5 WAYS TO INVEST YOUR SOLO 401K IN REAL ESTATE

Solo 401k
By Nabers Group

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REAL ESTATE & RETIREMENT FUNDS

REAL ESTATE & RETIREMENT FUNDS

- Real Estate has been the most popular alternative asset for self-directed investors since the 1980's
- Self-Directed Investors love real estate because:
  - It's a tangible asset
  - It produces yield (cash flow)
  - It's an appreciating asset
  - Can protect against inflation

REAL ESTATE & SOLO 401K

- The Solo 401k is a great vehicle for holding real estate, and many of you already do!
- Today, we'll cover 5 ways to invest in real estate with your Solo 401k plan

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#1 BUY PROPERTY DIRECT WITH CASH

- Buying a piece of real estate with cash means you don't need to use leverage, financing, or get a mortgage
- Let's walk through an example

#1 BUY PROPERTY DIRECT WITH CASH

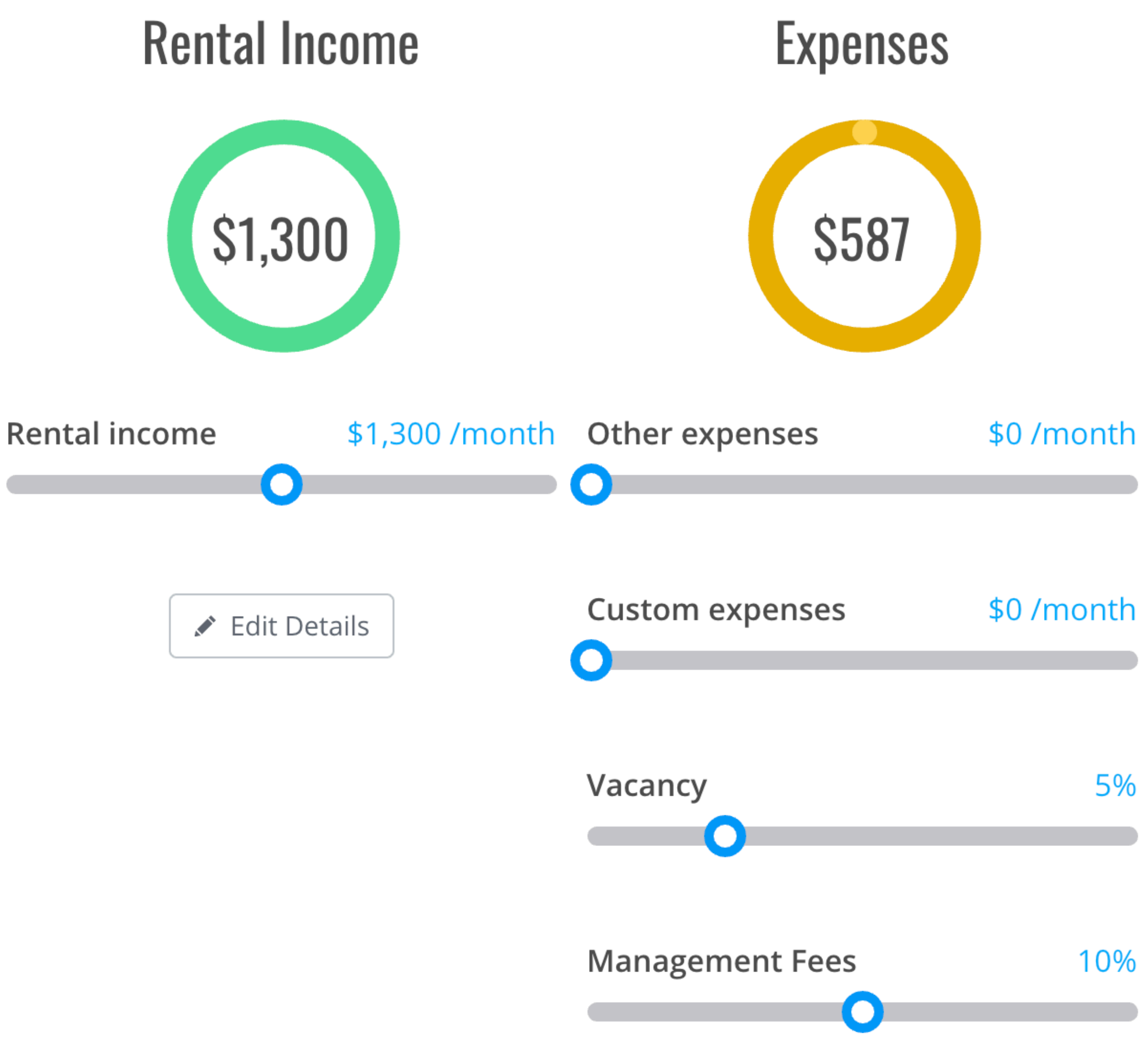
#1 BUY PROPERTY DIRECT WITH CASH

- David lives in Columbus, Ohio and has about $450,000 in his Solo 401k
- The cash flow rental market is strong and growing
- David identifies a property he'd like his Solo 401k to purchase
- The property is listed at $120,000
- Because David has plenty in his Solo 401k, he decides to purchase the property with cash

#1 BUY PROPERTY DIRECT WITH CASH

$1300 Rental Income (Mo)

- -$130 PM fee (10%)
- -$160 Property Taxes
- -$150 Insurance
- -$65 Vacancy Budget (5%)
- -$65 CapEx Budget (5%)
- -$0 Utilities pd by Tenant
- -$17.88 Maintenance + Repair Budget



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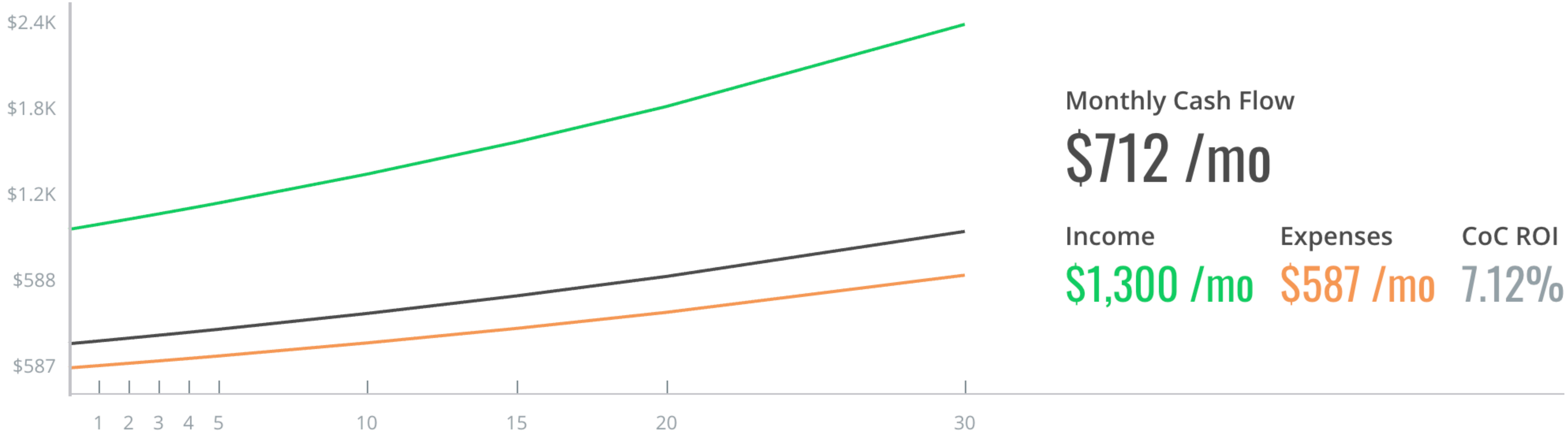
#1 BUY PROPERTY DIRECT WITH CASH

