# MICK QUARTERLY

*Alts. News Bulletin*

## *Happy Holidays!*

In this Mick Quarterly Holiday Edition, we provide an overview of developments affecting oil/gas product sales including recent market trends and Donald Trump's presidential reelection, as well as preview some retail-oriented oil/gas product opportunities. In addition to our discussion regarding the oil/gas sector, we will provide (i) a summary of sales developments relating to offerings of Delaware Statutory Trust ("**DST**") products, (ii) some recent research covering NNN leased assets, (iii) some information regarding operational projects we are working on to help build our service value to clients, and a list of upcoming events.

IN THIS ISSUE

**OIL & GAS DEVELOPMENTS AND OPPORTUNITIES**

**DST PRODUCT TRENDS**

**NNN LEASED ASSETS**

**OPERATIONAL DEVELOPMENTS**

**UPCOMING EVENTS CALENDAR**

# OIL & Gas Developments and Opportunities

After four years of inflation and a market that strived to make sense of the Biden Administration's "war on fossil fuels," the U.S. exploration and production ("**E&P**") industry might be in a position in 2025 to breath a sigh of relief after Donald Trump's presidential reelection. Come January 20, 2025, the new GOP-lead administration will usher in a new attitude regarding U.S. energy policy that could strengthen short-term oil/gas and long-term natural gas market fundamentals.

- Upon taking office in January 2025, President-Elect Trump ("**Trump**") pledges to sanction oil exports from Iran, the effect of which is expected to take about 1.5 billion barrels ("bbls") off the world's oil market;
- In addition to the Iran sanctions, Trump has pledged to impose an additional 10% tariff on all imports from China on top of the existing tariffs, and a 25% tariff on all products from Mexico and Canada, which could further reduce world oil supplies and drive-up oil prices;
- Domestically, and as his second-term agenda takes shape, the Trump Administration is also eyeing immediate changes to the former administration's policies on liquefied natural gas ("**LNG**") permits and oil and gas drilling leases on public lands.

In addition to the above-mentioned energy policies, Trump's reelection should help to support a continuing presence of favorable income tax rules that were placed on the chopping block by the Biden Administration from 2020-2024 in respect to intangible drilling cost ("**IDC**") expensing and oil/gas depletion allowances (which are major selling points for retail-oriented drilling programs). Barring a future change in Trump's energy priorities, these tax provisions should remain unchanged over the next four years.

Over the past several years, Dan Steffans, President and Founder of the

Energy Prospectus Group, has provided presentations at our energy conferences regarding oil/gas market developments. During his podcast on November 16, 2024, Mr. Steffans shared his sentiments as to how Trump's reelection could affect oil/gas prices in 2025 and beyond. Due to the ever-increasing demand for electricity in the U.S., Canada, and word-wide, Mr. Steffans views Trump's reelection as *bullish long-term* for natural gas, which is supported in Mr. Steffans' view, by the new LNG capacity that is expected to come on-line in 2025 as a result of Trump's favorable position on LNG exporting. In further support of his position, Mr. Steffans foresees natural gas demand pressures coming soon from future bidding wars in which LNG exporters and utilities will be forced to compete for natural gas in future years when winter weather patterns are normal. Also, and as natural gas continues to displace coal as a power plant feedstock in the U.S. and Europe, Mr. Steffans views the long-term supply and demand prospects as favorable for natural gas development. In view of his sentiment, Mr. Steffans views $3.50 mcf as an appropriate pricing assumption for E&P financial modeling purposes, which is consistent with NYMEX futures contracts as of December 2, 2024, but higher than the Energy Information Administration's ("**EIAs**") $2.90 mcf estimate for 2025.

While Mr. Steffans acknowledged a moderate level of bullish sentiment for oil in Q1 2025 due to recent worldwide refinery capacity limitations, he did not believe that Trump's reelection would have a significant long-term effect on oil prices. Tempering expectations, Mr. Steffans characterized the 2024 oil price range of $75-$85 bbl as being an appropriate expectation for oil in 2025 and 2026, with $75 bbl viewed as a reasonable assumption for financial modeling purposes. On a comparative note, Mr. Steffans' pricing forecast for oil reconciles with the EIA's oil forecast for 2025 (the EIA's 2025 prediction for Brent at $78 bbl for Q1 2025 and $75 bbl for all of 2025). A summary of selected oil/gas pricing information is provided on the following page.

