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The paradigm shift attracting more investors to private credit

Regulatory change, higher-for-longer interest rates, and technological advancements are creating new opportunities for private credit

Zach Lewy
Founder, CEO, CIO
Arrow Global

How do you see macroeconomic conditions impacting private credit in future?
The impact largely depends on the trajectory of interest rates. Credit becomes more appealing when interest rates are high, whereas equity-related activities – such as real estate or corporate investments – become more attractive when rates are low. Within the credit sector, there has been a secular shift driven by regulatory changes. As banks deleverage their balance sheets, certain loans they previously provided are now being handled by private credit lenders. Instruments like small business loans, bridge loans, agricultural loans, construction loans, and specialty mortgages will continue to be heavily concentrated among specialized lenders outside the traditional banking system.

How could the political climate in Europe shape private credit?
It's a significant issue that we consider carefully. The biggest short-term development is the reconfiguration of the political consensus that dates back to the Clinton and Blair era, which held that central banks should make mortgage costs cheaper and facilitate greater access to housing for the middle class, while keeping budgets sufficiently balanced to support that.

That paradigm is over. We've seen inflation and high interest rates, and as governments become more populist with expansionary fiscal policies, there will be pressure on central banks to act as a force of restraint. If central banks maintain higher interest rates, owning assets will become much more expensive than it was for previous generations. This is the primary risk, and it needs to be seriously considered.

How is private credit evolving in this environment?
Private credit encompasses a diverse range of activities, including real estate loans, collateralized loan obligations, buyout finance, risk transfers from banks, and leveraged loan syndications. It all spans part of the capital structure and has varying risk profiles. Private credit is still a young industry that will take time to fully mature.

Stock markets have existed for hundreds of years, and debates continue over whether actively managed funds, passively managed funds, or index funds are the best approach. We will likely see similar debates in private credit, such as whether to offer liquid credit or develop some sort of index. As private credit continues to evolve, it will further solidify its position as an essential asset class, with ongoing developments in standards, benchmarks, and best practices that reflect its growing maturity.

How do you see the attractiveness of credit against equity?
When interest rates were zero or negative, if you had told investors they could earn 5.5% risk-free from government bonds, 90% of them would have taken it. Today, you can invest in credit at higher rates and still sit at the top of the security waterfall – that's an enticing proposition for investors. I believe there has been a paradigm shift away from certain assets in real estate equity, particularly tertiary office stock, as well as private equity, toward private credit, where you're being compensated well for holding a senior secured position.

How does the influx of capital into private credit affect the competitive landscape and your ability to have a dominant position?
It's a question of what you get paid for that position. The dynamic is evident in the mass mortgage market, where large operational machines work to get homeowners on the books and profit from them over their lifetimes. However, it will take quite some time – and likely reduced interest rates – for these types of lenders to significantly impact private credit, if they ever do. It will take even longer for them to work the more granular, operationally intensive segment in which we operate.

Which sectors or strategies in private credit will offer the most interesting opportunities?
Private credit will mirror societal changes. Technological advancements have enabled remote work, allowing more

people living in high-tax regimes of Northern Europe to move to Southern Europe, where they enjoy lower taxes, warmer weather, and generally speaking, a better work-life balance. That creates opportunities for private credit in these countries.

The growth in tourism and hospitality driven by an influx of remote workers and lifestyle migrants also opens significant opportunities in hospitality credit, particularly in financing the development or refurbishment of hotels, resorts, and related infrastructure. Additionally, the extent to which industry and government invest in housing will impact residential credit, while the development of local food supply chains – often driven by both public and private initiatives – will influence agricultural credit. Retail is another sector with plenty of potential value in anchor assets that have demonstrated consistency and resilience.

How can private credit investors capitalize on these promising areas?

Success comes down to scale, expertise, and importantly, local knowledge. It's not advisable to change your strategy to catch a trend. If you've never dealt with hospitality loans or data centers before, rushing in as an amateur is likely not a good idea. However, if you have a diversified, relationship-led business that operates in many of these sectors with a strong understanding of local transaction sourcing and operating capabilities, you can focus on the sectors with the best fundamentals at different points in the cycle and manage your exposure to stay on the right side of the trend.

Asset-based finance is big in the US. What are its prospects in Europe?

The challenge with asset-based finance in Europe is the need for local expertise across 44 different country regimes. The resulting books involve various legal rules, taxation systems, languages, and even currencies, making it very challenging to perfect security across borders. Ninety-nine percent of asset finance in Europe is domestic, so building large pools and securitizing them for easy exit, as seen in the US market, is difficult.

However, there will still be plenty of asset finance in Europe because people want to use assets productively and providing more asset capacity is usually a very profitable activity. But local knowledge is essential to access it. While the US will ultimately serve as a warehouse for future securitizations, in Europe, localized lenders like Arrow Global will lead asset finance on a country-dependent basis.

How do you view the opportunity in real estate credit?

It's an incredible opportunity. Real estate debt is more complex than corporate debt, making access more restricted. But would you rather lend against a corporate at 4–5 times earnings or move into real estate at an attractive 60% loan-to-value? Investors are going to get on board, but it's a substantial undertaking. To be a private real estate lender in 10 countries requires 10 teams. We've made significant progress – this year alone, we acquired Amitra Capital from CPP Investments in Spain and Interboden in Germany, and secured a cornerstone investment from ADIA for our real estate lending strategy. We've built something very exciting that I believe will grow significantly.

Arrow Global was founded in 2005 by **Zach Lewy**, CEO, CIO, with the ambition of creating Europe's leading private credit and real estate investment platform. Arrow's platform franchise creates sustainable value across a range of alternative asset classes including opportunistic credit, real estate lending, and real estate equity. With the added benefit of key European regulatory licences, it services approximately €90bn of third-party AUM across 22 best-in-class asset management and servicing platforms.