Increase in investors using Self-Directed Individual Retirement Accounts (SDIRAs) to purchase Costa Rica Real Estate

The rise in North Americans using their Self-Directed Individual Retirement Accounts (SDIRAs) has seen a 100% increase in 2024.

SAN JOSE, SAN JOSE, COSTA RICA, November 28, 2024 / EINPresswire.com/ -- Self-Directed Individual Retirement Accounts (SDIRAs) are gaining popularity with retirement investors also looking for ways to diversify their retirement portfolios. Unlike traditional IRAs, SDIRAs provide the flexibility to invest in a wider range of assets, including international real estate. Costa Rica has emerged as an attractive destination for SDIRA investors due to its stronger than ever tourism sector which has welcomed 2,059,711 international travelers in 2024 so far, 11.44% higher than in the same time period last year.

The advantages for investors while using SDIRAs for Costa Rican real estate investments can be numerous. The MLS in Costa Rica currently has 3,048 listings in Costa Rica, 1,688 of those listed for residential use according to OMNI MLS. 27 Of these listings were closed in October of 2024, a 58.82% increase from October 2023.

Investing in Costa Rican real estate through an SDIRA has positives:

Tax Benefits: Earnings from SDIRA investments grow tax-deferred or tax-free in the case of Roth SDIRAs. This allows investors to compound growth without immediate tax liabilities.
Diversification: Real estate provides a tangible asset that can hedge against stock market volatility, offering greater portfolio stability. In 2023 International Journal of Housing Markets and Analysis concluded in a study that physical real estate was a hedge against unexpected inflation, more so than stock, bonds, and listed real estate.
Income Potential: Costa Rica's tourism industry has reached all-time highs in 2024, with October having 36,422 Airbnbs listed and available. Compared to October 2019 (20,268 listings), listings have increased by 79.7%. Demand for rental properties has increased too, the average price of a rental is 10.93% higher from the same time period.

There are properties in popular areas like Tamarindo and Manuel Antonio that are able to generate annual rental returns of up to 13%, with additional equity growth upon property sales.

Regulatory Requirements and Negatives for SDIRA Real Estate Investments

To leverage an SDIRA for real estate investments in Costa Rica, investors must follow the strict IRS guidelines.
Exclusive Investment Use: Properties must serve as investment assets only, personal use is prohibited until the account holder turns 59.5 years old.
Expense Management: All expenses, including maintenance, repairs, and property taxes, must be paid from the SDIRA account. For a condo or townhouse, investors must be able to pay 0.25% property tax, and at least $200-$600 in HOA.
Funding Rules: Funds used for the property purchase must already exist in an IRA account. Direct transfers into an SDIRA for a specific property purchase are not allowed. In Tamarindo the average price per square meter for a condo is between $1,900 and $2,350, for a 100 square meter condo, that would cost at least $190,000 excluding lawyer fees, inspections, etc. Meaning most investors can't purchase real estate without emptying the account.
Risk: As SDIRAs allow investors to choose property, if done incorrectly the account holder can choose a poor investment if they do not have the correct guidance.

Compliance with these regulations ensures that investors avoid penalties while maximizing the tax advantages of their SDIRA. In 2021, approximately 6,200,000 US citizens withdrew from the IRA early, resulting in a 10% penalty to all investors.

Choosing the Right IRA Option

Understanding the differences between Traditional IRAs, Roth IRAs, and SDIRAs is important for selecting the right investment strategy.

Traditional IRAs: Contributions are tax-deductible, and earnings grow tax-deferred, but withdrawals are taxed as income. Investments are generally limited to stocks, bonds, and mutual funds.

Roth IRAs: Contributions are made post-tax, enabling tax-free withdrawals during retirement, but investment options remain limited to traditional assets.
SDIRAs: Given the choice of tax structures between Traditional and Roth IRAs with the added flexibility to invest in alternative assets, such as real estate, precious metals, and cryptocurrencies.

Example: an investor using an SDIRA to purchase a $500,000 vacation rental in Costa Rica must have the funds already within their IRA account to complete the transaction, while potentially have more to pay for maintenance, repairs and taxes.

A Growing Trend in Diversification
“Self-Directed IRAs are changing how investors approach their retirement portfolios”, said Jake Alexander of Costa Rica Investments. “Costa Rica’s real estate market is growing quickly and an opportunity for investors looking for diversification beyond traditional asset classes”.
By aligning with the current trends in alternative investments such as Costa Rican real estate and tourism, SDIRAs provide the flexibility and the control needed to achieve long-term financial goals.

James Neale
Costa Rica investments
info@investingcostarica.com
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