XTEAM
RETAIL ADVISORS

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THE VACANCY ILLUSION



Retailers are ready to expand. Finding space that can actually take them is the hard part, and there's even less of it than the already-tight vacancy rates suggest.

EXECUTIVE SUMMARY

For retailers expanding in strong trade areas, the binding constraint is space that can actually accept a tenant, and the published vacancy rate doesn't measure it.

Headline vacancy flatters the inventory.

The number that governs leasing is usable vacancy: availability stripped of obsolete boxes, compromised layouts and properties that cannot accommodate the demand in the market. In high-performing markets, removing those properties leaves a much shorter list of realistic options.

Construction remains selective.

CoStar recorded 7.7 million square feet of U.S. retail construction starts in the third quarter of 2026, the lowest quarterly total since at least 2016, and expects the pipeline to shrink further. New projects are moving forward where an anchor, a lender and local demand align, and almost nowhere else.

Growth is coming out of existing real estate.

Former pharmacy boxes show why: visibility, parking and often a drive-thru lane draw dollar stores, healthcare, fitness and food users.

Big boxes are getting scarce.

The average store closed in the first half of 2026 was half the size of one closed a year earlier, and the average opening was nearly twice as large as the average closure. Large-format users are finding little relief in the closure pipeline.

Backfill has become a curation problem.

A vacant box and a willing tenant are no longer enough. Landlords are weighing merchandising logic and where the asset is headed in five years, and some have offered to pay to keep the wrong tenant out.

The "mall" is no longer a widely usable category.

While the values of malls have increased, it's not a level playing field. Analysts estimate that about 250 of the roughly 900 remaining U.S. malls are Class A properties, and those 250 hold approximately 90% of the sector's value.

THE BOTTOM LINE

The test is no longer whether space is merely available. It's whether the space can become something the market will support.



Convenient access and a mix of fitness, food and beverage, and personal services encourage repeat visits to neighborhood and community centers throughout the day.

INTRODUCTION

The Search Begins...

In a strong suburban trade area today, a tenant rep broker working a credit-grade national rollout no longer scrolls through a clean list of marketed availabilities. The boxes that work are often not on it.

The broker spends weeks investigating 10 to 14 opportunities, from weak tenants nearing lease expirations to operators facing debt pressure, rent pressure or underperforming stores their headquarters may already be questioning. The goal is to create one or two real openings before the space officially comes to market.

In some cases, the incumbent does not even have to leave for the conversation to change. A landlord knowing that Aldi, Ross or another stronger replacement tenant is waiting can alter the renewal calculus.

That search takes place against steady consumer demand. Retail sales rose for 12 straight months through September 2026, and September sales, excluding auto dealers and gas stations, were up about 4% year over year.[1] For physical retail, the question is where that demand translates into a store and what kind of space can accommodate it.

Retail demand is active, but it's being routed through a narrower universe of spaces that work. The new map is defined by where the consumer trip still makes sense and whether the real estate can support it. Increasingly, growth is landing on real estate someone else already built.

FUNCTION HAS BECOME THE FILTER

The headline that retail is recovering is incomplete at the asset level. The format of the property, its access and its role in local routines determine whether broader demand reaches it.

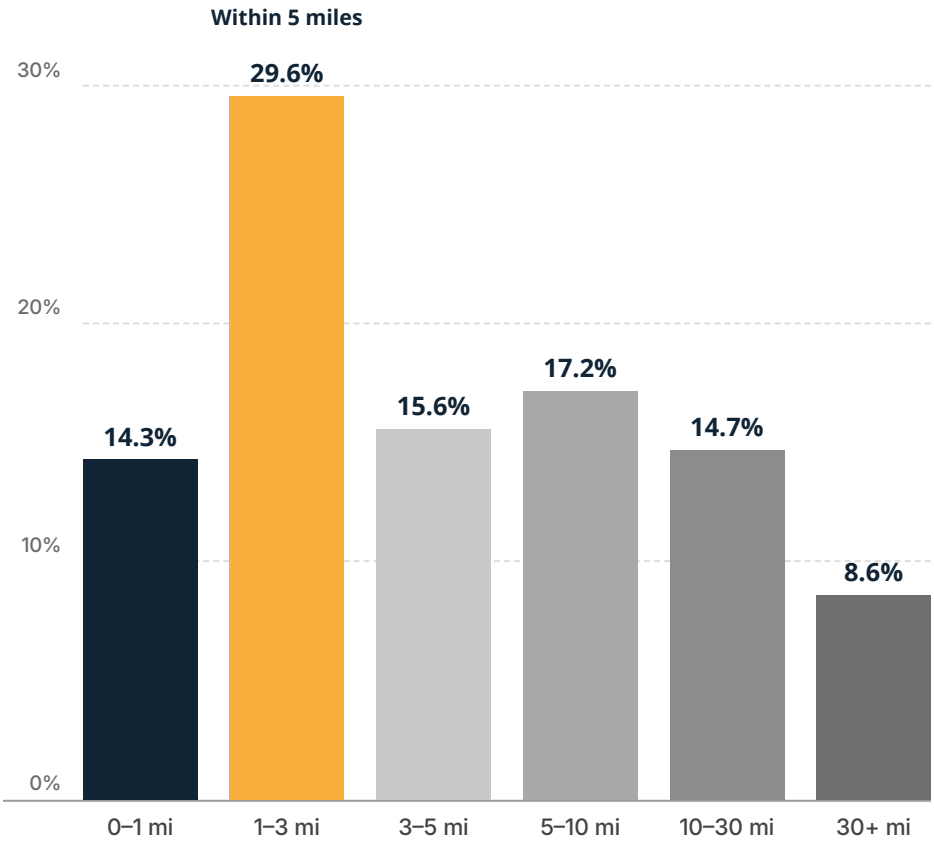
General freestanding retail sits at the top of the performance list, helped by demand for smaller formats. Open-air centers are also relatively healthy, thanks to their grocery anchors. Outside the top tier, regional malls continue to underperform, and power centers still carry higher vacancy in big-box footprints, a reminder that available space and usable space are different things. The same national recovery is producing very different outcomes by format, and the gap is widening.

