THE REALITY OF REAL ESTATE IN THE METAVERSE

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The Metaverse - the internet's new favorite buzzword. Future concepts are taking off faster than many can comprehend, with new forms of communication and the blurring line between virtual reality and real life. A lot of dollars and marketing hype have poured into the ides of the metaverse. But what does the metaverse mean? Does it even exist? This article discusses everything you need to know.

WHAT IS THE "METAVERSE"?

Metaverse was first coined in 1992 in a science fiction novel, used to depict a virtual reality environment with realistic 3D buildings and lifelike avatars. Several milestones and developments have been accomplished toward the metaverse known today, incorporating various elements from augmented reality (AR), virtual reality (VR), 3D holographic avatars, and more. The metaverse is evolving into a digital universe where users can work, play, and socialize with friends and peers through concerts, conferences, virtual trips, and more. The metaverse is a virtual universe made up of various platforms running on blockchain. Blockchain is a digital ledger that contains a growing list of records, or blocks, interconnected using cryptography techniques. Currently, the metaverse can be accessed through VR headsets, AR glasses, apps, or simply through a computer screen. Though it is described as "the metaverse," there is no singular metaverse as each platform hosts its own metaverse, which is accessed through separate VR apps and does not interact with each other.

Tech giant Meta, formerly Facebook, has been exceptionally bullish on the metaverse, making significant investments in VR. Other major companies, such as Microsoft, are also investing in the space via its Microsoft Mesh platform, which has extended development to reality applications and holograms. Gaming companies, Epic Games, Roblox, and Minecraft, are equally invested in the metaverse, creating alternate realities and hosting virtual concerts with performers such as Ariana Grande, Travis Scott, and Lil Nas X. With gaming companies and tech companies alike showing strong interest in the metaverse, the future possibilities are unlimited.

The gaming industry is the most comparable industry to the metaverse and tends to evolve along with technological development. Therefore the metaverse may feel and act like a video game. According to The Wall Street Journal, people spend north of $80 billion annually on virtual goods in video games. These players will be rewarded with cryptocurrency that can be traded on and off-platform in the metaverse.

The global pandemic further stressed the importance of online experiences. In fact, Gen Z no longer sees it necessary to attend conferences or shows in person, as live streaming and online platforms have allowed them to participate in the comfort and safety of their home. The upcoming generation, Generation Alpha, will be the third generation of digital native people, and they will have completely new and different experiences in how they consume things. Generation Alpha will be the most technologically advanced generation to date, standing as the most materially endowed generation of all time. As such, AI and robotics are predicted to be completely integrated into modern life by 2025, along with machine learning, natural language processing, and new smart devices that will change, improve, and further connect the world.

HOW IS VIRTUAL LAND VALUED?

Dozens of platforms are already selling real estate in the metaverse, and several new ones pop up weekly. The biggest concern among investors is how to go about assessing the value and risk of an asset with an unpredictable future and lack of scarcity.

"THE COMPARISON BETWEEN PHYSICAL AND VIRTUAL REAL ESTATE IS SKIN-DEEP AT BEST. PHYSICAL REAL ESTATE IS VALUABLE BECAUSE IT IS SCARCE, AND ITS VALUE IS LARGELY DETERMINED BY ITS PROXIMITY TO OTHER RESOURCES, AS DETERMINED BY FUNDAMENTAL, UNIVERSAL LAWS. IN THE VIRTUAL SPACE, SCARCITY AND PROXIMITY ARE ARBITRARY AND ARTIFICIALLY IMPOSED. THAT DISTINCTION IS CRITICAL, AND INVESTORS SHOULD NOT EXPECT THE MARKETS TO BEHAVE SIMILARLY, DESPITE THEIR SUPERFICIAL RESEMBLANCE."

– Sean Clancy, Matthews™ Chief Technology Officer

For users, these parcels of land, or pixels, are intended to be something that can be built yourself and earn income by playing games or selling products. Brands are given the opportunity to break free of profiles and pages and create something more interactive. The global market for goods and services in the metaverse is projected to be worth $1 trillion by the digital currency investor Grayscale.

Sales have been primarily concentrated in four major user-generated virtual platforms: Sandbox, Decentraland, Cryptovoxels, and Somnium (dubbed the "Big Four"). These four platforms alone have a total of 268,645 parcels, all varying in size. Each parcel within these major community platforms currently costs roughly around $15,000, on average. According to Republic Realm, Sandbox is worth $5 billion and reigns in available land, accounting for 62 percent of land among all four platforms and three-quarters of all land sales in 2022. Sandbox's parcels are 96 meters by 96 meters, selling for $12,700 each. In December, they sold 166,464 parcels.

While there is no immediate benefit to buying virtual land in the metaverse, the potential return on investment has piqued the interest of thousands of investors. The concept functions similarly to a non-fungible token (NFT), where you own the digital asset, and anyone can verify its authenticity since it exists on the blockchain. The virtual land can be sold later as it appreciates or can be rented out. In order to buy real estate in the metaverse, a user must have a digital crypto wallet. After selecting the desired platform to purchase the land, the user must verify if the wallet supports the cryptocurrency.

Simply put, Metcalfe's Law states that the value of a network will be dictated by its number of connected users. This is an important metric to track relating to adoption that creates value and can lead to additional uses for a network (and more adoption, thus more value) based on the intended uses and functionality.

"FROM AN INVESTMENT PERSPECTIVE, THE METAVERSE DRAWS ATTENTION BECAUSE AS THE POPULARITY OF A DIGITAL WORLD GROWS, THE OPPORTUNITY TO MONETIZE OWNERSHIP WITHIN THIS WORLD BECOMES MORE REAL DUE TO NETWORK EFFECTS DEFINED BY METCALFE'S LAW.

