



# AI meets real estate - Balancing innovation and compliance in the EU, UK, and US

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Mal E. Serure | Darren Rogers | Philipp-Gerald Hammes | Rosemary Tulloch | Pilar Arzuaga

## SUMMARY

Artificial Intelligence (AI) is taking the global commercial real estate market by storm. It is accelerating processes, driving down costs, and enhancing efficiency across a range of functions.

**In the EU**, AI optimizes property management, lease contract administration, investment analysis, and due diligence. However, in addition to potential AI-related data privacy issues under the General Data Protection Regulation (GDPR), the EU is moving toward stricter rules under the AI Act, which could present both challenges and opportunities for AI adoption in real estate. (Opportunities include the use of AI for energy optimization, predictive maintenance, and contract analysis.)

**In the UK**, AI supports real estate transactions, planning, and operations (for example, via Re-Leased's commercial property management system and via LandTech, a UK property technology company that uses AI to analyze planning data, predict development potential, and automate site assessments). The UK appears to be promoting AI innovation by drafting sector-specific guidance, as seen in the proposed Data Protection and Digital Information Bill.

**In the US**, AI enhances data-driven decision-making, automates administrative tasks, and improves property management. There is significant potential for furthering energy efficiency and sustainability, as evidenced by BrainBox AI's work optimizing HVAC usage in commercial buildings. However, the legal landscape is uncertain and evolving. With states like California and Colorado proposing their own regulations on AI use, some worry that varied regulations among the states at this stage of the technology's lifecycle may hamper innovation.

Investors, developers, and commercial real estate professionals should explore AI's benefits while remaining aware of its risks in this evolving regulatory landscape.

## IN DEPTH

### OPPORTUNITIES FOR AI IN REAL ESTATE



Across the entire real estate life cycle, AI is becoming a core driver of innovation and efficiency.

On a daily basis, digital transformation helps commercial real estate professionals make smarter, faster, and more informed decisions:

- **Contract analysis and due diligence** AI tools extract key information from legal documents, accelerating transactions and reducing administrative burdens.
- **Predictive analytics and property valuations** delivered by AI give investors and developers a sharper edge in a competitive market (using machine-learning platforms that review historical and real-time data, allowing for more precise forecasting and risk assessment and providing better insights into market cycles, tenant behaviors, and rental trends).

This technological shift is creating a more data-driven approach to investment decision-making, improving everything from portfolio acquisition strategies to day-to-day property management. For example:

- **AI-powered chatbots** can handle tenant inquiries around the clock, enhancing customer service, shortening response times, and potentially reducing the risk of rent abatements due to delayed responses.
- **Smart energy metering systems** leverage AI to optimize energy use and support sustainability initiatives.
- **Predictive maintenance tools** detect and prioritize repair needs early, minimizing downtime and associated costs.
- **AI automation** handles routine tasks such as processing rental payments and prioritizing maintenance requests, further boosting efficiency.

While offering significant benefits, AI's use also introduces legal and regulatory challenges – particularly around data protection and liability – requiring careful oversight and compliance with applicable laws in each jurisdiction.

## EMERGING RISKS

One inherent challenge stemming from AI's proliferation is managing the associated legal risks. Innovation and creation in the AI space are moving at light speed, and legal frameworks to address some of these risks don't yet exist.

Regulatory approaches to AI differ widely. While there are plenty of laws and regulations addressing data privacy, many don't explicitly mention AI – but are being updated to address it. The EU is moving toward stricter rules under the AI Act, while the UK favors sector-specific guidance. In the US, oversight varies by jurisdiction. For companies working internationally, understanding these differences is key to managing compliance risks.



## EU and UK

While UK and EU laws – including the GDPR – remain broadly aligned, the UK appears to be moving toward a more innovation-friendly approach, as reflected in the proposed Data Protection and Digital Information Bill (supporting technological development by streamlining certain compliance obligations). The UK’s Information Commissioner’s Office (ICO) continues to take a principles-based approach, offering guidance to help businesses balance innovation with strong data protection standards.

