Unlocking small-cap real estate opportunities in Europe

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Jay Patel, Managing Director, Real Estate at Arrow Global, explores the outlook for European real estate as investors continue to look beyond the US

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How did real estate investors and businesses adapt their strategies to navigate 2024?
Last year was a transitional period for price discovery. Direct equity investments proved challenging, so multi-strategy investors like us prioritized opportunities with a margin of safety while avoiding the first-loss piece.

Many real estate equity funds had to remain on the sidelines. However, we identified opportunities in the credit space. Our in-country platform infrastructure allowed us to source and execute smaller local deals, typically averaging €20–30mn, where the competition was even more limited than usual, and in the majority of cases wholly off-market.

How do you see your strategy evolving as we go through 2025?
With the exception of offices, there is now good visibility across most mainstream asset classes. Price discovery may continue for a few more quarters, but our sense is we are nearing the bottom.

However, Europe's recovery remains uneven, with Southern Europe clearly outperforming, while Northern Europe lags. In response, we plan to focus on structured positions with wide equity cushions in the north and growth-oriented plays in the south, at least in the short term. We are seeing increased deal flow in Germany. Real estate insolvencies rose by 78% last year, and lenders are struggling to extend financing in the current regulatory framework. As a result, we have built a significant pipeline, especially in residential, at meaningful discounts to book value.

How are global capital flows shaping investment in Europe?
Investors have reacted to the price volatility of the past few years by favouring managers who specialize in creating structured credit positions, like us. A second order effect of this allocation is these funds need assets which retained a meaningful amount of equity post the market wide price shock. In practice this has caused a stampede toward safe-haven assets such as beds and sheds.

Interestingly, as concerns over price volatility ease in 2025, we are seeing a meaningful pick-up in conversations over direct equity investments in a wider spectrum of asset classes. However, global capital still sees Europe as a tricky market to navigate and favours specialist managers with long track records.

Do investors understand your approach to credit investment in Europe?
One of our biggest challenges is that when asked about our competitors, we struggle to name any – and that's not a sales pitch. Our founder, Zach Lewy, spent more than a decade building a franchise that presently consists of 24 platforms across eight countries, making us the only scaled manager capable of providing access to small-cap deals at institutional scale.

While a few firms operate this way in the US, making the model more familiar there, no one in Europe has replicated it and it would take a long time and a lot of capital to catch us.

Do you see your focus on operational improvement changing as you try to balance risk, liquidity, and long-term value creation in particular sectors?
From our perspective, assets that need operational improvement tend to come with the best entry points, because the buyer pool is not as deep as it is for stabilized assets. On top of that, in a relatively modest to low-growth environment, operational improvements are going to be where the majority of our returns will be made.

The risk is related to experience in the sector. In hospitality, for example, we have a very mature internal team and a strong ability to rebrand and know where to focus capex.

How is technology, especially AI, impacting your real estate investment business?
It's really helping in some areas of our business, such as litigation finance and bankruptcy claims, where AI can crunch huge amounts of data on tens of thousands of claims to help narrow down the opportunities to the ones that really have that extra alpha that suits our opportunistic fund.

In real estate less so, though we are seeing a lot of people looking to build physical real estate to service that technology (i.e., data centers). Are we seeing mass disruption in what we're doing from AI? Not yet. And, as real estate investors, it's about knowing where to draw the line and where your skills stop. We've been good at that.

Jay Patel joined **Arrow Global** in 2023 and serves as a Managing Director in the Investment Team. He has over 19 years of experience and has invested more than €1.5bn in granular real estate transactions across traditional equity, distressed credit, and special situations.

Before joining Arrow, Jay spent six years at Strategic Value Partners, where he played a key role in building their real estate distressed credit business in Europe. Prior to that, he spent six years at EQT (formerly Wainbridge), leading their opportunistic equity strategy in the UK. Earlier in his career, he gained experience in restructuring and M&A advisory at Eurohypo and KPMG.

Jay holds a bachelor's degree in mathematics from Imperial College.