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Hegg shares insights on doing business in Bakken

SIOUX FALLS, S.D. - Doing business in the oil-production hotbed of northwestern North Dakota presents unusual challenges as well as vast opportunities, says Paul Hegg, president and CEO of Hegg Companies Inc.

During the past two years, Hegg Companies has learned, for example, that planned apartment complexes should be designed with extra-large garages and driveways because many of the future tenants are likely to drive oversized pickup trucks, not cars. As other builders have learned, building regular-sized garages just won't do.

Hegg reviewed other unique obstacles and ongoing appeal of residential and commercial development in the Bakken oil-production region on Thursday night in a presentation to the South Dakota Real Estate Investors Association in Sioux Falls.

Hegg Companies leads an investment fund that is developing three residential complexes in the Bakken Shale region. The projects in Watford City and Minot have a combined value of \$85 million. About \$220 million in additional projects also are planned.

Hegg Companies has been active in the Bakken for about two years. In his May 16 presentation to the Investment Association, Hegg noted that the population of the sparsely populated area is soaring, and that small communities are having trouble keeping up with the growth.

In Williston, for example, rent for a one-bedroom apartment runs about \$2,400 a month, which is more than the going rate in cities such as New York and San Francisco. There is less than one housing unit per job in Williston, Hegg said, and the gap is widening.

“The demand is clearly there. The supply isn’t,” he said.

Oil production is no longer in the exploratory “wildcatting” stage, Hegg said. It’s become a matter of “putting plumbing in the ground.”

Mineral experts don’t expect oil production to level off until sometime between 2022 and 2030. “It’s a long-term play,” Hegg said. “It’s a once-in-a lifetime opportunity.”

Adverse factors facing developers and investors who want to succeed in the area have become well known. They include a lack of workers, improving but still inadequate infrastructure, and tough weather conditions.

Fast-food restaurants have to pay workers up to \$20 an hour, and stores have trouble keeping merchandise stocked.

Hegg advises businesses interested in expanding to the Bakken to bring their own workers. He also stressed the importance of having “boots on the ground” in the area.

“You’ve got to be up there. You can’t do it from 500 miles away,” he said.

Hegg shared several, behind-the-scenes challenges that developers encounter. For example, because of the lack of good, readily available maintenance help, his company had to fly a lock expert across North Dakota, from Fargo to Watford City, to change dozens of locks on a residential complex the company had acquired.

“There’s nobody there doing maintenance, and everybody needs it,” Hegg said.

Overall, however, Hegg feels better about the company’s involvement in the Bakken than he did a year ago. “It’s probably because the market seems to be getting better,” he said.

Kim Schwenke-Cram, president Investors Association, said audience members were very complimentary of the Hegg’s presentation.

“Paul did an absolutely fantastic job,” she said.