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**Five Ways to Generate Passive Income with NFTs**

**Forget about selling your NFTs, now you can make your unique digital items work for you.**

By 2021, non-fungible token (NFT) market has grown to become a major segment of the crypto industry, with purchases of NFT totaling more than $12.6 billion, up from $162.4 million at the start of the year.

And while the vast majority of NFTs are created, bought and sold using Ethereum, the high gas fees can make the process prohibitively expensive. Data from Raribleanalytics estimates that the gas fees to mint an NFT on Ethereum is about $98.69, and minting NFT collections can cost you an average of $900.

To make up for these costs, many investors and creators simply try to offload their NFTs on secondary marketplaces, such as OpenSea, and bank a profit. But there are a number of ways to generate an income from NFTs than selling them at a higher price than you paid or created them for.

## What Exactly are NFTs?

For those unfamiliar with the concept of NFTs, think of them as tradable digital receipts stored on a publicly distributed database, called a blockchain, that everyone can see and independently verify at all times. These digital receipts contain unique information that can be used to prove who the sole owners of certain items are, whether they be tangible or intangible.

It’s worth noting, however, that NFTs do not store the digital item they represent. Instead, they simply point to the file’s location which exists somewhere else on the internet.

Because no two items represented by NFTs are ever the same, it means NFTs cannot be traded in the same way you can trade one bitcoin for another. This is why they're called "non-fungible" tokens.



## Ways to Make Passive Income with NFTs

### Staking NFTs

One of the benefits of the marriage between NFTs and [decentralized finance (DeFi)](#) protocols is the possibility of staking NFTs. Staking refers to the process of depositing, or "locking away," digital assets into a DeFi protocol smart contract to generate a yield.

While some platforms support a wide range of NFTs, others require you to purchase native NFTs in order to earn staking token rewards (also usually denominated in the platform's native utility token.)

In some cases, part of the rewards distributed to stakers is denominated in governance tokens. Such protocols empower these token holders with voting rights over the future development of their ecosystems. More often than not, it is possible to reinvest coins earned from staking NFTs into other yield generating protocols.

### Renting out NFTs

One way you can earn passive income is to rent out your NFTs, particularly those in high demand.

For instance, some card trading games allow players to borrow NFT cards to boost their chances of winning. As expected, the terms governing the deal between the two parties involved are governed by smart contracts. Therefore, NFT users usually have the freedom to set their preferred duration of the rental agreement and the lease rate for the NFT.

A leading example of a platform that allows users to rent or lend NFTs is reNFT. This allows lenders to set maximum borrowing periods and set daily rates, which currently range between 0.002 and 2 wrapped ethereum (WETH) on average.

WETH is the ERC-20 version of Ethereum's native cryptocurrency, ether (ETH).

### Providing Liquidity to Receive NFTs

Thanks to the ongoing integration of NFTs and DeFi infrastructures, it has become possible to provide liquidity and receive NFTs in return to establish your position in a given liquidity pool.

For example, when you provide liquidity on Uniswap V3, the automated market maker (AMM) will issue an ERC-721 token, also known as LP-NFT, that details your share of the total amount locked in the pool. Other information etched into the NFT is the token pair you deposited, the tokens' symbols and the pool's address.

You can sell this NFT to liquidate your position on liquidity pools quickly.

### The Royalties of NFT

The underlying technology powering NFTs allows creators to set terms that impose royalty fees whenever their NFTs change hands on the secondary market. In other words, the creators can receive passive income even after selling their creations to collectors.

With this, they can earn a share of the sales price of the NFTs in question indefinitely. For example, if the royalty for a digital artwork is set at 10%, the original creator will receive 10% of the total sale price each time their artwork is resold to a new owner.

Note that creators often set these predetermined percentages while minting the NFTs. Moreover, smart contracts – self-executing computer programs that enforce contractual agreements – govern the entire process involved in distributing royalties. This means as a creator, you do not need to enforce your royalty terms or track payment manually as the process is fully automated.

### Farm for Yields Using NFT-Powered Products

Because NFTs are fast becoming a core component of AMMs, users can now farm for yields using

NFT-powered products. Yield farming refers to the method of leveraging multiple DeFi protocols in order to generate the highest possible yield with the digital assets you have.

From our example above, the LP-NFT tokens issued as liquidity provider tokens on Uniswap can further be used as collateral or staked on other protocols to earn additional yields. Think of it as earning a yield on top of another yield-generating protocol. This possibility unlocks a layered income-generating model ideal for yield farmers.

Note, however, that NFT and the underlying smart contract technology are still relatively new. As a result, many of the applications that offer the opportunities highlighted in this paper are in the formative stages. Given this, it is recommended that due diligence be conducted and the risks involved understood before adopting any of these strategies.