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HOW TO INCREASE IRA RETURNS USING COMMERCIAL REAL ESTATE

Did you know that your traditional IRA can be rolled over or transferred to a self-directed IRA to invest in real estate? Most Americans assume their traditional IRAs can only invest in bank CDs, the stock market, and/or mutual funds. This misconception has existed since 1974 when IRAs were created under IRS rules and regulations. Your IRA is really self-directed. You have the authority to make investment decisions on behalf of your IRA. Therefore, making a real estate investment is as simple as writing a check.

Many people also think they might like to invest in real estate through a self-directed IRA but don't have enough money to buy an entire property. This can be resolved by "fractional ownership" whereby multiple investors pool their funds to make one large purchase.

Real estate is a logical addition to many retirement portfolios for the following 4 key reasons:

(1) It is totally transparent - Real estate is a tangible asset and is not subject to the same volatility or vagary many traditional Wall Street products are.

(2) It offers strong cash flow - Many income properties generate between 8% and 10% annual cash return.

(3) It can be acquired at a discount - With many landlords needing to liquidate properties, today's market offers great opportunity to acquire real estate at below-market prices give you greater diversification and the potential for greater returns.

(4) It acts as a "safety net" against inflation - With the fear of inflation looming over the economy, real estate has always acted as a hedge and performed well in times of high inflation.

In today's uncertain economic times, having a portion of your retirement invested in real estate will

In addition, most of the real estate purchases in your IRA will generate passive investment income and are generally exempt from the unrelated business income tax (UBIT). One major advantage of purchasing real estate with a self-directed IRA is that all appreciation and cash flow are deferred. Traditional IRA required minimum distributions are not made until the IRA owner turns 70 ½.

In setting up a self-directed IRA, most individuals will withdraw all or part of the assets of one traditional IRA and roll them over to a self-directed IRA. Also, a former employer's 401{k} plan may be rolled over to an IRA. A qualified trustee or custodian holds the IRA assets on behalf of the IRA owner and makes investments per the owner's direction. The trustee/custodian maintains the IRA records, files the required IRS reports, issues client statements, and performs other administrative duties on behalf of the self-directed IRA owner for the life of the account.

The term "self-directed" does not actually have any legal definition. It does not imply a different type of IRA, or a separate set of IRS rules. When an IRA account is self-directed, the IRA owner makes all investment decisions and provides instructions to the custodian. The Internal Revenue Code does not describe what an IRA can invest in, only what it cannot invest in, such as life insurance contracts and certain collectibles.

Historically, individuals have their traditional IRAs set up with banks, insurance companies and/or brokerages. But these institutions generally limit your investment options to products they sell, like bonds, stocks, and mutual funds. Consequently, there's no incentive for them to market real estate IRAs. In addition, some of these institutions resist clients' attempts to move IRA funds to another trustee.

There are only a handful or IRA custodians in the United States which allow investing in real estate. One of the largest is Provident Trust Group, located in Las Vegas, NV. They have the highest customer service ratings of all IRA custodians. Others to consider are Sunwest Trust, Inc. located in Albuquerque, NM. And Vantage IRA located in Phoenix, AZ. All of them charge a one-time establishment fee and an annual renewal fee. All of these companies are passive custodians and do not provide tax, legal, or investment advice. They are regulated by state and federal regulators and are subject to Internal Revenue Service and U.S. Department of Labor regulations.

One key reason for the growth in IRA real estate investing is that real estate does not move in synch with the stock market. This can give you protection against downturns in stocks and stock funds. Many studies and publications have suggested that all Americans should have approximately 20-25% of their retirement savings in real estate to increase their projected returns and decrease their market risk.

Currently 3%, or approximately $200 billion, of $7 trillion in IRA assets are held in self-directed programs and approximately 70% of such programs are in real estate. By comparison, in 2002, less than 1% of the $2.45 trillion in IRA assets was invested in real estate.

A recent article in Financial Advisor Magazine stated that institutional investors are expected to have 28% of their portfolios allocated to alternative investments by the end of 2013.

Recent events validate the benefits of having a self-directed IRA, such as the Wall Street Journal article "IRAs Get Sexier." A recent NBC Today show also explored the myth that IRAs are limited to investing in publicly traded Wall Street offerings. Finance Editor Jean Chatzky's discussion of Alternative IRAs revealed a wide range of investing options, including real estate.

The self-directed industry is on the rise. In recent years, real estate has become the investment choice of 70% of all self-directed IRA plans. If you're a successful real estate investor, or if you are just looking to diversify your retirement portfolio, the combination of real estate and your IRA can be a very powerful investment vehicle.

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