# AI AND ENTRY-LEVEL WORKFORCE DYNAMICS
# IMPLICATIONS FOR THE OFFICE SECTOR

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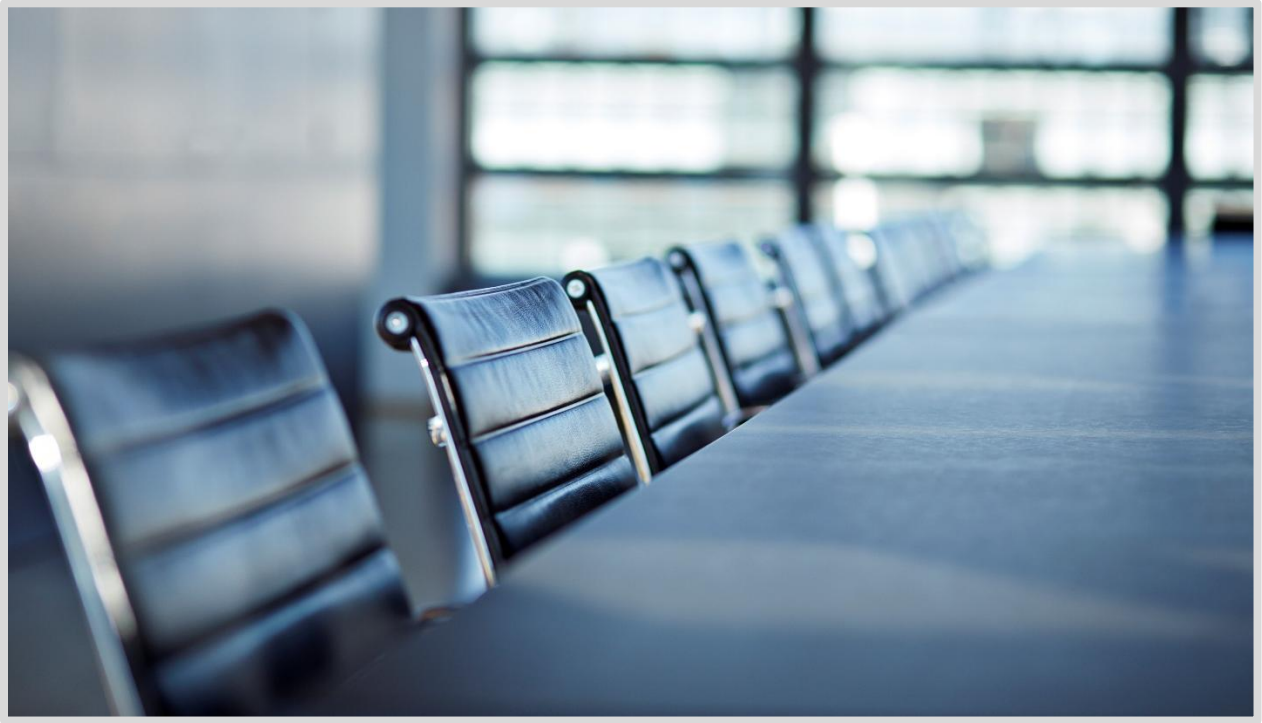
The U.S. office sector, still working through a post-pandemic recalibration in occupancy, pricing, and tenant preferences, may be encountering even more structural headwinds outside of familiar economic cycles. These dynamics deserve attention, as they operate directly on a critical demand driver: office-using employment.



Firstly, generative AI has transformed from what many viewed as an experimental novelty to a legitimate enterprise platform in less than three years. Large-scale investment in models, chips, and data centers suggest that firms are treating AI as a durable productivity tool instead of a passing cycle. Early labor-market evidence indicates that firms in AI-exposed industries are changing the composition of hiring, tilting away from entry-level roles that traditionally feed the office workforce.

Meanwhile, the labor supply feeding office employment appears to be weakening in a different way. Standardized measures show falling academic proficiency, while both high school and college grading have become less differentiating. At the same time, AI tools are being used by students for schoolwork at meaningful scale, raising questions about the development and verification of core skills.

