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Real estate: A popular choice for self directed IRAs

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With the continued volatility of the stock market, many investors are putting their retirement savings into SDRAs - Self Directed Retirement Accounts - and often the asset chosen in those accounts is real estate, as reported by leading custodians in this space.

SDRAs allow investors to pursue investments they know or understand. If they know real estate, they can use that knowledge to invest in property, notes or pre-construction developments within a tax- deferred qualified retirement account, whether it's a Traditional/Roth IRA, SEP IRA,401(k), or Health Savings Account.

Since the creation of the IRA in 1974, Americans have been able to utilize their tax-deferred retirement assets for the purchase of a wide range of non-traditional assets. But somewhere along the way, one of the most important concepts of owning an IRA - the concept of self-directing your assets - was forgotten.

Non-traditional investment opportunities are virtually endless - from web domains to mortgage notes to buying and selling show horses - with a few exceptions per the Internal Revenue Code (IRC). But real estate is the popular choice for self directed investors wanting to diversify their portfolio. And why wouldn't it be? Most investors own a home and understand how real estate performs. They understand that the value of real estate typically will not decline to zero due to the inherent value of the land.

Advantages of Real Estate within a SDRA:

*Self Negotiation - Savvy investors, are capable of self-negotiating value while acquiring real estate for less than it is actually worth. Compare that to the stock market where transactions are coordinated through the stock market so you will pay the market price if you want a particular stock.

*Control - The ability to make decisions on how your asset will be managed to generate income and equity. There are multiple things you can do to increase the value of the real estate, but be careful of any disqualified persons making any improvements, which could cause a prohibited transaction.

*Leverage - A SDRA can use leverage for a real estate purchase. Example: an investor has $200,000 in a SDRA and wishes to purchase property worth $300,000. SDRA would borrow the remaining $100,000 (note-mortgage payments must come from a qualified account and UBIT may apply on the leveraged portion). This is a significant opportunity, especially when considering cash on cash return. Compare that with the stock market offerings. An account with $200,000 that purchases $200,000 worth of stocks and bonds on day of purchase is worth just $200,000. Leveraging within a SDRA is a powerful tool, but needs to be used wisely.

*Sense of Ease - Many people own a home and understand how real estate works and investors like the fact they can physically see and touch their investment. For many, real estate provides a sense of control and freedom, knowing they can have a direct impact on their investment. Holding real estate in a portfolio may ease feelings investors get when the stock market is volatile. It may be comforting to have something tangible and physical as an investment and not just a piece of paper indicating your holdings.

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