

Chapter 1 Introduction

Real estate is man's single most expensive requirement in life, and purchasing this asset requires the savings of many years of labour. Real estate can be used as both a habitat and a livelihood.

In addition to the economic value of a man's house, there is also an emotional value attached to it. The instinct to guard one's own territory is a basic instinct that applies to fish, amphibians, reptiles, birds and mammals. Similar to the instinct in animals, the territorial instinct is the strongest of man's instincts, and he is ready to sacrifice his own life in protection of his territory.¹

As recently as 10,000 years ago, people gathered into small Neolithic settlements. There were from five to 10 million human beings then - not enough to exercise much influence on the ecosystem within which they lived and worked. That situation prevailed for the most of the next 10,000 years. Only in the last few decades have humans brought about changes comparable in magnitude to those wrought by nature during long epochs of geological time.²

The complex of developments in stone tool technology, food production and storage, and social organization that is often characterized as the Neolithic

¹ Ardrey, Robert. African Genesis A Personal Investigation into the Animal Origins and Nature of Man, Dell Publishing, 1961.

² Keyfitz, Nathan. "The Growing Human Population", in Managing Planet Earth: readings from Scientific American magazine, W. H. Freeman and Company, New York, 1990, p. 61. See chapter 3.4.

revolution was in progress in China by at least the 6th millennium BC. Developments in the Chinese Neolithic were to establish some of the major cultural dimensions of the subsequent Bronze Age.³

The perpetual growth in the world's population⁴ decreases the amount of land per person⁵ and, as a result, increases the value of the existing land. Today, more man-hours are required to purchase an average apartment, or house. The process of increasing the value of land is destined to continue as long as there is an increase in the number of consumers interested in purchasing a "product" which is impossible to create - *Land*. The phenomenon of continuous growth in the value of land is especially true in cities, although there is also an influence on the value of land in outlying areas, where there is more available land to be populated.

The trend of growing population leaves less land per person and causes elevation prices of land. Since the industrial revolution people move from the country to the cities, and it causes the trend of the high prices of the land in the growing cities. I discuss these trends through the history of man and land.

³ Encyclopaedia Britannica, China, history, prehistory, Neolithic period, <http://www.britannica.com/eb/article?eu=127710&tocid=71613>. It is now thought that the first human inhabitants of Asia migrated into the continent from Africa at least one million years ago. The earliest traces of human activity in Asia are associated with the Homo erectus fossils found at Zhoukoudian near Peking. Encyclopaedia Britannica, Asian people, <http://www.britannica.com/eb/article?eu=118213&tocid=65114>

⁴ In 1998 the population was 6,000,000,000 while only 200 years ago the population was about 600,000,000. U.S.A Census Bureau - The official statistics, data of historical population in the world, <http://www.census.gov/ipc/www/worldhis.html>

⁵ "Having developed technologies that transformed the earth, humankind now wonders about whether the planet and its resources can continue to sustain life. But the author sees that several modern technological trends are leading us toward a better, not worse, environmental future. He notes that we are using energy and land with increasing efficiency, and suggests that these trends may make human existence, even with population growth, less of a burden to the planet in the next century--if rapid growth in personal consumption and waste can be contained." Jesse, Ausubel H. "Can Technology Spare the Earth?", in American Scientist, March-April 1996, Volume 84, No. 2. <http://www.amsci.org/amsci/Articles/96Articles/Ausubel.html>

1.1 The Burden of Taxes on Real Estate

The ownership of real estate, the various uses of property, and the profit resulting from the sale of real property was utilized in history as a "good excuse" to draw taxes by a ruler on his subjects.

In ancient Egypt, a tax of 20% was imposed on the crops.⁶ In ancient Greece in the 5th century BC a tax was imposed on selling of real estate.⁷ As the burden of different types of taxes grew, the efforts of the taxpayer and his consultants looking for tax shelters increased.

In 1918, Joseph Schumpeter⁸ observed, "The fiscal history of a people is above all an essential part of its general history. An enormous influence on the fate of nations emanates from the economic bleeding which the needs of the states necessitates, and from the use to which its results are put... The spirit of a people, its cultural level, its social structure... all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anyone else."

