

THE ADELAIDE ADVANTAGE

Centennial's Executive Director and CEO Industrial & Logistics, Paul Ford, along with Leedwell's Steve Smith and Henry Treloar, talk to *MHD* about new projects they're working on, the 'mid-space' market in the industrial and logistics property market, the difference between refurbishing and redeveloping warehouses – and the future for Adelaide more broadly.

The refurbishment of Centennial's \$30m Royal Park Distribution Centre in Adelaide showcases the evolving dynamics of Australia's industrial and logistics real estate sector. Central to this transformation is Centennial's unique focus on the niche 'mid-space' segment of the market.

"Mid space is a term we've coined to describe the niche market we target," says Centennial's Paul Ford, Executive Director & CEO Industrial & Logistics. "We saw a gap in the industrial and logistics 'mid-space' market, typically comprising assets between 1000 sqm and 10,000 sqm, as they were too small for the larger institutions – given they were and still are labour intensive to manage from a leasing or upgrade perspective – and too large and out of reach for individuals and family office investors, yet still in demand from quality occupiers."

Centennial purchased the 31,120 sqm industrial and logistics facility at Royal Park in 2021, positioned 8.5km north-west of Adelaide's CBD for \$5.4m in 2021.

"Royal Park DC is a prime example of our national strategy of sourcing functional and generic mid-space assets, with flexibility for upgrades and expansion, that offer strong

connectivity to major distribution networks in often land-constrained, inner-ring or urban locations at scale," Paul says.

Director at Leedwell, Henry Treloar, says the Royal Park DC is an ideal location for occupiers given its proximity to the motorway, and a generic design that offers a wide variety of flexible spaces and usages.

"From our perspective, based on inquiry levels, the success of Centennial's approach stems from the current market trend," Henry says. "There's a pronounced shortage of ready-made buildings in the market. The Royal Park DC had a large hardstand and was strategically located, making it ideal for logistics users."

The 12,830 sqm distribution centre was fully leased prior to completion of the redevelopment, with global air-conditioning giant Daikin and major logistics group, Allied Express pre-committing.

"Competition for the site from prospective tenants was high, driven by sub-one per cent vacancy rates and limited new developments coming on-stream," Henry says.

"Demand for

institutional-grade industrial space such as Royal Park will remain strong."

Centennial undertook an expansive refurbishment programme, stripping away outdated materials to unveil a structure in impeccable condition. The renovated site features re-skinned exteriors, upgraded services, brand-new offices, revamped external pavements, dedicated car parking zones, and landscaping. Upon completion, it bore the look and feel of a brand-new establishment, garnering considerable interest from prospective tenants in a market with less than one per cent vacancy rates.

Steve Smith, Partner at Leedwell, underscores Centennial's repositioning strategy.

"Centennial's adaptability and ability to swiftly introduce products to the market is commendable," Steve says. "For instance, with the refurbished building, the process was much quicker than starting a new development. Furthermore, the Royal Park site had unique

features that weren't available in other properties at the time, making it a value-added proposition.

"With continued demand for high quality, mid-space requirements, Centennial has an edge over its competitors."

Paul says Centennial will continue to focus its efforts on acquiring mid-space, near-city and inner ring infill sites to add to its growing I&L portfolio.

"By deliberately targeting undercapitalised assets through off-market deals, identifying distressed sellers or assets that need specialised management, we will continue to boost our industrial and logistics acquisition and divestment programs and deliver enhanced returns to our investors."

REFURBISHING RIGHT

"We typically target generic assets that have a solid foundational structure, and options for a range of uses," Paul says. "Our preference is to regenerate existing land and rebuild existing buildings, reuse materials to reduce waste, and provide functional and flexible space suitable for a range of users."

With rapid increases in material costs, labour shortages, and the continuing rise of construction costs, the benefits of refurbishing cannot be understated.

While the mid-space market often sees older structures that might not align with today's efficient operational requirements, if the building's core structure is sound and the surrounding infrastructure is viable then refurbishing emerges as a viable option that carries significant advantages. These include lower costs, a quicker planning process, marked environmental benefits, and a faster timeline to market. Such speed often leads to quicker leasing agreements, ensuring a prompt return on investment for stakeholders.

However, refurbishing isn't without its challenges. Paul notes potential disadvantages, such as "the costs of upgrading obsolete infrastructure or exposing unforeseen issues that impact on cost." He says that many of these challenges can be pre-emptively addressed during a thorough due diligence process.

The environmental and operational advantages of refurbishing extend beyond just cost saving.

"There are several elements," Paul



The 12,830 sqm distribution centre was already fully leased prior to completion of the redevelopment.

adds. "Compliance with the Building Code of Australia is a significant aspect. We would always upgrade to modern fire safety regulations if buildings weren't up to Code, while other improvements would generally include separating vehicular traffic for safety, updating landscaping, and improving aesthetics and internal features."

LAST MILE CONSIDERATIONS

Challenges in the Australian logistics domain are as vast as the country itself. Unlike compact regions or those with dense transportation networks like the U.S., Australia's sprawling geography often disrupts seamless delivery schedules. "To address this, there's a pressing need for a proliferation of smaller, regional distribution hubs as opposed to a few centralised ones," Paul says. "This strategic spread could help businesses bridge the geographical divide, facilitating faster deliveries."

But while demand is robust, supply constraints loom large. Paul highlights bottlenecks, particularly the impending limited supply set against a backdrop of urban renewal initiatives. "There's practically minimal supply forecasted for the next couple of years, which could translate to promising rental growth," he says.

LOOKING AHEAD

Centennial's acquisition of the 406-416 Martins Road, Green Fields – (the Inner North Distribution Centre), with Leedwell and Colliers appointed as leasing agents, showcases its commitment to revitalising underperforming assets. Located in Adelaide's industrial heartbeat, this site offers 12,000sqm of state-of-the-art office and warehouse space, complemented by a spacious breezeway and an expansive concrete hardstand. But what sets it

apart is its strategic position. Lying on a b-triple gazetted road, it promises unparalleled access to both the Port Wakefield Road and the Northern Connector, ensuring easy connectivity to Australia's primary markets and metropolitan Adelaide.

"Its flexibility to accommodate dual tenancies with tailored amenities only amplifies its appeal," Paul says.

"The site will naturally appeal to users within transport and manufacturing industries. And with massive investment in defence and allied industries, we see this site appealing to supply-chain and other groups wanting to take advantage of the site's characteristics and strategic location.

"Centennial's proactive approach, combined with the site's inherent flexibility, allows us at Leedwell to tailor offerings based on tenant requirements," adds Henry. "From adding sprinklers to accommodating cranes, the Green Fields site exemplifies adaptability."

Beyond the Green Fields site, Centennial's philosophy and approach will continue to be undergirded by its focus on mid-space holdings in the industrial and logistics sector. "With a growing portfolio boasting 68 assets across Australia, valued at around \$1.5 billion, and an additional development pipeline exceeding \$350 million, we're bullish about the sector's prospects," Paul says.

It's an exciting time for Centennial and Leedwell, as Adelaide's allure as an industrial hub grows, particularly given Melbourne's expanding footprint and the subsequent price surge.

"We've seen a strong shift of interest towards Adelaide, driven by a quest for more affordable, yet efficient, industrial solutions." ■

Royal Park DC.