



Brown's Rants

Week Ending February 5th, 2022

Metaverse: Evolutionary, Not Revolutionary

This week there was a mind-blowing story from CNBC; [Metaverse 'Real Estate' Sales Top \\$500M; Expected to Double This Year](#). Most of this has been concentrated in four platforms, which between them offer over 268,000 "parcels" for purchase. Sandbox is the largest of these and developing one hundred of what it calls "Fantasy Islands." On the first day, these were made available, 90 lots were sold at a price of \$15,000 each. Many of these virtual properties have since been relisted at prices exceeding \$100,000.

As a Gen-Xer, I do vaguely remember a time before the internet. This, of course, is why I read headlines like these with relative disbelief. No doubt that Millennials and Gen-Z have a much easier time in ascribing value to non-tangible, digital goods, and crypto-assets. Proponents of this kind of metaverse investment like to point out that thanks to blockchain, there is "real value" here because while these assets are digital, they are also irreplaceable and scarce.

First, I think it important not to lump all crypto-assets into the same boat. They all operate on the idea of tech-driven scarcity via the immutable blockchain. While they may all share certain characteristics (blockchain technology, a value play based on scarcity, arguably vastly inflated valuations), the world of metaverse real estate vs. NFTs are not quite the same.

Non-fungible token (NFTs) art grew into a [\\$41 billion market in 2021](#). To put this in perspective, that is roughly the size of the GDP of Bahrain. While it can include everything from iconic movie stills from Tarantino movies to [actual forgeries of art masterpieces \(marketed by a master forger\)](#), this market is moving in on the total size of the conventional art market (which is estimated at \$50 billion). Of course, the NFT market will have its high-ticket items, but also offers the possibility for consumers to participate in ways the art market doesn't.

The monumental ramp-up of the NFT market has, of course, fueled speculation as to the opportunity it could present for luxury retailers. In December, Morgan Stanley predicted that the global NFT market for luxury retailers will likely be \$11.3 billion by 2030. Their least optimistic scenario places it at about \$1.6 billion and most optimistic at \$29.3 billion. That last estimate is slightly more than the 2021 GDP of Zimbabwe, primarily for the price of designer skins (different looks or outfits for game player avatars) or

physical products tied to a game and for the cost of potentially reaching a new consumer base.

Now, before I go into my old man, “get off of my lawn,” tirade, let me state I do believe there is something here.

Fortnite game players spent \$293 million on the game in 2020, mostly on in-app purchases of skins or to unlock other gameplay features. Do I envision a world where players may be willing to spend a few hundred dollars to put Air Jordans on their Minecraft avatars or to wear Versace while they drive around shooting things up in Fortnite? Sure, consumers do even crazier things all the time. But it is difficult for me to imagine a pool of consumers in this scenario.

In another article published this past week in RetailWire, [“Is the Metaverse a Bubble Waiting to Pop?”](#) Bernard Arnault, LVMH CEO said, “This is a virtual world. And right now, we are very much in a down-to-earth world. We want the real products, selling for real... We are not interested in selling virtual sneakers for 10 euros.” I happen to agree with Mr. Arnault that there likely is an immense bubble building around all crypto assets, including NFT’s and the Metaverse. But that doesn’t mean there isn’t something there. Before it collapsed, WeWork’s valuation was over \$47 billion. Post-bankruptcy, a \$9 billion valuation makes a whole lot more sense. The question never was the validity of the model. The question was the value.

Here is the thing... there are technologies that arrive fully formed and are instantly revolutionary. Others arrive and are evolutionary before becoming revolutionary. I believe there will be real and lasting changes that come out of the rise of Metaverse real estate, but they will have little to do with what we have seen so far. We continue to speak about the Metaverse as an extension of gaming because that is where it initially is evolving out.

