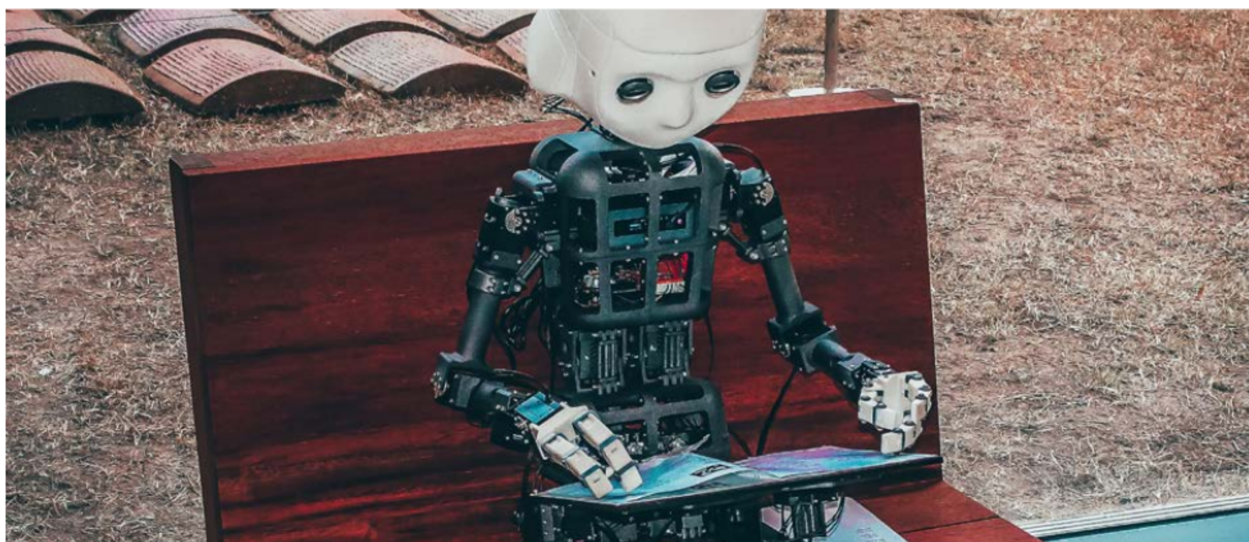
The Techno Rent-Seekers Milking the Real Estate Cycle

by Catherine Cashmore



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The core to learning the mechanics of the 18-year cycle is fully understanding the role of economic rent (unearned income) and rent-seeking in the economy.

This is the 'free lunch' that so many desire and the rights to which are protected by the elite at all costs. Throughout the cycle, the greatest economic gains always come from owning the rights to land.

However, rent-seeking can take on many forms. Cast your minds back to the taxi licencing monopoly, for example. It was more profitable to hold a Victorian licence than it was to run a taxi company! When Uber and Lyft entered the ridesharing industry around 2012-14, they were repeatedly stifled globally by government intervention.

Taxi drivers from London to Berlin staged mass protests. An estimated 30,000 drivers parked their cars, shut off meters, and blockaded streets!

However, just like land, the rental value of taxi fares went directly to the owners of the plates. The drivers were left paying the licence holder an exorbitant share of their fares - often more than 50%! Little was left over. The drivers were poor.

With the onset of Uber, consumers benefitted from lower fares and increased competition that ushered in better services. However, Uber was not designed to give drivers a greater advantage! It's not a worker-owned cooperative. The company keeps fares unreasonably low to increase the number of users. Drivers struggle to make a profit.

Uber is now what we call a 'platform monopoly'.

With this in mind, remember, 'land' in economics refers to all natural elements - including the electromagnetic spectrum upon which these platform monopolies are constructed. Uber's drivers use their own capital and labour to provide the profits needed for research into Uber's future vision. That of self-driving cars! And like Facebook, Amazon, and Google, it's not easy to attract the market away from the dominant platforms once they become established.

Take Google.

