The Basic AFFEERCE Operation – Land Monetization

AFFEERCE Benefit Corporation's (ABC) general operations are described with a simple example of the ABC purchasing land in direct mode.

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

Joe owns a three-flat worth $500,000. He lives on the first floor and rents the top and basement floors. He pays $5,000 annually in property tax. Joe has heard a company called “The AFFEERCE Benefit Corporation” is making an unusual and lucrative offer to homeowners in his county. They are paying the total market value for property, even though structures remain the current owner's property. 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 getting income from my tenants. I was even thinking about building a fourth level. I need development cash to do that, so I investigated your offer.”

“If you accept our offer, " said the purchasing agent, “there is 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. We take a 5% fee, and the rent is paid monthly, starting at a $25,000 annual rate, another 5% of the $500,000 we pay you. The county has agreed to take 30% of that, or $7,500 yearly, instead of property taxes. Of course, that $7,500 would only be true if the rent did not change monthly."

"Are you crazy?" shouted Joe. "I only pay $5,000 a year in property taxes. Do you want me to up that five 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 did not mean it would rise. I meant it would fall. 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 8.33% every month. In one year, it will be down to $8,800. It will be down to $3,079 in two years – much less than your current property taxes. All of that comes out of the $25,000 advance. The rest of your $450,000 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. You can freeze or even raise the rent whenever you please. You will freeze the rent long before it drops to $3,079."

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

"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 cannot. You are not obligated 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 65% annually. It would be best to keep your 3-flat in good shape to maximize the 33% premium the trebler must 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 that the house itself was worth $287,000. Although Joe lived in the ground unit, calculations were done assuming all units were 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 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	$287,000
Top	$1,400		$16,800	**Depreciation at 3%**	$8,610
Ground	$1,400		$16,800	**Interest at 5%**	$14,350
Basement	$1,000		$12,000	33% Premium	$94,710
	Revenue		**$45,600**		
	Expenses				
	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			
	Total Annual Expenses		**$29,360**		
	Profit		**$16,240**		

“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 ○ Demolition and New Construction	Sunk Structure Cost always equals discounted opportunity cost in any given year		
	Current Risk of Failure	1%				
	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**
					Opportunity Cost	**Net Profit**
Total	**SAFE! Because opportunity cost more than net profit after 20 years**				**$94,710**	$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?”

“Do not 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, your rent will unlikely remain as low as $7,633 for long. But that’s good news. It means you are making more money!”

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

The Commons Trust

Feeling 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 merging commons trusts will be transparent to you, the property owner.”

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

The purchasing agent handed Joe a breakdown. “It is all automated through secure digital charters. We could not change it if we wanted to.”

ABC Commons Trust – Benefit Enforced Rent Distribution		
ABC Operations	**5.00%**	
Purchasing Agent	**1.00%**	
VIP Treasury/Land Management	**7.00%**	
The County	**30.00%**	
Currency Dividend	**7.00%**	
Phase I – Land Fund	**25.00%**	**Community commons trusts that meet specific metrics will begin in Phase II, while the ABC is still in Phase I**
Phase I – Earth Dividend Subsidy Fund	**25.00%**	
Phase II – Earth Dividend Subsidy Fund	**50.00%**	

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

The Currency

The purchasing agent held a currency market display on his phone: `Ɛ500,000 = $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, the currency holders would own the land in that commons trust. 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 after that, 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."

"Don't worry. We only pay in U.S. dollars. It is to your benefit. If you want Elsies, we recommend purchasing them on the market to take advantage of the 0.85% 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 and our always-free transaction services, saving them a fortune over credit or debit cards and redeemable at 99.05% 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 Ł500,000 and adding $500,000 of land to the ABC Commons Trust. Variations on this 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 of private goods and public services for all people on Earth.