



Q3 2020 WEB3 REVIEW

# **NFTs Surge While The Foundation For Community Tokens is Paved**

A MESSARI REPORT



# In the world of Web3, Q3 2020 was defined by the growth of non-fungible tokens (NFTs) and rise of community tokens.

Cumulative lifetime NFT sales volume exceeded \$130 million sparked by the various implementations of NFT liquidity mining and renewed interest in digital ownership. Alongside the rise in NFTs, the top community tokens – issued by individuals or groups – surged to a combined fully diluted market capitalization of over \$150 million with no signs of slowing. However, it remains to be seen if NFTs will continue to rise amidst the recent DeFi correction.

Let's break down the third quarter of 2020 as well as look towards what these trends – NFTs and community tokens – have to offer moving forward.

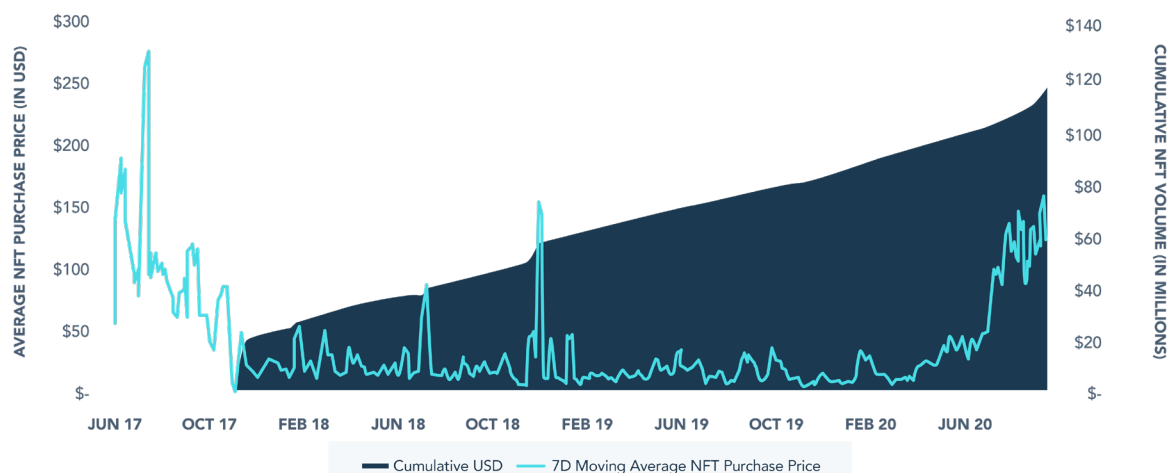
## Trend 1: NFT Market Takes Off

Total lifetime NFT volume on Ethereum has exceeded \$120 million according to NFT data provider Nonfungible and is likely at least \$10-20 million greater considering Nonfungible excludes some platforms including Rarible which surpassed \$10 million in volume over the past several months.

