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## Introduction

The European Association for Investors in Non-Listed Real Estate Vehicles<sup>1</sup> (INREV) welcomes the opportunity to contribute to the targeted consultation on the EU venture and growth capital funds reform. Although INREV represents the non-listed real estate investment industry, we believe this consultation raises broader issues that are also relevant for other segments of the alternative investment ecosystem, including real estate investment managers and investors.

The discussion around regulatory proportionality, thresholds and the scalability of smaller and mid-sized managers is highly relevant across the full scope of the Alternative Investment Fund Managers Directive (AIFMD). Many of the structural challenges identified in the consultation, including the “cliff-edge effect” created by the €100 million and €500 million thresholds and the compliance burden associated with full scope AIFMD authorisation, are not unique to venture and growth capital. Similar considerations arise in other sectors of the alternative investment industry, including non-listed real estate.

INREV therefore supports the Commission’s objective of strengthening the competitiveness of EU investment managers and facilitating the scaling up of investment platforms within the Single Market. A more proportionate regulatory framework can play an important role in enabling innovation, improving capital formation and supporting investment in the real economy.

In addition, the consultation is particularly relevant for the real estate sector because real estate investment increasingly intersects with venture and growth capital activities. Institutional real estate investors are not only financing physical assets but also investing in technological and operational innovation linked to the built environment. For example, innovations such as modern methods of construction (MMC), building technologies, energy management systems and new construction techniques increasingly require venture style investment structures and early stage funding. Supporting the development of venture and growth capital ecosystems therefore also has direct implications for the transformation and decarbonisation of the built environment.

For these reasons, INREV believes that the issues raised in the consultation should be considered not only in the context of European Venture Capital Funds (EuVECA), but also more broadly across the AIFMD framework.

## Proportionality and thresholds

INREV agrees with the Commission’s assessment that the current €500 million threshold under AIFMD has become increasingly outdated, considering market developments, inflation and the

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<sup>1</sup> INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has over 500 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds that provide critical income security for more than 172 million people, as well as investment banks, investment managers, fund-of-funds managers and advisors representing all facets of investing in non-listed real estate vehicles in Europe. Our investment manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

evolution of the European investment management industry. Since the adoption of AIFMD in 2011, the scale, cost base and structure of the EU investment management market have changed significantly, with a €500 million threshold now capturing managers that may still operate with a relatively limited market footprint, staffing and resources.

In addition, INREV considers that the €100 million threshold applicable to managers using leverage should be also reassessed. In particular, this threshold does not adequately reflect the characteristics of certain investment structures, such as real estate, where leverage is typically applied at the level of underlying assets or SPVs and does not give rise to recourse at the fund level. Maintaining the current threshold in such cases may lead to disproportionate outcomes, whereby a significant share of real estate fund managers are brought within the full scope of AIFMD irrespective of their actual risk profile. INREV therefore suggests that the framework be refined to better account for non-recourse leverage structures by excluding such arrangements from the threshold or, alternatively, by increasing the threshold to better reflect market developments.

INREV also shares the Commission's concern that the current framework causes "cliff-edge effects", whereby managers exceeding the threshold are required, within a short timeframe, to comply with the full-scope AIFMD regime. This transition entails materially higher administrative, organisational and compliance requirements, including increased capital requirements, governance obligations and operational costs. In practice, this can create a disincentive to scale, or impose disproportionate burdens on managers that do not pose systemic risk and whose business models remain relatively simple.

In this context, INREV supports a reassessment of the threshold and the exploration of a higher and more flexible calibration, to better reflect market realities and ensure that regulatory requirements remain proportionate to the size, risk profile and investment strategy of managers. This should be considered alongside the objective of maintaining effective supervision, market integrity and a high level of investor protection.

However, INREV emphasises that adjusting the threshold alone will not fully address the structural issues identified in the consultation. A more comprehensive approach is required, including the introduction of proportionate requirements for mid-size AIFMs, greater consistency across national regimes, and targeted measures to reduce unnecessary regulatory and operational burdens while facilitating cross-border activity and scalability within the EU single market.

## **Introducing a gradual regulatory framework**

In addition to revisiting the €500 million and €100 million thresholds, INREV considers that the regulatory framework would benefit from a more proportionate and graduated approach that better reflects the diversity of business models, sizes and risk profiles across the EU AIFM landscape. As highlighted in the consultation, the current binary framework may subject managers to a "significantly more demanding regulatory framework" once the threshold is exceeded, without sufficiently accounting for their scale or market footprint.

Rather than maintaining a binary distinction between sub-threshold managers and full-scope AIFMs, INREV supports the introduction of a tiered structure of regulatory requirements. In case the €100 million threshold be eliminated, this could include three broad categories: smaller managers operating below a revised €500 million threshold, mid-size AIFMs operating between €500 million and €7.5 billion in assets under management (AuM), and large AIFMs above that level subject to the full AIFMD regime. Such a framework would align more closely with the consultation's objective of ensuring that regulation is proportionate to the size, investment strategy and risk profile of fund managers.

