REIT COMPASS

THE NEW WAVE OF AI AND THE FUTURE OF BPO

A TALE OF TWO OFFICE MARKETS

SESFIKILE CAPITAL

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The evolution of work over the past few years has been shaped by a deep and accelerating confluence of trends - advances in artificial intelligence (AI), and a shift of 'hybrid work' into the mainstream. Together, these forces are redefining how companies think about office property, with South Africa being no exception.

The release of ChatGPT as the first widely popularised large language model (LLM) in 2022 shook the airwaves (dare I say!) across the globe as Generative AI (GenAI) became ubiquitous. GenAI not only absorbs routine administrative tasks, but through learned patterns, generates ideas and solves complex problems. The latest wave — including more autonomous agentic AI systems and advances such as Claude — further accelerates this shift. In summary, fewer people may be required to perform the same tasks in the future, implying we may need less office space.

The Business Process Outsourcing (BPO) sector, originally established as a mechanism for cost containment and the removal of operational inefficiencies from core company activities, now finds itself ironically under scrutiny. If AI can execute the same functions more cheaply and efficiently, outsourcing itself risks becoming the very inefficiency it was designed to eliminate! Kraków (Poland) highlights AI's disruptive impact on Europe's BPO sector. Once a leading outsourcing hub, the city is now seeing labour displacement due to AI-induced redundancies. Bloomberg reports 32 firms planned to lay off 4,195 employees in October 2025 alone—70% more than total cuts in 2024. As a result, office vacancies rose to 18.4% in Q4 2025, reversing a two-year decline.

South Africa's BPO sector has been a net positive for the office market, particularly in Cape Town. Cape BPO's efforts to attract international operators have driven strong take-up, supported by favourable time zones, a young English-speaking workforce, and competitive rentals and labour costs. This demand has tightened office vacancies, with Cape Town vacancies falling to 6.1% in Q4 2025—below pre-pandemic levels and well under the national average of 12.8%. The long term trend may not be so rosy.