Other scholars have argued that the burden and harm of taxation have been even worse than war and conquest. English classical economist Nassau Senior⁹ stated in the 1840s, "Arbitrary taxation, in despotism to supply the wants of the ruler, in aristocracies and in oligarchies to supply the state, is perhaps still more destructive to providence than even war. The presence of the foreign enemy is occasional and local, that of the tax-gatherer is universal and perpetual. The one can be resisted, the other can be only eluded."

⁶ Genesis, chap. 47, par. 24. "And it shall come to pass at harvest times, that you shall give the fifth part to Pharaoh, and four parts shall be your own, for seed of the field, and for your food, and for them of your households, and for food for your little ones."

The word *Fiefdom* in English is derived from this Biblical example of 20% (one - *fifth*) of a serf's land production being a compulsory payment to the landlord or king.

⁷ Fuks, Alexander. The Athenian Commonwealth, Politics Society Culture, Hebrew edition, Mosad Bialik, Jerusalem 1964, p. 77.

⁸ Joseph Alois Schumpeter, Feb. 8, 1883 - Jan. 8, 1950, a Moravian-born American economist and sociologist known for his theories of capitalist development and business cycles.

⁹ Nassau Senior, September 26, 1790 - June 4, 1864, was a British classical economist who influenced the political and economic policies of his days.

It has also been insisted that by taxing the wealth and property of those who are the producers of any society the state merely succeeds in creating a class of non-producers who live off what others have produced and bringing into existence a category of wasteful expenditures for the goods these non-producers consume.

"I conclude," said American economist Thomas Cooper¹⁰ in 1830, "that taxation increases the number of unproductive consumers, and the amount of unproductive consumption; and tends, not to enrich, but to impoverish a nation. Hence, as taxes are an evil, the fewer we have of them, and the smaller the amount, the better."

The distinction between those who pay taxes out of their productive efforts and those who consume the wealth of those others was never made more clearly than by the 19th century American statesman John C. Calhoun.¹¹ Calhoun explained that "the unequal fiscal action of the government... divides the community into two great classes: one consisting of those who, in reality, pay the taxes and, of course, bear exclusively the burden of supporting the government; and the other, of those who are the recipients of their proceeds through disbursements, and who are, in fact, supported by the government; or, in fewer words, to divide it into taxpayers and tax-consumers."

The modern economy since the industrial revolution and the need for sophisticated systems of selling goods developed the theory of marketing. This theory deals with the analysis of -

- a. The needs, wants and demands of consumers;
- b. The choice of products - goods, services and ideas;
- c. The understanding of the subjective value that a specific product or service has in the eyes of a specific consumer;
- d. The price of the product and the satisfaction gained by the consumer;
- e. The buying patterns of the product - selling and barter methods;

¹⁰ Thomas Cooper, March 20, 1805 - July 15, 1892, an English writer whose political epic the purgatory of suicide promulgated in verse the principles of Charism, Britain's first specifically working-class national movement, for which Cooper worked and suffered imprisonment.

¹¹ John C. Calhoun, March 18, 1782 - March 31, 1850, an American political leader who was a congressman, secretary of war, seventh vice president (1825-32), senator, and secretary of state. He championed states' rights and slavery and was a symbol of the Old South.

- f. The development of long term relationships with suppliers, marketers, point-of-sale and consumers; and
- g. The study of different market factors, the forecast of market trends, and the preparation of the marketing foundation according to these trends.¹²

Because this thesis focuses on the marketing of real estate, I found it appropriate to apply the general marketing definitions to the special nature of this "product".

The rise and fall of civilizations is caused by the kinds of taxes levied and the means used to collect them. Rome fell because the egalitarian tax reforms of Emperor Julian were weakened and finally overturned by his greedy, arbitrary successors.

The Moslem hordes of the Middle Ages are seen as mild-mannered revenue agents, which explains why Islam spread so widely before the world's first excise tax unhinged its empire.

Enlightenment thinkers equated liberty with tax consent and defined tax freedom as a "natural right": The American Revolution codified that strain of thought.

