Summary for the Investor of the Economic Engine That Drives AFFEERCE

AFFEERCE is funded from the rents of land that are in a 'commons trust'. This land is purchased by selling a digital currency - called the VIP$ - on an open market, using the funds obtained from the sale to purchase property (land and structures). When property is purchased into the commons trust, new VIP$ are minted equal to the value of the purchased property, and again sold on the open market. The multiplier (how many dollars can be generated in repeated operations from an initial property purchase) is a function of the demand for, and supply of, the VIP$. This is the crux of the business plan.

The company that sells VIP$ on the market for U.S. dollars, and handles purchasing of land into the commons trust is called the AFFEERCE Benefit Corporation (ABC). This corporation is owned by the investor(s), but subject to performing its benefit. As seen in the diagram below, the ABC receives 7% of the rent for operations and profit.

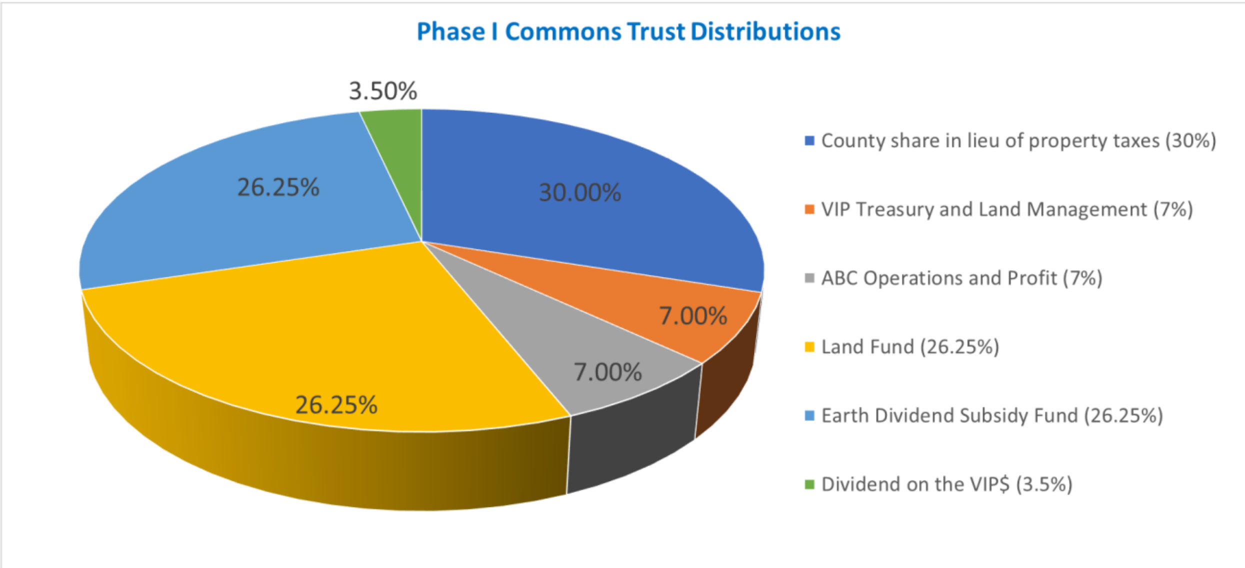
What is the benefit the ABC is obligated to perform? It is obligated to perform certain currency operations required by the VIP Treasury and Land Management (VTLM). The VTLM is a not-for-profit organization, funded by the investor, but with all ties to the investor severed by the time land purchase operations begin. The VTLM is ultimately responsible to community and government oversight. Like the ABC, the VTLM also receives 7% of the rents for its operations.

Because the VIP$ is only backed by the land value, should the commons trust fail, holders of the currency receive land title proportional to their holdings, but ownership of the structures remains with the property owner.

The ABC cannot buy just any property. For the plan to work, there must be no property tax. Negotiators and lobbyists for the ABC sign up counties to accept 30% of the rent in lieu of property tax. For low property tax counties in Colorado and California, this will be a bonanza.

Back to the crux of the business plan. On average, the properties backing the VIP$ are only 33% land value (based on American Enterprise Institute U.S. land data).

Why in the world would anyone buy VIP$ on the open market? Why should anyone pay more than 33 cents for a VIP$ that starts out backed by only 33 cents of real assets?



This might scare investors, but as part of its benefit, the ABC must use the U.S. dollars in its Land Fund to purchase VIP$ at 99% of the peg to the U.S. dollar and destroy them. If nobody else will purchase the VIP$ at more than 99%, the ABC has a permanent bid at 99%, buys the VIP$ for $0.99 U.S., and destroys the VIP$. VIP$ that enter the land fund from rents received are destroyed in a process described a few paragraphs below.

