

Disrupted Spaces

How Automation and Artificial Intelligence Reshape Corporate Real Estate Demand

Chongyu Wang, Jingfang Wang, and Tingyu Zhou | Florida State University | 2026

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EXECUTIVE SUMMARY

Artificial intelligence (AI) is changing corporate real estate demand because it changes how firms organize work, use labor, and decide how much physical space they need. This study examines whether firms more exposed to AI reduce owned real estate, whether those reductions reflect footprint changes, and whether the pattern extends into the leasing market. Using three complementary sources -- Compustat balance sheets, property disclosures from 10-K filings, and CompStak lease transactions -- we find that AI-exposed firms reduce corporate real estate, contract their physical footprint, and become more likely to reduce leased space and rent commitments. For a \$10 billion firm, the estimated corporate real estate reduction is roughly \$14 million per year, accumulating to about \$68 million over five years. For real estate practitioners, AI should be treated as a potential driver of tenant space demand because it may change how firms staff, coordinate, and scale their operations.

WHAT THIS STUDY ASKS

- Does AI exposure cause firms to reduce corporate real estate? If yes, how large is the effect?
- Do firms reduce their physical footprint?
- Which firms, industries, and locations show the strongest response?
- Do AI-related space reductions also appear in the broader leasing market, including private tenants?

DATA AND METHODOLOGY

- We build a panel of approximately 8,000 U.S. publicly traded firms from 2002 to 2023. Corporate real estate is measured from Compustat property, plant, and equipment components, including buildings, land and improvements, and construction in progress.
- We construct a novel AI exposure from the work firms actually do. We begin with occupation-level AI exposure scores based on O*NET abilities, aggregate them to industries using employment shares, and then map industry exposure to firms using text-based segment weights that capture each firm's business mix.
- To better isolate AI's effect on real estate decisions, we use variation in AI exposure predicted by a firm's pre-existing industry mix and broad changes in AI adoption across industries. This approach relies less on a firm's own contemporaneous choices, making it less likely that the results are driven by firms that were already shrinking, restructuring, or changing their real estate strategy for unrelated reasons.
- We complement the balance sheet analysis with two analyses. First, using large language models, we extract structured property-level information, such as the number of facilities, ownership-versus-leased composition, square footage, geographic spread, and restructuring activity, etc., from the Item 2 ("Properties") sections of more than 170,000 10-K filings. Second, we use lease transactions from CompStak covering 242,556 commercial tenants and over 1.4 million tenant-year observations to track changes in leased space and rent commitments at the broader market level, including private firms that do not appear in Compustat.

KEY FINDINGS

- **AI exposure reduces owned real estate.** Firms with meaningfully higher AI exposure (measured with one standard deviation change) reduce owned real estate as a share of total assets by about 0.14 percentage points per year. The effect accumulates because real estate adjusts slowly: over five years, the implied reduction is roughly 7 percent of the average firm's real estate holdings, about \$68 million for a firm with \$10 billion in total assets.
- **The result is not just a ratio or accounting artifact.** The negative effect remains when the analysis uses broader real estate definitions, longer three-year and five-year changes, log levels of owned real estate, and an indicator for whether real estate expands. The result also holds before COVID-19, before the 2019 lease-accounting rule change, and after excluding the most AI-exposed technology sectors.
- **10-K disclosures show physical restructuring.** Over five-year windows, AI-exposed firms report about 5 fewer properties, operate in fewer states, and are more likely to shift toward leasing and initiate subleasing, indicating active footprint restructuring rather than passive balance-sheet drift.
- **The leasing market confirms broader space-demand pressure.** Using a broader sample of both public and private tenants, the annual baseline rate of tenant space contraction is 5.3 percent. The preferred estimate indicates that a one-unit increase in industry AI exposure raises the probability of a square-footage decline by 1.2 percentage points and a rent decline by 1.4 percentage points.
- **The effect is concentrated where AI is most likely to substitute for routine work.** The reductions are strongest among tradable industries, non-technology firms, firms with more replaceable occupational tasks, low research-and-development firms, high-leverage firms, and low-cash-flow firms. The effect roughly doubles after 2015 and is largest among firms headquartered in high-AI states.

IMPLICATIONS FOR PRACTICE

For investors and lenders: AI exposure should become part of tenant and borrower risk assessment. If AI reduces firms' need for physical space, historical real estate holdings may overstate the durability of collateral capacity and future occupancy demand, especially for financially constrained firms.

For owners and asset managers: AI-driven demand contraction is not uniform. Tenant industry, task replaceability, R&D intensity, financial constraints, and location in high-AI markets all matter. Underwriting should stress-test renewal probability, downsizing risk, sublease risk, and exposure to tenants pursuing asset-light strategies.

For leasing strategy, development, and corporate occupiers: Flexibility becomes more valuable when tenants face ongoing technology-driven uncertainty. Shorter commitment structures, expansion and contraction options, sublease provisions, modular layouts, and easier reconfiguration can help assets remain relevant as tenants adjust their space needs.

For market analysts and policymakers: AI may reinforce post-pandemic pressure on some commercial property markets by reducing space demand in exposed sectors and locations. Local markets should monitor tenant industry mix, adaptive-reuse feasibility, transit demand, and tax-base exposure, not only aggregate employment growth.

Bottom line: AI is not only a labor-market or productivity story. It is also a real asset demand story. Firms exposed to AI appear to reduce owned real estate, consolidate disclosed properties, and cut leased space commitments. For practitioners, the central question is which tenants, assets, and markets are most exposed to this continuing adjustment.