"Will we end up as citizen-serf-taxpayers like the later Romans? The current direction of our tax system's penal laws and spying devices makes this a possibility. We can find ourselves shackled to a kind of neo-serfdom to the modern fiscus. If that happens, then the struggle between democracies and dictatorships will enter a new phase in which the choice will be not liberty or bondage but, rather, which kind of bureaucratic bondage."¹³

Even when governments have instituted tax regimes that did not originally completely suppress all incentives for work, saving and investment, the fact is that the systems have always degenerated into exactly that - engines for economic stagnation and decay. The only times when governments have, in general, pulled back and lightened the burden and the pervasiveness of its tax regimes were when they were under threat or actualized revolts of the taxpayers.

¹² See definition of "marketing" in paragraph 2.1

¹³ Adams, Charles; Rabushka, Alvin. For Good and Evil: The Impact of Taxes on the Course of Civilization. New York: Madison Books, 1993.

Even in these situations, often the lifting of the tax burdens and the moderating of the methods of enforcement have been more an illusion than reality. From the beginning of recorded history, governments have used the same methods of enforcement that dominates our own time: spying, audits of tax records, imprisonment and confiscation of property for failure of proper payment, lies, and deceptions.

Since the 18th century, when governments have become increasingly democratic and supposedly a reflection of the will of the people, those governments have continued to impose increasingly higher taxes. The key to understanding this phenomenon is the myth of democratic government. Since under democracy, the people are supposed to rule themselves through the representatives they elect, there is the belief that government can never be oppressive, because the people cannot oppress themselves. But "the people" never rule, even in a democracy. It is always a coalition of groups who elect those who hold office, and a primary purpose of forming such coalitions is to obtain financial support from the state for various purposes at the expense of others in the society who are made to pay for them. Our leaders claim that big governments and big spending ought to solve the world's problems.

1.2 Methodology

The first phase of this research was the investigation of three different fields: marketing, land, and taxation.

Marketing is a modern science, that developed mainly in the 20th century. The need for marketing attitude evolved after the world faced a new phenomenon in the human history - over productivity. Before the industrial revolution the main market was an agriculture domestic market where peasants or merchants sold mainly food and craftsman offered their skills. There existed an unsophisticated competition but merely a need for strategic marketing methods.

Land is a most powerful factor in human life. It is driven by instincts to have a territory and to guard it. During the history land and territory were the main reason for wars. The use of land has two main categories - private ownership, and feudal regime (especially in rural land) where a vast country belongs to few families and

peasants who are practically slaves.

Taxation is an ancient phenomenon with modern trends. The modern democratic regimes impose taxes preaching similar excuses to their subjects as counts and dukes preached to their vassals and the chief preached to his fellow caveman, "it is necessary for the community and I have the power to collect it".

The second phase of this thesis is to merge these three different fields into untraditional strategies of marketing of real estate.

The trend of a growing population leaves less land per person. Since the industrial revolution people move from the country to the growing cities. I discuss these trends through the history of man and land.

1.2.1 Statement of the Issue

Marketing of real estate has its traditional methods - advertising, adjusting market price, finding segment markets etc. While doing so, the competitive market uses the same traditional techniques.

1.2.2 Purpose of the Research

This research is designed to provide entrepreneurs and contractors untraditional methods to improve their prospects of marketing in the competitive market.

1.2.3 Basic Premises of the Research

The Competitive Bidding Pack - Imagine a pack of wolves hunting for prey. The pack may run very close together or spread out over a significant distance. As they hunt, the leader of the pack changes frequently. Sometimes, being the leader has its advantages. If the pack encounters a small rabbit, the leader will be able to catch the rabbit for itself, regardless of the distribution of the pack. However, if they encounter a bear while spread out, the leader is probably going to die before help arrives. Obviously, the optimum position for any one wolf is to be the first in line for lunch without running so far ahead of the rest of the pack. The leaders of the pack will be the aggressive wolves, who are hungry and willing to take the risk

of leading. Other wolves may tend to be apathetic about hunting and disinterested in leading the pack.

A group of entrepreneurs and contractors, who bid competitively for marketing their real estate, can be similar to the pack of wolves. They are hunting for the customer in a hostile environment. Like the lead wolf, the lead entrepreneur or contractor needs to optimize his position, offering lower prices to sell his building but not offering much lower than his closest competitor. To find the optimum position, the contractor must take into account how hungry/aggressive, or how satiated/disinterested, the other entrepreneurs or contractors are.

