



National Audit Office



REPORT

The repurchase of the service family accommodation estate

Ministry of Defence

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Key facts

£14.5bn

the amount by which we estimate the Ministry of Defence (MoD) was worse off, by 2024, than if it had not sold the service family accommodation (SFA) estate in 1996

£5.99bn

the agreed price which the MoD paid to repurchase 36,347 SFA properties in 2024

£9bn

the amount of funding that the MoD announced to deliver the Defence Housing Strategy over 10 years

£230 million the annual amount in rent that the MoD was paying to Annington Property Ltd (Annington) at the point it repurchased the SFA estate in 2024

£10.6 billion the estimated amount of rent (nominal values) the MoD would have been required to pay had the Annington arrangements continued for another 30 years

36,347 the number of properties which the MoD repurchased from Annington in 2024

51% the percentage of respondents to the 2025 Armed Forces Continuous Attitude Survey who were satisfied with the quality of their SFA

9 in 10 the proportion of service family homes that the MoD plans to modernise by 2035

Over 100,000 the number of new homes for civilian and military families which the MoD is committed to building on surplus defence land

Summary

Introduction

1 Service personnel must often move location and work in areas where housing options are limited, placing them at a disadvantage when trying to access the housing market. The Ministry of Defence (the MoD) therefore provides subsidised accommodation. In 2025, 59% of service families lived in service family accommodation (SFA). The MoD considers that the provision of this accommodation is an important part of its efforts to recruit and retain them.

2 In 1996, the MoD sold around 55,000 SFA properties to Annington Property Ltd (Annington) and then rented them back on 200-year underleases. Under the terms of the arrangement between the MoD and Annington, for the first 25 years, the rent that the MoD paid would be 58% lower than the open market valuation. After 25 years (in 2021) the MoD and Annington would have to agree a revised rent reduction.

3 We have previously reported twice on the arrangement between the MoD and Annington.^{1,2} In 1997, we reported that the MoD's main aims in selling the estate were to transfer ownership of the bulk of SFA in England and Wales to the private sector; secure funds for upgrade work; improve management of the estate; and secure value for money through a competitive sale. We found that the sale and leaseback appeared to satisfy the MoD's immediate objectives. However, the sale price was lower than the value of retaining the estate, and the MoD retained important responsibilities for managing it.

4 In 2018, we examined the MoD's management of the arrangement and whether it was set up to achieve value for money in the future. We concluded that the arrangement did not generate the improvements in the estate that families living in the properties would have hoped for, and that the MoD had lost out on increases in asset values worth billions of pounds.

¹ Comptroller and Auditor General, *The Sale of the Married Quarters Estate*, Session 1997-98, HC 239, National Audit Office, August 1997.

² Comptroller and Auditor General, *The Ministry of Defence's arrangement with Annington Property Limited*, Session 2017-2019, HC 762, National Audit Office, January 2018.

5 In 2019, the MoD began to consider options for improving the arrangements, and in December 2024 it bought back 36,347 SFA properties from Annington for a price of £5.99 billion (the repurchase). In November 2025, the MoD published its Defence Housing Strategy. This set out its plans to use the opportunity created by the repurchase to deliver radical improvements to the defence housing estate, including SFA, while using defence land more effectively for the provision of both military and civilian homes.

6 This report assesses whether the MoD's repurchase of its SFA estate was good value for money and whether it is establishing the conditions to achieve improvements in its future provision of SFA. In assessing value for money, we have considered the rationale for the repurchase, the process the MoD followed, and the price it achieved. The report is set out as follows:

- Part One provides an introduction to the SFA estate and the context for the 2024 repurchase.
- Part Two examines the MoD's repurchase of SFA.
- Part Three examines the MoD's plans in relation to its Defence Housing Strategy, including the future provision of SFA.

Our scope and audit methodology are at Appendix One. The MoD's plans in relation to the delivery of the Defence Housing Strategy are at a relatively early stage and we have only been able to examine these at a high-level.

Key findings

The value for money of the arrangements with Annington

7 The repurchase puts a stop to what would have been billions of pounds of further lost value had the MoD allowed the Annington arrangements to continue. In our 2018 report we found that over the first 21 years of the contract the MoD was up to £4.2 billion worse off (in 2016 prices, or £5.53 billion in 2024 prices) than if it had held onto the SFA estate. After considering the main costs and revenues we estimate that, by the time it repurchased the estate in 2024, the MoD was £14.5 billion worse off in 2024 prices. Further loss would have been incurred if the MoD had not proceeded with the repurchase. The MoD was paying around £230 million a year in rent to Annington at the point it repurchased the estate in 2024 and we estimate that if, for example, the Annington arrangements had continued for another 30 years, the MoD would have been a further £10.6 billion worse off in rent alone (nominal values) (paragraphs 1.7 to 1.8 and 2.25 and Figure 1).