Shopper behavior explains the split. A 2026 ICSC survey found that 65% of consumers had recently visited a neighborhood or community center, compared with 49% who had visited an enclosed mall.[2] Those centers carry the routine trips that keep physical retail relevant: groceries, coffee, fitness, quick-service dining, beauty, wellness, pet care, medical, off-price and everyday needs.

The trips are also local. An analysis of the Placer 100 Retail Index found that nearly 60% of shoppers' visits originated within five miles of the store, and about 44% occurred within three miles.[3] That kind of trip is hard for e-commerce to replace, which makes it some of the most durable traffic in retail.

Most Retail Trips Start Close to Home

Share of visits to the Placer 100 Retail Index by driving distance, August 2025 to July 2026



The single largest share of retail visits, nearly 30%, comes from one to three miles away, and fewer than one in four come from more than 10 miles out. For site selection, that makes the needs and demographics of households in a site's immediate surroundings a better guide to tenant fit than a metro area's headline growth.

Within 5 miles: 59.5% **Within 3 miles: 43.9%**

SOURCE: *Placer.ai, "The 2026 Retail Consumer in 5 Charts"; Placer 100 Retail Index, August 2025–July 2026.*

In some of the strongest markets, the most important retail space never even makes it onto a flyer.

That traffic is also changing what counts as an anchor. In 2025, fitness visitors returned to an individual brand an average of 4.2 times a month, compared with 2.5 for coffee and 2.4 for grocery. Gym visits also ran long: 90.8% lasted at least 30 minutes, against 7.6% for coffee.[4] A tenant can anchor a center by how often it brings people back or how long it keeps them there, even from a fraction of a conventional anchor's footprint.

Service tenants, from fitness, healthcare and wellness to pet care, beauty and personal services, build on that advantage. They keep centers active across more dayparts and reduce dependence on goods-based traffic. They also make different demands: a quick coffee stop and a longer gym visit put very different loads on parking, access and scheduling, and the mix has to work for both.

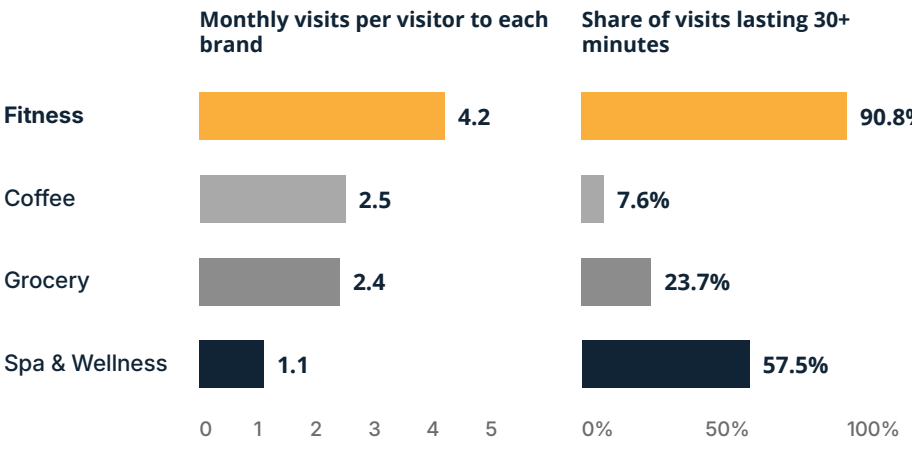
Where the format aligns with how consumers shop, broader demand has a way to reach the asset. Where it doesn't, even a positive national headline will offer little help with the next lease.



