

Oil and Gas Royalties

Oil and gas related properties in the energy sector may be considered as an alternative replacement property solution for real estate investors seeking to engage in a 1031 tax-deferred exchange. These programs are known as "royalty interest" and qualify as a "like kind" exchange into a fee interest in investment real estate. Exchanging into oil and gas royalties can present real estate investors with an opportunity to diversify their portfolio within the energy sector, whose performance usually does not directly correlate with the performance of traditional real estate.

"Royalty interest" in an oil, gas and mineral lease represents an interest or revenue share from the production of oil and gas. By definition, a royalty is part of the mineral title to a defined parcel of land and represents ownership of a percentage of gross revenue from the production of oil and gas wells on that property. A royalty interest does not involve the expense or risk associated with production, but does share in the mineral reserves.

Royalty interest should not be confused with "working interests", which bears the expenses of drilling