Employers, who had already shifted toward leaner teams and a preference for experienced hires since the pandemic, may increasingly perceive academic credentials as a noisier signal. In response, firms may raise hiring bars, increase experience requirements, and rely more heavily on alternative screening tools.

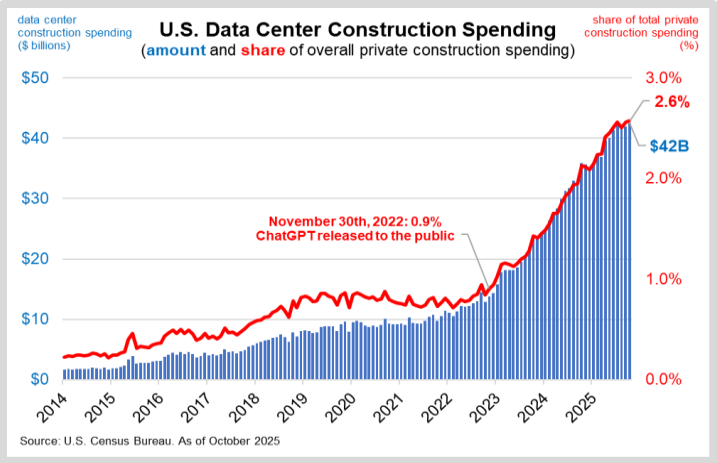
These demand- and supply-side dynamics are already evident in an unusually weak labor market for early-career white-collar employment and could intensify as AI capabilities continue to expand. In this environment, individuals have invested heavily in education yet increasingly face student debt, underemployment, and long-term career uncertainty, conditions that may influence future education decisions. If these trends persist, they could plausibly reduce the number of office workers required for a given level of output, further shift hiring toward experienced workers and away from junior cohorts, and alter the education and training pathways that feed the office labor pipeline. Altogether, the equilibrium level of office-using employment, and by proxy, the square footage of office space demanded, could reset lower over a multi-year horizon, creating dislocations that may reshape office investment strategies and reward investors able to identify relative winners and mispriced assets.

## Generative AI: From Breakthrough to Business System

While machine learning has influenced business processes for decades, the breakthrough of the current AI cycle is that large language models can perform a wide range of language and logic intensive tasks that sit at the core of modern office work. These include writing, summarizing, coding, customer support, and basic analytics. The release of ChatGPT in late 2022 captured widespread attention, particularly among corporate executives, by demonstrating these capabilities through a simple and accessible interface.

Leading technology firms quickly demonstrated conviction in AI's promise, investing heavily in related infrastructure. Amazon, Alphabet, Microsoft, and Meta are expected collectively outlay $300 to $400 billion annually between 2026 and 2032 for AI-related capital expenditures.[1] Among smaller companies and startups, AI and Machine have become central to venture investment, with deal value in the industry reaching record levels.[2]

Beyond the technology sector, companies across a wide range of industries are investing in AI for firm-specific applications. Much of this spending has taken the form of data centers, large facilities housing the computing infrastructure required to store, process, and train large-scale models. Construction spending tied to data centers has surged to record levels, accounting for a historically high share of overall private construction activity (see chart to the right).




The office sector is particularly exposed because many office-using roles involve bundles of tasks, ranging from creative and high-context work to routine, repeatable activities.

[1] https://rsmus.com/insights/industries/technology-companies/tech-continues-to-bet-on-ai-future.html
[2] https://pitchbook.com/news/reports/q3-2025-pitchbook-nvca-venture-monitor

Generative AI is especially effective at automating the repeatable components, such as drafting documents, generating code, converting meeting notes into action items, and answering internal, knowledge-based questions. A study from MIT estimates that AI could already substitute for 11.7% of the U.S. labor market, representing roughly $1.2 trillion in wages across office-using sectors and healthcare.[3]

While full job automation remains distant in many cases, AI-enabled task compression, where fewer workers can produce the same level of output, appears increasingly feasible across a wide range of applications. Task compression disproportionately affects junior staff, as entry-level roles often consist of work that AI can now accelerate. In a world where senior staff can produce acceptable drafts, analyses, or code with AI assistance, the apprenticeship model may weaken, and fewer junior roles may be required, those remaining demanding higher baseline competence.