I certainly wouldn’t be surprised if real crossovers between games and brands started happening sooner rather than later. For example, though controversial, the [Grand Theft Auto series](#) is immensely successful (having sold over 355 million copies worldwide). One of the factors behind its success was that it was one of the first major open-world games. In other words, players had the capacity to freely roam virtual landscapes without necessarily following game storylines. This has included the ability to visit stores, restaurants, and casinos that offered games within the game. Could I imagine an edgy brand operating a real store within a game—one where you could buy both actual and virtual tennis shoes? Absolutely, And, in this case, metaverse real estate values within best-selling games might make sense.

But I think we are still looking at it backward. Bringing retail into games and virtual reality. The real opportunity is bringing virtual reality to retail. Specifically, to eCommerce websites that have changed fairly little over the past 20 years. What if when I visit Nordstrom.com, I found myself in a virtual version of their department store complete with sales help (bots or human)?

There are three things that get consumers into a store or a shopping center. They are either going for the value, the convenience, or the experience. It is nearly impossible to offer all three simultaneously. The value offering of eCommerce is currently convenience. But players that manage to turn their eCommerce offerings into both a convenience and an experience will be formidable and disruptive.

But back to the original question of Metaverse real estate... at least as it stands now. Here is my take: real land—especially prime real estate—has actual scarcity—not the artificial scarcity of all these crypto

investments. That is not to say I don't trust the blockchain. There is a compelling case that it may be far [more difficult to get away with creating digital forgeries, for example, with blockchain technologies](#). But the problem with metaverse "real estate" isn't that... it's that the amount of potential Metaverse real estate product is infinite. I may be limited if I really need to buy that parcel on "Vegas Island," but what is to stop countless programmers and competitors from creating "Monte Carlo Island," "Macau Island," even "Reno Island?" Cyberspace is infinite. The problem with Metaverse real estate is that there is no actual scarcity, and it really isn't even artificially scarce like NFTs. So why the frenzy of activity? I think Edward Castronova, professor of media at Indiana University, said it best: "Metaverse land sales are generally a pyramid scheme... The Metaverse is El Dorado for internet startups. They chase it into the jungle and die."

Garrick

Top 10

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[Store of the Future 2022 Edition](#)

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[Kohl's Rejects Buyout Offer; Adopts Plan to Avert Hostile Takeover](#)

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[Signs of Strength in Retail in 2022](#)

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[The Dark Stores in Retail's Future: Prepare to be Ghosted](#)

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[Amazon Increases the Price of Prime to \\$139 Per Year](#)

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[ReCon Will Re-Emerge as ICSC 2022 Las Vegas](#)

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[Valentine's Day Spending to be Second Highest on Record](#)

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[What Luxury Consumers Desire From Physical Retail Stores](#)

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[Coresight: Store Closures Down 65%](#)

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[Losses Mount for Startups Racing to Deliver Groceries Fast and Cheap](#)

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[Strong Jobs Reports Shows Resilience of Economy](#)

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[Hiring Recovery Unexpectedly Surged in January w/467,000 Jobs Added](#)

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[Restaurant Industry Adds 108,000 Jobs in January](#)

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[Why Restaurant Sales Could Stumble This Fall](#)

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[2021's New Normal vs. 2019's Old Normal in Retail](#)

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[Bad Managers, Burnout and Health Fears: Why Record Numbers of Hospitality Workers Are Quitting the Industry for Good](#)

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[Crypto Bros Saved Luxury From 'Common Prosperity'](#)

Bloomberg 2/2

[Millennials Say They'll Never Have Enough Money to Get What They Want Out of Life](#)

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[NRF Chief Economist: Growth Likely to Continue Even as Fed Works to Slow Inflation](#)

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[National Restaurant Association: Restaurant Sales Forecast to Hit \\$898B in 2022](#)

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[A Normal Supply Chain? Unlikely in 2022](#)

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[Four Texas Markets Pace the Country in Retail Recovery](#)

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[Seven Predictions for Atlanta CRE in 2022](#)

