



National Audit Office




REPORT

The repurchase of the service family accommodation estate

Ministry of Defence

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Ministry of Defence

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

19 June 2026

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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.

Part One

The background to the repurchase

1.1 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 (MoD) therefore offers subsidised accommodation to members of the UK armed forces. This includes single living accommodation for individuals and service family accommodation (SFA) for families. This report focuses on the MoD's repurchase in 2024 of 36,347 properties from Annington Property Ltd (Annington), which make up the vast majority of the overall SFA estate. The MoD had originally sold some 55,000 properties to Annington in 1996 as part of a sale and leaseback arrangement.

1.2 This part of the report covers:

- the purpose and make-up of the SFA estate;
- the 1996 sale of properties to Annington; and
- the value for money of the MoD's 1996 sale of properties to Annington.

Service family accommodation

1.3 The MoD regards providing accommodation as vital to the effective operation of the armed forces. It considers that military personnel should be able to live in housing close to their work locations, in homes which are comfortable, stable and secure for themselves and their families. The MoD considers that subsidised accommodation is a fundamental part of the overall package for those in the armed forces and that it supports recruitment and retention. In 2025 59% of service families lived in SFA. Families can also buy or rent homes privately.

1.4 As at 31 March 2025 the MoD's full SFA estate included 47,600 properties in the UK, making the MoD one of the UK's largest landlords. The vast majority (91.6%), were in England and Wales, with 6.5% in Scotland, and 1.9% in Northern Ireland. SFA ranges from flats to large detached houses, although most are two- and three-bedroom semi-detached or terraced houses.

The 1996 sale to Annington

1.5 Following a 1992 housing task force report that found the quality of accommodation was poor and the estate was managed inefficiently, in 1995 the MoD started a process to sell most of its SFA estate.³ The MoD's main objectives were to:

- transfer ownership to the private sector;
- raise funds for upgrade work; and
- improve the management of the estate.

The MoD's own analysis showed that retaining the estate would provide better value than a sale, and the MoD accounting officer advised ministers to consider the results of this appraisal carefully in reaffirming their commitment to a sale.

1.6 The MoD selected Annington Property Ltd (Annington), a company owned by the financial services group Nomura International, from 19 bidders. It agreed a price of £1.66 billion (1996 prices), for 999-year head leases on some 55,000 housing units that it wished to continue to use for SFA and over 2,000 properties that it considered it would no longer need. The deal required the MoD to then rent the properties back from Annington on 200-year underleases.⁴ As part of the deal the MoD was incentivised to hand back properties it no longer required to Annington. Where it did so, it was required to return them in "good tenantable repair and decorative order". The cost to the MoD of bringing properties up to this level is known as a dilapidations charge.

The value for money of the 1996 deal with Annington

1.7 The deal with Annington has resulted in the MoD being significantly worse off than it would have been had it retained the estate. Our 2018 report *The Ministry of Defence's arrangement with Annington Property Limited* set out in detail the aspects of the deal that represented poor value for money.⁵ The main findings were that, by 2018 the MoD was up to £4.2 billion worse off (in 2016 prices, equivalent to £5.53 billion in 2024 prices) than it would have been had it retained ownership of the estate.⁶ The arrangements with Annington also left the MoD responsible for the cost of maintenance, something that would usually be the responsibility of the landlord in residential leases. The value of any investment that the MoD made to improve the standard of accommodation would pass to Annington in the form of either increased rents or increased value if properties were handed back to Annington, as the MoD was required to do.

³ At that time, SFA was known as the 'married quarters estate'.

⁴ A headlease is the main lease agreement between a property's freeholder and a tenant. The tenant can sublet the property to a subtenant through an underlease. In this scenario, the MoD was the freeholder, Annington was the tenant, and the MoD was the subtenant.

⁵ Comptroller and Auditor General, *The Ministry of Defence's arrangement with Annington Property Limited*, Session 2017–2019, HC 762, National Audit Office, January 2018.

⁶ We have used 2024 prices so that they are comparable with the price which the MoD paid for the SFA estate when it repurchased it in 2024.

1.8 We now estimate that, over the 28 years that the SFA estate was in Annington's hands, including the cost of repurchasing the estate, the MoD is £14.5 billion worse off in 2024 prices, or £11.5 billion in nominal values, than it would have been had it retained the estate. **Figure 1** sets out the main elements contributing to how much worse off the MoD was by the time it repurchased the estate in December 2024.

