COSTAR INSIGHT

Retail construction pulls back

Despite sustained demand, new project economics remain strained

An increasingly rare sight: a new neighborhood retail center under construction. The Portico at Shaenfield is expected to open in San Antonio, Texas, sometime in the second quarter of 2026. The new development was 54.4% leased as of early April. (CoStar)

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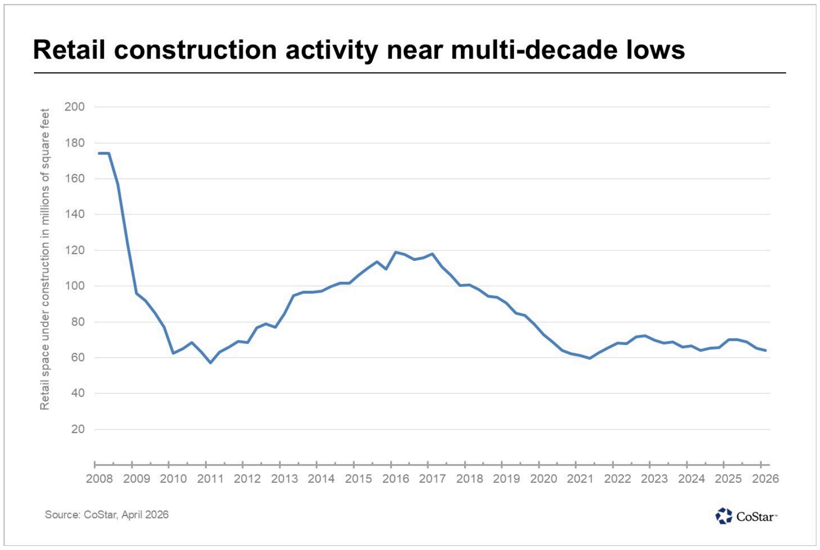
The amount of available retail space remains very limited across most U.S. markets, with few vacancies, not many move-in-ready locations and steady demand from businesses continuing to push rents higher.

Under normal conditions, that backdrop would be expected to trigger a pickup in new supply. Instead, retail construction activity moved in the opposite direction in the first quarter.

Only roughly 64.2 million square feet of retail space was under construction nationally at the end of the first quarter. That's a decrease from about 70 million square feet that was under construction for the same time a year earlier and well below the 10-year construction average that consistently exceeded 90 million square feet in the previous expansion.

Retail construction levels now sit near where they were in the early stages of the post-pandemic recovery, underscoring the degree to which supply and demand have become disconnected.



The pullback in retail construction reflects a development environment in which it remains difficult to "make the numbers work" in most markets. Sharp increases in land prices, construction costs and interest rates over the past several years have pushed the rents required to justify new construction well above prevailing market levels for many retail formats.

Even in markets with strong population growth and leasing demand, achieving returns that justify ground-up construction has become increasingly challenging.

Beyond cost pressures, developers remain cautious following years of heightened awareness of supply risks. While retailers continue to favor measured, capital-disciplined expansion strategies that avoid large capital outlays required to secure the rents needed for new construction.

Competition for potential shopping center sites from higher-density residential, industrial, and mixed-use projects further constrains retail development opportunities, particularly in infill locations.

At the same time, ongoing competition with e-commerce for consumer spending, especially within soft goods retail categories, has reinforced a preference for smaller footprints and selective growth rather than broad-based expansion.

Retail center type	Under construction space	Year-over-year change
General retail	44,680,733	-9.9%
Neighborhood center	10,018,400	-6.1%
Strip center	3,817,432	-11.0%
Mall	3,391,456	6.9%
Power center	1,150,594	-4.9%
Other	343,197	-15.8%

Construction activity remains concentrated in a narrow set of retail segments, reflecting where development economics and tenant demand still align. General retail formats account for roughly 44.7 million square feet, or nearly 70% of all retail space under construction in the U.S., though that total is down nearly 10% year over year.

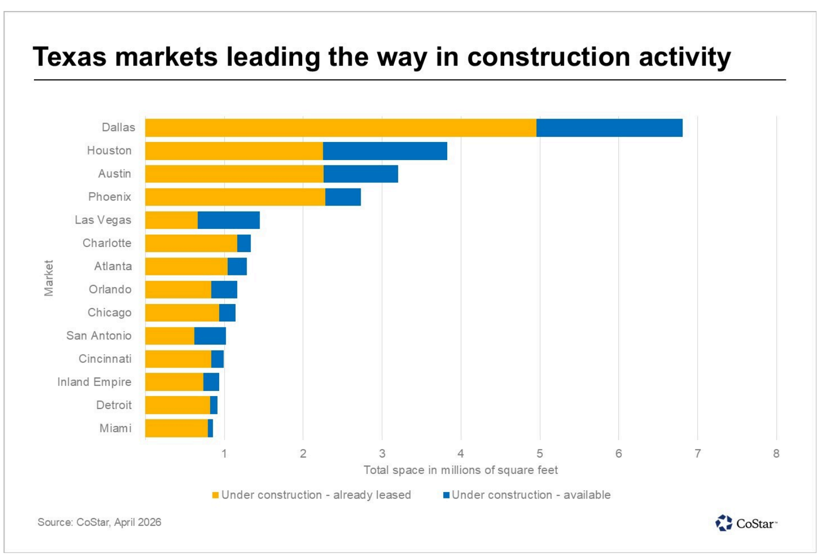
Neighborhood centers, often anchored by grocery or essential service tenants, account for just over 10 million square feet, declining more than 6% from a year earlier. Strip centers account for approximately 3.8 million square feet and also posted a double-digit annual decline.

Regional mall construction remains minimal in absolute terms. Still, the segment is one of the few retail sectors seeing increased construction levels with 3.4 million square feet under construction, up nearly 7% year over year.

However, much of that construction activity is tied to redevelopment, expansions, or non-traditional uses rather than new enclosed malls. Power centers and other specialty formats together comprise a relatively small share of the construction pipeline and continue to trend lower.

Geographically, new retail construction remains heavily concentrated within a limited number of markets. The 15 markets with the most space under construction continue to skew toward high-growth regions, particularly the South. Texas markets dominate the top of the list, with Dallas, Houston and Austin collectively accounting for the three largest construction pipelines in the country.

These markets benefit from population growth, corporate relocations, and relatively favorable zoning and entitlement environments, allowing select projects to move forward even amid elevated development costs. Other large retail construction pipelines are found across the Southeast and Sun Belt, while most Midwest and Coastal markets continue to see comparatively modest construction levels.



Space availability within new retail construction projects varies meaningfully across these top markets. In Texas and several high-growth Southern metropolitan areas, a significant share of space under construction is already pre-leased, reflecting strong tenant demand for well-located, modern retail space.

In contrast, several markets outside the South show higher levels of unleased space, signaling more cautious tenant commitments or projects that are further along in the delivery timeline. Nationally, roughly 47.7 million square feet of retail space under construction is already leased, while only about 16.5 million square feet remains available, highlighting the continued emphasis on build-to-suit and pre-leasing strategies rather than speculative development.

Taken together, first-quarter construction data reinforces the view that retail supply growth will remain limited in the near term. Elevated development costs and financing constraints are unlikely to ease quickly, and most retailers appear content to expand selectively rather than aggressively.

With constrained new supply, existing retail space is positioned to remain scarce, supporting elevated occupancy levels and rent growth across well-located assets. While construction activity may gradually stabilize in high-growth markets and necessity-based formats, the broader outlook points to continued tight retail fundamentals for the foreseeable future.

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