



Citizens
National Bank

Quarterly Report

06.30.25

Economy

The Fed – Beige Book – July 16, 2025 Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District economy was up slightly over the reporting period. Nonfinancial services activity grew modestly while manufacturing production held steady. Retail sales declined notably. Loan volumes expanded at a moderate pace. Oil well drilling and completions declined, but production remained flat. Housing market activity weakened. Employment levels were unchanged, and prices continued to increase modestly except for tariff-related increases in the manufacturing sector. Outlooks generally remained pessimistic, and uncertainty elevated.

Labor Markets

The employment level was unchanged over the reporting period. While overall manufacturing employment grew modestly, some petrochemical manufacturers planned layoffs through the end of the year. In contrast, energy contacts noted reconsidering planned layoffs after the runup in oil prices as it is still difficult to find skilled oilfield workers. Some contacts reported layoffs due to federal government spending cuts, although others cited weak demand. Multiple contacts reported slow to no hiring at nonprofits with some mentions of job cuts. In addition, nonprofits noted their clients are facing increased difficulty finding employment. A few contacts that were still hiring reported that it had become easier to find qualified people. Wage growth was modest over the past six weeks and expectations for the year eased in June compared to three months ago.

Prices

Prices continued to increase at a moderate pace, driven by a notable pickup in the manufacturing sector. Manufacturing raw materials prices and finished goods prices rose further in June after rising following the April tariff announcement. A few energy contacts reported higher input costs because of the steel tariffs. A transportation equipment manufacturer noted that even prices for domestic steel have increased as demand shifted from imported steel to domestically produced steel. Expectations for 12-month price growth eased slightly in June compared to March as reported in a Dallas Fed survey of businesses.

Manufacturing

Manufacturing production was flat in June, and new orders continued to decline; however, capital expenditures grew moderately. There was slight growth in nondurable goods manufacturing excluding petrochemical manufacturing which experienced declines, and robust activity in machinery manufacturing. Some machinery manufacturers reported that they expect demand to increase further. Gulf Coast refineries noted little change in output. Manufacturing outlooks remained weak, and uncertainty increased. According to a Dallas Fed survey, the top outlook concerns for manufacturers are a potential recession, rising input costs, and mounting geopolitical uncertainty.

Retail Sales

Retail sales declined notably again in June. Auto sales also declined after consumers had pulled up their purchases. An auto retailer reported that car manufacturers are decreasing incentives to offset tariffs, further alienating prospective buyers. According to a Dallas Fed Survey, 37 percent of retailers experienced supply-chain disruptions or delays in June, a notable increase from a year ago when 15 percent experienced the same. However, the problem is not as widespread as during the pandemic. Retail outlooks remained negative amidst elevated uncertainty.

Nonfinancial Services

Activity in nonfinancial services grew modestly during the reporting period. Growth was driven by a rebound in the information and other services sectors. Meanwhile, transportation services activity deteriorated further. Airlines reported weak but stable demand for both leisure and business travel attributable to cuts to government spending and consumers taking a wait-and-see approach to booking summer travel.



Transportation and warehousing contacts noted an excess in trucking and warehouse capacity due to a pullback in demand. Staffing services firms spoke of a slight increase in demand after it bottomed out in May. In a Dallas Fed survey of business executives, the top three outlook concerns were a potential recession and high geopolitical and domestic policy uncertainty. Outlooks remained pessimistic.

Construction and Real Estate

Housing market activity weakened during the reporting period. Foot traffic and sales continued to fall, and inventories were rising quickly. With softer demand, builders are increasingly relying on marketing and incentives, including discounting, to close deals. Lot supply is rising and starts have slowed. Outlooks were pessimistic amid weak demand and elevated economic uncertainty.

Commercial real estate activity largely remained steady during the reporting period. Apartment leasing was solid, but rent growth continued to be subdued due to the elevated supply of new units. Office leasing picked up modestly, and contacts said there appear to be more signs of stability. Industrial activity softened slightly. New commercial construction activity was subdued, and outlooks remained cautious.

Financial Services

Loan volume and demand accelerated in June after little-to-no-growth in the prior month. Strength was driven by commercial lending, while volumes continued to decline slightly for mortgages and consumer loans. Credit tightening continued, but loan pricing declined. Increases in loan nonperformance were markedly more widespread than in the prior period. Bankers reported rising general business activity for the first time in two months, however, their outlooks remain mixed. Survey respondents expect an improvement in loan demand and business activity six months from now, but loan nonperformance is anticipated to increase.

