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Opportunity Zones Go Permanent. A Due Diligence Perspective on OZ 2.0.

By Kyla Ehrisman, Senior Associate

The qualified opportunity zone (QOZ) program is now permanent. With the passage of the One Big Beautiful Bill Act, what began in 2017 as a finite, sunsetting incentive has become a fixture of the tax code. The next round of zone nominations begins July 1, and last week the Internal Revenue Service issued Notice 2026-40 with transitional guidance. For broker-dealers, registered investment advisory firms, and family offices evaluating qualified opportunity funds (QOFs), the practical question is what has actually changed, and how that should shape due diligence going forward.

WHAT'S MATERIALLY DIFFERENT IN OZ 2.0

Permanence should bring sponsors and investors into the space who stayed on the sidelines when the program was first introduced. Back then, many sponsors did not see the benefit in investing the resources to become competent in a product with a finite shelf life. Investors made the same calculation, declining to learn the intricacies of a tax-advantaged program that would effectively be gone within a decade. That math is now different.

WHAT IT MEANS FOR DUE DILIGENCE

On initial review, we are looking for organizational-document language that commits the fund to complying with the new reporting regime. QOFs will be required to report total asset value, the value of QOZ property, applicable North American Industry Classification System (NAICS) codes, the census tracts they invest in, the amount invested in each qualified opportunity zone business, the value of tangible and intangible property and whether it is leased or owned, the number of residential units owned where applicable, and approximate full-time employees. From a transparency standpoint this is a positive development for investors. The compliance stakes are also real. Noncompliance with the new reporting requirements could result in penalties of up to $10,000 per return, or up to $50,000 for large QOFs (generally, those with more than $10 million in assets, which describes most of the funds we review). Willful noncompliance carries harsher penalties.

Rural QOFs warrant a closer look at supplementary documentation. If a sponsor proposes to develop a multifamily property in a rural opportunity zone, is there an independent third-party market study confirming demand? Any rural fund will need genuine market support for the business it is proposing. I expect to see artificial intelligence and data center investments, along with alternative energy projects like solar and wind, become more common asset classes in rural opportunity zones, since both fit well in those geographies.

A broader principle bears repeating in this environment. Proper due diligence is independent. That means underwriting models built from scratch rather than adapted from a sponsor's pro forma, projections tested against current market data, and fee structures benchmarked against comparable offerings. The new reporting regime will surface more information about each fund, but the analytical work of assessing reasonableness sits with the firm evaluating the offering.

WHAT WE'RE STILL WAITING ON

Notice 2026-40 addressed transitional issues as we move from the sunsetting program to its permanent successor. The most pressing item it did not address is the new reporting requirements, which are expected to be covered in a separate notice. That leaves sponsors in something of a holding pattern as they form funds and draft private placement memoranda (PPMs) for offerings expected to go live January 1, 2027. At least one 2027 QOF has already addressed this in its offering documents by committing to issue PPM supplements as further IRS guidance arrives, and more sponsors are likely to take a similar approach.

The market is heading into this next phase with more transparency, more entrants on both the sponsor and investor sides, and a program that finally has the runway to be evaluated as a long-term part of the alternative investments landscape.

Alts Gone Bad: What Challenged Deals Teach Us

By Brad Updike, Director

Alternative investments come with risk, and a small subset of programs end badly. Some of the most useful due diligence lessons come from the deals that went sideways, where the warning signs were identifiable to anyone asking the right questions.

The pattern is not new. During the Great Recession, authorities uncovered roughly forty Ponzi or Ponzi-like cases in 2008 affecting about $23 billion of investor capital, with another $15 billion in 2009. The fallout reached well beyond the sponsors. Hundreds of broker-dealers and professional service providers were drawn into the resulting litigation and enforcement actions, and many firms closed. Cases have grown less frequent over the past decade, but more recent U.S. Securities and Exchange Commission (SEC) actions, including those against EquiAlt and GPB Capital Holdings, share structural traits with the Great Recession cases.