Long before Google as we know it now existed, Yahoo! was the premier internet search engine. In 2002, Yahoo! tried to acquire its closest competitor for US$3 billion. Google turned down

the deal saying it wanted at least US$5 billion. Later that year, Google News launched - breaking new ground. Google now controls 70% of the search-related advertising market. Despite censorship pushing people onto other platforms, it has no viable rival. Alphabet Inc (Google) now has a market cap of US$1.725 trillion. Yahoo!, on the other hand, sold to Verizon in 2017 for, ironically, just under US$5 billion.

Governments will never intervene to collect the monopoly rents these platform monopolies create. If they did, it would greatly assist competition in the tech sphere. Instead, the preference is to strengthen them further with regulatory reform - giving the impression that they are somehow safe spaces to work within. Ironically, monopolist Rupert Murdoch coined it best when, in his 1994 John Bonython Lecture ¬*The Century of Networking* ¬he said:

Because capitalists are always trying to stab each other in the back, free markets do not lead to monopolies. Monopolies can only exist when governments protect them.

It's important you understand this.

Nature's free lunch is why the 18-year cycle exists, why it repeats, and why it gives gravity to every other cycle, in both stocks and commodities. And this includes the digital landscape!

The techno landlords

Technology is exponentially deflationary. It gives us more for less.

Why doesn't technology provide us with more time and leisure and less need to work and toil? The answer is, of course, that land prices absorb the gains of innovation.

But, importantly, in the realm of the information-led electromagnetic spectrum, the landlords are the platforms that break ground first.

And the digital landscape is subject to just as much speculative fervour in the boom phases of the cycle as residential land.

The digital real estate booms

Cast your mind back to the last digital real estate boom as a prime example. That of domain names in the lead up to the dotcom crash. Note that this was the mid-cycle point of the last 18-year cycle.

Domains were a real estate address that could attract a windfall of economic rent based on the amount of foot traffic they attracted. A little like owning a prime corner position on a popular shopping strip.

Take realestate.com.au (REA).The cost of advertising a property for sale on REA is far above that of its competitors. I'm talking to the tune of $6K or more in some circumstances just to upload some photos and a blurb.

But the REA address yields the most traffic from consumers searching for real estate. And in the realm of advertising, this is all that matters. Importantly, wherever economic rent is being accumulated; the BUST can be timed!

In the glory days of the domain name game, speculators grabbed domains with brand names and key words to flog off to the highest bidder.

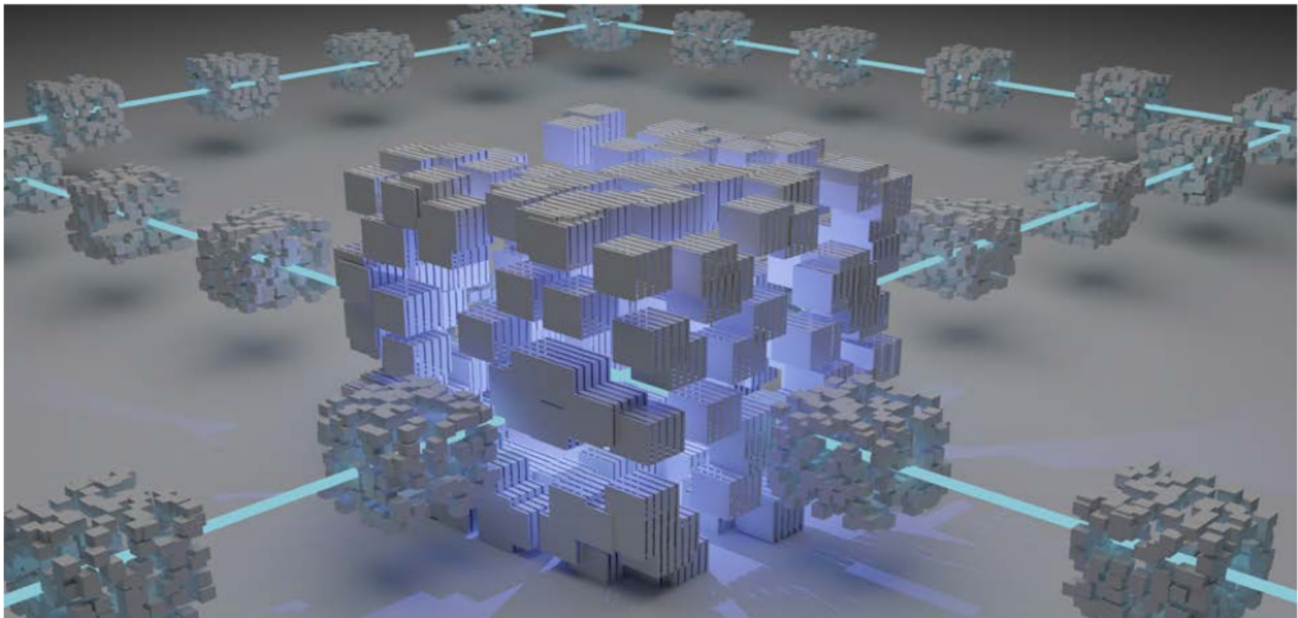
The number of registered domain names reportedly doubled in 1999 and tripled in 2000. In the years following the collapse, names that had transacted for millions, couldn't be sold for peanuts.

