CUSHMAN & WAKEFIELD

AI IMPACT ON COMMERCIAL REAL ESTATE: THE NEXT 10 YEARS

Timing, Transmission and Uneven Outcomes

Executive Summary

Artificial intelligence (AI) represents the latest in a long line of general-purpose technologies that reshape economies not through a single, linear shock, but through gradual adoption, uneven productivity gains and deep compositional change. History suggests that such transitions are rarely smooth and inherently challenging to forecast with certainty. Past technological revolutions—from electrification to the computer age to the internet—were characterized by rapid early investment, uneven firm-level adoption, delayed aggregate productivity gains and periods of financial excess followed by adjustment. AI appears poised to follow a similar path, yet with potentially greater uncertainty about the timing, magnitude and scope of economic impacts, and thus the implications for commercial real estate (CRE).

This paper documents how Cushman & Wakefield incorporates explicit assumptions about AI into its CRE outlook using a scenario-based framework. Rather than attempting to forecast "how AI evolves" itself, the framework focuses on how firms respond to AI under different adoption, productivity and monetization regimes, and how those responses may translate into macroeconomic outcomes, space demand and capital market dynamics. Notably, these AI scenarios do not exist in a vacuum; rather, their assumptions are integrated into our standard "House View" forecast process and therefore reflect our full set of macro views on key themes such as monetary policy, tariffs, the Middle East, etc. This macro view complements (and is consistent with) our ongoing monitoring of micro-property trends using our AI Impact Barometers and Sector Foresight series. Taken holistically, our AI Impact series provides a comprehensive set of data for stakeholders to monitor and strategize around how AI will influence property outcomes over near- and long-term time horizons.

Cushman & Wakefield's AI Scenarios

Across four internally consistent scenarios—ranging from a productivity-led expansion to two distinct downside paths—the analysis highlights a central conclusion: AI is more likely to widen the distribution of economic and CRE outcomes than to generate a uniform boom or bust.[1]

Impact on Real Estate Fundamentals by Asset Type

CHANNEL	OFFICE	LOGISTICS & INDUSTRIAL	RETAIL	MULTIFAMILY/ LIVING
Primary AI linkage	Employment & space intensity	Throughput & efficiency	Household income & spend	Income & household formation
Sensitivity to job growth	High	Low–Moderate	Low	Moderate
Sensitivity to productivity	Indirect	High	Indirect	Indirect
Vacancy risk profile	Structural & persistent	Cyclical	Supply-constrained	Supply-timing driven
Scenario dispersion	High	Moderate	Low	Moderate

[1] Scenario probabilities do not add up to 100% to allow for other scenarios that may occur.

Baseline (50% probability)

In the baseline scenario, which we assign the highest probability, AI adoption remains incremental and uneven, with firms channeling early productivity gains toward efficiency and margin protection rather than workforce expansion. We assume regulatory oversight develops but not in a way that materially restricts AI deployment and power generation, despite some localized constraints. As a result, U.S. GDP growth stabilizes at a 2.5% annual average growth rate, while office-using employment increases only modestly over the next several years, improving later in the forecast horizon. For U.S. CRE, this implies subdued near-term office demand, elevated tenant churn and growing differentiation by asset quality and function rather than systematic decline.

For Asia Pacific (APAC) and Europe, the macroeconomic outcomes broadly follow the same trend, resulting in comparatively stable, solid growth over the forecast horizon. Employment paths, however, diverge, reflecting differing pre-AI starting points and structural dynamics. In Europe, total employment growth improves modestly in the near term but starts to decline toward the end of the forecast period as population aging intensifies, accelerating AI adoption to maintain productivity. In contrast, APAC economies benefit from an expansionary boost before growth moderates after the end of this decade. These distinct employment trajectories shape regional office demand, although differentiation by asset quality and location remains a defining feature across markets.

Consistent with Moody's Analytics modeling and the AI Impact Barometers, this scenario assumes that economic effects lag technological diffusion. The U.S. leads AI adoption—being home to more data centers than the rest of the world combined—while Europe and APAC follow with delays and regional variation. Accordingly, modeled adoption emerges first in the U.S. and then flows to the other regions. Despite differences in timing, adoption pathways are globally consistent in structure and direction.

As with prior general-purpose technologies, firms initially deploy AI at the task level to improve efficiency and decision-making. In some sectors, particularly manufacturing and operations, this is already extending to capacity expansion, though broader reorganization of production typically follows over time. Baseline assumptions therefore emphasize gradual productivity gains, limited near-term labor displacement and delayed—but ultimately meaningful— revenue and profit realization. Over the 10-year horizon, this produces a modest boost to U.S. GDP and employment overall, while office-using employment remains subdued early on and improves later as organizational restructuring and monetization advance.