Most underperforming alts do not involve misconduct. Roughly a quarter of failed offerings can be traced to bad markets, conditions outside the sponsor's control. About half stem from calculated decisions that produce poor outcomes, such as too much debt, the wrong drilling method, the wrong location, or off-budget execution. Another fifth come down to bad structure, where sponsor compensation is too high or misaligned with investor returns. Misconduct accounts for five percent or less, and it typically surfaces after the first deal or two, once the broker-dealer's initial due diligence has been conducted.

That five percent is worth a closer look. Provident Royalties, an energy sponsor, raised approximately $465 million across 20 programs before the Great Recession exposed weak accounting controls and undisciplined affiliate transactions. Medical Capital Holdings raised $1.76 billion through six special purpose corporations issuing promissory notes secured by healthcare receivables; roughly $1 billion of program assets ultimately came from affiliate transactions among the entities. Sunwest Management raised $430 million for tenancy-in-common (TIC) interests in senior living facilities and managed cash across roughly 300 properties on an "as available" basis, paying distributions whether or not a given facility produced cash flow.

The pattern is consistent. Each sponsor opens with promise. The royalty sponsor secures a $150 million credit line and a joint venture with a major operator. The receivables sponsor is 10 years into its business before entering the broker-dealer channel and pays principal and interest to 99.9% of its first-fund investors. The senior living sponsor establishes a multi-year record of timely distributions. None of these stories begins as fraud.

What goes wrong is structural and cultural, not market driven. The Fraud Diamond, a four-element framework for spotting high-risk situations, captures it well. Pressure builds when markets turn unfavorable or a sponsor's core strategy fails to execute.

Opportunity exists when offering documents permit distributions from capital, affiliate transactions among programs, and broad investment authority, all without audited financials or meaningful third-party oversight. Noise distracts stakeholders. The sponsor's business began legitimately, distributions are arriving on time, and respected industry partners are involved. Rationalization follows, with the misconduct framed internally as a temporary fix, an administrative convenience, or a survival measure.

The warning signs are identifiable in advance. The questions that matter most center on accountability. How are distributions funded? Are affiliate transactions permitted, and under what limits? Is the sponsor financially viable without continued capital raising? Are program-level financials audited or reviewed? Is investment authority bounded? Does sponsor compensation reward performance, or simply the act of raising capital?

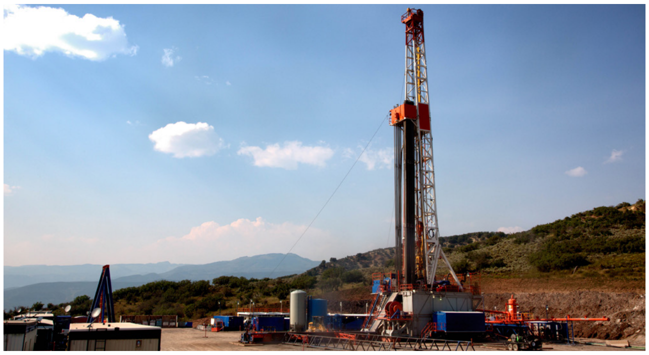
Sponsors that perform consistently share a profile. They put their own capital in and earn through performance rather than fees on assets under management. They avoid self-dealing among affiliated programs. Their accounting is real-time and transparent. They do not rely on clever marketing because the numbers carry the story.

For broker-dealers, registered investment advisory firms, and investment program sponsors, the takeaway is that initial due diligence is necessary but not sufficient. Ongoing review across each fund in a sponsor's series, not just the first or second, is where most preventable losses can be caught. Challenged deals rarely unravel overnight. They unravel across years of fundraising, in which the structural conditions for misconduct are visible early to those who look for them.

Inside the Mick Law 2026 Oil & Gas Performance Report

KEY THEMES

- The 2026 Oil & Gas Performance Report covers oil and gas program sponsors evaluated by Mick Law in 2025, organized into four categories based on capital deployment strategy: operated drilling, qualified opportunity funds, royalties/1031 programs, and non-operated drilling.
- Mewbourne Oil Co. continues to lead the operated drilling group, with MDS Energy faring well on a 2025 rebound in natural gas prices. Cash returns from U.S. Energy Development Corp. have improved relative to its pre-2018 drilling programs.



