REAL ESTATE FUND LEADER

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Keith Burman of ManagementPlus Group is seen speaking at the Association of the Luxembourg Fund Industry's Private Equity and Real Estate Conference (https://delano.lu/d/detail/snapshots/worries-success/196512#pid=6), 21 November 2018. Image credit: LaLa La Photo

Cross border real estate investment funds have a tricky job. After they've raised funds they have to make wise investments in a range of countries, and then keep track of these moves to ensure they remain viable if and when tax rules and regulations change. Solving these problems is Luxembourg's specialty.

There were 333 real estate investment funds (REIF) domiciled in Luxembourg at the end of June 2018. This figure has been broadly stable for three years, up from around 300 in 2014/15 but double the 2010 figure. There were fewer than 50 of these vehicles in 2005. These figures are in the annual survey of local REIFs recently published by the Association of the Luxembourg Fund Industry (http://www.alfi.lu/it/node/3689) on 19 November.

The overwhelming majority of the initiators of these funds came from Europe either the EU-28 (69%) or non-EU (19%). The Americas were responsible for 11% with Asia-Pacific and the Middle East the remaining 1%. Benelux initiators accounted for 95 funds, Germany 55, UK 33, with those from USA, France, Canada and Switzerland in the lower teens. As for the region invested into, 77% targeted European assets, 6.6% invest globally and 7.9% in the Asia-Pacific region.

Strategies and investors

In terms of investment strategy, the survey showed that the most common remains the "multi-sector" strategy, accounting for 38%. However, this share is down compared with 2016 (50%) and 2017 (40%). Among the single-sector strategies, retail and residential showed comparable results this year with 14% and 16% respectively, with investments in offices representing 10%

of those surveyed. Regarding investor profile, 88% were for institutions, 7% high net worth individuals, 3% private banks and 2% family offices. 81% of funds were run on behalf of 25 or fewer institutional investors.

Figures from the asset management industry's European trade federation (https://www.efama.org/statistics/SitePages/European%20Quarterly%20Statistical%20Release.aspx) pointed to Luxembourg being the leading domicile in Europe. In the first half of 2018, net inflows to Luxembourg REIFs equaled €9.3bn compared to €5.7bn in Germany and €1.5bn in the Netherlands, the second and third most attractive.

Together this evidence enabled Keith Burman, co-chair of the Alfi Real Estate Investment Funds Sub-Committee to say: "Luxembourg remains the favoured location to establish and maintain multi-geographical and multi-sectoral regulated REIFs, which continue to appeal to institutional investors and fund managers from around the world."

Success factors

One of the factors for this success was the 2013 law reform which enabled Luxembourg funds to mimic the limited partnership vehicles seen under common law systems. These SCS/SCSps are now the most common structure of funds surveyed with 32%. Also popular is the reserved alternative investment (RAIF) fund which has a streamlined regulatory process. Introduced in 2016, nearly one-tenth of real estate funds in Luxembourg use this format.

There is also a steady but clear trend towards more simplified structures and strategies. This year 72% of REIFs have a single-compartment structure, compared with 76% in the 2017 survey.

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