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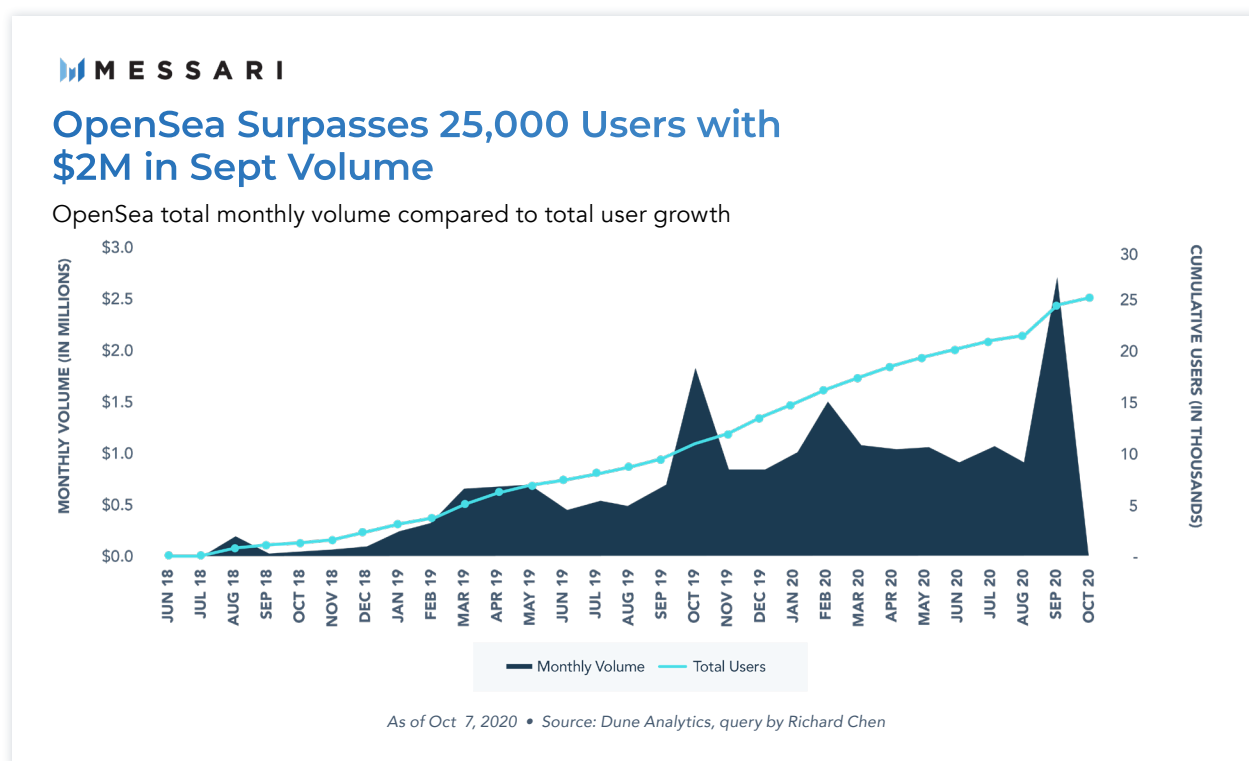
### Average Price of NFT Purchase Reach Highest Point Since Aug 2017

NFT 7-day moving average volume and cumulative volume over time



Beyond the sheer volume of NFTs transacted over the past month, one metric is most telling. The average NFT purchase price significantly increased over the quarter, reaching an average of \$161, the highest since the launch of CryptoPunks and Cryptokitties in 2017. Average spending on NFTs has beaten the historical average of \$23 for 150 consecutive days.

More importantly, demand is greater this cycle around, signaling that there is a growing number of users willing to pay for unique digital collectibles and other non-fungible tokens. This trend is evident from the gross number of users that have interacted with OpenSea which now totals over 25,000.



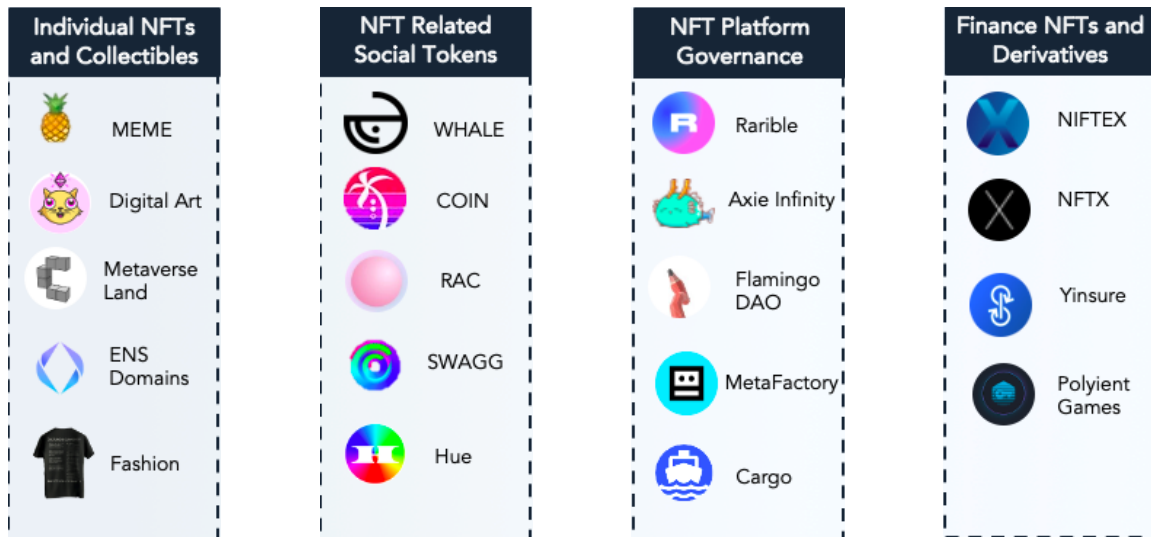
The idea of NFTs as an investment category has earned broader recognition, catalyzed by RARI liquidity mining and a renewed understanding of the potential applications of digital ownership through NFTs.

