

How local teams drive great returns in Europe real estate

Zachary Vaughan, Group Head & CIO, Real Estate, at Arrow Global, unpacks the value of having feet on the ground in European markets

What is your take on the European real estate market now and in the months to come?

Activity is slowly picking up and we are now moving beyond a period when transaction activity was frozen. People naturally took a step back to see where rates were headed, but we are now starting to see some clarity on that. We are starting to see more attractive opportunities where lenders are forcing the hand of over-leveraged borrowers, particularly on more granular transactions – \$20mn to \$50mn in size – where there is more liquidity given the smaller lot sizes. For larger transactions, particularly in real estate, it will take longer to unlock, and it will not happen until large institutional investors come back to the market.

Is it fair to say that there has been a shift in mindset toward operational investments?

People used to think of commercial real estate as a monolithic asset class. What is happening is a divergence in operating conditions and investor demand depending on the sector. Operational real estate, assets with shorter-dated cash flows like student housing or hospitality, has performed quite well in this environment. At the same time, we are seeing a shift in how institutions want their portfolios to look to include a larger share of operating real estate going forward.

How does the fragmented nature of the European real estate market impact the sourcing and execution of deals?

From a distance one might perceive Europe as one market with a single currency where real estate transactions are similar across countries. What you learn very quickly is that that is not the case. A transaction in Germany is very different than in France, Spain, or the Netherlands. Everything is different—from how transactions are sourced to the legal systems,



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local planning, taxes, and how the local sales market operates. So, to really be successful, you need to be able to function locally.

Arrow owns more than 20 local businesses with over 2,000 people on the ground across the continent. We service and manage assets for more than 200 banks and other partners in Europe, which gives us insight, data, and transaction sourcing and operating capabilities. Because it's so fragmented, Europe is inherently a mid-market environment, where excess returns can be found with more granular transactions, which need to be sourced locally.

When it comes to investment opportunities, what separates the best from the rest?

A key screen for me has always been the liquidity of an asset. We invest through closed-end funds with an opportunistic focus, so liquidity really matters, which is why we like smaller deals. We are trying to create assets that either institutional or high-net-worth investors will want to own. It's important to be in the right sector and have the right kind of property, meaning those in a prime or rapidly improving location and with the right physical attributes. In addition to residential, hospitality is a major focus of ours and where we have a large footprint. About two-thirds of outbound global tourism heads to Europe, and most of that goes to southern Europe. It is an enormous investible universe, and the properties are extremely hard to replicate.

Zachary Vaughan joined **Arrow Global** in 2023 as Head of Real Estate and Chair of the Real Estate Investment Committee. He joined Arrow Global from Brookfield Asset Management, where he was a Managing Partner in the company's Real Estate Group. Prior to joining Brookfield, Zachary worked at CPP Investments and Reichmann International.