Neighborhood and community centers align with the trips that recur: groceries, coffee, fitness and the prescription pickup. Convenient access and a tenant mix suited to nearby households help those trips reach the property.

Diverse Tenant Mix Generates Different Kinds of Visits

Selected categories, 2025



A center works best when different tenants' visit frequency and duration complement each other. Quick-turn tenants support parking turnover, while longer-stay tenants encourage customers to linger. Fitness is the rare category that scores high on both: visitors return over four times a month, and nine in 10 visits last at least 30 minutes.

Of these categories, only fitness ranks high on both repeat visits and time on site

SOURCE: *Placer.ai, "The New Tenant Mix Playbook," August 2026. Selected categories. Frequency is monthly visits per visitor to each brand; dwell is the share of visits lasting 30 minutes or more.*





Beleaguered chain pharmacies have closed hundreds of stores in recent years, leaving behind valuable space. Dollar Tree alone has taken over more than 300 former Walgreens locations. The box size, parking and visibility carry over to the next user.

USABLE VACANCY TELLS A DIFFERENT STORY

The published vacancy rate flatters the inventory.

The number that governs leasing economics is the one brokers deal with in practice: effective or usable vacancy. That means available space stripped of obsolete theater boxes, awkward elbow anchors, oversized department-store footprints, dead malls, weak access, poor parking, compromised layouts and properties that cannot realistically accommodate the tenant demand in the market.

Nationally, retail vacancy stood at 4.3% in the third quarter of 2026,[5] and headline rates in many of the strongest growth markets run close to or below that figure. Once functionally obsolete space is removed from the practical inventory, effective vacancy in those markets can feel closer to 2% to 3%. A tenant may face a long list of nominal options and a very short list of workable sites.

Space can also fail on paper. Exclusive-use clauses, permitted-use restrictions, co-tenancy requirements and anchor leases with approval rights can rule out a tenant before anyone tours the box. Size is another filter: the boxes coming back to market have been getting smaller just as growth tenants want larger ones. Neither shows up in a vacancy rate, and both decide what a space can become.

The inventory has also been shrinking for a generation: roughly 480 million square feet of U.S. retail has been demolished since 2000.[6]

New construction isn't coming to the rescue. Developers started just 7.7 million square feet of U.S. retail projects in the third quarter of 2026, down from 10.7 million in the second quarter and the lowest quarterly total since at least 2016. The 58.3 million square feet already under construction sits about 4% below the 10-year average, and it's concentrated: Dallas–Fort Worth, Houston and Austin hold nearly 27% of it, and the top 15 markets hold roughly 56%.[5]

The pipeline is likely to shrink further before any meaningful recovery, as high land costs, elevated construction pricing and financing constraints keep many projects from penciling. Longer approval timelines add risk on top of that.

That doesn't mean ground-up retail has stopped. New centers are still breaking ground in fast-growing Sun Belt suburbs, typically behind a committed grocery or big-box anchor, heavy preleasing and a lender willing to wait. Outside those markets, little new supply is on the way. Even inside them, a retailer cannot count on a wave of new space arriving to absorb its expansion.

That pushes the search into the existing inventory. Tenant representation has become more investigative, more predictive and more relationship driven. The best opportunities often sit inside leases that haven't yet been broken.

In the strongest markets, the most important retail space never makes it onto a flyer.