In my view, there are currently a few broad categories for capitalizing on the growth of the NFT sector:

- Individual NFTs and Collections
- NFT Financial Products, Derivatives, and Indexes
- Layer 1 and Layer 2 Platform Tokens That Support NFTs-based Protocols and Projects
- NFT-Platform Governance Tokens
- NFT-Related Social Tokens
- NFT Platforms and Infrastructure

## NFT Sector Investment Categories

Tokens by NFT category



As of Sept 28, 2020 • Source: Messari

For a breakdown of the most investable sectors from the following list, refer to my last post about [finding venture scale returns](#) in the NFT space. Of course, omitted from this graphic are layer 1 blockchains like Flow or Avalanche that are building their own games and NFTs which are mostly still in beta phases.

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## Trend 2: NFT Liquidity Mining

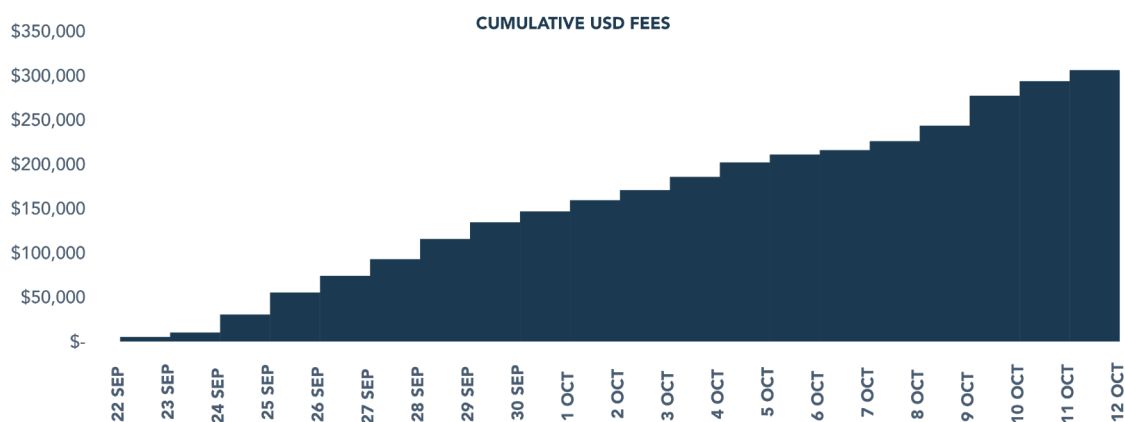
The evolution of crypto primitives is happening at a breakneck pace. Primitives like liquidity mining in conjunction with NFTs are catalyzing adoption – and speculation – of new assets and protocols. While platforms like SuperRare and OpenSea have already facilitated millions of dollars in NFTs since the start of the year, Rarible’s marketplace liquidity mining poured gasoline on a growing ecosystem that sparked the NFT exuberance.

In an effort to curb wash trading and grow more sustainable, Rarible introduced buyer and seller fees starting on Sept. 22, 2020, which have already generated nearly \$350,000 in fee revenue.



