



Yardi® Matrix

Office National Report

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AI Adds to Uncertainty for Offices

- The debate over AI's impact on employment has intensified, with predictions ranging from widespread job losses to the emergence of new industries that will spur job creation. Regardless of the outcome, the proliferation of AI is expected to have significant implications for office demand.
- Three primary scenarios could emerge for workers as AI adoption accelerates. In the first, AI successfully replaces large portions of the workforce, leading to a substantial decline in office employment. In the second, the technology boosts worker productivity and efficiency as firms eliminate some positions but retain much of their workforces. In the third, the costs of implementing AI outweigh its benefits, resulting in a bubble. Unfruitful investments and premature layoffs will lead to a period of economic decline and prolonged unemployment.
- The tech sector has been leading the way with AI implementation in addition to investing in related infrastructure. Many companies, including Cloudflare, Block, Meta and PayPal, have announced significant workforce reductions as they free up capital for AI investment and begin to automate rudimentary tasks. Pandemic-era overhiring may be the real reason for some of these layoffs, and AI serves as a convenient explanation; however, tech companies are committed to the technology and layoffs will continue as AI adoption is solidified and spreads into other sectors.
- Research from the Dallas Fed and Stanford University shows rising wages alongside falling employment for younger workers in some AI-exposed fields. This suggests AI is augmenting production for experienced workers, while younger workers with codified knowledge but little experience are facing declining employment rates. Office would fare much better in this scenario than in the alternatives; however, the way office space is used would change. Experienced workers overseeing teams of AI agents rather than teams of humans would require less time in an office. As a result, large office spaces with rigid lease agreements will increasingly become obsolete.
- Coworking has proven to be a resilient asset, offering the flexibility needed to handle the ebb and flow of business operations during uncertain times. As AI adoption accelerates, flexibility will become even more crucial while questions surrounding office demand remain unanswered. As a result, we expect coworking to grow in relevance as workers' relationship with the office continues to change.