Figure 1

Estimate of the extent to which the Ministry of Defence (MoD) was worse off by 2024 as a result of its arrangements with Annington Property Ltd (Annington)

By 2024 the MoD was around £14.5 billion worse off than it would have been had it not sold the estate in 1996

	£ billion (nominal terms)	£ billion (2024 prices)
Costs		
Rent paid to Annington	4.5	6.5
Repurchase price	6.0	6.0
Dilapidations payments	0.2	0.3
Lost receipts from Annington's sale of handed over properties	2.7	5.2
Total costs	13.4	18.0
Revenues		
Receipts from 1996 sale	1.7	3.2
Profit share from sales of excess properties up to 2011	0.2	0.3
Total revenues	1.9	3.5
Total by which MoD was worse off by 2024	11.5	14.5

Notes

- 1 The £5.99 billion repurchase price is included as an element contributing to how much worse off the MoD was by 2024 at the time of the repurchase. However, the repurchase was financed by HM Treasury through the issuing of gilts and had a minimal direct impact on MoD's budgets. As a result of the repurchase, the MoD now owns, and has control, over a substantial asset.
- 2 'Nominal values' refers to the stated value of the cost or revenue at the time it was incurred; 2024 prices shows these prices as adjusted for inflation using the consumer price index including owner occupiers' housing costs (CPIH).
- 3 'Lost receipts from Annington's sale of handed over properties' reflects our estimated valuation for the 37% of the service family accommodation (SFA) portfolio handed over since 1996. The nominal figure for lost receipts (£2.7bn) is based on our cumulative estimate of the number of handed over properties per year multiplied by the corresponding average Special Assumption Vacant Possession Value (SAVPV) - an estimate of the Book Value of a property using the Special Assumption under the RICS Global Valuation Standards that the property is entirely vacant on the date of valuation - per unit at the time. The 2024 price (£5.2bn) reflects a valuation based on our estimated 2024 average SAVPV per unit.

Source: National Audit Office (NAO) analysis of Ministry of Defence (MoD) information on the costs and revenues related to the 1996 sale of service family accommodation to Annington Property Ltd

Part Two

The process that led to the repurchase of the estate

2.1 In December 2024, the Ministry of Defence (MoD) bought back 36,347 service family accommodation (SFA) properties from Annington Property Ltd (Annington) for £5.99 billion, having handed back around 19,000 properties it no longer required of the original 55,000 that it sold and leased back.

2.2 This part of the report covers the process which led to the MoD putting itself in a position to repurchase the estate, and the terms of the repurchase deal. **Figure 2** overleaf shows a timeline of events that led to the repurchase of the estate.

2.3 The remainder of this part of the report covers:

- the MoD's use of government and external expertise;
- the reviews of rents paid by the MoD;
- the beginning of enfranchisement proceedings;
- the decision to repurchase the estate;
- the 2025 deal secured by MoD; and
- the financial impact of the repurchase.

The MoD's use of government and external expertise

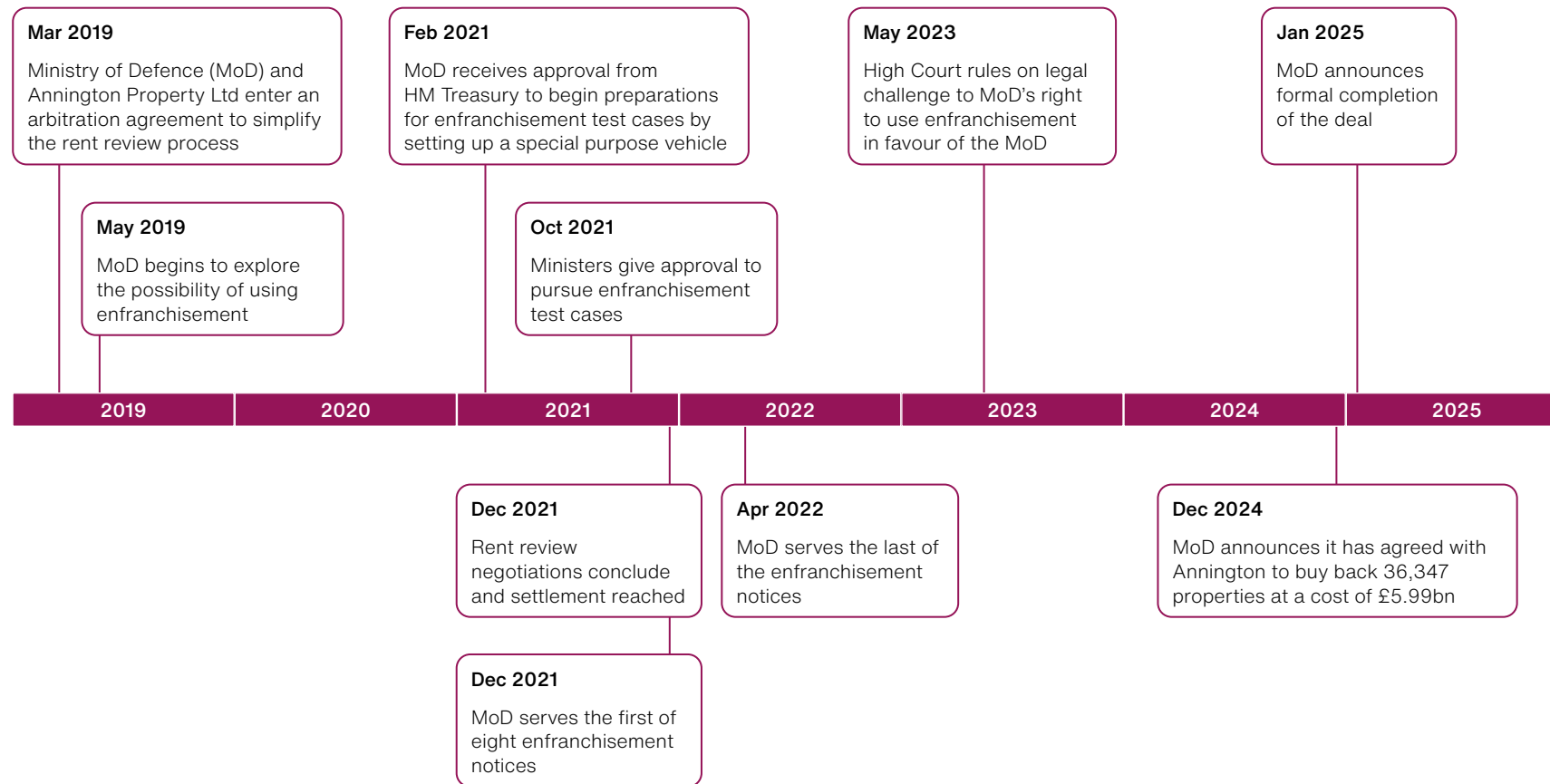
2.4 In 2019, the MoD brought in a team from UK Government Investments (UKGI), an HM Treasury-sponsored body which provides expertise in corporate finance and corporate governance to government departments. The UKGI team was led by someone with experience in property sale, acquisition, and financing, and provided the MoD's internal team, led by the Head of the Defence Infrastructure Organisation, with valuable expertise. Initially, UKGI supported the MoD with its rent negotiations. Over time, it also helped to show the MoD how to use the result of the rent review process, enfranchisement and intelligence about the financial and commercial position of Annington and the wider property market to exert leverage on Annington in subsequent repurchase negotiations to make the repurchase feasible and to reduce the purchase price.⁷ It also supported the MoD with its development of the business case for a repurchase.

