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Ireland as a leader in pan-European real estate

What's stopping us?

Over the past 30 years, Ireland has established itself as a leading centre for funds and asset management – it's now the third-largest globally and second largest in Europe.

Despite Irish-domiciled funds' prevalence as investment vehicle of choice for Irish real estate investors, we've yet to fully capitalise on the rapidly growing segment of pan-European real estate investment.

With the right policy, regulatory and industry actions, Ireland has a compelling opportunity to become a premier domicile and servicing centre for cross-border real estate funds in Europe.

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This article outlines Ireland's competitive advantages and presents a use case for the Irish Collective Asset-management Vehicle (ICAV) as an investment vehicle of choice for pan-European real estate.

Market opportunity

The steady growth of real estate as an institutional asset class remains strong, with real estate investment throughout Europe seeing particularly substantial growth. This is driven by attractive yields, inflation-hedging capabilities and portfolio diversification.

The rise of cross-border structures has facilitated inter-country investment vehicles – primarily based in Luxembourg and the Netherlands – for pooling European real estate assets. The demand for centralised administration in tax-efficient, well-regulated jurisdictions is increasing.

We're approaching a market consensus that asset repricing across Europe has settled and transactional activity is beginning to improve. This is an ideal time for asset managers to consider raising new funds or deploying capital that's been raised for this eventuality.

Ireland's advantages

Ireland offers a host of tangible benefits – including a stable currency, English as the primary business language, extensive tax treaty networks and a reliable common law legal system – making it an exceptionally attractive jurisdiction for commercial activities.

Investment management can be conducted from Ireland or delegated to international asset managers, and the established Irish funds ecosystem allows global investors to benefit from the most appropriate expertise of local service providers, including:

- fund operations
- depositary services
- fund administration
- regulatory
- legal
- tax advisors.

Many market participants, such as pensions funds and real estate or private equity managers, already have an Irish presence. Irish structures work very effectively for these types of investors and the relationships can be scaled up efficiently.

The specialist talent base in Ireland is world class and has benefited from the global financial crisis's market dislocation to reorientate and gain broader experience.

What do institutional investors need?

To capitalise on this substantial opportunity, a series of targeted measures and refinements could be introduced to:

- enhance confidence in regulatory stability
- bolster certainty
- underscore the robustness of Irish fund credentials.

The specialist talent base in Ireland is world class and has benefited from the global financial crisis's market dislocation to reorientate and gain broader experience. The promotion of a tech-savvy and capable workforce ensures matters such as data, AI and ESG can easily be integrated into practice.

Existing ICAVs could be scaled up to critical mass, and there are opportunities to extend the investment universe for current operations to include real-estate-adjacent sectors such as:

- infrastructure
- debt
- asset-backed security strategies.

This is also an opportunity to showcase capabilities in other structures such as European Long-Term Investment Funds (ELTIFs).

The European situation

Since 2022, European real estate has undergone a marked recalibration which, as referenced above, now appears to be broadly stabilising across the various markets and sectors.

Access to capital has improved appreciably, with investors now reaping the benefits of increased lender participation and a consequential broadening of the lending universe. This presents the necessary foundation for any party at the start of a fund-raising campaign to build upon for their intended specific business plan.

The majority of pan-European real estate funds exhibit the same characteristics, for example in terms of lifecycle duration, being open-ended and with prescribed asset/sector distribution.

This homogeneity allows for benchmarking and peer-group metric comparison (eg using the MSCI Pan-European Property Fund Index) for investors seeking to deploy capital. Aligning this with a common Irish structure – and the industry scale to achieve flexibility and efficiency – would let them benefit from the streamlining of operations.

The ICAV proposition

Ireland has a fit-for-purpose structure, the ICAV, which in the real estate sector has to date really only been used for holding Irish properties.

An ICAV that invests more than 25% in Irish property is deemed an Irish Real Estate Fund (IREF), which depending on investor circumstances (unless exempt), may suffer Irish 20% withholding tax on relevant income and gains.

The ICAV provides a corporate structure governed by a board of directors and owned by shareholders. As a regulated fund, it benefits from the robust oversight and investor protections that come with regulatory supervision. Consequently, the ICAV requires authorisation from the Central Bank of Ireland to carry on a business.

