



Commercial Real Estate Entering the Age of Artificial Intelligence

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Key Points

- **AI will be a major driver** of real estate divergence across property sectors and metropolitan areas.
- **Economic winners** will likely include technology, healthcare, life sciences, advanced manufacturing, and digital infrastructure.
- **Data centers, industrial assets, medical offices, life sciences, and senior housing** are the CRE sectors that appear best positioned to benefit.
- **Commodity office, traditional retail, and parking-intensive assets** face the greatest disruption risk.
- **Investors should focus** on markets with strong innovation ecosystems, human capital, and exposure to high-value industries.

Artificial Intelligence and the Future of Commercial Real Estate

Artificial intelligence (AI) is an important force shaping commercial real estate over the next decade. While much of the public discussion around AI focuses on labor markets, technology companies, and the future of work, the second-order effects on real estate are also significant. Commercial real estate ultimately reflects economic activity. As AI changes how companies operate, where value is created, how labor is organized, and which industries grow or decline, demand for different property types will change accordingly. The most likely outcome is neither a Shangri-La type leisure-based utopia nor a dystopian mass unemployment collapse. Rather, AI should function as a powerful productivity-enhancing technology that amplifies human capabilities and accelerates economic change.

There remains considerable debate about AI's ultimate impact on employment. In May 2025, Anthropic CEO Dario Amodei warned that artificial intelligence could eventually eliminate as many as half of all entry-level jobs. More recently, however, he emphasized that AI also creates an opportunity for businesses to expand output rather than simply reduce headcount.

Companies can either use AI to accomplish the same amount of work with fewer employees or leverage the productivity gains to produce more goods and services with the same workforce; which path they take depends on innovation, investment, and managerial creativity. Some major U.S. companies are resuming hiring after pausing recruitment, recognizing that artificial intelligence is most effective when paired with skilled human talent. Companies including Alphabet, CSX, and Booz Allen Hamilton are expanding hiring in strategic areas such as AI, cloud computing, national security, and operations to support growing business demand.¹

Meta Platforms CEO Mark Zuckerberg has expressed a similar view, arguing that if productivity growth outpaces automation, AI could ultimately create more jobs than it eliminates.² Nevertheless, Meta's own actions illustrate the tension between these competing outcomes. In 2025, the company laid off approximately 8,000 employees as part of an effort to flatten its organizational structure while simultaneously accelerating its investments in AI, underscoring that the transition may involve significant labor market disruption even if the long-term effects prove positive. Meta itself is an example of how AI adoption can create both winners and losers, even within a single company: it is making significant investments to attract and retain senior AI executives and researchers through highly competitive compensation packages, while simultaneously implementing broader workforce optimization measures, including headcount reductions, and lower median employee compensation.³

AI is also abetting entrepreneurship as it is becoming easier to start a new business assisted by AI without the need to hire as many employees as in the past.⁴

Interest Rates

The broader economic implications of AI may also affect real estate capital markets. If AI drives significant productivity gains but concentrates wealth among technology firms, capital owners, and highly skilled workers, governments may face pressure to expand social support programs. Higher public spending and larger fiscal deficits

could contribute to persistently elevated interest rates. For commercial real estate investors, this possibility is particularly important because capitalization rates, financing costs, and asset valuations are heavily influenced by interest rate levels. Even if AI boosts economic growth, the distribution of those gains may influence fiscal policy and ultimately impact real estate returns.

Jevons Paradox

Jevons paradox is the observation that improvements in the efficiency with which a resource is used can increase, rather than decrease, total consumption of that resource.

The concept was introduced by the English economist William Stanley Jevons in his 1865 book *The Coal Question*, where he argued that advances in steam engine efficiency made coal-powered machinery cheaper to operate, expanding industrial activity and ultimately increasing overall coal consumption instead of reducing it. This principle has since been observed in many domains, including transportation, computing, and communications, where lower costs drive higher demand.

