

Tenants of Tenants



Not a beautiful building, but the rents are very affordable.				
Occupants	Size	Rent	Housing Distribution	Surplus Distribution
4	1200 Sq ft.	\$1400	\$1616	\$216 → Electric free
3	950 Sq ft.	\$1200	\$1212	\$12 → Some electric
2	700 Sq ft.	\$900	\$808	→ \$92 (rent owed)
1	300 Sq ft.	\$600	\$404	→ \$196 (rent owed)

A family of 4 gets free rent and free electricity, with money left over to save for a down payment on a nicer home. Suppose there are 208 tenants in the building. In the language of [cellular democracy](#), we would say that this building consists of 2 cells, each with an average of 104 people.

The two cells form a [district](#) that, by a 2/3 vote of the adult residents, has negotiating power with the landlord. Tenant power is the ability, [by a 2/3 vote](#), to oust the landlord by paying them a [33% premium](#) on the [depreciated replacement cost](#) of the structure, should the landlord fail to repair a nuisance promptly.

Raising the rent and other market actions are not considered legal externalities or nuisances. However, a sub-standard lease that fails to give the tenants at least 50% of the structure premium in the event of a [treble](#) would be a negative externality and a cause for action if not rectified. The actual standard premium percentage will be set by a voluntary standards group ([VSG](#)), but 50% will be assumed for this example.

What happens to the tenants when the building is trebled? There are two forms of protection. The first is 50% of the structure premium (assuming a standard lease). This is based on the occupied square footage as a percent of the total occupied square footage. If the building had 80,000 occupied square feet, the residents of a 1,200 sq. ft. apartment would receive 1,200/80,000, or 1.5% of the 50% structure premium, or 0.75% of the entire premium.

The second form of protection is [treble insurance](#). Treble insurance is part of the distribution package and a benefit everyone receives. If the primary residence of any person (the level 1 cell where the person is registered) is trebled, 33% of the

building's rent is distributed equally to each displaced resident. However, this might be capped at \$2,000 per resident.

In our not-so-beautiful apartment building of 80,000 occupied square feet, the replacement cost is \$175/sq. ft, or \$14 million. However, the building is judged to be 75% depreciated, so the depreciated replacement cost is \$3.5 million. The 33% premium on this is \$1.155 million. The 50% of that which goes to the tenants is \$577,500. This building has 208 residents, so each gets an average of \$2,776 if the building is trebled. A family of 4 living in a 1,200 sq. ft apartment will get a windfall of $4 \times \$2,776 = \$11,105$ if the building is trebled. But that is not all!

There is also treble insurance. The landlord is paying \$280,000 in ground rent. To understand how landlords choose a safe and efficient rent, see modules [The Basic AFFEERCE Operation](#) and [Avoiding a Hostile Takeover](#).

Treble insurance pays the primary residents 33% of this rent (\$92,400). Each resident gets $\$92,400/208 = \444 . A family of four receives \$1,777. A family of 4 gets a total of $\$11,105 + \$1,777 = \$12,882$ for being trebled out of an apartment they rented at no cost to themselves.

Not only does this money make moving a pleasure, but it is in the interest of every apartment dweller to not depreciate the building. The tenant wants to keep the building in good shape. The better the condition of the building, the higher the premium.

Nor does the tenant want to make it hard on the landlord. If the landlord calls it quits, maintenance on the building will stop, and the rent will be allowed to fall by almost two-thirds annually until the treble. When a "better use" trebler comes along, depreciation might be close to 100%, and rents might be insignificant. The displaced tenant will end up with little or nothing.



Across town, in an exclusive neighborhood, is a mansion on the same acreage as the apartment building above. They also pay \$280,000 yearly for ground rent, which is a bit low for this exclusive neighborhood.

The owner's income is \$800,000. The six family members and four servants who live on the property have an annual housing distribution of \$40,400. The yearly housing

distribution reduces the owner's portion to $\$280,000 - \$40,400 = \$239,600$. The replacement cost of the mansion is \$8 million, and because of excellent maintenance, it is only 2% depreciated with a structure value of \$7.84 million. The 33% structure premium is \$2.59 million. Mr. Gotrocks, with an annual income of \$1.3 million, trebles the property. How do the servants fare?

The contracts of employment and residency stated that servants occupied 15% of the structure and were entitled to 50% of the treble premium on that percentage. The servants received 7.5% of \$2.59 million, or \$181,104. Each servant would get a \$45,276 share.

As mansion residents, the servants also receive a treble insurance payment. This would be 33% of 1/10 (10 residents) of \$280,000, or \$9,240, although this would be capped at \$2,000 each. Each servant walks away with a total of \$47,276. The family would walk away with \$7.84 million (structure) + \$2.59 million (premium) - \$181,104 (servant's portion) + 6 (family members) x \$2,000 (treble insurance) for a total of \$10.261 million. Notice how servants share the family's interest in keeping the house in the best possible shape.

As an aside, Mr. Gotrocks trebles to \$840,000. Mr. Gotrocks could let the rent fall by two-thirds annually until it fell to around \$400,000, closer to neighborhood rates than the trebled \$280,000.

However, the [city's baron](#) lives nearby and pays \$590,000 in ground rent for the privilege. Mr. Gotrocks wants to become the new baron and only lets the trebled rent fall to \$650,000 to usurp the title (however, her gender preference is to be addressed as baroness).

The AFFEERCE revolution allows for economies of scale in housing management without losing the contribution that owner-occupied housing makes to property values and the community.