### Rarible has Generated Nearly \$350,000 in Marketplace Fees since Sept 22

Rarible marketplace fees over time



As of Oct 12, 2020 • Source: Etherscan

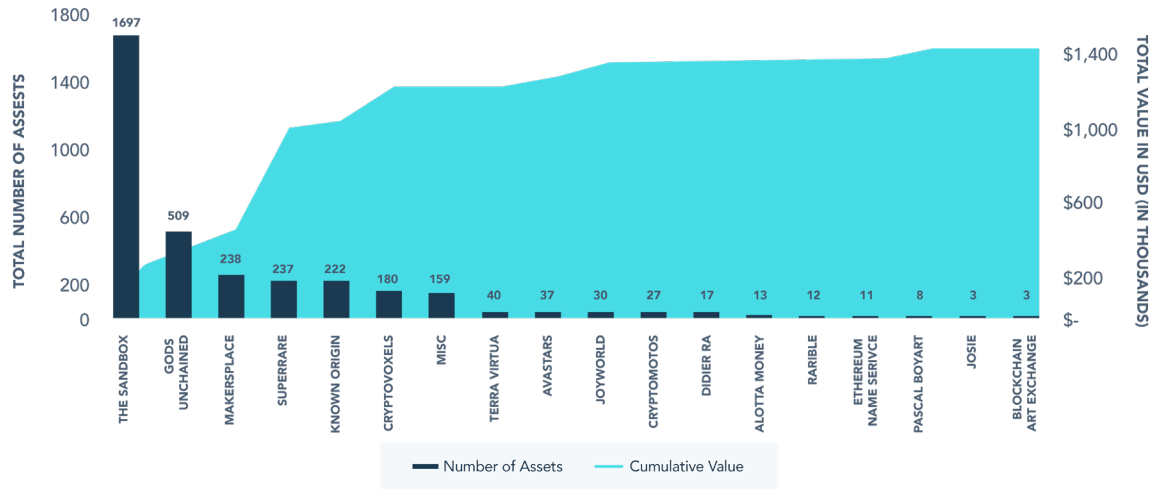
While the fees are currently accumulating to the future Rarible DAO and controlled by the Rarible team, it’s likely that at some point a portion of fees will be distributed to RARI token holders. At its current pace, Rarible’s annualized fees exceed over \$6 million.

NFT liquidity mining sparked a period of rapid growth for previously unknown tokens, Whale and MEME. Interestingly, both implemented NFT liquidity mining in slightly different capacities.

The WHALE community conducted NFT liquidity mining by partnering with artists to create unique NFTs that are added to the Whale Vault and can only be purchased using WHALE tokens. This process has helped add more assets to the Vault and naturally brought more utility to the WHALE token as a medium of exchange.

## The Whale Vault Portfolio Now Holds 3,443 Assets Totaling \$1.4 Million

NFT categories in WhaleShark's Vault by total quantity and value of assets



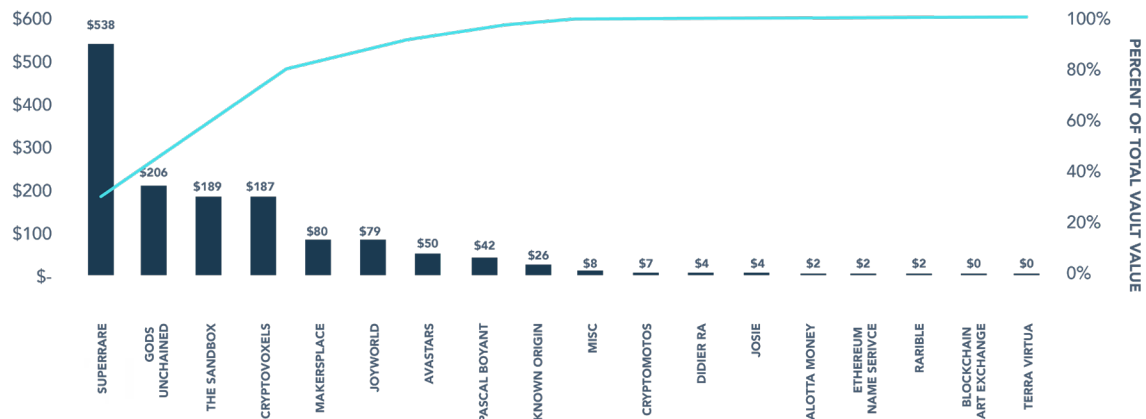
As of Sep 30, 2020 • Source: Nonfungible.com

Additionally, Whale now operates a storefront on OpenSea and assets on the platform can be denominated in WHALE. Interestingly, the Whale Vault also took in more than 20,000 RARI (~\$100,000) which WhaleShark has presumably sold and utilized to purchase more assets.

