

# The Basic AFFEERCE Operation – Land Monetization



AFFEERCE Benefit Corporation (ABC) general operations are described with a simple example of the ABC purchasing land in advance-rent mode.

The following example is made all in fun, but it does demonstrate the concept of monetization, as well as the role of the purchasing agent.

Joe owns a three-flat worth \$500,000. He lives on the first floor and rents out the top floor and the basement. He pays \$5,000 annually in property tax. Joe has heard that a company called The AFFEERCE Benefit Corporation is making an unusual and lucrative offer to homeowners in his county. They are paying up to full market value for the property, even though structures remain the property of the current landowner. Joe decides to investigate.

## The Offer

The purchasing agent from the AFFEERCE Benefit Corporation tells Joe, "We will pay you \$500,000 for this property."

"I don't want to sell!" says Joe, "I like living here and I like the income from my tenants. I was even thinking about building a fourth level. To do that, I need development cash, so I decided to investigate your offer."

"If you accept our offer", said the purchasing agent, "there's no need for you to move. The rents from your tenants are yours to keep and you have the same rights to build on the land as you previously had. If we have anything to say about it, your rights to use the land, as you see fit, will be expanded."

Joe looked doubtful. "Call me a skeptic, but there has got to be a catch."

## The Rent

The purchasing agent nodded. "The rent is paid monthly, starting at a \$25,000 annual rate, 5% of the \$500,000 we pay you. The county has agreed to take 30% of

that, or \$7,500 a year, in lieu of property taxes. Of course, that \$7,500 would only be true if the rent did not change from month to month."

"Are you crazy?" shouted Joe. "I only pay \$5,000 a year in property taxes. You want me to up that 5 times to \$25,000? You make out like a bandit, the county makes out like a bandit too, and when the \$500,000 runs out in 20 years, I'm screwed! And you said 'start'. 'Start!' How much is the damn rent going to rise each month?"

"Calm down Joe," said the purchasing agent. "When I said 'start at \$25,000', I didn't mean it would rise. I meant it would fall. In fact, you need never pay another dime – no harm, no penalty."

"What you talkin' bout Willis?" Joe mumbled.

## Falling Rent

The purchasing agent smiled. "The rent falls by 66.67% a year. In one year, the rent will be down to \$8,333. In 2 years, down to \$2,777 – much less than your current property taxes. All of that comes out of the \$25,000 advance. The rest of your \$500,000 is never even touched – unless YOU decide to freeze or raise your rent."

"That makes no sense," said Joe. "Property values tend to rise, not fall. The county would be royally screwed as my rent fell. You guys wouldn't do too well either."

"I'm confident" said the purchasing agent, "that you would never allow the rent to fall that much. Anytime you please you can freeze or even raise the rent. I'm certain you will freeze the rent long before it drops to \$2,777."

"Are you nuts?" said Joe. "Do you think we live in a world of fairy tales where people voluntarily pay extra because they believe it is the right thing to do?"

"Not at all," said the purchasing agent. "You will freeze your rent to ward off the trebler."

"The trebler?!"

## The Trebler



"When you accept the \$500,000, you are granted an open-ended lease that can never be terminated as long as you remain the current property owner."

"I can be evicted for not paying rent!"

"As I said, you can't. There is no obligation to pay rent. The one-year advance rent of \$25,000 covers your rent forever."

"I can stay even if I don't pay rent?"

"Exactly. However, the lease stipulates that if any party puts up the money – rent is paid a year in advance you see..." The purchasing agent continued. "If any party at



least triples your current rent and pays you a 33% premium on your buildings and improvements, the lease is transferred to their name. Then you will be removed for trespassing. However, you can thwart the trebler by matching this higher rent."

"Somebody can just take my land?"

"Not if you protect yourself," explained the purchasing agent. "That would mean paying a high enough rent so that tripling the rent would make no business sense, even with rents falling by 66.67% annually. You should also keep your 3-flat in good shape to maximize the 33% premium the trebler would have to pay. Treblers look for decrepit buildings and slums. After all, 33% of nothing is nothing."