Returns

NOI	CoC RoI	Pro Forma Cap	Purchase Cap
$8,545	7.12%	7.12%	7.12%



Monthly Cash Flow

$712 /mo

Income	Expenses	CoC ROI
$1,300 /mo	$587 /mo	7.12%

5-year Annualized Return	Mortgage Payment
8.78%	–

#1 BUY PROPERTY DIRECT WITH CASH

- David's Solo 401k trust is called Jones Investment Trust
- As the Solo 401k trustee for Jones Investment Trust, David contacts the realtor and makes an offer for $120k (the listed price)
- The offer is accepted
- David sends $2500 in earnest money from Jones Investment Trust (his Solo 401k bank account) to the escrow company

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#1 BUY PROPERTY DIRECT WITH CASH

- The property and purchase agreement are titled in the name of Jones Investment Trust
- At closing, David signs the purchase agreement as the Solo 401k trustee
- David sends the wire for the rest of the funds to the title company from Jones Investment Trust (his Solo 401k trust bank account) to complete the purchase

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#1 BUY PROPERTY DIRECT WITH CASH

- As rent checks begin to come in, the funds are deposited right into Jones Investment Trust (David's Solo 401k trust bank account)
- When property taxes are due, David pays those from the Solo 401k bank account
- If any expenses or repairs are required, those are paid from the Solo 401k bank account as well

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#1 BUY PROPERTY DIRECT WITH CASH

- If David ever sells the property, Jones Investment Trust is listed as the seller
- The title company (or attorney) will sent net proceed funds directly to Jones Investment Trust (the Solo 401k bank account)
- No 1031 exchange needed - able to sell the property, put profits in the Solo 401k and move onto the next deal!

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CASH DEAL STATS

Monthly Cash Flow

$712 /mo

Income	Expenses	CoC ROI
$1,300 /mo	$587 /mo	7.12%

5-year Annualized Return

8.78%


#2 BUY PROPERTY USING FINANCING

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- Buying a property using financing means you'll get a mortgage
- Typically this mortgage loan will come from a bank or a private party
- Remember, anytime a Solo 401k gets a mortgage, it must be ***a non-recourse loan***
- There are some special considerations for a non-recourse loan
- We'll cover those in just a moment
- Let's look at an example deal

#2 BUY PROPERTY USING FINANCING

#2 BUY PROPERTY DIRECTLY USING FINANCING

- Claire lives in California, but want to buy property in Texas with her Solo 401k funds, where properties tend to be more affordable
- Claire currently has about $200k in Joyful Retirement Trust (her Solo 401k) and has identified a property in Dallas worth $150k
- She doesn't want to use the majority of her Solo 401k funds in one deal, so she decides to explore getting a mortgage on the property

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#2 BUY PROPERTY USING FINANCING

$150,000 Purchase Price:

