REACT news A Green Street News Title

SPAIN CONTINENTAL EUROPE DISTRESS FINANCE NON-PERFORMING LOANS RESIDENTIAL

Q+A: Arrow Global on making a €4bn Spanish splash

16 May 2024 15:15 BST | by Amy Finch

Chief executive Zach Lewy says asset manager could target France or Germany next

Zach Lewy, chief executive of Arrow Global

After a run of company acquisitions, alternative asset manager Arrow Global has amassed a €4bn presence in the Spanish market.

The credit and real estate specialist has acquired Amitra Capital from Canada Pension Plan Investment Board. It specialises in managing European non-performing loans (NPLs) and real estate investments, with a focus on Spain and Portugal.

The acquisition brings Arrow's total assets under management in Iberia to over €16bn. As part of the acquisition of Amitra Capital, Arrow and CPP Investments also signed a five-year servicing agreement.

"We've long been interested in the Spanish market, patiently waiting for the right entry opportunity," chief executive Zach Lewy told *React News*.

Some franchises in Arrow's €12bn worth of exposure in Portugal will be naturally extendable – including residential and hospitality businesses. Meanwhile, motivation for restructuring is rising on both sides of the table.

Outside of Iberia, the UK, Ireland, Italy and the Netherlands are Arrow's key markets. However distressed pricing in France and Germany could yield fruit, Lewy told *React*.

Talk me through the rationale of the Amitra Capital acquisition

We have a very established and large local presence in Portugal. Since 2007, we've grown to employ over a thousand employees, many of whom are specialists in their asset classes, managing €12bn across six platforms and multiple asset classes.

Our Portuguese footprint includes leading asset management and servicing platforms such as Whitestar, Norfin, Restart Capital, Elba Finance, Viriato and Details Hospitality.

> *"Amitra Capital, with assets under management totalling over €4bn, has an established presence in the NPL and real estate markets of Spain and Portugal, which immediately elevates our relevance there"*

We've long been interested in the Spanish market, patiently waiting for the right entry opportunity. Amitra Capital, with assets under management totalling over €4bn, has an established presence in the NPL and real estate markets of Spain and Portugal, which immediately elevates our relevance there, and builds on our existing presence via our Elba Finance and Galata platforms, which are also recent acquisitions.

Our established lending activities in Spain through Elba Finance, and the ongoing development of a hospitality strategy, beginning in Mallorca, combined with our Portuguese operations, brings our business in the Iberian Peninsula to over €16bn AuM. The combination of this footprint with CPP Investments as a European strategic partner creates a highly attractive outcome.

What part of the cycle will you be targeting with Spanish opportunities?

Our core expertise lies in managing granular, real estate-backed assets. With a platform as expansive as ours, we can apply this expertise across multiple strategies. For example, in higher interest rate environments, lending against typical lower mid-market assets can drive strong risk-adjusted returns.

Conversely, when rates are low, purchasing NPLs at discounted rates or acquiring the assets directly becomes very attractive. The versatility of our investment strategies allows us to adapt depending on the economic cycle's stage. Additionally, managing European assets often requires extended periods to resolve – sometimes involving complex portfolios that take up to a decade to fully address. Thus, our approach resembles managing a continual flow of granular opportunities rather than reacting to sporadic market dislocations.

This diversification of opportunity (and returns) is what makes our franchise so interesting.

Do you expect to see an uptick in distressed opportunities in Spain?

We are definitely seeing a significant increase in restructuring work. Over the past 15 years, persistently low or even negative interest rates made it easy for borrowers to manage their debt payments and defer resolving underlying issues. However, with current rates at 3.8% for Euribor and 5.20% for Sonia, the dynamics have shifted. The strategy of "pretending and extending", where lenders allow borrowers to continue deferring principal payments while making minimal interest payments, is becoming unsustainable. Neither lenders nor borrowers can afford to maintain this approach under the new economic conditions.


Dom Pedro Old Course Golf Club

This shift in dynamics has seen a more collaborative approach to restructuring, where both lenders and borrowers are willing to renegotiate terms, potentially involving the adjustment of loan conditions, additional collateral, or even the conversion of debt into equity. This creates a conducive environment for addressing distressed assets more effectively, leading to an uptick in restructuring activities. Such activities are not only necessary for financial stabilisation but also open up new opportunities for investors interested in distressed assets.

What are your partnership plans with CPP Investments?

As a leading credit and real estate player managing over €80bn in assets across Europe, we offer a unique scale that is highly attractive to global investors, including CPP Investments.

We plan to leverage our 22 platforms and extensive asset base to create tailored investment opportunities that align with varying investor preferences, including aspects of credit, equity, capital structure, and ESG criteria. This broad scope provides substantial potential for generating sustainable value.

Could your residential focus in Portugal extend to Spain, and are there opportunities in student housing?

Our strategy typically involves acquiring platforms or partnering with local operators, with a preference for owning local platforms. We are certainly looking to extend our residential focus from Portugal to Spain, either through acquisitions or organically leveraging our existing presence.

> *"We strongly favour liquid residential collateral where there is chronic undersupply, supporting long-term price resilience. Purpose-built student housing would most definitely fall into this category"*

We strongly favour liquid residential collateral where there is chronic undersupply, supporting long-term price resilience. Purpose-built student housing would most definitely fall into this category and one where we have an existing track record of delivery, mostly notably in the UK.

Are there further opportunities with long NPL tails from the last crisis in Spain?

Our franchise has a strong history of capitalising on asset sales, and we anticipate significant activity in this area given the decade of multibillion-euro deals in Spain. Alongside this, we plan to expand our real estate lending and equity activities, building on the success of our substantial hospitality business in Portugal, which we see as highly transferable to Spain and other European markets.

Do you see opportunities in France and Germany given the distressed pricing there?

We are actively exploring opportunities in France and Germany, both of which are substantial markets for investable credit and real estate. Our opportunistic credit, lending and real estate strategies are well-suited to acquiring assets at favourable prices in sectors with supportive fundamentals, leveraging our deep local expertise.

> *“We are actively exploring opportunities in France and Germany, both of which are substantial markets for investable credit and real estate”*

As a leading European vertically integrated alternative asset manager, both markets are natural extensions to our European franchise. It is definitely an exciting investment period – one we plan to make the most of.