⁷ Enfranchisement is a statutory process where a qualifying tenant, in this case the MoD, exercises rights granted under the Leasehold Reform Act 1967 (in relation to houses) (1967 Act) and the Leasehold Reform, Housing and Urban Development Act 1993 (in relation to flats) to acquire the freehold of the relevant property or to extend the lease of the flat.

Figure 2

Timeline of key events between 2019 and completion of the repurchase of the estate in 2025

The repurchase of service family accommodation (SFA) was the result of a complex series of events



Note

1 Enfranchisement is a statutory process where a qualifying tenant exercises rights to acquire the relevant unit.

Source: National Audit Office (NAO) review of Ministry of Defence information, public documents and previous NAO reports

2.5 The MoD also strengthened its capability to negotiate with Annington by retaining external advisers and counsel from law firms, and property and financial advisers. For example, the MoD used external firms to prepare for enfranchisement proceedings, and to assist with the valuation of Annington's SFA to establish a negotiating position.

Reviews of rents paid by the MoD

2.6 As part of the terms of the 1996 sale of the estate, the MoD and Annington agreed that, for the first 25 years of the contract, the rent the MoD would pay to Annington would be 58% less than the market rental value of the estate. This reduction was a function of the MoD's retention of risks that a landlord would normally take on, such as maintenance costs. It was also because the MoD was considered a reliable lessee that was unlikely to default on rent payments and was guaranteeing minimum rent payments across the whole estate. The deal between Annington and the MoD required that, after 25 years, the rent reduction be reviewed and renegotiated individually for each of the 488 sites the MoD leased from Annington.

Arbitration proceedings

2.7 At the start of the rent review process there was a wide gap between the MoD's and Annington's expectations about how much rent should be paid following the review of rents. Annington's initial estimate for the total rent due was around £150 million per annum higher than the MoD's estimate. Because of the size of the difference between each party's initial estimates, the MoD and Annington agreed to proceed directly to arbitration rather than go through lengthy negotiations, that were not guaranteed to result in a mutual agreement. The arbitration would be conducted by a panel, appointed for the whole process, comprising a retired senior judge as chair alongside two experienced surveyors. The revised site review process would be binding on both parties.

2.8 In March 2019, after a year of discussions, the MoD and Annington agreed to make the process simpler and more efficient. Rather than negotiating rents for all 488 sites that the MoD was leasing from Annington the sites were divided into 27 groups, each group being made up of sites with similar characteristics.