That's not to say that domain names no longer have value. Some still attract millions and there is a vibrant investment market for them. But take note here, the bust was easy to foresee and time, if you understood the real estate cycle!

The point of any major collapse in real estate- even that of digital real estate - will either be mid-cycle or end of cycle in this regard.

Riding the digital land boom

Which brings me to the new real estate rush. COVID and the work from home phenomena have, rather conveniently, ushered this in faster than would otherwise have been the case. People



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have fundamentally changed the way they relate to location both physically and digitally.

With the blockchain, we have the onset of mass decentralisation and the removal of middlemen in fields such as payments and real estate.

Digital workspaces are becoming the norm for millions of people. Kids enduring long periods of lockdown are using games as the platform to socialise with friends.

This is something we cannot ignore when assessing the land cycle. It is dramatically shifting how this cycle and the next will play out. So let me lay the scene.

Walking the digital landscape

I asked a mate of mine to take me for a tour around his neighbourhood the other week. We visited an art museum, passed a stadium where tens of thousands had attended a music concert just a few months ago.

We popped into the local bar to chat with regulars and went for a walk through the city. We passed briefly through a theme park and ended up back in the main square where others were congregating around a central decorative fountain.

Regular readers of *Cycles, Trends & Forecasts* would readily understand the value of real estate in a location like this. It should yield significant economic rent.

And this is a rapidly growing city! It was founded in 2015. Not accounting for tourists such as myself, its population expanded by 3,300% between December 2020 and December 2021. It now has more than 800,000 'residents'. That's hardly a mega-city.

But it's one where a large plot of land recently sold for the equivalent of US$2.43 million. In case you haven't worked it out, I'm not talking about physical land here. I'm talking about 'land' in the much spruiked 'metaverse'. Decentraland, to be exact.

I spent a weekend exploring it, as well as some of the other big metaverse platforms. What is the metaverse? The metaverse is not a single place and cannot be owned as such. It's not really a new concept either.

The term is simply another derivation of the 'internet' but not like the 2D archaic search-based one we have now. The vision laid by the tech-kings is for platforms that give a 3D virtual mimic of the Earth. One that gives a significant upgrade to the remote working experiences we have now on Zoom etc.

The ultimate vision is that it will totally distil the need to travel and meet people in real life. You can socialise, date, work, play, and earn an

Martin Sanchez, Unsplash

income within the platforms. All remotely, and yet it 'feels' as if you are fully immersed just as you would in real life.

Metaverse games such as Sims and Second Life have been around for a long time. They're called 'games' but there is no goal to the game as such.

The idea is to just 'exist' within the space and use the in-game tools to create another life. Build houses, socialise, etc.

The big game changer this time, however, came with Decentraland. Decentraland built its version of the metaverse on the Ethereum blockchain. The use of the blockchain enables platforms to tap into the wider crypto economy.

