



INVESTING IN THE METAVERSE

Before you read any further, I want you all to pause for a minute to do whatever it is you need to do to have a completely free and open mind—take some deep, mindful breaths, meditate, listen to some music...whatever helps get you to a place where you are completely open to new information and ideas and free of all biases. I am going to be discussing something here that is a bit out there and seems maybe kind of crazy upon first contact. But I've come to believe it represents one of the most interesting real estate investment opportunities in history.

Are you ready?

If you have been paying attention at all to the news these days, you must have heard about these NFT things. A story broke recently about a piece of digital art that sold at a Christie's auction for a seemingly incredible \$69.4M. Then there was the NFT of the first tweet ever on Twitter that sold for \$2.9M. Even Snoop Dogg got into the action selling a series of NFT's on Crypto.com called (of course) "A Journey with Dogg." And from what I can tell this has already produced hundreds of thousands if not millions for Snoop. Clearly, there is something interesting going-on here.

Is this yet more proof that we are in the late stages of the greatest speculative bubble of all time? Have people just gone crazy? Or is there something else going-on? Is there something real to this?

When I first heard about these high-profile NFT sales my first reaction was extreme skepticism. I love and appreciate art so I've never really been bothered by extreme valuations for paintings or sculptures and the like. In an important sense, some of these works of art are indeed priceless. But something that can be copied instantaneously, over and over, essentially for free...how does that make any sense?

For a while, I instinctively dismissed NFTs as a passing fad, an early sign of the new Roaring 20's. But the dollar figures involved here were so substantial that I decided to put aside my biases

*The Mars House
designed by
Krista Kim—
sold for \$512K
in March 2021
on NFT site
SuperRare.*

for a minute, suspend my disbelief and try to understand what's really going on with NFTs. What I discovered is that there is this incredible sense of techno-optimism in the world today and, if you can get over some of your preconceived notions, not only can you understand what the NFT's are about, you can also open yourself to a whole new world of opportunities.

As I started researching NFTs, I quickly came across another interesting phenomenon—the world of virtual real estate—and I guess this should come as no surprise but as soon as I figured out virtual real estate everything started to make sense.

Let's talk about virtual real estate. As I was looking into NFTs I came across this story about how the first virtual house—the Mars House designed by Krista Kim—sold for \$512K in March 2021 on NFT site SuperRare. The auction listing describes it like this:

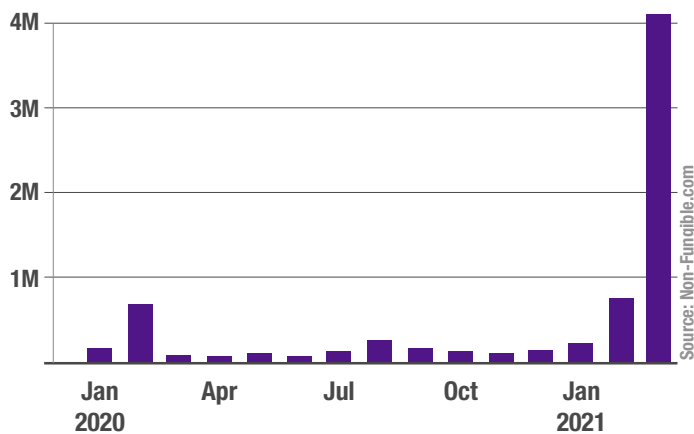
Mars House is the first NFT digital house in the world. Upon purchase of Mars House NFT, 3D files will be sent to the new owner by Krista Kim Studio Inc. for file upload to the owner's Metaverse.

Wait, what? \$500K for this? And what exactly is the "metaverse?"

This is another one that is easy to dismiss. If you do some rudimentary Google searching you will discover there are several online virtual world platforms (essentially video games) where you can buy and sell virtual properties. You'll find that like with NFT's there's a surprising amount of volume in some of these games and "property" values are up 10x and in some cases 100x in the past few months. Check out this chart of property sales in Decentraland, one of the most popular virtual worlds: What's happening here is no joke. And Decentraland is just one of many virtual worlds. There's Superworld, Cryptovoxels, The Sandbox, Upland, Somnium Space, Axie Infinity...

Virtual Real Estate Boom

Monthly Sales Volume of land in Decentraland, in U.S. dollars



Property values seem to be on the rise in all of these. In Decentraland properties trading in 2019 for \$500 are now worth over \$7500. The Sandbox has seen prices rise from \$30 to over \$800. There have even been some really large sales. On Axie Infinity, a collection of parcels sold for \$1.5M just a few months

ago. Decentraland has seen properties trade recently for \$280K and another for \$570K.

Of course, no story like this would be complete without some kind of involvement from a fund. And right on cue, earlier this year a group called Republic Realm launched the world's first digital real estate investment fund. While they've gotten some good press, I'm not sure how much their \$100M target they have actually raised.

Lets take a step back and discuss what these virtual worlds are all about. We'll use Decentraland as our example as it is one of the early movers and seems to be pretty far along. Here's what CoinMarketCap.com has to say about Decentraland:

Decentraland defines itself as a virtual reality platform powered by the Ethereum blockchain that allows users to create, experience, and monetize content and applications. In this virtual world, users purchase plots of land that they can later navigate, build upon and monetize.

