Ueno-Park in Taxation Magazine: Family Offices in a Changing Regime

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Haynes Boone Partner **Alexandra Ueno-Park** authored a three-part series for *Taxation Magazine* outlining the tax issues, structuring and market outlook for family offices investing in real estate in the United Kingdom.

Read an excerpt from Part I, considering the principal UK tax considerations for family offices investing in UK real estate, below.

Although there is no universally accepted legal definition, a family office is generally understood to be a dedicated entity established to manage the wealth, investments, governance and personal affairs of ultra-high net worth families. While the origins of the modern family office are often traced to the late 19th century and institutions established by families such as the Rockefellers in the US, the sector has expanded significantly in recent decades.

Growth accelerated noticeably following the turn of the 21st century and especially after 2010, driven by rising global wealth and an increasing demand for bespoke wealth management and governance structures. According to Deloitte, the aggregate wealth of families served by family offices could reach approximately US$9.5tn by 2030, while family offices themselves are expected to manage around US$5.4tn of assets, placing the sector among the most influential pools of private capital globally.

This trend is equally evident in the UK, where family offices have become an increasingly important force in the private markets ecosystem. Since 2016, the number of family offices investing in private markets has grown by 524%, rising from 651 to 4,067 and significantly outpacing growth among wealth management firms and endowments. As family offices continue to professionalise and institutionalise their investment strategies, real estate remains a fundamental component of many long-term portfolios. Real estate features prominently in allocation decisions, with direct real estate ranking as the third most common investment allocation and indirect real estate investments also featuring strongly, ranking seventh overall (see The Knight Frank 150: Global family office investment strategies – tinyurl.com/4npzydjw).

For family offices investing in real estate, tax is far more than a compliance consideration – it is a strategic driver of investment outcomes. Because real estate assets are typically illiquid and require substantial capital commitments, tax efficiency can materially affect both the net realisable value of investments and the long-term preservation and transfer of family wealth across generations.

This article examines the principal UK tax considerations for family offices investing in UK real estate, including the impact of recent and forthcoming tax developments on investment structures and the implications for future transactions.

Read the full Part I from *Taxation Magazine* here.

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Read an excerpt from Part II, looking at the core considerations for structuring family offices investing in UK real estate, below.

There is no single ideal structure for family offices investing in UK real estate and attempts to identify one are generally overly reductive. Tax efficiency should not be pursued in isolation, but it needs to align with robust governance, asset protection, and commercial reality. The appropriate structuring approach will depend on a combination of investor-specific and asset-specific factors, including:

- *Investor profile: tax residency, estate planning, and inter-generational goals.*
- *Transaction mechanics: holding period, exit plans, financial strategy and co-investment needs.*
- *The asset: the specific nature of the underlying property or business.*

These commercial and governance considerations come with direct consequences for multiple types of UK tax. In particular, the choice of acquisition or holding vehicle will typically determine the exposure to income taxation on rental income, the application of capital gains tax on disposal (including in the case of indirect disposals of UK 'property-rich' entities), and the extent to which financing costs are deductible under the relevant corporate tax rules. In addition, structuring choices may also influence exposure to UK inheritance tax for individuals and trustees, as well as the availability of reliefs such as group reliefs within corporate structures.

Succession planning has also become an increasingly important structuring consideration. This is particularly the case for family offices managing wealth on behalf of large, multi-branch families. These offices frequently employ bespoke investment structures to accommodate the differing requirements of individual family members, including varying investment time horizons and evolving beneficial ownership arrangements.

Read the full Part II from *Taxation Magazine* here.

Read an excerpt from Part III, discussing the emerging structuring trends in global family office investment, below.

Over the past decade, international family office investment has become increasingly institutionalised. Larger family offices now adopt platform-based investment models resembling those used by private equity sponsors, with dedicated investment committees, institutional-grade reporting, and third-party fund administrators. This professionalisation reflects the increasing complexity of tax compliance - particularly multi-jurisdictional reporting obligations- and a desire to attract co-investment capital and institutional financing.

UK real estate is increasingly viewed as one component of a broader global investment platform rather than as a standalone investment. As a result, ensuring that UK holding and ownership structures integrate effectively with a family's wider portfolio has become an important consideration for international family offices. Increasing emphasis is placed on structures that promote administrative efficiency, facilitate the deployment and repatriation of capital and support long-term succession planning, whilst remaining robust from a UK tax, regulatory and governance perspective.

Unless investors are pursuing an alternative regime, such as a UK real estate investment trust (REIT), international family offices commonly use a UK holding company, Luxembourg société en commandite spéciale (SCSp) or Luxembourg société de participations financières (SOPARFI) as

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the principal investment vehicle, with individual property assets typically held through separate UK special purpose vehicles (SPVs) - most commonly UK limited companies and, in some cases, English limited partnerships (LPs). Such structures may offer several advantages, including:

- *Liability ring-fencing between individual property assets.*
- *Co-investment flexibility, enabling debt arrangements to be tailored to the cash-flow profile and risk characteristics of individual properties.*
- *Asset-level financing, enabling limited-recourse or non-recourse debt to be tailored to the cash flows and risk profile of each property.*
- *Facilitation of institutional lending, as lenders can take security over the relevant asset-owning SPV without necessarily creating cross-default exposure across the wider portfolio.*
- *Exit flexibility, as individual assets can be disposed of through a share sale of the relevant SPV rather than by way of an asset sale. Depending on the circumstances, a share sale may reduce the purchaser's transaction tax cost (typically attracting stamp duty at 0.5% rather than stamp duty land tax) which can enhance marketability.*
- *The commercial benefits of a share sale, however, must be balanced against the purchaser's assumption of historic liabilities within the target vehicle and the UK tax treatment of disposals of property-rich entities.*

Read the full Part III from *Taxation Magazine* **here**.

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