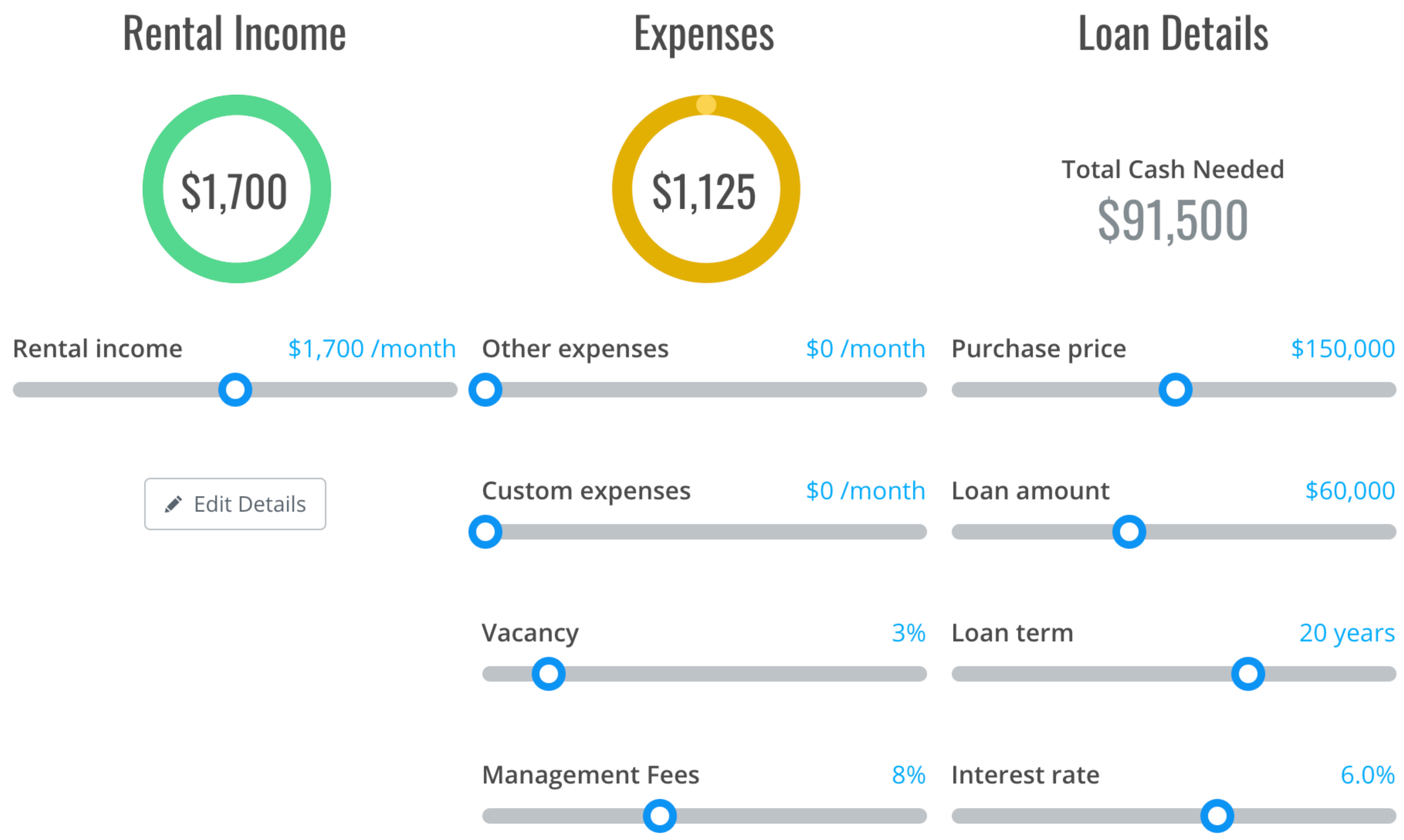
$90,000 Down payment

$60,000 Non-Recourse Loan

6% Interest Rate

20 Year term

$429.86 Monthly mortgage payment



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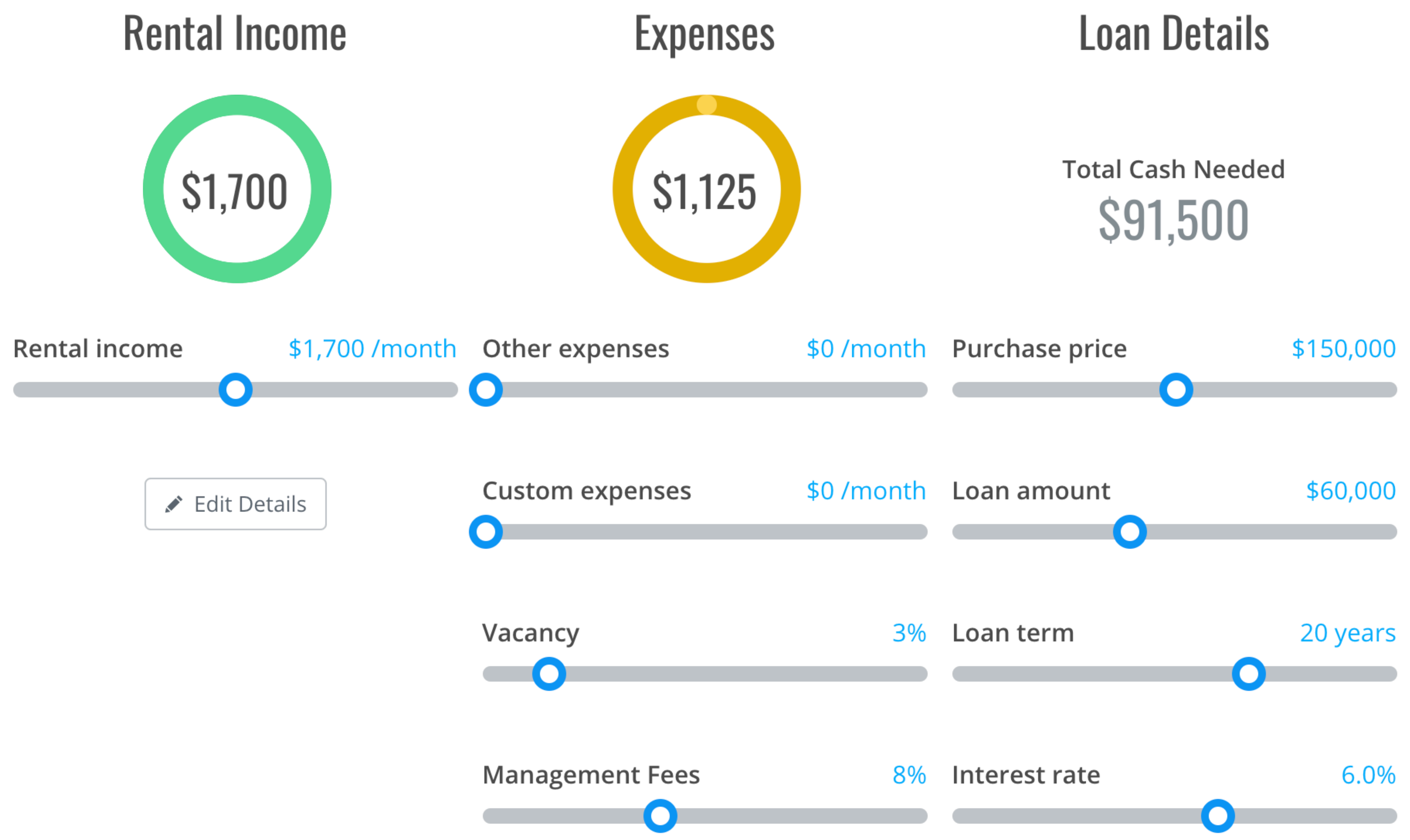
#2 BUY PROPERTY USING FINANCING

$1,700 Rental Income (Mo)

- -$136 PM fee (8%)
- -$189 Property Taxes
- -$150 Insurance
- -$51 Vacancy Budget (3%)
- -$85 CapEx Budget (5%)
- -$0 Utilities pd by Tenant
- -$85 Maintenance + Repair Budget



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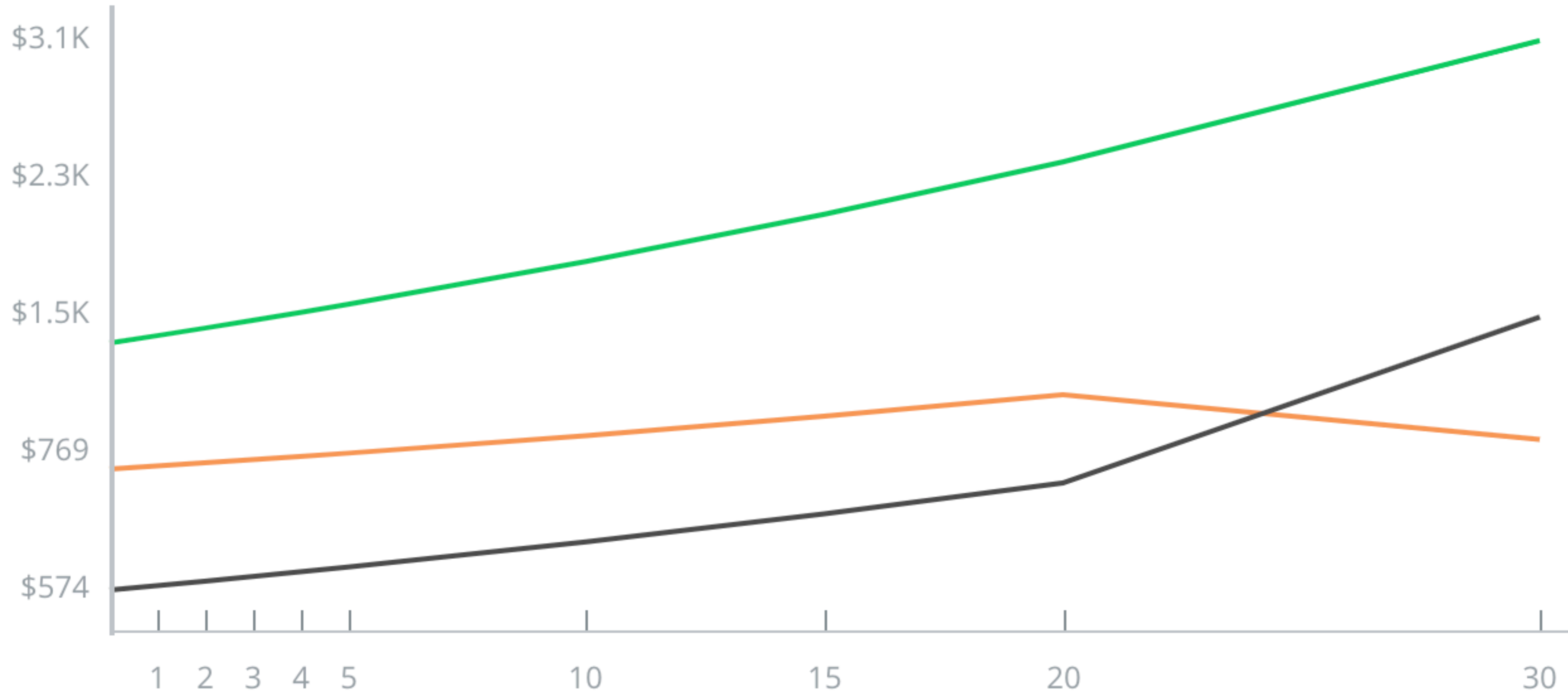
#2 BUY PROPERTY USING FINANCING

