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Real Estate in 2010

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The big development in real estate now is the creation of financial derivatives in real estate. Direct ownership of real estate usually requires a large amount of down payment and loan. Those seeking to profit from real estate could instead own shares of corporations or partnerships which own or develop real estate or which own mortgages.

There have long been real estate investment trusts (REITs), corporations which own real estate and distribute their profits as dividends, enabling shareholders to indirectly own real estate. There have long been limited partnerships in real estate, so that one may become a co-owner with limited liability and a share of the real estate gains and tax credits and tax losses. There have been mutual funds which own REITS so that one may diversify in real estate.

It has also been possible to buy option contracts on real estate. An option is a contract to either buy or sell an asset at a particular price during some time interval. For example, there could be an option to buy 1000 ounces of silver at $12 per ounce during the next two months. Such options are bought and sold in financial markets. Before the option expires, one may either sell the option for a gain or loss, or else exercise the option and buy the asset at the "strike price," e.g. the $12.

One can buy options on corporations which develop and own real estate. "Call options" are contracts to buy, and "put options" are contracts to sell shares of stock at some price during some time. So if one expects a decline in the shares of building companies, one can profit from the decline by buying put options on their shares.

There are new derivatives that create more ways to invest, speculate, and hedge on real estate. "Index funds" seek to match the average of some asset class such as real estate. One can then have a financial position on the general average of real estate prices. Such funds include the iShares Dow Jones US Real Estate (IYR) stock, on which one may also buy options. There is also the Vanguard REIT Index (VGSIX) mutual fund.

If you think that overall real estate prices will fall and shares of companies that develop and own real estate will fall as well, then one may buy shares of a bear-market fund, the ProFunds Short Real Estate fund (SRPIX), which performs as the inverse of the Dow Jones U.S. Real Estate index. Real estate futures contracts now enable one to hedge against a decrease in prices by selling short, based on the new home price index developed by Karl Case and Robert Shiller. The Hedge Street company offers "hedgelets" in which one may hedge or speculate on near-term housing prices in several cities.

Fast forward to 2020. You are living in a house in the City of Santa Clara, California. You do not own the house, but instead own a perpetual leasehold from the Santa Clara House Leasing Partnership. That company holds the legal title to the real estate, but only handles the leasing to tenants and the property tax payments. The Santa Clara Land Rent Trust has a contract with the House Leasing Company to collect the land rents and distribute the rents as dividends to its share holders. The Santa Clara Land Value Company holds call options on the land the house sits on, so that any gain in site value goes to that firm and its share holders.

The house building and other improvements are owned by the Santa Clara Improvements Partnership, which owns partnership shares in Leasing Partnerships, and whose members share in the depreciation of the buildings. So one may own shares in a company that gets land rent, and offset the income with losses from shares of depreciation, and then get gains in land value by owning shares of the Land Value Company.

Mortgages on real estate are now obsolete. After the great crash of October 2008, when billions of dollars of mortgages went into default, ruining banks and other financial firms, nobody wants to hold real estate mortgages any more. The failure of central banking, which fueled the speculative boom which then collapsed, is now also recognized.

Land is now owned by shareholders of Land Rent Trusts, and buildings are owned by Improvements Partnerships. Each facet of real estate is how held by companies that specialize in that aspect, such as land rent, land appreciation, property leasing, and ownership of buildings. Financial derivatives such as options, futures contracts, and mutual funds, have spread the risks, profits, and tax shelters throughout the economy.

There is now really no difference between taxing rent, interest, dividends, and capital gains, as derivatives have homogenized all these into shares, options, and futures contracts of financial firms. The complexity of income and sales taxes no longer benefits anybody, so these antiquated taxes are scrapped and replaced by a single tapping of site values, along with user fees and charges for congestion and pollution.

Shareholders of Land Value Companies bear the entire burden of this shift, as they have assumed the tax-shift risk, while those holding put options and bear funds on land values gain from the shift. All gains and losses are shifted to derivatives, so that those who gained or lost did so knowingly and willingly.

So that's how site-value tapping replaced all taxation in 2020. There is no more business cycle and no more depressions. Now, if we could only rid of those nano-viruses and cyber-terrorists, we would have a happy world!