Recent empirical work supports the view that early-career positions may be the first margin of adjustment. A study from Stanford's Digital Economy Lab finds that firms and occupations more exposed to generative AI shifted hiring away from early-career workers and toward more experienced professionals following the release of ChatGPT.[4] At the same time, several large companies have announced layoffs or signaled intentions to slow hiring, particularly in corporate functions.[5] Even where broad layoffs have not been announced, many firms have publicly expressed a bias toward restraint in future hiring.[6]

Despite these early signs of potential displacement, AI's long-term labor market impact may not be purely reductive. While generative AI may significantly reshape the white-collar workforce, it may also create new forms of employment that complement human judgment and intuition. Historically, major productivity technologies have displaced certain tasks while generating entirely new occupations in their orbit. The widespread adoption of computers, for example, eliminated some clerical roles but gave rise to software engineering and related professions that previously did not exist. While the specific auxiliary roles that may emerge alongside AI remain uncertain, it is possible that new and potentially lucrative employment pathways develop as firms learn how to integrate human capital and AI capabilities more effectively.

From the perspective of firms, generative AI–driven productivity gains and the continued expansion of its capabilities are clearly advantageous, as they allow companies to save on both the wages associated with incremental hiring and the time and resources required to recruit, onboard, and train new employees. If these trends persist and labor required per unit of output continues to decline, office employment demand could trend lower over time.

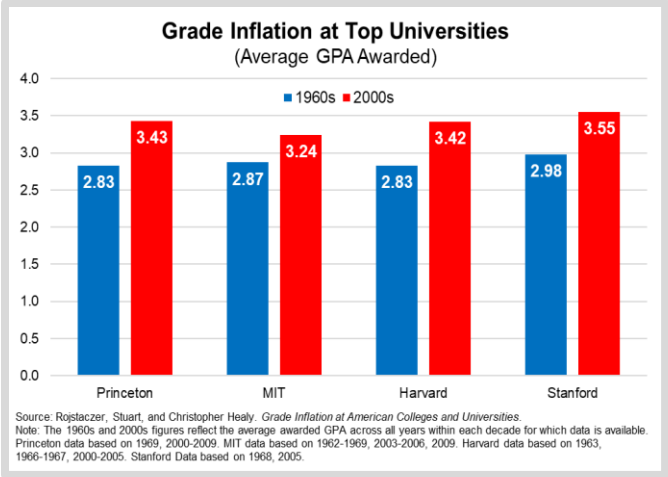
## Declining Educational Outcomes and Grade Inflation

While demand of office workers may be threatened by AI, the supply side of the labor market is also under pressure. Falling scores of the National Assessment of Educational Progress reveal a deterioration in academic achievement among high school students. In 2013, 74% of seniors tested at or above basic reading levels with 34% at or above proficiency. In 2024, the shares declined to 67% and 34%, respectively. Mathematics scores show a similar pattern: in 2013, 65% of seniors tested at or above the basic level in math, with 26% at proficiency or higher. By 2024, those figures had fallen to 55% and 22%.[7]

[3] https://iceberg.mit.edu/report.pdf
[4] https://digitaleconomy.stanford.edu/publications/canaries-in-the-coal-mine/
[5] https://www.wsj.com/economy/jobs/white-collar-jobs-ai-324b749c?mod=hp_lead_pos1
[6] https://www.wsj.com/business/companies-hiring-jobs-ai-9ef675b6?mod=article_inline
[7] https://nces.ed.gov/nationsreportcard/

At the same time, high school students are increasingly using AI tools for schoolwork. A 2025 Pew Research Center survey reported that more than a quarter of U.S. teens used ChatGPT for school assignments, roughly double the share in 2023.[8] While AI can serve as a powerful educational aid, widespread use during cognitively formative years raises questions about skill development, particularly when AI substitutes for foundational learning rather than reinforcing it.