"How will I know where to freeze my rent?"

"The most efficient option, if you have the matching funds, is not to freeze, but match the treble when it comes. But if you feel more comfortable freezing, we can compute the safest and most efficient rent."

## The Spreadsheet

"Show me the numbers!" said Joe. "I want to see hard evidence."

The purchasing agent asked Joe some questions about the rentals. They both agreed the value of the house itself was \$287,000. Although Joe lived in the ground unit, calculations were done assuming all units are rented.

"I spend 5 hours a month doing landlord stuff and my rents are so cheap there is never a vacancy. Knock wood!"

"We will say 10 hours a month for an off-premises manager and a low \$2,000 in vacancy risk."

Renting all three floors of Joe's 3-flat					
	Net monthly rent after heat, air, water, sewer		Net Annual rent	Depreciated replacement cost of building	
Top	\$1,400		\$16,800	Depreciation at 3%	\$287,000
Ground	\$1,400		\$16,800	Interest at 5%	\$8,610
Basement	\$1,000		\$12,000	33% Premium	\$14,350
	<b>Revenue</b>		<b>\$45,600</b>		<b>\$94,710</b>
	<b>Expenses</b>				
	Depreciation at 3%	\$8,610			
	Interest at 5%	\$14,350			
	Insurance	\$2,000			
	Vacancy risk at low rents	\$2,000			
	Labor 10 hrs/mon * \$20/hr * 12 mon	\$2,400			
	<b>Total Annual Expenses</b>		<b>\$29,360</b>		
	<b>Profit</b>		<b>\$16,240</b>		

“Which means I should freeze my rent at \$16,240?”

Avoiding a Hostile Takeover or Safe Demolition Treble						
	Current NEBR (Net Earnings Before Rent)	\$16,240	Hostile Takeover	Sunk Structure Cost always equals discounted opportunity cost in any given year		
	Current Risk of Failure	1%	Demolition and New Construction			
	Percent of Profits for Rent	47%		Sunk Structure Cost	\$94,710	
	Interest Rate	5%	Caution: Lower interest rates require higher ground rents!		1	
	Existing Structure Value	\$287,000				
		\$0				
Year	Discounted Profit at 5%	Cost of Failure Risk at 1%	Trebled Rent at 47% net profit	Interest on 1-Year Advance Rent	Discounted Risk, Rent and Costs	Profit After Rent, Risk and Advance Rent Interest
0	\$16,240					
1	\$15,467	\$162	\$15,262	\$763	\$15,262	\$205
2	\$14,730	\$323	\$7,633	\$382	\$7,269	\$7,461
3	\$14,029	\$482	\$7,633	\$382	\$6,923	\$7,106
4	\$13,361	\$640	\$7,633	\$382	\$6,593	\$6,767
5	\$12,724	\$796	\$7,633	\$382	\$6,280	\$6,445
6	\$12,119	\$950	\$7,633	\$382	\$5,980	\$6,138
7	\$11,541	\$1,103	\$7,633	\$382	\$5,696	\$5,846
8	\$10,992	\$1,255	\$7,633	\$382	\$5,424	\$5,567
9	\$10,468	\$1,404	\$7,633	\$382	\$5,166	\$5,302
10	\$9,970	\$1,553	\$7,633	\$382	\$4,920	\$5,050
11	\$9,495	\$1,700	\$7,633	\$382	\$4,686	\$4,809
12	\$9,043	\$1,845	\$7,633	\$382	\$4,463	\$4,580
13	\$8,612	\$1,989	\$7,633	\$382	\$4,250	\$4,362
14	\$8,202	\$2,132	\$7,633	\$382	\$4,048	\$4,154
15	\$7,812	\$2,273	\$7,633	\$382	\$3,855	\$3,957
16	\$7,440	\$2,412	\$7,633	\$382	\$3,672	\$3,768
17	\$7,085	\$2,551	\$7,633	\$382	\$3,497	\$3,589
18	\$6,748	\$2,687	\$7,633	\$382	\$3,330	\$3,418
19	\$6,427	\$2,823	\$7,633	\$382	\$3,172	\$3,255
20	\$6,121	\$2,957	\$7,633	\$382	\$4,135	\$1,986
Total	SAFE! Because opportunity cost more than net profit after 20 years				Opportunity Cost \$94,710	Net Profit \$93,765

