Mick Law - Alts. News Bulletin
November 20, 2023

Happy Holidays! In this edition, we will provide you with an update on IRC §1031 product sales, as well as an overview of capital raising developments pertaining to oil/gas programs. Also, we will provide some information regarding legislative proposals pertaining to Qualified Opportunity Zone ("**QOZ**") programs syndicated under IRC Section 1400. We end with announcements on upcoming events in 2024.

ADISA Board Election

Before we get into our featured topics, we would be remiss not to remind everyone Bradford Updike, LLM, JD is again running for an ADISA Board seat. ADISA's Board elections began November 8, 2023 and will run through midnight, November 29, 2023. As a courtesy to our clients, we will be sending out periodic reminders with instructions on how to log in to ADISA's voting site. **Please do not forget to vote this year**.

DST Market Overview

Despite the economic headwinds occasioned by inflation and rising interest rates, fifty-three (53) DST sponsors managed to raise $3.880 billion in equity across 98 programs through Q3 2023. This represents an increase of about $1.342 billion from what was reported at mid-year (i.e., $2.538 million). Assuming this trend continues, the 1031 real estate product sector would appear to be positioned to be at about $5.0-$5.50 billion in equity raised in 2023.

Through Q3, 2023, the top DST sponsor in terms of capital raised was Ares Real Estate Exchange ($729 million, 19% of the DST market), followed by Inland Private Capital ($418 million, 11%), JLL Exchange ($316 million, 8%), ExchangeRight Real Estate ($278 million, 7%), Capital Square Realty Advisors ($197 million, 5%), Passco Companies ($163 million, 4%), and Net Lease Capital Advisors ($173 million, 4%). These seven companies accounted for approximately 60% of the DST capital raised through Q3 2023.

In terms of sector coverage, multi-family assets continue to account for the highest percentage of the DST equity (38%), which was followed by industrial (29%), office (15%), retail (6%), and senior housing (4%). A breakout of equity sought, loan-to-values, days on market, and year-one cash-on-cash returns among the various real estate sectors in terms of open programs is provided in the following table:

Sector	Available Equity	Avg. Loan to Value	Days on Market	Cash on Cash
Oil & Gas*	$100 million Three open deals	No Leverage	NA	NA
Hospitality	$28 million Two open deals	0%	267	5.36%
Industrial	$817 million 18 open deals	28%	211	4.29%
Multi-Family	$1.095 billion 35 open deals	37%	303	4.31%
Multi-Manufactured	$14 million One open deal	20%	348	4.00%
Multi-Student Housing	$45 million Two open deals	45%	308	4.02%
Office	$436 million Nine open deals	25%	262	4.81%
Office/Medical	$32 million Three open deals	27%	169	4.10%**
Retail	$175 million 18 open deals	26%	203	4.82%
Self-Storage	$71 million Three open deals	12%	226	4.26%
Senior Housing	$104 million Seven open deals	21%	226	4.26%
Other	$27 million Three open deals	0%	105	4.18%

*Oil & Gas 1031s are structured as fractional interest programs
** Zero coupon offering excluded from the average

Of the 95 1031 deals that were open at the end of Q2 2023, the average days on the market was 214 and the average year-one cash on cash return was 4.33%. Also, of the open 1031 products on the market, about a third are reporting that they are all cash with no leverage used. Of the deals that are using leverage, a substantial majority are using it at loan-to-values from 30% to 50%.

Oil & Gas Fundraising – 2023

Coming off its best capital raising year since 2014, the E&P sector of our practice is continuing it momentum in 2023, with a dozen sponsors having raised approximately $875 million.

In terms of capital raised thus far in 2023, about 70% of the capital has been raised by multiple sponsors for drilling, with the other 30% raised by five sponsors for royalties, QOZ/QOF programs and strategic income/growth-oriented acquisitions.

Presently, 14 sponsors have opened E&P focused programs with approximately $800 million in additional capital raising capacity. Again, drilling accounts for most of the program capacity, but with several sponsors also continuing to raise capital for royalty and mineral rights acquisitions and for developing E&P assets within QOZ/QOF structured programs.