## SuperRare Assets Account for a Third of the Whale Vaults Portfolio Value

Pareto distribution of NFTs category in WhaleShark's Vault by total value

(in thousands)



As of Sep 30, 2020 • Source: Nonfungible.com

MEME – which **started out as a joke** but has since become a legitimate project– has utilized NFT liquidity mining by requiring users to stake their MEME tokens in exchange for earning unique NFTs. In an effort to inject greater value into the token, the MEME community partnered with well-known artists to create exclusive pieces of art and memes.

Newer projects like **Polyient Games** are building a platform for the NFT markets that will enable users to stake or partake in sales via their **PG DEX**. Another NFT marketplace, Cargo has also recently launched **GEM**, its own marketplace governance token and a liquidity mining program. Conversely from Rarible, **Cargo** utilizes a two-token model that requires NFT issuers to purchase and spend a secondary token called Cargo in order to create NFTs on the platform. This model limits the amount of wash trading, but adds an element of complexity for issuing non fungible tokens.

## **Towards Sustainable NFT Liquidity Mining**

Ultimately, the continued success of sole NFT projects – like individual pieces of art – will require the creation of real consumer value or the expansion into other investment categories. While novel, MEME faces a natural limit on the potential demand for NFT memes or pieces of art. As the supply of non-fungible art, memes, and otherwise non-value generative tokens grows, users will shift to preferring assets that generate cash flows (e.g. marketplace governance tokens) or provide some form of utility (e.g. axes in Axie Infinity).

NFT liquidity or marketplace liquidity mining is stickier than standard DeFi liquidity mining where capital is usually mercenary and flows to the best APY. If major games or top creators maintain exclusivity to certain platforms, then a moat may start to form as loyal fans and users aggregate towards those platforms. However, it's unlikely that entire games or creators will commit to a singular platform unless they are rewarded for their contributions.

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## Trend 3: Community Tokens and Culture Investing

Platforms like Patreon and Substack have proven that individual creators can enjoy a great lifestyle supported by a few thousand loyal fans. Creator tokens take these platforms another step further creating a new mechanism for incentivizing a loyal fan base and monetizing content.

### Individual Community Tokens

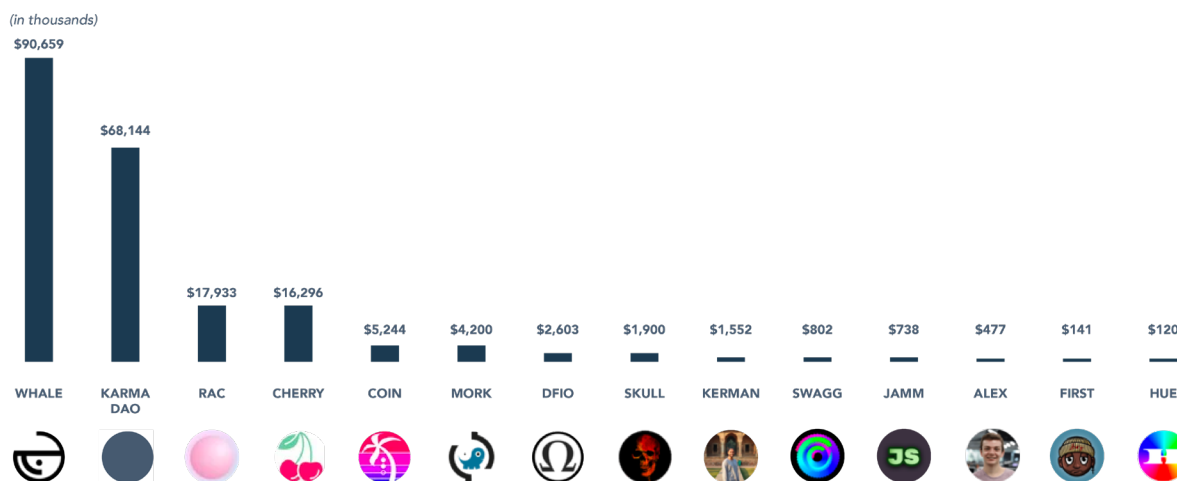
Influencers and individuals capitalizing on their brand is quite common. Michael Jordan's shoe line currently nets the basketball legend more money every year than what he earned throughout his entire basketball career. While a unique example, individuals whether they be artists, athletes, writers, or educators have the ability to leverage their personal brands to create business empires beyond their existing realms of expertise.

