



INVESTING GUIDE

REAL ESTATE INVESTING WITH A SELF-DIRECTED IRA

Diversifying your retirement portfolio, made easy.



DID YOU KNOW?

Did you know you can purchase and own real estate using your IRA or 401(k) rollover? A self-directed IRA in real estate allows you to use your knowledge of the real estate market to diversify your portfolio on a tax-deferred or tax-free basis (if in a Roth IRA). You may use your retirement funds to invest in physical property in the form of raw land, income-producing property, residential homes and commercial buildings, to name a few.

Whether for long-term appreciation, rental income or a fix-and-flip, buying real estate in a tax-advantaged IRA is a great way to diversify a retirement portfolio outside of the stock market.

BENEFITS OF INVESTING IN A REAL ESTATE IRA

If investing in physical assets like real estate is the way you prefer to build wealth, there are real advantages for including it in your retirement portfolio. Not only is real estate a tangible investment you can see and touch, but when held in an IRA, it can also provide:

- Significant tax advantages – tax-deferred growth and profits (or tax-free if held in a Roth IRA)
- Freedom to diversify beyond traditional investments like stocks, bonds and CDs
- A hedge against inflation and stability that balances stock market uncertainty
- Prospective cash flow and recurring income for rental or leased property
- Potential upside for long-term market appreciation
- The option to leverage the property if you choose
- Greater investment control

If the thought of maintaining a property seems daunting, there are ways for your IRA to be a passive real estate investor. You can invest in trust deeds and mortgage notes, where your IRA loans funds to a borrower and the note is secured by a real estate property (while note payments are made to your IRA). You can even use your IRA funds to invest as an equity partner in private real estate deals and developments such as multifamily housing or commercial properties that are structured as limited partnerships (LPs) or limited liability companies (LLCs) where your IRA co-invests with others.

TYPES OF REAL ESTATE THAT CAN BE HELD IN AN IRA

With a STRATA IRA, the options for real estate investing include:

- **RESIDENTIAL PROPERTIES**
Residential property offers you the opportunity to buy, rent and sell homes, condos, townhomes and duplexes within your IRA. All income generated by the property flows into your IRA and all expenses for things like taxes, improvements, etc. are paid from the IRA.
- **COMMERCIAL OR INDUSTRIAL PROPERTIES**
An IRA can invest in commercial properties like office buildings, storefronts, warehouses, storage facilities, and more.
- **TRUST DEEDS OR MORTGAGE NOTES**
Use your IRA funds to help others purchase properties. The principal and interest payments made by the borrower will accrue inside your retirement account on a tax-deferred or tax-free basis, and may be used to fund other investments.
- **REAL ESTATE OWNED (REO) PROPERTIES**
In certain real estate markets, you can use your IRA to purchase distressed properties. These properties offer investors the opportunity to buy low and, with a little work, sell for large profits which stay in your tax-efficient IRA.
- **APARTMENT BUILDINGS & CONDOMINIUMS**
Self-directed IRAs can be a very powerful tool for buying apartment buildings. Apartment buildings are often handled as an equity-structured LLC or limited partnership in which the IRA holds an interest in the LLC rather than the title to the property.
- **RAW LAND**
Purchasing raw, undeveloped land through your IRA is a low maintenance way to invest in real estate, without all the headaches associated with upkeep. For most parcels of land, property taxes will be one of your few expenses.

- **IMPROVED LAND**
Improved land refers to land that has certain utilities and services available to it, like electricity, water, sewer and telephone lines. This type of real estate investment is similar to raw land but has increased potential for development.

“Ninety percent of all millionaires became so through owning real estate.”

- Andrew Carnegie



TYPES OF REAL ESTATE NOT ELIGIBLE IN A STRATA IRA

It's up to each custodian to determine the types of assets it's willing to hold and there are certain types of real estate properties that tend to be more labor intensive. For this reason, STRATA will generally not accept or purchase the following types of real estate in a STRATA IRA:

- Mobile Homes (unless affixed to property)
- Timeshares
- Foreign real estate*
- Property purchased through an auction or tax sale*

*May be allowed by other custodians

TYPES OF ACCOUNTS ELIGIBLE FOR REAL ESTATE

- Traditional IRA
- ROTH IRA
- SEP IRA
- SIMPLE IRA

“The major fortunes in America have been made in land.”

