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Investors put IRAs to work in real estate

Since U.S. debt was downgraded, investors have become more interested in alternatives to stocks and bonds when making investment decisions in their tax-deferred retirement accounts. One little-known option is real estate.

Paola Iuspa-Abbott

2011-09-06 12:00:00 AM

Tax attorney Adam Bergman clearly remembers the week his phone began ringing off the hook after U.S. debt was downgraded and the stock market began a hair-raising roller-coaster ride.

Suddenly, people began calling his Miami Beach and New York offices about pulling their retirement money out of the stock market to buy tax-deferred real estate.

"We have been quite busy the whole year, but the week of the downgrade we saw a huge spike in call volume and Internet traffic, probably close to 35 percent," said Bergman, co-founder of IRA Financial Group.

His office helps retirement investors with the paperwork to set up IRAs and 401(k) retirement accounts that can be directed to buy real estate and other nontraditional assets. A self-directed 401(k) or IRA is created by rolling over a former employer's 401(K) account or transferring an IRA or Roth IRA into a self-directed 401(k) or IRA.

"People just want more stability," he said of investors seeking more control over retirement investment decisions. "They want to diversify."

As with most retirement funds, revenue generated by investments must go back into the self-directed retirement account to remain tax-deferred or tax-free. The revenue can't be touched without penalty until the account holder turns 59½, barring some exceptions.

Replacing bonds and stocks with brick and mortar is gaining momentum because home prices are affordable to the point where many retirement accounts can cover much of a purchase price. Most

retirement account values generally range from \$80,000 to \$100,000, said Bergman, who often charges a one-time fee of \$1,200 to set up a self-directed account.

Many account holders were locked out of the market during the housing boom. But since then, prices have dropped by more than 50 percent across South Florida. Now, they have an opportunity to jump into the housing market, said Glen Mather, a principal with Entrust Administration Services near Orlando.

His company establishes self-directed retirement accounts for 401(k) rollovers and IRA transfers moving from financial institutions like T. Rowe Price, Schwab and JPMorgan Chase, which hold stocks, bonds and mutual funds but rarely hold nontraditional assets like real estate, he said.

"For our investors, real estate is booming again," said Mather, who just signed a lease to open an office on Las Olas Boulevard in Fort Lauderdale. He wants to tap into South Florida investors seeking to buy properties to be held in their retirement accounts.

"Most people want to invest in what they know and understand so if they live in Kendall, they will want to invest there," he said, adding he expects 80 percent of his South Florida clients to be buying properties in Miami-Dade and Broward counties.

IRA and 401(k) administrators like Entrust charge fees to manage the account and do the reporting to the Internal Revenue Service. For example, Entrust charges \$50 to open an account, \$95 to execute real estate transactions and \$295 a year per property held in the self-directed retirement account, Mather said.

With home values down, rental properties are generating income in the 8 percent range, said Jim Pamplin, who co-chairs the Dade Real Estate Investor Association.

He owns a Lauderdale Lakes condo through his self-directed retirement account and rents the property to tenants.

"If you want to be in the rental business, this is a great time," he said. "You can get returns now that you couldn't get before."

Mather said the fact that property values can't fall too much farther gives retirement investors more confidence than they now have in the stock market.

"There is safety in real estate if you buy it at a low enough price," he said.

Becoming A Lender

Retirement investors also are increasingly using their self-directed accounts to lend money to real estate investors.

"They become the bank, and they benefit from this investment like a bank would," said Eddie Miller, who buys single-family homes in Miami-Dade County and fixes them to flip or rent. A big part of his business is financed by investors using their self-directed retirement funds.

Miller often offers them returns of 8 percent to 10 percent, depending on the property. He takes loans for no less than \$15,000.

"The money we get from them is backed by a note and a mortgage on the property," said Miller, chief executive of Miami Property Solutions. "When I sell the property, their money goes back into their retirement account."

Miller, a former construction project manager, began raising money from retirement investors three years ago as the credit markets froze. He usually borrows from one or two investors per home and never borrows

more than 70 percent of the value of the remodeled home, he said.

"Usually, one person puts up the money for the purchase price and the other for the rehab cost," Miller added.

No Hand Free

Buying real estate to hold in a self-directed retirement account requires work, said Pamplin, who also lends his retirement money.

"It is not a hands-free occupation as it is investing in the stock market," he said.

Before buying a property or lending money, retirement investors need to educate themselves on specific real estate markets and analyze the risks.

"You need to understand property values in the area you are buying, the work that needs to be done in the property and the cost of owning it," he said, referring to property taxes and homeowner association fees.

Real estate consultant Dan Mathason said buying real estate through self-directed retirement accounts is not for everybody.

"Is it a good idea?" he asked. "It really depends on which real estate you are looking at, it depends on which stock you are comparing it to, it depends on your timing and depends on your expertise."

He said investors need to have enough money to deal with the unexpected, such as repairs, association fees and taxes even when the property is vacant.

"If there is a problem with the tenant, you eat the loss in the interim," said Mathason, a principal with Miami-based Ultra Strategy Group. "With a stock, you can buy it and sell it within two seconds, and there is no active management at all."



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