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# real estate REPORT

## Real Estate Investing With Your SDIRA

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**S**tock tickers, symbols, pluses and minuses and graphs all over monthly statements...for people in the real estate industry, those may be outside our comfort zone, so why do we continue to place our retirement savings in investments we are unfamiliar with? Having only conservative rates of return, many real estate investors are turning away from typical IRAs to the SDIRA to secure their retirement.

### What is an SDIRA?

A self-directed individual retirement account, or SDIRA, offers a variety of investment options so that owners may diversify their portfolios and use IRA funds for purchases such as real estate. For those already investing in real estate, or working in the industry, the SDIRA offers a great alternative to assets such as stocks, bonds and mutual funds, while still maintaining the tax-free or tax-deferred aspects, and the bankruptcy protection of the IRA investment.

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An SDIRA is generally controlled by a trustee, known as a custodian. Custodians hold the IRA funds on behalf of the owner and invest them at the owner's direction. "Self-directed investing really is about creating a structure that offers more control and flexibility compared to the typical retirement accounts that can only invest into traditional assets," said Justin Windham of Discount Solo 401k.

**SDIRA investing is not, however, without its obstacles.**

**No Income Today.** While an owner does maintain significant control over the investment of the funds, all income from the property must be paid directly to the custodian, and the owner

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must direct all expenses of the property to be paid by the IRA. Investors are not reaping the benefits of the time or money invested now, but upon retirement.

**No Disqualified Persons as Partners.** An SDIRA cannot purchase property with, or in which a "Disqualified Person" has interest, and a Disqualified Person cannot live in, vacation at, or operate a business out of property owned by the SDIRA. The IRS defines a Disqualified Person as the owner, owner's spouse, parents, children and their spouses companies in which the IRA owner or other Disqualified Person owns or controls 50% or more, grandchildren and their spouses, or grandparents. This significantly limits investing with family members, however, interestingly, the regulation does not preclude investments with brothers and sisters.

**No Self-Dealing or Benefits to Owners.** An owner cannot collect a salary, or any payment for managing a property, and cannot put any sweat equity into the property; no fixing a roof, painting the bathrooms, or even planting flowers, all of which are considered unauthorized personal contributions.

Registered investment advisor, Bernard Reisz, CPA of ReSure LLC, shared that "most prohibited transactions are easily identified, but they can occasionally come up in places that are not apparent. For example, those using an IRA-LLC should not accept any credit card offers or sign any credit arrangements with a hardware store like Home Depot, because in those cases they would be using their personal credit to obtain financing for the IRA," also akin to an unauthorized contribution, he explained.

**No Outside Funds.** Good budgeting is imperative to the success of an SDIRA investment. "Make sure that you have adequate reserves or other investments that can be quickly liquidated to cover any shortfall," said Dmitriy Fomichenko of Sense Financial Services. If there is not enough money in an IRA to purchase and operate the property before the owner is able to make the next contribution, the property needs to generate enough cash-flow to make any repairs or replacements necessary, pay taxes, insurance, cost of maintenance, and all other expenses.

**For example, John Smith directs his IRA custodian to purchase a property for \$100,000, and his IRA account contains \$101,000.** He made the maximum \$5,500 contribution allowed for 2017, but John assumes the \$1,000 will be sufficient along with the rental income to carry the property until he is able to make his next IRA contribution. Unexpectedly, the roof needs to be replaced, but the cost of replacement exceeds the \$1,000 remaining in John's IRA account. He will disqualify his entire IRA if he pays any expenses from his personal funds. John cannot ask a Disqualified Person, such as his parents or his wife to make up the difference. So what are John's options?

John can ask a sibling or friend to invest. He can take out a non-recourse loan (though loans are subject to tax). Or John can roll-over another retirement account into the SDIRA in order to replace the roof, advised Fomichenko.

**SDIRA investors do believe that the benefits outweigh any obstacles.**

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## Commercial Listings



### Lease - 415 Market Street, Harrisburg

- First floor space available in the Harrisburg Transportation Center in Downtown Harrisburg
- Within walking distance to all the downtown restaurants, amenities, and Riverfront Park



### Lease - 1421/1423 N. Third Street, Harrisburg

- Great leasing opportunity in completely renovated and updated buildings in the heart of thriving Midtown Harrisburg
- Neighbors include HACC Technology & Trade Campus, Susquehanna Art Museum, Midtown Cinema, Broad Street Market, The Midtown Scholar Bookstore (two blocks away), Millworks, Yellow Bird Cafe and much more
- The property can be subdivided to accommodate the needs of various users



### Lease - 4949 Queen Avenue, Suite 104, Harrisburg

- Great flex space right off Jonestown Road in Harrisburg
- The property has been well-maintained and can be altered to accommodate many uses
- 1,044 SF of additional storage available (not included in total SF)

(Featured article...Continued from page 3)

**Tax Benefits.** Investor Gary Kane said, "One of the main reasons [I chose to invest in an SDIRA] aside from building wealth, was to take advantage of the tax benefits with owning rental property." So why not just use a 1031 exchange? While 1031s are another powerful investing tool, they are limiting in that they require that you already own an investment property, and there are holding period requirements. With the SDIRA, investors can flip, buy and hold, or sell properties and move on to other projects while still maintaining tax benefits.