Energy

Activity in the oil and gas sector was slightly down over the past six weeks. Drilling and well completion activity continued on a slow decline, but production held steady. Contacts noted that while the runup in oil prices due to the Mideast war temporarily boosted revenues for some, it did not last long enough to change spending plans for the year. Contacts expect to cut capital spending in the second half of the year by more than initially planned, as oil prices will likely stay low on account of rising overseas production. Energy companies also reported elevated uncertainty. While outlooks for the energy industry are slightly pessimistic, oil production is projected to hold steady.

Agriculture

Drought conditions continued to ease, and timely rainfall boosted crop conditions across the District. Crop production prospects are favorable so far, but prices remain unprofitable for most farmers. Cattle prices continued to set new records. Wholesale beef prices were also in record territory. Contacts attributed the price strength to lower beef production paired with robust consumer demand. Contacts noted concern in the agricultural community over continued tariff and geopolitical uncertainty. A survey of agricultural bankers found that changes and uncertainty in trade policy have led to a decline on net in the rate of loan repayments, loan demand, and net farm income, and they anticipate this downward trend to continue.

Community Perspectives

Demand for social services remained elevated as nonprofits continue to adjust to actual and pro-posed federal spending cuts. Nonprofits are working on locating new private sources of funding to fill the gap. Some contacts reported that private dollars are also in short supply as competition for donations and economic uncertainty both increased. A Houston-area nonprofit had once expected donations from the oil and gas sector to rise because of changes in federal policy, but donations have decreased as the sector faces domestic and geopolitical uncertainty. A few contacts commented that clients are not seeking services out of fear of Immigration and Customs Enforcement raids. Some organizations noted utilizing artificial intelligence (AI) to improve efficiency and help cut costs. They noted various AI use cases such as performing human resources tasks, conducting research, analyzing data, taking notes, and proofing documents.



Housing / Construction & Demographics

June 2025 Central Texas Housing Market Report:



AUSTIN, Texas — According to the June and Mid-Year 2025 Central Texas Housing Report released by Unlock MLS, closed sales in the Austin-Round Rock-San Marcos MSA rose 0.5% to 2,762 sales compared to June 2024, while the median sales price remained flat at \$450,000. Year-to-date, closed sales dipped 6.4% to 15,015 sales, a decline that was anticipated following early-year economic uncertainty. As inventory rises and market activity gradually levels out, the Central Texas housing market continues to demonstrate signs of stability heading into the second half of the year.

Vaike O'Grady, research advisor at Unlock MLS, said the data reflects a market that's steadily finding its footing. "The Central Texas housing market is continuing a gradual adjustment following a subdued start to the year, with current indicators signaling movement toward a more balanced environment. Although year-to-date sales remain below 2024 levels, the rate of decline has moderated, and rising inventory is expanding buyer choice."

