

## Virtual land valuation in the online economy of Second Life

In recent years online gaming has gained the attention of everyone from eager entrepreneurs across the globe, to US congressional committees, to economists attempting to understand this new frontier of commerce. In late 2006 a virtual real estate agent by the pseudonym of Anshe Chung in the online world Second Life became “the first person to achieve a net worth exceeding one million US dollars from profits entirely earned inside a virtual world. [1]” In 2004 economist Edward Castranova estimated the economic production of the online role-playing game Everquest to be approximately the same as the country of Namibia [2]. The US Congress has launched a committee probe in to these virtual worlds to investigate the tax implications [3] as several online worlds achieve higher GNP levels than many third world countries [4].

While research has been done on the real-world trade done through auction websites such as eBay [5], the trade in these economies has typically been against the terms of service of the online worlds and not officially embraced. In Ondrejka 2004 [6], the differences with Second Life are highlighted including the built-in exchange market for the free-floating game currency and the sale of virtual land. I plan to conduct empirical research on the cost of this virtual land in both virtual “Linden dollars” and adjusted USD prices, and attempt to build a hedonic pricing model of Second Life real estate. Custom software will connect to the Second Life world and monitor the prices of land for sale, as well as collecting information on the individual parcels for sale to build a multivariate regression explaining why some land parcels are more valuable than others. From this analysis I hope to gain insight in to the stability of the Second Life virtual economy and an updated estimate of the market volume.

## References:

- [1] Anshe Chung Becomes First Virtual World Millionaire:  
[http://www.anshechung.com/include/press/press\\_release251106.html](http://www.anshechung.com/include/press/press_release251106.html)
- [2] Virtual Worlds: A First-Hand Account of Market and Society on the Cyberian Frontier:  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=294828](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=294828)
- [3] US Congress launches probe into virtual economies:  
<http://secondlife.reuters.com/stories/2006/10/15/us-congress-launchs-probe-into-virtual-economies/>
- [4] A Q&A with Philip Rosedale, founder and CEO of Linden Lab, a virtual market-driven community:  
[http://www.technologyreview.com/read\\_article.aspx?id=16023&ch=biztech](http://www.technologyreview.com/read_article.aspx?id=16023&ch=biztech)
- [5] A Cost-Benefit Analysis of Real-Money Trade in the Products of Synthetic Economies:  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=917124](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=917124)
- [6] Aviators, Moguls, Fashionistas and Barons: Economics and Ownership in Second Life:  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=614663](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=614663)

## Additional References:

Making sense of virtual property research:

[http://virtual-economy.org/blog/making\\_sense\\_of\\_virtual\\_proper](http://virtual-economy.org/blog/making_sense_of_virtual_proper)

Investing in the online property boom:

[http://money.cnn.com/pr/subs/2006/10/20/technology/second\\_life\\_money/index.htm](http://money.cnn.com/pr/subs/2006/10/20/technology/second_life_money/index.htm)

The Price of 'Man' and 'Woman': A Hedonic Pricing Model of Avatar Attributes in a Synthetic World:

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=415043](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=415043)