



Rent 2 Own Synthetic Equity Trust

This Rent-2-Own model presents a balanced approach to homeownership that benefits property owners, tenants, city councils, lenders, and the community at large. Each group gains value through incentives that promote long-term commitment, financial stability, and community enhancement, creating a network of mutually reinforcing benefits. Permitting recent graduates and even undergraduates to share in property appreciation from the first week of their tenancy will immediately change the tenor of any neighbourhood plagued by transient renters. Once ownership stakes are in play, behaviour changes.

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Greenbank Neighbourhood Capital

DALES RESIDENTS GROUP | GARMOYLE ROAD | LIVERPOOL L15

Overview

The Greenbank Rent-2-Own model offers a structured, accessible path to homeownership for individuals, particularly those aged 22-40, who may otherwise struggle to get on the property ladder. This innovative approach allows tenants to rent a home with the added benefit of building "synthetic equity," where a portion of each rent payment accumulates over time as **vested synthetic equity** in the property.

The synthetic equity evaporates in the case of default or other breaking of terms.

Tenants qualify for a set purchase price after five years of consistent payments, at which point they can exercise their option to buy. If they choose not to exercise, like traditional options, the equity expires.

After three years, the accrued synthetic equity can be used as collateral for a low interest (as low as 0%) loan, which, in the case of students with 7% loans acts as a way to reduce debt repayments.

This makes sure that "rent money" is not dead money, while giving a tenant the right and not an obligation to buy from the portfolio of houses the trust maintains.

While aimed at 22-40yr olds, even older people looking for a retirement pathway can benefit, since even a modest pension can pay for a room in a shared house in a "within-community" retirement village, allowing people to divest a house and still have a place to live within a familiar neighbourhood, along with a significant cash payment.

Goals

Create a mechanism to encourage young people unable to get on the housing ladder to be able to start saving towards their first home right away

Allow these "tenant co-owners" to immediately live in a "nice" neighbourhood which will become nicer as they will be involved community members.

A certain proportion of the rent from each house is used to beautify the pavements.

In the case of students, a contribution is made to the city council, which current landlords do not make, which creates problems, since houses of multiple occupation create more litter and waste and use more water.

Encourage a stewardship mindset, since the tenants will become long term residents.

Provide the stability of remaining in the neighbourhood which is attractive to young families.

Elastic Housing Cloud | Replicate the Amazon Web Services Elastic Compute Cloud but for housing, allowing a tenant to scale up or down based on their financial situation.

Specifications

Synthetic Equity

Tenants accrue a portion of their rent as equity in the property, which doesn't represent actual ownership but a financial interest that can be monetized or used as collateral.

Collateralized Loans

Using synthetic equity as collateral for a loan, especially with a 0% interest rate, could significantly alleviate financial pressures like student loan debt, potentially accelerating wealth accumulation.

Option Collar

Rather than edict a price, market tools, such as puts and calls, provide a muzzle on whipsawing volatility. The Trust effectively sells call options to tenants and buys put options from the market to set a floor price for the property portfolio.

Call Options

Tenants have the option, not the obligation, to buy a property from within the trust portfolio at a predetermined price after a certain period. This reduces the risk of overpaying if housing prices fall but limits upside if prices soar. Sacrificing potential upside gains for present stability is something many people do anyway.

Vesting Program

A structured timeline for when rights or benefits vest, ensuring long-term commitment from tenants, which is crucial for stability in the rental market and for landlords or investors.

Property Pool

Offering a selection of properties provides flexibility and might help in matching tenants with properties that meet their aspirations or needs more closely.

Trust-Based Options

Instead of directly owning property, options on a trust could offer legal and tax benefits, potentially making the financial structure more robust or appealing.

Maintenance Incentives

Requiring tenants to maintain the property will at the very minimum preserve and even increase its value over time, aligning their interests with those of the property's legal owners or investors.

Setup Milestones

I. Acquire 5 properties in the Greenbank Area

It is not actually a requisite that a property is owned, but for risk management purposes, covered calls are preferred. Even landlords who currently have houses that may not be getting the rent they need and thus cannot afford to refurbish the asset may be the perfect candidate. A 5-year agreement is entered into where the trust manages the property, paying off the mortgage, but taking the rental payments after having refurbished the property. The property remains in the title of the landlord for the 5-years. This is a relatively low risk way to try out the concept.

II. Make an offer to between 10 and 20 vetted individuals

There will be three types of house -

4 x 1 bedroom - for four council tax paying individuals

2 x 2 bedroom - for 2 council tx paying couples

1 whole house - for a family paying council tax unit or a group of people paying council tax who choose to be considered as a family.

In the case of the 4 units, people need to be able to get on with one another.

For the other options, subletting is strictly prohibited and property inspections every month will occur to make sure this does not happen.

A whole house would suit a young family just starting out or even a whole family with "boomerang kids". Even undergraduates - students on 4 and 5 year courses (dentists, engineers, lawyers, medics etc) - are perfect for this scheme, since they could graduate with little or no debt from the R2O model, since while renting, anywhere from 25% - 33% of their rent goes into their stake.

III. Make sure all parties understand the options and terms. This may only be suitable for graduates who can demonstrate the requisite understanding

IV. Implement a Land Value Taxation strategy to make sure derelict houses are made use of.

If a land value tax is levied on vacant properties, they will become un-vacant right quick

A MULTI STAKEHOLDER WIN

Property Owners Looking to Achieve Returns from Tenants

- **Consistent Rental Income with Lower Vacancy Rates:** Since tenants are accumulating synthetic equity and have a vested interest in property upkeep, they're more likely to stay longer, reducing vacancy rates and ensuring steady cash flow.
- **Enhanced Property Value through Tenant Maintenance:** The model incentivizes tenants to maintain and even improve the property, thus preserving or enhancing its market value without direct maintenance costs.
- **Portfolio Appreciation:** Property owners benefit from a well-managed, diversified property trust that appreciates over time, with the potential for capital gains when properties are sold or transferred within the trust.
- **Reduced Turnover Costs:** Lower tenant turnover leads to reduced marketing, administrative, and refurbishing costs, which typically arise with new leases.

Tenant/Future Co-Owner

- **Path to Homeownership:** Tenants build synthetic equity with each rent payment, creating a clear, attainable route to owning a home, with flexibility to buy from a pool of properties instead of being tied to one.
- **Financial Stability via Collateralized Loans:** Tenants can use their vested synthetic equity as collateral for 0% or low-interest loans, helping them pay down high-interest debt and boosting financial health.
- **Access to Property Appreciation:** Through call options on the property trust, tenants can benefit from the overall appreciation of the property portfolio, aligning their financial growth with the success of the trust.
- **Increased Sense of Ownership:** With an investment in the property's value, tenants become more committed to the community and home, creating a sense of pride and accountability often absent in traditional renting.

City Council

- **Increased Housing Stability:** The Rent-2-Own model encourages longer tenancies, which promotes stable, engaged communities—a key goal for many city councils focused on sustainable urban development.
- **Support for Affordable Housing Goals:** This model provides a viable path to affordable homeownership, aligning with city initiatives aimed at increasing access to housing and addressing local affordability issues.