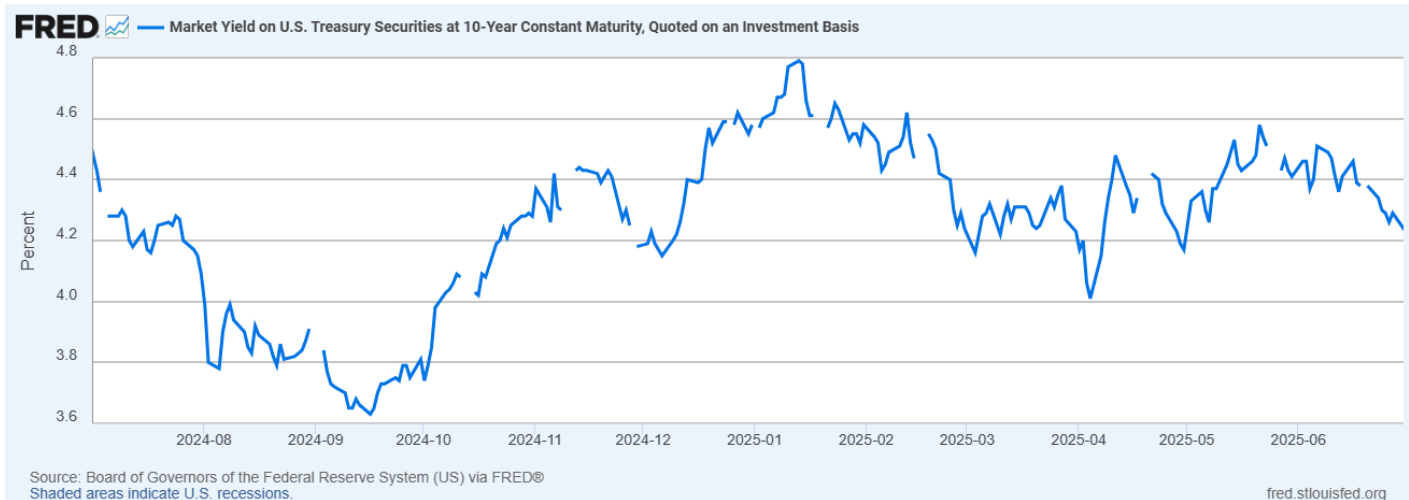
She added, "At the same time, the median sales price has held steady, underscoring ongoing demand and reinforcing long-term confidence in the Austin market. Mortgage rates are expected to stay relatively stable, meaning sellers will need to remain flexible on pricing to maintain progress, particularly as affordability remains a significant hurdle for many first-time buyers. With over 15,000 homes sold year to date, the market is potentially positioned to close the gap with last year's pace if these trends continue."

Source: Unlock MLS: Central Texas housing market steadies in first half of 2025 despite early-year headwinds



Capital Markets

As of 06/30/25 mortgage interest rate levels for conventional, conforming fixed rate 30-year mortgage loans, was 6.50% according to TIB. The U.S. 10 Year Treasury closed at 4.21%. The S&P 500 closed at 6,253.75.



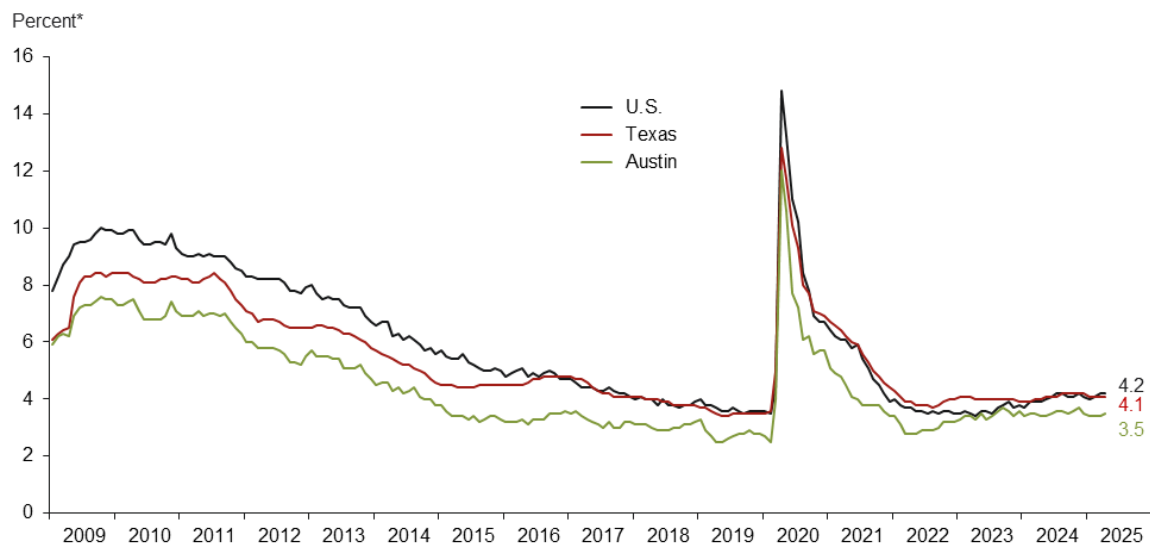
Austin Market

Austin economy dashboard (April 2025)

Job growth (annualized) Jan.-April '25	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
1.5%	3.5%	\$35.82	4.2%

Austin's unemployment rate ticked up to 3.5 percent in April, below the state and national rates of 4.1 and 4.2 percent, respectively (Chart 1). In April, the local labor force increased an annualized 9.6 percent, while the state's increased 2.8 percent, and the nation's grew 3.9 percent.

