

# Navigating structural shifts in private credit: Lessons from a fragmented Europe

Zach Lewy, chief executive and chief investment officer at Arrow Global, explains how structural shifts and market fragmentation are creating opportunities for investors willing to look deeper into European private credit and real estate.

**A**S INSTITUTIONAL investors evaluate where we stand in the current credit cycle, one thing is clear: the dynamics of private credit and real estate in Europe are no longer shaped solely by interest rates or GDP growth. Structural shifts are redefining how and where capital is deployed. The retrenchment of traditional banks, geopolitical realignments, rising construction costs, and evolving borrower behaviours are combining to create a far more complex opportunity set than in previous cycles.

At Arrow, we do not view dislocation as a temporary disruption. Instead, we consider it a durable feature of today's market. Our strategy is built on deep local knowledge, a pan-European presence, and a focus on assets that require active resolution. This consistent approach allows us to deliver results across geographies and market cycles.

The past five years have highlighted how quickly operating environments can change. Loans originated before the pandemic, before inflationary shocks, and before the widespread shift to remote work now sit in fundamentally altered contexts. These assets often require more than refinancing. They demand new business plans and

new capital structures that reflect today's realities. Construction costs have increased dramatically, office usage patterns have evolved, and asset obsolescence has accelerated. Assets and projects that could readily attract bank financing five years ago may now fail to secure financing or deliver sustainable returns unless restructured to reflect today's operating environment.

Banks are constrained in addressing these legacy exposures. Regulatory capital requirements, shifting risk appetites, and limited operational capacity restrict their ability to act. In many cases, banks are holding loans that belong to a previous economic era, both in terms of underwriting assumptions and asset use cases. This is where private credit providers like Arrow step in. Over the last 12 months, we have deployed more than €3.1bn (£2.7bn) across our strategies to facilitate balance sheet repair and borrower support.

## **Fragmentation and local opportunity**

What distinguishes Europe from more integrated credit markets is the persistence of fragmentation. Despite decades of EU harmonisation efforts, the reality is that the majority of transactions remain domestic. Germans lend to

Germans, Italians to Italians, and French to French. In some sectors, as much as 95 per cent of overall activity remains local. Cross-border penetration is still low in many industries, despite the introduction of a common currency and policy efforts to unify capital markets.

Understanding this fragmentation is essential. The opportunity is not simply where distress is most visible, but where resolution can be executed most effectively. Timing also matters. If a dislocation resolves in a matter of weeks, the investment window is narrow, and returns may be modest. The assets we target are typically more opaque, slower to resolve, and therefore more attractively priced. We identify these inefficient markets and apply our local operational capabilities to unlock value.

This approach contrasts with strategies that chase volatility spikes. While there is often short-term trading potential when assets are marked down suddenly, those strategies carry timing risk and tend to produce modest returns. Our investment thesis is built on sourcing assets off-market, underwriting them with deep local knowledge, and executing resolutions that create sustainable value. This all-weather model has delivered tangible results. Over the past four years, our funds have generated



an average cash run rate of 29 per cent annually, a reflection of our ability to identify assets that can be resolved quickly and profitably.

We find the greatest returns in smaller, locally sourced deals that require regulatory permissions and on-the-ground servicing. These are often overlooked by larger institutions but offer superior unlevered margins of safety. We invest in them because we know them well. We understand the borrowers, the assets, the laws, and the timelines required for resolution. Our servicing infrastructure enables us to work directly with borrowers to implement turnaround plans. This operational advantage is further reinforced by our position as incumbent servicer in many markets, with borrowers already paying into our systems. Today, Arrow manages €112bn of assets under management across Europe,

giving us the scale and data depth to identify and resolve opportunities that others may overlook.

This localisation of opportunity extends across asset types. Whether in Southern European hospitality or Northern European residential markets, we prioritise fundamental characteristics, cash-flow resilience, and shifting patterns of use. The post-pandemic environment has prompted a reassessment of office demand: in some jurisdictions vacancy rates have risen sharply, while in others demand has migrated toward residential and hospitality, opening new avenues for investment. In housing markets, construction cost inflation and reduced lending capacity have created opportunities for private capital to provide flexible financing solutions.

Recent data from our servicing platforms indicates that Southern European assets have performed

comparatively better since 2022. This challenges long-standing assumptions about regional credit quality and suggests that historical risk premiums may no longer be justified. Southern Europe, long associated with fiscal headwinds, is now benefitting from tailwinds such as reduced operating and construction costs, better weather, and increasing international demand for property and hospitality assets.

Our strategy is to back assets that are temporarily impaired, not structurally obsolete. This demands both strategic perspective and detailed local execution. We combine the ability to assess market dynamics at scale with on-the-ground underwriting, servicing and operational expertise. It also requires patience. We are not chasing volatility but building portfolios that can endure across cycles. With a presence in eight countries, management of more than 35 million assets, and a team of over 4,500 professionals, we are structured to convert complexity into opportunity.

As the European credit cycle evolves, institutional investors would do well to look beyond headline macro indicators. The structure, liquidity, and solvability of underlying exposures carry greater weight than market averages. Resolution is not passive. It is active, operational, and inherently local.

In part two, to be published in the November edition of *Alternative Credit Investor*, I will explore why traditional metrics such as default rates may be insufficient indicators in Europe and why time to resolution is a more critical measure for investors seeking to understand opportunity in European private credit and real estate. ■