“Much less,” said the purchasing agent. “I use our 20-year spreadsheet. If you freeze your rent at \$7,633, the trebler will show a profit in the first year. But they would still do better earning interest on the money for 20 years. An annual rent of \$7,633 seems both safe and efficient.”

Spreadsheet explained in module “Avoiding a Hostile Takeover”

“So, the county will only get 30% of that or \$2,290 instead of my current property tax of \$5,000?”

“Don’t feel too bad for the county. They make a profit in the first year. If you allow the building to depreciate, your safe ground rent will also rise.”

“I take care of my building!”

“Still, it is unlikely your rent will remain as low as \$7,633 for long. But that’s good news. It means you’re making more money!”

“You guys are the bandits! ABC is walking away with 70% and you do nothing!”

## The Commons Trust

Feeling a bit defensive, the purchasing agent said, “The land is owned in a trust called the commons. It is a set of iron-clad rules of disbursement and transition into a subsequent commons trust. There will be multiple commons trusts with different disbursement rules over time, but all designed to honor the lease I hope you will sign. In that way, events that require the merging of commons trusts will be transparent to the property owner.”

So, what exactly becomes of the rent I pay you every month?”, asked Joe.

The purchasing agent handed Joe a breakdown (after the county takes their share). “It is all automated through secure digital charters. We couldn’t change it if we wanted to.”

ABC Commons Trust – Benefit Enforced Net Rent Distribution		
<b>ABC Operations</b>	<b>10.0%</b>	
<b>VIP Treasury/Land Management</b>	<b>10.0%</b>	
<b>Currency Dividend</b>	<b>5.0%</b>	
<b>Phase I – Land Fund</b>	<b>37.5%</b>	Community commons trusts that meet certain metrics will begin in Phase II, while the ABC is still in Phase I
<b>Phase I – Earth Dividend Subsidy Fund</b>	<b>37.5%</b>	
<b>Phase II – Earth Dividend Subsidy Fund</b>	<b>75%</b>	

“The breakdown mentions a currency. Won’t I be paid in U.S. dollars?”

### The Currency

The purchasing agent held up a currency market display on his phone: 500,000 VIP\$ = \$495,508 U.S. “The currency, valid for rent payment, is equivalent to shares of a real estate investment trust (REIT) and pays a dividend. Should a commons trust fail for any reason, the land in that commons trust would be owned by the holders of the currency. But the ultimate success of the commons trust will bring even greater rewards to currency holders. After all, the currency naturally appreciates as land values rise. We believe that in 20 years, the currency will trade at a premium, and shortly thereafter, we expect the peg to start appreciating, as required by charter.”

“Sounds like you gave that speech a million times. I think I’d still rather have U.S. dollars.”

“We prefer to pay you U.S. dollars as well. It is to your benefit. If you want VIP\$, we recommend purchasing them on the market to take advantage of the 1% discount.”

“Why? Outside of rent, where can I spend this currency and how can a currency pay a dividend?”

The purchasing agent continued. “The currency is digital, so updating accounts with dividends is easy. Following successful negotiations with this county, we offered local merchants free biometric VIP readers in addition to our always free transaction services, saving them a fortune over credit or debit cards, and guaranteed at 99% peg. Fifty-two merchants have signed on so far.”

### **The World One Step Closer to a New Epoch**

Joe signs on the dotted line, creating 500,000 VIP\$ and \$500,000 of land added to the ABC Commons Trust. Variations on this very same transaction will lead humanity to a bright future.

**Never any coercion. All monetization is as voluntary as Joe’s deal on his 3-flat.**

**The ultimate destination of rents is equal per capita distribution, for private goods and public services, for all people on Earth.**