

Investing in Real Estate vs. Notes

Rental property and notes are two of the most popular types of investments for Self-Directed IRA or Solo 401(k) plans, and people often wonder which is the better option. There is no single right answer to this, as there are various levels of risk/reward in each asset class. Each market is different, and timing relative to broader market cycles also comes into play.



This checklist will guide you through the basic pros and cons of investing in notes and rental property to help you determine which is the right option for you.

RENTAL PROPERTY

Rental property is a great investment option for boosting your retirement plan, as funds are invested into a real asset with intrinsic value.

MORTGAGE NOTES

Mortgage Notes are also a fine investment choice for retirement plans. The investment is secured by a deed of trust and a lien against the underlying real property.

INCOME PROFILE

With rental property, there is the potential for monthly cash flow as well as long term appreciation in the asset.

Notes may produce income in up-front fees or "points" as well as the payments of interest on the borrowed funds.

USE OF LEVERAGE

It is possible to purchase a rental property using a non-recourse mortgage with your IRA LLC or Solo 401(k). This can produce higher cash-on-cash returns for each dollar deployed due to the principals of leverage

Notes typically require full payment on origination or acquisition.

PROS

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| <ul style="list-style-type: none">• Solid asset• Monthly Income | <ul style="list-style-type: none">• Potential for Appreciation• Can use leverage | <ul style="list-style-type: none">• Secure underlying asset• Relatively simple to manage as an asset | <ul style="list-style-type: none">• Monthly income |
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CONS

- | | | |
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| <ul style="list-style-type: none">• Can be a complex asset to manage• Tenants (need we say more) | <ul style="list-style-type: none">• Liability exposure | <ul style="list-style-type: none">• Risk of borrower default• Foreclosure can be a complex and/or lengthy process |
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✓ RATES OF RETURN

The rate of return on a note or rental property will vary from market to market, but it is typically easier to predict the return on investment for performing notes, since the interest rate will remain constant. With rental property, your returns may vary from year to year, and the appreciation value will only provide a return on investment when you sell the property and lock in the gain.

✓ RETURN ON INVESTMENT IS ALWAYS THE BOTTOM LINE

When choosing whether to invest your IRA into notes or rental property, it's important to evaluate the various real estate and lending opportunities available. This will help you decide which option will provide the most reward relative to the risk involved.

Consult an expert before investing your IRA into notes or rental property to help you determine which investment will allow you to make the most out of your retirement plan.