

## NFTs conquer the art market

March 11, 2021 will go down in art history as a memorable date. A world record for digital art was set twice: first, the transaction of a CryptoPunk worth US\$ 8 million and, on the same day, the auction of Beeple's (aka Mike Winkelmann) "The First 5000 Days" at CHRISTIE's for US\$ 69 million, which the Singapore-born collector known by the pseudonym Metakovan bought for his Crypto Fund Metapurse. Basically, it contains 5000 digital images created by the artist over the period of more than 13 years. Comparable to On Kawara, the artist consistently created an image every day and posted them on Instagram. Thus, Beeple instantly became one of the most expensive contemporary artists of our time.



(Beeple, The First Emoji, 1-Sep-20)

What makes the rise of the digital art market so special is a revolutionary new technology, namely the NFT (non-fungible token). An NFT embodies digital ownership of an artwork stored in the cloud server and is secured via the blockchain. Actually, you only own a token that you have in a digital wallet. Unlike bitcoin or other cryptocurrencies, NFTs are not exchangeable. This technology makes it possible to securitize ownership of a digital artwork. Via so-called smart contracts, further rights such as artist royalties on resale or other rights of use and copyright can also be specified in it as code. The majority of NFTs are traded on online sales platforms such as OpenSea, Rarible, Superrare or Nifty Gateway. Often, new NFTs are launched on the primary market in so-called drops, which can either be auctioned off in a bidding process or purchased as an unlimited edition in a short period of a few minutes. Recently, NFT Superstar Fewocious, who is only 18 years old, sold three sneakers models with his picturesque motifs as hybrid NFTs (physical object with a digital twin - NFT token), on Nifty Gateway in a seven-minute drop. One could purchase the shoes for \$3000, \$5000 and \$10,000 via credit card, depending on the motif. Upon payment, the token was minted, entitling the buyer to a shoe in their size. Over 600 shoes were sold with an equivalent value of more than \$3 million.



(Fewocious & RTFKT Studios)

But not only artworks and objects can be packaged in NFTs, but any kind of collectibles. For example, Jack Dorsey's first tweet on Twitter was sold as an NFT for US\$2.5 million, and NBA highlights or legendary football goals are bought and traded for 6-figure amounts. The 2020 NFT Yearly Report from nonfungible.com shows that in 2020, the NFT industry had total sales of over US\$ 250 million. The market leader is CryptoPunks, which in the summer of 2017 first coded the ERC721 standard on the Ethereum blockchain, on which most NFTs are based.

Larvalabs programmers Matt Hall and John Watkinson had generated 10,000 pixelated heads with various attributes such as hat, hoodie, VR glasses, beard, zombie, etc. via a random algorithm. These limited unique pieces could be downloaded for free to a Metamask Wallet on their website and sold again on the secondary market on the same website. Shortly after the project was launched, a rare Punk sold for over US\$15,000. Meanwhile, the most expensive punks are traded for millions.



(Cryptopunks)

The NFT market has shaken up the art world within a very short period of time and the question arises how long this hype will last or whether one should even rather assume a disruption of the traditional market. On the one hand, one notices that the young generation of art lovers is attracted to digital art and also has no inhibitions to invest in cryptocurrencies instead of traditional stocks. On the other hand, trading NFTs is excellent for art investors. There is high liquidity in the market, authenticity and provenance are assured through transparency, and one has neither storage, nor transportation costs. Acquiring and disposing of NFTs is very easy and you have the collection with you wherever you go, so to speak. We are therefore only at the beginning of an interesting art movement whose market potential is difficult to assess.

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