2.9 In the event, however, the arbitration process was somewhat more complex, challenging and expensive than the MoD expected. In 2019, the MoD set a £6 million budget for external advisory fees. However, by March 2021 it had spent £13.7 million on fees. This was, according to the MoD, because during the second phase of eight sites, which concluded in April 2021, Annington adopted a wider range of arguments covering areas that the MoD and its advisers had not anticipated. The MoD therefore appointed around 45 legal advisers and experts to contest Annington's arguments in the second phase, compared with around 15 during the first.

2.10 The minister approved this increased spending on advisers, which enabled the process to maintain momentum. But the MoD team needed to get retrospective approval from the MoD's Investment Approvals Committee (IAC) for the extra funding for advisers, together with approval for £6.3 million for future fees. Both the IAC and HM Treasury expressed concern about the need for retrospective approval, which the MoD acknowledged resulted from issues with the governance of the process. MoD processes are designed for long-term procurement projects rather than time-critical transactions like the repurchase of the estate. Although this transaction was very different in nature from its normal investments, the MoD did not establish bespoke governance arrangements. In the event, the IAC approved the request because not doing so would jeopardise the MoD's position in future negotiations with Annington.

The outcome of arbitration

2.11 In October 2021, Terra Firma (Annington's main investor) wrote to the MoD proposing that an average rent reduction of 49%, based on the results of the 12 reviews the panel had completed, should be applied to all sites. The MoD welcomed the approach, but regarded the reduction as too little. Its advisers' appraisal of the 'most likely' outcome was 51%, and it calculated that each 1% was worth £126 million of rent in nominal terms over the 30 years until the next rent review was due. Following negotiations throughout November 2021, the parties agreed an average rent reduction of 49.6% on 15 December 2021. The change in the adjustment factor increased rents by around £36 million per year.

Beginning enfranchisement proceedings

2.12 The requirement for the MoD to hand back properties to Annington meant that demand for SFA would outstrip supply at some point in the 2030s and the entire SFA estate would eventually be handed back to Annington. So, the MoD looked into using the private rental market to accommodate service families if there were too few homes. But the MoD's view was that this would be complex and expensive, give little control over location, price and availability of housing, and provide little prospect of providing value for money. The MoD did not consider buying back the estate to help meet future accommodation needs and remove itself from the Annington arrangements.

2.13 From 2019, ministers and officials began looking at options to improve the terms of its arrangement with Annington. This included looking at the potential use of enfranchisement to open up opportunities for regaining control of some SFA. The MoD explored enfranchisement alongside the rent review process and determined that the circumstances were more favourable than when it considered this previously. Solicitors for the MoD and Annington also agreed that as part of the rent review process, the hypothetical entitlement for a lessee to seek enfranchisement could be taken into account.

2.14 The MoD, with the support of its advisers, recognised that enfranchisement was possible and that its successful application was likely to strengthen its position in any future repurchase negotiations. In late 2020, the MoD set up a private limited company as an MoD-owned ‘special purpose vehicle’, to which it would transfer the freehold of those properties it planned to enfranchise. The Chief Secretary to the Treasury gave approval to test this approach in February 2021, and the MoD transferred the freehold of two properties to the company that month. In doing so, the MoD was creating a potential way to make enfranchisement a legitimate and viable approach.

2.15 Between 16 December 2021, the day after the conclusion of the rent reviews, and 1 April 2022, the MoD launched a series of legal test cases, seeking to enfranchise eight properties on the estate. The MoD acted quickly so as to mitigate the risk that Terra Firma might sell its interest in Annington to a buyer that could be more challenging to deal with once the rent reviews had concluded.

2.16 In May 2023, after legal challenge by Annington, the High Court found in favour of the MoD’s right to enfranchise these properties. The judgement provided the MoD with commercial leverage to make the repurchase of the estate possible. This is shown by the fact that, during the legal proceedings, Terra Firma confirmed that the enfranchisement notices had caused it to defer the sale of Annington to a third party. The judgment also had an impact on Annington’s valuation of its interest in the estate. In its 2023-24 accounts, Annington reassessed the liquidity and marketability of the SFA which reduced its valuation by 7%, or £500 million.

The decision to repurchase the estate

2.17 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. In November 2023 the MoD completed an outline business case supporting repurchasing the remaining units from Annington. The business case considered three options.

- Maintaining the status quo and continuing to rent the estate from Annington.
- A bulk repurchase of the estate from Annington.
- Embarking on a programme of enfranchisement proceedings to reacquire properties. This approach was split into two options which differed in terms of the length of time it would take to reacquire all the properties.

2.18 The MoD set out the strategic advantages of repurchasing the estate relative to the other options in the business case. It stated that the National Audit Office's 2018 report set out the main reasons and it also provided further examples which took account of the MoD's changing needs and objectives for accommodation of service personnel as well as changing circumstances since 2018. The MoD's rationale for repurchasing the estate, as set out in its business case, in effect demonstrates how poor the value for money of the arrangements had become and how restrictive the constraints were. The main arguments in the strategic case were as follows.

