

How to Invest a Self-Directed 401(k) In Real Estate

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6 Steps to Invest a Solo 401k in Real Estate



STEP 01

Open a Self-Directed 401(k)



- ▶ Make sure to first open a self-directed solo 401k. The real estate purchase offer will need to be made in the name of the solo 401k plan.
- ▶ The self-employed 401k will be purchasing the property, and to comply with the regulations, ALL fees (including the escrow deposit) all fees must be paid with solo 401k funds.

STEP 02

Fund the Self-Directed 401(k)



- ▶ Once the self-directed 401k has been adopted (i.e., the Plan documents have been signed) the property purchase offer can be made in the name of the solo 401k while the Plan is being funded.
- ▶ The solo 401k plan can be funded in various ways, such as by making annual contributions, by transfers from other qualified plans as well as direct rollovers from Traditional IRAs, SEP IRAs and SIMPLE IRAs.
- ▶ From a solo 401k funding timing perspective, the funding of the solo 401k plan can take 5 to 10 or more business days due to processing times from the various financial institutions processing the out-going transfers.

STEP 03

Determine Property Purchasing Method



There are generally 4 (four) methods of investing a solo 401k plan in physical real estate, with each method encompassing its own set of rules.

The 4 (Four) Real Estate Investment Methods Using Solo 401k Funds

4 (Four) Solo 401(k) Real Estate Purchase Methods



**All Cash
Purchase**



**Debt
Financing**



LLC



TIC



STEP 04

Put Offer Together / Contract



- ▶ In our future presentation, we will go over the rest of the real estate investing methods.
- ▶ Here in step 4, we continue under an all-cash purchase (i.e., solely solo 401k funds will be used to invest in real estate). For the various other methods of investing a solo 401k in real estate, see step 3 above.
- ▶ When putting the purchase offer together, make sure to list the Solo 401k as the buyer. Remember that the Solo 401k is a separate investor/entity from you. Therefore, the solo 401k name must be listed on all the purchase documents. Here is an example of how title is generally taken:
 - ▶ **Jane Do, Trustee of Chargers Rock Trust**

STEP 05

Earnest Deposit



► To comply with the IRS solo 401k rules, make the earnest deposit using solo 401k funds not personal funds. Remember, the solo 401k is investing in the property not you or your business.

STEP 06

Funding /Closing



- At closing, you (the trustee of the solo 401k) will approve and sign the rest of the property purchase documents and will submit them to the closing agent along with a check or wire from the solo 401k bank account for final funding.
- Vesting of All Documents

Jane Do, Trustee of Chargers Rock Trust

- **Also,** the real estate agent/title company will ask for the 7-page solo 401k Trust Agreement. The Trust Agreement lists the name of the trustee(s).

After Closing On Property

After Closing On Property Purchase



As Trustee of the Solo 401k, you safe-keep all property closing documents.



Pay ongoing property expenses using Solo 401(k) funds.



Deposit rental income to Solo 401(k) bank / brokerage account.