Compounding this issue is grade inflation. While standardized test scores have declined, average GPAs have risen. ACT research documents a disconnect between grades and standardized performance: in its analysis of ACT-tested cohorts, average cumulative high school GPA rose from 3.22 in 2010 to 3.39 in 2021, while average ACT composite scores declined over the same period.[9] College is no different: over the past three decades, many institutions have shifted toward awarding higher grades without corresponding gains in learning.[10] In fact, a recent update from Harvard University's Office of Undergraduate Education reports that A's accounted for 60.2% of grades in 2025, up from 24% in 2005.[11]




As a result, employers may find it increasingly difficult to distinguish between well-prepared and underprepared applicants based on academic credentials alone. Firms may respond by favoring candidates with prior work experience, relying more heavily on internships, skill assessments, and narrow pipelines, or raising experience requirements for entry-level roles. That may push colleges to defend and further inflate their outcomes, which can perpetuate the cycle. While rational at the firm level, these responses can reduce aggregate entry-level opportunity and further weaken the signaling value of education, particularly when combined with AI-driven task compression.

## The Overproduction of College Graduates

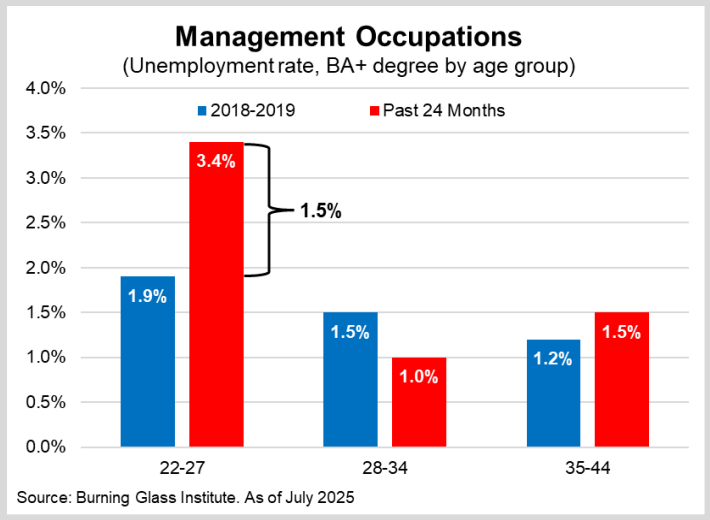
Even as college enrollment has declined at the national level over the last 15 years,[12] the higher education system appears to be producing more college graduates than the labor market can readily absorb, as employment outcomes for new graduates have deteriorated meaningfully in recent years. Unemployment among college graduates ages 22 to 27 rose from 3.6% in Q4 2019 to 5.8% in Q3 2025.[13]

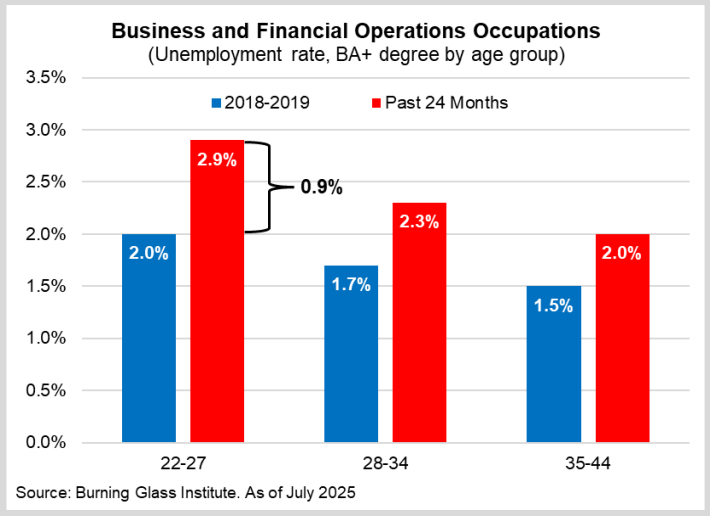
[8] https://www.pewresearch.org/short-reads/2025/01/15/about-a-quarter-of-us-teens-have-used-chatgpt-for-schoolwork-double-the-share-in-2023/
[9] https://www.act.org/content/act/en/research/pdfs/R2134-Grade-Inflation-Continues-to-Grow-in-the-Past-Decade-Final-Accessible.html
[10] https://www.academia.edu/43148020/Grade_Inflation_Causes_Consequences_and_Cure
[11] https://oue.fas.harvard.edu/faculty-resources/report-on-grading/
[12] See Stewart Rubin and Dakota Firenze, "Higher Education in Retreat and the Impact on CRE," New York Life Real Estate Investors Strategy & Research Group, April 2025.
[13] https://www.newyorkfed.org/research/college-labor-market#--:explore:unemployment