- Continuing with the existing arrangements would leave the MoD exposed to increases in rents and Annington would continue to benefit financially from the MoD's investment in upgrades to homes, which had become increasingly necessary and costly given the age of much of the estate. The 2023 Haythornthwaite review of incentivisation of UK Armed Forces had recommended that the MoD needed to invest an additional £2 billion in service family accommodation over 10 years; value that would transfer to Annington under the existing arrangements.⁸
- A bulk repurchase of the estate would provide the MoD with the control needed to develop the SFA estate to meet the recommendations of the Haythornthwaite review and provide the flexibility to adapt the size and location of the estate according to need and in ways not possible under the existing arrangements.
- The MoD was required, under the terms of a 2019 Dilapidations and Handback agreement (amended in 2021), to hand back 375 units a year to Annington indefinitely. The MoD estimated that in five to 10 years' time, this would include homes that it would need, rather than vacant homes. This would mean that the MoD would need to find alternative accommodation for service families, either through reconstruction or open-market purchase.
- A prolonged programme of enfranchisement would be impractical because of the large amount of court time that would be taken up on enfranchisement proceedings.

2.19 The MoD modelled the options (including the two options for enfranchisement of the entire estate) in its economic appraisal. It assessed the relative costs of each option based on a range of reasonable assumptions. As **Figure 3** sets out, repurchasing the estate came out as the lowest cost option over the long-term, its cost (assessed on a net present cost basis) being around 60% of that of maintaining the existing arrangements.

8 R Haythornthwaite, *Agency and Agility: Incentivising people in a new era – a review of UK Armed Forces incentivisation*, June 2023.

Figure 3

The Ministry of Defence's (MoD's) economic appraisal of the net present cost of options under consideration in its business case

Repurchasing the estate had the lowest cost over the long term of the options the MoD considered

Option number	Explanation of the option	Net present cost of the option in 2024 prices (£bn)
1	Do nothing – continue to administer the estate in accordance with the current arrangements with Annington	10.1
2	Reacquisition of the SFA (Service Family Accommodation) from Annington	5.9
3a	Serve enfranchisement notices on all units simultaneously – completion anticipated in 2048	7.2
3b	Staggered enfranchisement – completion anticipated in 2050	7.7

Note

1 Enfranchisement is a statutory process where a qualifying tenant exercises rights to acquire the relevant unit.

Source: National Audit Office analysis of the Ministry of Defence's appraisal of options

The 2025 deal secured by the MoD

2.20 In 2024, Terra Firma approached the MoD offering to sell back the estate. Negotiations took place during the second half of the year and the MoD completed the purchase of 36,347 properties from Annington for £5.99 billion on 9 January 2025, following exchange of contracts on 17 December 2024. In settlement of residual commercial issues, the MoD continued to pay rent on the properties until the completion date, and made an additional payment equivalent to three months' rent. The MoD also handed back 159 properties already identified as part of existing contractual arrangements and agreed to hand back £55 million of property within a year.

2.21 In the run-up to the commencement of negotiations with Annington, the MoD sought valuation support from its corporate finance and property advisers. It also put together a team of officials from across MoD, HM Treasury and UKGI which met regularly to discuss how to take forward the repurchase. Taking account of a range of valuation methods including 'fair value' and 'vacant possession', the outcome of the rent reviews and the enfranchisement proceedings, and intelligence about Terra Firma's financial position, the MoD and UKGI developed a negotiating strategy.^{9, 10}

9 Fair value refers to the estimated market value of the asset.

10 Vacant possession refers to the estimated value of the asset under the assumption that each property was vacant and available immediately, free from, for example existing tenancy agreements or other constraints.

2.22 HM Treasury reviewed the business case for the repurchase, as well as its fiscal impact and the cost of borrowing to raise the cash to pay Annington. HM Treasury approved and expressed support for the transaction in February 2024. It was satisfied about the strength of the business case for the repurchase and agreed to raise the cash through additional borrowing. HM Treasury considered that the transaction represented a relatively small proportion of the government's overall borrowing and was the right thing to do when taking account of the budgetary and fiscal impact.

2.23 Against a range of comparators, the £5.99 billion purchase price represents a good outcome.

- It was within the negotiating range agreed with HM Treasury.
- It was over £4 billion lower than Annington's £10.1 billion valuation of the estate with vacant possession.
- In its 2024-25 Annual Report and Accounts, the MoD valued the SFA estate following its reclassification at just over £9 billion.
- Although the price was £600 million higher than the MoD's initial offer it was £1 billion lower than Annington's 'fair value' valuation of the estate, with which it entered negotiations.