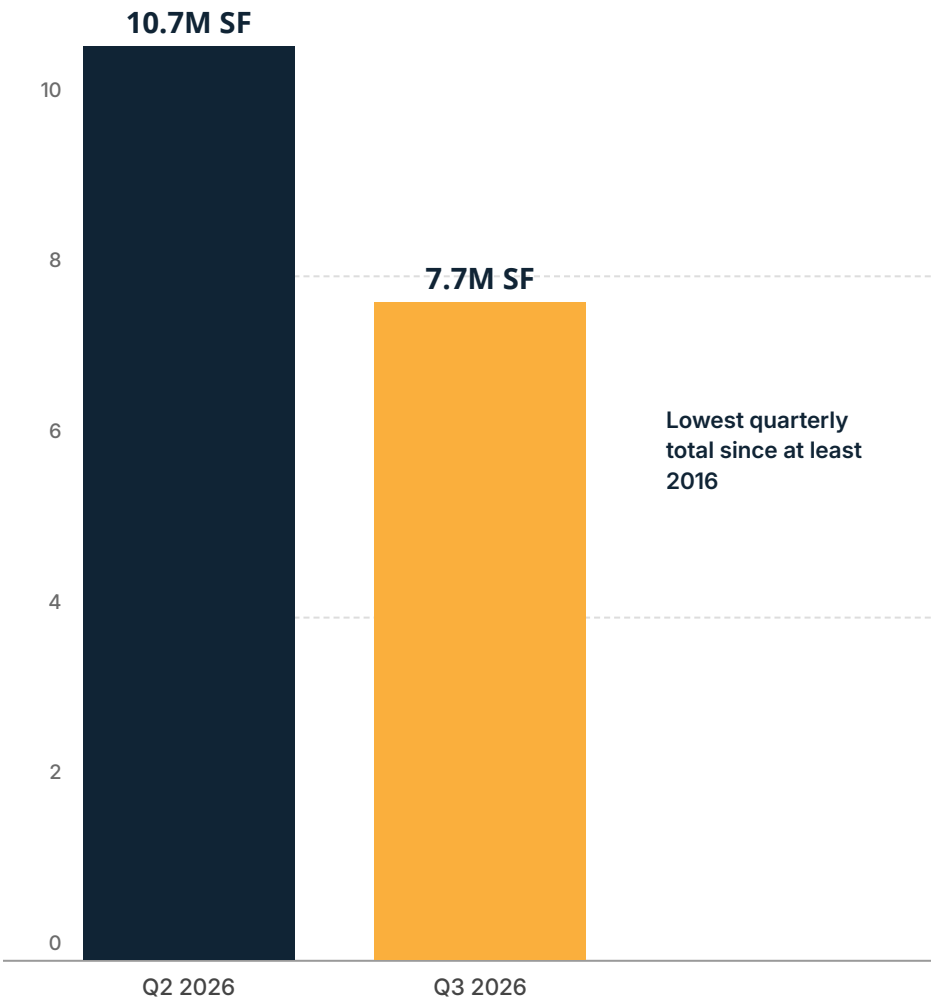
CLOSURES ARE BECOMING THE NEW SUPPLY PIPELINE

Store closures still make headlines, but in a supply-constrained market they don't always signal distress. They are also where growth inventory comes from.

With new construction limited and usable vacancy tight, much of the next several years of growth will be built out of buildings vacated by retailers in retreat. Pharmacies are the clearest example. Rite Aid closed its remaining 1,300 stores when it ceased operations in 2025, and CVS has closed roughly 1,170 stores since it began contracting in 2021. And while Walgreens' multi-year plan to shutter 1,200 locations was considerably downsized when it was taken private in August 2025, the brand had already closed some 500 stores by then.

Retail Construction Starts Hit a Decade Low

U.S. retail construction starts, million square feet



Developers started work on 7.7 million square feet of U.S. retail in Q3 2026, down from 10.7 million in Q2 and the lowest quarterly total since at least 2016. Space already under construction, aggregating some 58.3 million square feet, sits about 4% below its 10-year average.

Under construction in Q3: 58.3 million SF, about 4% below the 10-year average

SOURCE: *CoStar, October 2026*





Building a new drive-thru carries entitlement risk that taking over an existing one can often avoid. The signalized corner, parking and drive-thru lane that made a site work for a pharmacy can make it work for quick-service too, provided zoning and the lease allow the new use.

The closures certainly reflect pressure inside the pharmacy sector, but they're also putting a significant amount of well-located space back into the market.

Former pharmacy boxes are unusually useful real estate. They typically run 10,000 to 14,000 square feet and sit on signalized corners with dedicated curb cuts, traffic lights, parking and, often, drive-thru lanes. Those attributes translate directly into demand from a wide replacement field: dollar stores, off-price retailers, healthcare providers, urgent care, veterinary clinics, fitness concepts, specialty grocers and local service operators. QSR and beverage operators like Dutch Bros, Raising Cane's and McDonald's are among the most active bidders, lifting effective ground rents on the best corners. Value retailers are moving too: Dollar Tree alone has taken over more than 300 former Walgreens sites.

Even with that demand, every conversion has to be underwritten. A new user may need different utilities, kitchen infrastructure, parking or circulation, and for QSR bidders in particular, an existing drive-thru lane doesn't automatically carry approval for a new drive-thru use. Walgreens often paid above-market rent that a replacement tenant may not match. What the existing box offers is time: reuse can skip the curb-cut, traffic and civil-design approvals that slow a new build.

Junior and apparel boxes are following a similar arc. Fleet reductions and format shifts are releasing space that once housed apparel chains, department stores, bank branches, restaurants and specialty retail. Eddie Bauer's bankruptcy alone closed 174 locations totaling more than 1 million square feet across North America. At the smaller end, former apparel and bank bays of 2,000 to 4,000 square feet suit spa, boutique fitness and fast casual uses that need a modest footprint and draw steady repeat visits.[4]

Recreation users show how far the next use can depart from the last one. A former Neiman Marcus at Massachusetts' Natick Mall now houses Bosse Pickledom, a 97,000-square-foot indoor pickleball and entertainment facility. For an operator that needs a large, contiguous floor plate, that kind of space is hard to find anywhere else.