Returns

NOI	CoC RoI	Pro Forma Cap	Purchase Cap
$12,048	7.53%	8.03%	8.03%



Monthly Cash Flow

$574 /mo

Income	Expenses	CoC ROI
$1,700 /mo	$1,125 /mo	7.53%

5-year Annualized Return	Mortgage Payment
10.80%	$429.86

#2 BUY PROPERTY DIRECTLY USING FINANCING

- You can't sign a personal guarantee on a property owned by your retirement account as that would be a prohibited transaction
- The loan requirements are a bit different when a retirement account is the buyer

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- No personal guarantee
- No credit checks
- No income statements
- Typically required to put 40-50% down because the risk is higher for the lender, and sometimes the interest rates are higher too
- In the case of a default, the only "recourse" is for the lender to foreclose on the property (the property is collateralized)

NON-RECOURSE LOAN FAST FACTS

#2 BUY PROPERTY DIRECTLY USING FINANCING

- As the trustee for Joyful Retirement Trust, Claire signs the non-recourse loan paperwork where her 401k trust receives the mortgage
- At closing - Claire sends $85k from Joyful Retirement Trust's bank account to the title company and signs the purchase agreement as trustee
- The purchase agreement for the property is in the name of Joyful Retirement Trust
- The bank sends the rest of the funds to complete the transaction

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Monthly Cash Flow

$574 /mo

Income	Expenses	CoC ROI
$1,700 /mo	$1,125 /mo	7.53%

5-year Annualized Return

10.80%

Mortgage Payment

$429.86

FINANCING EXAMPLE DEAL STATS

RENTAL PROPERTY BEST PRACTICES

RENTAL PROPERTY BEST PRACTICES

- Hire a third-party property manager
- If you are the property manager (not recommended), you may not pay yourself or receive any compensation for managing the property
- If you are managing the property, you are not the landlord

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RENTAL PROPERTY BEST PRACTICES

- Always hire out repairs, maintenance, and tenant turns to a third party
- Do not hire any family to do work on or for your property (no fair if your husband is a general contractor, or your daughter is a real estate agent)
- You may not be the realtor when your Solo 401k buys or sells a property

RENTAL PROPERTY BEST PRACTICES

- In other words, always maintain arm's length from your Solo 401k investments
- If your 401k funds are in the deal, you aren't!

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#3 INVEST IN A REAL ESTATE FUND

Syndications, REITs, CrowdFunding

#3 INVEST IN A SYNDICATION

- Sometimes when there is a larger property, like an apartment complex, an investment sponsor will raise capital in a syndication deal
- Typically, this means several investors purchase membership shares in an LLC that then gets a loan to purchase a property
- These deals might be apartment complexes worth a few million - where a single investor might not have otherwise had the capital to make the deal happen

#3 INVEST IN A SYNDICATION

GP

- In a syndication, there are often two parties involved
- General Partner (GP) - puts together the deal, raises capital, secures any remaining financing, hires and manages rehab team, sells the property (if the syndication has an exit as part of the plan)

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#3 INVEST IN A SYNDICATION

LP

- Limited Partners (LP): Passive investors
- The LP's sole role is to be an investor and let the GP do the work to make the deal profitable

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#3 INVEST IN A SYNDICATION

- In putting together a syndication, the General Partner (GP) will often look at the area to see what kinds of returns are possible
- They will often choose apartment complexes where the rents are undervalued
- The way the syndicators bring returns for their investors is to purchase the property, fix it up, and raise rents
- Some syndicators hold the property for cash flow, others plan an exit after 3-5 years when the property has appreciated which earns a profit for the investors

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#3 INVEST IN A SYNDICATION

- Rama is raising capital for his apartment syndication
- His friend, Aziz has a Solo 401k and wants to invest in Rama's deal
- The investment amount is $100,000
- Let's take a look at the deal numbers

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SYNDICATION DEAL STATS

- Investment amount: $100,000
- Looking to raise $1.5MM total
- Need 15 investors at $100,000 each
- Total funding needed: $3.5MM (including purchase and rehab for the property)

- Projected return: 115% in 5 years
- 10.2% annualized
- Expected returns: Recoup original $100k, plus $51,000 in dividends during 5-year holding period

SYNDICATION DEAL STATS

#3 INVEST IN A SYNDICATION

- As the Solo 401k trustee, Aziz completes the subscription documents for the syndication using his trust name, Kapur Investments Trust
- Kapur Investments Trust (his Solo 401k) is the investor, and Aziz signs the investment paperwork as the plan trustee
- Aziz wires the funds to the investment company from the Kapur Investments Trust bank account

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#3 INVEST IN A SYNDICATION

- As quarterly distributions are paid out, the funds go right into the Kapur Investment Trust bank account
- 5 years later, the syndication has an exit and the apartment complex is sold at a profit
- All funds go right into Aziz's Solo 401k trust bank account

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#3 INVEST IN A SYNDICATION

- No capital gains on profits from sale of property
- No 1031 exchange needed because profits go right into Solo 401k trust bank account
- No UDFI on leverage because you're using a Solo 401k

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SYNDICATION BEST PRACTICES

- If you are the General Partner (GP) on a syndication, your Solo 401k may not invest as a Limited Partner (LP) on the same deal
- Your Solo 401k can be an LP on other people's deals, but not your own
- Your Solo 401k cannot be the GP of a deal (Solo 401k cannot arrange/organize syndication)
- Keep the Solo 401k as a passive investor

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#3 INVEST IN A REIT

Real Estate Investment Trust

#3 INVEST IN A REIT

- A REIT is a Real Estate Investment Trust
- This is a structure wherein a company purchases, owns, and operates income-producing properties
- REITS can be made up of multiple types of properties including apartments, hospitals, single-family homes, hotels, senior-senior-living facilities, etc.
- Some REITS have a specialty focus, such as all student housing, or exclusively holding tax auction properties