In the context of AI, Jevons paradox suggests that the primary effect of increasingly capable AI is to make firms substantially more productive, not merely to reduce costs within existing business processes. As AI enables businesses to produce goods and services more efficiently, production costs fall, allowing companies to lower prices, improve quality, or expand output. Lower prices, in turn, stimulate demand, encouraging consumers and businesses to purchase more of these goods and services. This increased economic activity drives broader adoption of AI across industries, creating new products, services, and markets that were previously uneconomical.

Sectors

A key question is which economic and property sectors will benefit, and which will face structural headwinds. One of the earliest impacts of AI is likely to occur in information-intensive industries.

Healthcare, education, financial services, software development, life sciences, consulting,

¹ Chip Cutter. (2026, July 26). *Big Companies Are Starting to Hire Again, Defying Predictions of AI Wipeout*. The Wall Street Journal.

² Katherine Bindley. (2026, July 6). *Big Tech Has Suddenly Flipped on the AI Jobs Wipeout Scenario*. The Wall Street Journal.

³ Beth Kowitt. (2026, July 10). *Meta Is Ushering In the Era of the K-Shaped Company*. Bloomberg Opinion.

⁴ The Economist. (2026, July 27). *America has become an entrepreneur's paradise*. The Economist.

and engineering all contain significant bottlenecks where expert judgment and prediction are scarce and expensive. AI has the potential to dramatically increase productivity in these sectors by lowering the cost of analysis, diagnosis, research, and decision-making. As these industries expand, the real estate that supports them should benefit as well.

Among the clearest winners are likely to be research and development facilities, life science laboratory space, medical office buildings, and technology-oriented campuses. AI is already accelerating drug discovery, improving disease diagnosis, and enabling more personalized healthcare.⁵

If these trends continue, demand for biotechnology and life science facilities could grow significantly. Medical office properties may also benefit as healthcare becomes increasingly preventative, data-driven, and accessible. The healthcare sector's importance is particularly notable because improvements in health and longevity may ultimately represent AI's greatest contribution to society. Longer life expectancy and healthier populations would create sustained demand for healthcare infrastructure and age-related housing solutions.

Should life expectancy improve without a commensurate increase in health spans - senior housing may therefore emerge as a long-term beneficiary of AI. If medical advances allow people to live longer lives, the number of seniors requiring housing, assisted living, memory care, and healthcare services will rise substantially. Unlike many commercial property sectors that are sensitive to economic cycles, major components of senior housing demand are driven primarily by demographic trends.

Industrial real estate also appears well positioned. As AI becomes embedded in manufacturing, logistics, and supply-chain management, demand for advanced industrial facilities may increase. Companies may seek greater control over critical supply chains, particularly in a world where geopolitical tensions and economic fragmentation remain elevated. Automated factories, robotics-enabled production facilities, and highly sophisticated distribution centers will require specialized real estate. Warehouse and logistics facilities could continue

benefiting from both e-commerce growth and increased domestic manufacturing investment. In many cases, AI may enhance, rather than reduce, demand for industrial properties because physical production, storage, and distribution remain essential regardless of how intelligent software becomes.

On the surface, the single most obvious real estate winner is data centers. AI systems require enormous computational power, storage capacity, and energy consumption. Every advancement in artificial intelligence increases demand for digital infrastructure. Data centers increasingly resemble the industrial facilities of the digital economy, providing the essential infrastructure upon which AI applications operate. As AI adoption accelerates across industries, demand for data center capacity, power generation, transmission infrastructure, and related facilities is likely to grow substantially. This trend may create investment opportunities not only in data centers themselves but also in power generation assets, utility infrastructure, and industrial properties that support digital ecosystems.

Today's extraordinary demand for data centers reflects the rapid growth of artificial intelligence and cloud computing, but investors should remain mindful that technology evolves in unexpected ways. History shows that computers once occupied entire rooms, or even city-block-sized facilities for the largest systems, whereas a modern smartphone now delivers vastly greater computing power than those early machines. As advances in chip design, software efficiency, and distributed computing continue, and with some companies even exploring the possibility of space-based data centers to address power and cooling constraints, future infrastructure requirements could look very different from today's, warranting a measure of caution despite the current boom.

