

Is it wise to build a retirement on real estate?

The Dallas Morning News 19 Sep 2020 Marilyn Kennedy Melia, CTW Features



Real estate is Americans' No. 1 pick for a solid long-term investment, a place it held since 2013. Faith in real estate over stocks strengthened this year due to the COVID19 stock market stumbles.

That trust may be rooted in the fact that the typical American homeowner's biggest source of wealth in retirement is the portion of his home's value that is not mortgaged.

But given real estate's allure, it is not surprising that many also plan to retire from other real estate investments. Some \$5.6 billion worth of property – principally one to four-unit rental residences – are held in “self-directed IRAS,” which differ from the traditional version by allowing income-producing real estate.

Another \$27.7 billion in self-directed IRAS is invested in limited liability companies, which typically own income-producing real estate, said Tom Anderson, president of the Retirement Industry Trust Association.

Some people “know properties very well, say in their town,” said Anderson, “and they feel comfortable they will be getting a fixed rate of return.”

But while there may be billions worth of rental properties invested in self-directed IRAS, they are not for everyone, warned Scott Bishop of STA Wealth Management, Houston.

One common misconception is that people think they can buy a vacation home using IRA funds this way, he explained. But the rules forbid any self-directed IRA investment for personal use. If the IRS finds violations, it can “disqualify the IRA and deem it a distribution subject to taxes and possible penalties.”

Rental properties cannot be managed by the self-directed IRA owner, either. For those with no intentions of being a hands-on landlord, that’s a plus for the self-directed route, according to Bishop.

There could also be current taxes on rental income, especially if the real estate is purchased with borrowed funds.

All in all, it is complicated. Anyone thinking of putting real estate in their retirement portfolio should first consult a trusted advisor.