Store counts also understate how much space growth requires. Through late August 2026, retailers announced a net 127 more openings than closures, against a net 1,954 closures at the same point in 2025. The space gap is wider still. In the first half of 2026, the average announced opening ran about 19,300 square feet, while the average closure shrank to roughly 10,700, about half its size a year earlier.[7]

The 2025 liquidations released big boxes. Closures in 2026 have been mostly small shops, while IKEA, Publix, Bass Pro Shops and Meijer expand in footprints the closure pipeline no longer produces. That is why large-format growth increasingly depends on a preleased new build or a department store that can be converted.

An owner willing to pay to keep a tenant out is treating the next use as a driver of the center's value.

BACKFILL'S BECOME A CURATION PROBLEM

A vacant box and a willing tenant are no longer enough. With usable supply tight, landlords are spending more time on tenant fit, merchandising logic and where the asset is headed in five years. Filling the box is the easy part. Filling it correctly is what takes work.

The fight over Saks Off 5th's leases put the calculus on display. The chain announced 57 closures as part of Saks Global's Chapter 11 bankruptcy. Off-price retailer Burlington was the largest bidder, offering $22 million for a package of 22 leases. Landlords at some centers objected that Burlington did not fit, and some went as far as offering to pay for lease terminations instead. Their arguments ranged from brand dilution, with a value-oriented anchor replacing a luxury off-price one, to contract terms such as permitted-use clauses and co-tenancy requirements. At least one tenant objected on co-tenancy grounds as well.

The bankruptcy court ultimately approved the sale, and the 22 sites are now part of Burlington's plan to open about 100 stores in 2027. Still, each objection was a statement about each owner's vision for its center. An owner willing to pay to keep a tenant out is treating the next use as a driver of the center's value and appeal.

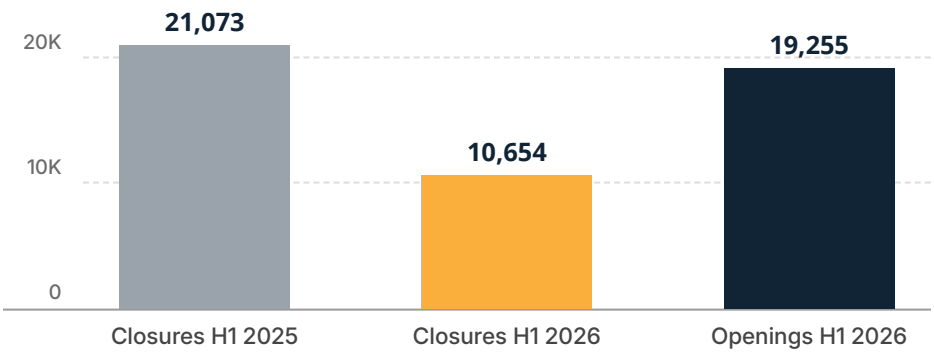
Some owners are avoiding the fight altogether by taking the space back. At Westfield Topanga in Los Angeles, rather than let the vacated Neiman Marcus lease transfer to a third party, the landlord had it assigned to its own affiliate, recapturing the anchor box outright and keeping the decision about what comes next in house.

Others are using a vacancy to move upmarket. At Copley Place in Boston, Simon has announced a redevelopment of the Neiman Marcus space into luxury boutiques, chef-driven dining and wellness, with Casa Tua Cucina and Estiatorio Milos named and openings phased into 2028. It's part of a wider commitment: in February 2026, Simon announced more than $250 million in luxury redevelopments at Mall at Green Hills in Nashville, Cherry Creek in Denver and International Plaza in Tampa.

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Smaller Stores Close as Larger Ones Open