Investors need not be scared. The money for buying these VIP$ does not come out of the 7% ABC operations and profit, but the 26.25% of rent that goes to the Land Fund.

When the Land Fund is not being consumed to pay 99% of peg, it is used to buy property. When property is purchased into the commons trust (in actuality, only the land goes to the commons trust, the structures are still held by the property owner), new VIP$ are minted for the full property value. These VIP$ and VIP$ received from 26.25% of the rent must be converted to U.S. dollars. The benefit obligates the ABC to do this with the following automated process.

The VIP$ are placed on the market with an ask price of 99.05% of peg. If they sell, all is well and good. The U.S. dollars go to the Land Fund. If not, 20% are destroyed and the remainder are offered at 99.04% of peg. If they do not sell, another 20% of the original batch are destroyed and the remainder are offered at 99.03%. This repeats until the final 20% are offered at 99.01%. If nobody takes the offer, the ABC destroys the final 20%.

This process of using U.S. dollars to purchase property, creating VIP$ to match the purchase price, selling those VIP$ at market to get more U.S. dollars, and purchasing more property is called “ram and jam”.

The maximum supply of VIP$ is limited by the total property purchased. The supply of VIP$ is further constrained when the ABC destroys VIP$ during ram and jam operations.

There are other ways the effective supply of VIP$ is reduced. Notice the 26.25% of rents that go to the Earth Dividend Subsidy Fund. This fund is only in VIP$ and not even touched for the first three years. Even after that, it will be a net sink for VIP$ through Worldwide Federation.

Other sinks in the first few years are the advance rent funds. Rent must be paid one year in advance at closing. The average rent, about 2% of purchase price, is effectively sequestered.

It does not matter how much we whittle away at supply if there is no demand for the VIP$. The first step in understanding demand is to understand the terms of the commons trust lease. It is a bit complicated and we take the description directly from the module Understanding a Commons Trust.

Summary of the Proposed Lease – The Treble
Land is available to the highest bidder of ground rent in continuous auction.
Rent is paid one year in advance in either U.S. dollars or VIP$ (refundable in full when trebled or with standard sale, or refundable in part for property abandonment, if sufficient funds are raised at a special auction). For auction and other details of this list, see the Parameters of Ground Rent in the Early Days module.
Parameters of the lease are primarily defined by the tuple (minimum bid increment, premium paid on structures, and default annual rate of falling rent).
Proposed parameters (200%, 33%, 67%) – to capture land, one must triple (hence the word treble) the current rent, and pay a 33% premium to the current property owner for structures and other improvements.

Then the rent falls by 67%, unless raised or frozen by the property owner. Rent is always equal to 8.33% of the advance rent fund which falls by 8.75% monthly. If rent is allowed to fall, the difference (8.75% - 8.33% = 0.42%) is refunded to the property owner at the end of each month when the actual rent falls.
If the property owner chooses to raise the rent, they increase the advance rent fund with either U.S. dollars or VIP$ at the peg.
If the property owner chooses to freeze the rent, they pay 8.75% of the advance rent fund in U.S. dollars or VIP$ at the peg, at any time during the month before the rent falls (Earth dividend distributions can occur at any time during the month). They will receive the 0.42% refund when the rent falls back to where it was at the start of the month.
Current property owner, with sufficient liquidity to augment the advance rent, can match the treble and keep the property.
Mechanics liens, mortgage liens, treble-protected liens, and utility liens are held in an associated negative lien account. There is no 33% structure premium on property to the extent of its lien account.

Notice that rent can be paid in U.S. dollars or VIP$. Because the VIP$ trades at 99%+ of peg (just under a 1% discount), almost all rent will be paid in VIP$. This is called an arbitrage opportunity, because purchasing VIP$ to pay the rent, rather than paying the rent in U.S. dollars, is free money.

Unfortunately, rental arbitrage is generally a very weak source of VIP$ demand. Far more powerful as a source of demand is retail arbitrage. Recall that the VTLM gets 7% of the rent.

One use of that money supports free transactions. Merchants can process this biometric digital currency without a service charge! Another use of that 7% is fully subsidizing VIP readers at merchants in counties that sign the agreement.

In the beginning, most merchants will need to convert some of their proceeds back to U.S. dollars to pay suppliers, so there will be just under a 1% cost with the VIP$ trading at only 99%+ of peg. But this is far better than the 2% to 3% charged by credit card companies. Once suppliers accept the VIP$, transactions will be completely free.

Nor should one forget the consumer in this arbitrage. Consumers purchase VIP$ at a 1% discount. In other words, they get a 1% discount at any retailer that accepts the VIP$. Consumers and merchants are big winners. Banks and credit card companies get nothing.

