



MINERAL RIGHTS REPORT

2023



TEXAS
ROYALTY BROKERS



www.TexasRoyaltyBrokers.com



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ABOUT TEXAS ROYALTY BROKERS

Our firm specializes in high value mineral rights sales exclusively in Texas.

Our team has been helping mineral owners sell mineral rights in Texas since 2012. Our number one priority is helping you sell mineral rights for the absolute highest price possible.

Our focus on high value minerals located in Texas allows us to provide mineral owners with the following benefits:

QUALITY LISTINGS

By exclusively listing high value properties, our listings are also higher quality. Higher quality listings attract high quality buyers who pay better prices.

LOW VOLUME

Most mineral brokers are focused on completing as many deals they can. Their goal is not to maximize value. At Texas Royalty Brokers, each listing has our full and undivided attention resulting in better prices.

ACTIVE MARKETING

A lot of mineral brokers will list your property, shoot an email to their buyer list, and hope for the best. This is not going above and beyond to maximize value for clients. At Texas Royalty Brokers we will actively market your mineral rights leading to better prices. You may have seen our letters in the mail marketing our clients mineral rights for sale.

MINERAL BUYER RELATIONSHIPS

One of the benefits of focusing exclusively on Texas is that we are able to cultivate relationships with buyers. A strong relationship with buyers means we are able to get high quality buyers to evaluate your minerals and pay the best price.

At Texas Royalty Brokers, we help mineral owners navigate the process of selling mineral rights. We make everything simple and transparent. We will guide you through each step of the process and ensure you sell mineral rights in Texas for maximum value.

If you are considering selling mineral rights, I hope you will give us an opportunity to earn your business.

Sincerely,



Eric Winegar
Managing Partner
Texas Royalty Brokers



MARKET UPDATE 2023

From 2015 to 2019, the market for selling mineral rights was average. Oil was trading in the \$40 to \$60/barrel range for the majority of this time. This market favored neither buyers or sellers.

In 2020, Covid hit which killed the demand for oil and subsequently hammered oil prices to \$20/barrel. For nearly the entire year, we advised clients against selling their mineral rights unless they had absolutely no choice.

In 2021, we saw oil prices come roaring back with oil prices hitting \$75+/barrel by year end. As the federal reserve printed trillions of dollars and inflation was beginning to take hold, a flight to hard assets was beginning. This was a great year to sell mineral rights.

As we entered 2022, a very strong mineral rights market got even stronger. This was due to the following factors:

Ukraine War: The Russia/Ukraine war began in February 2022. This war caused the demand for oil to increase dramatically while also creating geopolitical uncertainty.

Inflation: By the end of 2022, it was clear that inflation was not mild and was firmly entrenched in the economy. Despite efforts to curb inflation by raising interest rates, inflation has remained strong and prices for nearly everything have increased dramatically year over year. It appears inflation may be easing a bit, but is still playing a role.

Strong Dollar: Despite the federal reserve printing trillions of dollars, which in normal times would devalue the dollar, the dollar has remained extremely strong. This is because the dollar is effectively still the strongest among the world currencies despite the printing. This is important because a strong dollar means high oil prices. Oil trades in US Dollars and the stronger the dollar is the higher oil prices will go. As the dollar weakens, oil prices will decline.

During 2022, we saw intense demand for mineral rights. Buyers were willing to pay aggressive prices and sellers were willing to sell since the market was strong. It turned out that 2022 was the best time to sell mineral rights since 2014.

Will 2023 be a good time to sell?

In Texas, the breakeven price to drill a new well is around \$50/barrel. This means if oil prices are \$60+, it is a good time to sell mineral rights. Operators are encouraged to drill new wells and existing production generates solid income.