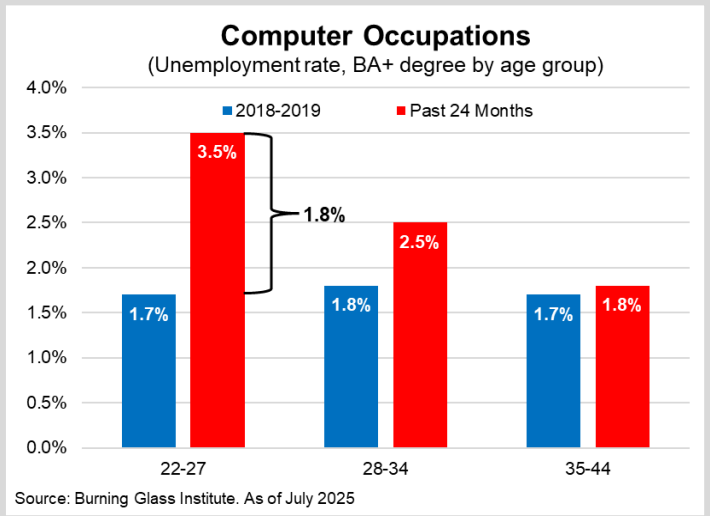
The largest increases occurred in office-using occupations that have historically absorbed sizable cohorts of new graduates, including business and financial operations, management, and computer-related roles.

This deterioration may reflect more than just temporary weakness. For the past two decades, white-collar employment growth tracked closely with output in office-using sectors. Over the past two years, however, that relationship has unwinded, as BLS data show these sectors generating robust output growth without a commensurate increase in hiring (see chart on page 6). While some of this divergence may reflect firms shedding the excess headcount accumulated during the rapid hiring surge of 2021 to 2022, the persistence of rising output alongside flat or contracting employment suggests a more durable shift.

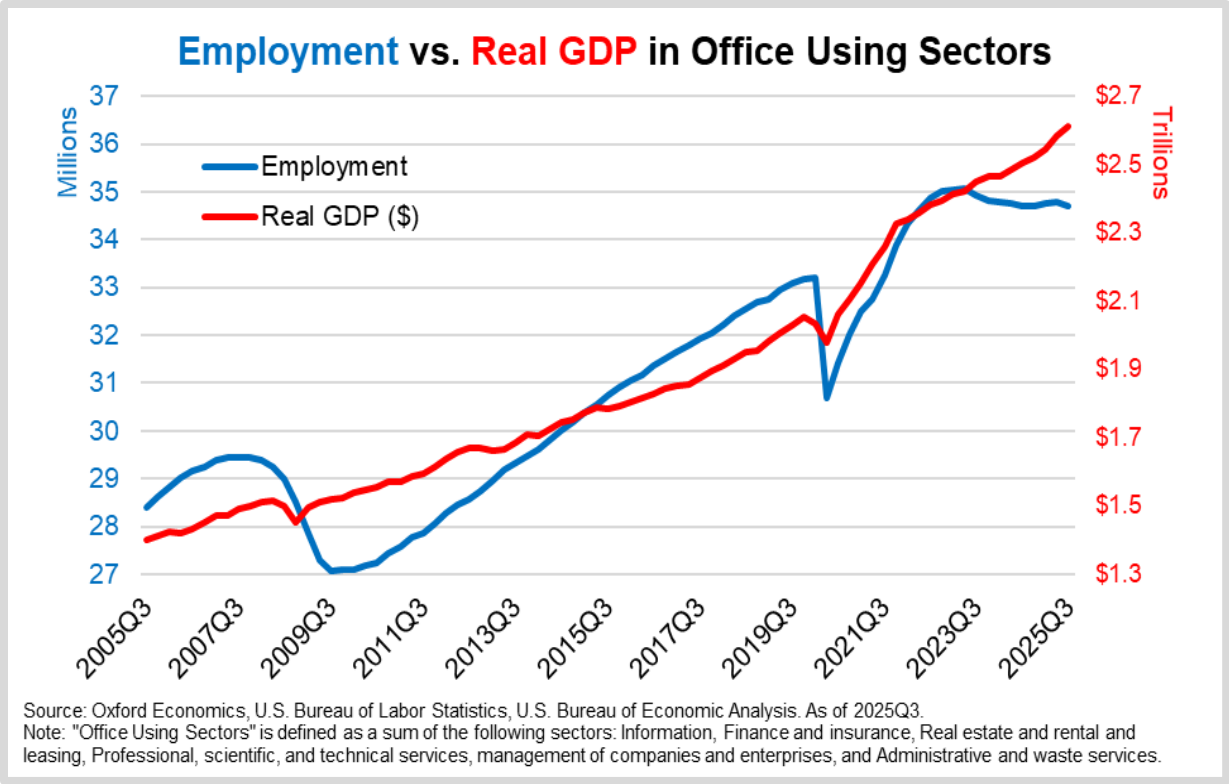
At the same time, hiring managers report greater caution around onboarding entry-level staff and a stronger preference for experienced professionals. Job postings requiring six or more years of experience in office-using fields have increased by more than 40% since 2019, while postings seeking fewer than three years of experience have declined by roughly 30% over the same period.[14] Generative AI may further accelerate this shift by assuming foundational analytical and communication tasks traditionally assigned to junior professionals. Consistent with this concern, a Deutsche Bank survey found that 24% of workers under age 35 expressed high concern that their jobs could be taken by AI, compared with just 10% of workers aged 55 and older.[15]