The financial impact of the repurchase

The impact on the MoD's budget

2.24 The MoD plans its likely budget requirements over a 10-year horizon, although funding is committed through the spending review process. The MoD estimates that the repurchase of the SFA estate results in the MoD not having to spend £7.2 billion of budgeted funds to service the Annington arrangements over a 10-year period. Over this period, the MoD estimates that the repurchase means that it will:

- save £5.9 billion from no longer being required to pay rent to Annington, and other capital charges; and
- retain £1.3 billion because of no longer having to hand back 3,750 homes under the terms of the Annington arrangements.

The long-term financial impact

2.25 Under the now hypothetical scenario that the MoD did not repurchase the estate from Annington, it would have continued to have been liable for substantial costs for decades. At some point in the future, the MoD would also have had to buy, build or rent additional properties as it continued to hand back properties to Annington, and demand began to outstrip supply. In 2024, the MoD paid £230 million in rent to Annington. We estimate that, if the Annington arrangements had continued for another 30 years (2025-26 to 2054-55), the MoD would have had to pay £10.6 billion in rent alone in nominal values (£7.7 billion in 2025 prices).

Part Three

The Defence Housing Strategy and future provision of service family accommodation

3.1 This part of the report covers:

- the Ministry of Defence's (MoD's) track record of managing and maintaining service family accommodation (SFA);
- the MoD's plans to renew and manage its estate;
- potential benefits from delivering the strategy; and
- progress to date and the scale of the challenge.

The MoD's track record of managing and maintaining SFA

3.2 When it sold the SFA estate in 1996, the MoD retained responsibility for maintaining the properties, which would normally be the responsibility of the landlord. However, the MoD had little financial incentive to improve the condition of the estate and did not fulfil its responsibilities well. National Audit Office and Parliamentary reports have criticised the MoD for the poor condition of SFA and have set out the impact of the Annington arrangements on the value for money of the MoD's management of its estate:

- In 2016, we said funding constraints were leading the MoD to make decisions that were poor value for money in the long term and that pressure on the estate budget was increased further by consequences of decisions that the MoD had taken in the past. We gave the Annington arrangements as an example of this.¹¹
- Also in 2016, the Committee of Public Accounts concluded that "service families have been badly let down for many years and are not getting the accommodation service that they have a right to expect" under the housing maintenance contract that existed at the time.¹²

¹¹ Comptroller and Auditor General, *Delivering the defence estate*, Session 2016-17, HC 782, National Audit Office, November 2016.

¹² Committee of Public Accounts, *Service Family Accommodation*, Ninth Report of Session 2016-17, HC 77, June 2016.

- In 2018, the Committee of Public Accounts found that the arrangement had been “disastrous for taxpayers” and said that continuing low levels of satisfaction with the overall standard of SFA were concerning at a time when the Armed Forces were struggling to retain the service personnel that they needed.¹³
- In 2024, the House of Commons Defence Select Committee reported that two-thirds of SFA was in such poor condition that it was “essentially no longer fit for purpose”.¹⁴ The report was also highly critical of the MoD’s design and oversight of the early implementation of new maintenance contracts.

3.3 The results of the Armed Forces Continuous Attitude Survey support the view that the condition of SFA is poor. **Figure 4** shows that in the years since 2012, numbers who responded that they were satisfied reached a peak of 60% in 2014, falling to a low of 46% in 2023, before rising to 51% in 2025.

3.4 Since 2017-18, the MoD has increased the amount it has spent on improvements to SFA. In 2024, the MoD told the Defence Select Committee it would spend £219 million on SFA improvements in 2023-24, a 34% rise from 2022-23. It also planned to allocate £220 million for damp and mould remediation and refurbishing 1,000 long-term vacant SFA homes. However, it also acknowledged that the planned funding was insufficient to address the underlying issues of age, poor original build quality and previous under-investment.

3.5 The MoD has a poor track record of using the estate efficiently, such as by meeting demand for housing with the right level of supply. Its arrangements with Annington Property Ltd (Annington) were intended to incentivise and support the reduction in size of the SFA estate in line with an expected reduction in military personnel. In practice there were few incentives for the MoD to manage the estate effectively. For example, it only stood to share in receipts from sales of properties that were handed over until 2011. In 2018, we reported that the vacancy rate on the estate was 19%, almost twice the MoD’s target, and that the size of the estate had not fallen in line with reductions in the armed forces.¹⁵ In 2025 vacancy rates still stood at around one in five properties.

13 Committee of Public Accounts, *Ministry of Defence’s contract with Annington Property Limited*, Fifty-third Report of Session 2017–19, HC 974, July 2018.