AS THE DIGITAL LAND IS PURCHASED, IT CAN BE USED TO GENERATE INCOME BY LEASING OUT SPACE OR GENERATING ADVERTISING REVENUE. IN THE FUTURE, THERE WILL BE AN OPPORTUNITY TO ADD VALUE TO OWNERS OF THE SPACE AS WELL AS TO POTENTIAL BUYERS AND USERS THROUGH EVALUATING THE SUPPLY AND DEMAND TO DETERMINE THE VALUE AND MAKING A MARKET FOR THESE BUYERS AND USERS TO PURCHASE A PARCEL OR LEASE SPACE FOR THEIR BUSINESS. SO, WE ARE PAYING ATTENTION BECAUSE THE SPACE IS STILL IN ITS INFANCY AND THERE IS TREMENDOUS OPPORTUNITY TO CAPITALIZE ON FUTURE GROWTH THROUGH UNDERSTANDING AND OWNERSHIP."

– David Harrington, Matthews™ Executive Vice President & Managing Director

With the ability to teleport anywhere, location isn't much of a focal point in the metaverse. Real estate values are determined by what owners create, such as a significant attraction, museum, or feature. While some investors believe location doesn't play as big of a factor, others still believe location matters – parcels of space near Snoop Dogg's upcoming virtual world in Sandbox are bidding at premium prices. This indicates the possibility that location may play a prominent factor in the future when things are more established and built out in the metaverse.

INVESTORS IN THE METAVERSE

Goldman Sachs and Morgan Stanley reported they see opportunity within the virtual space, valued at $8 trillion. In a recently conducted survey by Bisnow, 21 percent of respondents seriously consider investing in the metaverse, and 6.5 percent have already done so. What's interesting about renting out space in cyberspace is that investors don't have to be part of a virtual real estate trust to become a landlord in the metaverse. Investors can easily buy parcels on platforms and rent them out to users or companies. For years, this has been successful for users in platforms like Second Life, where most of the real estate listed on its marketplace is for rent. Companies are increasingly migrating to the metaverse to diversify their presence.

There are several benefits to being a metaverse landlord. For starters, tenants are easier to find. Beyond virtual houses and apartments, users can create virtual malls, offices, or event spaces and rent out real commercial venues. Early adopters are moving to the virtual world where 3D avatars of employees can interact with one another and collaborate on projects in buildings or locations. Sandbox sees virtual real estate development companies spend millions to enter the space, such as Republic Realm, which spent a record $4.3 million on a parcel of virtual land. Seeing significant growth opportunities in the metaverse, real estate giant Jamestown has paired with Digital Currency Group to recreate One Times Square in another platform, Decentraland.

MOVES IN THE METAVERSE

In terms of real estate, sales topped $500 million in the metaverse in 2021, according to MetaMetric Solutions. In November 2021, Facebook announced its rebranding to Meta to become a metaverse company dedicated to the future. During that same month, real estate sales in the metaverse catapulted and surged ninefold to $133 million.

On Decentraland, investors have seen some parcels trade for 150 percent of their purchase price from months before. The average price for virtual land parcels doubled in the second half of 2021 alone, with JPMorgan reporting a digital parcel costing $6,000 in June 2021 and increased to $12,000 by December. Investors and analytics firms predict sales to double in 2022. In January alone, sales reached $85 million. BrandEssence Market Research expects the metaverse real estate market to grow at a compound annual rate of 31 percent from 2022 to 2028.

The first tokenized real estate investment trust in the metaverse, MetaSpace Real Estate Investment Trust (MREIT), launched in December 2021. MREIT focuses on buying, leasing, and minting (creating) virtual real estate in the metaverse and links profits to token holders through smart contracts. These smart contracts are programs stored on a blockchain that run when predetermined conditions are met.

In January, an undisclosed venture capital firm took out the first mortgage in the virtual world, acquiring two parcels in Decentraland. The deal is financed for $30,000 by TerraZero, a Canadian technology firm founded last year to capitalize on the incredible demand for real estate in the metaverse. TerraZero's mortgage platform involves the firm acquiring parcels and creating monthly loan payments while the borrower occupies and operates the parcel, all the while, TerraZero holds the NFT until it is paid back.

Following the news of the first mortgage in the metaverse, JPMorgan and BlackRock have taken an interest in business and investment opportunities in the immersive digital world. Already, JPMorgan has launched a virtual lounge in the metaverse. In a recently released report, JPMorgan explains how to capitalize on moneymaking opportunities within the virtual community, and digital real estate is among them.

Tokens.com CEO, Andrew Kiguel, has raised $16 million to invest in metaverse real estate, allocating funds to hiring staff and buying land. It recently acquired a 116-parcel estate in Decentraland with 618,000 mana, a cryptocurrency worth the equivalent of $2.4 million. The Toronto-based company has announced deals involving renting space on his property to two North American apparel brands to create storefronts and experiences. Kiguel claims the real opportunity in the metaverse is in utilizing space to host company events and advertise to a younger digital audience.

Other investors remain hesitant to put any money into the metaverse with concerns that these projects may not produce fruitful results and coining it a "3D Zoom conference." They believe that real land has natural scarcity, while virtual land can be easily generated by code, with no limit to the number of new metaverse platforms that can launch. Additionally, the metaverse doesn't have the same due diligence process as physical real estate. There are no rules or regulations for undertaking due diligence to verify that an asset exists or that a token represents ownership.

No matter the concerns, the real estate market is growing in the metaverse, being traded before any features or buildings are even developed. Pricing for virtual land is hastily increasing and soon will no longer be affordable. **Investors who see the metaverse's appeal and business potential are placing more value and interest in virtual real estate.** The outlook for metaverse real estate is substantial and will play an evolutionary role in the industry.

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