

Over past 15 years, more retail space is demolished than built on speculation

Removal of obsolete buildings provides benefits for retail landlords

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Retail landlords are getting a boost not only from steady demand for stores fueling near-historic low vacancy and a dearth of available modern space. They are also benefiting from developers slowing construction of space built on speculation.

Over the past decade, more retail space has been demolished, 250 million square feet, than the amount of added fully available space not leased to tenants before construction. Since 2016, just 87 million square feet of speculative retail space has been added to the market, while the amount of demolished retail space exceeds 336 million square feet. And more space has been demolished than built on speculation since 2010.

Most demolished space often consists of older, obsolete stock, leading to the positive net impact on supply and demand for retail landlords. The vast majority of new retail development already has a tenant in place and, therefore, doesn't compete with the existing space market. But for retailers, the lack of speculative development results in limited options and lengthy development timelines for preleased space.

The challenge in developing more speculative retail hasn't been demand, but rather economics. The surge in the cost of materials, land and labor following the pandemic, coupled with still elevated interest rates, has pushed the investment-return hurdle for new development out of reach across many retail formats and markets. Put simply, developers often cannot achieve the rents required to justify new development, especially for larger centers without a key anchor tenant.

In many areas around the country, developers would need to achieve rents that are 40% or more higher than current prevailing rates in order for a large-scale speculative development to pencil out financially. Developers are responding by shifting their focus to mixed-use redevelopments, smaller retail formats and freestanding build-to-suits, where the economics are more manageable due to higher per square foot rents and upfront tenant commitments.

What's more, this pivot toward smaller spaces better aligns with the current demand profile across the retail sector. Over 90% of retail leasing activity recorded to date in 2025 has occurred in spaces under 5,000 square feet. Restaurants, coffee shops, personal

services, wellness concepts and healthcare providers are driving the bulk of new leasing. Rather than needing extremely large stores, these retailers instead require visibility, access and efficient use of space. Developers are responding by carving up former big-box spaces, adding pad sites, and designing new projects around these smaller-format users.

Meanwhile, the demolition trend continues. Last year alone, 24.1 million square feet of retail space was removed from the market, four times more than the amount of speculative retail space added by developers. Year-to-date in 2025, the amount of demolished retail space has already reached 14 million square feet. This largely consists of obsolete stock that no longer meets tenant needs. In many cases, the obsolete space is being replaced by non-retail uses, such as apartments, hotels and senior housing. The result is a leaner, more efficient retail footprint that appears to better address today's consumer and retail tenant preferences.

Looking ahead, the lack of new speculative supply and continued removal of obsolete space should act as a buffer against future volatility. With so little speculative space being added, the risk of overbuilding remains minimal. That could benefit landlords, who continue to wield above-average pricing power for rents, especially those with modern, well-located properties.

It also provides a cushion against any increase in potential store closures amid the recent pullback in consumer spending and the opportunity to backfill space quickly when space does become available.