[14] https://www.burningglassinstitute.org/research/no-country-for-young-grads
[15] https://www.dbresearch.com/PROD/RI-PROD/PDFVIEWER.calias?pdfViewerPdfUrl=PROD0000000000603814&rwnode=REPORT



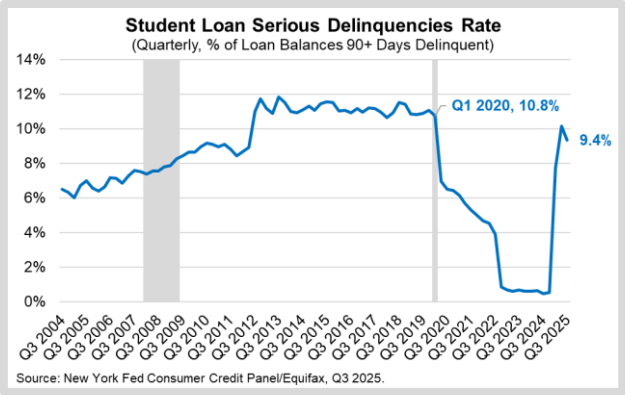
Source: Oxford Economics, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis. As of 2025Q3.
Note: "Office Using Sectors" is defined as a sum of the following sectors: Information, Finance and insurance, Real estate and rental and leasing, Professional, scientific, and technical services, management of companies and enterprises, and Administrative and waste services.

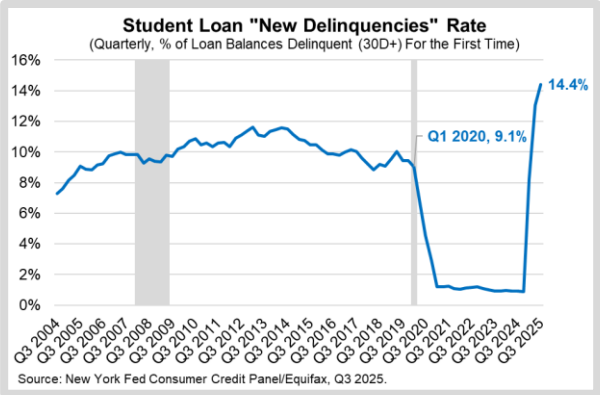
## Labor Market Strain and Potential Supply Side Shifts