- John D. Rockefeller

WAYS TO INVEST

STRATA simplifies investing in a real estate using an IRA with 4 easy options:

1. DIRECT PURCHASE

The simplest and quickest way to purchase a property is where the IRA buys the property outright using funds in the account if you have cash available in one or more IRAs that you can readily transfer, or if you have a 401(k) or another eligible workplace retirement plan to rollover.

2. INVEST WITH OTHERS

Your IRA can invest with other individuals, either through an IRA or as a personal investment, and your IRA will own its pro rata share of the property. Sometimes called a Tenant-in-Common purchase, the property income and expenses are handled proportionate to each owner's interest.

3. A NON-RECOURSE LOAN

Also called leveraging, your IRA can obtain a non-recourse loan to finance your real estate purchase. STRATA works with non-recourse lenders like North American Savings Bank and First Western Federal Savings Bank as well as other financial institutions that are familiar with this form of lending.

4. EQUITY-STRUCTURED ENTITIES

Real estate may also be structured as an equity investment through an LP or LLC. If you choose this route, please refer to STRATA's Investment Checklist for Private Equity. Please note that STRATA permits only multi-member LLCs and does not allow single-member LLC structures.

WHAT YOU SHOULD KNOW

While a self-directed IRA gives you more investment options and flexibility than other retirement accounts, there are some rules and regulations you should know before you invest. It's critical to have a custodian with in-depth knowledge when investing in real estate to guide you through the rules and regulations to safeguard against prohibited transactions. It may seem like there are a lot of rules to remember on what you cannot do with your IRA, but keeping your IRA from engaging in a prohibited transaction is the best way to protect your interest in your retirement.

• DO YOUR HOMEWORK

Choosing your real estate property for purchase and completing all due diligence is the responsibility of the IRA owner. Remember, a self-directed IRA is exactly that - self directed. To that end, it's important to consult with your legal or tax advisors before buying a real estate property in your IRA. It's important that as a real estate investor, you understand the IRA rules that apply and be aware of these important facts so that you don't void your IRA tax benefits or incur penalties with a prohibited transaction.

• GET THE PROPERTY TITLING RIGHT

It's crucial to get the IRA titling correct when you first engage in the contract offer to purchase a property for your IRA. This shows your intent for the property to be an IRA-owned investment. Likewise, the property deed and tax records should also reflect the custodian's name for the IRA owner's benefit (i.e., STRATA Trust Company, Custodian F/B/O John Doe IRA).

• YOU MAY NOT LIVE IN OR USE THE PROPERTY

It's a common question often asked by novice real estate IRA investors, but the IRS rules do not allow you to live in or use a property owned by your IRA. Doing so is considered to be a

prohibited transaction since you're receiving a personal benefit from an investment held in your IRA. The same rule extends to any disqualified person or entity including a spouse, children, parents, grandparents, and other lineal descendent or even a company or entity that you or another disqualified person own or control. When buying real estate with your IRA, the property is meant to be for retirement investment purposes only and cannot be used for personal benefit.

• ENSURE YOUR IRA HAS SUFFICIENT FUNDS FOR PROPERTY-RELATED EXPENSES

With any direct real estate investment, there will always be property-related expenses which must be made for maintenance, repairs, improvements and property taxes - and all must be paid with funds from your IRA. You are not allowed to pay bills for an IRA-owned investment property with your personal funds or credit card. If a contractor performs repairs on your investment property, the contractor needs to invoice your IRA - not you - directly for the cost. And don't forget about your earnest money deposit - even it must be paid directly from your IRA.

• NO SWEAT EQUITY

When a property is owned by an IRA, property improvements or repairs cannot be made by you or a company that is owned or controlled by you or by a disqualified person. It's often referred to as "sweat equity." In addition, you may not use any personal tools or equipment to improve or repair a property while owned in an IRA.