Chart 1
Unemployment rate



*Seasonally adjusted.

SOURCE: Bureau of Labor Statistics, adjustments by the Dallas Fed.

Federal Reserve Bank of Dallas

Austin employment increased an annualized 3.6 percent in April—faster than the 0.6 percent growth in March. In the three months ending in April, employment increased 1.5 percent. The greatest gains were in professional and business services (2,550 jobs) and leisure and hospitality (1,470 jobs). Sectors that declined include information (790 jobs) and manufacturing (430 jobs). Austin's year-to-date employment in April grew 1.5 percent and was slower than Texas,' which boasted 2.6 percent growth, but was faster than the nation's, which was 1.1 percent.

Sales taxes, the barometer of local economies statewide, are listed below, according to the State Comptroller's Office for the most recent quarter available.

County	Sales Subject to Tax (000's)	% Change from year on year
Bell	1,105,191	0.5%
Williamson	3,081,435	-1.9%
Milam	44,264	-1.8%
Lee	61,020	-13.4%
Travis	9,573,761	-2.1%

Projects

AUSTIN – A 200,000-sf mixed-use development called 4201 S. Congress Ave. is being planned in the St. Elmo District. The development will have eight mid-rise buildings located at the intersection of S Congress Ave. and Industrial Blvd. There will be seven buildings integrated with retail, restaurant, and office space. Building one will be 10,500 sf and will rise 29 ft. Building two will be 67,763 sf and rise 60 ft. Building three will have 22,665 sf of office space, building four will be 19,894 sf and rise 56 ft, building five will be 22,275 sf, building seven will be 23,541 sf, and building eight will be 15,718 sf. Building six will include a 494-car parking garage as well as 18,100 sf of restaurant space. The five-and-a-half-acre property is already developed with three buildings, two of which will be demolished, and the third, which is 84,000 sf, will only be partially demolished.

AUSTIN – RangeWater Real Estate and The Meridian Group are developing a 240-unit apartment complex on a 7.9-acre site at 11800 Menchaca Rd. The property will have a mix of studio, one-bedroom, and two-bedroom units that will range from 549 to 1,264 sf. Amenities will include a pool, clubhouse, fitness center, dog park, a speakeasy-inspired garden room, library, flexible office spaces, courtyards, and outdoor grilling and dining stations. Construction is set to begin in the coming weeks and wrap in early 2027.

ROUND ROCK – Amazon has begun site work on a 223,285-sf distribution facility at 2801 CR 172. The delivery warehouse will be on a 149-acre site acquired in 2021. The land could potentially have a data center as well. The project is expected to cost \$72 million. Vertical construction will begin before the end of 2025. Move-in is expected in 2026.

TEMPLE – Meta Platforms Inc. is continuing development of an \$800 million hyper-scale data center campus, after pausing construction in 2022. The 900,000-sf project broke ground on 384 acres at 3103 Industrial Blvd. three years ago. The development, which will also include administrative buildings, will use water-efficient cooling technology and other water-saving fixtures, along with native vegetation, to reduce irrigation demands and capture and infiltrate rainwater. Construction is expected to wrap in 2027.

AUSTIN – Pearlstone Partners has broken ground on The Belvedere, a 158-unit condo project. The 300,000-sf development will sit on three acres at 300 Pressler St. It will have one-, two-, and three-bedroom units ranging from 766 sf to 2,488 sf and priced between \$800,000 and \$3 million. Pearlstone will invest \$1.5 million into a park on The Belvedere's lawn to upgrade sidewalks, build new bikeways, and improve public access. Construction is expected to cost \$154.5 million and wrap in August 2027.

BASTROP – Pearl River Companies will break ground this month on the next phase of Sendero, a 75-acre mixed-use development. Located at the intersection of Hwy. 71 and FM 969, the development will have a hotel, retail, dining, housing, and health and wellness options. The development will have 782 units in total, half of which have already been completed in the first phase of the Alta Trails apartments. The next phase will focus on the construction of commercial retail space. Businesses are expected to open in spring 2026. The entire project is estimated to be completed in 2030.

BELTON – Amazon is building a 127,000-sf delivery station at 3125 Capitol Way. The 56-acre site was rezoned for an industrial park last November. The \$25 million project will have a tilt-up delivery station with supporting offices and on-site ancillary structures. Construction is slated to begin this May.