- Citizen Energy Ventures joins the operated drilling sponsors as a newcomer, drilling in the Oklahoma Anadarko Basin. It is the fourth iteration of the Citizen Energy sponsor company.
- U.S. Energy remains the sole sponsor of exploration and production (E&P)-focused qualified opportunity funds (QOFs), having raised $459 million across four QOFs since 2019.
- The report covers three royalty sponsors — Montego Energy Partners, Resource Royalty, LLC, and WhiteHawk Income Corp. WhiteHawk initiated its public offering on the NYSE (ticker: WHK) on June 9, 2026.
- Non-operated drilling sponsors covered by Mick Law collectively raised approximately $500 million in 2025.
- Sponsor turnover continues. APX Energy, LLC, John Henry Oil, and STL Resources are among the companies dropped from due diligence coverage over the past two years.

SEVEN-YEAR LOOK-BACK — OPERATED DRILLING

Cumulative cash-on-cash returns through May 2026 (U.S. Energy through December 2025):

Vintage	Mewbourne (MEP)	USEDC	MDS Energy
2018	151.45%	55.35%	87.87%
2019	203.83%	84.18%	120.59%
2020	227.64%	105.54%	134.06%
2021	133.25%	66.91%	85.20%
2022	90.79%	52.78%	39.91%
2023	71.67%	50.68%	30.81%
2024	41.28%	26.84%	13.12%

PERFORMANCE HIGHLIGHTS BY CATEGORY

$459M — Total capital raised across U.S. Energy's four QOFs since 2019. Earnings as a percentage of gross program capital range from approximately 6% (Fund III, 2024–25) to roughly 20% (Fund II, 2023). Fund-level cash returns through Q3 2025 range from 57.1% to 86.0% on programs with sufficient operating history.

$450M — Capital raised by Montego Energy Partners across approximately 30 mineral and royalty programs from 2013 through May 2026. Direct title offerings account for 85–90% of capital raised. Twenty-one open direct title programs report average annualized returns of 8.25%.

$291.1M — Capital raised by WhiteHawk Income Corp. through its common share offering, with approximately $41 million paid in dividends on a 7.5% target dividend. The Series B Preferred Shares (10% target dividend) have paid approximately $3.8 million in dividends through May 2026.

$77.3M — Asset sale by Waveland Energy Partners' WB Holdings I in 2025, managed by Stephens Inc. The sale lifted WRP 4's cumulative cash-on-cash return from 21.14% to 61.3%, and WRP 5's from 39% to 97.8%, substantially returning capital to subscribers.

490,000 — Gross mineral acres acquired by Resource Royalty across five partnership-structured funds and 22 direct title programs since 2011. Twenty-one direct title programs in pay status average 6.83% annualized on a dollar-cost basis.

CONCLUSION

Mick Law continues to see positive trends in the oil and gas programs reviewed in 2025–2026. For sponsor and program-level opinions on any of the companies discussed, contact Brad Updike.

Read the full Mick Law 2026 Oil & Gas Performance Report

Recent Opinions

CS1031 Colony at Centerpointe, DST
06/24/2026

Big Pine Investments LLC
06/11/2026

CS1031 Texas Active Living Portfolio II, DST
06/08/2026

Wolf Fork Minerals, LLC
06/02/2026

Mountain V 2026 Fund III, LP
06/02/2026

Eagle Eye Fund 2, LP
05/27/2026

CS1031 Cacema Townhomes DST
05/22/2026

Resource Royalty 27, LLC
05/21/2026

Upcoming Events

ADISA ANNUAL CONFERENCE & TRADE SHOW | October 5-7, 2026, Las Vegas, NV

2026 MICK LAW REAL ESTATE SYMPOSIUM | October 18-20, 2026, Tempe, AZ

Thank you to all who attended the 14th Annual Mick College World Series Event

QUESTIONS?

For questions regarding sponsor opinions, or for all other inquiries, kindly contact **David Sengstock**, president, at dsengstock@micklawpc.com, or **Zia Sabir**, vice president, at zsabir@micklawpc.com.