Average size of announced U.S. store closures and openings, square feet



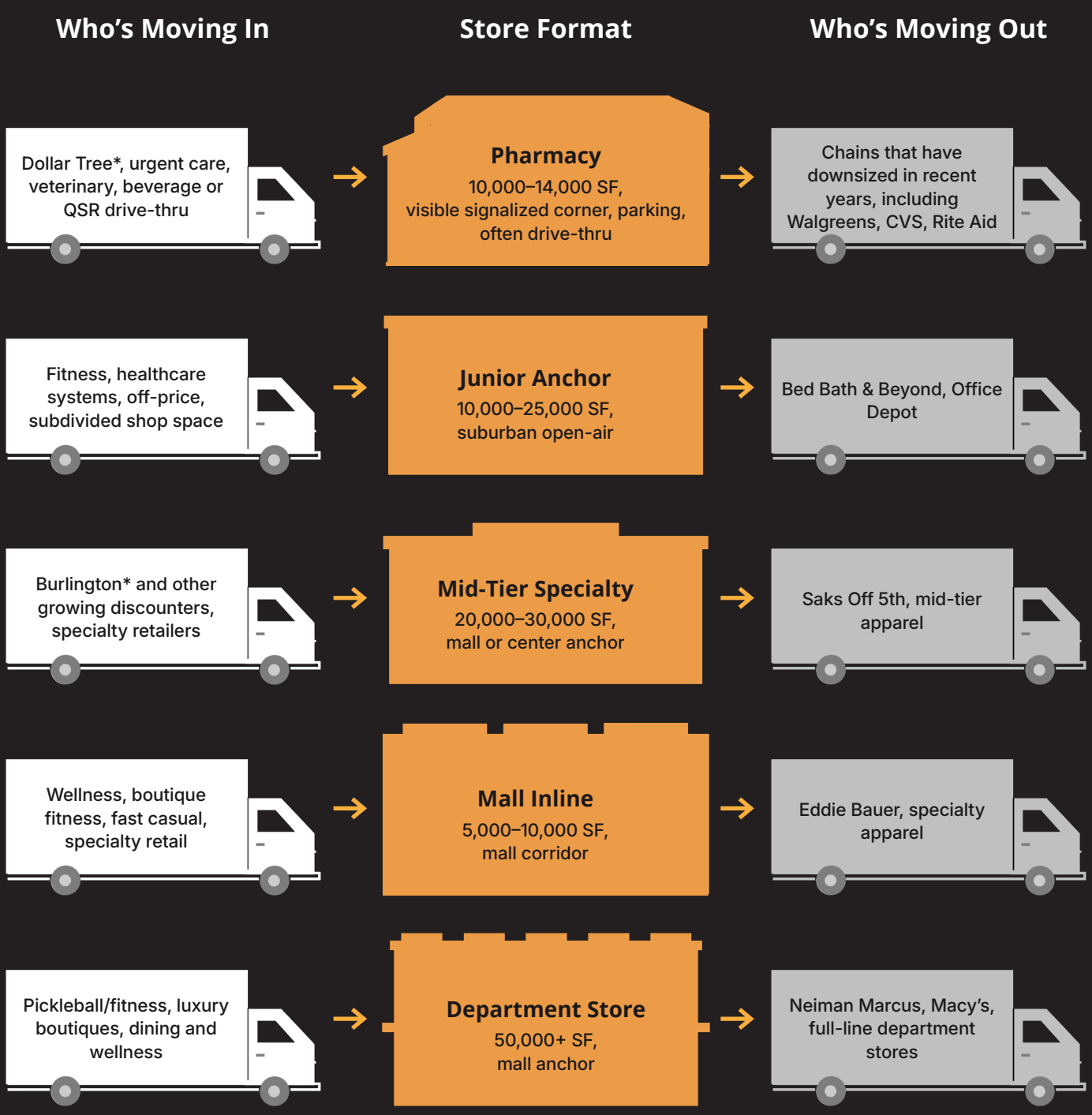
The average store closed in H1 2026 was half the size of one closed the prior year, while the average opening grew slightly. Closures are now releasing small shops as expansion shifts toward larger boxes. That mismatch can leave expanding retailers with fewer suitable options.