KYLE – Toll Brothers Inc. is developing a luxury single-family home community at the intersection of 6 Creeks Blvd. and Bramble Blvd. Homes will be constructed on 80- and 100-ft-wide lots. The development will have two styles of homes ranging from 3,150 to over 5,600 sf. Pricing will start in the mid-\$800,000s for the Brook Collection, while homes in the Spring Collection will begin in the mid-\$900,000s. Amenities will include a clubhouse, outdoor pool, and playground. Home sales are expected to begin this fall.



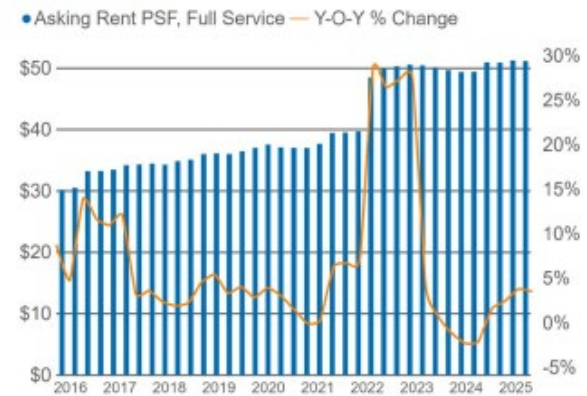
Office



AUSTIN OFFICE MARKET | Q1 2025

- **Direct vacant available rate** in Austin reached 14.5% this quarter. Total availability stands at 22.8%, down 50 basis points from last quarter and 40 year-over-year.
- **Net absorption** in Austin totaled -415.19K SF in Q1 2025. This was led by Northwest submarket which posted the largest move-outs at -356.77K SF.
- **Full-service rents** in Austin averaged \$51.14 PSF this quarter. The Central Business District led growth at \$65.65 PSF, up \$0.51 PSF QoQ.
- **Construction pipeline** in Austin totals 4.35M SF this quarter. 3 buildings totaling 173.55K SF delivered this quarter with 21.2% pre-leased.

ASKING RENT



DELIVERY IMPACT ON KEY INDICATORS



UNDER CONSTRUCTION



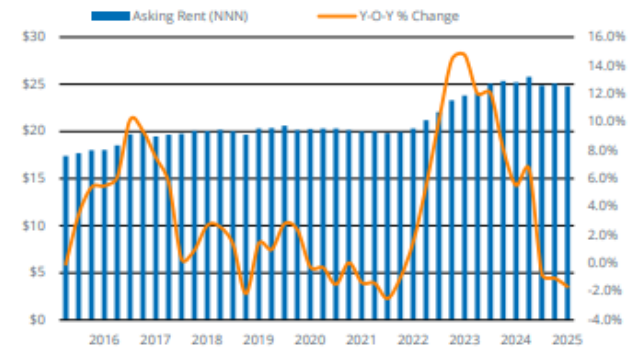
Retail



AUSTIN RETAIL MARKET | Q1 2025

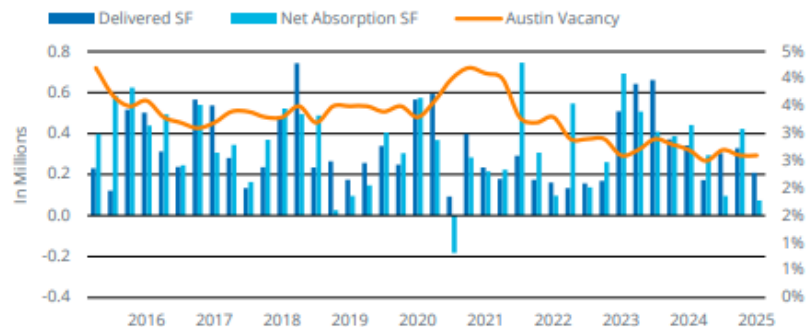
- Net absorption** totaled 99,310 square feet for Q1 2025. Retail absorption has remained positive every quarter since 2020, however quarterly totals are trending downwards due to economic headwinds.
- The **direct vacancy** rate was 3.3% for the quarter and has not risen above 4% for the last 40 quarters.
- Net asking rents** averaged \$26.26 net psf for this quarter, a 1.7% decline year over year.
- There is 2.6 MSF **under construction** in the Austin Metro area this quarter. The most notable projects include the 500,000 SF Nebraska Furniture Mart project in Cedar Park, which will be a single-tenant stand alone building, and Manor Crossing, a 425,000 SF power center located in the Far Northeast submarket.