8 The 1996 deal with Annington restricted the MoD's options to manage its SFA to meet its needs in a way that was value for money. Under the terms of the deal, the MoD was required to hand back properties to Annington. This condition was initially intended to incentivise the MoD to reduce the number of vacant properties on which it was paying rent and reduce the size of the estate in line with reducing numbers of service personnel. However, it also discouraged the MoD from investing in properties. This is because the value of improvements would ultimately transfer to Annington when properties were handed back, or lead to increased rents. Furthermore, where properties were handed back to Annington in poor condition, the MoD had to pay a dilapidations charge. The MoD's commitment to renting homes from Annington also limited its ability to manage the locations of its service personnel dynamically to meet changing needs. Later, these factors contributed to the MoD's rationale for repurchasing the SFA estate (paragraphs 1.6 to 1.7, 2.18 and 3.2 to 3.5, and Figure 1).

The MoD's management of events leading to the repurchase of the SFA estate

9 Despite the poor value for money of the Annington arrangements, the MoD did not seriously consider improving its arrangements with Annington until 2019. Faced with the prospect of demand outstripping supply because of the requirement to hand properties back to Annington, the MoD looked at using the private rental market to accommodate service families. However, it concluded that this was too expensive and complex. From 2019, ministers and officials began looking at options for improving the terms of its arrangements with Annington but, at this stage, the repurchase of the estate was not considered a viable option (paragraphs 2.12 to 2.13 and Figure 2).

10 The MoD secured good outcomes from two projects that were critical to making the repurchase feasible and more affordable. In 2021 the MoD and Annington concluded the rent review process that was required 25 years into the contract. Following arbitration, this resulted in a reduction of the discount MoD secured relative to open-market rental values from 58% to 49.6%. Although this would have increased rents by around £36 million per year, it was a good outcome, given how far apart each party's expectations were at the outset. In 2019, at the same time as the rent review process was underway, the MoD began looking at using enfranchisement – a legal mechanism by which a qualifying tenant can acquire their property – as part of a range of options to open up opportunities for regaining some control of the SFA estate. In December 2021 the MoD began proceedings to enfranchise properties on the estate. In 2023, following legal challenge by Annington, the High Court found in favour of the MoD's right to enfranchise these properties. The outcome of these projects contributed to a reduction in the value of Annington's interest in the SFA estate and strengthened the MoD's hand in the subsequent repurchase negotiations (paragraphs 2.6 to 2.17, and Figure 2).

11 The MoD made effective use of both government and external expertise.

The MoD drew heavily on UK Government Investments (UKGI), which provides expertise in corporate finance and corporate governance to government departments. The UKGI team was instrumental in designing the MoD's approach to the rent review process and enfranchisement. It also supported the MoD with the development of the business case, and with the negotiations with Annington that led to the repurchase. Where needed, the MoD procured the services of legal, property and financial advisers to, for example, explore the likelihood of success of enfranchisement proceedings, and to establish a negotiating position (paragraphs 2.4 to 2.5, 2.21 and 3.13).

The repurchase

12 Repurchasing the SFA estate was the most strategically advantageous and best value for money of the three options the MoD considered.

In 2023, recognising the opportunity that had been created by the outcome of the rent review process and enfranchisement proceedings, the MoD began to explore the possibility of buying back the whole SFA estate. Following this, the MoD conducted a thorough appraisal of three options for meeting future demand for defence housing. The options were to:

- maintain the status quo and continue to rent the estate from Annington;
- a bulk repurchase of the estate from Annington; and
- embark on a series of enfranchisement proceedings to reacquire the estate on a property-by-property basis.

The MoD found that opportunities to renew the estate and manage it more effectively made the repurchase the best option from a strategic point of view. Its economic appraisal of the three options also showed the repurchase was the lowest cost option. The MoD appraisal estimated that this option would cost around £4.2 billion less (net present cost, 2024 prices) than maintaining its arrangements with Annington (paragraphs 2.17 to 2.19 and Figure 3).

13 The purchase price of £5.99 billion was a good outcome to the negotiations, and was arrived at using a thorough process.

In the run-up to the commencement of negotiations with Annington, the MoD sought valuation support from its corporate finance and property advisers. The £5.99 billion purchase price represents a good outcome. For example, it was within the negotiating range agreed with HM Treasury, and it was over £4 billion lower than Annington's £10.1 billion valuation of the estate with vacant possession. HM Treasury had satisfied itself that the purchase was value for money and supported the decision to get out of the Annington arrangements. HM Treasury agreed to finance the cash payment to Annington through increased borrowing (paragraphs 2.20 to 2.23).

