



## PROSPECTIVE TENANTS, RIVALS WEIGH UP SOON-TO-CLOSE MATTRESS FIRM LOCATIONS

[A key component of Mattress Firm's reorganization plan calls for closing 700 of its 3,230 company-owned stores to win back the confidence of lenders.](#)

The Houston-based firm, which filed for Chapter 11 bankruptcy protection in Delaware last week, says it is targeting locations that are underperforming or in close proximity to other Mattress Firm stores. The company has petitioned the court to reject some 200 store leases and says it anticipates closing those by Oct. 31. That would save about \$2.8 million per month, according to the court filings. Those stores are located in about 30 of the 49 states in which the retailer operates — nearly 90 of them are in Illinois, North Carolina and Texas.

Most Mattress Firm stores operate in freestanding buildings or in strip-enter end-cap locations. Typically, they measure about 4,500 square feet, though some are twice that size. A year ago newer stores offered investors a triple-net-lease structure, while older ones were double-net-leased, requiring landlords to maintain the roofs and buildings, according to net-lease brokerage firm Calkin Cos.

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The closings represent market-share opportunity for competitors Casper and Mattress One, observers say, and some of their units could take over Mattress Firm sites. Casper, a startup that ships compressed and vacuum-sealed mattresses has built up its business online but now has plans to open about 200 brick-and-mortar stores across the U.S. Other replacement candidates could include mobile-phone stores and even some fast-casual restaurants — depending on the availability of parking and space for drive-throughs, according to Grant Gary, president of brokerage services for the Fort Worth, Texas-based Woodmont Co. "By and large, Mattress Firm has some great real estate," Gary said. "This is unlocking some tremendous opportunities that, frankly, people have been watching and waiting for."



Competitors may indeed move into some of these vacated spaces, but only the best, asserts Henry Poer, a first vice president in the CBRE occupier-services group, who represents tenants with multiple-market requirements, including Mattress One. Poer suggests too that the pool of potential replacements is smaller than it would be for other properties, largely because of parking requirements. Though sites vary, landlords have typically paired Mattress Firm's low traffic volume with such high-traffic tenants as quick-service restaurants. Property owners will probably try to maintain that type of complementary lineup if they can, he says.

"There's an opportunity for medical retail," Poer said. "You could see dental groups, eye clinics or physical-therapy users occupying the space. But the bigger question is, how long will it take landlords to come down to a lower economic deal, if they can't get the rent that Mattress Firm was paying?"



Indeed, Mattress Firm's ambitious, decadelong acquisition-and-development expansion resembled the explosion of drugstores on virtually every corner within the recent past. But in the company's rush to lock out competitors, not only did Mattress Firm increase competition with itself by opening stores in close proximity to one another, it also wound up paying above-market rental rates of as much as 10 or 20 percent higher at many stores. (The reasons for all this are being disputed and fought out in some lawsuits — among them being one that Mattress Firm has brought against certain brokers, developers and former employees, alleging a kickback scheme; and a countersuit that charges Mattress Firm with an aggressiveness that eventually became reckless.)

"The main difficulties these landlords are going to face [involve] finding another user to fill the space that's willing to pay the same rental rate," said Jimmy Goodman, a partner at the Wilmette, Ill.-based Boulder Group, a net-lease brokerage. A few years ago, properties leased by Mattress Firm were trading at cap rates in the mid-6-percent range, but the company's troubles largely brought sales of those properties to a halt, Goodman says.

As of the end of June, Mattress Firm had closed 197 stores within the preceding nine months and was also anticipating the closures of an additional 53 stores over the next three months, according to Mattress Firm parent Steinhoff International Holdings, a Netherlands-based retailer that operates in about 30 countries. Mattress Firm also said in court filings that it had been negotiating to restructure leases, leading up to the bankruptcy.

Landlords that divide up the space and can find the right tenants could come close to achieving the same income levels, asserts Gary, though others argue that many owners will have to accept less income, at the very least.

“There aren’t a ton of retailers that are expanding, and I’m not sure that you’ll have a lot of national tenants in those boxes,” said Jonathan Hipp, Calkain’s president and CEO. “Landlords might have to fill them with local and regional tenants, but they won’t be able to pay the kind of rent that Mattress Firm was paying.”

*By Joe Gose*

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**Contributor, Shopping Centers Today**