

Non-Fungible Tokens (NFTs) and the Metaverse: Opportunities for Hospitality within the Next Tech-Revolution

A tech revolution has been ushered in over the past decade, setting the stage for transforming the online space as we understand it. A new iteration of the internet, Web 3.0 is envisioned – powered on blockchain technology and catalysed by cryptocurrency and digital assets – with transparency, efficiency and decentralisation as its driving principles. Untapped business potential is foreseen in the orbit of decentralised finance (DeFi), unique digital assets and an ever-expanding metaverse. An examination of opportunities embedded in virtual and augmented reality, powered by crypto-finance and banking on the valuation and transfer of unique digital assets, should therefore be of interest even to the traditional, technologically conservative hotelier.

Of the several buzzwords associated with the so-called Tech Revolution, NFTs or **non-fungible tokens** are fast becoming a focal point of interest for stakeholders – content creators, crypto holders, traditional institutional investors, international celebrities and mega-brands across multiple sectors ranging from sportswear to luxury. An NFT – essentially, a unique digital asset which cannot be replicated – is recorded on the blockchain with a buyer's proof of ownership. Unlike regular online content, NFTs are subject to digital scarcity and are therefore subject to valuation and suitable for trading on the blockchain. Interest in the trading of unique digital assets – artwork, music, videos and even ownership deeds for physical and/or virtual assets – has skyrocketed over the last year. Forbes reported a cumulative trading volume of \$23 billion for NFTs with user presence in this space accelerating rapidly from 5,000 to 14,000 active crypto-wallets as of the end of 2021.

Therefore, it should come as no surprise that NFT based opportunities in the hospitality space are fast emerging and diversifying. While arguably nascent, non-fungibles are being increasingly identified as valuable branding and marketing tools that facilitate collaborative opportunities among hotels, potential clients and original content creators. Marriott International became a pioneer in this space by collaborating with digital artists to create their own NFTs inspired by the brand's "Power of Travel" campaign. The pieces were purchased by three individuals and awarded in addition to 200,000 reward points towards the Marriott Bonvoy loyalty programme. Marriott's foray into NFTs is a demonstration of the partnership potential among hotel groups, original content creators and guests, and the application of unique digital assets towards driving brand promotion and loyalty building. Another prominent example of NFT application in hospitality comes from the luxury Venetian hotel Ca' Di Dio and parent company VRetreat who auctioned an exclusive first night in the property via NFT on the peer-to-peer online platform OpenSea. A similar undertaking by R Collection – in collaboration with start-up venture Takyon – offers digital art pieces on OpenSea which can be redeemed for a two-night stay for two people with dinner and spa services at the Grand Hotel Victoria in Menaggio. The translation of digital assets into room nights and reward points has thus opened a world of previously inaccessible opportunities in marketing, advertising, branding and customer retention.

Further evidence of the applicability of DeFi and NFTs in hospitality comes from the emergence of crypto-based platforms like Crystabaya – where unused room nights (converted into NFTs) may be traded on a peer-to-peer basis by individual travellers. Increased volatility and unpredictability in travel during the pandemic – lockdowns, travel restrictions and procedural delays – have propelled the demand for additional flexibility and transparency. The tokenisation of room nights has thus ushered in previously untapped opportunities in bookings and sales, and facilitated the seamless trading of hospitality products on the blockchain with a focus on efficiency, cost recovery, value addition and transparency. And yet, this is still the tip of the proverbial iceberg.

As crypto-assets are still in their infancy, sceptics may be tempted to dismiss NFTs as digital collectibles and marketing gimmicks at this stage. Nonetheless, new opportunities for their usage continue to emerge within the framework of a

rapidly evolving and potentially limitless **metaverse**. The metaverse can be best understood as an immersive 3D digital environment which extends traditional virtual and augmented reality by enabling social interaction, interface and eventually value transactions on the blockchain via cryptocurrencies like Bitcoin and Ethereum. In other words, it is a framework within which virtual, augmented and mixed reality are combined and augmented by social media, online gaming, cryptofinance and other digital experiences. The evolution of the metaverse has the potential to revolutionise how business is done with many – if not all – aspects of communication and interfacing shifting to the virtual realm.

Discourse around the metaverse has grown considerably in recent years. The rebranding of social media giant Facebook to 'Meta' in 2021 indicates Silicon Valley's heightened appetite for extending digital frontiers. The aftermath of COVID-19 and concerns of functionality in a post-pandemic world have also driven discussions. As virtual events gradually become the norm for global interface and networking, the conversation is shifting towards optimising the remote experience. The digital transformation of business and networking environments – office spaces, event venues, exhibition centres, meeting rooms – is just one of the possibilities afforded by the metaverse and an immersion into extended reality. Augmenting traditional work and leisure environments with metaverse-compatible products could allow for potentially limitless applications – seamless transactions via the blockchain, augmentation of physical spaces with virtual and mixed reality based applications, unique identifiers represented by NFTs, immersive and experiential digital products, tie-ins with online gaming environments and perhaps in certain cases, even complete digital immersion as a substitute for the 'real' work, play and travel experience.

While it should be noted that the metaverse is still in its inception phase and full-scale digital immersion is a way off, early adopters are already taking steps to stake their claim in the digital space. Digital real estate is available for purchase across multiple virtual worlds on platforms like Decentraland, OpenSea and Sandbox. As evidenced by the visual below, celebrity and brand presence is already evident within the so-called virtual land rush.