**Use of Existing Funds.** Often funds from an existing IRA, 401(k) or other retirement product can be rolled over into an SDIRA.

While planning her retirement, Merchant Marine Officer Sam Pirtle decided to invest in real estate in addition to the IRA she maintained through her employer. "Then I heard about SDIRAs, and my IRA was not controlled by the union, so I could roll it over at any time. By rolling it over into an SDIRA I would be able to buy six houses rather than three," she said.

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**Additional Control Mechanisms.** SDIRA investing is for those that want to use their own efforts to dictate their financial future," said Reisz. "With the stock market, there's nothing that an investor can do to improve outcomes. With an SDIRA, you're betting on yourself to identify and manage good real estate deals."

For even greater controllability, there is a feature called the checkbook SDIRA. With checkbook control, the owner becomes the manager of the SDIRA LLC and can write checks or wire funds from the IRA account without consulting with the custodian. Because there is no need to obtain consent or prior approval, the owner can act quickly on a transaction that is time sensitive, while also avoiding custodian fees. "It may not be typical for an upgraded product to actually cost less than one with fewer features, but this is definitely one of those cases," said Windham.

**Alternatives to Owning Real Property.** "SDIRAs can be leveraged to make you a real estate investor, totally altering the scope of opportunities available and setting you on the path to wealth," said Reisz. So, what if an owner wants to invest in the real estate field, but not necessarily purchase real estate?

Making loans to other real estate investors is also a popular use of SDIRA funds, as is investing in non-performing notes. Bob Maleki of Resolution Capital Management said, "I purchase distressed mortgage debt on residential properties and then reposition them for cash flow from the P&I payments. I've been doing this in my SDIRA for about 5 years now." Maleki, who much prefers being the lender instead of the landlord, is using this method to save substantially for his retirement.

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## Commercial Listings



### **Sale - 3424 N. 6th Street, Harrisburg**

- Gorgeous cafe located along North 6th Street in Harrisburg
- The beautifully decorated restaurant has great seating options, including a courtyard and a full kitchen
- Recently updated, the second floor apartment allows for the Owner to stay on-site or for additional income



### **Lease - 5129 E. Trindle Road, Mechanicsburg**

- Brand new retail or office space along Trindle Road
- Great visibility and parking
- The 4,000+/- SF is an open shell - ready for your finishing touches



### **Sale - 7981 Paxton Street, Harrisburg**

- Single-story commercial office with a detached 2-bay garage located on heavily traveled Route 322
- The property is ideal for a car sales and service center and could also be used for a general office or retail use
- Many updates have been made over the years including new windows, A/C unit and modifications to make the office handicap accessible

(Featured article...Continued from page 4)

While owners have to make sure they are well versed in the rules to avoid an unintentional voiding of tax benefits, the SDIRA provides a unique vehicle for real estate investors to more aggressively invest their retirement savings within a familiar arena. SDIRA investing is becoming a highly recommended product by financial advisors, lawyers, and investors alike. ■

### About the Author:



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### Lease - 1335 N. Front Street, Harrisburg - New Lower Price!

- Functional first floor office space includes four offices, a work room, reception area, kitchen, and two restrooms
- Parking available in a lot on the next block for first floor tenant
- Grand windows overlook beautiful Susquehanna River in Downtown Harrisburg
- Conveniently located minutes from I-81 and I-83

## Office Listings



### Sale - 1 Rutherford Road, Harrisburg - Price Reduced!

- Corner property at the signalized intersection of Rutherford Road and Locust Lane
- Great visibility and parking
- Single-story, brick office building can easily be utilized by a single user or multiple tenants



### Lease - 30 N. Third Street, Harrisburg

- 23,376 SF available (1,969 - 6,500 SF contiguous) in Class A office building
- Skywalk to Strawberry Square, Walnut Street garage, Harrisburg Hilton, Whitaker Center, etc.
- This building is Energy Star Certified and utilizes the latest energy management systems for optimal energy efficiency

## Recent Transaction



### SOLD - 914 S. 13th Street, Harrisburg

**Archie Group LLC** purchased this 28,492 SF investment property located at 914 S. 13th Street in Harrisburg. The tenant purchased the building for their continued use as an early learning center. The Bill Gladstone Group of NAI CIR handled the transaction, which took place August of 2017.