Why SDIRAs are an Increasingly Popular Method of Investing in Property by Corwin Smith

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People, who want greater control over their retirement planning, go the self-directed way. A self-directed individual retirement account (SDIRA) enables them to choose how they invest for their retirement planning. The IRA is managed by a custodian, who ensures that the investments fall under the IRS regulations. Other than this piece of oversight, it is up to the account holder to decide how to invest. Though, custodians also file reports and guide the investor through the investment process.

Common forms of investments include stocks, mutual funds, and bonds. However, many investors would be surprised to know that they can use their self directed IRA to invest in real estate as well, subject to a few conditions. Depending on the custodian, they may or may not encourage this type of investment because of the greater paperwork required for the process, but it is perfectly legal to invest in property.

Why Invest in Real Estate?

With the property market being what it is, this is a good time to purchase a new home, plot of land, or other real estate. Property prices are down and there are many good real estate deals up for grabs.

Real estate usually offers good returns, and you can always enhance the value of property through buildings, renovations, and other value addition processes. Even if you do not sell real estate, the rent on the property can form a significant part of building tax free or tax deferred retirement wealth.

Why Use SDIRA to Invest In Real Estate

While real estate is a tempting piece of the investment pie, many people do not have the funds required to buy land or property. A conventional loan has drawbacks; for example, if you default on the monthly payments, not only is your new property at risk of foreclosure, your personal assets may also be seized to pay the debt.

The alternative is a non recourse loan, which meets the IRS requirement that IRA assets cannot be used as collateral for securing a loan. While on the face of it, this appears to be a major drawback in qualifying for a loan, this rule protects the investor from personal liability in the event of loan default. The lender can only seize the property; they cannot touch other investments or assets that you may own. There are other reasons why the required non recourse loan has advantages over conventional mortgages:

1- According to IRS rules, you cannot invest in property for personal use, or use by your near relatives. This rule, again, saves your home in the event of a foreclosure. While the lender can take and sell the property you bought under the SDIRA, they cannot touch the home you live in.

2- Tax benefits on IRA income is one major reason for investing

3- If you take out a non recourse loan (discussed below) to purchase property through an IRA, it does not reflect on your credit record.

How to Buy Property through SDIRA

Your savings may not be enough to fund the purchase of property, and IRS rules prohibit using the IRA as collateral to take out a conventional mortgage on the new property. Is there a way for you to invest in property in this situation?

Yes. You can take out a non recourse loan against the IRA to buy property and make a down payment using your savings. A non recourse loan, unlike regular loans, does not put your IRA or other assets at risk. If you fail to repay the loan, the non recourse lender can take the property you purchased but cannot touch any other assets you have. This is in line with IRS regulations.

The current low property prices and the expectedly high returns on real estate investments make SDIRA non recourse loans a valuable tool for retirement wealth accumulation.

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