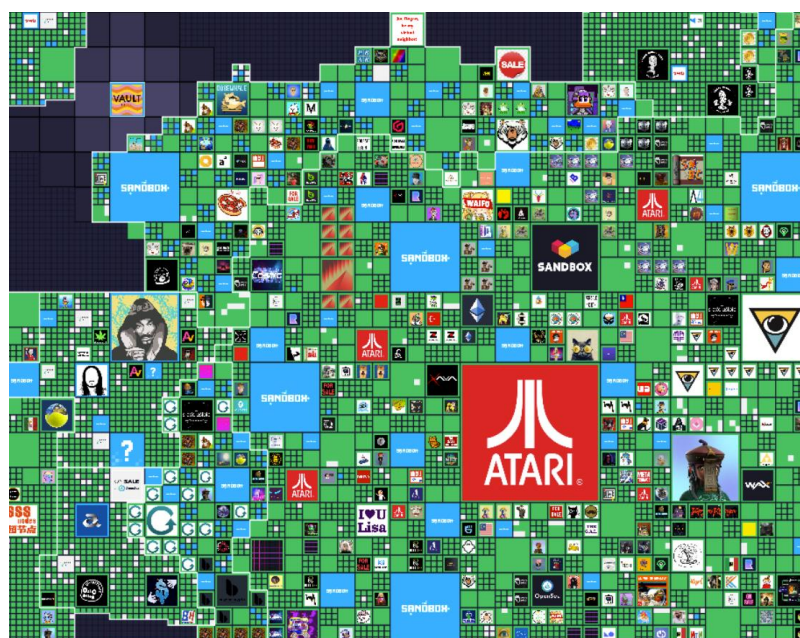


Fig 1: A Map of Virtual Real Estate on Sandbox

Platforms like Decentraland already host numerous business and event centric virtual spaces like Sotheby's virtual art gallery, VICE Media's digital headquarters and JPMorgan's Onyx Lounge, making it the first bank in the metaverse. The platform also launched its first multi-artist virtual music event "To The Moon" in 2021. JPMorgan estimated a valuation

of \$1 trillion in annual revenue for the metaverse, with far more optimistic estimates from Goldman Sachs and Morgan Stanley foreseeing a potential market value of \$8 trillion.

Early adopters in the hospitality space are already exploring opportunities in the metaverse with enthusiasm. Roomza, for instance, is a mixed reality hotel concept conceptualised with an eye towards the metaverse. Expected to launch in the US market in 2023, the hotel will only offer physical rooms, with all communal meeting spaces such as lounges and meeting rooms operating exclusively in the virtual space. The concept is expected to challenge conventional limitations of MICE by augmenting the remote meeting and networking experience and integrating virtual and physical realities for a unique user experience. At the other end of the spectrum is The Crypto Hotel, unveiled by UNYCU in 2021. The Crypto is envisioned as a fully digital concept with no dedicated physical spaces, hosted entirely on the Ethereum blockchain and is deemed the first NFT hotel worldwide. It will offer 100 rooms and multiple communal spaces: restaurants, bars, casinos, theatre, wellness spaces and meeting and conference spaces where virtual events can be hosted. The project is still under development with roll-out and first NFT sales expected in the near future on OpenSea. These forays, while still nascent, demonstrate the breadth and diversity of metaverse applications for hospitality from partial immersion to full-scale digital experiences. It is foreseeable that in the future, the expansion of digital frontiers – backed by the rapid sophistication of the metaverse, growing demand for decentralised finance and cryptocurrency and the popularity boom for NFTs – will facilitate a host of immersive and experiential possibilities for the hospitality sector. Such opportunities may include:

- ✓ **Augmentation of the user experience:** The integration of virtual, augmented and mixed realities towards enhancing events, meeting venues and coworking spaces could play a significant role in revolutionising the MICE industry. Organisational challenges pertaining to cost, physical distance, logistics, safety and organisation could be mitigated by transitioning into a virtual environment. This is a particularly relevant consideration in the aftermath of COVID-19.
- ✓ **Unique identifiers** – The inherent properties of NFTs i.e. their uniqueness and resistance to replication qualify them to serve as unique identifiers. They could therefore serve as smart replacements for room keys, access codes for restricted areas like lounges, self-check-in codes and so on.
- ✓ **NFTs as memorabilia:** The adoption of NFTs to create customised digital assets for guests facilitates a unique branding opportunity where they can be used to commemorate stays and experiences with tailor-made digital souvenirs.
- ✓ **Branding and loyalty:** Ventures in integrating tokenised digital assets with brand loyalty are already underway by large scale brands like Marriott. However, brand penetration in the metaverse could also enable unique avenues for promotional tie-ins with online gaming. For instance, the “play to earn” model could be adapted where users who ‘earn’ NFTs within a game may redeem them for loyalty points.
- ✓ **Transactions on the blockchain** – The popularisation of cryptocurrency, and the transparency, efficiency and relatively lower cost for cross-border payments facilitated by DeFi could pave the way for crypto-transactions in digital and real-world assets. Institutional investors – particularly those with interests in international markets – may find DeFi to be a more competitive option for overseas transactions.
- ✓ **New frontiers in virtual real estate** – Virtual real estate sector is poised to become the new stomping grounds for large scale brands. Potential for investment in high-value digital land and assets is becoming an increasingly relevant consideration in a world where virtual and augmented reality are expected to dominate connection, networking and interface in the near future. Highly augmented online environments located in high-value digital ‘districts’ are positioned for exponential growth as the metaverse expands.

Of course, it is imperative that progress be checked by caution. The metaverse, for all its potential, remains uncharted territory for the majority. Valid concerns regarding market regulation, privacy, information gathering and accountability of

digital gatekeepers are being raised. However, mainstream adoption in the mid- to long-term is likely to address these concerns, and discussions on regulation and transparency in the metaverse are already in circulation. The virtual universe is expanding with pioneers staking their claim in the digital arena. Early adopters who embrace the metaverse could find themselves in an advantageous position, should they proceed cautiously and with expert consultation.