



## Investing in Real Estate With a Self-Directed IRA or 401(k) Plan

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Retirement accounts do not have to be limited to investments in stocks, bonds, mutual funds or other publicly traded securities. For investors who want more control over how retirement funds are invested, self-directed IRAs and individual 401(k) plans can offer a broader range of choices, including certain real estate-related investments.

These self-directed accounts are designed to give clients and their advisors more flexibility in selecting [non-traditional assets](#), generally referred to as alternative investments, while preserving the tax characteristics of a tax-deferred or tax-free retirement plan. For investors with real estate experience and a long-term investment outlook, that flexibility can create meaningful opportunities for investment diversification and portfolio design.

### What Are Self-Directed IRAs and Individual 401(k) Plans?

A self-directed IRA is an individual retirement account that allows the account owner to direct the IRA custodian ([Exeter Trust Company](#)) to hold a wider range of assets than many conventional IRA platforms permit. An individual 401(k) plan, often called a Solo-K or single-participant 401(k) plan, is a retirement plan generally used by self-employed individuals or small business owners with no full-time employees other than a spouse or other family members.

Both self-directed retirement account structures are intended to help investors build their retirement wealth. The key distinction is the broad range of investment flexibility. Rather than being limited to a narrow menu of publicly traded investments, investors can choose to invest in certain alternative investments that fit their retirement strategy.

Self-directed IRA custodians administer these accounts and custody (hold) the assets, but the client is responsible for evaluating and selecting the investments. This means the investor maintains control over the investment direction while the IRA custodian handles the account administration and custody functions.

### How Can These Accounts Be Used for Real Estate Investing?

A self-directed IRA or individual 401(k) plan can be used to acquire and hold certain real estate-related assets inside the retirement account. In this structure, the account owns the investment, not the individual personally. In general, the process works like this:

- The account is established with a directed custodian, such as Exeter Trust Company ([ExeterTrust™](#))
- The IRA or 401(k) is funded through contributions, transfers, or rollovers.
- The client identifies an eligible [real estate investment](#).
- The retirement account purchases the asset.
- Income and gains generated by the investment flow back into the retirement account.
- Expenses are paid from the self-directed account.

This structure allows retirement funds to be deployed into real estate strategies the investor already understands, while keeping the investment inside a tax-advantaged retirement vehicle. The specific tax treatment depends on



the type of account and the investor's circumstances, which is why legal, tax, and financial guidance is exceptionally important.

### **Common Real Estate-Related Investments**

Depending on the IRA custodian's administrative capabilities and expertise, and the investment structure selected by the account holder, self-directed retirement accounts may be used for a wide range of real estate and real estate-related investments, including:

- Residential rental properties (single family and multi-family residential rentals)
- Commercial real estate (office, industrial, retail, storage, land, and more)
- Real estate limited partnerships
- Real estate syndications
- Private real estate lending (e.g., deeds of trust and mortgages)
- Private equity funds
- Private debt funds
- Certain development-related real estate investments
- LLC interests that hold permitted underlying real estate assets, when properly structured, sometimes referred to as checkbook IRAs or LLCs providing checkbook control

This broader [investment menu](#) is often appealing to investors who want to align retirement strategy with their own experience and expertise in real property, real estate lending, or private offerings, often referred to as Regulation D or Reg. D offerings.

### **Why Investors Choose Self-Directed Retirement Accounts for Real Estate**

#### **Greater Control Over Investment Decisions**

Many investors want the ability to select their own investment opportunities rather than choose from a pre-set list of equities, fixed income and mutual fund investments. A self-directed IRA or solo-K plan allows the client to direct their retirement account into investment types or asset classes that match their own investing knowledge, strategy, and risk tolerance.

#### **Diversification Beyond Public Markets**

Public securities can play an important role in retirement planning, but many investors want exposure to alternative assets that are not tied as closely to publicly traded markets. Real estate and other alternative investments may provide additional diversification within a broader retirement portfolio.

#### **Potential for Long-Term Growth**

Real estate has been used as a long-term wealth-building strategy for decades. Depending on the asset and market conditions, investors may seek value through rental or leasing income, capital appreciation, private lending interest income, or strategic project outcomes. Self-directed IRAs or 401(k) plans give clients a structure to pursue real estate investment opportunities inside a retirement account framework.

#### **Access to Alternative Investments**

Clients and their advisors often seek more investment options than traditional SDIRA custodians allow. Self-directed accounts can provide investors access to non-traditional assets that many mainstream retirement custodians do not administer.

