The sharp focus on asset selection through the lens of AI

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What is the most significant impact of AI on today's real estate sector? Investors must now assess every opportunity through an AI lens. While traditional criteria remain absolutely fundamental – such as the secular trends influencing the sector, the location of a building and its sustainability profile, and the quality of tenant amenities – AI is influencing how the built environment evolves.

While there are some obvious considerations like the volume and shape of space a tenant uses, we need to consider factors beyond these such as the flexibility and inherent adaptability of assets in an AI-centric world.

Some of the questions we now ask ourselves include how will AI influence the sectors and cities we invest in, how will buildings evolve as AI adjusts societal behaviours, which assets risk obsolescence, and which technologies will be needed to make buildings more efficient and managers more effective.

Emerging AI trends in today's market

Even with AI being relatively nascent, and investors needing to remain humble about what is not clear, there are a number of trends which can be seen in the market today. Investors able to accommodate these considerations into investment strategies are likely to be the ones to capitalise tomorrow.

Bifurcation is accelerating across all sectors

- AI is accelerating bifurcation across all real estate sectors. The gap between future-ready and obsolete assets is likely to widen. While the office market may be front of mind for many, we see this trend impacting across sectors. In logistics, for example, access to power and supporting electrical infrastructure is becoming increasingly important. In locations where grid capacity is constrained, the right location may be more important to long-term value than the current quality of the building, which can potentially be improved through active management.
  Active asset management through the lens of AI and, in particular, underwriting for future capabilities must, today, be central to decision making.

Cities not just assets will be impacted by AI too

- AI is influencing not just assets but also cities. Cities with deep talent pools, strong economies, progressive policy makers, and creative workforces will likely be more resilient. As such, city selection remains a primary consideration in terms of long-term investment growth.

Power supply and energy efficiency will escalate in significance

- Access to power is becoming increasingly important across all sectors. Setting aside the current debate on the impact that data centres have on a city's energy resource, reliance on AI for daily work and living will require a reliable power resource for all buildings. Electrification, charging infrastructure and future energy requirements will influence asset competitiveness – and AI is acting as a fast accelerant. Power availability was already becoming an important consideration when assessing locations; now, this is a must.

Building management systems and 'smart' tech will be highly valued – by all stakeholders

- AI-related technologies are raising expectations around not just how buildings should be managed but also the occupier experience. Smart-building sensors are providing real-time information on occupancy patterns; AI has the power to provide richer, value-add insights. Landlords will be able to identify tenants which need additional space, or tenants underutilizing their premises, creating opportunities for proactive engagement and aligned asset management.
  This AI-readiness will not just be fundamental to better investment performance, it will deliver more resilient, long-term income by enhancing their attractiveness to tenants.

Increased bifurcation: one of the starkest effects of AI

Increased bifurcation will be one of the starkest effects of AI, across all real estate sectors, we believe. We have long highlighted how sectors will see a widening gap between best-in-class, well-located assets and lesser quality buildings, with the former better positioned to deliver enhanced

PIMCO Real Estate Outlook: From Repricing to Relevance

In July, PIMCO published its latest real estate outlook[1]. While the report covered a number of developments, the rapid rise and impact of AI was a primary focus: although AI and geopolitics were selected as the two biggest considerations as real estate enters a new phase of growth, AI was noted as "the most consequential" – though its effects on productivity, tenant behaviour, and space use may take years to crystallize.

Five highlights with regards to AI were:

1. **Operational bifurcation within traditional sectors is likely**, with well-managed assets in irreplaceable locations or with mission-critical use cases outperforming.
2. **AI could lift productivity enough to change space needs across industries**. AI could automate 25% of all current work tasks in the U.S., according to one study, which also stated it could take a decade for AI to be widely adopted by firms in the U.S.[2]. In short, AI is likely to change how space is used. For investors, relevance – not mere occupancy – becomes the key test.
3. Asset managers should apply AI to improve their own processes, but **the larger task is to keep assets relevant in an AI-shaped economy**. Traditional real estate fundamentals, especially irreplaceable location, should matter more, not less.
4. **Assets with alternative-use potential may prove more resilient** than single-use properties tied to long and brittle business plans. Flexibility is becoming a key driver of value: in business plan, asset use, hold period, capital structure and geography.
5. AI (along with geopolitics) is reshaping the use and value of physical space – creating new demand but also exposing assets to **tenant, cost, technology, regulatory, and liquidity risks**. As such, investors should stress test each asset's demand drivers rather than assume that sector tailwinds will apply evenly.

returns and greater levels of income. With the advent of AI, this gap is expected to widen even further.