That means that virtual items in the metaverse are exchangeable for real economic value beyond their confines. Each platform limits its digital land supply and with use of the blockchain gives it value and ownership status like that of real land.

Once you have secured a space within your metaverse of choice, you can:

- build on it, work on it
- advertise on it
- rent it out, sell it, flip it
- create a marketplace with it etc.

Just as you can with real land. Right now, it's unclear which platform will be the future 'Google' of the metaverses and attract the most foot traffic. And honestly, they need to upgrade significantly from the experience I had in Decentraland.

Moving a clunky ginger-haired avatar around a 3D image on a 2D screen was honestly one of the most boring experiences I've had. But regardless of my opinion, money is pouring in, and development is rapid.

How big is this?

Before Christmas, in the space of one week, land worth more than US$100 million was sold on the four largest metaverse sites:

- The Sandbox
- Decentraland
- Cryptovoxels
- Somnium Space

Tokens.com purchased the patch I cited above in Decentraland's *Fashion Street district*. It was made up of 166 parcels. One parcel is equivalent to 52.5 square feet of space within the platform. The Tokens.com purchase therefore is roughly equivalent to 6,090 square feet of land. They want to use it to sell luxury brands.

Tokens.com CEO Andrew Kiguel (who has spent 20 years as an investment banker specialising in real estate, I might add) stated:

If I hadn't done the research and understood that this is valuable property, it would seem absolutely crazy.

I get where he is coming from. The number of

users is increasing rapidly. If that continues, there's bound to be real estate within the platforms that can command significant economic rent.

Assuming the land remains limited - just the advertising space itself is becoming extremely valuable. Right now, it's in very early formation, and therefore, extremely speculative. For example, *Fashion District* in Decentraland sounds a lot fancier than it is. The space is just a row of digital buildings styled to mimic Graben in Vienna.

It is full of digital advertisements for brands like Chanel, Dolce & Gabbana, and Tommy Hilfiger. There are no shops that you can walk through - no items to purchase. That's the vision, but it's not there yet.

Decentraland has gained a lot of attention because it is user owned. That means that the platform is governed by its users via a DAO (decentralised autonomous organisation).

And there are profits to be made. Our very own Ryan Dinse (Money Morning) owns land in Decentraland. He purchased two blocks in 2017 for less than $1K each. In his own words:

My original thesis was that Second Life had managed to carve out a decent sized - of niche - following for almost a decade even after initial hype wore out.

So, if I could own a piece of a decentralised version, it might be worth something... I'd mostly forgotten about them until recent with the current Metaverse boom caused by FB's pivot to Meta.

My other thesis is that VRtech is going to get exponentially better in next few years.

Today, Ryan estimates they would be worth around $15K each. Although, one of his plots is smack bang in the middle of an estate (a group of holdings held by one big entity). For this reason, it could end up being a good bargaining chip. Decentraland is a small town compared to some of the other platforms.

How big can it get?

Take Fortnite. It's owned by Epic Games. According to Epic's CEO Tim Sweeney, the platform (that has only been around since 2017) has 60 million active users per month, and at its current rate of growth, could reach a billion users in the not to distant future.

It's already producing groundbreaking experiences, and its players are spending more than three billion hours a month in the multiverse.

Christopher Comstock, an American electronic music producer and DJ (known professionally as Marshmello), hosted a live concert in Fortnite in 2019. It attracted an audience of 10 million people!

American rapper Travis Scott doubled that record not long after, with an audience of 27 million! There's significant money that can host and attract audiences to that scale.

Can't digital land just be created?

Sure, the argument here may be that the land in any metaverse that is limited in supply can still be created at will. But as with physical land, it's not the amount of land that matters so much. We have more than enough land in Australia to host the world's population quite comfortably.

The key to making unearned gains in physical land - and digital land within a metaverse to some extent - is buying in the locations that most people frequent and relying on growing population usage to keep the trend going.

Rent-seeking is at the root of the trend and the money made will find its way into the physical land market one way or another.

As we tutor consistently - *land takes all the gains.*

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