### **How Funding Works**

A self-directed IRA or individual 401(k) plan can be funded in several ways, depending on the account type and the account holder's situation.

#### **IRA Contributions**



Clients may fund a self-directed IRA or solo 401(k) plan through new annual contributions, subject to applicable IRS rules and limitations. SDIRA contribution eligibility and limits vary by account type and the account holder's earned income profile.

### **Transfers**

An IRA-to-IRA transfer is one of the most common funding methods for self-directed IRAs. In this process, assets move directly from the current IRA custodian to the new custodian. The assets do not pass through the client's hands.

### **Rollovers**

Rollovers may be used to move eligible assets from an existing retirement account into a self-directed IRA or individual 401(k) plan. Common rollover sources may include:

- Traditional IRAs
- Roth IRAs
- SEP-IRAs
- SIMPLE IRAs
- Former employer 401(k) plans
- Other qualified retirement plans, where permitted

A direct rollover, where assets move from a trustee to an SDIRA custodian, is often the preferred method when transferring funds from a qualified retirement plan into a self-directed IRA. In some cases, an indirect rollover may be available, but strict timing and reporting rules apply. Because rollover rules can be technical, investors should confirm the process with their custodian or trustee and their own advisors before proceeding.

### **Important Considerations Before Investing**

Self-directed IRAs and single participant 401(k) plans offer much more flexibility, but they also involve significant risks and responsibilities.

#### **Client Directs the Investments**

Self-directed means the client directs the accounts (client-directed). The investor, and not the IRA custodian or trustee, is responsible for evaluating and selecting the investments. If the client works with an advisor, the advisor may assist with the investment selection process if properly authorized by the client. Directed IRA custodians do not sell, recommend or endorse any specific investment or investment sponsor.

#### **Certain Assets Are Prohibited Inside IRAs**

Not every asset can be held in retirement accounts. The Internal Revenue Code (IRC) specifically prohibits certain types of investments inside self-directed IRAs, including:

- Life insurance
- Collectibles
- Subchapter S corporation stock

In addition, retirement account investors must pay close attention to account structure, transaction rules, and the type of asset being acquired. Account holders must pay special attention to prohibited transactions rules (refer to our article on prohibited transactions) when working with self-directed IRAs and individual 401(k) plans.

#### **Investments Are Not Guaranteed or Insured 0**

Alternative investments can involve substantial risk. Investments selected, purchased and held inside self-directed IRAs and individual 401(k) plans are not guaranteed or insured by the FDIC, by any federal or state government agency, or by the SDIRA custodian. Investments may lose value, including loss of principal. Investors need to exercise extreme care in choosing the investments they wish to make inside their self-directed IRAs and individual 401(k) plans.



### **Careful Due Diligence Is Essential**

Real estate and private placement investments can involve limited to no liquidity, annual valuation complexities, operational risk, and transaction-specific legal, tax and financial considerations. Investors should fully understand the investment, the structure, the documents, and the risks before directing retirement funds into any investment opportunity.

### **Choosing the Right IRA Custodian Matters**

Not all IRA custodians administer the same types of assets. That is an important point for real estate investors. A self-directed custodian should be selected based on its ability to process, hold, and administer the specific non-traditional investments the client intends to purchase.

When [evaluating a custodian](#), investors should consider:

- Experience and expertise with alternative investment administration
- Familiarity with real estate-related assets and transactions
- Operational processes and responsiveness
- Fee structure and transparency
- Regulatory status and oversight
- Ability to custody (hold) the specific asset type being considered

The retirement account structure may be flexible, but the administrative details still matter. The right SDIRA custodian can help ensure the IRA or 401(k) is established and maintained in a manner consistent with applicable retirement account laws, regulations, and rules.

### **Who May Find These Accounts Worth Exploring**

Self-directed IRAs and Solo-k plans are often considered by real property investors who:

- Want more control over retirement account investment choices
- Have experience with real estate or private Regulation D offerings
- Seek broader diversification of their investments through
- Prefer a long-term approach to retirement investing
- Want a retirement account that can hold certain alternative assets

These self-directed retirement accounts are not designed for every investor. They are best suited for individuals who understand that greater flexibility also comes with greater risks and responsibilities.

### **Conclusion**

A self-directed IRA or individual 401(k) plan can provide a practical way to buy and hold certain real estate-related investments and other asset classes inside a retirement account. For investors who want more control, broader diversification, and access to alternative assets, these structures may offer a useful framework for long-term retirement planning.