14 House of Commons Defence Committee, *Service Accommodation*, First Report of Session 2024–25, HC 406, December 2024.

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

Figure 4

Satisfaction levels with service family accommodation between 2012 and 2025

For many years, around half of survey respondents have been satisfied with service family accommodation

Percentage satisfaction level



Source: The Armed Forces Continuous Attitude Survey 2025, available at: www.gov.uk/government/statistics/armed-forces-continuous-attitude-survey-2025

The MoD's plans to renew and manage its estate

3.6 The MoD's Defence Housing Strategy, published in November 2025, states that the repurchase has "created the opportunity to deliver radical improvements to the Defence housing estate while using Defence land more effectively".¹⁶ The MoD has committed to implementing the strategy's 67 recommendations in full. In the strategy, the MoD announced funding of £9 billion over 10 years to deliver the strategy's objectives, including £1.5 billion in the 2024–29 parliament. The strategy has three pillars.

- Pillar One: A 10-year plan to deliver a generational renewal of defence housing.
- Pillar Two: To prioritise service personnel and their families with a new Defence Housing Service established with a service ethos at its heart and "Forces First" priority in its work.
- Pillar Three: Using defence development land to help build new homes for the nation.

3.7 Through Pillar One, the MoD aims to renew the housing estate to improve the experience of service families. To do this, the MoD plans to modernise nine in 10 (around 43,000) defence homes by 2035, of which 30% (around 14,000) require substantial refurbishment or replacement. MoD policy has long been to carry out only essential maintenance to the minimum safe and legal standard. Among other commitments, it intends to move from the 'fix on fail' approach it has adopted in the past, to a proactive, planned maintenance programme.

3.8 A central element of Pillar Two is the establishment of a new Defence Housing Service to deliver on the MoD's plans, including improving the supply and quality of defence housing and managing land or other property used for defence purposes. The MoD is establishing the Defence Housing Service as a non-departmental public body (NDPB). The MoD's intention is that managing the provision of defence housing through an NDPB rather than through the department itself will have advantages including:

- making it directly accountable to ministers and to Parliament;
- enabling it to undertake financial planning on a longer-term basis;
- introducing greater funding flexibility including the ability to attract private finance and institutional investment into development arrangements; and
- enabling it to access the skills and expertise it requires.

¹⁶ Ministry of Defence, *The Defence Housing Strategy 2025: Fixing Defence Family Housing and Delivering for the Nation*, November 2025.

3.9 Under Pillar Three, the MoD intends to use its land to build new non-military homes as part of the government's housebuilding efforts. It also intends to use sales receipts to help fund its programme of renewal of military housing and reduce its impact on public finances. The government anticipates there is potential to build more than 100,000 new homes for civilian and military families on surplus defence land.

Progress to date and the challenge ahead

3.10 The MoD has made some progress with improvements to SFA and with its plans for implementing the strategy:

- In April 2025, the MoD launched a Consumer Charter with seven commitments to service families on topics such as the reliability of repairs, minimum standards of housing and improved communication and complaints procedures.
- In April 2026, the Secretary of State agreed an outline business case for the establishment of the Defence Housing Service. In recognition of the diverse roles and responsibilities the Service will take on, in particular its role as a developer, the MoD's preferred option is to establish the Service as an NDPB with a development arm.
- The MoD refurbished 1,250 of the homes in the worst condition by Christmas 2025 and plans to refurbish a further 2,000 during 2026.

3.11 Before the MoD can fully implement the strategy, it requires the Armed Forces Bill, which is currently making its way through Parliament, to become law. This legislation will provide the MoD with the powers to establish the new Defence Housing Service. The MoD intends for the Defence Housing Service to begin operating in shadow form in July 2026. This means that the functions of the service will be planned and trialled without the formal structures of the new organisation. The MoD aims to formally launch the Defence Housing Service in April 2027.

3.12 The nature and scale of the challenge facing the MoD are huge. The strategy requires the Defence Housing Service to operate as a property developer, a regeneration organisation, and a housing support service. The MoD currently has little experience or expertise in these roles. The MoD's preference for the Defence Housing Service to become an NDPB with a development arm is partly driven by its assessment that it is the model which provides flexibility to recruit the required expertise and the commercial flexibility to partner with other organisations in, for example, joint ventures or development corporations. In the short term, the value that UK Government Investments and external experts brought to the rent reviews and negotiations to repurchase the estate provide a valuable lesson about making effective use of external expertise for complex undertakings. As the new organisation develops, it will also need to recruit expertise in, for example, project and programme management, corporate finance and supply chain management.

3.13 The process by which the MoD repurchased SFA from Annington also highlights the value of having governance, assurance and approvals processes that are agile and well-suited to the specific needs of the project. The team which carried out the strategy review looked at how the MoD brings forward land for development. While it found some evidence of good practice, it also found fragmented responsibilities, and complex internal processes within the MoD. These issues lengthened procurement and business case approvals and delayed the bringing forward of planned development. Specific governance arrangements that reflect the needs of the Defence Housing Service could support efficient and effective delivery of the strategy's objectives.