Assets which can support evolving occupier and user needs and connectivity requirements, and higher expectations around quality and operational performance, may continue to differentiate themselves, while others risk becoming less competitive.

Prime student housing at leading universities is likely to retain value, in our view. However, changing habits in an AI-enabled world, including part-time learning and greater use of remote lectures, mean that even the highest-quality assets will need to remain flexible. If AI changes how universities operate and how long people spend studying, the traditional student housing model may also need to evolve. This could create demand for more flexible forms of accommodation serving both students and young adults who are not yet ready or able to rent or buy independently.

Europe's office and residential sectors will also be impacted by AI. While office has historically been a far larger market than residential in Europe, with the opposite true in the U.S., residential has accelerated in terms of market share. According to MSCI/RCA investment volume data, office accounted for c. 23% of total investment volume in 2025 vs 20% for residential, a change from 40% and 13%,respectively, in 2015.

We believe office will be one of the clearest examples of how AI will likely accelerate differentiation. Office bifurcation was already underway before COVID; AI is now adding another layer by reshaping productivity, business capability and occupier expectations. We are already seeing large U.S. law firms seeking more, higher-quality space, suggesting AI may further differentiate prime offices from secondary stock rather than simply reducing demand – creating, in essence, a bifurcation of the COVID bifurcation.

For investors, AI is changing which assets are likely to win

For investors, AI will not reduce the importance of real estate in investment portfolios, but it is changing which assets, tenants and cities are likely to win and deliver greater performance. Data centres, for instance, represent a significant opportunity. The key question is no longer simply which sectors will outperform, but which assets are best positioned to adapt to an increasingly AI- and tech-enabled global economy.

When we look through the lens of AI, we believe that success will depend on identifying well-located buildings and infrastructure that can evolve alongside changing occupier needs and continue to deliver resilient performance and income through multiple market cycles. For us, this reinforces the importance of active asset management, operational expertise and selective underwriting.

Underwriting, in particular, remains critical to future investment performance. We believe that underwriting today should factor in:

- **Maintaining flexibility**. Investors should avoid assuming they know exactly how AI will affect sectors and instead build resilience into investment decisions.
- **Assessing mission-criticality**. Underwriting should focus on whether an asset is genuinely important to its occupiers and uses.
- **Underwriting sectors and tenants, not just buildings**. Understanding which industries are likely to benefit from AI and which may be disrupted.
- **Evaluating alternative uses from day one**. Investors should understand what an asset could become as society evolves, not just what it is today.

Given the fast-evolving nature of AI, underwriting also needs to be approached with professional humility as rapid technological change and shifting occupier behaviours create uncertainty that cannot be predicted with absolute precision. Flexibility, again, is crucial in such an environment.

What makes an asset relevant?

Since the sector's uncertainty began in 2022, investors have not been able to rely on cap rate compression to help drive asset values and investment performance. Instead, through much more careful asset selection, they have focused attention back to what real estate has always sought to deliver: resilient income.

As such, in today's market, income quality has become the primary driver of long-term value preservation. For that, investors must assess assets through not just an AI lens but other filters too. This includes whether buildings sit at the intersection of sector trends and major secular themes (such as digitisation, demographics and decarbonisation). Three examples for us would be:

1. **Residential + Demographics**: Affordable housing in Europe where public/ private partnerships are now key.
2. **Office + Digitisation**: Buildings capable of attracting AI-driven industries; highly amenitised space that "earns the commute".
3. **Logistics + Defence**: Logistics facilities supporting defence infrastructure requirements.

In conclusion - be positioned for an era of profound change now

Today, income quality has become the primary driver of long-term value preservation. While traditional factors such location will continue to drive and define the quality of an asset and, therefore, its income-generating capabilities, investors must also assess assets through an additional AI lens.

Adaptability is a core component of this resilience, which must be engineered at the asset level through careful asset selection and active management. Investors need to consider what a building could become in 10 or 20 years, not just what it is today. In an AI-powered world, will a building still be needed? What will tenants, shoppers and residents need to live and connect? What spaces will optimise behaviours and relationships? What will, ultimately, drive value?

The world has changed in the past three years at an unprecedented pace, with AI and the wider tech sector at the centre of much of this change. Looking ahead, this is likely to accelerate further. Being positioned for this era of profound change now should result in greater portfolio strength and long-term performance for the future.

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[1] Real Estate Outlook: From Repricing to Relevance - Publications - Pimco Prime Real Estate
[2] Goldman Sachs Research as of March 2026