## Oil

| | |
|---|---|
| WTI/Dec. 3, 2024 | $69.97 bbl |
| WTI/EIA 2025 Estimate | $72.00 bbl (Brent -$3) |
| NYMEX Futures Q1 2025 | $67.73 bbl (3-Mo. Avg.) |
| NYMEX Futures Q1 2026 | $65.90 bbl (3-Mo. Avg.) |

## Natural Gas

| | |
|---|---|
| NYMEX/January 2025 | $3.04 mcf (as of Dec. 3, 2024) |
| EIA 2025 Estimate | $2.90 mcf |
| NYMEX Futures Q1 2025 | $3.04 mcf (3-Mo. Avg.) |
| NYMEX Futures Q1 2026 | $4.05 mcf (3-Mo. Avg.) |

From a drilling cost perspective, we report that well project budgets (referred to in our opinions as "**AFEs**") have either come down or have generally stabilized in multiple natural resource plays, including the Bakken/Williston Basin, parts of central Oklahoma, Eagle Ford Shale play, and Marcellus Shale play. This development should facilitate economic returns within these plays. We also note that drilling costs within the Permian Basin continue to remain at or above $60 bbl, which could test the economics within the core and non-core (step-out) areas in the Midland and Delaware Basins. Despite the higher finding costs, however, operating costs in the Permian Basin remain at manageable levels (e.g., $31 bbl Delaware, $38 bbl Midland), which will serve to help support returns in the core areas where drilling projects are being funded. A summary of drilling and operating cost trends is provided below:

## Drilling Costs Break Even

| | |
|---|---|
| Permian Delaware | $64 bbl |
| Permian Midland | $62 bbl |
| STACK/SCOOP (Okl.) | $65 bbl |
| Other U.S. Shale | $59 bbl |
| Other U.S. Non-Shale | $66 bbl |

## Operating Costs Break Even

| | |
|---|---|
| Permian Delaware | $31 bbl |
| Permian Midland | $38 bbl |
| STACK/SCOOP (Okl.) | $35 bbl |
| Other U.S. Shale | $34 bbl |
| Other U.S. Non-Shale | $45 bbl |

While the real estate sector seeks to recover its momentum from 2021-2022, **private capital raising activities in oil/gas continue to move at a respectable pace and will likely again test the $1 billion level achieved in both 2022 and 2023.** While LP structured drilling programs continue to dominate the retail sector in terms of raised capital, healthy levels of capital are continuing to be raised by sponsors with alternative capital deployment strategies, such as royalty acquisition programs and qualified opportunity funds ("**QOFs**") with drilling and cash flow reinvestments. Last month, we requested several retail oil/gas sponsors to provide us with information regarding capital raised to date and equity capital remaining for subscription. **Please note that a substantial majority of the programs below have also been reviewed by our firm and opinions can be provided to you upon request.** The following information was provided by the sponsors that recently responded to our year-end capital raise survey:

| Sponsor | Program | Capital Raised | Remaining Equity | Exp. Date |
|---|---|---|---|---|
| U.S. Energy | Drilling | $250,000,000 | $50,000,000 (est.) | 12/31/24 |
| U.S. Energy | QOF/Drilling | $58,000,000 | $92,000,000 | 12/31/24 |
| MDS Energy | Drilling | $145,000,000 | $155,000,000 | 12/31/24 |
| Texas Standard | Drilling | $29,000,000 | $71,000,000 | 12/31/24 |
| Waveland Res. Partners VII | Non-Op Drilling With Reinvestment | $63,500,000 | $86,500,000 | 3/31/25 |
| Texakoma Res. Partners 24 | Non-Op Drilling | $15,000,000 | $25,000,000 | 12/31/24 |

