

6 Steps to a Successful Flip with a Self-Directed IRA

Successfully flipping homes with your Self-Directed IRA or Solo 401(k) takes significant planning and proper execution. The following 6 steps will help you navigate this type of investment.

✓ 1. DO YOUR RESEARCH

It's important to fully understand your local real estate market before writing any offers. You should know why homes are in demand, what price range is selling the quickest, whether other investors have had success flipping homes, and how much you can expect a fully-renovated property to sell for in a particular area.

✓ 2. FIND A PROPERTY

Whether purchasing through a realtor, at auction or from wholesalers, take care to be selective and only invest your IRA dollars in a property that will allow for success. Be aggressive at finding good deals and do not over pay. Remember, you make money when you buy – if you buy right.

✓ 3. KNOW YOUR NUMBERS

This arguably most important step involves accurately evaluating whether a property will make a profitable flip. You'll need to consider costs associated with holding, rehabbing, and selling the property in addition to the potential tax impact to your IRA or 401(k) plan. It's important to keep in mind that if your retirement plan pays too much for a property, it may not result in a profit.

✓ 4. SCOPE OF WORK

Having a clear plan and scope of work for all stages of the property's rehab will allow you to get it back on the market quicker and more cost-effectively. A well designed project plan will eliminate delays, reduce unexpected cost-overruns and ensure that you and your contractor(s) are on the same page about what needs to happen, when.

✓ 5. STAGE IT

Once the contracting work is done, it's time to stage the property. You'll want to transform the clean, empty space into a welcoming home. Furniture, lights, and artwork will make the house look more appealing to potential buyers than a vacant home. A well-staged home will generally sell faster and for a higher price.

✓ 6. SELL IT

The payout for your IRA or 401(k) comes when the house is sold, so it's important to strive to make that happen quickly. Working with a realtor who's familiar with the area will be helpful in listing and showing the property.

Keep in mind that UBIT taxation may be a factor when a tax-exempt IRA or 401(k) engages in a business activity such as flipping homes on a regular basis.

It's reasonable to expect that not all steps, especially the scope of work, will go exactly according to plan. However, following these steps will help you to address any unexpected setbacks and adjust accordingly. Talk to an expert to find out whether flipping a home might be a good option for you.