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Tite Street Capital MD: "We are looking for low-hanging fruit"

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Guido Lang on what's next after the firm's first German restructuring coup

After making its German equity debut in July, when it took control of the stalled Frankfurt development Canyon through a restructuring, UK-based investor Tite Street Capital has another €200m-300m of capital ready to invest in German equity and debt deals over the next 18 months.

“All else equal, we are trying to look for low-hanging fruit,” says managing director Guido Lang. “We like to take predictable risk where capital is adequately compensated and now, with all the German institutions standing on their brakes, we are in a market phase where this is possible.”

Tite Street was content with a majority stake in the Canyon deal, deviating a bit from its usual target of 100%, because the mezzanine lender moved also into an equity position. Another note of interest was that Tite Street invested in partnership with a European family, whereas it usually spends the money of two private equity mandates – with deal sizes between €25m and €150m, and a sweet spot of €50-€100m.

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> GUIDO LANG, TITE STREET CAPITAL

Lang says that in ideal cases, the firm can achieve 15%-plus value-add returns with a debt instrument against a core asset that has cashflow and long leases. "But naturally we often have to compromise as well, stretching the LTV in whole loans, or, going into the equity and mezz positions," he adds.

In his strategy for the undercapitalised Germany of today, Lang is considering three types of investments: recapitalising projects that need to be finished after both lender and sponsor ran out of money; injecting equity when there are LTV covenant breaches; or classical refinancing when a loan runs out and traditional lenders will not provide the same amount of leverage.

"Naturally, in each of the cases we cost double-digit yields, from stretched senior to all other loans, but the sponsor potentially buys itself some time to recover equity upside."

CGI of Frankfurt Canyon office development

Lang, originally from Bad Homburg near Frankfurt, has been living and working in London since he joined Lehman Brothers in 2006. Previously acting as head of capital markets Northern Europe for the US hedge fund King Street, he set up his own business four years ago, aiming to combine his knowledge of the German markets with his English language skills and private equity relationships.

He was involved in several equity office developments in Europe in the past and provided two German office mezzanine financings in the past two years, but can also look back at a large shopping centre refinancing he did in Berlin. “We are agnostic in terms of asset classes,” says Lang. “We have a preference for hotel, residential, and commercial, but can look at logistics and data centres as well.”

Interim Canyon concept

What’s next for the Canyon development in Frankfurt? Lang says that after restructuring the balance sheet and setting up the new financing structure, they are now in advanced negotiations with a service developer – “a regional heavyweight”. “After that, we expect to convince tenants, lenders, and our equity mandates to invest into the construction phase.”

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He estimates the total costs of Canyon to land in the region of over €300m, which is still a huge sum but considerably less than the €500m the former developer CV Real Estate had in mind. “Canyon is a good asset which had a bad capital structure,” he states. “After the restructuring we will be able to offer a superior product for prices and rents that will actually work.”

First, however, he must prevent the development area from falling into disrepair before construction begins, especially as it is, like many CBD office buildings, not too far from the drug and crime-afflicted area around Frankfurt’s main station. “We have found a partner with whom we think we can soon be offering an attractive interim event and gastronomy concept that will close a gap and improve the area.”