Company	Max. Offering	Strategy
U.S. Energy	$300 million ($175 million raised) $150 million ($70 million raised) $100 million ($20 million raised)	Drilling – operated and non-operated projects in the Permian Basin and Powder River QOF/QOZ – operated and non-operated projects 1031/Royalties
MDS Energy Dev.	$400 million ($125 million raised by the selling group)	Drilling – Snyder Bros.-operated projects in the Marcellus Shale Play
Resource Royalty 20	$9.109 million (fourth 1031 offering of 2023)	1031/Royalties
Montego Alpine Ranch	$14.270 million ($11.9 million raised, sixth 1031 offering of 2023)	1031/Royalties
WhiteHawk Income Corp.	$100 million	Royalties/Minerals
Mountain V 2023 Drilling	$50 million	Drilling – sponsor operated horizontal drilling of oil/gas wells in Northeast Kentucky
RGP Income Fund LP	$50 million	Leasehold Development-raising capital to acquire existing production and to engage in new drilling and workovers in North and East Texas
John Henry Oil – Trenton Black River Six (2023)	$10 million ($2.5 million raised, escrow broken)	Drilling – sponsor-operated projects in Tenn. Trenton Play
Texakoma Resources	$50 million	Drilling – non-operated projects in the Anadarko Basin
Bakken 2023-2 LP Donovan Ventures	$30 million	Working interests in producing wells (income strategy)
Texas Standard	$50 million ($22 million raised)	Drilling – sponsor-operated projects in Barnett Shale Play
APX Energy, LLC	$50 million	Drilling – Kansas oil projects
Waveland Resource Partners VII, LP	$100 million	Non-operated working interests in Bakken Shale wells
STL Energy Fund D	$100 million ($18.50 million raised)	Drilling – sponsor-operated projects in Marcellus Play

In addition to the above sponsors that have open deals, several additional sponsors are expected to launch programs and complete their due diligence in relation to their 2023 capital efforts. The companies that we expect to review over the next 30-60 days include the following:

Company	Strategy	Engagement Status
Rising Phoenix	Royalties & Minerals	Program Due Diligence Ongoing
Matrix Petroleum, LLC	Drilling	Sponsor Due Diligence Started
Wyoming Reserve Fund	Silver/Gold Commodities	Program Due Diligence Ongoing
Citizen Energy III	Drilling	Sponsor Due Diligence Started

On a final note, the Energy Information Administration ("**EIA**") released its Short-Term Outlook report on November 9, 2023. Based upon the finding of the report, oil prices should generally remain at levels at or moderately about $75-85 bbl through much of next year, with natural gas prices also recently eclipsing $3.00 mcf due to recent weather patterns. Excerpts from the EIA report pertaining to oil, gas, and coal pricing and other market fundamentals are provided below:

> **Global oil supply**. EIA forecasts global liquid fuels production will increase by 1.0 million barrels (bbls) per day in 2024. Ongoing OPEC+ production cuts are expected to offset production growth from non-OPEC countries and help maintain a relatively balanced global oil market next year. Although the conflict between Israel and Hamas has not affected physical oil supply at this point, uncertainties surrounding the conflict and other global oil supply conditions could put upward pressure on crude oil prices in the coming months. EIA forecasts the Brent crude oil price will increase from an average of $90 per bbl. in Q4 2023 to an average of $93/bbl. in 2024.
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> **Natural gas inventories**. EIA estimates that U.S. natural gas inventories totaled 3,835 billion cubic feet (bcf) at the end of October, 6% more than the five-year (2018–2022) average. EIA forecasts U.S. natural gas inventories will end the winter heating season (November–March) 21% above the five-year average with almost 2,000 bcf in storage. Inventories are full because of high natural gas production and warmer-than-average winter weather, which reduces demand for space heating in the commercial and residential sectors. EIA forecasts the Henry Hub spot price to average near $3.20 per million British thermal units (MMBtu) this month, down from a price of almost $5.50/MMBtu a year earlier.
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> **Coal markets**. U.S. coal exports have returned to pre-pandemic levels, driven by record-high global coal demand stemming primarily from Europe and Asia. EIA forecasts that exports will rise to 97 million short tons (**MMst**) in 2023, because of increases in both steam and metallurgical coal exports. EIA expects steam coal exports to rise by 6 MMst compared with 2022 to 45 MMst in 2023 and metallurgical coal exports to increase by 6 MMst to reach 52 MMst over the same period. Despite this increase in coal exports, the EIA expects U.S. production to fall by more than 100 MMst in 2024 due to reduced demand from the electric power

sector. The decline in electricity generation from coal will be offset by an increase in electricity generation from renewable resources.

