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Short-term lease is new dynamic

Industrial landlords sign shorter commitments

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Short-term industrial leases are giving Memphis tenants and landlords flexibility during lingering economic uncertainty across the country.

Mark Jenkins, executive vice president with Cushman & Wakefield/Commercial Advisors Asset Services, has seen five or six short-term industrial deals circling the Memphis market.

"It appears as though it's more prevalent than in recent years," Jenkins says. "Much of the activity we're seeing for short-term requirements is from third-party service providers."

Third-party logistics providers, often called 3PLs, provide all or part of warehousing and supply chain management functions for other companies.

The latest to lease more space in Memphis is CEVA Logistics U.S. Inc., which has shored up its Memphis presence with a renewal and two new leases for a total of 1.27 million square feet of industrial space.

The third-party logistics firm signed a one-year renewal for 648,750 square feet at Southpoint DC 19 at 5166 Pleasant Hill Road. CEVA also signed an eight-month lease at Eastpark II, taking the entire 338,000-square-foot building at 5405 Hickory Hill. [DCT Industrial Trust](#)  owns both properties. Jenkins is its local agent.

CEVA also signed a new lease of 285,000 square feet for seven months at 4755 Southpoint Drive.

Brad Kornegay, president of Colliers International Asset Services in Memphis, represents the building's owner. Kaz USA Inc. occupies the remainder of the building.

In August 2010, CEVA signed a short-term sublease for 416,000 square feet from [Williams-Sonoma Inc.](#) It took space in an Olive Branch building at 11624 South Distribution Cove, which was later occupied by Hamilton Beach Brands Inc. with a 10-year lease.

That short-term lease allowed CEVA to handle an upswing in business for the holiday season, company spokesperson **Laura Gorham** said at the time.

Bobby Daush, associate with CB Richard Ellis Memphis, represented CEVA in its search for Memphis industrial space.

"We weren't able to find it under one building," Daush says. "There are buildings of that size chasing longer-term deals, so you're forced to react and look at combining the operations under two roofs."

A short-term lease provides flexibility for tenants, according to Daush.

"In the third-party logistics business, part of their goal is to provide flexibility and solutions to their customers," he says. "These short-term expansions enabled them to do that. Memphis has historically been able to accommodate these needs as there is inventory out there and building owners can get a good, quality tenant in there. It's a short-term solution for both parties."

Third-party logistics firms are being asked to accommodate short-term needs more frequently.

"We have seen a little uptick in those types of requirements," Daush says. "CEVA is an example of that and there are other ones out in the market now. I don't know if it's a long-term trend, but it's definitely occurring rather frequently lately."

Part of the reason for these short-term leases could be continued uncertainty in the economy in terms of consumer spending and corporate decisions to fund capital improvements, according to Jenkins.

"That translates into this cycle we've seen in the last year and a half," he says. "It's hard for decision makers to pull the trigger and make a long-term commitment."

However, it's also normal to have some short-term deals during the second half

of the year, as retailers and other companies are taking space to ramp up for the holiday season.

These short-term deals can be good for industrial landlords.

"It's been a rough go for owners in the past two years," Jenkins says. "We've had excessive inventory, sluggish demand and downward trends for rates and occupancy levels. Space stays on the market a long time, so in the interim and until the market recovers, owners can still generate some income from their buildings on a short-term basis and not impair the value of their building on a long-term basis."

After a strong year with more than 2 million square feet of positive industrial absorption, the overall Memphis market lost 531,294 square feet in first quarter 2011, according to a CB Richard Ellis MarketView report.

The average asking lease rate for the Memphis industrial market, which has 110.1 million square feet, was \$2.49 a square foot in the first quarter. This is down from \$2.63 a square foot in first quarter 2010.

With these market conditions, it's understandable that landlords are listening when it comes to opportunities to fill their industrial buildings. For DCT Industrial Trust, it helped that CEVA has been a long-term existing customer.

"At the end of the day, we had space and we had need for a tenant," Jenkins says. "Even for a short term, we're happy to accommodate an existing customer."

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