At the same time, it is important to approach self-directed investing with care. Certain assets are prohibited, investments are not guaranteed or insured, and each transaction should be evaluated in light of the investor's own goals, risk tolerance, and professional advice.

If you are considering using retirement funds for investing in real estate, speak with [Exeter Trust Company](#) (ExeterTrust™) and your legal, tax, investment, and financial advisors to determine whether a self-directed retirement account is appropriate for your situation.



## Frequently Asked Questions (FAQs)

### **Q: What is a self-directed IRA?**

A: A self-directed IRA is an individual retirement account that allows the account owner to direct the custodian to purchase and hold a broader range of assets than many conventional IRA platforms permit. In addition to traditional securities, a self-directed IRA may hold certain alternative investments, including some real estate-related assets, if they are structured properly and allowed and administered by a qualified custodian.

### **Q: Can an individual 401(k) plan hold real estate?**

A: In some cases, yes. An individual 401(k) plan, often called a Solo 401(k) or just Solo-K for short, may be used to invest in certain real estate-related assets, provided the plan is established correctly and the investment is permissible under plan documents and applicable rules. Eligibility, structure, and transaction requirements can be technical, so investors should confirm the details before proceeding.

### **Q: What types of real estate-related investments may be allowed?**

A: Depending on the account structure and IRA custodian capabilities, permitted investments may include:

- Real estate and real estate related assets, including various types of investment real property such as income producing residential and commercial properties, net lease properties (NNN), raw or undeveloped land, mineral rights and more)
- Promissory Notes secured by Deeds of Trust (“Deeds of Trust”)
- Promissory Notes secured by Mortgages (“Mortgages”)
- Unsecured promissory notes or installment notes
- Convertible promissory notes
- Simple Agreement for Future Equity (SAFE)
- Real Estate Investment Trusts (“REITs”)
- Tax Lien Certificates (“Tax Liens”)
- Limited Partnerships (“LPs”)
- Limited Liability Companies (“LLCs”)
- Corporations (“C” corporations)
- Closely held, private business entities
- Private Funds (Private Equity and Private Real Estate Funds using Regulation D as an exemption)
- Hedge Funds
- Co-ownership or fractional ownership of real estate related assets such as Tenants-In-Common investment properties (“TICs”) or Delaware Statutory Trusts (“DSTs”)
- Unlisted Business Development Companies (“BDCs”)
- LLCs providing “checkbook control” provided they are properly structured and administered, often referred to as a checkbook IRA.

Not every investment is appropriate or administratively feasible, so investors should verify that the specific asset class can be bought and held in the self-directed retirement account.

### **Q: How does funding work through transfers and rollovers?**

A: At a high level, retirement accounts may be funded through contributions, transfers, direct-rollovers, or rollovers. An IRA-to-IRA transfer generally moves assets directly from one custodian to another IRA custodian. A direct rollover may move eligible funds from a former employer plan or another retirement account into the new account. Because timing, reporting, and eligibility rules can be complex, each funding method should be reviewed carefully before action is taken.



**Q: Why do investors use self-directed IRAs and individual 401(k) plans for real estate?**

A: Investors often use these accounts to gain more control over investment selection, expand beyond traditional publicly traded, market-based assets, and align retirement capital with asset classes they understand well. For some investors, real estate may offer a way to diversify a retirement strategy and pursue long-term growth potential within a tax-advantaged retirement structure. However, outcomes are never guaranteed, and all investments involve risk.

**Q: Who directs the investments in these accounts?**

A: These are client-directed accounts. The account owner is responsible for evaluating, selecting, and directing the investment, unless that authority has been properly delegated to an advisor. The custodian or plan administrator generally performs administrative and custody functions but does not evaluate the investment for suitability, provide investment recommendations or endorse any investment sponsors or syndicators.

**Q: Are all assets allowed in a self-directed IRA or individual 401(k)?**

A: No. Certain assets are prohibited under the tax code, and some transactions may also be restricted. For example, retirement accounts generally cannot buy and hold collectibles or life insurance, and other rules may apply to ownership structure, related parties, and how an asset is used, often referred to as prohibited transactions. Investors should not assume that every real estate opportunity is permissible simply because the account is self-directed.

**Q: Why should investors consult legal, tax, investment, and financial advisors?**

A: Self-directed retirement accounts can offer flexibility, but the rules are detailed and fact-specific. Legal, tax, investment, and financial advisors can help investors understand account structure, transaction requirements, risk exposure, reporting obligations, and the potential consequences of mistakes. That guidance is important because investments are not guaranteed, may lose value, and improper handling of a transaction can create unintended tax or compliance issues.