

## IPO of an artwork

Crypto art, online trading and tokenisation: the art market, which turned over \$50 billion in the pandemic year, has new frontiers nothing like the old.



This September, Art Basel is finally back in physical format. But after the exhibition break enforced by the pandemic, nothing in the billion-dollar art market is as it was before. There have been at least three upheavals that for now seem irreversible.

Firstly, the Internet has become the central sales channel almost overnight. "Online sales of art and antiques reached a record \$12.4 billion, doubling from the previous year," says the latest market report jointly published by UBS and Art Basel. Online sales now account for 25% of trade volume, it adds.

Secondly, 2021 is likely to be the year that digital art takes a firm hold. With blockchain technology allowing authenticity and ownership of a specific object to be documented in a forgery-proof manner, at least in theory, digital art can no longer be copied as often as desired. As crypto art is technically based on so-called non-fungible tokens, it is simply called NFT. This new genre seems to be growing in leaps and bounds: according to the data provider [Nonfungible.com](https://www.nonfungible.com), NFTs worth \$106 million changed hands from April to June alone. If you also include NFTs from digital collectibles – the boundary between art and collector's items such as memes is fluid – the volume is many times higher. "With NFTs, the art market can now value digital art in the same way as a physical work of art and put digital artists on the same level as traditional artists," Sebastian Fahey, Sotheby's European managing director, wrote recently in "FAZ Sonntagszeitung." Most traditional players in the art market have been blindsided by the triumph of NFTs and are now trying to understand what's happening. For some millennials, however, who have found success as blockchain and tech entrepreneurs, NFTs are the gateway to the art market.

Thirdly, the subscription period for the first digitized Picasso began mid August. Swiss bank Sygnum and art investment firm Artemundi are enabling investors to co-own the painting "Fille au béret" by selling tokens. Thus, one can buy, own and sell small fractions of this 4 million franc Picasso. It's as if the work of fine art is going public. Its shares can soon be traded like Nestlé or Novartis. The difference being that we won't be talking about shares, but tokens. Because Swiss laws have recently been made blockchain-compatible, the so-called tokenization of art is now also legally watertight.

## A bankable asset

Investors have 60 days to subscribe, first come first served. "We will definitely tokenize more paintings," says Bigna Pfenninger of Artemundi. She adds that this offering opens up the art market to a whole new set of buyers. "Tokenizing art offers investors the opportunity of a low-risk learning curve. You participate with a small stake, you can observe how it works, and you learn something about how the art market behaves," Pfenninger says. Tokenization creates transparency, liquidity, and turns art into a bankable asset. The next few weeks will show how great the demand among investors really is. The fact that a regulated Swiss bank is leading the way and that it is a blue-chip Picasso certainly creates some confidence.

