



**FAIRGROUND**

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**Abstract:** *Property is the foundation of a free and functioning market. Land is the literal foundation of our existence. With this in mind, defining the rightful private use of land in the market becomes a question of defining our right to exist. If we've determined that every human has an equal right to exist then our property model for land should reflect that. We propose a competitive common ownership system autonomously administered using blockchain technology. Through an annual ownership bidding process the flow value of land utility could be quantified in a market assessed ground rent, economically incentivizing efficient land use while also providing a community member dividend.*

## Introduction

Community organizations owning physical property will often rely on a voting process to determine how the property can be used and by whom. The problem with this approach is a misalignment of incentives and a lack of personal accountability. There's no real costs or risks involved in casting a vote. An elected board or voting majority can easily externalize most, if not all the costs and risks of their decisions on the remainder of the community. If the majority votes to cancel rent for example, it's the minority group of real estate investors that will bear the cost. Voting with one's own wallet on the other hand is perfectly suited to economic choices by placing all decision making power in the hands of those with skin in the game and the best track record of efficient capital allocation.

We propose an open land protocol that applies a perpetual ground rent for the private use of community resources through a competitive ownership bidding process. Below we'll outline the market mechanisms that could be used in such a system to continuously and efficiently manage and expand the stock of community resources autonomously and free from private or political capture.

## Acquisition

Land is acquired using a real estate crowdfunding platform. Anyone can use the platform and launch a campaign to raise funds to purchase property. If successfully funded, the real estate is purchased and the public land title is transferred to the community's legal entity. Property ownership defaults to the campaign creator and their investors in the form of an owner NFT (non-fungible token).

## Ownership




Very little about real estate ownership needs to change under a competitive common ownership model. The owner would have full private control of the property and pay an annual assessment similar to a property tax. Only the method of assessment would change. Rather than a government assessment, the market would assess the value by taking offers every 12 months. The new assessed value is the highest bid.

The owner is free to accept or reject the offers. If no action is taken, the highest bid is accepted with the annual ground rent being paid as part of the transaction similar to a sellers fee. Otherwise the current owner can reject the offers by paying the newly assessed annual ground rent which is a fixed percentage of the highest bid. The process repeats each year and the annual ground rent may rise or fall based on the market while the owner is also free to sell at any time in between.

## Improvement

Owners have all the standard incentives to improve their properties. Of course, it can be expected that annual ground rent will put downward pressure on sale prices similar to high property tax areas.

While there are no exemptions from the ground rent there's an important caveat. The ground rent exists to provide a community dividend. If the owner is a member of the community their dividend will be offsetting. This means that ground rent only begins to take effect when an owner finds themselves in the upper 50th percentile of property users. Or in other words, it kicks in when the total value of the property under their personal control exceeds that of the average member. Conversely, anyone controlling less real estate value than average would see their ground rent completely covered or exceeded by their annual dividend.

			
<b>GROUND RENT</b>	<b>\$0</b>	<b>-\$100</b>	<b>-\$200</b>
<b>DIVIDEND</b>	<b>+\$100</b>	<b>+\$100</b>	<b>+\$100</b>
<hr/>			
<b>NET</b>	<b>+\$100</b>	<b>\$0</b>	<b>-\$100</b>

## Use

Typically, property zoning and density fall under the jurisdiction of the local government. The sovereignty of the property owner runs up against the will of the people in government form, or at least that's the rationale. As discussed earlier, the result is unaccountable voting power being substituted for rational economic calculation.

A much better approach would be a level playing field where both sides have equal skin in the game. The property owner could retain sovereignty to the extent that they are willing to pay the annually assessed ground rent. Any opposing parties would have an equal opportunity to do the same by offering a bid. They will either succeed in taking ownership of the property or raise the current occupants' ground rent as compensation for the undesired use.

With neither side able to strong arm the other, communities can physically self organize. Infrastructure and public space could all be competitively provided by private builders. Cities can be designed bottom-up by the market without need for a central planner regulating what gets built and where.

While the system imposes no top down regulation it's important to note that members are still subject to the overriding laws of the local jurisdiction which may include building and zoning regulation. The community is free to organize and push back against any restrictions not providing value or buy land in less restrictive areas.

## Membership

Membership can and should be open and free to everyone. The sole requirement would be an identity verification process to ensure one dividend per member. Each member is entitled to one equal share of all real estate ground rent as a member dividend.

Initially, the member dividend maximum will need to be artificially pegged to the US average home value index. This will simulate an asset-to-member ratio on par with the broader US real estate market and allow members to invest in real estate without a concern that a membership increase will reduce their dividend offset. Eventually the ratio of real estate asset value per member will either match or exceed the artificial peg and the dividend will become fully equalized amongst members. Until that point the peg provides market parity for real estate acquisition and development. Members would be able to market their ground rent offsets to investors up to their individual dividend maximum.

## Incentive

By simply applying an annual market assessed ground rent to land use we are able to disengage private and state monopoly control and bring land ownership fully into the competitive landscape. The consumer preference for a certain parcel of land is then quantifiable in the broader market context and can be measured against alternative uses.

Competition can drive all resources to their highest and best use while compensating the community for their monopolization. Real estate uses with broader member participation will be economically favored due to the groups larger aggregate dividend offset. For example, it would be much more expensive for a private park owner to keep the entire property to themselves than to open it up for everyone.

## Upgrade

For purposes of system upgrades, changes, or its full elimination, 100% investor consensus would be required. Fortunately, no voting process would be needed. Because the ground rent system imposes a cost and fixes the holdout problem, a sufficient group of owners would be able to apply enough buyout pressure to achieve consensus. In the meantime, they would receive compensatory ground rent from the holdouts until they decide to sell or agree to the new terms.

## Conclusion

Nations rise and fall based on their ability to manage scarce resources. The most important metric for any economizing organization should be its resource efficiency, or in other words, its bottomline. The simple mechanism of a market driven ground rent can establish this common language for real estate efficiency while also providing community benefit.

A community system that establishes our shared right to the inherent value of nature without inhibiting our private right to enjoy and improve it could completely change the standing of the individual in our economy and correct some of our longest standing societal ills in the process.