IMPERIUM CAPITAL

momentum

Metaverse: real estate

Global Matters Weekly

21 March 2022

– **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.

"Although fascinating, I don't see the metaverse replacing the real world anytime soon."

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/
Momentum Global Investment Management

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The **Marketplace**

- Global equities rose +6.0% last week
- The Fed raised interest rates by 25 basis points ending the near-zero rates of the pandemic era
- Brent crude fell -4.2% over the week to $107.9 a barrel
- Gold returned -3.4% to $1921.6 per ounce

Market **Focus**

US

- US equities rose +6.2% last week
- PPI for February came in at 0.8% month-on-month vs expectations of 0.9% while the numbers ex-Food and Energy increased 0.2% vs expectations of 0.6%
- The Fed raised rates by 25 basis points and communicated a much tighter path of policy to come. Chair Powell signalled quantitative tightening could start as early as May
- Retail sales for February came in at 0.3%, below 0.4% expected
- The NAHB Housing Market Index dipped below consensus in March (79.0 vs 81.0 expected)
- The Philadelphia Fed business outlook survey materially beat expectations, printing at 27.4 vs expectations of 14.5
- Initial jobless claims for the week ending 12 March came in at 214k, slightly below the 220k expected
- Housing starts (1769k vs 1700k expected) and building permits (1859k vs 1850k) also surprised to the upside
- The Empire State Manufacturing Survey for March came in at -11.8 s expectations of +7.0 (readings over zero for the index indicate economic expansion).

Europe

- European equities returned +6.1% last week
- Industrial production was flat for the month of January vs expectations of 0.2%
- February CPI came in at 5.9% year-on-year vs expectations of 5.8%
- German February PPI came in at 25.9% year-on-year vs expectations of 25.5%.

UK

- UK equities returned +3.5% last week
- The BOE hiked rates by 25 basis points, bringing the base rate back to its pre-pandemic level
- The ILO unemployment rate for the three months to January was 3.9% vs expectations of 4.0%.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned +3.5% last week.
- Japanese equities rose +6.1% over the week
- Chinese equities returned +5.1% last week as top economic ministers noted that the government would introduce policies to benefit markets after recent volatility
- China's industrial output rose by more than expected at 7.5% year-on-year in February vs estimates of 4.0%
- Chinese retail sales grew +6.7% year-on-year vs expectations of a 3.0% increase
- The PBOC unexpectedly kept the one-year medium-term lending facility rate at 2.85%, resulting in a net injection of 100bn yuan
- The Bank of Japan kept its interest rate targets unchanged but warned of heightening growth risks emanating from the Russian-Ukraine war
- Japan's national CPI grew 0.9% year-on-year in February.

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Asset Class/Region	Currency	Currency returns			
		Week ending 18 March 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	6.2%	1.9%	-6.1%	15.1%
United Kingdom	GBP	3.5%	-0.4%	2.7%	15.8%
Continental Europe	EUR	6.1%	0.6%	-8.1%	7.3%
Japan	JPY	6.1%	1.8%	-4.1%	-2.9%
Asia Pacific (ex Japan)	USD	4.0%	-1.7%	-7.0%	-14.3%
Australia	AUD	3.3%	4.8%	-0.6%	12.6%
Global	USD	6.0%	1.1%	-6.6%	9.0%
Emerging markets equities					
Emerging Europe	USD	5.6%	-60.0%	-72.1%	-69.4%
Emerging Asia	USD	3.8%	-3.6%	-9.5%	-18.3%
Emerging Latin America	USD	4.0%	5.8%	18.2%	13.8%
BRICs	USD	4.7%	-8.5%	-15.1%	-27.0%
China	USD	5.1%	-8.7%	-15.1%	-36.4%
MENA countries	USD	0.1%	3.9%	11.3%	33.0%
South Africa	USD	2.2%	5.9%	17.0%	8.9%
India	USD	4.9%	2.6%	-2.1%	14.9%
Global emerging markets	USD	3.5%	-4.0%	-8.6%	-14.8%
Bonds					
US Treasuries	USD	-0.8%	-1.2%	-4.4%	-2.2%
US Treasuries (inflation protected)	USD	-1.4%	1.7%	-1.5%	7.1%
US Corporate (investment grade)	USD	0.6%	-1.3%	-7.4%	-3.1%
US High Yield	USD	0.5%	-1.2%	-5.0%	-0.1%
UK Gilts	GBP	0.0%	-1.0%	-6.6%	-4.2%
UK Corporate (investment grade)	GBP	0.4%	-0.8%	-6.7%	-4.9%
Euro Government Bonds	EUR	-0.4%	-0.8%	-4.1%	-5.0%
Euro Corporate (investment grade)	EUR	0.1%	-0.7%	-4.7%	-4.8%
Euro High Yield	EUR	0.7%	-0.5%	-4.6%	-2.7%
Japanese Government	JPY	-0.2%	0.1%	-1.5%	-1.2%
Australian Government	AUD	-0.9%	-1.9%	-4.9%	-4.0%
Global Government Bonds	USD	-0.6%	-1.9%	-5.3%	-6.7%
Global Bonds	USD	-0.2%	-1.8%	-5.9%	-7.1%
Global Convertible Bonds	USD	2.2%	-1.7%	-8.0%	-12.1%
Emerging Market Bonds	USD	3.5%	-4.5%	-14.6%	-13.0%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 18 March 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	2.5%	2.1%	-6.5%	21.6%
Australian Property Securities	AUD	3.5%	1.2%	-8.6%	16.3%
Asia Property Securities	USD	3.5%	0.3%	-0.2%	-11.2%
Global Property Securities	USD	3.0%	1.6%	-5.1%	9.9%
Currencies					
Euro	USD	1.3%	-1.6%	-2.9%	-7.3%
UK Pound Sterling	USD	1.1%	-1.5%	-2.6%	-5.5%
Japanese Yen	USD	-1.6%	-2.8%	-3.5%	-8.5%
Australian Dollar	USD	1.5%	2.8%	1.9%	-4.9%
South African Rand	USD	0.9%	1.7%	6.7%	-1.2%
Swiss Franc	USD	0.1%	-0.5%	-2.3%	-0.6%
Chinese Yuan	USD	-0.3%	-0.7%	-0.1%	2.3%
Commodities & Alternatives					
Commodities	USD	-1.8%	10.0%	25.9%	58.8%
Agricultural Commodities	USD	-0.2%	8.9%	17.2%	46.0%
Oil	USD	-4.2%	10.2%	38.8%	70.6%
Gold	USD	-3.4%	1.7%	5.1%	10.8%
Hedge funds	USD	0.1%	-0.9%	-2.4%	-0.6%

Source: Bloomberg. Past performance is not indicative of future returns

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