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IRA Provides Nontraditional Way to Invest in Real Estate

By Daniel Cordoba, contributing writer

Many investors have become disappointed by the uncertainty of the stock market. These days, they'd prefer to have greater choice in where they invest, beyond stocks and bonds.

A growing number of investors are learning they can invest in real estate and other nontraditional assets using their IRAs. This option is ideal for individuals who do not have cash on hand to invest or who simply want to diversify their portfolios.

Purchasing investment real estate with an IRA provides individuals with a number of favorable tax benefits from the appreciation and cash flow of the property.

With a Roth IRA, the investor never has a concern about taxation because the Roth is tax-deferred while growing and tax-free upon distribution (unlike a traditional IRA, which is taxed at the time of distribution).

In addition, a Roth IRA has no minimum distribution. It's up to the investor when and how much is taken as a distribution. Unlike 1031 exchanges, specific investment timelines or requirements to purchase "like kind" investments when buying real estate with an IRA do not exist.

When the property is sold, the IRA prevents capital-gain exposure, because taxation of an IRA does not occur until distribution.

Investors should not undertake investing in real estate with a Roth IRA or other type of IRA alone, due to strict rules the IRS sets forth. Instead, they should enlist the help of an adviser to guide them through the process.

When choosing the right self-directed IRA adviser, investors should work with an experienced professional.

A good IRA adviser will be able to offer the following:

- Adviser support and education -- The adviser should enable the investor to make the most educated investment decisions.
- Checkbook control -- An adviser should offer the ability to act fast and write checks with an IRA through an IRA LLC. The IRA LLC gives the investor more freedom in making transactions.

- An economical option -- Custodial firms and advisers may charge varying rates and fees for their services. Increased control -- Many custodial firms set forth guidelines on how transactions can be set up, based on how they prefer to work. Others are more flexible and give investors the tools they need.
- Protection -- Investors should look for a firm with the knowledge to protect them from creditors and litigation through increased overall asset protection with an IRA LLC.

Nontraditional IRA investments offer many advantages: greater control over investment options, tax-favorable income and the potential to count on higher returns with less risk.

Investors can put an adviser's expertise to work by intelligently looking to real estate as an alternative investment for retirement.

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