| | | | | |
|---|---|---|---|---|
| **Trellis Energy – TEP Fund 1** | Non-Op Drilling | Launched Nov. 2024 | $50,000,000 | 12/31/25 |
| **RG Partners** | Leasehold Acquisition and Redevelopment | $33,000,000 | $17,000,000 | 6/30/25 |
| **Montego Energy Partner** | Mineral Rights and Royalties | $64,000,000 | $18,000,000 (1031 Structure) | NR* |
| **Resource Royalty LLC** | Mineral Rights and Royalties | $16,487,000 | $6,000,000 (1031 Structure) | NR* |
| **WhiteHawk Inc. Corp.** | Royalties Under Corp. Program Structure | $22,000,000 | $40,000,000 Pref. B; $50,000,000 Common Shares | NR* |

NR- Closing dates were not reported, however, we assume these programs will be offering equity through most, if not all of Q1 2025 based upon the timing of our engagements.

The above list is not inclusive of all oil/gas sponsors that we reviewed in 2024 and covers only those oil/gas sponsors that responded to our survey. On this point, we note that Mewbourne Development Corp. raised its maximum offering ($180,000,000) and closed its program in Summer 2024. Other sponsors we reviewed in 2024 and that have open oil/gas programs include the following:

| | |
|---|---|
| Mountain V Oil & Gas | $20 Million Recompletion Program |
| S.T.L Resources, LLC | $100 Million Drilling Program |

# DST Product Trends & Data From Mountain Dell Consulting

Despite the continuance of lending headwinds in real estate, 48 DST sponsors raised $4.594 billion in equity across 91 programs through Q3 2024. Assuming this trend continues, the I.R.C. §1031 real estate product sector would be positioned to be at about $5.5-$6 billion in equity raised in 2024

(representing a moderate increase from 2023).

Through Q3 2024, the top DST sponsors in terms of capital raised were Ares Real Estate Exchange ($834 million, 18% of the DST market), followed by JLL Exchange ($511 million, 11%), Inland Private Capital ($477 million, 10%), ExchangeRight Real Estate ($306 million, 7%), Hines Real Estate ($277 million, 6%), Cantor Fitzgerald ($234 million, 5%), NexPoint Securities ($221 million, 5%), and Passco Companies ($157 million, 4%). These eight companies accounted for over 65% of the DST capital raised through Q3 2024.

In terms of sector coverage, industrial assets now account for the highest percentage of the DST equity (41%), which is followed by multi-family assets (25%), office (12%), and retail (15%). 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 (1)** | $6.40 million<br>Two reported deals | No Leverage | 111 | 9.0% |
| **Hospitality** | $3.034 million<br>Two open deals | 24% | 81 | 5.56% |
| **Industrial** | $1.041 billion<br>24 open deals | 23% | 265 | 4.58% |
| **Multi-Family** | $625 million<br>26 open deals | 38% | 324 | 4.53% |
| **Multi-Student Housing** | $54 million<br>Two open deals | 44% | 192 | 4.25% |
| **Office** | $294 million<br>Three open deals | 33% | 687 | 5.67% |
| **Office/Medical** | $49 million<br>Five open deals | 20% (2) | 102 | 5.12% |
| **Retail** | $367 million<br>19 open deals | 12% (3) | 304 | 5.25% |
| **Self-Storage** | $44 million<br>Six open deals | 10% (4) | 226 | 4.76% |

| | | | | |
|---|---|---|---|---|
| **Senior Housing** | $37 million<br>Three open deals | 14% (5) | 166 | 5.43% |
| **Other (6)** | $52 million<br>Three open deals | 0% | 107 | 5.33% |

(1) Oil & Gas 1031s are structured as fractional interest programs
(2) Average debt affected by three deals with zero leverage
(3) Average debt affected by 14 deals with zero leverage
(4) Average debt affected by five deals with zero leverage
(5) Average debt affected by two deals with zero leverage
(6) Includes farmland and other assets previously not specified

Of the 91 I.R.C. §1031 deals that were open at the end of Q3 2024, the average days on the market was 281 and the average year-one cash on cash return was 4.85%. Also, of the open products on the market, about 50% (46 of 90 deals) report that they are all cash/no leverage. Of the deals that are using leverage, a majority are using loan-to-values from 30% to 50%.