We're currently in the early stages of this movement, but individuals are leading the charge with the top five personal tokens accounting for nearly \$200 million in fully diluted market value.

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### The Top Community Tokens Surpasses \$15 Million in Fully Diluted MCAP

Community tokens by fully diluted market cap



As of Oct 7, 2020 • Source: ForeFront, Coingecko



**OurZora**, a platform for community tokens that generated sales volume of **roughly** \$400,000 in September recently partnered with renowned artist RAC to issue the \$RAC community token.

Already one of the most valuable personal/community tokens, RAC tokens offer holders private access to the RAC Discord and exclusive merchandise drops on OurZora. Over time, RAC plans to tokenize ad space on his Twitch channel, add discounts for RAC holders, and provide access to exclusive artwork.

Similarly, **Foundation** and **MetaFactory** are both creating “culture marketplaces” where creators can issue tokens that are redeemable for respective merchandise. For instance, I purchased a token representing this **awesome shirt** on Foundation, which I can redeem at any point for the actual shirt or sold if I decide that I don’t want the shirt. Items issued on Foundation are limited in number and follow a bonding curve where the cost to purchase an item grows more expensive as the available supply drops. While still in their infancy, Foundation has already **crossed** \$100,000 in sales volume and MetaFactory is in the process of **issuing** its own token, \$ROBOT.

There are notable tradeoffs to tokenizing one’s value such as:

- Discounting one’s potential future worth
- Responsibility to provide continuous added value for users or token holders
- Limitations of scaling particular benefits such as exclusive access to a creator/community
- Potential negative aspects of having a public market value
- Balancing creating content for free consumption vs. paid users
- Unknown legal consequences that may come with personal securitization

Still, community tokens appear to be a trend that will likely grow over the coming years especially with the development of additional infrastructure like **Collab.Land** and **Forte** as well as the upcoming launch of community token platforms like the **Rally Network**.

## Franchise Community Tokens

As social/community tokens grow as an investable category, the most promising areas of investment will surround strong existing communities and well-established organizations.

The potential for community tokens is not limited to individual creators, and actually poses a greater potential for large organizations with strong established communities. One of the most obvious expansions for community tokens lies within professional sports.