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[It's Been a Long, Hard Slog for Suburban Retail, But Things May be Brightening at Last](#)

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[How One Open Air Center's Holiday Pop-Ups Enhanced Leasing Efforts](#)

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[Plan to Repurpose Vacant Retail to Housing Gains Traction](#)

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[Louisville's Oxmor Center Mall Replacing Vacant Retail w/New Office Space](#)

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[How Santa Ana's MainPlace Mall is Recreating Itself to Tackle eCommerce Challenges](#)

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[Lego Discovery Center to Open at Springfield Town Center in Fairfax VA](#)

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[Versace Plots 100 New Stores Globally](#)

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[Parker's Opens on Hilton Head Island](#)

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[Madewell, Interior Define Come to Edina Galleria](#)

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[Old Navy Closes El Paso Location](#)

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[L'Occitane Relocates from Richmond Mall to Richmond Cool Street Neighborhood](#)

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[Chicken Salad Chick Ends 2021 on the Upswing](#)

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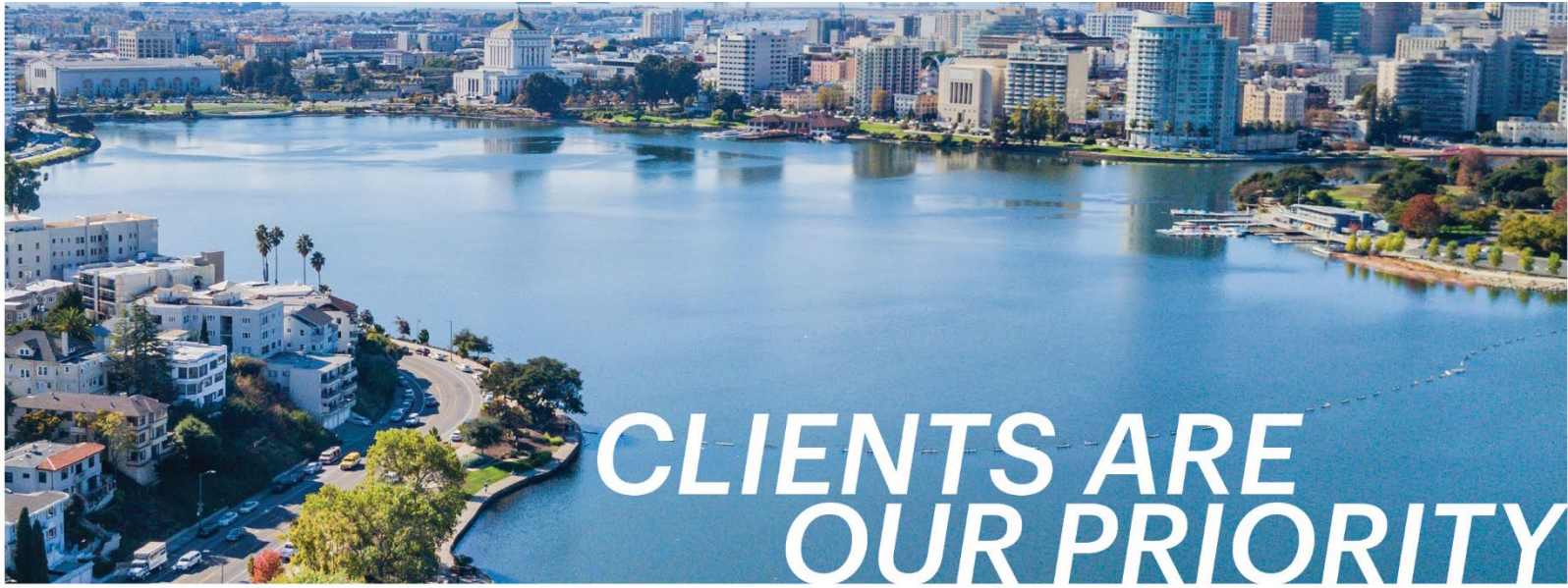
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