And here's some language from the Decentraland homepage:

Welcome to Decentraland

Create, explore and trade in the first-ever virtual world owned by its users.

Lose yourself in an amazing, evolving world

Explore LANDs owned by users to experience incredible scenes and structures. From a space adventure to a medieval dungeon maze to entire villages crafted from the minds of community members.

Test the limits of your imagination

Create scenes, artworks, challenges and more, using the simple Builder tool, then take part in events to win prizes. For more experienced creators, the SDK provides the tools to fill the world with social games and applications.

The virtual destination for digital assets

Buy and sell LAND, Estates, Avatar wearables and names in the Decentraland Marketplace: stocking the very best digital goods and paraphernalia backed by the ethereum blockchain.

So basically what we are talking about here is a kind of video game. It's a game but not an ordinary one that has a pre-determined flow and purpose. It's more open and indeterminate with a social intent—just like physical gathering spaces in a sense.

This whole phenomenon goes back to the idea of the "Metaverse," which first appeared in Neal Stephenson's 1992 sci-fi classic Snow Crash. I haven't read the book but I understand that what happens in the story is that human beings interact with each other as avatars in a digital world that resembles the physical world (just like in The Matrix I'm assuming). The dictionary defines "metaverse" as a virtual-reality space in which users can interact with a computer-generated environment and other users.

Here's what Wikipedia says:

The Metaverse is a collective virtual shared space, created by the convergence of virtually enhanced physical reality and physically persistent virtual space,[1] including the sum of all virtual worlds, augmented reality, and the Internet.

When you hear “video game” I think it’s easy to make the mistake of discounting things. “Oh it’s just a video game.” But don’t forget video games are big business. In 2020, global video game revenues were \$160B. In the US alone, in-game advertising was a \$3B business in 2020. Both are forecasted to grow in the double digits for the foreseeable future. Decentraland itself has about 10,000 daily users and has produced over \$50M in in-game sales over the life of the game. As an investor, these are numbers that you shouldn’t ignore.

Thinking about it as a real estate investor now, I have some questions. Once you own one of these virtual properties, what can you actually do with it? How can you make any money?

The promise of these properties seems to be based upon the same kind of revenue streams that are currently dominating the internet—advertising, ecommerce, gambling, selling tickets for streaming events...

I don’t think you can dismiss the potential here. Take, for instance, the case for advertising revenue. Once you understand what is going-on in these games, it’s easy to imagine a scenario where a piece of a virtual world that gets a lot of foot traffic might look really attractive for companies looking for new ways to find and reach their audience. Like everything on the internet, it’s all about scale. Virtual worlds can offer scale that is just lightyears beyond what is possible in the physical world. Think about this: the foot count on an average (pre-COVID) day at Disneyland was about 50,000. This is about the same count as the number of daily visitors to the Grove here in Los Angeles, one of the very best open air malls in the world. Imagine how many people could be in Decentraland an any given moment. There could be millions. It makes these real world numbers laughable almost.

There’s historical precedence for this kind of activity already. Second Life, one of the first virtual world platforms, has had between 500K-1M daily active users for years now. World of Warcraft, a very popular online role-playing game, has been out for years and still has 5M daily active users. Farmville, one of the

best social games of all time, peaked at 34.5M daily active users. Decentraland already boasts 10,000. You get the point.

There’s even precedence already for streaming opportunities. In 2020, the game Fortnite, perhaps the most popular social game in the world with over 12M daily active users, hosted a series of Travis Scott “concerts” that drew something like 27M attendees. The largest live audiences in history are mere fractions of this.

Already in Decentraland a group of property owners called Decentral Games is working to capitalize on these opportunities. They are running a casino and recently announced a partnership with Amnesia, the most popular nightclub in Ibiza, to host a series of virtual club experiences. They plan to have their most popular DJs perform virtually and make money by selling tickets, merchandise and exclusive access. Sound familiar? They are also doing a deal with Atari to launch a retro virtual arcade and casino.

As investors, I don’t think we can or should ignore this kind of activity. There’s just too much data here and the opportunity too large to ignore or discount away. These are real deals involving real companies and we are just scratching the surface of the potential. Remember, Facebook has 2B users! Capturing just a small percentage of internet foot traffic in one of these virtual worlds can create a very valuable property. This is the epiphany that made me understand why people are interested in NFTs. In the metaverse, these things can be really valuable. The same force that makes you travel to Paris or Amsterdam or the Vatican to see things “in the original” will drive you to the metaverse to see original digital art or engage with exclusive audio and video content. There’s actually something to it.

I’m not ready to buy any NFTs but I do think we can capitalize on this opportunity. I am almost certainly going to buy some virtual parcels. I’m definitely interested in Decentraland but also considering Superworld and some others. It strikes me that the key to success here is the same as with social media or video game businesses. It’s all about figuring out which worlds are going to be the most popular. I am going to consult with some gamer friends and contacts to try to get a better sense of this and will report back what I learn. If you happen to be a big gamer and have some insights or ideas, please reach out to me!

For people interested in getting immediate exposure, you can look at Decentraland’s MANA token. MANA has a \$2B market capitalization already and has gone parabolic recently so be careful!

Decentraland Chart