What if the Land Fund at the ABC is exhausted and the VIP$ falls below 99% of peg. Why should a merchant accept it under such risky circumstances? The next two sources of demand are like buoys that apply an upward force that increases with the depth the VIP$ falls.

These forces are so powerful, merchants and others will hope for a collapse of the VIP$. But because of these forces, it will not happen for more than a few seconds. These forces are the VIP$ dividend and treble arbitrage demand.

At 99%+ of peg, the VIP$ receives 3.5% of the rent as a dividend, as seen in the pie chart. This is a real dividend on a real asset (land). It goes up with inflation. No other currency in the world is backed by a revenue producing asset that will never end until the sun explodes in billions of years (and not even then). No other usable currency pays a dividend at all.

But the buoy effect is phenomenal. For every 0.01% the VIP$ falls below 99% of peg, the VIP$ dividend share of rent increases by 0.07% (this is .1% after the county gets its 30% share). These dividend increases come out of the Earth Dividend Subsidy Fund. The dividend can go all the way up to 29.75% with a drop to just over 96% of peg. This is a fantastic real rate of return on a currency that is completely liquid!

Concurrently, the 26.25% of rent that would be headed to the Land Fund is instead destroyed, increasing the real rate of return on the VIP$ remaining even more. Unfortunately for the currency holders, the VIP$ is not likely to fall below 99% of peg for more than a few minutes at a time during intense ram and jam.

While the dividend is a powerful buoy, especially in the early years, the next buoy effect is more powerful in later years. However, in the unlikely event the rapidly increasing dividend fails to hold the VIP$ above 96% of the peg, “treble arbitrage” demand comes to the rescue, even in the early months.

In the leasing terms described in the table above, land can be captured by tripling the rent the current owner is paying to the commons trust, and paying the owner of the structures a 33% premium on their depreciated replacement value. This is called “trebling”.

All payments can be in either U.S. dollars or VIP$ at the peg. Rents will tend to drop to where the cost to treble and the cost to purchase an identical property on private land next door are equivalent. All trebles will be in VIP$, simply because the VIP$ trades at a 1% discount.

However, if the VIP$ trades at an unexpectedly large discount, this translates into a large discount on the property tax-free structures. In the event of such a discount, people will be accumulating VIP$ in the hopes of trebling at the discount.

Additionally, once the treble takes place the VIP$ are sequestered in an escrow account until the former property owner vacates. This can easily represent a majority of the VIP$ created. In later years, new construction not accounted for in the VIP$ supply and U.S. dollar inflation can even push the VIP$ higher than 99%, increasing the cash multiplier in ram and jam.

The ABC is expected to reach breakeven 7 months after the first land purchase based on conservative destruction parameters. Should early demand for the VIP$ be higher than these conservative estimates, breakeven can be reached much sooner.

Nevertheless, to cover operating expenses quickly and to give agreeable counties a bit of a windfall, the first year or two of ABC operations is done in a sales-only mode. Only “for sale” properties are purchased, where the property owner already has plans to abandon the property.

These properties are immediately put up for an auction where the winner is the bidder who bids the highest ground rent. That is, they bid on how much they will fund the 1-year advance rent account. The average annual rent on land is 2% of the total property purchase price, so you might think these bids will not be that high. Think again.

The bidder is getting the entire house and any other structures for free. And the bidder will own those structures, getting 133% of their depreciated replacement cost, should the land be captured at a future date. Because there is no obligation to ever pay a dime more in rent beyond the 1-year advance rent fund, bidders are bidding on the structure, not the ground rent.

Many bids will be as high as 60% of purchase price, a windfall in rent for currency holders, the ABC, the VTLM, the county, and the Land Fund. Rents will fall to 20% of purchase price in a year, 6.67% in two years, and 2.2% in three years. Only then will property owners start considering the actual payment of rent to protect their property from treblers.

After 2 or 3 years, people will wise up and "for sale" properties will disappear. People will seek the big, full property payoff from selling their land into the commons trust before they sell their home or allow it to be trebled. By then, rents will be many times operations cost, and while profits will dip in year 3, they will resume growth for several decades, reaching a projected total of $1 trillion by the end of year 20.

While this is happening, many world problems are being solved in the process. Our claims are so preposterous that most would find them delusional. For the investor, the main consideration is the profit potential, and demonstrating that is the purpose of this module. Further detail on everything discussed here can be found in the following modules:

Understanding a Commons Trust, Average Rent as a Percent of Purchase Price, The Effect of a VIP$ Discount on Treble Arbitrage, Retail Arbitrage, VIP$ Dividend and the Peg, Holding 99 Percent, ABC and VIP Treasury – T Minus 2 Years and Counting, Purchasing Modes, ABC – The First 20 Years.

The entire business plan is described in Land-Based Capitalism by Jeff Graubart.