OPEC production capacity. Despite rising OPEC spare production capacity in 2023 and in 2024, the EIA lowered its estimate of Iraq's spare capacity by about 0.4 million bbl/d compared with last month's STEO. The EIA removed Iraq's total production capacity assets in northern Iraq that relied on the northern Iraq-to-Türkiye pipeline for access to global markets. The pipeline has been out of commission since March 2023.

QOZ/QOF Legislation Announced

The Opportunity Zones tax incentive was established to drive capital to underserved and historically overlooked communities across the country. The policy is beginning to fulfill its promise as Congress envisioned, spurring investment into projects like affordable and workforce housing, innovative new businesses, and commercial space for first-time entrepreneurs in low-income places nationwide. More than $29 billion has been invested in 6,000 qualified opportunity funds.

As the country continues to recover from the effects of the pandemic, U.S. Congressional Representatives Mike Kelly (R-Pa) and Dan Kildee (D-Mich.), along with Representatives Carrol Miller (R-WV) and Terri Sewell (D-AL), propose a series of improvements to the Opportunity Zones policy to further their shared vision for the program to fund these communities and level the economic playing field for their residents. This bipartisan legislation would:

- Extend the incentive for two years to facilitate continued investment. It took the Treasury Department nearly two years to issue final regulations governing Opportunity Zones, during which time many investors and stakeholders stayed on the sidelines awaiting clear rules for the policy. Extending the policy by an equal amount of time will help investors and communities fully utilize the tool as Congress intended.

- Reinstate and expand reporting requirements. The original legislation that created Opportunity Zones, the Investing in Opportunity Act (IIOA), included reporting requirements that were stripped out in the 2017 tax law due to procedural rules. Reinstating these requirements will promote transparency, ensure the program is operating as intended, and allow for the tracking of long-term outcomes in designated communities.

- Early sunset Opportunity Zones that are not impoverished. While most census tracts designated as Opportunity Zones are truly impoverished areas, a small number of non-low-income communities were designated as OZs. The legislation would sunset the Opportunity Zone designation for any tracts with a median family income (MFI) at or above 130 percent of national MFI and provide states with flexibility to further sunset additional zones. States would be able to replace the sunset zones one-for-one with eligible high-need communities.

- Create pathways for smaller-dollar impact investments. By allowing Qualified Opportunity Funds to be organized as a "fund of funds" that may invest in other QOFs, smaller communities and projects will receive the financing they need.

- Provide operating support and technical assistance to high-poverty and underserved communities through a State and Community Dynamism Fund. Flexible grants will help states drive private and public capital to underserved businesses and communities.

- Designate certain brownfield tracts as OZs. Allowing the designation of zero population, formerly industrial brownfield census tracts that are adjacent to a currently designated Opportunity Zone tract will encourage the redevelopment and revitalization of these former centers of economic development and provide new opportunities for the surrounding communities.

Please note that our firm continues to cover multiple Qualified Opportunity Funds, which include real estate projects and programs designed to drill wells and produce oil/gas in regions designated as qualified zones in west Texas. Sponsors whose QOF programs we have reviewed recently include CEDARst, Arden Group, and U.S. Energy Development Corp.

AI Industry Announcements

IBDC/RIAC
2024 Annual Risk Management Conference
March 3-6, 2024
Grand Del Mar, San Diego, CA

ADISA Spring Conference
April 8-10, 2024
The Fairmont Chicago, Millennium Park

MICK Oil & Gas Symposium (Spring)
May 19-21, 2024
Marriott at Legacy Town Center
Plano, Texas

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