ASKING RENT



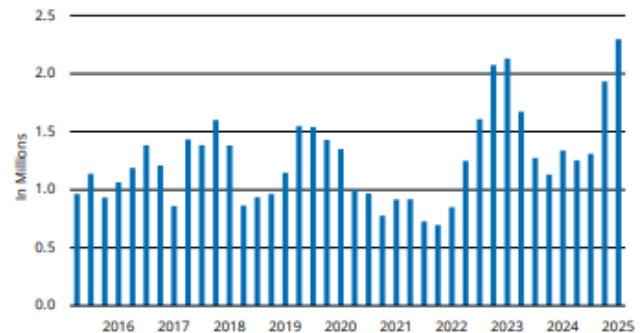
Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



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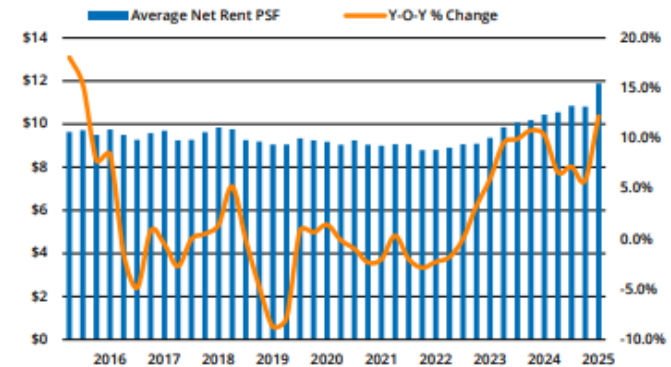
Industrial



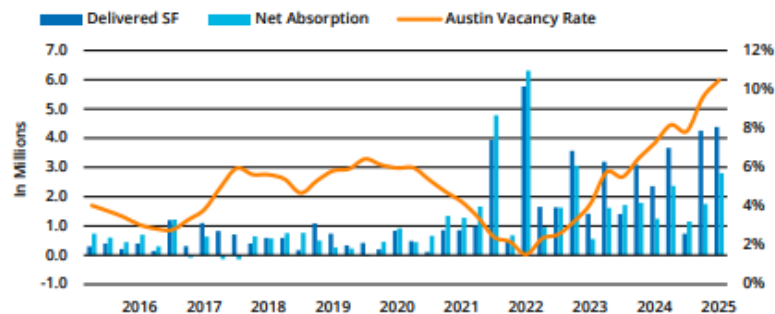
AUSTIN INDUSTRIAL MARKET | Q1 2025

- Net absorption** totaled 2,806,247 SF for the quarter. This is a 56% increase year-over-year.
- The **direct vacancy** rate is 10.5% for the quarter, a 1.6% increase over last quarter and a 3.0% increase over last year's direct vacancy rate.
- Average asking rents** increased to \$11.89 net PSF, which is a 12.2% increase year-over-year.
- There is 2.8 MSF **under construction** this quarter which is 35% pre-leased, and 4.39 MSF of new industrial product delivered in Q1. The largest projects under construction include CTX 110 1-4 at 893K SF in the Hays County Submarket and Austin Hills Commerce Center Phase I at 544K SF in the East Submarket.

