

The Hidden Edge: Why Granular European Assets Hold the Key to Outperformance



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In today's complex and fragmented European real estate market, opportunities are available if you are able to recognise them and are willing to do the hard work. But to see and recognise them you need to have your "boots on the ground," your "hands on the data," and your "head in the realities of the local market's engine rooms." In Germany, particularly, I've come to see that the greatest value is not just found but created, through rigorous granular origination and disciplined active asset management. That is the strategy we've embraced at Arrow Global, and it's one I believe that offers the best chances of value creation.

The macro picture is clear: capital is scarcer, investment appetite is more cautious, and yet we are still contending with the residue of an era of cheap debt. For years, developers across Germany leveraged heavily, pushed by negative Bund yields and artificially low cost of capital, and motivated by the fear of "missing out." Now, with the tightening of monetary policy, the fallout has materialised in the form of stranded assets, distressed sales, and fragmented insolvency processes. It's a moment of price dislocation, but also of courage and precision in deal making.

What's emerging is not a wave of institutional-grade portfolio sales, but a granular landscape of individual distressed situations – assets caught mid-development, platforms struggling post-insolvency, and properties that are functionally viable but structurally misaligned with current capital stacks. This is not an environment for passive capital or arm's-length investing. It is a cycle that rewards those with local operating capabilities, underwriting rigour, and the agility to intervene where traditional players hesitate.

When we acquired the Interboden platform, a well-regarded, long-standing German developer that had fallen into insolvency, it wasn't just a trading transaction. It was a strategic and thoughtful act of rebuilding. We didn't just purchase assets; we took on the operating team, the know-how, the market intelligence, and the relationships. That move added over €500 million in GDV to our pipeline and embedded our presence deeper into the ecosystem of granular, sub-€50 million assets in Germany that are currently undervalued, overlooked, and ripe for repositioning.

This is not opportunism with a negative connotation attached to it. It's providing solutions in stranded situations; it's a calculated deployment of scarce capital into assets where the pricing disconnect can be 30 to 80 percent below replacement cost. The German insolvency framework is particularly conducive to such moves: it is structured, transparent, and enables clean title transitions. And unlike broader pan-European distress, which often manifests through complex cross-border workouts, coordinating between different legal systems, regulatory regimes, and jurisdictions, the German market offers a far more streamlined path. Its insolvency processes are quick, transparent and locally focused, enabling tactical repositioning without the friction of multinational coordination. You just have to be present, capable, and work hard and fast.

Of course, acquiring is only half the story. What transforms a good buy into a great investment is what you do after the asset is purchased. For us, that means marrying defensive and accretive capex strategies with ESG-driven repositioning. Germany, more than most, is a market where tenants and banks alike are placing a premium on sustainability. If your

asset doesn't meet modern efficiency standards, if it's not connected to district heating, for example, or if it lacks renewable integration, if it can't boast an energy certificate that resonates, you're already playing catch-up. But if you can bridge that gap, you don't just stabilise the asset, you multiply its liquidity at exit and deepen its appeal to both occupiers and lenders.

There's nuance here, too. Not every euro of capex generates income directly, but that doesn't mean it lacks value. Defensive capex such as addressing roofs, facades, infrastructure may not boost your rental income, but it enhances the property's long-term value and attractiveness at exit. Meanwhile, accretive capex such as tenant incentives, amenities, fit-outs, directly supports your net operating income. The real skill lies in knowing where each type belongs in your underwriting stack and how they complement each other.

And then there's leasing. Germany presents a distinct environment compared to Southern Europe. Commercial lease terms in Germany typically start at five years and can often extend to ten, reflecting a preference for stability and long-term planning. In contrast, for example, Italy mandates a maximum lease term of 2 to 3 years, usually with automatic renewals, which can create a different dynamic in tenant-landlord relationships. What also sets Germany apart is the heightened tenant focus on sustainability. Occupiers are increasingly attuned to the environmental performance of buildings, whether that's energy sourced from renewables, integration of solar panels, or efficiency measures like district heating. These factors don't just influence tenant satisfaction; today they directly impact leasing velocity, rental affordability, and ultimately, asset liquidity.

I believe two of the most compelling plays today lie in convenience-led retail centres and any form of living. These sectors are often overlooked in favour of trophy office assets, but which now show stronger fundamentals and better relative value. Many of these assets have already absorbed rental corrections, making their current income base more stable and their growth potential more appealing. Plus, given high replacement costs, new supply is constrained, which reinforces pricing power for well-located, well-managed assets.

What does this mean for returns? It means attractive risk-adjusted returns are possible, but only for those willing to engage directly in the value creation. Ground-up development, in today's risk environment, has more inherent risk. But repositioning and completing stranded assets? That's a more measurable, manageable challenge, one where you not only deploy the required capital but also the expertise and know-how of your platforms. The result is that your capital is protected by the asset's intrinsic value and enhanced by the seamless execution of your business plan. At Arrow we call it the "Power of the Vertically-Integrated Platforms" and we've structured our approach around this conviction. Our teams are not just investors, they are underwriters, project managers, ESG specialists, and local market experts. This integration, from origination through to exit, is where real alpha is generated. We see ourselves not as capital allocators, but as "value builders." And in a recalibrating market, that difference is essential.

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