The outlook for office properties is considerably more uncertain. AI is likely to reduce demand for certain categories of routine knowledge work, allowing companies to generate greater output with fewer employees. Traditional white-collar functions involving administrative processing, documentation, analysis, and repetitive decision-making are particularly vulnerable. This does not necessarily imply a collapse in office demand, but

⁵ U.S. Food and Drug Administration. (2026, June 16). *Artificial Intelligence-Enabled Medical Devices*. U.S. Food and Drug Administration.

it may place continued pressure on office utilization and leasing activity.

At the same time, AI may increase the importance of certain human capabilities that are difficult to automate. Judgment, persuasion, relationship management, leadership, and coordination are likely to become more valuable as routine cognitive work becomes less valuable. Organizations may place greater emphasis on collaboration and interpersonal interaction, potentially favoring high-quality office environments that facilitate teamwork. However, the overall office sector is likely to experience significant bifurcation, with premier assets outperforming commodity office buildings. Owners of older, undifferentiated office properties may face increasing challenges.

Retail real estate is also likely to undergo significant change. Consumers increasingly rely on technology to make purchasing decisions, compare products, and manage complexity. As AI agents become more sophisticated, purchasing decisions may become increasingly automated. This could weaken the power of traditional branding and further strengthen e-commerce platforms that can optimize selection, pricing, and fulfillment. Retail properties tied primarily to physical goods distribution may face continued pressure, while experiential retail, entertainment, dining, and service-oriented retail may prove more resilient. In an AI-enabled economy, human experiences may become relatively more valuable as digital interactions become abundant.

Autonomous Vehicles Bring Another Dimension

Autonomous vehicles (AVs) are another manifestation of AI systems. AI is the "brain" that enables AVs to perceive their surroundings, make decisions, and navigate safely, while sensors, maps, and vehicle control systems provide supporting hardware and infrastructure.

Autonomous vehicles have the potential to significantly reshape commercial real estate by changing how people and goods move through cities and suburban areas. As self-driving technology becomes more common, businesses may rethink where they locate offices, retail centers, warehouses, and distribution facilities.

AVs could improve transportation efficiency, reduce commute times, and expand access to commercial districts, making previously less desirable locations more attractive for development. They are also expected to support the continued growth of e-commerce by enhancing last-mile delivery and logistics operations, increasing demand for strategically located industrial and distribution properties.

One of the most significant effects of AV adoption would be on parking lots and parking garages. Because autonomous vehicles can drop off passengers and either park more efficiently, relocate to less expensive remote parking, or remain in continuous operation, the need for large parking facilities in prime commercial locations may decline over time. If demand for parking decreases, property owners may have opportunities to redevelop surface parking lots and garages into higher-value uses such as office space, retail, residential units, hotels, or public green space. Developers are also increasingly considering flexible parking garage designs that can be converted into other commercial uses as transportation patterns evolve, helping preserve long-term property values.

Certain Metros Are Less Exposed Than Others to AI

AI could produce very different outcomes across metropolitan areas. The economic impact of AI, and potentially artificial general intelligence (AGI),⁶ will not be evenly distributed geographically. The regions facing the greatest risk will likely be those whose economies are concentrated in lower-value knowledge work and corporate back-office operations. Conversely, metropolitan areas with deep concentrations of advanced technology talent are likely to be more resilient because they are positioned to develop, commercialize, and benefit from AI. Occupations that are most exposed to AI include mathematicians, accountants, tax preparers, customer service representatives, statisticians, insurance underwriters, and telemarketers. Conversely, in-person jobs like massage therapists, dancers, bartenders, and hairdressers have much lower exposure.⁷

While a high concentration of employment in a traditionally high-paying sector such as finance

⁶ Dave Bergmann and Amanda Downie. (2026, July 14).

What is artificial general intelligence (AGI)?. IBM.

