Buying Apartment Buildings in a Self-Directed IRA by Corwin Smith

Article published on March 22nd 2012 | Loans

An IRA is a retirement tool into which you channel funds for your retirement, usually to a mutual fund company. In contrast, a self-directed IRA (SDIRA), also referred to as a check book or real estate IRA, gives you the freedom to manage the entire process of deciding where you want to invest these funds. With the SDIRA you can use an IRA loan to invest in real estate ranging from a single or multi-unit residence, to an apartment building, co-op, condo, commercial property, franchise or land.

Forming an IRA LLC

To buy apartment buildings with your SDIRA, the best way is through an LLC or limited liability company funded by your IRA. Once this is set up by a competent attorney, the IRA custodian enters into an agreement representing the IRA. With an LLC, a new bank account is then created to hold the IRA funds. Any expenses related to the property investment are issued from this account and all rental checks and other income from property are deposited into it. As easy as this appears, it is best executed with a thorough knowledge of the IRS regulations for IRAâ€™s and the relevant restrictions.

Even if there is insufficient money in your SDIRA account, you can invest in an apartment building through an IRA loan to cover the full purchase cost. The only condition is that since the property belongs to the IRA, the loan must also be repaid from IRA assets. This type of financing is also known as a non recourse loan as the lenderâ€™s only recourse, should the borrower default, is to take title to the property but not any of the IRA assets.

The apartment buildings you invest in, with your IRA, belong to the IRA and the value of the property is the collateral for the non recourse loan used to fund the property. The income produced by the property is paid to the IRA, which then pays the mortgage holder. Other assets in the IRA can also be used, in addition to permissible annual account contributions. All transactions are routed through the IRA as it is considered a separate entity.

Diversifying Retirement Investments with a Real Estate IRA

The idea behind this method of retirement investing is growing wealth through rental income and the appreciation of the asset. This is why apartment buildings are an attractive proposition for SDIRA investments. With low real estate prices and the rising number of foreclosures, now is a good time to invest in properties. In fact, it is advisable to wean away from the traditional stock market and diversify into real estate.

Financing SDIRA real estate investments can be more difficult for small investors as IRA lenders are more wary of funding these purchases. Financial advisors often tend to discourage the purchase of real estate through IRA as they are not familiar with the related rules. For the investor, investing in an apartment building with his SDIRA is an attractive proposition as it puts total control in their hands with regard to how they invest their IRA money.

Besides individual LLCs, multi owner LLCs can also be formed where a group of investors can pool their self-directed funds to purchase multi-unit apartment complexes and other income generating commercial properties.

Self-directed IRAs are an innovative way to invest in real estate, especially apartment buildings, as

income generators. This can be highly profitable when done through careful planning, and if financing is required, professional Self-Directed IRA lenders are there to help.

Article Source:
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Article Keywords:
IRA Loan, IRA Loans

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