Wouldn't it be better to sell when oil is \$100+? Not necessarily. Even when oil prices are \$100+, mineral buyers do not increase their offers proportionately. The reason is that oil prices have not historically sustained above \$100/barrel. Every mineral buyer has an assumed long time oil price in their model. Typically this is in the \$55/barrel to \$65/barrel range. When oil prices shoot to \$100+, their long term model does not change and their offers remain the same.

As a mineral owner, if the price is \$60+/barrel, buyers are going to be aggressively purchasing and it's a good time to sell. If oil prices are in the \$40/barrel to \$60/barrel range, this would be an average time to sell.

If you have been thinking about selling, **now is the time.** Mineral buyers are still aggressively buying and we expect the first half of 2023 to be a very strong market for mineral owners who are interested in selling.



MINERAL RIGHTS VALUE

Curious about mineral rights value in Texas?

Mineral rights value in Texas is complicated. There is no simple formula to determine mineral rights value. The most important thing to understand about mineral rights value in Texas is that there is **no way** to know the value until you sell.

The reason is that each mineral rights ownership is unique. There are five factors that dramatically impact the value of mineral rights in Texas.

NET MINERAL ACRES OWNED

The most important factor is how many net mineral acres you own. You are paid royalty income based on how many net mineral acres you own out of the total unit.

ROYALTY RATE

The royalty rate determines how much of the oil and gas produced gets paid to you after the oil and gas operator takes their share. The higher the royalty rate, the more money you make. All other things being equal, someone with a 25% royalty rate is going to get twice as much as someone with a 12.5% royalty rate.

TIMING

The value of mineral rights is very closely related to the price of oil and gas. Ultimately you own the oil and gas underground. If the value of that oil and gas goes up or down, the value of what you own goes up or down.

ROYALTY INCOME

Your current royalty income has a very large impact on the value. If you are getting consistent royalty income, this is going to appeal to a large audience of mineral buyers.

POTENTIAL INCOME

The last factor is the future upside potential. This is the hardest factor to estimate! This factor alone can cause offers to swing dramatically from one buyer to the next.

There are many other factors that affect the value of mineral rights in Texas. While those factors are also important, the factors above are what swing the value dramatically from one ownership to the next.

If you have questions about what your mineral rights are worth, please reach out to us for a free consultation.

LEARN MORE!

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HOW TO SELL MINERAL RIGHTS

Thinking about selling mineral rights in Texas?

At Texas Royalty Brokers, we can guide you through the entire process of selling mineral rights. We'll ensure you get the absolute highest price and make the process simple.

The number one mistake mineral owners make when selling mineral rights in Texas is not using a broker. **Without an experienced broker who knows the industry, you simply can't reach enough buyers to get a fair price.**

When you sell mineral rights in Texas on your own, you are almost always going to sell below market value. Why? There is no competition. You're allowing a few mineral buyers to compete for your minerals when there are thousands of mineral buyers.

A lot of mineral buyers in Texas have made a fortune reaching out directly with offers. Most mineral owners will talk to a few mineral buyers. They negotiate the best price they can, and then sell. These mineral owners don't realize that they could have walked away with substantially more had they simply gotten competitive bids.

Finding an offer to sell mineral rights is easy. Locating the mineral buyer who is willing to pay the absolute highest price is the difficult part.

It is extremely common for mineral owners to come to us with an offer they have already negotiated higher. We'll then hit the market and typically see a **10% to 30% price improvement** over an existing offer. If you have a \$1,000,000 offer, a 10% to 30% price improvement would be \$100,000 to \$300,000 extra dollars in your pocket. This is significant.

To provide an example, Texas Royalty Brokers had a client who wanted to sell their mineral rights. They had an offer for \$1.6MM. After listing at Texas Royalty Brokers, the client received an offer for \$2.3MM after commission. This client walked away with over \$700,000 more, or a 46% increase over their existing offer. We can't guarantee results like this for every client, but this example highlights our ability to generate significant value for our clients.