The current labor market environment has proven challenging for many recent graduates, and its effects could reshape long-term higher education decisions. As of September 2025, 41.8% of recent college graduates are underemployed, working in roles that do not require a college degree.[16] Persistent underemployment can stunt career progression and reduce lifetime earnings potential.[17]

At the same time, rising tuition costs and student debt are compounding these challenges. After nearly five years of federally suspended repayments, the Federal Reserve Bank of New York reported a sharp rise in student loan delinquencies following the end of the repayment moratorium. During the pause from Q2 2020 through Q4 2024, student loan balances were not reported to credit bureaus, masking underlying stress. With payments resuming, delinquency rates climbed to 9.4% for loans 90 or more days past due as of Q3 2025, approaching pre-pandemic levels. New delinquencies, defined as loans 30 or more days late for the first time, reached 14.4%, the highest level in the New York Fed's data history.[18] These trends suggest that repayment stress may weigh on consumption and financial stability among younger cohorts.

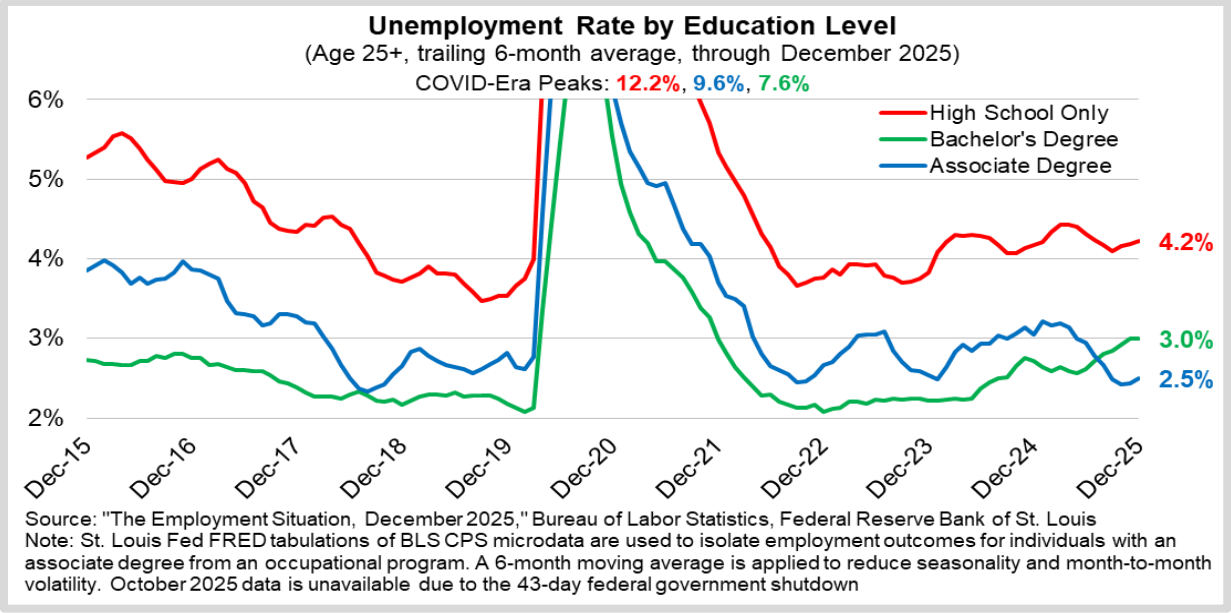
[16] https://www.newyorkfed.org/research/college-labor-market#--:explore:underemployment
[17] https://www.stlouisfed.org/open-vault/2025/aug/jobs-degrees-underemployed-college-graduates-have
[18] https://www.newyorkfed.org/microeconomics/hhdc.html




The combined effects of underemployment and debt distress may deter future students from enrolling in traditional four-year college programs. While overall postsecondary enrollment has declined 2.4% from pre-pandemic levels, enrollment in vocational and public two-year programs has increased by 19.4%, indicating a shift toward shorter and more affordable training pathways.[19] Meanwhile, demand for physical, non-office-based skilled labor remains strong. Construction, logistics, and clean energy industries continue to experience tight labor markets, particularly as nearshoring accelerates.[20]