An ICAV that holds real estate assets is considered a Qualifying Investor Alternative Investment Fund (QIAIF) and is regulated under the EU's Alternative Investment Fund Managers Directive (AIFMD). This alignment with European regulatory standards enhances its credibility and appeal to institutional investors.

Furthermore, ICAVs that do not qualify as IREFs are not subject to the leverage restrictions set out by CP 145, which imposes a 60% leverage limit on Irish property funds. This flexibility makes the ICAV an attractive option for both third-party and shareholder funding, supporting a wide range of investment strategies.

AIFMD II and current Central Bank of Ireland interaction with the industry can be used to present new ways of tailoring the ICAV for a broader audience and wider asset targeting.

This all makes the ICAV a fitting structure for pan-European real estate investments.

Where an ICAV does not hold any Irish real estate (and has no intention to do so in the future), it should not be deemed to be an IREF and, therefore, should not be chargeable to Irish tax on its relevant income or gains.

The ICAV is also not subject to withholding tax on distributions or redemptions where there are no Irish taxable investors. Instead, any tax obligations typically arise in the jurisdiction where the real estate assets are located, offering significant flexibility in cross-border investment.

The introduction of the BEPS Multilateral Instrument has posed challenges for the continued use of holding vehicles in certain jurisdictions.

The ICAV as an ELTIF

ELTIFs are designed to channel capital into long-term projects that support the development of European infrastructure. They are uniquely positioned to be marketed across the EU to both professional and retail investors, broadening access to a diverse investor base.

An ICAV can be structured as an ELTIF in Ireland, providing the benefits of a corporate regulated structure. ELTIFs commonly direct their infrastructure sector investments toward areas such as social infrastructure and renewable energy.

Substance requirement considerations

Following the introduction of the BEPS Multilateral Instrument – which allowed governments to implement tax treaty measures without the need to renegotiate protocols with each individual country – entities must prove sufficient substance in a jurisdiction to access double-taxation treaty provisions.

This shift has posed challenges for the continued use of holding vehicles in certain jurisdictions.

Ireland, however, stands out among the credible alternatives. Our talent pool and highly skilled service providers make it possible to achieve required substance.

Moreover, Ireland's established reputation as a domicile of choice for investment funds, private debt and aircraft leasing means that many large, diversified players with presence in Ireland already possess the necessary substance.

Next steps for the industry

To firmly establish Ireland as a preferred domicile for pan-European real estate funds, it's essential we adopt a coordinated and strategic approach, using the strengths of the entire ecosystem.

We can only realise this vision through robust industry collaboration, bringing together key stakeholders such as:

- legal and tax advisors
- asset and fund managers
- fund administrators.

By working together and adopting a collaborative approach, we can make the full suite of services required by pan-European real estate funds available in Ireland – and deliver them at scale.

Conclusion: A location of choice

Ireland has the potential to be an investment management fund location of choice for real estate funds. Most commentators believe the European real estate sector will enjoy improved transactional activity as well as significant new fund launches over the next two to three years.

There's no reason Ireland can't be a primary hub for this market resurgence, and we hope this article demonstrates how this could be achieved.

Key actions businesses can take today

Take a unified approach

We need a unified industry effort to streamline processes and enhance Ireland's value proposition in the eyes of international investors.

Promote the ICAV

One of the most promising opportunities lies in the promotion of the ICAV as a structure of choice for pan-European real estate investments.

By proactively raising awareness of the ICAV's benefits, Ireland can further differentiate itself as a forward-thinking and investor-centric jurisdiction.

Adopt the right mindset

Ultimately, by embracing a collaborative and strategic mindset, Ireland can:

- solidify its reputation as a destination of choice for investment funds
- attract new business in the form of pan-European real estate investment structures
- support the continued growth of the sector.

Ireland has the potential to be an investment management fund location of choice for real estate funds. Most commentators believe that European real estate is a sector that will enjoy improved transactional activity as well as significant new fund launches over the next two to three years. There's no reason why Ireland can't be a primary hub for this market resurgence, and we hope this article demonstrates how this could be achieved.

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