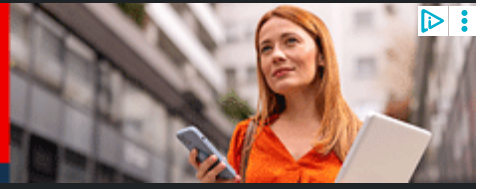


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Refinance

Dry Capital launches loan workout platform as cracks emerge in European real estate

The firm's founder says the extend-and-pretend period 'is over' as sponsors increasingly choose not to commit fresh equity to support assets.

By Lucy Scott

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Brussels-headquartered Dry Capital has launched a special situations platform designed to help banks manage troubled commercial real estate loans before they fall into default, as growing refinancing pressure and weakening sponsor support create what founder Sheelam Chadha believes could be the sector's most testing period yet.

The firm this week unveiled S²WAP, pronounced 'swap', a workout and asset management platform that works alongside lenders to restructure underperforming loans and recapitalize assets, potentially via capital from real estate credit managers, whose business plans or capital structures no longer stack up.

Sheelam Chadha, founder of new workout platform

The launch comes amid renewed concerns about Europe's real estate markets following a volatile summer marked by rising bond yields and interest rate uncertainty. "Four or five years ago, the market's answer to a loan that no longer worked was extend and pretend. That period is over," Chadha tells *PERE*. "The crisis really hasn't started."

According to Chadha, conditions have deteriorated sharply since March, following the onset of the US and Iran conflict, bringing the industry back to a level of stress reminiscent of 2023. "When I started Dry Capital in 2025, everybody thought the market was getting better," she says. "Then we had MIPIM 2026, and it crashed again. It has set the market back by a few years."

While transaction activity has remained subdued across much of Europe, Chadha argues that the real pressure point is now approaching as loans originated during the low-rate environment of 2021 and 2022 come up for refinancing. Real estate private credit managers in the US are voicing similar concerns, *PERE* reported in August.

In recent weeks, major central banks have collectively shifted in a more hawkish direction, with the European Central Bank raising rates on September 10 and the Federal Reserve following with a 25-basis-point hike on September 16. While the Bank of England held rates at 3.75 percent, it signaled that further tightening may be required if inflation pressures persist.

Chadha says this trend line is piling pressure on borrowers. "The main thing is that a lot of the refinancing that was agreed in 2021 was done at lending rates of circa 2 percent – that has now jumped to 6 percent," she says. "Even if you manage to improve the asset, it does not cover the increase in your interest costs."

As a result, she says, some sponsors are increasingly choosing not to commit fresh equity to support assets where valuations have fallen and whose refinancing requirements have increased.

"We know many cases where investors are handing back the keys on deals," Chadha says, adding: "What you are seeing now is not just complicated loans defaulting. Even some core owners are simply saying to banks, 'Take it back.' However, a bank's worst nightmare is to take the asset back because this is not their job to manage properties."

According to *PERE* data, managers have raised \$29.3 billion since 2022 to target real estate distressed debt opportunities globally. Around 43 percent of that capital is available for deployment in Europe (\$12.7 billion out of \$29.3 billion), figures that suggest investors see a significant opportunity in the region as refinancing pressures intensify.

Staging an intervention

Dry Capital believes there is a growing opportunity to intervene before those situations reach formal default. Through S²WAP, the firm will re-underwrite assets, revise business plans and, where necessary, source replacement equity investors willing to acquire positions at current

market values. The platform targets what Chadha describes as the “swap zone” between a performing loan and a distressed asset.

“Either the loan defaults, or you go through what I call the ‘swap zone,’ where we bring in a new team, stabilize it and eventually bring in new equity,” she explains. “That is the sweet spot where the bank wants to be and where the borrower can still somehow agree to a solution.”

The strategy reflects Chadha’s view that Europe’s real estate market has yet to fully adjust to higher interest rates. “Values have not dropped enough over the last three years,” she says. Chadha argues that higher financing costs have risen faster than valuations have adjusted, leaving many assets unable to support refinancing without additional equity.

Meanwhile, the gap between reported valuations and current financing costs has contributed to a stand-off between buyers and sellers, she adds, with many institutions reluctant to realize losses despite increasing pressure on asset performance.

That has left a growing pool of opportunistic capital waiting on the sidelines, particularly from North America, she explains: “They have not been able to access these opportunities because many owners and lenders have been holding back and waiting to see what happens.”

Rather than buying distressed loans at steep discounts, S²WAP aims to provide lenders or end investors looking for new solutions with an alternative route that preserves value by addressing operational issues before assets enter court-led restructuring or insolvency processes.

“A lot of investors are waiting for everything to get distressed,” Chadha says. “But once a loan is distressed, value erodes very quickly – a fire sale often does not reflect a property’s true value once finally sold after 12-18 months through long processes. The bank is trying to avoid distress, investors are waiting for distress, and we are trying to sit in the middle and get things moving before that happens.”

Dry Capital says it is already working on more than €400 million of European real estate positions and is in discussions with several banks, particularly in Germany, where lenders remain heavily exposed to commercial real estate across Europe. The platform operates through local partners across the UK, Iberia, Germany and the Netherlands, providing asset management expertise alongside recapitalisation advice and capital sourcing.

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