

Building hospitality ecosystems for long-term value



John Calvão, Partner and Fund Principal, Arrow Global

Hospitality investment in southern Europe has evolved far beyond the traditional model of beds and beaches. Over the past five years, the market has matured, shaped by institutional capital flows, demographic shifts, and a reimagining of what leisure real estate can offer. At Arrow, we've built a substantial portfolio of hospitality businesses across the region. What we see is an increasingly sophisticated investment landscape, where scale, operational capability, and ecosystem control are the foundations of long-term value creation.

The European hospitality sector has become far more competitive. Large discounts are a thing of the past, and the best opportunities often lie outside advisor-led processes. Real value is found in smaller, off-market transactions, often family-owned assets requiring significant capex and repositioning. In the US and northern Europe, few hotels remain in the hands of their original builders. Ownership has shifted to long-term core capital such as insurance funds and REITs. In contrast, southern Europe remains highly fragmented. Many hotels are still family-run, but the next generation is not always inclined to manage operational complexities. That generational transition is accelerating, and institutional investors are stepping in with the capital and expertise to reposition these assets.

Many of these properties still need the rebranding and capital investment necessary to meet institutional standards. For investors like us, this represents an opportunity to add value through professionalisation and repositioning before passing the asset to long-term institutional owners seeking stable income at core yields.

Hospitality is operationally intensive, and value-add strategies come with risk, from supply chain issues to labour shortages. Scale is therefore critical. A platform with 20 hotels can offer greater job security and career development than one with just a few. Across our portfolio, we are the fourth-largest hotel operator in Portugal, which helps us attract and retain talent. We prioritise staff training, progression, and wellbeing including providing affordable accommodation near our resorts. This focus translates directly into service quality. Scale also helps manage capex, with bulk procurement and repeat contractor partnerships improving both cost and reliability.

Driving higher occupancy and room rates requires more than capital; it demands local expertise. Hospitality cannot be managed effectively from afar. That's why we've built substantial local teams in each market, combining operational knowledge with regional insight. Our acquisitions of management platforms such as Details and Norfin ensure our strategy remains both disciplined and data-driven.

Our focus is on southern Europe and integrated destinations rather than stand-alone hotels. This is a resort leisure strategy encompassing hotels, branded residences, marinas, golf courses, and other amenities. Key assets such as the Vilamoura resort in Portugal and The Els Club Algarve, Europe's first Ernie Els-designed golf course, illustrate this approach. For many northern and western Europeans, southern Europe plays a similar role to Florida for Americans: a year-round destination

enabled by low-cost airlines and short-haul access. By anchoring travel around sport, wellness, and leisure ecosystems, we smooth demand across the year. At Vilamoura, we own the entire ecosystem. This includes six hotels, five golf courses, a marina, an equestrian centre, and residential developments, creating a year-round destination.

We're also seeing increased transatlantic tourism. Airlines are adding direct routes from the US to Portugal, Madeira, Sicily, and Majorca. These longer-stay travellers, typically staying seven to ten days, are pushing up average daily rates and revenue per available room. They also expect more personalised service: concierge support, curated activities, and pre-stocked apartments.

We access hospitality opportunities through various strategies: credit, real estate equity, and lending. Each has a different cost of capital and risk profile. Our credit strategy targets high-teen returns, while our lending fund operates in the low double digits. Bridge financing is especially attractive, as borrowers often need to close faster than local banks can act. Our ability to move quickly, combined with a deep understanding of underlying real estate, lets us provide flexible solutions that traditional lenders cannot.

When we own a hospitality asset outright, it's because we believe in the full investment story. We pursue value-add plays that transform the asset and integrate surrounding land or residential components. Developing apartment blocks or villa plots generates additional income and strengthens the exit proposition. Every investment begins with a strategic assessment: is this an asset we want to hold and enhance, or one where we expect repayment through credit and exit? We operate across the capital structure, including mezzanine and distressed positions. During the pandemic, we acquired assets through insolvency processes. More often in southern Europe, families prefer to sell to investors with cheaper capital and repositioning expertise, rather than recapitalise themselves.

Our investors rightly expect us to embed environmental, social, and governance (ESG) principles into our approach. Socially, we're developing not only staff housing but also affordable housing for local communities. We support outreach efforts, such as offering free places at our golf academy for local children. On the environmental front, upgrades to older properties can significantly cut water and energy use. We install solar panels to create solar communities that return excess energy to the grid. Across our golf courses, we focus on water efficiency. At The Els Club Algarve, for instance, we've cut water use by 40% by upgrading irrigation systems and using recycled water.

Hospitality investment in southern Europe today is about building ecosystems that attract year-round visitors, generate multiple income streams, and contribute to local communities. For institutional investors seeking diversified exposure to real assets and private credit, this blend of operational control, value creation, and social impact offers compelling potential.

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