

Did you know that you could use your IRA or 401k to invest in physical real estate?

Most of the people who are reading this either own real estate or work with real estate as a part of their profession. It is safe to say that they “know” real estate and would be considered experts in their field. Peter Lynch was famously quoted as saying, “invest in what you know”. What he meant by this statement was that if you are an expert in the real estate field, then you should focus your efforts at investing in real estate, rather than investing in an area which you may not be familiar with, like race horses, diamonds, or impressionist paintings.

While recipients of this Industrial Market Survey may be experts at investing in real estate, they may not be aware that they can use their IRA or 401k to invest in a specific piece of real estate which they might want to acquire. Here is an example of how this might work:

In this hypothetical example, Larry Landlord locates an office building that he wants to buy as an investment. Larry, an experienced real estate investor, knows that the property meets his investment criteria. However, most of his available investment funds are held in a traditional IRA at a traditional broker dealer. His traditional IRA is currently invested in a variety of traditional investments such as stocks, bonds and mutual funds. After a lengthy discussion about managing

his risk, Larry decides that he is more comfortable using this IRA to invest in an office building than his current investments, so we work with Larry to provide appropriate due diligence on the property. Next, we use a specialized custodian who can hold assets such as real estate in an IRA, and transfer his IRA to this custodian. Those funds would then be used to purchase the property, which would be held in the IRA. To be clear, the property would then be owned by the IRA, not Larry. Once the property

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is owned by the IRA, all rental cash flows (including income and expenses) go into and out of the IRA. Since the real estate is owned by the IRA, all of the net income is deposited in his IRA and is tax deferred until he withdraws money from his IRA.

This is just one example of how an IRA or 401k can be used to invest in real estate. This hypothetical example is not implying that real estate is the only



investment for Larry. Investing in an asset you know well gives you an edge, but does not mean you should invest all your capital into just that one asset. We work with investors to help them creatively use their retirement accounts to invest in assets such as real estate. Although the process is more document intensive than investing in a mutual fund, it can also be much more rewarding.



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