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#3 INVEST IN A REIT

- There are a few types of REITS:
  - 1) Equity/Income REITs: these typically buy and hold income producing assets
  - 2) Mortgage/Debt/Growth REITS: these typically hold mortgages on properties
  - 3) Hybrid REIT: these typically hold properties and mortgages

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#3 INVEST IN A REIT

- Denise has a Solo 401k and has identified a REIT made up of tax auction properties
- Their returns look good and Denise decides to invest which means her Solo 401k will be a shareholder in the corporation who created the REIT
- The buy-in is only $25,000 so Denise feels comfortable with the risk vs reward of this investment

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#3 INVEST IN A REIT

- Denise's Solo 401k is called DBT Trust
- Denise completes the subscription agreement for DBT Trust with the Solo 401k trust listed as the investor
- Whenever Denise is asked to input a tax ID number, she inputs the Solo 401k trust EIN for DBT Trust
- Denise signs the subscription agreement for the REIT for DBT Trust as the plan trustee

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#3 INVEST IN A REIT

- When Denise is ready to invest, she wires funds to the investment sponsor from the DBT Trust bank account
- Distributions are sent quarterly to her Solo 401k trust bank account, so Denise never personally handles the funds
- This avoids any taxable distribution

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#3 INVEST IN A REIT

- There are similar benefits to investing in a REIT as with a syndication:
  - Someone else does the work to identify the market where to invest
  - Someone else does the work to find the properties, acquire them, and rehab/improve as needed
- DBT Trust (Denise's Solo 401k) is just the "money guy" and gets to capture the rewards of OPE (Other People's Efforts)
- Denise plays a completely passive role and just needs to sit back and receive the dividends from her investment into the Solo 401k bank account

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#3 INVEST IN CROWDFUNDING

- Crowdfunding is a way to source investment capital from multiple people
- These people typically don't know one another and may be investors from various backgrounds
- Often, crowdfunding happens through a central portal, like a website
- Sometimes crowdfunding deals are structured as as REIT

#3 INVEST IN CROWDFUNDING

- Since the JOBS Act passed in 2016, crowdfunding has become incredibly popular and there are many sites to choose from
- Choose the investment based on your goals
- Do your due diligence and see what the requirements are as far as net worth and investment amount (some are very low to start!)
- Some crowdfunding sites require you be an accredited investor, others don't

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EQUITYMULTIPLE

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FUNDRISE

FARMTOGETHER

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#3 INVEST IN CROWDFUNDING

- Accredited investor: total net worth of $1MM, not counting your primary residence OR
- You have $200k in earnings per year the last two years (or $300k with spouse if married)
  - The Solo 401k does not have to have $1MM
- As the trustee, your Solo 401k assets are a part of your overall net worth, so if you qualify (including your Solo 401k assets), then you can be considered an accredited investor

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#3 INVEST IN CROWDFUNDING

- Jonas is an accredited investor because of his earnings
- His business does very well and he typically makes about $350k per year, after expenses
- Jonas plans to maxes out his Solo 401k contributions every year so he can aggressively grow his retirement nest egg

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#3 INVEST IN CROWDFUNDING

- Jonas is just getting started on his retirement journey, so he only has about $20k in his Solo 401k, Magic Trust
- Because Jonas is a high-earner, he's confident he'll be able to quickly grow his retirement savings, but he wants to get started investing now
- Jonas earns enough to qualify as an accredited investor through his annual income, and he decides to invest some funds into Fundrise, a crowdfunding real estate platform

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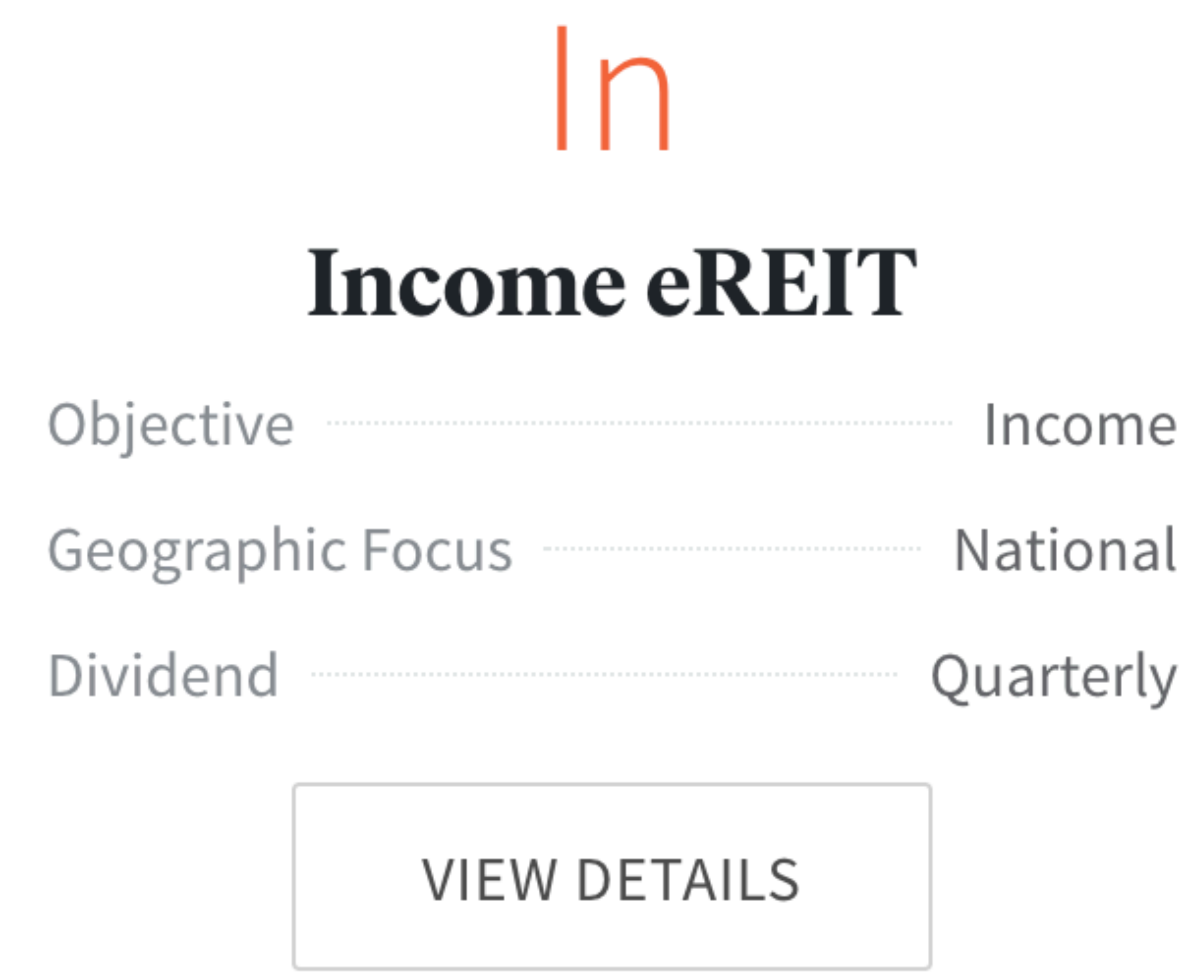
#3 INVEST IN CROWDFUNDING