A graduated approach would not directly address the "cliff-edge effects" identified by the Commission but would already allow regulatory obligations to increase progressively as managers scale. In this

context, INREV also supports the introduction of an appropriate transitional period, for example up to 18 months, during which managers crossing a threshold could adapt their governance, operational and compliance frameworks before being required to fully comply with the next regulatory tier. This would mitigate abrupt adjustments and support orderly scaling, without undermining supervisory effectiveness.

INREV also suggests that the Commission considers using net asset value (NAV) instead of assets under management (AuM) to calibrate regulatory thresholds. AuM may overstate the size of private market managers, as it includes committed but not yet invested capital, which can be significant in drawdown structures. This can result in managers crossing thresholds before their portfolios are fully deployed, contributing to the “cliff-edge effects” identified in the consultation.

By contrast, NAV reflects the value of assets actually invested and grows more gradually, providing a more accurate proxy for operational scale, market exposure and risk. It is also already widely used across private equity, venture capital and real estate for reporting and governance purposes. Aligning thresholds with NAV would therefore support a more proportionate and risk-based framework, while reducing unnecessary complexity.

Importantly, moving between categories within such a graduated framework should not trigger a requirement for a new authorisation, especially between mid-size and full scope AIFs. Instead, managers should be subject to a notification-based process vis-à-vis competent authorities, ensuring continuity of operations while maintaining appropriate supervisory oversight.

## **Supporting innovation and investment in the real economy**

INREV strongly supports the consultation’s objective of strengthening the EU’s capacity to finance innovation and growth, including by improving the scalability and competitiveness of venture and growth capital fund managers. Venture and growth capital play a critical role in supporting early stage companies, technological development and scale-ups that are essential to the EU’s long-term competitiveness.

This objective is also closely linked to developments in the real estate sector. The nature of real estate investment is evolving rapidly and increasingly involves operational and technology-driven business models. Many emerging business models combine real estate assets with innovation in areas such as construction technologies, energy systems, building materials and digital infrastructure.

For example, modern methods of construction (MMC) represent an important area of innovation for the built environment. MMC refers to advanced construction techniques that shift a significant share of building activity away from traditional on-site construction towards off-site manufacturing and modular production. These approaches can reduce construction timelines by up to 40–50%, improve quality control and lower emissions associated with the building process. However, as highlighted in [INREV research](#), scaling MMC requires both standardisation and a predictable pipeline of projects, as well as access to risk capital to support early-stage companies developing new construction systems and materials.

Institutional investors in the built environment therefore increasingly interact with venture and growth capital ecosystems, both as capital providers and as end users of innovation. Ensuring that these ecosystems can develop efficiently within the EU will help accelerate innovation across sectors, including construction, housing and infrastructure, and support the mobilisation of private capital towards EU policy priorities.

## Definitions and evolving investment models

INREV also encourages the Commission to consider how evolving investment models may interact with the definitions used in the regulatory framework.

In practice, some investment strategies combine elements of venture capital, growth capital and real asset investment. For example, investments in life science campuses, research laboratories, advanced manufacturing facilities or construction technology platforms may involve both a real estate component and a venture-style investment in innovative operating businesses.

This convergence reflects broader market developments, where real estate assets increasingly serve as platforms for operational activities, innovation and service delivery, rather than purely passive investments. In this context, rigid regulatory classifications may not fully capture the underlying risk profile or economic function of such investments.

Ensuring that the regulatory framework remains sufficiently flexible and technology-neutral to accommodate these hybrid models will be important for supporting cross-sector investment, avoiding unintended regulatory frictions, and enabling capital to flow efficiently into innovative and strategically important areas of the real economy.

## Conclusion

INREV supports the Commission's objective of strengthening the competitiveness and scalability of EU venture and growth capital fund managers, while ensuring that any resulting measures are coherent with, and appropriately calibrated across, the broader AIFMD framework.

In particular, INREV encourages the Commission to consider updating the existing €500 million threshold, eliminating the €100 million threshold for AIFMs using non-recourse leverage, and introducing a more gradual and proportionate regulatory framework that better reflects the diversity of the EU fund management landscape. This could include a tiered approach distinguishing between smaller managers, mid-size AIFMs (for example between €500 million and €7.5 billion), and large AIFMs, combined with appropriate transitional periods to mitigate "cliff-edge effects" and allow managers to scale in an orderly manner.

INREV also encourages the Commission to assess whether alternative metrics, such as net asset value (NAV), could replace AuM in calibrating thresholds, in order to better reflect the economic exposure, operational scale and risk profile of private market strategies. In addition, once a manager is authorised under AIFMD, moving between regulatory tiers should be based on a streamlined notification process, rather than requiring new authorisations, to avoid unnecessary disruption to business operations.

A more proportionate and scalable framework would support the emergence of new fund managers, reduce unnecessary compliance burdens for smaller firms and help strengthen the EU's innovation ecosystem. These objectives are not only relevant for venture and growth capital but are also increasingly important for other segments of the alternative investment industry, including real estate, where vertically integrated investment models are evolving and intersect with technological innovation, infrastructure and operational platforms.