

WORDS | Amit Katwala

Property for pensions?

In America, the majority of retirement savings are held in Individual Retirement Accounts (IRAs), which can be invested in a number of ways, including real estate. But, only a small fraction of savers are even aware that this is allowed. Are agents and developers in the US missing a trick by not targeting this sector of the market in a similar way to the SIPP's market in the UK? Amit Katwala investigates ...

The desire to create a steady income for retirement is a major driving force behind many investment decisions. In the UK, savers have the option of investing their pension funds in property through Self Invested Personal Pensions, (SIPPs). Overseas property professionals have done a good job of targeting products to this market, with every effort being made to ensure that developments receive SIPP approval from the British Inland Revenue.

Across the Atlantic, the picture is quite different. Although 45 million Americans pay into pension schemes called Individual Retirement Accounts (IRAs), 97% of the \$5trillion held in such schemes is invested in stocks, bonds and other financial instruments. So far, property has not been a popular investment class.

Real estate is an acceptable

option for those with certain types of IRA, and although it hasn't been taken up by many in the past, with the stock markets in turmoil it should become an increasingly popular choice in future. So what exactly is an IRA, and how can overseas property professionals do to take advantage?

What is an IRA?

IRA stands for Individual Retirement Account, and there are a number of different types and options, not all of which permit property investment. Contributions are normally taken from an employee's pay cheque before tax, and tax is not paid until the funds are withdrawn during retirement. The employee's contribution is sometimes matched, or partially matched by the employer. The majority of IRA's are controlled by specialists who offer different

investment plans, usually focussing on the Wall Street financial markets. To invest in real estate, one of three specific types of IRA is required. The simplest and most accessible way to use an IRA to invest in real estate is to get a Self-Directed IRA. This allows people to purchase

alternative investments like real estate, but also real estate related products such as mortgages, leases and water rights. Unlike a 'Wall Street' IRA, where the majority of investment decisions are made by a custodian, a Self-Directed IRA offers greater control and diversity.

Benefits

Savers get a choice of what to buy, how to buy it, when to buy it, and when and how to sell it. This provides a clear opportunity for real estate professionals to take advantage when marketing properties, as they have done with SIPPs in the UK.

People can sign up for a Self-directed IRA for as little as \$50, with a schedule of other fees depending on the custodian, and funds can be rolled over from pre-existing IRAs so they are perfect for those who have built up a decent amount of capital but are frustrated by the returns offered by the financial markets.

It also allows savers to diversify their holdings to a greater extent. "How can your IRA be diversified if all of your IRA funds are in Wall Street financial products?" writes Thomas Phelan, the president of IRA Choices.

Drawbacks

According to Ronan McMahon of Pathfinder International, "The IRS is flexible and accommodating" when it comes to buying international real estate with funds from an IRA. However, there are some rules and regulations governing what you can and can't invest in, and the process for buying real estate is a bit more complicated than normal investment.

One of the drawbacks of using a self-directed IRA is that savers lose out on the immediacy of other forms of investment – they can't react quickly to changes in the markets like they can with a managed IRA because of the forms that need to be filled out. This is to make sure the investments satisfy the conditions put in place by the IRS on what can and can't be invested in.

The key thing to remember is that the property must be for investment purposes and is intended for after retirement. This means that savers can't live in the property or lease it and it can't be a holiday home. They are also forbidden from buying the property from themselves from or a relative.



Retirement security | Real estate is a safe option for savings in the current market

What do the experts think?

We asked some key industry experts on US property and IRAs for their thoughts on why so few have invested their retirement savings in real estate, and what actions developers and agents can take to tap into this interesting market...



Daniel Cordoba

Daniel is the CEO of Asset Exchange Strategies, and an expert on Self-Directed IRAs.

"I think the biggest reason to invest your IRA in real estate is diversity – to try and get out of the equities markets altogether. It also makes savers more empowered – they have more control over their investment – you can have the walls painted and the kitchen remodelled to enhance the value. You can't really do that if you own 5 shares in General Motors. You also have the opportunity to create a dividend for yourself, through rent, and you can get a return on assets within 8 to 10 years – and this is for normal property, not distressed, if you get yourself a good realtor.

"The biggest reason more people don't invest in real estate is that they don't know they can"

"About 3% of IRAs are Self-Directed, but this term is very broad and does not necessarily mean they are truly self-directed, so I'd say about 1.5% actually are. The biggest reason that more people don't invest in real estate through their IRA is that they don't know they can ... because their financial advisor doesn't know about it. This

is because the broker or dealer gets no benefit if the money is invested in real estate, so Wall Street hasn't clued people in. Realtors also get scared by it and they need to get the basic understanding.

"There are a number of marketing efforts agents could make to grow this market but agents are hesitant – they'd probably see a 5% to 10% increase in sales with some simple techniques. For example, after finishing a sale they could say something like, "I know you're busy moving in right now, but I'd like to make an appointment with you for a few months time to discuss buying real estate with an IRA." More often than not their client will say, "Wow, I didn't know I could do that."

"Agents could get banner signs outside houses that say, "Buy me with your IRA". They might not sell that property to an IRA, but they'll definitely get calls.

"As far as an agent is concerned it makes no difference whether they sell to an IRA – you have to watch certain transaction guarantees, and can't have loans with a personal guarantee, they have to be secured against the property. But, there aren't any really huge hurdles – a 2 hour class is more than enough. It's just a bit different.

"Agents need to realise that they need to broaden their marketing – it's about being professional, being available and getting referrals.

If they can master this, they can place themselves as a unique agent in that market, and distinguish themselves. Now is the time for agents to position themselves, before the market gets hot again. We can help – agents can get training, marketing materials and opportunities on our website, IRATraining.com."



Colin Murphy

Colin is the director of Torcana, an investment consultancy that has sold Florida real estate and investments in solar power to IRAs.

"We have sold real estate to IRAs and it's not that different although there are rules that it has to be an investment and you have to keep it at arms length. I wouldn't say agents and developers were missing a trick by not targeting this market like they have done SIPPs. I think SIPPs were over-rated ... developers spend a lot of time and money on SIPP-compliance, but they don't actually sell that many properties into a SIPP.

"There aren't really any major hurdles – I don't know what else developers could do to make it easier to sell to IRAs. There are

"I think SIPPs were over-rated - developers don't actually sell many properties to them"

marketing issues too, an American company can't go out and market investment products or highlight capital gains at all, it has to be very straight and narrow. Promoting property is fine, but you can't promote it as an investment. You can invite people to request more information, but it's shaky territory to invite people to invest.

"Of the 100 or so properties that we sold over the last year, about 3 or 4 have gone to IRAs, and about 2 or 3 of the 18 solar investments in Germany we've sold have gone to an IRA. It's not a huge part of our business – you just can't go chasing that kind of business in America, it's too risky."



David Disick

David is an expert in fractional real estate based in the US – he is an expert at the sale and marketing of fractional developments.

"There's a high threshold of persuasion to show that the purchase qualifies as an IRA investment – for example, if a developer is selling 5 separate developments and Dr Jones buys

"It's highly technical, not many financial advisors have the technical know-how"

a property in development 1 that granted him usage rights in development 2, he wouldn't be allowed to buy it with his IRA. You've got to mind your P's and Q's to pass muster.

"I think the main reason that it's not generally done is because it's highly technical, and not many advisors have the technical know-how." **opp**