* **Equity Value Default Risk**

To understand the equity default risk, the equity value is computed for the 10 years.

The goal is to determine to which extent the equity will fall to a negative value

A table with text on it

Description automatically generated

A graph of different colored lines

Description automatically generated

From the table, over 10 years the equity does not get negative.

So, the risk of sizing our investment is not relevant for the next 10 years.

However, The LIBOR GBP increases significantly in 2022 and remains high. This increase led to a negative value of the swap during those years.

This increase is in our advantage because it means that we are paying less with the fixed rate.

The negative value of the swap erodes the equity value. But as the table shows, the equity still increases.

This is because of the value of the increase in the value of the property.

The next step is to look at what may happen in a worse case scenario.

In this scenario, the property capital gain will be a decrease of 8% as it was during the financial crisis.

Concerning the floating rate, in this scenario, it is the lowest registered of 0.02550 and that was in 2020.

A white background with black lines

Description automatically generated with medium confidence

A graph of different colored lines

Description automatically generated

In this extreme scenario, the equity value does get negative in 2024. Therefore, a collateral will be needed.

The floating rate being low, we are paying way more with the fixed rate. The swap in this part may not be necessary.

* **Recommendation – Traffic Light Decision:**

Based on the analysis:

* **Amber**:
* However, we should negotiate the terms of the swap and try to get a reduction to 20-30 basis points.
* If LIBOR rates stay low, we will benefit from predictable costs without significant overpayment.