According to the St. Louis Fed's tabulation of BLS microdata, the unemployment rate for workers with an associate degree from an occupational program is 2.5% on a trailing six-month average basis, compared with 3.0% for workers with a bachelor's degree or higher (see chart below). In response, employers in the skilled trades are increasingly targeting high school students directly, offering apprenticeships and signing bonuses to attract talent.[21]




[19] https://nscresearchcenter.org/current-term-enrollment-estimates/
[20] https://www.wsj.com/articles/help-wanted-u-s-factories-seek-workers-for-the-nearshoring-boom-ef0209aa?mod=article_inline
[21] https://www.wsj.com/lifestyle/careers/skilled-trades-high-school-recruitment-fd9f8257?gaa_at=eafs&gaa_n=ASWzDAiumlTYfR8obhJ6Tlr991UZoTwYRPktRes6eOhAThH24yB4XXqzSNO5&gaa_ts=68

Some younger workers may increasingly view the skilled trades as more insulated from AI-driven displacement than office-based roles. Occupations in construction, electrical, and mechanical fields remain relatively resistant to automation given their reliance on manual and spatial reasoning. As this perception spreads, the relative appeal of degrees aligned with office-using jobs may diminish. In the near term, recent graduates face broad labor market headwinds, and over time, sustained signals of weaker demand for office-oriented degrees, alongside more attractive and better-compensated alternatives, could shift education and career preferences. If these dynamics persist, the pipeline of new college-educated entrants into office-using occupations may contract.

## Conclusion

The post-pandemic office market is often discussed in terms of attendance patterns and hybrid work policies. Beneath those debates, however, lies an additional structural question: how many office workers the economy ultimately needs, and how those workers are trained, evaluated, and brought into the labor force. Generative AI represents a plausible long-term force reducing white-collar job demand, particularly at the entry level, where early evidence already points to shifts in hiring behavior.

At the same time, weakening educational outcomes and grade inflation may be weakening the reliability of academic signals, pushing firms toward experience bias, tightened hiring thresholds, and narrower talent pipelines. On the supply side, underemployment, rising student debt, and reassessment of the return on traditional four-year degrees are beginning to reshape education and career choices. Together, these forces suggest that both the demand for and supply of office-using labor may be under structural pressure.

In the near term, firms may benefit from these dynamics. Generative AI allows employers to substitute capital for labor, reduce incremental hiring, and improve margins by relying more heavily on experienced staff augmented by technology. Recent graduates and prospective office workers, by contrast, face weaker labor market outcomes, higher debt burdens, and fewer traditional entry points. Over time, however, individuals may adapt. New roles that complement human judgment, domain expertise, and AI capabilities may emerge, and alternative education and training pathways may better align labor supply with evolving demand. The party with the least room for adjustment is the office landlord. If equilibrium office-using employment resets lower, the demand for office space may adjust with it.

For commercial real estate, these trends reinforce the divergence already visible since the pandemic. Office asset selection becomes increasingly critical: well-located, amenity-rich, and trophy properties are likely to remain the most resilient, while class B buildings face elevated risks of long-term vacancy, value impairment, and functional obsolescence, potentially accelerating conversions or redevelopment. Markets with high concentrations of back-office functions and junior white-collar employment may be more exposed to structural demand erosion, while markets with lower exposure to white-collar automation risk may exhibit greater long-run stability. In this environment, the potential for dislocation across assets and markets would create compelling opportunities.

Importantly, near-term AI-related leasing activity should not be mistaken for a structural reversal. Recent expansions by technology and AI-adjacent firms in markets such as New York[22] and San Francisco[23] may prove cyclical rather than durable if productivity gains ultimately reduce labor intensity. A bearish outcome for office would involve a downward reset in the equilibrium level of office-using employment, even in an otherwise healthy macroeconomic environment. If fewer workers are required and fewer are trained or credentialed for office roles, long-term demand for office space may settle structurally lower than prior cycles, compelling investors to move past traditional office investment frameworks and focus instead on identifying relative resilience and opportunity amid growing dislocation.

[22] https://www.costar.com/article/275178425/manhattans-tech-office-leasing-has-best-annual-start-since-2000-study-finds
[23] https://www.sfchronicle.com/sf/article/office-leases-tech-21252644.php

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