

Buying Real Estate with Your IRA

By Mark E. Casey

Your Individual Retirement Account (IRA) can be used for more than purchasing stocks and bonds. Section 408 of the IRS Code allows for individuals to purchase commercial real estate, non-owner occupied residential property, and raw land with funds held in your traditional IRA, Roth IRA or SEP-IRA. This is great news for someone who would like to diversify beyond the stock market, and build real estate wealth with her/his retirement account.

Setting it up

An IRA which enables you to directly purchase real estate into your retirement account, is called a Self-Directed IRA. To set one up, you will need to locate an independent IRA custodian allowing real estate investments. If your current stock broker or banker who handles your stocks and bonds does not provide Self-Directed IRA custodial services, you will need to find one who does. However, you will not need to sever any relationships. You can leave your stocks and bonds with your current advisor while you set-up your Self-Directed IRA with a custodial company which specializes in real estate. Fees vary depending on the scope of services provided by the custodian.

Selecting the Property

The property you select and purchase will be owned by your IRA account, not by you personally. Your Self-Directed IRA custodian will provide their guidelines for the type of real estate you can purchase. Regardless of the custodian's guidelines, it is important that you select a property is consistent with the goals of your retirement portfolio. Accordingly, we recommend you focus on stabilized properties with little or no debt.

One property option I particularly like is a debt-free tenant-in-common (TIC) interest. Because it is debt-free the issue of the lender's recourse is moot. A TIC property is a deeded, fractional interest in a larger property. I like medical office buildings as an investment sector, because as the baby boomer generation continues to age, well-located, well-designed medical facilities are an excellent bet.

Advantages

This type of debt-free TIC has three advantages:

It is professionally managed, meaning neither you nor your custodian will be called if the roof is leaking or the toilet is not working.

Because property is not mortgaged, your IRA is not exposed to interest rate risk, or the risk of losing the property in the event cash flow is interrupted due to vacancies.

High-quality investment real estate is an excellent hedge against inflation, and a tool for diversifying your retirement portfolio.

About the Author

Mark Casey is founder of Casey Partner, Ltd. a sustainable real estate consulting and investment firm headquartered in Boulder. Mark holds a BS degree in Public Administration from the University of Missouri and a Master of Business Administration (MBA) from the University of Virginia. Mark began his real estate career with Trammell Crow Company in the 1980's and spent twelve years with The Neenan Company, before founding Casey Partners, Ltd. He is a member of CEBA/P3 and the Urban Land Institute (ULI).