# Masaba Synthetic Equity Rent 2 Own

This Synthetic Equity 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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# Overview

The Eric Masaba 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.

Depending on the tenants credit rating, after a certain period (anything from 6 months to 36 months) , 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% - 9% 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 refurbish 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.

- Enhanced Property Standards: With tenants motivated to maintain properties, overall housing quality within the area can improve, leading to more appealing and well-kept neighbourhoods.
- Reduced Demand on Public Housing: By opening up homeownership to a wider demographic, the model can lessen pressure on public housing and other affordable housing resources, freeing up council resources.

**Lenders**

- New Lending Market: Collateralized loans secured by synthetic equity present a low-risk opportunity to extend credit to a typically underserved market (young renters and aspiring homeowners), creating a new revenue stream.
- Reduced Default Risk: Since tenants are incentivized to maintain payments to protect their synthetic equity and achieve their ownership goals, lenders face a lower default risk on collateralized loans than with unsecured debt.
- Steady Pipeline of Future Mortgage Clients: As tenants reach the point of exercising their ownership options, they become ideal candidates for traditional mortgages, enabling lenders to capture a market that has been financially primed for homeownership.
- Positive Brand Association: Lenders who participate in this model align themselves with an affordable, socially responsible path to homeownership, which can enhance their brand image in the community.

**The Community at Large**

- Higher Community Engagement: As tenants transition into future homeowners, they are more likely to become involved in their communities, contributing to local initiatives, businesses, and social networks.
- Improved Property Conditions: With tenant incentives to maintain properties, neighborhoods benefit from better-kept homes and reduced instances of property neglect.
- Long-Term Resident Stability: The model encourages residents to stay in one area longer, supporting local economies and fostering a stronger, more cohesive community identity.
- Reduced Socioeconomic Barriers: By offering a realistic path to homeownership and financial stability, the model can help reduce economic disparities and provide more residents with the opportunity to build wealth.

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 equity in the property. 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.

A central feature of the model is the Loan Offset, which incentivizes tenants to prioritize financial discipline. As they accumulate synthetic equity, tenants can use it as collateral for a 0% interest loan, offsetting high-interest student debt or other financial burdens. This setup encourages consistent payments while rewarding tenants with reduced debt costs, making it easier for them to work toward long-term financial stability and homeownership.

To balance market volatility, the model employs an "option collar" strategy, which sets a cap on property price appreciation while also establishing a floor to protect tenant equity. This approach safeguards against rapid price inflation that could push the home beyond affordability while also preserving tenant equity in a downturn. The collar provides predictability for tenants without sacrificing the opportunity to build wealth through homeownership.

Finally, forfeiture terms are clear: any default on payments results in immediate equity loss, and unexercised options expire after a defined period. This structured framework of synthetic equity, loan offsets, and option collars creates an appealing, stable pathway to homeownership, combining the flexibility of renting with the equity-building advantages of ownership—all while promoting financial responsibility.

The model introduces a blend of financial instruments and real estate mechanisms aimed at making homeownership more accessible, particularly for those traditionally sidelined by conventional real estate markets due to financial constraints.

Here's a breakdown of how these elements could function and some considerations:

Components of the Model:

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**BETTER THAN REAL ESTATE INVESTMENT TRUSTS (REITS)**

This Rent-2-Own model could indeed offer a compelling alternative to traditional Real Estate Investment Trusts (REITs), with a focus on sustainability and tenant involvement in property upkeep. By combining a diversified property pool with vested tenants who are both living in and maintaining these properties, you create a hybrid structure with the potential for more stable, reliable growth. A projected 7%

compound annual growth rate (CAGR) is realistic when tenants are motivated not only to stay current on payments but also to maintain and enhance property values as future owners.

The involvement of tenants as future buyers brings a unique stability factor to the portfolio. Unlike traditional REITs, where properties are purely investments subject to market forces and external property managers, your model aligns the interests of tenants and the property trust. With tenants contributing to property upkeep, maintenance costs could be lower, and properties are likely to be in better condition when bought, protecting and even enhancing the portfolio's overall value.

Furthermore, the synthetic equity feature aligns tenants' interests directly with the property trust's performance. Knowing that a portion of their rent goes toward ownership incentivizes tenants to see these properties as long-term investments rather than temporary rentals, which could significantly improve property retention and condition. By integrating tenant ownership goals into the model, you could attract more stable, committed tenants, reinforcing the portfolio's growth potential.

Ultimately, this structure could address the traditional REIT model's shortcomings by fostering a more invested and responsible tenant base. In providing affordable pathways to homeownership, you build not only a financially viable property portfolio but also a sustainable, engaged community of future homeowners.