• NO COMMISSION OR COMPENSATION

You are not allowed to earn personal compensation or commission on any self-directed IRA investment. That means that if you are a real estate agent, you cannot



HOW IS AN IRA-OWNED PROPERTY TITLED?

The actual buyer of the investment property is the self-directed IRA, and the title and all paperwork should be in the name of the IRA custodian for benefit of the IRA account owner. For example, with STRATA, the proper titling would be “STRATA Trust Company FBO (Client’s Name) IRA”.

receive a commission on the purchase or sale of a property in your IRA. If you’re planning to have rental income, you may not receive any property management compensation. The same rules apply to any disqualified person or entity when buying, selling, or managing property in your IRA.

- **USE PROPERTY MANAGER FOR INCOME-PRODUCING PROPERTY**

It’s not required, but we highly recommend using a property manager for an income producing property owned by an IRA. If you choose to serve as your own property manager, keep in mind that you may not take constructive receipt of any income payments. In addition, you may not charge or accept a property management fee.

- **TAXES MAY APPLY**

Although investing in real estate with a self-directed IRA offers unique tax advantages, there are some instances that can trigger a taxable event for your IRA. If your property is financed, even partially financed, with a non-recourse loan, it may generate Unrelated Debt Financed Income (UDFI) or if structured as a pass-through entity such as an LLC, Unrelated Business Taxable Income (UBTI) may be incurred. If UDFI or UBTI is incurred, an IRS Form 990-T may need to be filed, and tax would be owed by your IRA since the IRA holds and owns the investment.

CHOOSE THE RIGHT CUSTODIAN

Working with a custodian that has in-depth knowledge and expertise in real estate investing through an IRA is important.

The right custodian can help you through the potential pitfalls that can help safeguard your IRA against prohibited transaction.

WHAT IS A PROHIBITED TRANSACTION?

A prohibited transaction is the improper use of your IRA assets by you (the IRA owner), your beneficiary, or certain parties who are referred to as “disqualified person.”

WHO IS CONSIDERED A DISQUALIFIED PERSON?

- The IRA owner
- The spouse of the IRA Owner
- Any lineal descendants and their spouses
- Any lineal ascendants and their spouses
- Investment advisors and managers
- Anyone providing services to the IRA such as a trustee or custodian
- Any entity in which any above person has a 50% or more interest

NEXT STEPS

Investing in directly-owned real estate with an IRA requires an investor be actively involved. If you’re ready to take the next step, please visit our website www.StrataTrust.com to open an account (if one has not already been opened).



STEP 1

Open your IRA ([online](#) or with our paper application)



STEP 2

Fund your account (by transfer, rollover or contribution)



STEP 3

Direct your investments

In addition, there are specific documents and forms that you’ll need to provide to STRATA prior to starting a real estate transaction. STRATA’s Real Estate Investment Checklist is easily accessible on our website, www.StrataTrust.com, and our knowledgeable, experienced associates can help you each step of the way.

VISION FOR YOUR FUTURE

STRATA provides a clear path for investors to better control their financial future with real estate and other alternative investments. By providing investors with top-notch education about your IRA options, the full process for opening and funding your account, and what to do and to avoid before and after closing.

With over 350 years of collective experience, STRATA Trust Company has helped thousands of investors and investment professionals hold self-directed retirement accounts in a wide range of alternative investments. We've built our reputation by delivering streamlined and straightforward custody serviced by an accessible team that is well-versed in regulatory requirements.

STRATA—THE CLEAR DIFFERENCE



STABILITY

\$1.8+ billion assets under custody, 35k+ accounts and over a decade of operating with direct oversight by the Texas Department of Banking.



SPEED

Streamlined processes, digital documentation and signing to facilitate speedy transactions and transfer of assets.



COMMUNICATION

Prompt and accurate communication on transaction status, statement updates and investment requests.



TECHNOLOGY

Secure and easy-to-use technology for straightforward account management, documents, tax statements and notifications.





STRATA

TRUST COMPANY

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StrataTrust.com

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