

More than half of family offices say their risk tolerance increased after the pandemic and the metaverse could be in their investment path soon. South Korea just invested US\$177 million into the metaverse industry and big companies like Microsoft and Meta already made the plunge.

The metaverse is catching the eyes of all types of investors, including family offices. Clearly, other escapes from reality are not enough, such as social media platforms and streaming services, for example. Now, virtual reality is introduced to the public, and it is presenting some opportunities for investors to receive a predicted high return on investment (ROI).

In this article, we introduce you to the metaverse and why many of the legal and investment concepts should be familiar to real estate investors. In our next insight, we will address the issues virtual offices present in complying with the Americans with Disabilities Act (ADA).

### Introduction

The metaverse is a mix of augmented virtual reality that operates with the help of blockchain functions such as nonfungible tokens (NFTs) and cryptocurrencies.

Think of the metaverse as a universe with several platforms making up the actual virtual planets. These platforms include Decentraland, Sandbox and Mirandus, among others.<sup>1</sup> Current technology aims to develop these digital spaces into reflections of the real world, blurring the lines between physical and virtual reality.

The two biggest platforms, Decentraland and Sandbox, have been headlining recent news for their larger-than-life real estate transactions. Between November 22 and 28, US\$106 million worth of virtual real estate was purchased from just four of the metaverse platforms, with Sandbox raking in US\$86.56 million of this total.

Although we broadly categorize these transactions as real estate, the assets being traded are NFTs. NFTs are one-of-a-kind digital assets that are indivisible and not interchangeable.<sup>2</sup> This correlates to owning a piece of real property where no two are the same.

Additionally, NFTs are managed by digital ledgers called blockchains, much like ownership of real estate is documented in county public records. While deeds contain the legal description of the property you own, NFTs contain metadata that describe the asset they represent.

### How Do You Buy Real Estate?

In Decentraland, as in many other virtual worlds, the transactions are governed by smart contracts. Smart contracts are essentially programs coded into the blockchain that are automated with predetermined conditions. These contracts follow the "If/when ... then" rule. Participants are certain about the outcomes without additional intermediary involvement.

The smart contract template currently on Decentraland is a very simple form that allows users to buy, sell and rent their land. For example, the platform will automatically transfer control of the NFT to the seller once the payment has been processed.

For rentals, the template simply asks for a term, security deposit amount and monthly rental. The tenant will confirm the terms and agree to let the platform automatically pay the landlord with the tenant's crypto wallet connected to their account.

If the wallet has insufficient funds, the platform will terminate all user control ability from the tenant. Each platform has its own cryptocurrency or token that must be used for transactions within the space.

### What Is the Benefit of Virtual Real Estate?

The push for expansion of the digital world was catapulted by [Facebook Inc.](#)'s recent announcement that it was changing its name to Meta. Immediately after this announcement, we saw a flux of virtual events and transactions showcasing the entertainment and business opportunities the metaverse has to offer. These virtual properties can be modified to allow the owner to create, experience and monetize content and applications as they see fit.

The metaverse is essentially a large digital ad space and marketplace for everything from entertainment to fashion. Users can walk into a virtual store and purchase digital goods such as [Nike](#) shoes or a [Gucci](#) purse or even real physical items that will be shipped to their house without ever leaving their couch.

Virtual stadiums and arenas can host concerts and other shows for an admission fee allowing people to socialize virtually while enjoying their favorite artists. Recently, Justin Bieber performed a live, virtual concert on Wave, a virtual entertainment platform<sup>3</sup> that allowed interaction from the fans tuned in.

1 <https://www.polygonalmind.com/blog-posts/metaverse-platform-comparison-virtual-worlds-on-the-blockchain>.

2 <https://www.ndtv.com/business/nfts-cryptocurrency-and-digital-currency-how-do-they-stack-up-against-each-other-2525054#:~:text=The%20primary%20difference%20between%20the.no%20loss%20to%20their%20value>.

3 <https://www.hollywoodreporter.com/business/digital/justin-bieber-virtual-concert-wave-1235044308/>.

[Sotheby's](#) auction house even built a publicly accessible replica of its London headquarters in Decentraland with galleries showcasing digital art for sale as NFTs and a digital avatar of its London commissioner Hans Lomulder to greet other avatars at the virtual door.<sup>4</sup>

As far out as it may seem, these are not new concepts. Video games like Fortnite and Roblox, which offer in-game purchases, have been exceptionally successful for several years now. Fortnite was released in 2017 and generated US\$5.4 billion dollars the following year.<sup>5</sup> With more and more people turning to video games and virtual worlds, it is evident that there is a lot of money to be made.

The metaverse also offers opportunities for companies looking for virtual meeting options to accommodate COVID-19 precautions and increasing number of remote workers. Bill Gates predicts that the metaverse will host most office meetings via personal avatars within the next two to three years.<sup>6</sup>

Companies could build out the virtual space to look exactly like their real office spaces. The 3D digital platforms provide a more interactive space for co-workers to meet and socialize in comparison to the 2D video conferencing platforms most companies currently use.

"We're approaching a threshold where the technology begins to truly replicate the experience of being together in the office," Bill Gates wrote on his personal blog.<sup>7</sup> This creates a big market for commercial leasing in the metaverse.

Another often overlooked benefit to the metaverse is the employment opportunities. People can apply for part- or full-time jobs in Decentraland. Companies are hiring people – and their avatars – to be greeters or casino managers, and for other positions that would customarily be reserved for robots. This allows users or customers to socialize and have real conversations with the virtual employees in hopes that they will return and, of course, spend more money.