The Defence Housing Strategy and future provision of SFA

14 The inadequate condition of SFA is the consequence of poor management and lack of investment from the MoD. The terms of the original Annington deal meant the MoD had little financial incentive to improve the condition of the estate. However, it has always retained responsibility for maintaining the estate and providing suitable housing for service families. MoD policy has long been to carry out only essential maintenance to the minimum safe and legal standard. It has done this using a reactive ‘fix on fail’ rather than a planned maintenance approach. Consequently, the condition of the estate deteriorated significantly resulting in low rates of satisfaction in housing by service personnel. In 2024, the House of Commons Defence Committee reported that two-thirds of SFA was in such poor condition that it was “essentially no longer fit for purpose”. In the 2025 Armed Forces Continuous Attitude Survey, 51% of respondents said that they were satisfied with the quality of their SFA (paragraphs 3.2 to 3.5 and Figure 4).

15 The scale and nature of the challenge to deliver the Defence Housing Strategy is huge, but the MoD currently does not have the experience or expertise to deliver it. With the repurchase complete the MoD has the opportunity to renew and restore its housing estate, including SFA, to meet the needs of the armed forces. It plans to modernise around 9 in 10 (around 43,000) homes by 2035. The 2025 Defence Housing Strategy requires the MoD to fulfil the functions of a property developer, a regeneration organisation and a housing service. All of these are areas where the MoD does not currently have the capabilities it requires. The MoD’s preferred approach to delivering the strategy is through the creation of a new non-departmental public body with a separate development arm: the Defence Housing Service. The MoD favours this approach, in part, because it could provide it with the ability to bring in the necessary commercial expertise, attract private finance, enable it to undertake financial planning on a longer-term basis, and establish appropriate governance arrangements (paragraphs 3.7 to 3.13).

16 The repurchase provides the MoD with a substantial asset from which to generate benefits, but to do so will require further spending and investment.

The MoD considers that the repurchase and the delivery of the Defence Housing Strategy will enable it to generate a range of monetary and non-monetary benefits. These include:

- avoiding the cost of paying rent and other charges to Annington;
- giving it the freedom and flexibility to improve the quality of SFA;
- generating income through land development and property sales; and
- generating benefits for the wider economy through the creation of over 100,000 homes.

In the Defence Housing Strategy, the MoD announced £9 billion of funding over 10 years to deliver these benefits. It estimates that this would have cost £25 billion without the repurchase. Delivering these benefits is dependent on the efficient and effective delivery of the Defence Housing Strategy. Success will require a detailed business case, careful planning, deep expertise in a range of areas, and a significant improvement in previous performance in areas like maintenance (paragraphs 3.14 to 3.15).

Conclusion on value for money

17 The MoD's repurchase of its SFA estate represents value for money when compared with the option of continuing its arrangements with Annington to lease back the estate. The MoD did well to apply commercial leverage and, ultimately, to secure a favourable outcome to its negotiations. However, this needs to be situated within the wider context of the 1996 sale of the estate. The repurchase has stemmed the flow of further losses but we now estimate that by the time of the December 2024 repurchase of the estate, the MoD was £14.5 billion worse off than it would have been had it not entered into the deal with Annington. The process that led to the repurchase demonstrates the value of using the expertise available to government in the form of bodies like UKGI.

18 Ultimately, value for money will depend on the MoD making the most of the opportunity that the repurchase brings about and delivering on the ambitions set out in the Defence Housing Strategy. In the meantime, the MoD's deal with Annington should remain a cautionary tale about the risks to long-term value for money that are inherent in sale and leaseback transactions.

Recommendations

19 It is vital that the MoD build quickly on the opportunity created by the repurchase to improve the quality of SFA and realise the savings it has anticipated as a direct result of the repurchase, and its wider benefits. Over the next year it should:

- a** seek to learn from others in government about the different models for bringing in the private finance and private sector expertise required to deliver its plans, and the benefits and risks of the different approaches;
- b** finalise its long-term funding plans for the defence housing estate;
- c** establish the Defence Housing Service with the powers, autonomy and governance arrangements it requires to deliver the planned reform efficiently; and
- d** prepare, and publish, a summary of its plans and timeline for the refurbishment and rebuilding of the housing estate and release of land for housebuilding.

20 The MoD should reflect on the lessons learned from the original Annington sale and leaseback arrangements, and the repurchase, and share these across government. This should include consideration of the importance of:

- e** fully understanding the risk and responsibility that the government will continue to bear when selling an asset and factoring this into its calculations and long-term planning; and
- f** building and utilising commercial capability within government.