⁷ Adapted from Apollo Daily Spark, "How Exposed Is Your Job to AI? The Experts Can't Agree," 2026, based on occupational

AI exposure estimates from Massenkoff & McCrory (2026), Felten et al. (2021), Eisfeldt et al. (2023), Eloundou et al. (2024), and Tomlinson et al. (2025).

and insurance may appear to be an economic strength, excessive reliance on a single industry can increase a metropolitan area's exposure to sector-specific disruptions. Economic resilience is generally enhanced through a diversified employment base. The fundamental question is whether the finance and insurance sector within a given metropolitan area is disproportionately exposed to AI-driven disruption. One useful indicator of potential vulnerability is GDP per worker in the finance and insurance sector. Higher GDP per worker typically reflects a concentration of high-value activities such as investment banking, asset management, securities trading, venture capital, financial innovation, and executive decision-making. In contrast, lower GDP per worker often indicates a greater share of labor-intensive administrative functions, including claims processing, loan servicing, underwriting support, accounting, compliance, customer service, payroll, and other back-office operations. Many of these occupations are widely considered among the most susceptible to automation through generative AI and autonomous AI agents.

However, GDP per worker is an imperfect proxy and should not be viewed as a definitive measure of AI exposure. Differences in productivity and compensation reflect more than the occupational composition of local labor markets. They also capture geographic differences in labor costs, as employers typically pay lower wages in regions with a lower cost of living. In addition, some metropolitan areas, such as Dallas, are experiencing growth across the full spectrum of finance and insurance occupations, adding both high-value, knowledge-intensive roles and lower-paying operational positions. Consequently, differences in GDP per worker should not be attributed solely to the balance between high- and low-value-added employment.

Technology Concentration Suggests Greater Resilience

The technology employment location quotient (LQ)⁸ measures the concentration of technology workers relative to the national average. High concentrations indicate economies built around software engineering, semiconductors, artificial intelligence research, cybersecurity, cloud computing, and advanced product development.

Technology Employment by MSA Pre-GFC, Pre-Covid and Now											
		Workers (000s)	Growth		Location Quotient			Workers (000s)	Growth		Location Quotient
Rank	Metro	2026Q2	2008Q1- 2026Q2	2020Q1- 2026Q2	2026Q2	Rank	Metro	2026Q2	2008Q1- 2026Q2	2020Q1- 2026Q2	2026Q2
	United States	4,494	40.0%	8.7%	1.00	21	Tampa, FL	47	63.1%	19.9%	1.08
1	San Jose, CA	205	17.9%	-4.5%	6.19	22	Nashville, TN	32	185.1%	52.1%	0.93
2	Austin, TX	128	127.5%	44.2%	3.19	23	Jacksonville, FL	21	152.3%	33.2%	0.92
3	Seattle, WA	160	69.0%	8.2%	2.66	24	Chicago, IL	122	29.9%	3.5%	0.91
4	San Francisco, CA	183	88.0%	-7.4%	2.65	25	New York, NY	257	46.2%	12.0%	0.90
5	Washington, DC	229	21.3%	-2.8%	2.45	26	Indianapolis, IN	30	90.0%	12.0%	0.90
6	Raleigh, NC	44	100.5%	14.9%	2.00	27	Pittsburgh, PA	30	39.5%	-2.0%	0.89
7	Boston, MA	145	6.7%	-14.8%	1.87	28	Orlando, FL	37	60.7%	24.3%	0.87
8	Portland, OR	64	16.3%	-4.7%	1.87	29	Cleveland, OH	26	39.5%	10.9%	0.85
9	Colorado Springs, CO	17	27.9%	16.2%	1.81	30	St. Louis, MO	34	39.1%	0.9%	0.84
10	Dallas, TX	214	86.5%	33.9%	1.74	31	Los Angeles, CA	149	-5.9%	-10.7%	0.83
11	Salt Lake City, UT	41	63.9%	18.6%	1.70	32	Milwaukee, WI	20	-16.6%	-16.0%	0.83
12	Denver, CO	77	90.0%	11.3%	1.66	33	Philadelphia, PA	73	0.9%	0.8%	0.82
13	Baltimore, MD	64	61.3%	8.9%	1.56	34	Charlotte, NC	32	111.9%	19.8%	0.81
14	Kansas City, MO	47	49.1%	-0.3%	1.41	35	Detroit, MI	46	3.4%	-5.8%	0.80
15	Boise City, ID	16	7.5%	3.8%	1.39	36	Columbus, OH	26	30.2%	4.5%	0.77
16	Atlanta, GA	122	78.5%	18.4%	1.38	37	Miami, FL	61	75.8%	32.7%	0.73
17	San Diego, CA	59	24.8%	-9.7%	1.31	38	Cincinnati, OH	23	61.0%	9.5%	0.71
18	Minneapolis, MN	74	-0.3%	-5.2%	1.30	39	Houston, TX	66	26.4%	19.7%	0.67
19	Phoenix, AZ	79	33.5%	5.0%	1.12	40	San Antonio, TX	22	82.7%	18.7%	0.65
20	Rochester, NY	16	11.5%	-13.2%	1.08						