Following post-pandemic normalization, U.S. real GDP growth settles slightly above its long-run trend, while total employment growth remains positive and improves over time, in part due to better demographics. Using Congressional Budget Office projections, net immigration recovers from a multi-decade low in 2026 toward its long-term average by the early 2030s, easing labor supply constraints. Office-using employment lags broader job growth, reflecting delayed hiring decisions in knowledge-intensive sectors. For CRE, this combination results in limited near-term net absorption, elevated leasing churn and persistent vacancy that declines only gradually over time.

Regional dynamics differ somewhat in APAC and Europe. In APAC, GDP and total employment growth moderate as economies mature, but the shift toward services supports steady office employment growth and ongoing office demand. In Europe, recovery from recent weak economic growth provides a temporary boost to the jobs market and office demand, which fades in the second half of the forecast as office employment growth slows to around half its long-run average.

For retail, logistics & industrial (L&I) and multifamily/living assets, the forecast trajectory is determined less by AI's impact on the job market and more on its likelihood to improve household wealth, corporate profits and efficiency gains across the economy. These are consistent trends across all three regions.

Overall, AI's primary economic contribution operates through incremental efficiency gains rather than rapid labor expansion. This distinction is most consequential for office real estate, where demand is tightly linked to knowledge-worker headcount and space intensity. With office-using employment improving only gradually, vacancy remains structurally elevated even as GDP growth stays near trend. By contrast, vacancy in retail, L&I, and multifamily/living remains comparatively stable, with normalization driven more by supply discipline and income growth than by labor-market acceleration.

Upside: Productivity-led expansion (15% probability)

The upside scenario assumes faster diffusion of AI, stronger realized productivity and more effective conversion of efficiency gains into revenue growth and reinvestment. In these cases, growth emerges not as "more of the same" demand, but through new firms, new occupations and evolving space requirements that favor high-quality, flexible and collaboration-oriented environments.

In the productivity-led expansion scenario, stronger productivity gains are successfully monetized into revenue growth, innovation and hiring, producing a clearer divergence from the baseline across property sectors.

For office, faster growth in office-using employment enables U.S. net absorption to turn positive sooner and remain durable, allowing vacancy to peak earlier and compress more meaningfully over time. While vacancy does not return to pre-pandemic lows, the upside scenario produces a structurally healthier office market relative to the baseline. In Europe and APAC, AI bolsters markets which are already enjoying mostly positive tenant demand, albeit with lags relative to the U.S.

For retail, L&I and multifamily/living, the upside case reinforces already favorable dynamics. Stronger household income growth supports retail demand, higher throughput and capital spending boost L&I absorption, and improved income and wealth formation support multifamily/living demand. In these sectors, AI's impact is felt primarily through aggregate demand and efficiency channels, resulting in earlier and broader vacancy compression than in the baseline.

Downside: AI bust (25% probability)

The AI Bust scenario draws directly from the dot-com experience, in which a transformative technology ultimately delivered long-run economic gains, but only after a period of overinvestment, firm failures and financial-market disruption. In this scenario, CRE stress emerges through timing and capital-market channels rather than technological failure.

In this scenario, the key differentiator is timing rather than ultimate potential. GDP growth undershoots the baseline in the near term as financial conditions tighten and investment slows, delaying the conversion of productivity gains into hiring and demand.

For office, this delay is particularly damaging: office-using employment weakens materially, absorption remains insufficient and vacancy rises above the baseline path and stays elevated for longer. Office vacancy becomes the clearest expression of AI-related adjustment in this scenario.

For retail, L&I and multifamily/living, vacancy outcomes deteriorate in relation to the baseline. Retail vacancy edges higher as discretionary spending softens, L&I vacancy rises as capital spending pauses, and multifamily/living vacancy peaks higher as job and income growth slow. Importantly, these effects are cyclical rather than structural, with stabilization occurring as macro conditions normalize.

Downside: AI displacement (5% probability)

Downside risks are explicitly acknowledged. One downside reflects a displacement-heavy trajectory, where AI substitutes for labor more than expected and revenue growth lags productivity. The AI Displacement scenario produces the sharpest sectoral divergence. Productivity gains continue, but they are realized through labor substitution rather than expansion, limiting revenue growth and aggregate demand.

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For office, this results in persistently weak office using employment and structurally elevated vacancy throughout the forecast horizon, even in the absence of a recession. Vacancy compression is minimal and market performance becomes increasingly polarized by asset quality and adaptability.

For retail, L&I and multifamily/living, the impact is more muted but still negative relative to the baseline. Retail and multifamily/living vacancy drift higher as income growth underperforms, while L&I vacancy remains elevated as automation dampens labor driven space demand. These sectors remain supported by structural supply constraints but lack the growth impulse present in the baseline or upside scenarios.