ASKING RENT

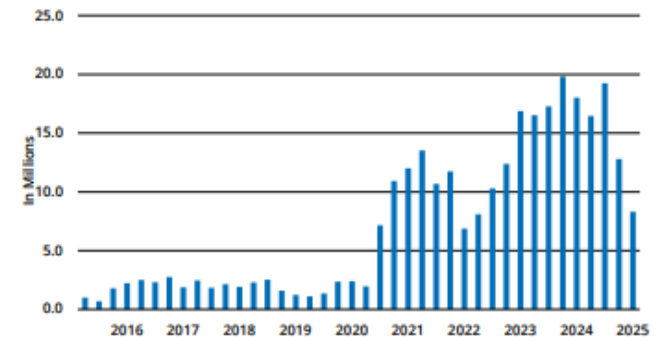


DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern



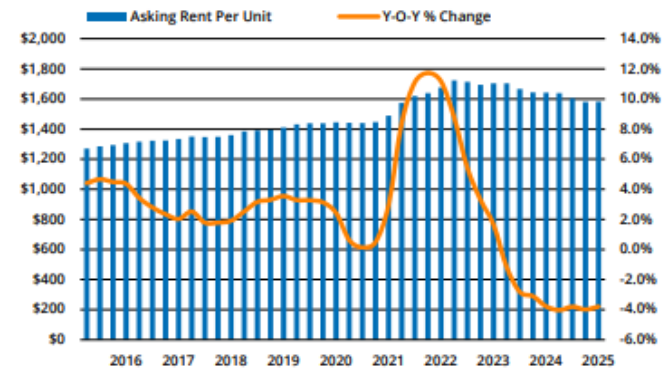
Apartments



AUSTIN MULTIFAMILY MARKET | Q1 2025

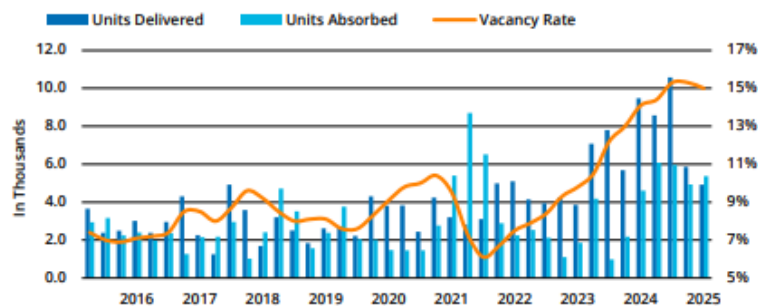
- Net absorption totaled 5,365 units for Q1, which is up from the previous quarter but down from one year ago.
- The vacancy rate was 15.0% for Q1, which is down (0.3%) vacancy during the previous quarter but up 0.9% from one year ago.
- Asking rents continue to decline, with a unit average at \$1,588 and a per square foot average of \$1.81. This is a (3.8%) decline year over year.
- There are 27,691 units under construction as of this quarter. Construction starts continue to taper off from their peak in Q1 2023.

ASKING RENT



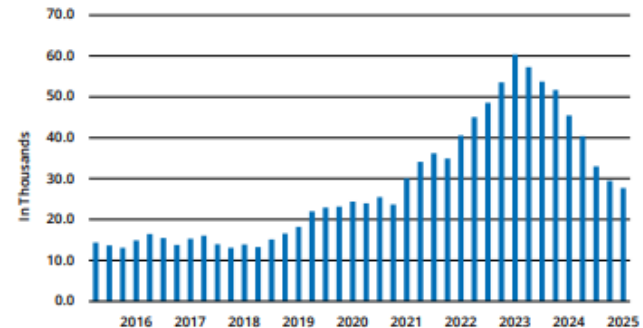
Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