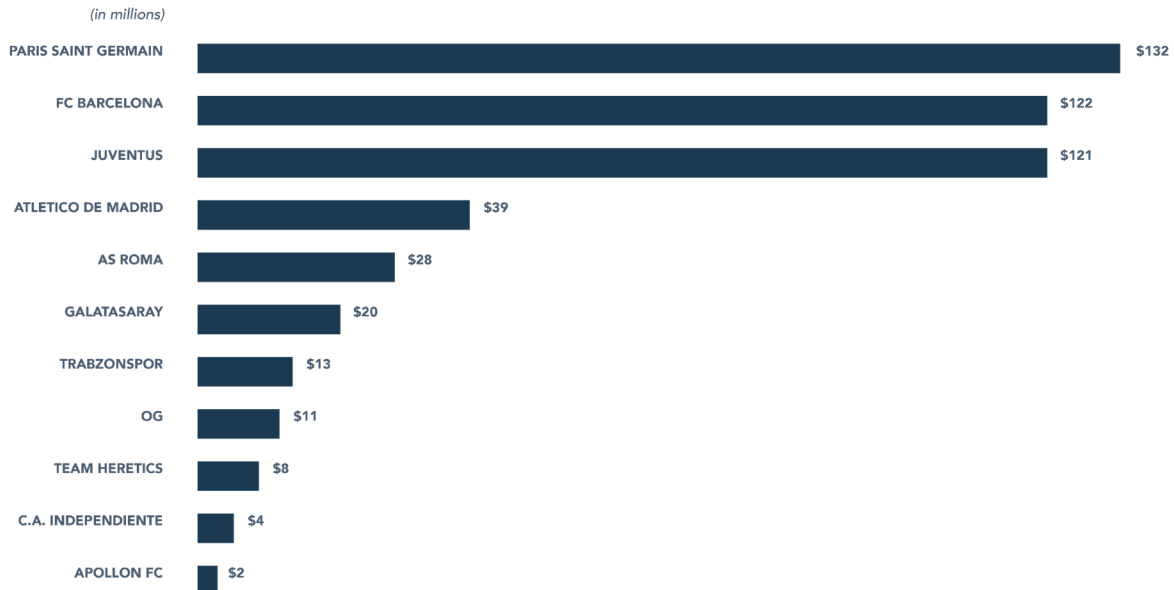
In particular, **Chiliz** is continuing to issue fan tokens – which are a form of brand loyalty tokens – in partnership with respective football franchises and other organizations like the UFC (also an affiliate). In exchange for their exclusive brand rights, the micro-fees on the Chiliz exchange and Socios platform are distributed to the football clubs as compensation along with a percentage of tokens.

Currently, fan token owners are able to vote in polls and access exclusive rewards, such as signed merchandise. Several of the fan tokens are worth over \$120 million in fully diluted market cap.



## The Top Three Chiliz Fan Tokens Fully Diluted Value Exceed \$120 Million

Chiliz fan tokens diluted market capitalization



As of Oct 7, 2020 • Source: [Fantokenstats.com](https://fantokenstats.com)

Chiliz recently launched a new way to earn fan tokens in what they're **calling** the "Locker Room". Essentially, Chiliz is letting fans get on a waitlist by signaling the intent to purchase shares of what would be new Fan tokens. Users are able to stake Chiliz (CHZ) on LOCK tokens that correspond to a specific team like Blue Manchester (\$LOCK-BM) or the Milan Devils (\$LOCK-MD). If Chiliz ends up issuing the Blue Manchester token, the fans who staked on LOCK-BM receive first purchase rights during the fan token offering and a nice 10% **\$CHZ** bonus based on the amount staked. This has been widely successful evident from the fact that fans already **pledged** over \$1,000,000.

Although major brands are sometimes reluctant to innovate, many are increasingly becoming aware of the massive potential to capitalize on their unique asset. I expect the long tail of lesser renowned franchises to experiment with new technologies like fan token offerings and tokenized loyalty points in order to increase revenues and consumer loyalty.

Are community tokens setting the stage for the next bubble or will they usher in a new era of long-term value generation for individual creators and franchises?

As always, the true answer lies somewhere in the middle. There will inevitably be individuals who don't meet expectations. However, social tokens may benefit the long tail of creators and bring individuals opportunities to focus on doing what they love most.

## Looking A Quarter Forward

Moving forward, there will be a shift towards focusing on protocols that provide the greatest value creation for users. Platforms or protocols that provide exclusive experiences and reward early contributors will continue to expand their communities. Revenue streams may not be essential for community growth in the short term, but eventually, users and investors will favor communities that distribute monetary value to loyal constituents.

Communities may be started initially by prominent or pseudonymous individuals, progressively decentralizing into larger organizations as they naturally (or aggressively) expand. Within the Web 3 space, the largest addressable markets – and most lucrative investments – will be in platforms that democratize and create communities whether in gaming, music, media, or another industry.

If there's a common theme in crypto to be learned from the past few months it's this: join a community early, provide value, and get rewarded.

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