Average closure: –49% year over year

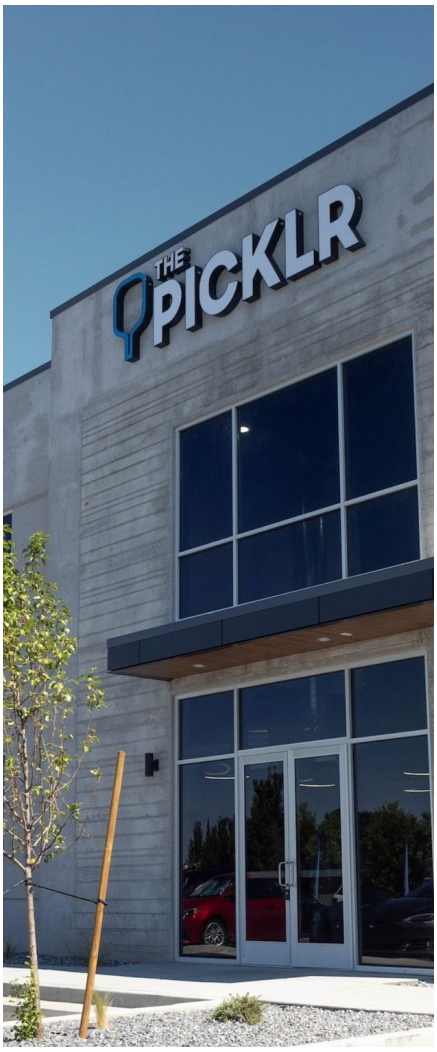
SOURCE: *Coresight Research*

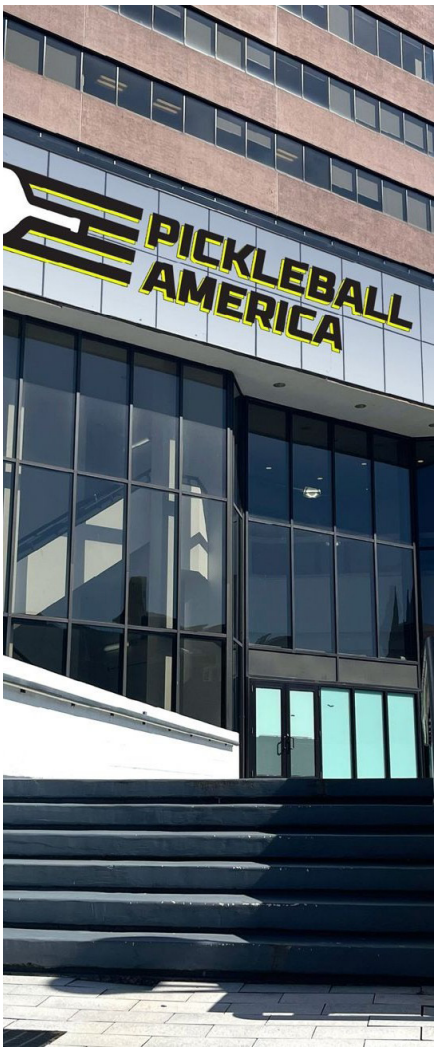
The Replacement Pipeline

In a supply-constrained market, growth often comes from re-tenanting existing space. The next use depends on more than the former sign. Access, floor plate, parking, utilities, lease rights and the surrounding customer base determine which possibilities are practical.



*Dollar Tree took over 300+ former Walgreens locations. Burlington took over the leases of 22 former Saks Off 5th stores.





Recreation operators have become some of the most flexible users of second-generation space. Tenants like Pickleball America and The Picklr took over space vacated by tenants like Saks Off 5th and Bed Bath & Beyond. The demand these spaces now serve didn't exist when the buildings went up.

Continued from page 9

Either path means looking beyond the next rent payment. Subdividing a large box, improving access or holding space for a use that strengthens the center can take more capital and more time.

Evaluating a replacement starts with the job it will do. A gym may drive repeat visits; a restaurant may extend evening activity. But the right category can still bring the wrong customer, which was the heart of the Saks landlords' objection. Placer.ai's data shows how wide that gap can run within a single category: median trade-area household income is $93,900 for Nordstrom Rack against $77,100 for Ross, and $115,900 for Life Time against $76,900 for Planet Fitness. The right tenant is the one whose customer base, hours and parking needs line up with the rest of the center.

The most active bidder and the highest immediate rent rarely make the best backfill. The best tenant protects or improves the asset's merchandising logic while supporting the cost of the transition.

MALLS STAND ON UNEVEN GROUND

The mall narrative has been miscast for years. Malls are not collapsing as a category, but they aren't uniformly recovering, either. They've sorted into very different asset stories.

The top of the market remains a meaningful platform. Mall values rose 13% year over year as of September 2026, but the gains are concentrated: about 250 Class A properties out of roughly 900 U.S. malls account for approximately 90% of the sector's value. The rest, particularly the roughly 300 Class C malls, still show widespread distress.[8]

Top-tier destination malls and mixed-use environments continue to attract luxury, dining, wellness, entertainment and experiential users. Copley Place's planned mix is one example of an owner treating a major vacancy as a chance to sharpen the property's identity. The aim is to give consumers reasons to stay beyond the traditional department-store trip.

Below that tier, the conversation changes. Anchor-quality risk, capital constraints, weaker tenant demand and difficult redevelopment math continue to weigh on asset performance. The hardest questions sit in the middle of the pack. Class B malls are in a difficult position: often considered too valuable to abandon, too weak to compete directly with Class A destinations and too large to reposition cheaply. Reinvention requires capital, patience, public-sector coordination and a defensible new merchandising thesis. It can also require something harder to secure: control of the site.



When Saks Off 5th closed 57 stores as part of its parent company's bankruptcy, its leases became a test of tenant fit. Landlord objections to proposed replacements showed how much the next use can matter to the identity of a center. Some landlords even offered to pay to keep a proposed replacement out.



At Copley Place in Boston, Simon's announced plan would turn the Neiman Marcus space into luxury boutiques, chef-driven dining and wellness, with openings phased into 2028. *Photo courtesy of Elkus Manfredi Architects*

The case of Valley West Mall in West Des Moines, Iowa, shows why. Once housing 138 retailers, the enclosed mall had just 17 left when Threshold Capital bought it for $11 million in September 2026, roughly a tenth of its 2005 valuation. The owner and the city both want a mixed-use redevelopment on the site. But a JCPenney lease signed in the 1970s and running through 2032 gives the department store extensive control over any redevelopment, and Threshold has asked a court to decide whether JCPenney can restrict development across the entire site.[9] As of October 2026, the case was still pending.