Owners of virtual real estate can also capitalize on the supply and demand of each platform. Like a digital monopoly, there are a limited number of parcels with values varying on their location. There are only 166,000 parcels in the Sandbox and 90,601 parcels in Decentraland. Both platforms have confirmed that they are not creating any more land within each realm.

Within Decentraland, there are 39 approved community areas referred to as districts. Each district varies in size and has its own theme such as Vegas City (Gambling District), Fashion Street (Shopping District) and University (Education District). The value of each parcel can vary based on its vicinity to these districts since it is not currently possible to buy or sell any district land.<sup>8</sup>

One of the largest purchases on Decentraland was worth US\$2.4 million for an estate made up of 116 parcels near the Fashion Street area.<sup>9</sup> The market for property near celebrity-owned land is also very hot. An NFT collector recently purchased a large plot of virtual land in the Snoopverse – an area of The Sandbox owned by Snoop Dogg, for US\$450,000 worth of [Ethereum](#). Other notable big names owning property in the Sandbox include Deadmau5, The Walking Dead, Smurfs and Care Bears.<sup>10</sup>

Additional benefits to owning virtual real estate are reduced transaction costs and accelerated closings because there is no need for title insurance, escrows or property taxes.

On the other hand, investing in the metaverse poses several risks that are important to consider. One of the biggest concerns is that the future of the metaverse is uncertain.

The last year has shown how volatile the prices of cryptocurrency can be. This could heavily impact the value of virtual real estate. What we usually see in price changes for real property in a decade can happen overnight in the virtual world.

Another growing concern is the fact that a metaverse property can disappear entirely if the platform fails financially. Members may have voting rights when closure is an option, but if there is no money left to keep the platform running, there is nothing stopping the person paying the bills from simply pulling the plug.<sup>11</sup>

## Where Does Real Estate Law Fit In?

As we see real estate brokers, developers and real estate investment trusts enter the space of the metaverse, there may very well be a need to start incorporating the customs and legal principles of real property law.

On a broader scope, many metaverse investors dive in without reviewing the terms and conditions of each platform. A lawyer can help dissect those agreements to give the investor a better idea of the potential risks in pursuing these investments. For example, the terms of service of The Second Life allow an estate owner to revoke or reclaim land, which can lead to land disputes within that platform.

Another area for improvement in this space is the smart contract forms. Currently, the smart contracts for the sale and leasing of property are limited to monetary obligations and term limitations. It is likely that many of these transactions have underlying contractual agreements in the physical space that govern the logistics of the deal.

However, property owners may be interested in adding additional covenants and restrictions to the smart contract to automatically take away certain control settings in an effort to avoid any tenant operating a business that is either illegal or would otherwise diminish the value of the parcel or community area.

4 <https://www.theartnewspaper.com/2021/06/07/crypto-crazed-sothebys-launches-first-virtual-gallery-in-digital-metaverse-decentraland>.

5 <https://www.statista.com/statistics/1238904/fortnite-revenue-annual/#:~:text=Since%20its%20release%20in%202017,billion%20U.S.%20dollars%20in%202018>.

6 <https://www.cnn.com/2021/12/09/bill-gates-metaverse-will-host-most-virtual-meetings-in-a-few-years.html>.

7 <https://www.gatesnotes.com/About-Bill-Gates/Year-in-Review-2021>.

8 <https://nftplazas.com/decentraland-districts/>.

9 <https://therealdeal.com/2021/11/24/this-2-4m-virtual-land-deal-is-largest-ever-for-digital-real-estate/>.

10 <https://www.rollingstone.com/culture/culture-news/sandbox-decentraland-virtual-land-sales-soar-metaverse-nfts-1267740/amp/>.

11 <https://www.fool.com/real-estate/2021/12/22/3-problems-with-buying-land-in-the-metaverse/>.

There also may be interest in contracting with adjacent property owners to govern the property uses within an area similar to a recorded declaration on title. These are issues that will need to be addressed as each platform becomes more populated.

Financial institutions are taking note of the increased interest in the metaverse with some lenders already offering cryptocurrency loans against equity in virtual real estate.<sup>12</sup> The lenders can take a lien on the parcels by coding into the smart contract an automated reversion of all user controls in the event of default by borrower.

Again, there is likely a need to enter into a separate loan agreement governing the borrower's obligations and restrictions to secure lender's interest and the current value of the virtual property. If the borrower intends to rent out the property, lenders will need a way to access the wallet collecting rent in the event of default. These transactions will likely evolve to become mirror reflections of the physical world and lawyers with real estate finance experience will be crucial to the process.

As the metaverse grows and evolves, the transactions contemplated within will become more complex and complicated. Moving retail, casinos, office space and other everyday activities to virtual platforms will create similar issues faced in the physical world that will require the expertise of lawyers with experience in real estate, finance, employment and intellectual property, among all other types of law.

Because these platforms are so new, the future of their success depends on the collaborative work of all industries. Real estate and intellectual property lawyers will need to work with software developers and coders to create virtual spaces that are up to par with their physical counterpart.

Real estate law will be one of many important pieces to this virtual puzzle and those in this field should be encouraged to familiarize themselves with the blockchain technology, as it may also be the next disrupter of title insurance in the physical world.<sup>13</sup>

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<sup>12</sup> <https://www.fool.com/real-estate/2021/12/28/3-ways-metaverse-mortgages-affect-virtual-real-e/>.

<sup>13</sup> <https://therealdeal.com/national/2021/11/05/could-blockchain-disrupt-title-insurance/amp>.