The best part about listing mineral rights at Texas Royalty Brokers is that we don't get paid unless we get you a better price. This means you can bring your existing offers to us, we will list the property, and then we don't make a dime if you don't walk away with more money. This makes listing mineral rights a risk free way to get competitive bids and ensure you are getting the best price.

Competition is crucial when selling mineral rights in Texas. You absolutely must get competitive bids or you are nearly always selling below market value.

To sell mineral rights or learn more about how the process works, please visit our website or call us for a free consultation.

LEARN MORE!

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REASONS TO SELL MINERAL RIGHTS

Should you sell your mineral rights?

Remember that each situation is unique. Deciding whether you should sell is personal. Never let anyone put pressure on you to sell mineral rights or to hold mineral rights. Take a look at your situation and make the right decision for you.

Common reasons for selling mineral rights in Texas include:

TAXES

The **number one** reason to sell mineral rights is to save money on taxes. Check out the next page to see more information regarding taxes or visit our website.

DIVERSIFICATION

If you have more than 5% of your net worth / retirement savings in mineral rights, you should diversify. It simply doesn't make sense to hold mineral rights that wildly fluctuate in value. Sell the mineral rights and put them in a well diversified stock market fund.

HOME DOWN PAYMENT

An extremely common reason for selling mineral rights is to come up with a down payment for a home.

SIMPLIFY YOUR ESTATE

A very common reason to sell mineral rights in Texas is to simplify your estate. Mineral rights are complicated. They create a tax burden on your heirs and dividing mineral rights decreases the value.

MEDICAL EXPENSES

If you are in a situation where you need funds to pay for medical expenses, it makes sense to sell mineral rights and use those funds today.

PAY OFF DEBT

If you are paying 20%+ interest rates on credit card debt, there is no reason you should continue holding your mineral rights. When you consider the tax savings of selling along with paying down high interest debt, there is no question you should sell the mineral rights and pay down the debt.

HELPING A FAMILY MEMBER

There are always situations that come up where a family member needs help. If selling mineral rights will give you the ability to help a family member in need, it can make sense to sell.

There are many other reasons to sell mineral rights in Texas. It really comes down to your personal decision and what works best for you.

LEARN MORE!

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MINERAL RIGHTS TAXES

While taxes are a boring topic, it is also a topic that can save you thousands of dollars if you understand how mineral rights are taxed.

The most important thing to understand is how a sale is taxed vs how collecting royalty income is taxed. If you collect royalty income, that income is taxed at **ordinary income** tax rates. When selling mineral rights, they will be taxed at **capital gains** tax rates. If you inherited the mineral rights, they will be taxed at **capital gains** tax rates **using a step-up basis**.

These topics are too in depth to cover here, but let's look at how taxes play a role in collecting royalty income and selling mineral rights:

COLLECT ROYALTY INCOME	
Gross Income:	\$1,000,000
Tax Rate:	25%
Tax Paid:	\$250,000
Net Income:	\$750,000

SELL - CAPITAL GAINS	
Gross Income:	\$900,000
Tax Rate:	15%
Tax Paid:	\$135,000
Net Income:	\$765,000

SELL - STEP-UP BASIS	
Gross Income:	\$900,000
Tax Rate:	5%
Tax Paid:	\$45,000
Net Income:	\$855,000

In the scenario above, we assume the sales price will be lower than the royalty income collected over time to account for mineral buyer profit. Even with this taken into account, you will still collect more money today due to tax savings than waiting a decade to collect royalty income.

If you inherited mineral rights, you will get a step-up basis when you sell. This is a huge tax break for mineral owners that most are not aware of.

There is no reason to collect royalty income and be taxed at 25%+ for years, when you could collect that money today and gain a significant tax savings. If you are in a tax bracket that is higher than 25% the tax savings is even larger than our example.

Before selling mineral rights you should talk with your CPA.

For more information regarding mineral rights taxes, please visit our website or call us for a free consultation.

LEARN MORE!

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