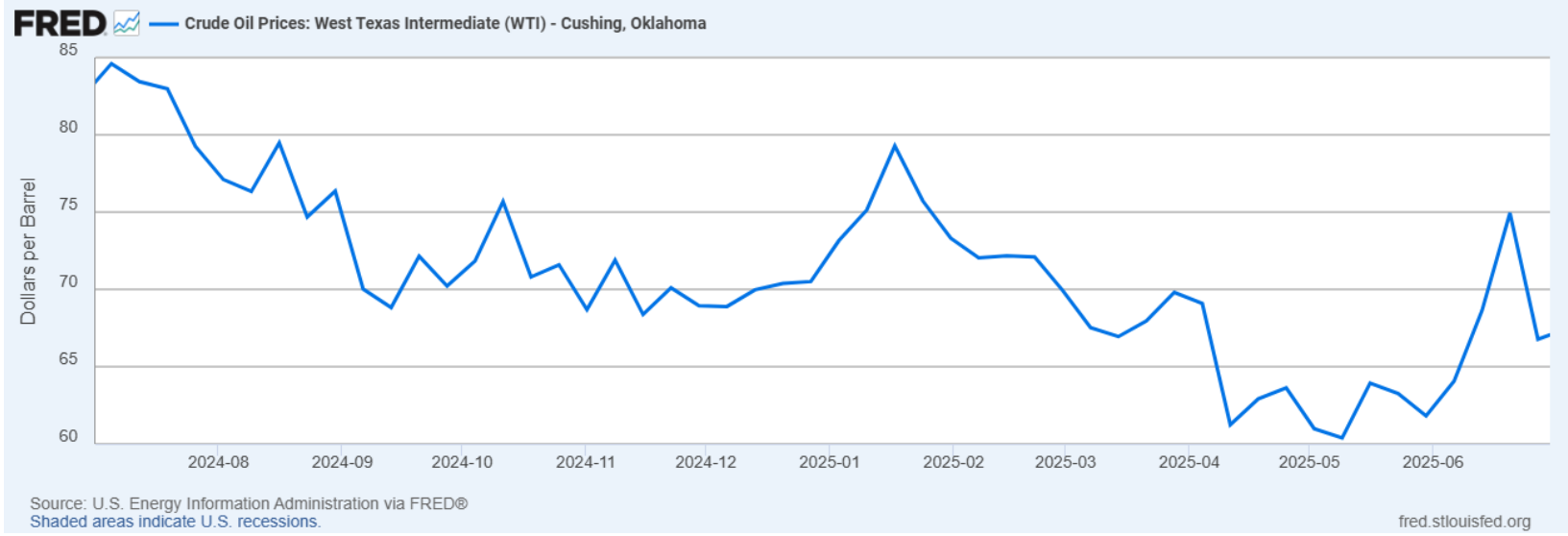
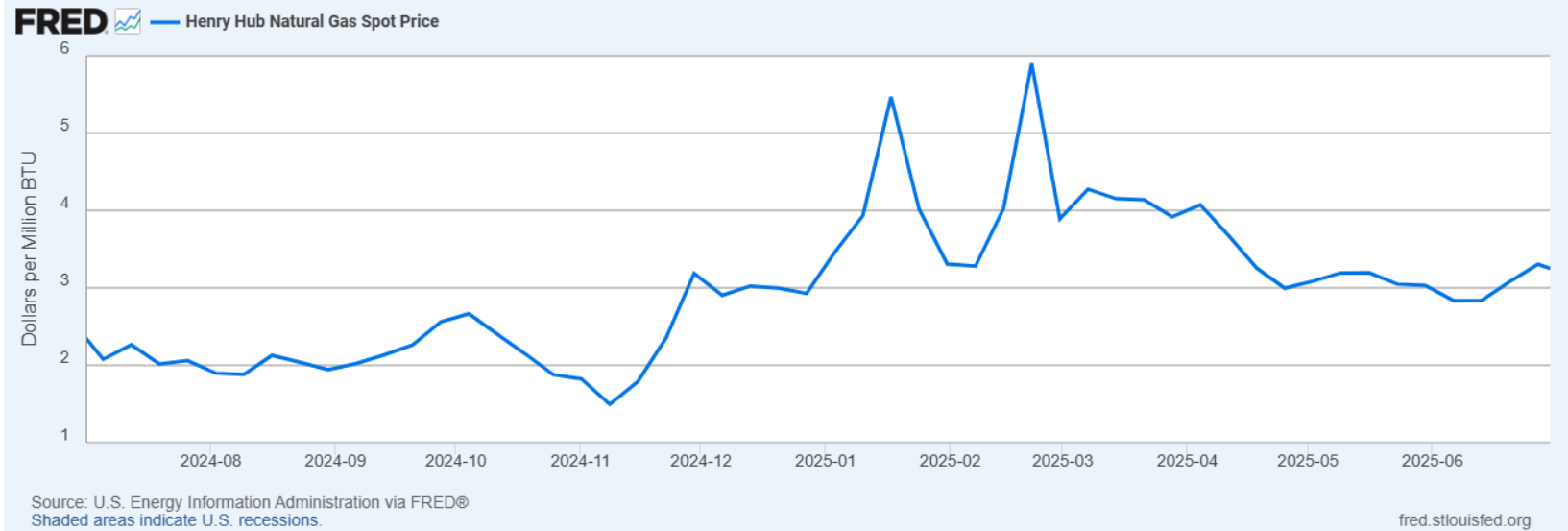
UNITS UNDER CONSTRUCTION



Source: CoStar, Transwestern



Energy



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