

Q+A: Arrow Global's head of real estate on building a local "sourcing machine"

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Alternative asset manager looking to capitalise on rising distress, says Zachary Vaughan

Beginning as a distressed credit investor almost 20 years ago, Arrow Global has undergone a significant evolution. Now the owner of 19 platforms, the alternative assets manager has been raising capital through its own funds to invest across real estate, distressed credit and lending. The latest fund, Arrow Credit Opportunities II, hit its hard cap of €2.75bn.

In April 2023 the company acquired [Eagle Street Partners](#), a real estate asset manager and developer with a portfolio with an end value of €1.1bn. Arrow has also been expanding its direct real estate lending capabilities in the UK and Europe, acquiring the [entirety of Maslow Capital](#) in August 2023.

Formerly at Brookfield, Zachary Vaughan is also well versed in building up platforms. For 13 years at the company, he oversaw acquisitions in hospitality, student and logistics.

Now Vaughan is [head of real estate](#) at Arrow, spearheading a growing suite of companies. He believes that a granular, localised strategy in Europe can yield huge rewards.

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React caught up with Vaughan about rising distress, Portuguese hospitality and the student housing opportunity.

What aspects of your new role at Arrow appealed to you?

Europe is such a localised and fragmented property market and I always found that the most exciting transactions I came across were the granular ones. These deals tended to be less intermediated and were those where you were getting very attractively compensated for the risks you were taking.

Arrow has about €77bn of assets that we manage for over 200 banks and other partners through 19 local platforms with a team of over 2,000 professionals, meaning we can directly source these granular off-the-run deals in the markets where we operate. It's a very unique structure that Zach Lewy and his team put together over 20 years.



Nexus Residential obtained £19.5m in development financing from Maslow Capital for the completion of its One Baltic Square residential scheme in June 2022

So, I would say what attracted me was the opportunity to invest in an asset management business where I could target granular opportunistic transactions throughout Europe and do it in “reasonable” scale. When you combine this sourcing machine with the opportunity set of distressed transactions we are starting to see, it was hard not to get excited about the opportunity.

How did Arrow get to this point?

Arrow's roots are in distressed and opportunistic credit. Arrow's view was that to find the most attractive investments, focusing on smaller transactions by being a “local champion” was the best approach. So, it built up a series of local servicing and operating platforms throughout Europe, some of those were heavily real estate focused, both in lending and asset management.

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The capital that Arrow historically invested came from Arrow's own balance sheet. The constraints of being only a balance sheet investor led to the decision to raise third-party capital to invest alongside our own capital, and so in 2021 we raised our first opportunistic credit fund, Arrow Credit Opportunities I (ACO I). Earlier this year, we closed its successor ACO II, hitting the hard cap of €2.75bn.

A natural adjacency and expansion area for us is direct real estate lending, where we are just launching our first dedicated lending opportunities fund and real estate equity, which will follow shortly afterwards.

Where's your focus and what's next?

Today our most active markets are the UK, Ireland, Italy, Portugal, and the Netherlands. Given the footprint we have we always have a very active pipeline. Our expansion strategy is generally through selective, careful mergers and acquisitions. Although we don't have any expansion plans set in stone, I do anticipate expanding our market footprint.

What's your focus in Portugal?

We have about €11bn in assets under management in Portugal with five dedicated platforms: Norfin, Whitestar, Restart Capital, Details Hotels and Resorts, and Hefesto. In real estate, we are one of the largest residential developers and resort owners.

We are probably the largest property owner in the Algarve where we own Vilamoura World, among other projects. A collection of assets that includes four hotels, the marina, five golf courses, other leisure and sporting amenities and a 120 acre (500,000 sq m) developable land bank.

“Through our local platforms we can source opportunities to acquire, reposition and/or develop new purpose-built student accommodation”

We already have plans in place to expand the marina, and to enhance the leisure and hospitality offering across the resort broadening its appeal and

attracting some of the new clientele arriving in the Algarve. As international airlift into Faro airport increases, including the recently announced direct flights from Newark and Canada, we want to be capturing a greater share of these destination tourists.

Are there any new real estate strategies in which you'd be interested?

Student housing in an area that is new to Arrow and one I really like. The globalisation of post-secondary education is only going to continue, and Europe will be a major beneficiary.

If you go back to the mid-2000s there were very few English taught undergraduate programmes available for foreign students in Europe. I think it was around 50 programmes and today they number well north of 3,000. So, a student looking to get a high-quality English undergraduate degree has a much larger universe of options of where to study.



Arrow has significant holdings in Vilamoura in the Algarve

These international students are not going to hop off a plane and rent and furnish their own flats, they need safe and accessible accommodation immediately. Through our local platforms we can source opportunities to acquire, reposition and/or develop new purpose built student accommodation.

Are you increasing your exposure to real estate lending?

Yes. As I mentioned earlier we are putting together our first dedicated real estate lending opportunities vehicle. There is definite scope to broaden our lending activities across Europe, leveraging Arrow's extensive asset management and servicing network.

Our acquisition of Maslow Capital in August this year has expanded our reach in real estate development, bridge lending, and term loans.

Do you see potential opportunities with rising distress?

Yes, we are starting to see this in the smaller granular deals, and we are taking advantage of these localised pockets of distress. Low-priced, higher-leveraged debt taken on in the last few years will cause a significant financing gap.

If you are a larger owner who has debt maturing that you can't refinance right now but you can provide some element of new capital and/or operating expertise the Banks are likely to extend those loans. However, when a borrower is smaller and non-institutional without much to add as enhancement for the lender, we are seeing the lenders enforce.

"We expect these types of (distressed) opportunities to keep materialising for a quite a while and so we are very excited about what lies ahead"

We are very active in a few situations where this is the case right now, and because we service assets and loans for over 200 banks, we are sometimes a very logical buyer of these properties. We expect these types of opportunities to keep materialising for a quite a while and so we are very excited about what lies ahead.