

Metaverse: real estate

by Jackson Franks

The largest ever land acquisition took place towards the end of last year; it's value: US\$2,400,000. You may be thinking I'm missing a few zeros here, but what I haven't yet mentioned is that this transaction does not relate to the real world but instead refers to Tokens.com's purchase within the metaverse.

In November last year, Tokens.com's subsidiary, Metaverse Group, paid more than US\$2.4m for a plot of virtual land in the fashion district of Decentraland, one of several growing platforms within the metaverse. Although this amount may seem obscene to many readers (including myself), the more eye-catching fact here is that it accounted for less than 50bps of real estate sales within the metaverse for 2021.

According to MetaMetric Solutions, real estate sales on the four major metaverse platforms reached \$501m for 2021, a trend which is set to continue in 2022 with sales forecasted to be \$1bn. In January alone, sales topped US\$85m with one person spending US\$450,000 to be Snoop Dogg's neighbour in the Snoopverse district of The Sandbox, another platform within the metaverse. With a substantial amount being invested in 2021 and real estate sales anticipated to double this year, more attention to the space is warranted, but firstly, and many readers may be asking, "What exactly is the metaverse?"

The metaverse is an immersive internet experience that lets you replace or complement reality with computerised simulations that strive to be as realistic as possible. Essentially, it's a world of endless, interconnected virtual communities where people can meet, work, and play, using virtual reality headsets, virtual reality glasses, smartphone apps, or other devices. It's the continuation of living but instead of doing so through the real world, it's lived online via your created avatar, i.e. your digital self.

However, the metaverse isn't just one virtual world but instead is made up of different platforms.

An infinite number of platforms within the metaverse can be created and large tech names such as Meta (Facebook), Microsoft, Epic Games, Apple (and over 160 more companies) are investing billions of dollars to build their own platform that they believe will have the same stature as planet Earth.

So why are investors buying real estate in the metaverse? The investment narrative is similar to that of investing in real estate within the real world. Investors source a location with positive supply and demand dynamics and then purchase land at a price that would enable them to develop an asset at a yield in line with their return profile. However, the risk profiles between real estate in the metaverse vs the real world are chalk and cheese.

There are numerous factors as to why, but the main drivers are (1) infancy of the market, (2) an infinite number of platforms can be created (unlimited supply) and (3) currency risk. As the metaverse is blockchain based, all transactions are implemented in the specified platform's cryptocurrency.

To contextualise the currency risk associated with buying real estate in the metaverse today, the above-mentioned land transaction was implemented in MANA, the cryptocurrency of Decentraland. At the date of payment, the coin rate was US\$3.88 per MANA but has since devalued to US\$2.42 per MANA, a 39% devaluation in the cryptocurrency and therefore a 39% devaluation in your asset. To me, anyone buying land or real estate in the metaverse today are crypto traders not real estate investors.

Although fascinating, I don't see the metaverse replacing the real world anytime soon. The real estate sector continues to advance, and technology continues to adapt the way we think about assets. We are constantly looking for new opportunities to add value for our investors, but as of today, the metaverse is not one.

Sources:
<https://www.tokens.com/metaverse-media>
<https://coinmarketcap.com/currencies/decentraland/>
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