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BUYING IN: NFTs Become a $20 Billion Bandwagon as Investors Figure Out How to Get in On the Action

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Some investment firms might still be skeptical of nonfungible tokens, but Hollywood is chock-full of true believers.

And with good reason. The NFT market amassed more than $23 billion in trades in 2021, according to crypto and decentralized application research company DappRadar, making NFTs one of the most impressive expansions in recent investment history. Athletes, celebrities and influencers have been at the vanguard, eager for the opportunity to monetize their brands.

“NFTs emerged on the scene just shy of about 10 years ago now,” said Daniel Taylor, an intellectual property partner at downtown based law firm Musick Peeler. “But they didn’t really hit the big time until 2019, increasing into 2020. In this last year, though, they really entered the mainstream lexicon. Now, your grandma’s asking about them.”

NFTs are essentially digital deeds sold on the blockchain, but the underlying product itself can be just about anything digitizable — a song, a photo of a bridge, or a crude drawing of an ape. That might help explain why investors were slow to pick up on them, Taylor said.

“Take a piece of artwork — you might think, ‘Is [an NFT] just a copyright?’ You can find a lot of stories where the people involved with these NFTs are essentially asking, ‘Hey, what is it we’re actually buying?’” said Taylor. “Within that vagary is the interesting territory. … What you’re really buying is a little bit of code, for the most part.”

NFTs trade largely on their scarcity and perceived value, Taylor said, comparing them to a physical ticket for admission to a ball game concert that ended up being historic. This dynamic has made it difficult to project an NFT’s value at the time of purchase.

Many investment groups that missed the Bitcoin run believe that NFTs represent a second chance to get in on the ground floor of a new digital asset class using blockchain technology, Taylor said.

“This is a ripe area for the entertainment industry,” he said. “For example, in the United States, we’re extremely resistant to having perpetual royalties on assets for creators. In other countries, you can reserve your copyright and get an earning anytime that copyright’s resold. You can’t do that in the U.S. Now, through a smart contract for an NFT, you can.”

UTA Ventures, the venture capital arm of Beverly Hills-based United Talent Agency, was one of several investment firms in December to fund the $7 million opening seed round for Danvas, a Los Angeles startup that promises to leverage NFTs “into the real world through a specialized, museum-quality display.” And Culver City-based Arca, an asset management firm focused on crypto and blockchain technology, launched a $30 million fund dedicated to NFTs in November.

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In the premiere publication of its new digital asset research report in October, Bank of America projected that digital assets represented a $2 trillion-plus market value with 200 million-plus users, with the "potential to transform every industry by improving efficiency and reducing friction across transactions." According to Alkesh Shah, the bank's head of global cryptocurrency and digital asset strategy, hundreds of companies are "forming within the new ecosystem, creating a new asset class."

"Bitcoin is important, but the digital asset ecosystem is so much more," said Shah in the report. "Our research aims to explore the implications across industries including finance, technology, supply chains, social media and gaming."

Music law attorney Dina LaPolt of LaPolt Law in West Hollywood said many of her songwriting clients have been laser focused on NFTs for years, among them, electronic music producer Deadmau5, who transitioned to NFTs about two years ago after nearly a decade of creating physical collectibles for concert fans. The performer has since raked in millions from the sale of NFTs alone.

"Little did I know at that point that this is what we'd be doing for years to come," said LaPolt. "All the clients are doing them."

But national tour headliners aren't the only ones turning a profit, LaPolt said. As the industry has matured and as the lines defining what gives an NFT value have become clearer, NFTs are becoming a significant revenue generator for creators up and down the music industry.

Taylor projected that NFTs would continue to be a Band-Aid fix to the country's slow-to-update rules changes. Litigation could cause a temporary disruption, he said, but rulings clarifying some of the uncertainty in the industry could be a source of opportunity for investors.

"Those questions that NFTs naturally raise will continue to come to the forefront," Taylor said. "But now that it's here, it's growing and it's not stopping anytime soon."

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