- Jonas goes to Fundrise.com and opens an account for Magic Trust
- Jonas wires $5,000 from the Magic Trust bank account to the Income eREIT on the Fundrise platform



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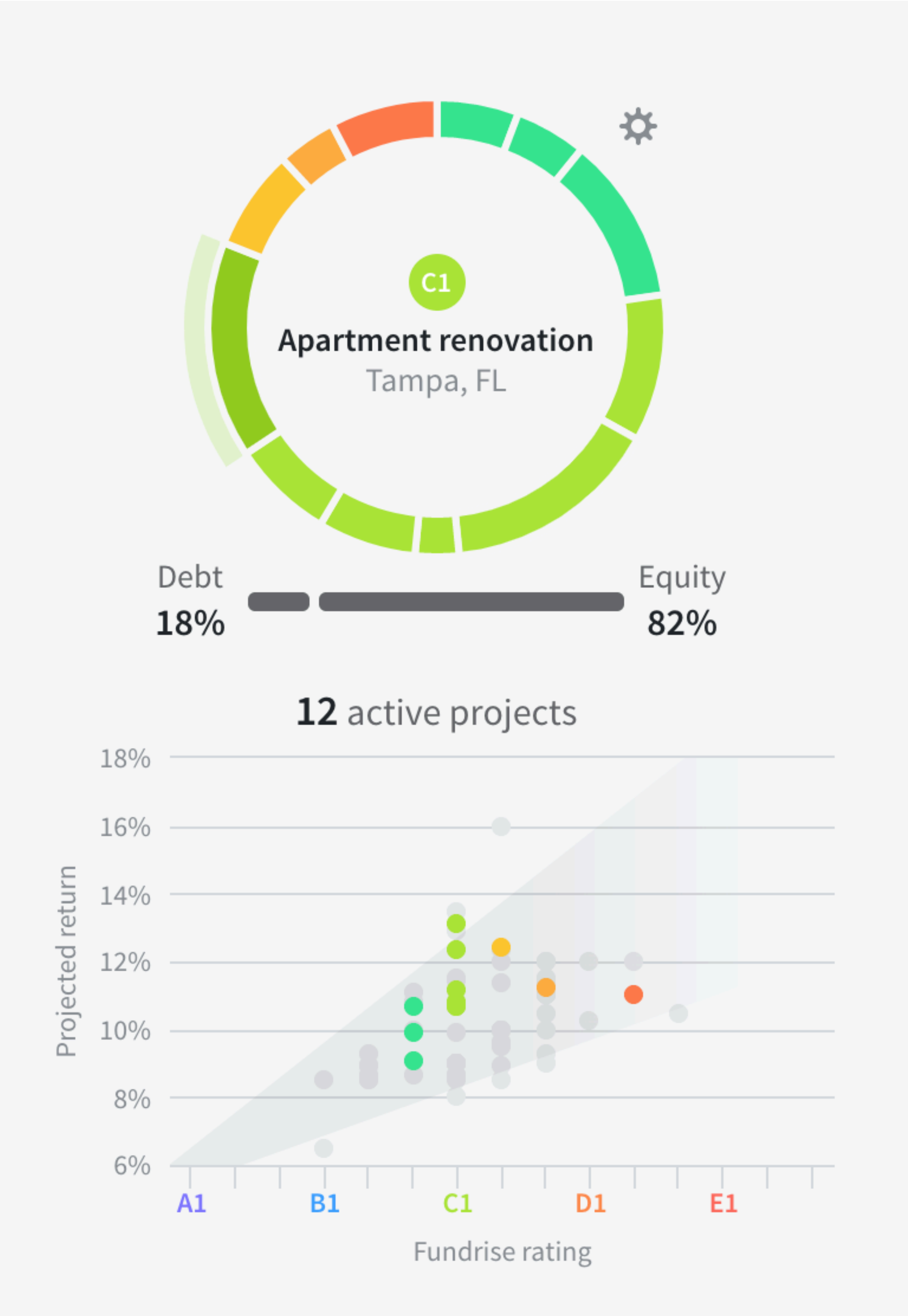
#3 INVEST IN CROWDFUNDING

- Once dividends begin to pay out, they can be automatically reinvested or the funds can be sent to the Magic Trust bank account



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#3 INVEST IN A REAL ESTATE FUND

- With syndications, REITs, and crowdfunding, you leverage Other People's Efforts (OPE) in your investment
- This means you can sit back and receive the dividends/payouts while someone else does the work to find, manage, rehab, and (potentially) liquidate the asset
- Because syndications, REITS, and crowdfunding are pooled vehicles, this also means you can put in less money and get access to deals you otherwise might not have had

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#3 INVEST IN A REAL ESTATE FUND

- Therefore, it's no problem if your Solo 401k doesn't have enough capital to purchase a hospital…with a real estate fund you can because you'll own your shares in the fund
- Because you are handing over your money to someone *else* to get results, always do thorough due diligence in whatever fund you are sending your Solo 401k money

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#4 INVEST IN A MORTGAGE NOTE

#4 INVEST IN A MORTGAGE NOTE

- There are multiple types of promissory notes available
- Some notes are secured, which means they are backed by a property
- Some are unsecured (where it's sometimes harder to get your money back if the borrower doesn't repay)
- With a secured note, if the borrower fails to repay, you can often foreclose on the property in the note
- The foreclosed property then becomes part of your investment portfolio

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#4 INVEST IN A MORTGAGE NOTE

- When Tim came to us, he was a long-time note investor with his self-directed IRA
- He set up a Solo 401k so he can continue investing in notes without any custodial delays or extra fees
- Tim likes various kinds of mortgage and promissory notes in the real estate space
- Let's look at an example

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#4 INVEST IN A MORTGAGE NOTE

- Tim wants his Solo 401k Trust (Flipping Great Trust) to lend funds to a property flipper
- The terms of the deal are that Flipping Great Trust will lend $100k to the flipper with principle and $10k in interest is due in 6 months
- The loan has no monthly payments

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#4 INVEST IN A MORTGAGE NOTE

- Tim has his attorney write the promissory note, secured by the property
- Flipping Great Trust is the lender, the flipper is the borrower

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#4 INVEST IN A MORTGAGE NOTE

- As the Solo 401k trustee, Tim wires funds to the flipper from the Solo 401k trust bank account for Flipping Great Trust
- At the end of the 6-month term, the borrower sends $110k back to the Solo 401k trust bank account
- In the case of a default, Tim may begin foreclosure proceedings on the flipper's property where the Solo 401k trust will become the owner of the property listed in the note