The potential costs and benefits from delivering the strategy

3.14 The MoD estimates that, had it not repurchased the SFA estate, it would have cost £25 billion to achieve the ambitions of the strategy. It estimates that it can now deliver those ambitions, for the current size of the Armed Forces, for around £9.2 billion.¹⁷ Around £7.2 billion of the difference is budget that it will no longer be required to spend on activities related to the Annington arrangements such as rent, capital charges, and avoidance of the cost that would have been necessary to replace properties that would have been handed over (see paragraph 2.24). The remaining £8.5 billion of benefits are expected to come through, for example, more efficient use of the estate, reducing maintenance costs, and reinvesting receipts from sales of developed land and property.

3.15 The MOD set out the activities it will need to deliver to fulfil the ambitions of the Defence Housing Strategy as part of the Defence Investment Plan process.¹⁸ The MoD has not yet, however, produced detailed plans, and the final level of committed funding is subject to approval of the Defence Investment Plan. It is therefore too early to assess the robustness of MoD's approach. We can however, say the following about the costs and benefits:

- The MoD considers that around £4.4 billion of the £9.2 billion funding is required to successfully operate the estate and Defence Housing Service, including maintenance and management of homes. This figure is net of around £3 billion of income from rent.
- The remaining £4.8 billion is to provide the right number of homes for service families and for those homes to be brought up the standards expected or replaced. Activities will include refurbishment and building new homes. This figure is net of expected income of around £4.5 billion from, for example, sales of surplus service family accommodation and proceeds from land development.

¹⁷ The MoD rounded the £9.2 billion to £9 billion (which we refer to elsewhere in this report) for the purposes of its external communications at the time of the publication of the Defence Housing Strategy.

¹⁸ The Defence Investment Plan is a ten-year funding plan setting out how the MoD intends to deliver the objectives of the 2025 Strategic Defence Review.

- These activities, alongside work to optimise the use of the broader defence estate and enabling commercial development on defence land will also contribute to other ambitions of the strategy, such as the commitment to build 100,000 homes on defence land. HM Treasury's agreement to finance the repurchase of SFA was conditional on MoD delivering on these commitments.

Appendix One

Our audit approach

Our scope

1 This report assesses whether the Ministry of Defence's (MoD's) repurchase of its service family accommodation (SFA) estate from Annington Property Ltd (Annington) was good value for money and whether it is establishing the conditions to achieve improvements in its future provision of SFA. The report examined whether the MoD:

- had a strong rationale for the repurchase;
- followed good practice in preparing for and carrying out the repurchase;
- achieved a good price for the estate; and
- has set itself up to realise the benefits of the future provision of, and improvements to, SFA.

Our evidence base

2 Our findings are based on our review and analysis of evidence we collected between December 2025 and May 2026. We drew on a range of evidence sources including interviews, document review and quantitative analysis.

Interviews

3 We carried out interviews with eight officials from the MoD, selected to participate because of their job roles and their relevance to the audit. This included staff who:

- were involved with the review of rents, enfranchisement proceedings and negotiations with Terra Firma (the main investor in Annington);
- worked closely with ministers and senior officials during the process; and
- have been involved in the development of the Defence Housing Strategy and its implementation.

4 In addition, we held interviews with officials from outside the MoD in the following organisations who were involved in the repurchase:

- HM Treasury; and
- UK Government Investments

Terra Firma provided us with a short statement regarding their perspective on the process and confirmed the factual accuracy of the report.

5 Our interviews were conducted virtually using Microsoft Teams.

Document review

6 We reviewed a range of published and unpublished documents provided by the MoD against our audit questions. This included a review of:

- the business case for the repurchase of the SFA estate;
- the business case for the establishment of the Defence Housing Service;
- project documentation relating to the rent review process;
- project documentation relating to the use of enfranchisement;
- internal and ministerial briefing papers;
- Investment Approval Board papers;
- legal advice (which remains subject to legal professional privilege) regarding the use of enfranchisement;
- valuation and corporate finance advice;
- legal judgments; and
- documentation relating to the rent review process.

Our review was carried out between December 2025 and May 2026.

Documents reviewed covered the period between August 2018 and April 2026.

Quantitative analysis

7 To arrive at an estimate of how much worse off the MoD was as a result of the Annington arrangements between 1996 and 2024 we compiled the main costs, opportunity costs and revenues across the period. We used actual figures for rents and property valuations derived from public sources or documents requested from the MoD. We then applied discounting methodologies and tested our approach with the National Audit Office's economists.

8 To gain assurance about the robustness of the MoD's economic modelling of options for whether and how to get out of the Annington arrangements we held a series of discussions with MoD economists who built and owned the models to understand it. We then tested the reasonableness of the assumptions underpinning the model with our in-house modelling experts.

9 To provide assurance of the MoD's estimates of money that the MoD would no longer be required to pay to Annington, we held meetings with MoD economists to understand the basis of the calculations and discussed the accounting treatment of the purchase with financial audit colleagues.

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