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FEATURE ARTICLE

Current Developments in the Securitized 1031/721 Space

By Matthew Zadorozny, Associate, Mick Law

The securitized 1031/721 space has long been dominated by real estate-anchored Delaware statutory trust offerings, with Section 721 UPREIT transactions becoming an increasingly prominent exit consideration. That picture is shifting. Oil and gas assets, specifically royalty and mineral interests, have entered a conversation that has historically centered on real estate. These developments anchored a panel I moderated at Mick Law's 2026 Real Estate Symposium, "Current Developments in the Securitized 1031/721 Space," joined by Bradford Updike, director with Mick Law, Amy Arnold, senior managing director with Skyway Capital Markets, and Josh Hoffman, president of Bluerock Value Exchange and head of direct investments at Bluerock. Our discussion ranged from the fundamentals of these new offerings and what makes them eligible for 1031 exchanges to the growing interest in Section 721 UPREIT transactions and their implications for investment evaluation and disposition planning.

UNDERSTANDING ROYALTY AND MINERAL PROGRAMS

Many broker-dealers and advisors know traditional real estate DSTs well but have had less exposure to royalty and mineral programs. A mineral interest represents full fee title to the subsurface, while a royalty is the right to a variable payment for assigning drilling rights to an exploration and production company, without bearing the lease operating costs. These programs can be built around cash-flowing producing wells or undeveloped properties, a distinction that meaningfully changes the risk profile. Royalties, mineral interests, leasehold interests, working interests in producing wells, and direct pipeline interests can all qualify for 1031 treatment both going in and at exit, while working interests in wells not yet drilled qualify only at exit. Partnership and LLC interests and most production payments receive no 1031 treatment. Another consideration is the potential use of intangible drilling cost deductions to shelter income recognized as Section 1031 boot. These dynamics, including asset depletion and income fluctuations tied to production and commodity prices, introduce underwriting considerations that differ from those of a traditional real estate DST.

WHEN A 721 EXIT IS CONTEMPLATED FROM THE OUTSET

Oil and gas assets are not the only development changing the 1031/721 landscape. The growing use of Section 721 UPREIT exits is also influencing the scope of due diligence. One area of discussion was the increasing identification of a potential 721 UPREIT transaction as a disposition scenario at the outset of a DST offering, rather than as an undefined future possibility. When a Section 721 exit is contemplated from the beginning, the review extends beyond the underlying DST asset to include an evaluation of the REIT vehicle that may ultimately acquire it.

ONGOING OVERSIGHT AFTER CAPITAL IS PLACED

The distinctions between traditional real estate DSTs and newer royalty and mineral programs extend beyond the initial offering review. For real estate DSTs, ongoing considerations include master lease performance, trust-level reporting and the relationship between operating results and sponsor reporting. Royalty and mineral programs present different variables, particularly asset depletion, production levels and income fluctuations tied to commodity prices. These distinctions further illustrate the importance of evaluating each offering according to its underlying assets, structure and operating characteristics.

KEY TAKEAWAYS

Royalty and mineral interests are expanding the types of assets represented in the securitized 1031 market, while the growing consideration of Section 721 UPREIT transactions introduces additional dimensions to exit planning. Together, these developments reflect a market in which asset characteristics, investment structures and potential disposition strategies are becoming increasingly varied.

> "These distinctions further illustrate the importance of evaluating each offering according to its underlying assets, structure and operating characteristics."

Left to right: Matthew Zadorozny, Mick Law; Brad Updike, Mick Law; Amy Arnold, Skyway Capital Markets; Josh Hoffman, Bluerock (BVEX)

15TH ANNUAL

2026 Real Estate Symposium

Left to right: Bryan Mick, Mick Law; Kevin Vonhamme, Mick Law; Matthew Zadorozny, Mick Law; Kyla Ehrisman, Mick Law

Mick Law hosted its 15th Annual Real Estate Symposium October 18–20 in Tempe, Arizona, bringing together independent broker-dealers, registered investment advisory firms, family offices and industry colleagues for three days of sponsor presentations, educational sessions and independent due diligence discussions.

The symposium included presentations from real estate investment sponsors across a range of property types and investment strategies. Following sponsor presentations each day, Mick Law convened closed-door sessions for broker-dealer, RIA and family office attendees, providing an opportunity for direct discussion of the offerings and their sponsors.

EDUCATIONAL SESSIONS

Underwriting & Capital Markets Update	Presented by Alan Lincoln, CCIM, Mick Law's Lead Real Estate Underwriter
Current Developments in the Securitized 1031/721 Space	Moderated by Matthew Zadorozny of Mick Law, with Bradford Updike of Mick Law; Amy Arnold of Skyway Capital Markets; and Josh Hoffman of Bluerock
Looking Forward: Debt Financing Considerations	Moderated by Aric Wenzl of Mick Law, with Alan Lincoln, CCIM, Mick Law's Lead Real Estate Underwriter; Erik Hayden of Urban Catalyst; and Matthew Iak of U.S. Property Development

Left to right: Robin Edgar, Wealth Progression Group; Zia Sabir, Mick Law; Matthew Chancey, Tax Alpha Companies

Left to right: David Sengstock, Mick Law; Eduardo Corona, WealthForge; Matthew Chancey, Tax Alpha Companies

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Sponsor presentations filled all three days, representing the breadth of today's real estate market.

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15th

ANNUAL SYMPOSIUM

Founded in 2012, the annual symposium remains a central component of Mick Law's commitment to independent, third-party due diligence and industry education.

ENERGY & 1031 PLANNING

Four Ways to Hold an Oil & Gas Interest

Each form of ownership carries different economics and tax treatment. Understanding the distinctions is central to evaluating energy as a Section 1031 exchange and tax-mitigation strategy.

MI Mineral Interest

Full fee subsurface title. Owns the minerals, earns from production, and continues after production stops. Does not pay to drill.

RI Royalty Interest

The right to variable "rent" for assigning drilling rights to an E&P operator. Earns from production and owns the minerals, but bears no drilling or operating costs.

ORRI Overriding Royalty Interest

Earns from production but does not own the minerals, and ends when production stops. No drilling or operating costs.

WI Working Interest

The operator's position. Pays to drill and operate and participates in lease operating expenses, and carries the significant tax advantages.

How the Four Compare

CHARACTERISTIC	MI	RI	ORRI	WI
Generates revenue from well production	✓	✓	✓	✓
Owns the underground minerals	✓	✓	—	—
Ownership continues after production stops	✓	✓	—	—
Collects upfront bonus payments	✓	—	—	—
Has rights to executive leases	✓	✓	—	—
Pays to operate or drill the well	—	—	—	✓
Participates in lease operating expenses	—	—	—	✓
Has significant tax advantages	—	—	—	✓

NOTE ON TAX ADVANTAGES

The working interest's advantages reflect active-business treatment, including intangible drilling cost (IDC) deductions and depletion, that the passive interests do not receive. IDC deductions can also shelter Section 1031 boot income.

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TNDDA BY ADISA | November 1–3, 2026 · New Orleans, LA

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.