Until it's resolved, 58 acres remain on hold. That's the mall version of the problem running through this paper: space that counts as available but can't become what the market needs until the capital, the plan and the legal control line up.



Some of the most successful retail serves everyday needs. Research shows nearly 60% of shopping visits originate within five miles of the store. The households within that radius decide which tenants work.

THE NEW GROWTH TEST IS UTILITY

The retail map is being redrawn on top of itself.

Age alone doesn't determine an asset's prospects. The important factors are a clear consumer mission, a credible tenant pipeline and a repositioning thesis the surrounding trade area can support.

It comes down to five questions:

- **What can the space become?**
- **Who wants it?**
- **Does the market support it?**
- **Can the physical box adapt?**
- **Does the tenant improve the project?**

Those questions are now top of mind, and with new construction this scarce, the squeeze is more likely to tighten than ease. Retailers will need to start their searches earlier and dig deeper, treating occupied space as part of the pipeline and budgeting for conversion instead of assuming a turnkey box. Owners have to underwrite the next tenant as carefully as the current one, because the right backfill now sets the value of the whole center.

For investors and lenders, the number that matters is how much of a property can actually be leased, and who controls the decisions that make it leasable.

New construction will fill pockets where an anchor and a lender have already said yes. Everywhere else, growth runs through existing buildings, and the advantage goes to the retailers, owners, brokers and lenders who can recognize a building's next viable use before the rest of the market does.

Growth Is a Neighborhood Story

For years, retail growth was discussed largely through the lens of migration. The Sun Belt grew. Households moved. Retailers followed.

That story is still a relevant one, but it no longer explains enough on its own. Analyses of 2025 net domestic migration show Dallas gaining 0.2% of its starting population, while Houston lost 0.1% and Miami lost 0.6%.[10] Yet Houston had the second-largest retail construction pipeline in the country in the third quarter of 2026,[5] and a Whole Foods-anchored center broke ground in its Cypress, Texas suburb that October. The metro migration numbers and the activity on the ground were pointing in different directions.

Housing growth isn't a reliable signal either. When First American Data & Analytics compared new-home activity with retail property investment across 306 metro areas, the two rose together in only 37. Retail investment climbed without a matching rise in home building in 114 of them, three times as many. Houston turns up again: it ranked high for retail investment even as residential land sales declined, which points to the scale of an established market, more than new rooftops, as the driver.[11]

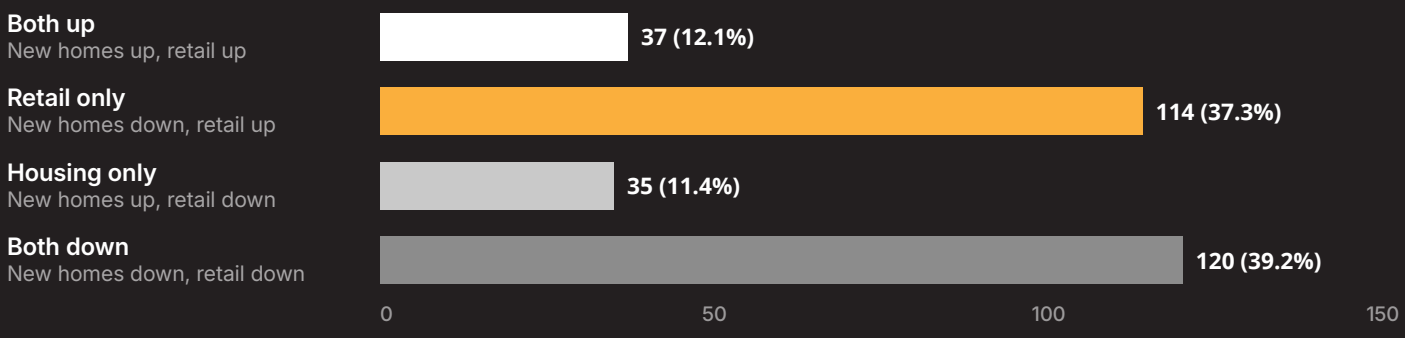
That's why retailers screen sites on income, wage growth, employment, housing types and competition, and test residential trends against actual retail activity before committing.

The real question is whether the people near a site match the customer the tenant needs.

And near is the operative word. Most retail trips start within a few miles of home,[3] which makes the trade area the unit that decides whether a store works. A suburban growth corridor in Texas and a high-performing urban district in New York may have very little in common physically, but both can work when the households around them fit the tenant.

Rooftops Don't Sign Leases

306 U.S. metro areas by direction of new-home and retail investment activity



Retail investment rose without new-home growth in 114 metros, vs. 37 where both rose

SOURCE: *First American Data & Analytics*

SOURCE LIST

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2. ICSC, “Consumer Economy Report,” April 2026
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