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NOTE INVESTING STATS

- Promissory note amount: $100,000
- Loan terms: Repay principle + $10,000 in interest in 6 months
- Projected return: 10% in 6 months (20% annualized if repeated)


#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Granted, this isn't exactly using your Solo 401k funds to invest a deal held in your Solo 401k…but it is a way to access Solo 401k capital to invest in properties!
- The Solo 401k participant loan is a great way to access cash, if you are purchasing a personal property

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#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Once you take the participant loan, those funds can be used for anything, including purchasing an investment property, or maybe your primary residence
- You can buy this property in your own name or use an LLC
- There are several advantages to considering this type of deal

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#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Lower down payment
- Higher Loan Terms
- Ability to work/do rehab on the property
- Fix & Flip
- BRRRR

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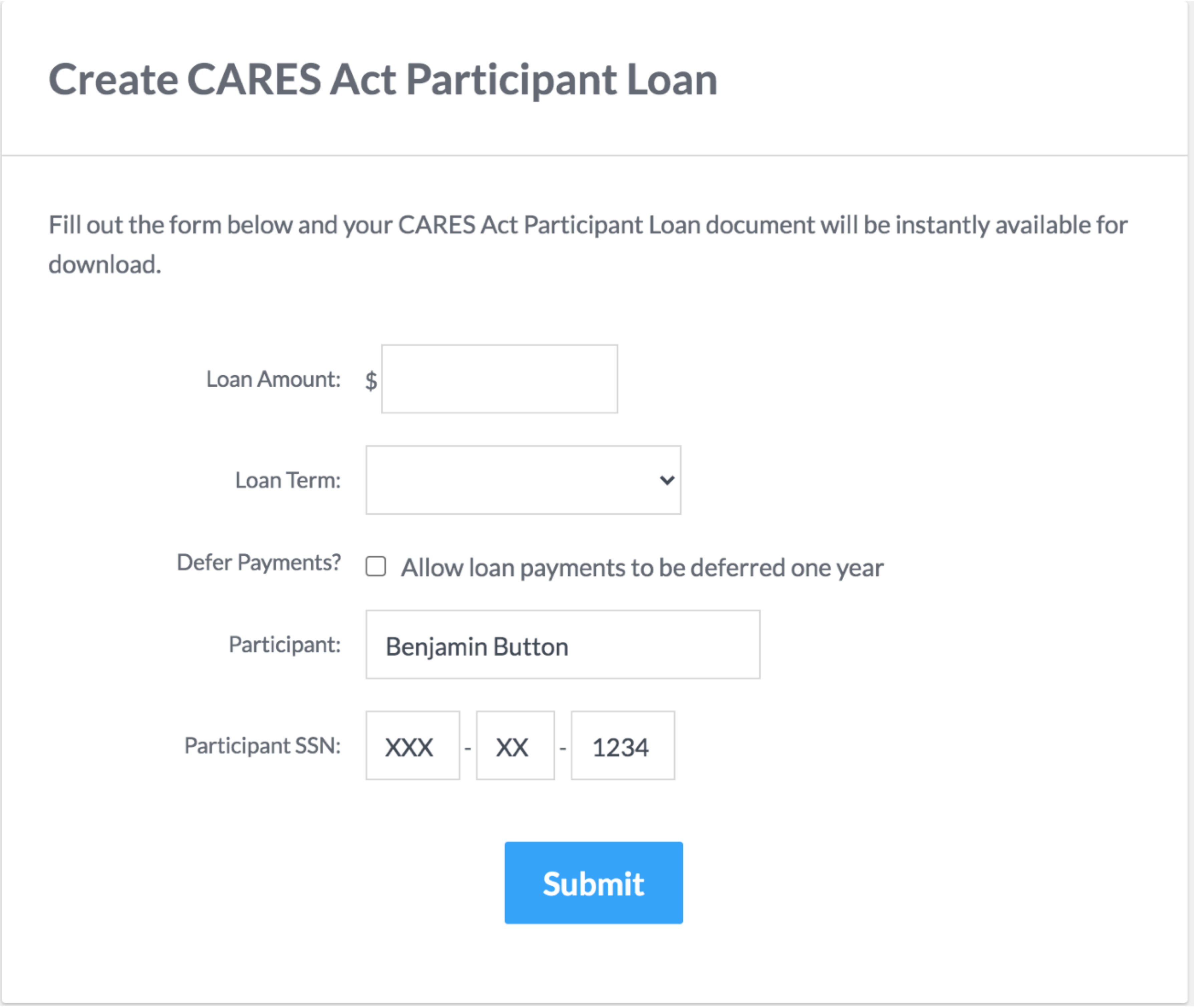
#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Remember, the CARES Act temporarily allows DOUBLE the loan amount
- You can take out up to $100,000 from the Solo 401k plan
- Those of you who joined our CARES Act webinar already know about this



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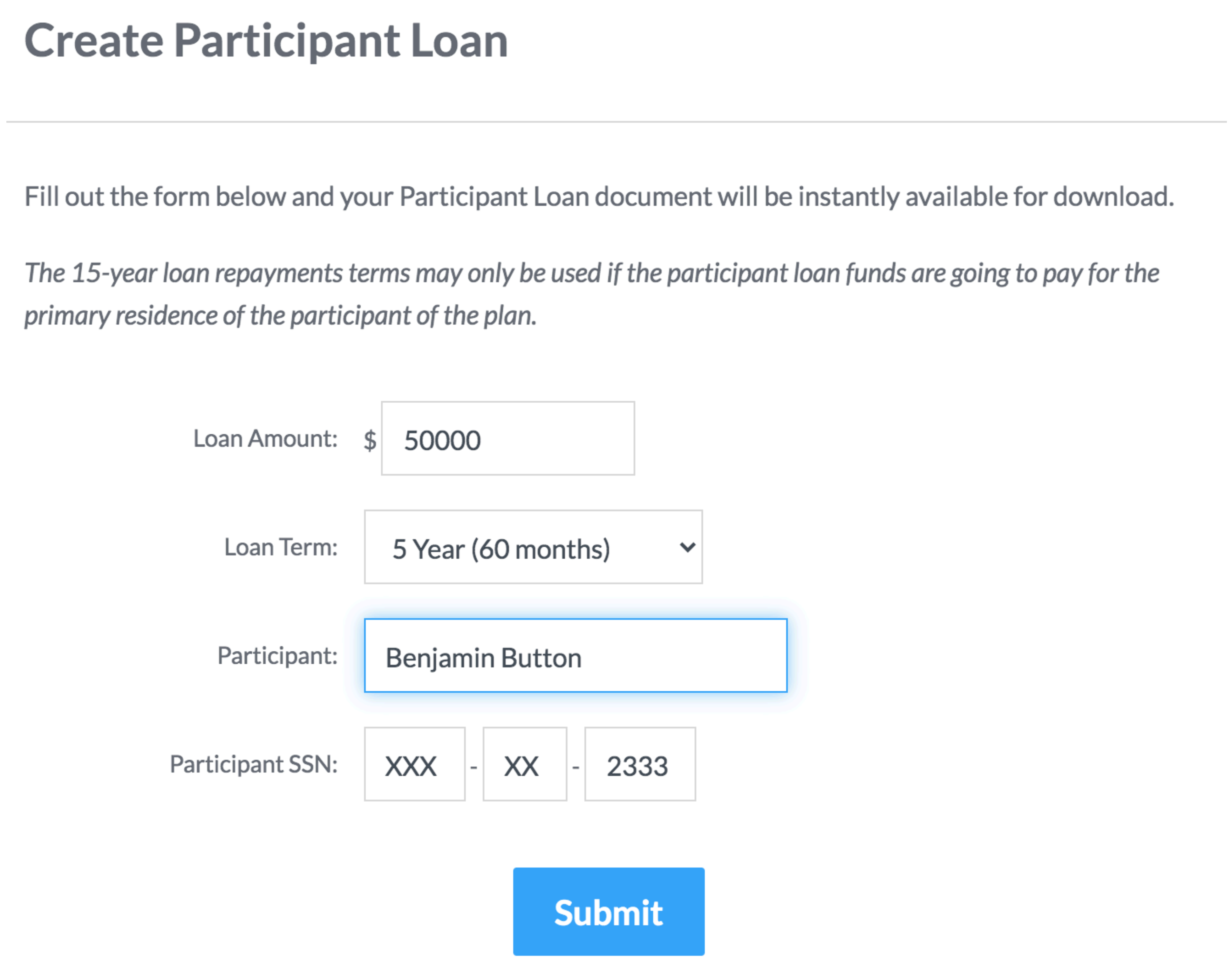
#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Use the Solo 401k dashboard to create your participant loan paperwork
- Creating your participant loan takes less than 60 seconds



