

# DOUG'S NOTES

A publication of the  
Northeast Columbia Business Club

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Volume 1 Issue 4

June - 2005

## MONEY: Retirement Planning

BY HUGH BROMMA

Put savings to work!

### Self-directed accounts broaden your options.

You're doing all the right things in saving for retirement: setting up IRAs and SEPs and investing in stocks or annuities. But you can take your planning even further with a self-directed retirement account. These accounts not only offer greater

diversification for your savings portfolio but also provide another source of capital for real estate investments.

Self-directed arrangements have been around for 30 years and offer the same tax advantages as traditional IRAs and other retirement plans. The difference is that self-directed accounts allow account holders to direct their own investments.

and handle all record keeping, administration, and government reporting requirements. There are about a dozen companies nationwide, including Entrust Administration Inc. in Oakland, Calif.; Lincoln Trust in Denver; Sterling Trust Co. in Waco, Texas; and Trustar Retirement Services in Wilmington, Del., that offer this service.

With an account in place, you're ready to make any of a number of different real estate investments. You can direct the trustee to use the funds to acquire a property directly or you can pool your retirement assets with other people's money to make a larger investment.

You even can invest

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To get started, you'll need to either create a self-directed account or convert an existing retirement arrangement. A third-party administrator or trustee that offers self-directed arrangements can help, as well as facilitate any rollovers or transfers

Continued on page 2

your retirement account. Consider this example: Your IRA acquires a property for \$100,000, with \$20,000 in cash and an \$80,000 loan. A year later, your IRA sells the property and nets \$150,000 from the sale. After paying back the \$80,000 loan, the IRA now has \$70,000—the original \$20,000 plus \$50,000 profit.

### To invest in leveraged property:

1. The purchase loan must be non-recourse, meaning the lender must agree to look solely to the property as security for the loan and not the retirement account. Some community banks and savings associations will make this type of loan on investment properties.
2. The retirement account might have to pay an unrelated business income tax (UBIT) or un-related debt financing income tax (UDFI)

of between 15 percent and 35 percent on the income from the financed portion of the property. The taxable income, however, can be reduced through deductions, such as expenses (paid by the retirement account) and depreciation.

Even with the tax payment, leveraged property investments can be profitable. In the example, the IRA would owe a tax of about \$12,796, leaving an after-tax profit of \$37,204 or an after-tax return of 186 percent on the cash invested.

When using self-directed retirement assets to invest in real estate, consult an accountant or financial adviser familiar with these transactions as there are several restrictions to be aware of. A few examples:

- All income from the investment goes into your retirement account,

and all expenses are paid from the account.

- The purchase must be for investment

purposes.

- You may not purchase property with your self-directed retirement account that you personally own, and you must ensure that your intended purchase isn't a prohibited transaction. For example, the property to be acquired can't be owned by your parents, children, their spouses, or a corporation for which you own 50 percent or more.
- Neither you nor your family members (other than siblings) may live in or lease the property while it's in your account. Also your business may not lease or be located in or on any part of the property.

All retirement arrangements give you the opportunity to fund your future with profits from investments in a tax-free or tax-deferred environment. But a self-directed retirement account lets you leverage what you know

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### MORE ONLINE:

For more about self-directed retirement arrangements: [www.iraplus.com](http://www.iraplus.com) or [www.entrustadmin.com](http://www.entrustadmin.com)

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## Buying Houses One Way To Invest In Real Estate

Most correspondence I receive inquiring about how to start investing in real estate start with the foreclosure. It's quite simply the easiest real estate investment strategy to figure — buy low, sell high or buy low, rent high.

Everyone generally understands that as a real estate investor, the concept is to let someone else's rent payments pay for your mortgage and to hopefully come out with a positive cash flow at the end of the month.

There are plenty of ways to get started in real estate investing, and here are some one-line descriptions of how to do it and with the pros and cons listed.

### Foreclosures

How it works: Purchase the property at a courthouse auction — hopefully for less than it's worth. Fix it up, sell it or rent it out.

**Pros:** This is a common sense approach to getting started in real estate in-

vesting. If you can get the property for a wholesale price and then rent it out for more than your mortgage and you're on your way to building wealth one month at a time.

**Cons:** You get into the property and find out it has major problems costing a lot more than you'll ever recover.

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Ever heard of concrete being flushed down the drain (usually out of spite from the former owner)? It means having to remove all the sewage drains. Hidden defects can run costs up and give you a red ink bath before it's done. Since the bank/note holder is selling the property as is, there's not much recourse.

### Fixer-Upper

How it works: Purchase a property that needs major repairs. This is not a property that just needs paint and carpet. This type of property usually has rot, flooring, roofing, basement and just overall problems. But that's what makes it so enticing.

**Pros:** For investors with their repair ducks lined up in a row, this can be a good money maker. The key here is to hammer on the seller early in the negotiating process. Get the house for as low as possible and know what your bottom line really is.

**Cons:** For those wanting to flip the property, if you can't make \$30,000 — \$50,000 on the projected profit, then you may want to pass. Why? An unseen

defect can run into the tens of thousands of dollars really quickly.

### Retail Investment

How it works: Keep your eye open for under-priced properties in an area where rentals are brisk. This would be a house that really does just need paint and new carpet. Be sure you know what the rents are before going into the property. You want a positive cash flow before you even walk into the property.

**Pros:** A house that is in good shape can rent for years without any major expenses if it was taken care of early on.

**Cons:** Good rental properties (say, in a college town or near a military base) don't come on the market often, so you could be waiting a while before you find one.

### Paper Real Estate

How it works: This one is where you invest in the mortgages of real estate instead of the real estate itself — financing

second trusts, purchasing mortgages at a discount, wraparound mortgages, etc.

**Pros:** For those who have cash, this one can give major returns on your money. For example, if you can pick up a \$20,000 note at 12 percent for \$15,000, your return



on the note jumps to 16 percent. This is not going to fluctuate like the stock market is sure to do.

**Cons:** The borrower could skip town, leaving you to foreclose — right behind the first-trust note holder who usually gets paid first in a foreclosure.

These are just a few of the ways you can get started in real estate investing. **For more education call Doug Bridges to get started in Real Estate Investment.**

**If you know of anyone looking to buy or sell a home please call Doug @ 699-2212**