Source: Oxford Economics. As of 2026Q2

*Note: Sum of employment in 1) Software publishers, 2) Data processing, hosting, and related services, 3) Computer systems design and related services, and 4) Computer and electronic product manufacturing

⁸ Location quotients measure the concentration of an industry's employment relative to the national average, with

values below 1.0 indicating below-average specialization and values above 1.0 indicating above-average specialization.

These are industries that are likely to develop and commercialize AI. These industries also tend to generate innovation, attract venture capital, and create new firms, making them potential engines of economic growth as AI adoption accelerates.

The nation's leading technology hubs stand out by a considerable margin. San Jose ranks first with a technology employment location quotient of 6.19, meaning its concentration of technology workers is more than six times the national average. It is followed by Austin (3.19), Seattle (2.66), San Francisco (2.65), Washington, D.C. (2.45), Raleigh (2.00), and Boston (1.87). These metropolitan areas possess deep pools of technical talent, world-class research institutions, established startup ecosystems, and significant venture capital investment.

As a result, they are well positioned not only to adopt AI technologies but also to create them, allowing new investment and employment opportunities to partially offset job displacement resulting from automation.

While a high technology location quotient (LQ) indicates a strong concentration of tech employment relative to the U.S. average, several metros with below-average tech specialization are nonetheless posting some of the fastest employment growth. Nashville (LQ 0.93) leads all markets with 52.1% technology employment growth between 2020 and 2026, followed by

Dallas (LQ 1.74) at 33.9%, Jacksonville (LQ 0.92) at 33.2%, Miami (LQ 0.73) at 32.7%, Orlando (LQ 0.87) at 24.3%, Tampa (LQ 1.08) at 19.9%, Charlotte (LQ 0.81) at 19.8%, Houston (LQ 0.67) at 19.6%, San Antonio (LQ 0.65) at 18.7%, Salt Lake City (LQ 1.70) at 18.6%, Atlanta (LQ 1.38) at 18.4%, and Denver (LQ 1.66) at 11.3%. These results highlight emerging tech markets.

Government Response Will Vary

The economic gains from artificial intelligence are unlikely to be distributed evenly across the United States, leading states to pursue different policy responses with implications for commercial real estate. If AI ultimately causes labor market displacement, states with larger technology sectors and more progressive fiscal policies which include California, Washington, Massachusetts, New York, Oregon, and Illinois—may respond by expanding social spending through enhanced unemployment benefits, workforce income support, affordable housing initiatives, and retraining programs. These measures would increase state spending and borrowing, potentially placing upward pressure on municipal debt issuance and contributing to a higher interest-rate environment, which would affect commercial real estate financing costs and asset valuations.