Create Participant Loan

Fill out the form below and your Participant Loan document will be instantly available for download.

The 15-year loan repayments terms may only be used if the participant loan funds are going to pay for the primary residence of the participant of the plan.

Loan Amount: $ 50000

Loan Term: 5 Year (60 months)

Participant: Benjamin Button

Participant SSN: XXX - XX - 2333

Submit

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#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- You hold the checkbook for your Solo 401k, and that means getting your participant loan funds is easy
- After generating your loan documents on your 401k dashboard, write a check from your Solo 401k trust bank account to yourself personally
- Don't write the check to your business - it must go directly to your personal name

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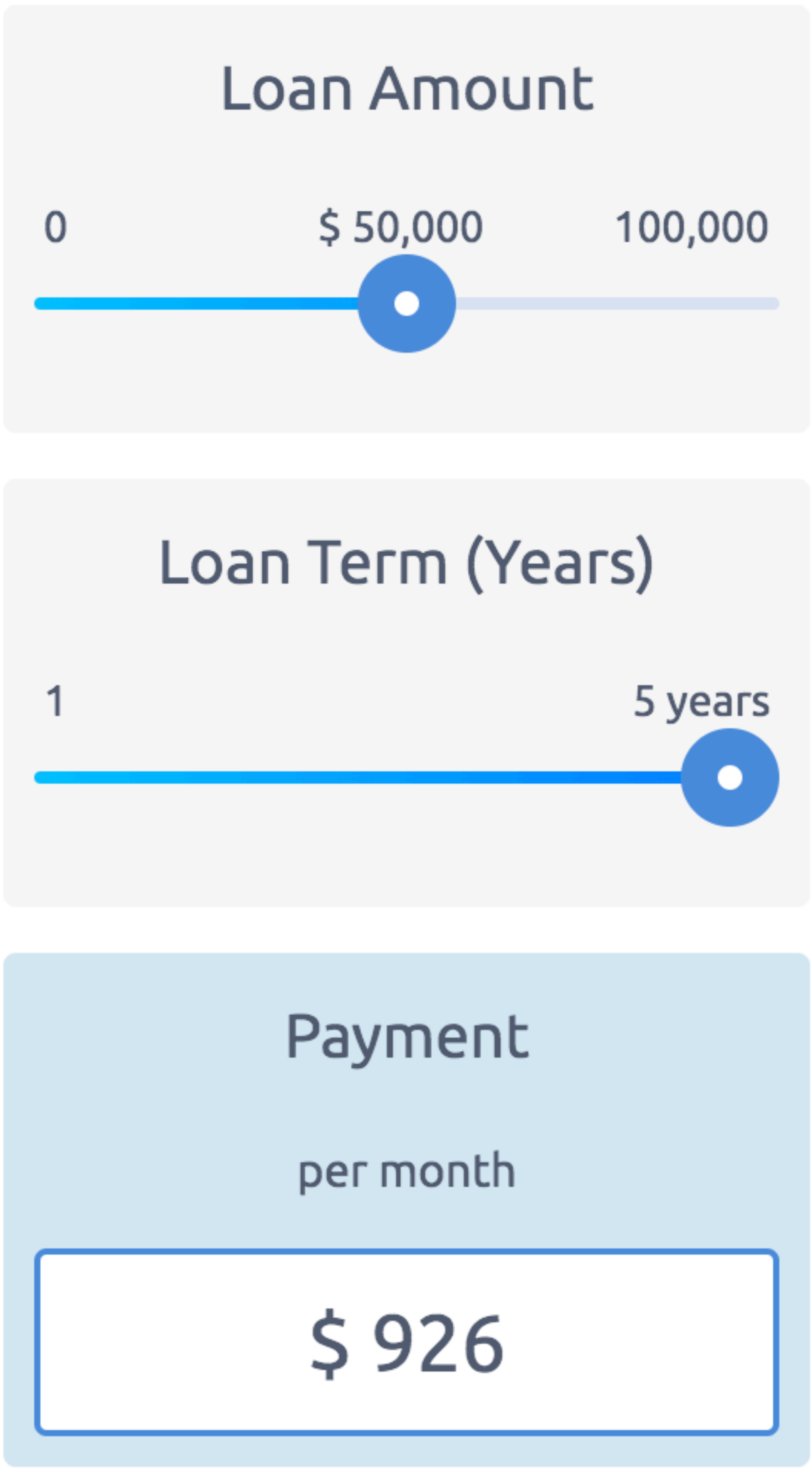
#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Your participant loan paperwork will include your repayment schedule
- Calculate your loan repayments right in your Solo 401k dashboard
- The monthly loan repayments go right back into Eternal Youth Trust (Ben's 401k trust bank account)



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#5 PARTICIPANT LOAN FUNDED DOWN PAYMENT

- Once you cash the participant loan check, proceed to invest in your deal
- Make monthly loan repayments from your personal bank account back to your Solo 401k trust bank account until the loan is paid off in full

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RECAP AND Q&A

- There are so many ways to take advantage of different types of real estate deals in your Solo 401k plan
- I hope these case studies have been helpful in learning how you can include (or continue to include) this powerful asset class in your portfolio!
- Let's open it up for Q&A!

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