NFTs: The Future of Art?

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Approximately 44 billion dollars worth of non-fungible tokens (NFTs) were traded in 2021 alone with an almost 27,000% increase in number of transactions over the past year[1]. NFTs are unique digital tokens that can be used to represent ownership over an asset; they're essentially digital title deeds. They are tamper-resistant, programmable, easily tradable, easily accessible, and scarce by design. NFTs can be bought and sold online securely and can be authenticated instantaneously.

NFTs include collectibles and digital artworks. There are often intermediaries involved in selling traditional art. However, with NFTs, artists can sell their digital art directly to the buyers. In addition, they can get compensated on future secondary sales of their art, revolutionizing the economics of the art market. The upcoming metaverse is also expected to display NFTs. Are NFTs the future of art?

1 What is an NFT?

A non-fungible token (NFT) is a unique digital token usually used to represent ownership over an asset. For example, one can think of an NFT as a digital ticket that has their name on it or as a digital title deed. NFTs can only have one owner at a time. While others can potentially make copies of the underlying digital asset, the owner of the NFT will always be able to unequivocally establish their ownership of the asset at that point of time.

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Most NFTs exist on an Ethereum blockchain based on the ERC-721 standard. Ethereum—or any other blockchain—is an immutable, distributed ledger or database that stores data and records transactions[2]. The immutable nature of blockchains means that once an entry is made, it can't be tampered with or altered later. Others can view the database, but they cannot change the history of transactions, and the distributed nature of blockchain means anyone can download the full database.

NFTs are typically bought and sold online using various cryptocurrencies. Cryptocurrencies such as Bitcoin or Ether are digital tokens and can be a means of transaction between buyers and sellers which accept them. Fiat currencies such as US Dollars or Cryptocurrencies such as Bitcoin are fungible or interchangeable. That is, one US dollar is the same as another US dollar and one bitcoin is the same as another bitcoin and they are each interchangeable. However, NFTs differ from cryptocurrencies. As the name implies, NFTs are non-fungible, that is, each NFT is unique; one NFT is not interchangeable with another NFT.

NFTs can span multiple categories such as domain names, art, music, collectibles, GIFs, digital art etc. NFT creators have found unique ways to tokenize different assets. For example, Bored Ape Yacht Club, a popular NFT collection, sells virtual art that secondarily serves as a membership card that provides individuals with members-only benefits. As of the third quarter of 2021, collectibles comprise 76% of traded NFTs; meanwhile art only comprises 9% of the market[3]. Despite art's infancy in the NFT market, it has started gaining more popularity and has tremendous potential to disrupt the traditional art market. Recently, in March of 2021, a collage of 5,000 works by the artist Beeple sold for 69 million dollars, highlighting the potential for art NFTs.

A few key features of NFTs have contributed to their popularity. NFTs make it effortless to use, buy, and sell digital art. They can be traded easily, facilitating transactions between buyers and sellers. Furthermore, at any point of time, ownership of the underlying digital asset is easily authenticated as all the transactions are publicly available on a distributed, tamper-resistant database. Lastly, scarcity is an important factor in an NFT's popularity. Creators can decide on how many NFTs they would like to mint. The rarer the art is, the more valuable it becomes. For example, a limited-edition collection is more valuable than an artwork that has a large supply.

2 NFTs and Art

NFTs allow artists to sell their art directly to buyers without any intermediaries. Platforms like OpenSea—currently the largest NFT marketplace—make purchasing NFTs easier by allowing buyers to pay using any of the supported Crypto wallets. Artists can potentially reach out to a much larger audience online and retain significant artistic control over their work. One exciting possibility is that creators can build communities around their art work and provide physical and digital privileges to holders of NFTs. For example, they can give discounts on future art work or allow them to attend exclusive events etc. Along with this, every time a transaction happens, the artist could get a percentage of the secondary sale even many years after their art was initially sold. This is in contrast to the traditional art market, where much of the most valuable art today was originally sold for a tiny fraction of the hundreds of millions of dollars they command now, yet the original artist or their descendants don't benefit from the current market value.

An exciting possibility to consider is the potentially significant role of NFT's in the upcoming metaverse. In a virtual property, there could be virtual art. Buyers would be able to buy NFTs and display them in their virtual homes. There could also be galleries for digital art in the metaverse where people could walk through and see the art. Unlike physical art, virtual art can be programmed. Similar to a physical gallery, if people were to visit the gallery in the metaverse and see someone's art, then the artist could get compensated.

	Collection	Volume	24h %	7d %	Floor Price	Owners	Items
1	Karafuru	⧫ 16,386.14	-18.24%	+17.52%	⧫ 3.29	3.6K	5.6K
2	CryptoPunks	⧫ 16,258.01	+16.86%	+127.34%	---	3.4K	10.0K
3	Azuki	⧫ 10,657.96	+119.13%	-24.69%	⧫ 14.5	5.4K	10.0K
4	Cool Pets NFT	⧫ 8,076.46	+326.74%	+52.87%	⧫ 2.62	10.6K	18.6K
5	Bored Ape Yacht Club	⧫ 7,103.37	+55.19%	-35.20%	⧫ 103	6.3K	10.0K

Figure 1: The current, all time top five art NFTs on OpenSea

In *Figure 2, a graph of the total US dollars spent on completed art NFT sales weekly in the past year is shown. As shown in the graph, the highest spent in a week is 482,440,598.06 USD. The craze around NFTs started around August and started slowing down around October. The sudden craze has brought NFTs to the general public, and it has the potential to slowly grow from here at a more reasonable pace.

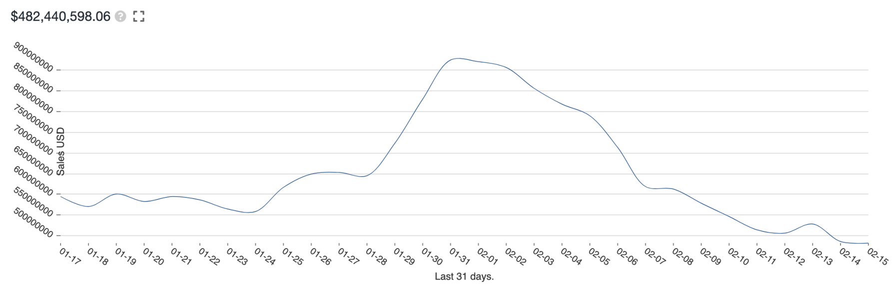

Figure 2: NFT Sales and Trends on NonFungible.com

3 Bringing NFTs to the Public

With celebrities buying, promoting, and even making their own NFTs, NFTs have been brought to the general public. With everything ranging from collectibles to videos, celebrities are not only profiting off of NFTs but they are also helping it reach a wider audience. However, potential buyers should carefully research the NFTs and make sure that their finances can support it; they shouldn't be just taken by the hype and celebrity endorsements.

4 Conclusions

NFTs, a digital title deed, can be the future of art. They are new to the market, and they may face challenges in the future, but they have the potential to revolutionize the digital art market. In the past year, they have grown in popularity with celebrities making NFTs and people purchasing NFTs for millions. They allow artists and creators to connect with buyers directly, build a community around their art and allow artists to get compensated on resales.

References

[1] Chainalysis. "The NFT Market Report". go.chainalysis.com/nft-market-report.html, January 2022.

[2] Ethereum. "Non-Fungible Tokens (NFTs)". www.ethereum.org/en/nft/.

[3] NonFungible. "Market History: NFT Sales and Trends". www.nonfungible.com/market/history.

[4] OpenSea. "Top NFTs". www.opensea.io/rankings.