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Source: Oxford Economics. As of 2026Q2

*Note: Sum of employment in 1) Software publishers, 2) Data processing, hosting, and related services, 3) Computer systems design and related services, and 4) Computer and electronic product manufacturing

In contrast, many Sun Belt and Southeastern states—including Texas, Florida, Tennessee, North Carolina, South Carolina, Georgia, and Arizona as well as parts of the Mountain West, are likely to emphasize job creation, workforce development, tax incentives, and infrastructure investments designed to attract AI-related manufacturing, data centers, logistics, and advanced technology industries. Rather than expanding social safety nets, these states may focus on creating an even more business-friendly environment to capture private investment and employment growth. This divergence in state-level economic strategies could influence regional patterns of commercial real estate demand, with some markets benefiting from increased industrial, office, and data center development, while others experience greater demand for public-sector-supported housing and community-oriented real estate assets.⁹

Conclusion

Artificial intelligence will not affect commercial real estate in a single, uniform way. Its impact will depend on which industries become more productive, which occupations are most exposed to automation, and which metropolitan areas have the human capital, technology ecosystems, and high-value business functions needed to adapt. The clearest conclusion is that AI is likely to widen the gap between markets and property sectors tied to innovation and those dependent on routine information processing.

Markets that have grown by attracting back-office finance, administrative support, customer service, and shared-service operations may prove more vulnerable as AI reduces the need for routine white-collar labor. By contrast, metros with deep concentrations of technology employment, high-value financial activity, and jobs that are less exposed to AI-driven automation should be better positioned to create new businesses, attract investment, and absorb the disruption that AI produces.

The same logic applies across property sectors. Data centers, advanced manufacturing facilities, logistics assets, life science and R&D space, medical office buildings, and senior housing are more closely aligned with the industries and demographic trends AI is likely to accelerate. Commodity offices, traditional goods-oriented

retail, and parking-dependent assets face greater uncertainty because they are more exposed to automation, changing work patterns, evolving consumer behavior, and shifts in mobility.

From an investment perspective, market selection and property-sector allocation are likely to become increasingly important as AI creates wider performance differences across metropolitan areas and asset types.

Markets with low-productivity finance sectors and relatively small technology ecosystems face greater long-term employment risk because a larger share of their office workforce performs routine cognitive tasks that AI can increasingly automate. By contrast, metros anchored by high-value financial services, technology, research, and innovation are better positioned to benefit from AI through intellectual property creation, new business formation, and productivity gains. While these markets may also experience labor disruption, they are more likely to generate the new industries and occupations that accompany major technological change.

AI's effects will also extend into public policy and capital markets. If productivity gains are unevenly distributed, states may respond in different ways: some by expanding social services and public investment, others by competing aggressively for technology, data center, advanced manufacturing, and logistics investment. These policy choices could influence municipal borrowing, infrastructure needs, interest rates, capitalization rates, and ultimately commercial real estate valuations.

The pace and direction of artificial intelligence development remain highly uncertain. While AI is already influencing productivity and business operations, the speed at which future capabilities emerge cannot be predicted with confidence. This uncertainty is particularly relevant if advances in AI enable systems to accelerate their own development through recursive self-improvement or produce capabilities beyond current expectations, including the possibility of artificial general intelligence (AGI). Whether such developments occur gradually, rapidly, or prove more limited than current expectations remains unknown. As a result, the timing and magnitude of AI's effects on employment, industry structure, capital markets, and commercial real estate are

⁹ Stewart Rubin, Matt Wnek and Marshall Swett. (2026, March). *Policy Differences Between States Amplify and the*

Implications for CRE Investing. New York Life Real Estate Investors Strategy & Research Group.

inherently uncertain. The conclusions presented in this paper should therefore be viewed as a framework for evaluating potential risks and opportunities under a range of plausible outcomes rather than as a prediction of a single future path.

Commercial real estate will continue to follow the economy, but the composition of that economy may change. Investors who focus on adaptability, human capital, innovation capacity, and exposure to high-value industries will be better positioned than those relying solely on recent growth trends. In the AI era, the quality and allocation of a market's economic base may matter more than its size, and the most resilient real estate strategies will be those aligned with where value is being created next.

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