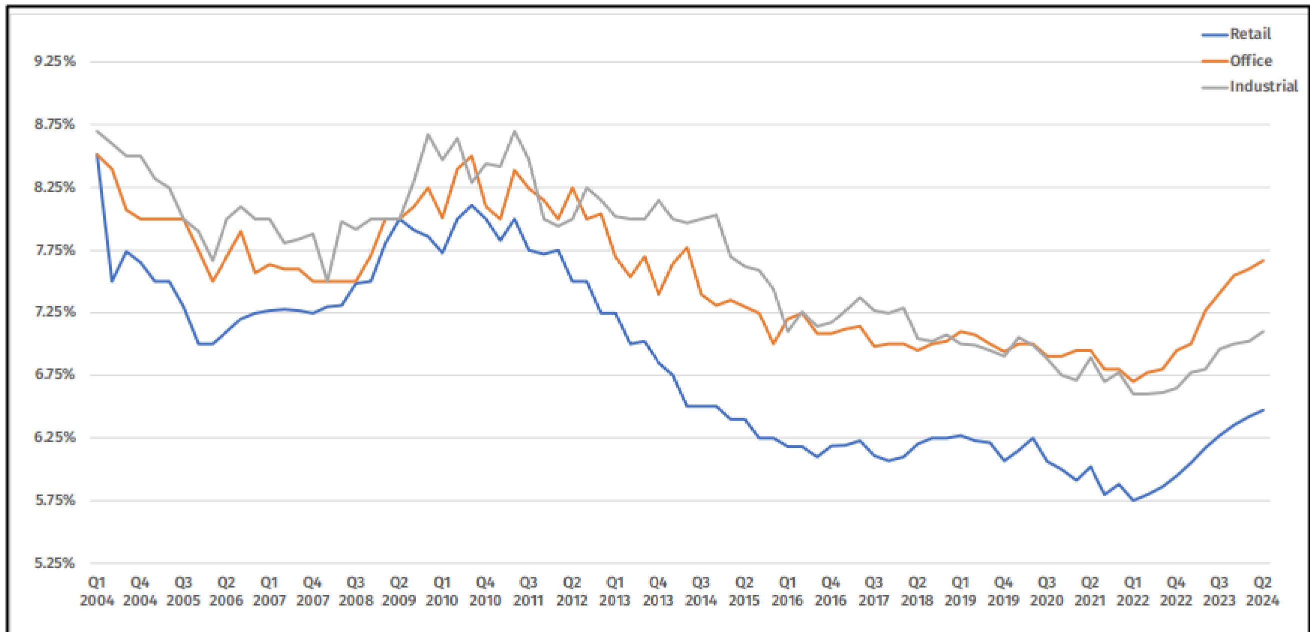
# NNN Leased Assets

The following NNN sector research was recently derived from our recent market analysis and legal opinions in Q4 2024.

According to the 3Q 2024 Net Leased Market Report completed by The Boulder Group, (i) cap rates across the net lease sector increased for the ninth consecutive quarter, (ii) cap rates for single-tenant, net leased retail properties increased by three basis points during the quarter, (iii) cap rates for single-tenant, net leased office properties increased by eight basis points, and (iv) cap rates for single-tenant, net leased industrial increased five basis points. A summary of the three major property types and their respective average capitalization rates (or "cap rates") are presented below for the periods indicated:

| Property Type | Q1 2024 | Q2 2024 | Q3 2024 |
| --- | --- | --- | --- |
| Retail | 6.42% | 6.47% | 6.50% |
| Office | 7.60% | 7.67% | 7.75% |
| Industrial | 7.02% | 7.10% | 7.15% |

As the Federal Reserve (the "**Fed**") increased interest rates in an attempt to curb inflation, rising debt costs have put upward pressure on cap rates. Cap rates for single-tenant net leased assets reached a cycle-low during the first quarter of 2022 and have increased for nine consecutive quarters. A summary of cap rates and historical levels from 2004 to present can be found below:




The Fed's efforts to combat inflation through a series of rate-hikes beginning in 2022 caused debt to become more expensive and less available, precipitating a cap rate rise across all asset classes. With short

term rates still 400 to 500 basis points above the level found during early 2022, many investors have reset expectations, resulting in less aggressive bidding and higher cap rate expectations. The Fed cut its benchmark interest rate by 50 basis points at the September policymaking meeting, marking the first reduction in four years. The half-point move signaled that the Fed is acting aggressively to keep the U.S. economy from stalling, given that historically most rate movements are 25 basis points. Fed Chair Jerome Powell said the decision to ease more aggressively was based partly on the central bank's confidence that inflation will soon reach policymakers' goal of a 2% annual rate. Powell added that the labor market remains solid, though not as hot as it was during the pandemic, when labor shortages drove up wages and some businesses found it difficult to find new workers. The latest CPI report published August 14, 2024, showed consumer prices increased 2.9% in the 12 months ended June 2024, the smallest increase in inflation since March 2021.

Property supply in the net-lease sector has increased significantly over the past 12 months. The second quarter of 2024 saw the highest number of properties on the market since the fourth quarter of 2021. With a significant number of properties on the market, most investors believe the market strongly favors buyers over sellers in terms of compromising on asset pricing. This is particularly true of assets that are more highly commoditized (i.e. Dollar General, Walgreens).

# Operational Developments

As we move into the new year, we want to reach out to advise you of some operational projects and initiatives we are pursuing to enhance our service value to the BD, RIA and family office communities. Additionally, we welcome your feedback in our efforts to prioritize the projects that are most pressing to our client base.

*Follow-On Due Diligence*. Over the past couple of years, the biggest concern that we hear from our BD/RIA clients is the need for post-offering due diligence. The need stems from certain sponsors that have either (i) mismanaged program funds, (ii) used such funds to engage in inappropriate affiliate-related transactions, or (iii) have used such proceeds for reasons other than what was proposed within the offering materials (i.e., PPMs) given to subscribers. In view of the feedback we have received, our firm is working to implement **a post-offering due diligence service** in which the sponsor voluntarily elects at the time of our program engagement to undergo a reasonable follow-on due diligence examination that is primarily intended to confirm the sponsor's use of investor proceeds, as well as sponsor solvency and early operational progress of the reviewed program. The follow-on examinations are expected to be undertaken within a period of 6 months and 18 months after an offering closes, with the sponsor agreeing to pay for the follow-on investigation at the close of an offering. Our pricing for this service is anticipated to range from $10,000-$12,500 per program, which is intended to cover both the 6-month and 18-month reviews. **Assuming a good level of buy-in from the sponsor community, we anticipate that our post-offering services will help to close an important gap in respect to having an ability to verify operational execution at a program level.**

*Opinion Layout/Format*. To improve our client experience, we have begun a project to update the layout of our legal opinions. The enhancements within our new opinions are expected to include institutional quality graphics, as well as content layout enhancements. Assisting us with this project is Grace Updike, who is studying journalism, branding, and graphics design at Creighton University. We anticipate sharing samples of the newer opinions with some of our clients starting in Q1 2025.

*Reg. BI Comparative Product Analysis*. Over the past few months, we have created a *Comparative Product Analysis* template that is designed to help our BD clients meet their duty of care obligations under Regulation BI. In initiating this project, it was our goal to create a useful tool that enables a

BD client to engage in a meaningful side-by-side analysis of an investment product with peer group products in terms of costs, risks, and underwriting return. Our initial Reg. BI reports focused on oil/gas sponsors, which have been used by a number of our clients in their due diligence of drilling product alternatives. **Samples of our Comparative Product Analysis can also be provided to you upon request.**

## Upcoming Events Calendar

**TNDDA by ADISA**
February 23-25, 2025
The Ritz-Carlton Orlando, Grande Lakes

**ADISA 2025 Spring Conference**
March 31-April 2, 2025
InterContinental Los Angeles Downtown

**2025 Mick Law Energy & Global Alts Symposium**
May 18-20, 2025
Marriott at Legacy Town Center, Dallas/Plano, TX

**2025 Mick Law Real Estate Symposium**
October 19-21, 2025
Westin Tempe, Tempe, AZ