reconsidered its generous sales tax exemption or if local opposition to Chapter 313 replacements stalls, it could slightly dampen enthusiasm. National policies might also intrude – though unlikely, if there were federal moves around data center energy efficiency standards or incentives for other regions, that could shift some investment. On the flip side, positive policy (like federal investment in AI infrastructure, which Stargate sort of is) can accelerate growth in TX. - **Technology Changes:** The data center industry is subject to technological shifts. For example, improvements in server efficiency or a move toward distributed computing (edge) could reduce the need for giant centralized facilities – though in reality, trends like AI are doing the opposite (centralizing even more compute in hyperscale centers). Another tech wild card is *quantum computing* or other paradigms that might eventually change computing needs (however, that's beyond 5-year horizon likely). In the next 5 years, the safer bet is continued demand growth. - **Competition from Other Regions:** Central Texas is booming, but it's not alone. Other markets in the U.S. (Phoenix, Atlanta, the Midwest) are also vying for hyperscale projects with their own incentives and advantages (Phoenix has cheap power and proximity to California, Atlanta has huge fiber connectivity, etc.). There's a chance some projects that could have come to Central TX end up elsewhere due to specific needs. For example, a cloud provider needing geographic diversity might choose, say, an Oklahoma site instead of a third Texas site. Or if Texas grid reliability were doubted, a company might hedge by putting a region in a different state. So growth might not be *limitless* – it will depend on how Central TX competes. Right now, it competes well (hence second-largest market status [4]), but vigilance is needed to maintain that edge (through incentives, infrastructure, etc.). - **Local Economic Conditions:** Texas is growing in population and business climate, which is favorable for data centers (more users, more enterprises needing services). If, however, macroeconomic conditions turn (e.g., a recession or tech spending slowdown), data center absorption could temporarily dip. We saw in late 2022 some hyperscalers (like Microsoft) pause certain projects for a few months, and Meta slowed builds as it pivoted strategy [3]. These pauses can impact short-term outlook. But the 3–5 year consensus is that any dip would be followed by a strong rebound, due to secular drivers like AI, cloud, streaming, etc. In any case, investors should be mindful that the sector, while resilient, is not completely immune to broader economic cycles.

All things considered, the **risk-adjusted outlook for Central Texas's data center market is very positive**. The combination of strong demand drivers and Texas's advantages suggests robust growth ahead. Industry experts like JLL and Cushman & Wakefield rank Austin/San Antonio among the top emerging data center markets in the U.S. (with some reports noting Austin was the *fastest-growing market in Q4 2024*) [143] [144]. The next 3–5 years will likely see Central Texas move from "emerging" to **established major hub**, with Austin/

San Antonio being spoken of in the same breath as Northern Virginia, Dallas, Phoenix, and Silicon Valley when it comes to critical digital infrastructure.

The main tasks for stakeholders will be ensuring the supporting infrastructure (power, water, fiber, workforce) keeps pace and managing the growth sustainably. If that is done, Central Texas is on track to solidify its role as a **premier destination for data centers**, powering both the region's economy and contributing significantly to the digital backbone of the modern economy.

Sources: This report draws on data and insights from industry publications (CBRE, Data Center Knowledge, DataCenterDynamics), local news outlets (Community Impact, San Antonio Express-News via GovTech, KXXV Waco), statements from utility providers (CPS Energy, ERCOT forecasts), and announcements by data center operators (press releases and media coverage). Key source highlights include CBRE's North America Data Center Trends H2 2023 report for Austin/San Antonio [1], the Texas Real Estate Research Center's 2025 analysis [4] [18], news on major projects like Colovore in Hutto [22], EdgeConneX in Bastrop [5], Microsoft in San Antonio [24], Stream Data Centers in San Antonio [6], Meta in Temple [3], and legislative context from the San Antonio Express-News/GovTech piece [33] [74], among others. These sources are cited throughout the text to substantiate facts and figures.

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