The Pack Price - The usual approach for marketing in a competitive market is the concept of the "pack price". The pack price is defined as the lower of the two bids that are closest together. The pack price is the price upon which two, independent, equally informed, competitive entrepreneurs or contractors came closest to selling their building.

The pack price marks the division point between the aggressive contractors, who will bid lower than the pack price, and the disinterested contractors, who will tend to bid more than the pack price. The pack price can be defined as the break point between the aggressive bidders and the disinterested bidders. Thus, the pack price should reveal what the price of the building would be if there were no aggressive bidders desperately trying to beat everyone else and if there were not disinterested bidders purposely bidding high.

The Emotional Approach - The backbone of this research is the concept of the emotional approach of the customer of real estate. The emotional approach to buying and owning real estate assets will be presented in this research.

One may expect that his competitors will not use the untraditional methods he uses. The hypothesis of this research is that using those methods will submit a unique advantage in the competitive market.

This research does not intend to underestimate the traditional methods of real estate marketing, it merely presents untraditional methods to handle this issue.

Taxation and Real Estate - In order to understand the significance of taxes in real estate buying, selling and owning process, I describe the essence of taxes and the

various compulsory payments imposed on land and buildings in the history and nowadays. The target customers (market) are those who prefer to buy real estate and enjoy the benefit of tax shelters and anonymity. The target product should be adjusted to this target market.

The purchase of real estate, when the profit from the sale is tax-free is known to only a small stratum of sophisticated investors, assisted by lawyers and consultants specializing in this area. This know-how is not accessible to the majority of the population who is used to investing in real estate and paying taxes on their profit at the time of sale.

The marketing of real estate through the incentive of tax shelters is aimed at this large stratum of the population. There is an inherited resistance to pay taxes to the rulers - kings or democratic governments, without breaching the law.

The **first premise** is that the consumer, who wants to buy real estate assets, will prefer to do so in a way that allows him to enjoy capital gains without sharing it with the Treasury and to enjoy various economic benefits.

The ownership of real estate is registered in the land registry bureau. The registry is open to the public and the procedure of the registration process is rigid. The **second premise** is that this common method does not have the benefits of selling shares in a "real estate association".¹⁴

1.2.4 Benefits of the Research

The main benefit of the successful completion of this research is to enable entrepreneurs and contractors to better understand the mental state of mind of the customer of real estate. As a result, the entrepreneur may be able to require a unique advantage in marketing real estate based on a new understanding of the impact of emotional reasons involved in the process of buying a residence for dwelling, offices, shops or any other asset. This would give him one more piece of information to use to improve his marketing strategies.

He may find that his probability of marketing similar real estate assets at the same

¹⁴ See definition of "real estate association" in paragraph 6.1

price as his competitors is much higher by offering his customers tax shelters and/or anonymity.

1.2.5 Summary

This thesis discusses two marketing methods for real property via two tax shelters anonymity and economic benefits: the sale of shares in a real estate association, and barter-transaction in real property. The goal is to enable unconventional methods of marketing.

The possibility of enjoying a tax-free profit and economic benefits on one hand, and the anonymity of ownership over real estate as well as simplicity of the registration process of ownership on the other hand, are presented as the main incentives for the potential buyer.

1.3 Epistemology

The real estate market is a traditional one, and most of the transactions are performed in the same legal way as hundreds of years ago. Upon this traditional transactions the legislators imposed traditional taxes that are almost impossible to reduce or avoid.

The traditional method of land registration reveals the identity of the owner. When somebody prefers to stay anonymous, he might register an association, i.e. offshore company, and buy property via this association.

The issue of untraditional methods of real estate marketing fascinated me for many years. Since I could not find books or references dealing with these methods, I found it important to try to clarify its advantages as I see it.

The starting point is to dismantle between buying, selling and owning real property and the legal and personal outcome lies in abandoning the traditional methods of dealing and owning.

The method to dismantle the traditional linkage between selling and buying real property and taxes imposed on it lies in the untraditional methods of performing sales as it was described above. Marketing of real property via pre-registered real

estate association (REA) may create various tax shelters as well as anonymity.

Using these methods creates an edge in marketing real property by offering tax shelter and anonymity as well as other economic and personal advantages to both parties - sellers and buyers. This unconventional marketing does not need to compete with others performing the traditional deals in the various real estate markets.