Meanwhile, the AI Act in the EU has established a uniform regulatory framework across member states that aims to encourage innovation while ensuring safety and ethical standards in AI applications. It also introduces an obligation for organizations and professionals to build and maintain adequate AI competence throughout the EU.

## US

There is currently no comprehensive federal law in the US regulating the use and development of AI. Many states have enacted – or are in the process of developing – their own laws and regulations. For example, Colorado enacted the Colorado AI Act in 2024, and the California Privacy Protection Agency is in the process of proposing regulations on AI use. Other states are following suit.

The tech industry has been advocating for a moratorium on state-level AI regulation until a single federal framework can be established. The industry’s concern is that a patchwork of state laws will create compliance challenges and hinder innovation at a time when competition with China is fierce and speed is crucial. Such a moratorium was initially included in early drafts of the recently enacted H.R. 1, known as the “Big Beautiful Bill,” but was ultimately excluded.

For now, companies developing AI must navigate a fragmented landscape of state laws and regulations, in addition to complying with laws in other jurisdictions where they operate.

## KEY CONSIDERATIONS

Stakeholders including landlords, investors, lenders, property managers, and their legal advisors must stay alert as the regulatory and risk landscape evolves. Key legal and ethical considerations include:

- **Contractual liability:** Users remain responsible for the outcomes generated by AI. They should conduct the appropriate review and verification processes, and applicable data protection regulations (such as the GDPR) must be strictly observed.
- **Data privacy and regulatory compliance:** AI tools often process large volumes of personal data, such as



tenant details and property records, which increases privacy and compliance risks. Before any third-party data is input into an AI system, a thorough legal review should be conducted. Companies must remain vigilant about obtaining the necessary consents for data processing, implementing robust procedures to ensure that all required consents are secured and permanently documented before any data is made available to AI systems.

- **Bias and fairness:** AI systems are trained on data, and if the training data contains biases, the AI system will perpetuate or even amplify discrimination. This could lead to unfair outcomes such as tenant screening, rental pricing, and investment decisions.
- **Ownership of AI-generated content:** UK and EU laws don't protect content made solely by AI, which raises questions about ownership. To prevent confusion, contracts should spell out who controls the outputs. Clear internal guidelines on how AI is used and reviewed can also help safeguard valuable work.
- **Due diligence:** By streamlining data analysis and document review, AI improves both the speed and precision of due diligence efforts. A key part of the due diligence process is verifying that all necessary consents for data use have been properly obtained and sufficiently documented. This ensures compliance with legal obligations and helps mitigate the risk of subsequent disputes.

## THE OUTLOOK

The future of AI in real estate looks promising and will continue to transform the commercial sector. AI adoption is unlocking major efficiencies, but it is also introducing a new layer of legal complexity and regulatory challenges. Proactive risk management and legal foresight are therefore essential to navigate this new environment. We recommend:

- **Striking a careful balance between progress and compliance.** Systems used for decision-making like tenant screening or rent adjustments must be explainable, auditable, and fair.
- **Drafting contracts that clearly outline key responsibilities** when adopting AI tools or partnering with tech providers: who owns the data, who is liable for errors, and how compliance will be maintained.
- **Staying informed about evolving regulations.** Nations are actively developing their approaches to AI governance. This means commercial property stakeholders must keep a close eye on updates from both regulators and industry bodies.

Contact your McDermott lawyer today to discuss how [AI](#) can enhance your [real estate](#) operations while minimizing legal risks.

## GET IN TOUCH



**Mal E. Serure**  
[View Profile](#)

**Darren Rogers**  
[View Profile](#)

**Philipp-Gerald  
Hammes**  
[View Profile](#)

**Rosemary Tulloch**  
[View Profile](#)

**Pilar Arzuaga**  
[View Profile](#)

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