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The Development of Real Estate Funds in Luxembourg

Luxembourg is the leading domicile in Europe for vehicles investing directly in internationally diversified real estate portfolios. The last decade has seen a phenomenal growth. It is now the largest domicile of multi-country real estate funds in Europe according to recent INREV statistics.

Reasons for Luxembourg's Position as a Market Leader in Real Estate Funds

The success of Luxembourg in attracting real estate investment funds is not an accident of fate – it truly reflects the unique pool of critical competencies, reflecting real estate industry best practices, which Luxembourg has established over the last two decades to serve the investment fund industry. Luxembourg offers a number of tax-neutral vehicles and innovative legal frameworks - regulated and unregulated – to facilitate collective investments in real estate. Crucial in this regard, has been the launch of the Specialized Investment Fund (SIF) regime in Luxembourg.

Explosion of Luxembourg Real Estate Funds under SIF Law

The Specialized Investment Fund regime, launched in 2007, significantly simplified the rules for setting up structures such as real estate funds in Luxembourg. It also allows much wider possible distribution of Luxembourg real estate funds which were previously limited to institutional investors. The popularity of the SIF Law is illustrated by the

fact that 92% of regulated real estate funds in Luxembourg fall under this regulatory regime. Promoters have found that the cost of setting up this lightly regulated structure have far been outweighed by the benefits associated with the regime.

The Future?

Under the current drafting of the Alternative Investment Fund Managers (AIFMs) Directive, many non-EU real estate AIFMs may have incentives to establish themselves in the EU to be able to passport their products to investors in other EU Member States. The Directive may also drive a significant migration of real estate funds to onshore domiciles, such as Luxembourg. The choice of domicile for AIFMs and real estate funds will depend on factors such as flexibility of the regulatory environment, fiscal environment for investors and fund managers, reputation of the financial centre, and the expertise of locally based service providers. These are all areas where Luxembourg scores high. We therefore believe that Luxembourg will continue to prove to be an attractive domicile for EU AIFMs and real estate funds.

