

Southend-on-Sea Borough Council
Civic Centre
Victoria Avenue
Southend-on-Sea
SS2 6ER

24th January 2019

FAO: The Group Manager for Asset Management

Dear Sirs

SEAWAY LEISURE, LUCY ROAD, SOUTHEND-ON-SEA, ESSEX - FUNDING ARRANGEMENTS

We act for Turnstone Southend Limited in relation to the Seaway Leisure and the procurement of funding for the project. We understand you require some background to the proposed method of funding and Turnstone's track record in attracting such funds.

There are a number of ways in which a project of this type will be funded. We anticipate in this case the project will be forward funded by an institutional investor. This is a very common method of funding pre-let commercial projects. The site, in this case a long leasehold interest (with geared ground rent), will be drawn down directly to the institutional investor who will then provide the necessary funding to Turnstone to deliver and complete the project. The lease will only be drawn down when planning and other conditions are satisfied with the Council. Turnstone maintains their development obligations to deliver the scheme, including procuring a building contractor and securing further agreements for lease until the project reaches practical completion and is fully let. It is typical for the investor to then become a long term holder of the completed project who will benefit from income via the leases to occupational tenants.

Turnstone have a good track record in procuring funding upon this basis across a range of project types. For example, in Chelmsford Turnstone had purchased a site on London Road. They secured planning permission for a 42,000 sq ft office building. The project was forward funded by RBS Pension Trustees (managed by Standard Life) which totalled £16m and the project completed in 2007. At the Rowley Art Centre project in St Neots forward funding was secured in 2012 from the Harmsworth Property Trust (Daily Mail Pension Fund). The scheme had been pre-let to Cineworld, Frankie & Benny's, Pizza Express and Prezzo. The long leasehold interest was drawn down directly to Harmsworth who then provided funds to complete the project. In this case Britannia Construction were procured to construct the scheme. The total funding level was £6.6m. More recently Turnstone forward funded their Ely Leisure Scheme with Aberdeen Standard Investments in 2016. The scheme had been pre-let to Cineworld, Greene King, Frankie & Benny's, McDonalds, KFC and Costa. Again, the site was drawn down directly to Phoenix Life Limited (managed by Aberdeen Standard Investments) and Turnstone procured a building contract with RG Carter Projects and secured further lettings. This project reached practical completion in 2017 and the final unit has just been let to Nando's.

This type of investment product is in short supply and remains attractive to investors owing to the long secure leases offered by the leisure, restaurant and hotel sector, particularly where rents are reviewed to the Retail Price Index or to fixed increases. Turnstone have secured such leases with Empire, Travelodge and Hollywood Bowl which will attract good investor demand once planning is secured. During the last few years a number of institutional investors have made approaches to seek the opportunity to fund Seaway Leisure. Most notably discussions have taken place with Legal & General's Leisure Property Fund who remain very interested.

I trust this assists you with your funding enquiries.

Yours faithfully



James Welch
Partner

**For and on behalf of
CORTEX PARTNERS**