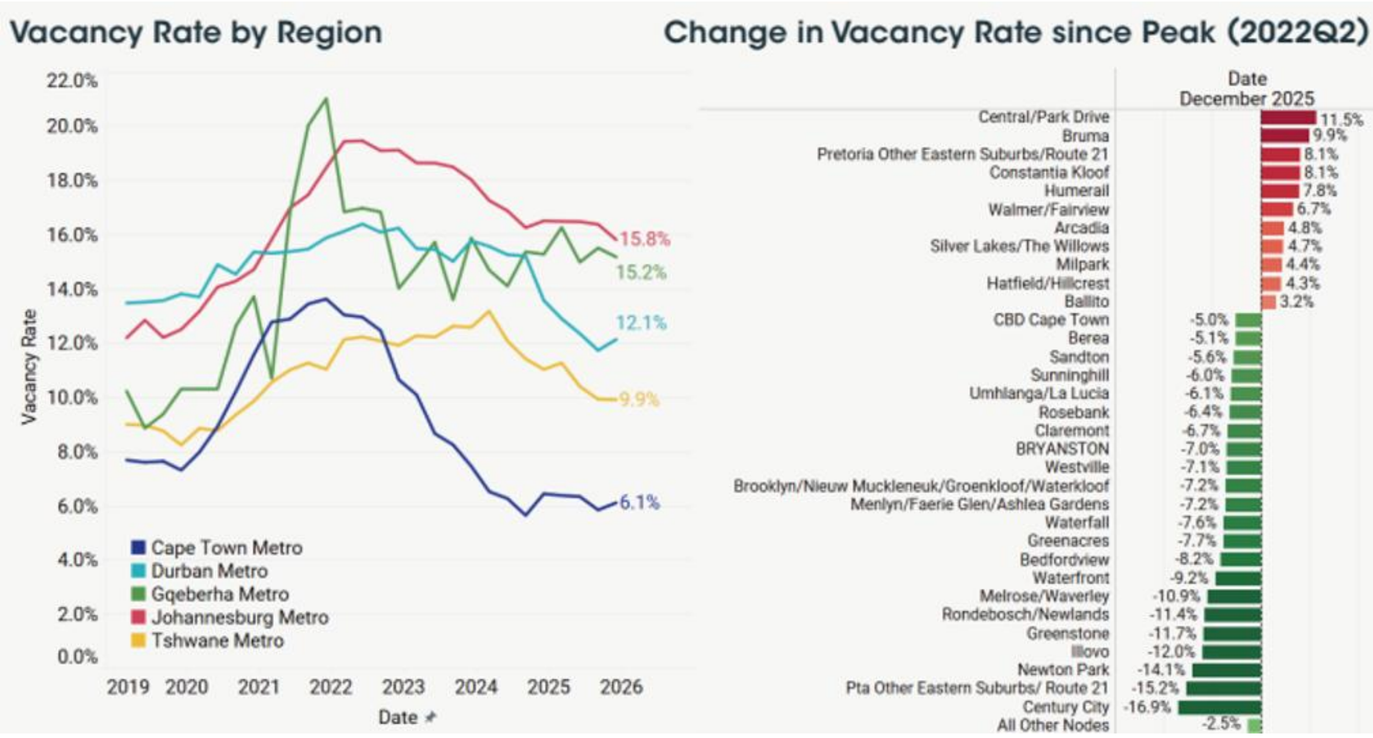
Key Takeaways

AI is structurally disruptive, fundamentally changing how work is done. While the full labour impact remains uncertain, it is clear that fewer employees may be needed to deliver the same output — implying long-term pressure on office demand and space utilisation

The BPO sector sits at the centre of this disruption — globally facing an AI-driven existential crisis, while selectively remaining a demand driver in cost-competitive, human-centric markets such as South Africa..

If AI reduces headcount, value shifts from quantity to quality of space, accelerating office market bifurcation and the flight to quality trend.

Chart 1: SA office vacancies by region and change in vacancies (SAPOA, Q4 2025)



Source: SAPOA Office Vacancy Survey

However, it is not all doom and gloom - At the helm of the services sector is the goal of delivering the best customer experience, which often requires some level of human interaction. Think of the countless times you've had to press the "hash" button to bypass automated voice prompts just to speak with a consultant who can truly hear and understand your problem. This underscores the need for a careful balance between AI and human interaction in the BPO industry. As Deloitte's 2024 Global Shared Services report notes, "The leaders in this space know that technology enhances efficiency, but it is people who create value." Across all BPO segments, ceteris paribus, the common thread is clear: human interaction remains integral to effective business operations, positioning SA competitively as a cost effective, English speaking, consumer friendly labour force.

AI's impact on the labour market is quietly but rapidly bubbling beneath the surface — and we have far less clarity on where this ends than the headlines suggest. According to the World Economic Forum (WEF), by 2030, around 22% of today's jobs will be reshaped, with 14% new roles created and 8% displaced, resulting in net global employment growth of roughly 7%. That was a study done in early 2025, before the latest wave of AI, particularly the rise of agentic systems capable of autonomous reasoning and task execution, and before the release of advanced models such as Claude by Anthropic which has the ability to operate autonomously with minimal human supervision. The variables are shifting quickly; those projections may already be outdated — or prove conservative. At this pace, the only constant is that the baseline keeps moving.

Ultimately, if AI reduces the amount of human capital required, the employees firms retain become disproportionately valuable. The emphasis shifts from headcount to quality — driving demand toward premium, amenity-rich offices that support collaboration and higher-value work.

This shift is already visible: Attacq has rebranded its offices as "collaboration hubs". Tenant flight to quality is intensifying, favouring buildings with flexibility, smart infrastructure, energy resilience and high-quality amenities to support hybrid and remotely augmented teams. Layouts are being reconfigured for project-based work, AI-enabled tools and social interaction, with less reliance on daily attendance.

Looking ahead, a "hybrid stability" scenario appears most likely. AI adoption will continue steadily, hybrid work will remain entrenched, and BPO and global business services should expand at a more moderate pace. Office demand is likely to stabilise below pre-pandemic levels, but premium assets should enjoy sustained demand and lower vacancies. The post-Covid flight to quality will accelerate, creating a two-tier market between prime assets and the rest. Secondary B- and C-grade offices may require material repricing to enable residential or mixed-use conversions.

Regardless of the path, structural forces are reshaping office demand. Investors must align with tenants' needs for flexibility, resilience, ESG performance, modern infrastructure and human-centric design. The underlying conclusion remains difficult to ignore: if technology allows fewer people to perform the same volume of work, aggregate office labour demand declines, and, office property will not disappear, but it will have to fundamentally transform.

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