AI Impact: Vacancy Rate by Sector

SECTOR	BASELINE (S2)	UPSIDE (S1)	AI BUST (S3)	DISPLACEMENT (S4)
Office	Elevated, slow decline	Faster compression	Higher for longer	Structurally high
Logistics & Industrial	Gradual decline from cyclical peak	Tightens faster	Temporary softening	Moderately elevated
Retail	Stable, supply-limited	Modest tightening	Slight deterioration	Stable–slightly weaker
Multifamily/ Living	Peaks then eases	Faster normalization	Slower normalization	Elevated longer

Global Perspective

While Cushman & Wakefield applies a consistent, scenario-based framework to assess how AI transmits through the economy into commercial real estate outcomes, the strength, timing, and composition of those impacts vary meaningfully by region. These differences reflect variation in economic maturity, labor market growth, L&I structure, policy regimes, capital markets and real estate supply dynamics.

United States: Innovation-Led, Market-Driven Transmission

Economic structure: The U.S. framework reflects a highly flexible, market-driven economy with deep capital markets, high AI investment intensity and strong linkages between productivity gains, revenue growth and capital formation.

Transmission mechanism: AI primarily affects CRE through faster productivity gains in knowledge-intensive sectors, uneven employment effects and relatively rapid pass-through to corporate investment and space decisions.

CRE implications:

- **Office:** Most sensitive to AI-driven change, given the concentration of high-wage, knowledge-based occupations and historically higher space intensity. Near-term outcomes reflect recalibration and elevated churn, but demand remains positive and becomes more durable over time. Results vary across scenarios, with greater dispersion and a rising premium on quality and flexibility.
- **Logistics & Industrial:** Benefit from AI-enabled automation and reshoring trends, supporting throughput, utilization and space demand.
- **Retail and Multifamily/Living:** Dependent on the cyclical and structural impacts to consumer-facing variables such as income and job growth.
- **Capital Markets:** Equity and debt markets amplify AI outcomes quickly, leading to greater dispersion in pricing, liquidity and asset selection.

Net effect: Higher upside potential, but also greater cyclicality and dispersion across markets, assets and scenarios.

Europe: Regulation-Moderated, Employment-Buffered Transmission

Economic structure: More regulated labor markets, stronger social safety nets and a higher public-sector footprint moderate both AI-driven employment displacement and upside volatility.

Transmission mechanism: Productivity gains materialize more gradually, with slower employment reallocation and weaker short-term pass-through to CRE demand.

CRE implications:

- **Office:** Adjustment is slower and more incremental; cyclical downside risks will emerge more quickly while baseline change is spread over a longer period.
- **Logistics & Industrial:** Demand growth is more closely tied to trade, manufacturing policy and infrastructure investment. Labor cost and shortages help drive AI adoption.
- **Retail:** Similar impacts relative to the U.S., where demographics and income growth are the primary transmissions to retail outcomes.
- **Capital Markets:** Less volatility than the U.S., with stronger income orientation and slower repricing cycles.

Net effect: Lower near-term volatility and narrower scenario dispersion, but more muted upside in the high-adoption cases.

Asia Pacific: Growth-Amplified, Investment-Heavy Transmission

Economic structure: More heterogeneous economies, with a mix of advanced AI adopters and emerging markets still in earlier stages of technological diffusion.

Transmission mechanism: AI interacts with structural growth, urbanization and infrastructure investment rather than acting as a stand-alone demand driver.

CRE implications:

- **Office:** Exposure to AI-driven labor substitution varies significantly but demand remains positive as the region shifts from being production-led to service-led.
- **Logistics & Industrial:** Strongly supported by AI-enabled manufacturing, supply-chain optimization, and data-center-adjacent infrastructure.
- **Retail:** Wide range of wealth effects within the region, which will drive favorable retail performance in wealthy countries with high rates of AI adoption under baseline and upside scenarios.
- **Capital Markets:** Investment cycles are more policy- and supply-driven, with AI acting as an accelerant rather than a primary catalyst.

Net effect: Structurally positive CRE demand backdrop, with AI reinforcing long-term growth trends but creating less near-term downside risk than in the U.S.

Key Takeaway Across Regions

The core framework is global, but the outcomes are regional. AI does not uniformly "boost" or "reduce" real estate demand. Instead, it reshapes the path of growth, risk and dispersion, with the U.S. experiencing faster and more market-driven adjustment, Europe showing more gradual and policy-mediated outcomes and APAC reflecting AI's interaction with longer-run structural growth dynamics rather than near-term disruption.

