

## When Worlds Collide

By John Salustri

When it comes to the metaverse, “Everyone has to chill.” That’s Neil Mandt’s advice for SIOR members. Mandt is CEO of Digital Rights Management in Hollywood, Calif.

Since Facebook founder Mark Zuckerberg uttered the word about two years ago as a rebranding strategy for Facebook, the media has been buzzing with the possibilities of the metaverse, especially as it concerns the creation, buying, and selling of virtual real estate.

But doesn’t a movement driven by such a digital powerhouse as Zuckerberg deserve a little hype? Yes and no. On one hand, “It’s going to be bigger than the internet,” says Mandt, who is also a five-time Emmy award winning producer, “but it’s just starting.” While there are a lot of players in the digital world, it will really belong to “people younger than you and me, digital natives. You and I are anchored to this singular dimensional world.”

Much of the concept’s current cache comes from platforms such as Sandbox and Decentraland, where their virtual real estate valuations have racked up serious transaction money—all in cryptocurrency—by enthusiastic developers, investors, and advertisers. As The Wall Street Journal reported in a 2022 YouTube video, Republic Realm, a virtual developer of real estate, reportedly paid \$4.3 million for Sandbox property, while Tokens.com plunked down \$2.5 million for acreage in Decentraland’s Fashion District.

How the virtual world of real estate trading progresses, of course, remains to be seen. Meanwhile, commercial real estate players face more immediate concerns as worlds, real and virtual, collide.

### A LITTLE INSIGHT

Before exploring the threats facing the real estate community, let’s explore a little background. First off, the current hype is a little ironic since the metaverse, despite its newfound interest, has been kicking around since science fiction writer Neal Stephenson coined the term in *Snow Crash*, a book he wrote back in 1992.

Much of the mystique surrounding the metaverse can be stripped away by calling it what it really is. Simply put, the metaverse is the three-dimensional internet.

“The metaverse has become toxic because people don’t understand it,” says Mandt, hence such claims that it’s just a scam or it’s dead or it’s really not one but numerous worlds, each fashioned by different companies. He predicts the word becoming obsolete, just as “SMS” became “texting.” In reality, it’s a tool that folds into it such currently developing capabilities as Virtual and Augmented Reality (VR/AR) and the Internet of Things (IoT), all of which already have real-world applications in building design, construction and management.

“We can do a 3D Matterport scan of a building's interiors, and you can walk through it,” says San Diego-based SIOR Member Associate Rick Chatham with Lee & Associates. “But we have to separate that technology from the metaverse, which is currently little more than a video game.

“The technology and what we do with it will be crucial,” he continues. “If you're standing in front of a building with your client, they can put on AR glasses and see the changes you want to make, and that's super compelling. Or an architect who hasn't built a building yet can let his or her client walk through the project before it comes out of the ground.” They can also solve design problems before they become problems.

Like all advancing technologies, the medium for entering this 3D world is in the midst of change. Brokers and their clients won't be walking around town with those “goofy” AR goggles, as Steve Weikal, industry chair of MIT's Real Estate Technology Hub in Boston, characterizes them. Neither will they be blinded by their upraised phones like professional versions of Pokémon GO players.

“The market is coming out with smart glasses that don't look goofy and are both functional and look decent,” he says. Providers include, not surprisingly, Google, Meta, Apple, even (logically) Ray-Ban. Weikal envisions a time in the not-too-distant future where the metaverse will be viewed through contact lenses.

## VIRTUAL TRESPASSERS

For all of its buzz, the focus on developing virtual space might be even riskier than doing so in its real-world analog. As The Wall Street Journal indicates, players in that field are exposing themselves to the risks of a site losing popularity (thus killing the value of properties within it) and the much-publicized vagaries of crypto.

But even if you shun the digital world, you ignore the 3D internet at your own risk. We've all heard the horror stories of Pokémon GO players who walked into traffic or trespassed on commercial properties in pursuit of those weird little characters. That could be just the tip of the iceberg.

Take the now-famous 2019 placement of a Game of Thrones dragon atop the iconic Flatiron Building in Manhattan. It was a stunt perpetrated by Snapchat and done “without the landlord's permission,” says Mandt in a promotional video for his firm. He likens the digital rights of a building to air or mineral rights.

For that reason, all three of our speakers advocate for digital rights language in their building contracts and leases. At the very least, such language would go far to stopping interloping advertisers from placing unsolicited (and, for the landlord, non-revenue-producing) virtual advertisements on your building.

“It goes back to basic intellectual property laws and copyrights,” says Chatham. “If someone recreates a building in the metaverse and calls it One Times Square and puts their own advertising on it, that would be the same as if someone did it in a movie, a TV show, or any other medium.”

One Times Square is an interesting choice of examples, since its owner, Jamestown, took a proactive approach to the issue with the building's iconic role as the centerpiece of New Year's Eve.

In a late-2022 statement, the Jamestown folks introduced VNYE—Virtual New Year's Eve—explaining that, “Through the VNYE app and website, people from across the globe can explore the virtual world of Times Square, play games, and livestream New Year's Eve celebrations in Times Square and around the world. The experience will include Wonderama's live family-friendly broadcast and livestreams of New Year's Eve festivities from countries around the world, culminating with the New Year's Eve Ball Drop Celebration in Times Square at midnight.”

It was a preventive strike to preserve digital ownership, something that Weikal suggests for all property players: “Let's be preemptive and work through the legal aspects. At the very least, put companies on notice that you don't want your asset used for a game or unendorsed advertising. As real estate people we need to be defensive.”

He references a tenant who would want to hang a real world advertisement outside the window of a building. “Is there similar language in your lease about digital advertising?” he asks.

What if the virtual ad is for something offensive or, as Mandt points out, an ad with an actor playing a doctor on the side of a medical office facility or “offensive material right across from a church.”

No, he reiterates. Until the 3D internet market advances to the point of seamless applicability, “don't worry about it.” Rather, wise would be the commercial real estate professional who focuses on ensuring your digital rights.