



MINERAL RIGHTS REPORT

2024 H2



TEXAS
ROYALTY BROKERS



www.TexasRoyaltyBrokers.com



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WHY 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 ensure that mineral owners sell for maximum value.

Here are three important reasons to list your mineral rights at Texas Royalty Brokers:

1. COMPETITIVE BIDDING

Did you know that using a mineral rights broker will nearly always result in 10% to 30% higher prices? After taking commission into account, our clients saw an average increase of 10% to 30% over existing offers they found on their own.

How is this possible? When you receive a few offers in the mail or solicit a few bids on your own, you are typically contacting less than 1% of the mineral buyers in the market. To maximize value, your mineral rights need to be listed in a competitive environment where thousands of buyers are competing to pay you the highest price.

2. ACTIVE MARKETING

A lot of mineral brokers will list your property, send 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.

We accomplish this by custom tailoring our marketing approach to each client. When we list a new property, our team researches the mineral buyers in the area and sends physical letters to buyers. This approach ensures that every possible buyer who may have an interest is aware your mineral rights are available for sale.

3. COMMISSION RATES

In the mineral rights industry, it's common for brokers to charge 6% to 10%. At Texas Royalty Brokers, we offer the most competitive commission at just 6%. For clients who own mineral rights valued at \$2.5MM or higher, our scale-based commission means the effective commission rate will be less than 6%.

Our focus on Texas high value properties allows us to be more efficient than other brokers. We pass those savings along to our clients.

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 for maximum value.

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

Sincerely,



Eric Winegar
Managing Partner



MARKET UPDATE 2024 - MIDYEAR

While timing the market is impossible, it's important to keep an eye on a few things as you consider when to sell mineral rights. For most clients, the decision to sell is personal and the best time to sell is when you're ready.

In Texas, operators can profitably drill new wells in many places when oil prices are \$50/barrel or higher. Depending on the location and type of gas produced, the breakeven price for natural gas is between \$1.50 and \$2.00/MMBtu.

What this means is that when oil is \$50/barrel or higher, and natural gas is \$2.00/MMBtu or higher, it is an ideal time to sell mineral rights. Due to tax advantages and your personal situation, selling when prices are lower can also make sense for some clients.

2024 Midyear Update

As we entered 2024, it was unclear if higher interest rates and inflation were going to create economic challenges. These economic challenges could reduce demand for oil and gas, which would be concerning for mineral owners. However, we have seen the economy remain strong despite higher interest rates and inflation appears to be slowly coming down. Whether the "soft landing" is successful is still up for debate, but the oil and gas market remains strong.

In January 2024, we saw natural gas prices start dropping significantly. In May 2024, natural gas prices started surging higher, moving back to a more historically normal price point. If you have mineral rights that are predominately natural gas and you have been thinking about selling, now may be the time to jump back in the market and see what offers are out there.

Oil has remained consistent. We have been hovering in the \$70/barrel to \$80/barrel range for the better part of a year now. This is an excellent place for oil. Operators can make profitable investments in new production, and we should see oil producing properties continue to see strong income and strong demand from mineral buyers.

As we enter the 2nd half of 2024, we are focused primarily on geopolitical issues, inflation, interest rates, and the overall economy.

In our opinion, these factors will have the greatest impact on oil and gas prices as we move forward. If inflation remains a bit high, geopolitical tensions continue, but the overall economy continues to do well despite high interest rates, we believe the mineral rights market will remain strong.

Selling Mineral Rights in 2024

If you have been considering the sale of your mineral rights, right now is a great time to sell. We continue to see very strong demand from mineral buyers due to higher oil and gas prices.

The decision to sell mineral rights is personal. There are many factors that each mineral owner considers prior to a sale. If you are curious about whether now is the right time to sell your mineral rights, contact us. We can provide a free consultation that includes an analysis of your ownership. There will be no pressure and no obligation.



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.

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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.

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SHOULD YOU SELL 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 hold onto mineral rights. Take a look at your situation and make the right decision for you.

Many mineral owners hear the advice to “never sell mineral rights” and feel conflicted about selling. While we are biased to encourage mineral owners to sell, we strongly believe that most mineral owners should sell for two important reasons.

1. TAXES

The **number one** reason to sell mineral rights is to save money on taxes. Even if you are fully diversified, you will save a fortune in taxes by selling compared to collecting royalty income. The reason is that royalty income as taxed as ordinary income and selling is tax advantaged. We discuss this more in depth on the next page and on our website, but selling mineral rights is the best decision for most mineral owners based on the tax advantages.

If you inherited mineral rights, there is almost no scenario where collecting royalty income makes more sense than selling.

2. 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.

The reason is that you have no control over the asset. The operator controls all aspects of managing the property and the value generated fluctuates daily based on oil and gas prices. Imagine if you owned a rental property but the rent paid each month by the tenant was decided by an outside force you had no control over. In addition, you had no control over how the property was managed. That is mineral rights ownership.

Owning mineral rights can make sense if it represents a very small amount of your overall net worth and is simply a diversification vehicle to compliment other assets. For most mineral owners, selling will substantially reduce risk and allow you to invest in other assets that produce more consistent returns.

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.

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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 EXAMPLE	
Gross Income:	\$900,000
Tax Rate:	5%
Tax Paid:	\$45,000
Net Income:	\$855,000

Important: In the "Step-up basis" example above, we are simply providing a hypothetical situation that would result in a 5% effective tax rate. Some mineral owners will owe 0% and some will owe 10%+. It depends on the price of oil and/or gas at the time you inherited. Contact us for a free consultation and we can provide you with an estimate for your specific situation.

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.

LEARN MORE!

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