Real Assets: Why is Luxembourg a REIFs success story?

A recent study coupled with our experience in Luxembourg shows how the jurisdiction is cementing its place as a preferred domicile for real estate funds. ***Rich Anthony*** *and* ***Michele Basilico*** *explore the opportunities and considerations for fund managers setting up real estate funds in the Grand Duchy*

Luxembourg is well-established as a premier financial center in Europe, and the Association of the Luxembourg Fund Industry's (ALFI's) recent annual report shows how it also continues to strengthen its position as a domicile of choice for real estate funds.

Overall, the Grand Duchy oversees assets under management (AuM) exceeding €5 trillion and of this €130.7 billion was in real estate funds by the end of 2024. The report, which surveyed 730 real estate investment funds (REIFs), found that around four in five investors were European, with less than 10% from the Americas and of REIFs surveyed, more than 80% have 25 or fewer investors, which points to a strong institutional focus. Of the surveyed funds 53% follow multi-sector strategies, which is up 20% on 2019's percentage and residential continues to be the most popular single sector focus at 12%.

These findings are backed up by the CSSF's 2024 AIFM Reporting Dashboard, which found that in the last five years Luxembourg's AIF market has expanded at pace. In 2020, the AuM of Luxembourg-based AIFMs stood at €1,042 billion, spread across 6,100 funds. By 2024, those figures had surged to €2,445 billion and 10,084 funds. Though private equity and fund of funds are responsible for the lion's share of the growth, real estate funds also posted a strong performance, with AuM doubling from €160 billion to €326 billion, marking a 103.75% rise over the same five-year period.

What makes Luxembourg a jurisdiction of choice for real estate funds?

The Grand Duchy's robust regulatory framework, strategic location, and investor-friendly environment make it an attractive destination for fund managers looking

to establish real estate funds. Luxembourg's financial sector also has a reputation for being innovative, transparent and stable.

Here are 7 considerations for fund managers:

1. Regulatory compliance

In Luxembourg, the Alternative Investment Fund Management Directive (AIFMD) provides the backbone of investor protection, while vehicles like the SICAR, SIF, RAIF or other non-supervised AIFs offer the right level of flexibility for a fund manager's real estate strategy. This optionality results in a scalable, cross-border platform that balances execution speed and regulatory rigor.

For example, structures launched under investment fund law must comply with the AIFMD framework through its authorized AIFM, covering portfolio and risk management, depositary oversight, investor disclosures and Annex IV reporting, as well as with the specific requirements of the relevant law (i.e. minimum capital).

2. Fund structure selection

Luxembourg's "toolbox" offers many options to address asset managers' requirements to create portfolio flexibility and meet investors' needs. Specific product law requirements coupled with clear and stable corporate law provide a balanced combination of regulation and flexibility for investors to access the market and for the asset managers to deploy capital.

More than half of Luxembourg-based real estate funds now use Real Asset Investment Funds (RAIFs) or unregulated Alternative Investment Funds (AIFs) structures due to their flexibility and faster time-to-market.

3. Service providers

Engaging top-tier service providers is important for fund setup and ongoing operations, but it can be difficult to find the right mix of specialist service providers. Luxembourg has a deep pool of specialists and third-party partners to tap into across legal, audit, fund administration and custody services. At Aztec, we have more than 700 people representing 70 nationalities and our real estate fund clients use Luxembourg as a base to invest across a broad range of

European and Scandinavian countries.

4. Tax considerations

Luxembourg also offers attractive tax regimes for real estate funds and recent changes to the carried interest tax laws are expected to increase their attractiveness. For example, capital gains on property held for over two years benefit from significant tax allowances, reducing the tax burden.

- SIFs and RAIFs: exempt from income and capital gains tax (except for Luxembourg-located property), subject to a 0.01% subscription tax
- SCSp: tax-transparent, allowing income to flow directly to investors.

5. Investor base

Most funds serve fewer than 25 investors and favor multi-sector strategies to appeal to diverse institutional preferences. Institutional investors make up 88% of Luxembourg's REIFs and the investor base is primarily European with growing interest from both North America and Asia. The Grand Duchy's central position in Europe makes reaching out to an increasingly global investor community easier logistically.

6. Operational setup

The operational setup is relatively straight forward, with most of the funds opting for a partnership structure managed by its GP. The appointment of an AIFM and a depositary help to mitigate the risks associated with the management of the fund, ensuring investor protection and compliance with regulatory requirements.

7. Marketing strategy

Passporting under AIFMD or the European Long Term Investment Fund (ELTIF) regulation has contributed to the success of Luxembourgish funds, both enable asset managers to more easily reach European investors. Added to this, Luxembourg structures are well known among international investors and global distributors, providing advisers with broader reach.

As leaders in impact and ESG-related frameworks and standards, Europe and Luxembourg can deliver investors' requirements for adequate ESG reporting, which is strategically important to ensure the distributions of funds to

institutional investors, for example.

How can Aztec support you?

Luxembourg continues to bolster its reputation as a leading center for real estate funds in Europe through developing a tailored combination of legal, regulatory, financial, and strategic advantages that is proving increasingly attractive to fund promoters and investors.

The Grand Duchy is also Aztec's largest office – home to a deep pool of operations professionals, regulatory specialists, and asset class experts who understand the nuances of the local landscape through a global lens. We support 900+ investment funds across a wide range of strategies and structures, each with varying degrees of complexity. Among these funds is a range of real estate funds which we support with our suite of specialists and industry-specific technology. Please get in touch with us directly if you'd like to discuss any of the topics raised in this article.

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