Implications for Occupiers and Investors

AI does not present a single, uniform implication for commercial real estate decision-makers. Instead, it widens the range of outcomes, increasing the value of flexibility, timing, and asset-specific strategy. The implications differ meaningfully for occupiers, who primarily manage operational efficiency and workforce needs, and for investors, who must price income durability, vacancy risk, and capital market volatility.

Implications for Occupiers

For occupiers, AI's impact is felt most directly through how work is organized, where activity occurs and how much space is required per worker, rather than through headline adoption rates.

- Office occupiers should expect continued uncertainty around near-term space needs under the baseline and downside scenarios, as productivity gains are initially absorbed through efficiency rather than hiring. This supports a more flexible approach to leasing, including shorter commitments in some cases and greater use of optionality, alongside a continued focus on flight-to-quality strategies, particularly in assets that support collaboration, technology integration, and talent attraction. In upside scenarios, demand improves earlier but remains concentrated in high-quality space rather than broadly across office stock.

- L&I occupiers benefit from AI primarily through efficiency, throughput, and supply chain optimization, rather than labor expansion. Adoption is likely to be gradual, meaning traditional warehouse space remains essential even as automation increases. Even in scenarios where employment growth moderates, demand for modern logistics, manufacturing, and data-adjacent facilities remains resilient. Over time, demand continues to follow population and consumption patterns. Occupiers should prioritize automation-ready layouts, power capacity, and location efficiency, as space utilization per worker increases.

- Retail occupiers are influenced less by AI-driven labor changes and more by household income growth, consumer behavior and operational efficiency. Stable vacancy outcomes across scenarios suggest continued importance of format, experience and last-mile relevance, with AI enabling better inventory management and customer engagement rather than materially reducing space needs.

- Multifamily/living occupiers (renters) are indirectly affected through income and affordability channels. While AI does not directly reduce housing demand, scenario outcomes imply that income growth and supply timing, rather than employment displacement alone, will determine rental market conditions.

Across sectors, occupiers benefit from optionality—maintaining flexibility to adjust footprints as AI adoption, productivity and employment effects unfold unevenly over time.

Implications for Investors

For investors, AI's influence on CRE is inseparable from capital markets dynamics, particularly how productivity gains translate into income growth, vacancy persistence and risk pricing across scenarios.

- Office investment risk is highly scenario-dependent. In baseline and downside cases, vacancy remains elevated and absorption moderates in the near term as occupiers recalibrate, limiting income growth and delaying value recovery for some assets. Over time, demand stabilizes and becomes more durable, with outcomes increasingly differentiated by asset quality, location, and conversion optionality. In upside scenarios, recovery is faster but remains uneven, favoring top-tier assets.

- L&I assets remain comparatively resilient across scenarios, supported by AI-enabled efficiency gains, capital spending and supply discipline. Even when vacancy rises cyclically, income durability and long-term demand visibility support investor appetite, particularly for modern, well-located facilities.

- Retail investment outcomes are shaped more by supply constraints and consumer income than by AI-driven labor effects. Stable vacancy trajectories across scenarios support income-oriented strategies, with differentiation by format and tenant mix remaining critical.

- Multifamily/living performance depends on supply timing and income growth, rather than direct AI exposure. While vacancy may remain elevated longer in downside scenarios, structural demand for housing provides a stabilizing force, particularly in markets with constrained supply.

Across all sectors, AI increases the importance of pricing dispersion, asset selection and timing. Capital markets act as an amplifier: where productivity gains translate into revenue growth and absorption, pricing improves and liquidity broadens; where monetization is delayed, risk premiums remain elevated and capital concentrates in fewer, higher-quality assets.

For both occupiers and investors, AI does not eliminate real estate risk—it reshapes it. Success in an AI-influenced environment depends less on predicting a single outcome and more on preparing for greater dispersion across assets, sectors and time horizons, with flexibility and quality acting as the primary risk mitigants.

Conclusion

AI is unlikely to reshape commercial real estate through a single, predictable channel. As with prior general-purpose technologies, its effects will unfold through uneven adoption, delayed productivity realization, financial cycles and deep compositional change. As a result, AI widens the range of plausible CRE outcomes—on both the upside and the downside—limiting the usefulness of point forecasts and increasing the importance of adaptability, asset quality, tenant mix and location strategy.

The scenario framework illustrates this non-linear impact. In the baseline case, office demand remains subdued in the near term. In upside scenarios, growth emerges through new firms and new space uses. In downside scenarios, particularly the AI Bust case, financial dynamics temporarily overwhelm structural progress.

The critical insight is that AI's CRE impact is not only about aggregate demand, but also who grows, who contracts, where activity locates and how space is used. In this environment, macroeconomic forecasts are informative but incomplete, and preparation matters more than prediction.

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