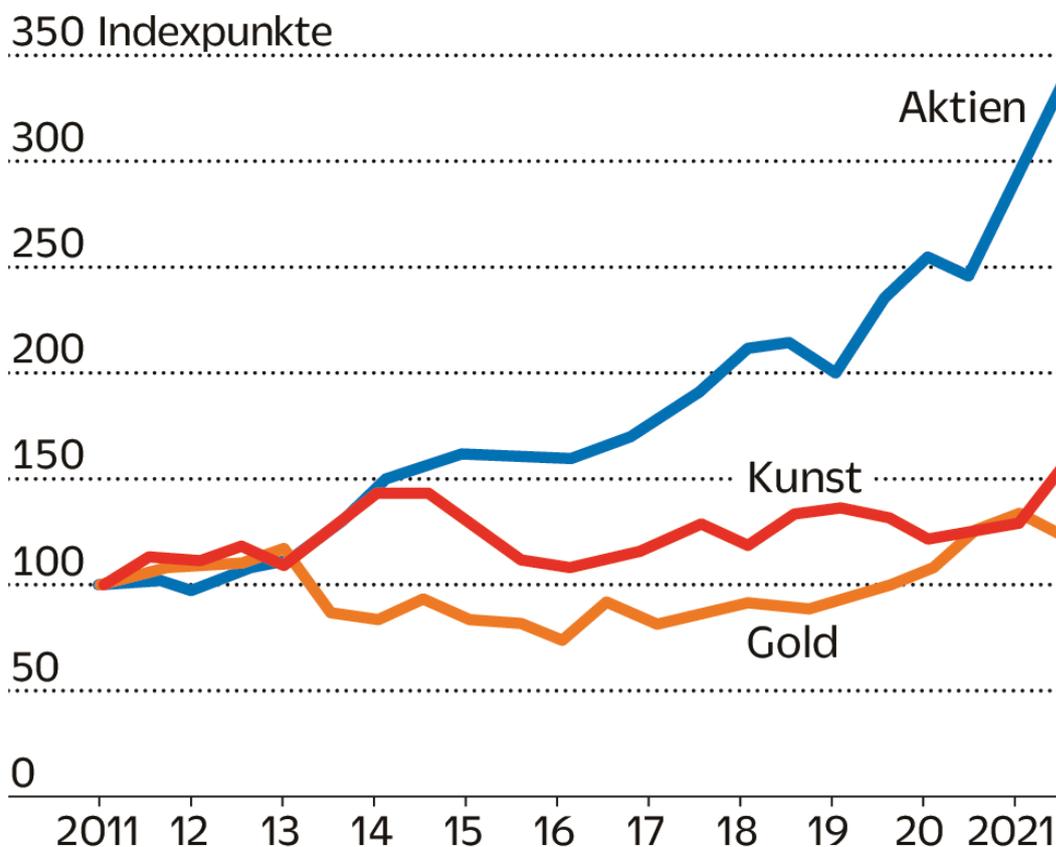
So is the art world becoming even more mundane and commercial? We checked in with Sophie Neuendorf, vice president of Artnet. The company has laid the groundwork for many of the recent developments in the art market: it provides its clients with what is arguably the most comprehensive data on transaction prices. This information provides transparency in a market where backroom deals are still abound. Artnet data also makes it possible to compare the price development of art with that of stocks, real estate, and other assets.

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## Besser als Gold

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### Preisentwicklung von zeitgenössischer Kunst, Gold und dem Aktienindex S&P 500



Quelle: Artnet

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The inhibition threshold to invest in "Fille au béret" is significantly lower for non-insiders if it can be demonstrated that the value of Picasso works has increased by about 10% per year in the past. Pfenninger adds that data like that from Artnet is a prerequisite for the business of Artemundi and Sygnum. Without it, the development of tokens and other alternative assets would not be possible. The women know each other well. They both live in Madrid and are on the same video call.

"There is a primal human inhibition to look at art as a business. That's understandable, because art is so much more than business," Neuendorf says. "There used to be many professionals who resisted transparency, but not for intellectual reasons. They fostered obscurity because it allowed them to add 50% to the prices." Today, she says, most professionals greatly appreciate the benefits that have come with transparency: such as higher prices and the development of fine art as an alternative investment.



Neuendorf draws parallels to the real estate market: You should definitely buy a painting that you really like, as you would also purchase a house that you find attractive. "But both home and art buyers today want to know whether the market is liquid and at what price they can sell again if they want or need to," Neuendorf says.

Online trading also requires transparency. Someone who's considering a work of art and knows its price development and provenance doesn't necessarily need to visit a gallery first. Artnet held pure online auctions on its platform as early as 2008. This was very exotic at the time. But with the pandemic, this sales channel has now definitely come of age. Neuendorf doesn't think the wheel will be turned back: "Online trading is much more favourable for galleries as well as private collectors. They have massive cost savings. And many private collectors also appreciate these opportunities. They can look at artworks online at their leisure instead of buying under time pressure at a fair or in an auction room."

Both women do not believe that the online trade will make art fairs completely obsolete. Only a few would want to miss their atmosphere, the personal encounters and the exchange of ideas. But there will probably be fewer fairs in the future, expect Pfenninger and Neuendorf, and they will be hybrid, allowing galleries to exhibit physically or digitally. Not all dealers

and galleries will be able to survive in this new normal. What's more, online trading is particularly suitable for established artists. Potential collectors will most likely still want to see emerging art in person, as it's more difficult to ascertain the presence of previously completely unseen artists in one's home or workspace.

Even a young woman like Sophie Neuendorf is somewhat nostalgic when she remembers that her father, Hans Neuendorf, used to take artists like Andy Warhol or Georg Baselitz under his wing, exhibiting them at a time when no one was particularly interested in them. Yet the two women are optimistic about the future: nurturing artists and promoting their work remains an essence of the art world, they agree. This ethos is not at all at odds with price transparency and rapid digitization.

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