

Research Briefing  
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# Armed forces family housing and Annington Homes

## Summary

In 1996 the MOD decided to sell and lease back much of its service family accommodation to Annington Homes. The deal has been described as “disastrous” by the Public Accounts Committee.<sup>1</sup> The MOD pays Annington Homes millions each year in rent for the properties it leases. The rental price was renegotiated in 2021.

Service family accommodation is available to armed forces personnel who are married or cohabiting or who have children.

In 2018 the National Audit Office estimated the deal left the MOD between £2.2 billion to £4.2 billion worse off. This is mainly because of house price increases since the sale.

In early 2022 the MOD indicated its intention to seek full ownership of the estate from Annington Homes. In response, Annington informed the MOD it would pursue legal action. On 15 May 2023 the High Court of Justice found in favour of the Ministry of Defence.

In December 2024, the MOD announced it had agreed with Annington to buy back over 36,000 properties, at a cost of £6 billion. The agreement was finalised in early January 2025.

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<sup>1</sup> “[Military Homes](#)”, Public Accounts Committee, HC 2136 2019, 21 June 2019

This paper lays out the key points of the agreement, subsequent parliamentary scrutiny, the result of the rental renegotiation and the agreement to buy back the estate.

# 1 The 1996 sale to Annington Homes

In 1996 the MOD sold the majority of the Married Quarters Estate (now referred to as Service Family Accommodation) in England and Wales to Annington Homes Ltd for £1.662 bn. The sale was on the basis that the MOD would pay Annington for the properties they would lease back.

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The MOD sold 55,000 properties to Annington Homes in 1996 for £1.6bn.

It leases the properties back and pays Annington rent.

The National Audit Office estimates the deal has left the MOD £2.2 billion to £4.2 billion worse off.

Annington bought 57,434 properties and immediately acquired the freehold of 2,374 units that the MOD no longer needed. Annington acquired a 999-year lease for the remaining 55,060 units, across 765 sites, and leased them back to the MOD on a 200-year lease.<sup>2</sup>

The MOD was given a 58% discount on open market rates to rent the properties. The discount reflects, among other things, the bulk nature of the estate and the benefit to Annington Homes of the MOD agreeing to pay guaranteed minimum payments until 2021.<sup>3</sup>

The MOD remained responsible for maintaining the properties, that is also accounted for in the discount in open market rates.

As properties become surplus to the MOD's requirements they are then returned to Annington Homes who can either sell them or lease them to the public.

The MOD residential estate in Scotland was not part of the Annington Homes deal. Nor does it include single living accommodation.

A detailed account of the agreement can be found in a 1997 National Audit Office (NAO) report: [Ministry of Defence: The sale of the Married Quarters Estate](#).

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<sup>2</sup> National Audit Office, [The Sale of the Married Quarters Estate](#), HC 239, Session 1997-98; Ministry of Defence "[Defence Accommodation Management Strategy](#)", 21 August 2009; [Correspondence from the Chief Executive of Annington Homes Ltd relating to Service Family Accommodation](#), Public Accounts Committee, published 23 January 2017

<sup>3</sup> Specifically, the 58% is made up of: 28% - the Department's continuing maintenance obligations and the bulk nature of the lettings, reflecting both the size of individual sites and the estate as a whole; 20% - the quality of the Department's covenant - that is, the assurance new owners could take that the Department, as tenant, would not default on their rent payments; 10% - the benefit, to the purchaser, of the Guaranteed Payments. National Audit Office, [The Sale of the Married Quarters Estate](#), HC 239, Session 1997-98, box 2

## 1.1

### Number of properties

55,000 properties were leased back from Annington Homes by the MOD in 1996 to be used to accommodate armed forces personnel. A significant proportion of these have been disposed with over the years: returned to Annington by the MOD.

In 2018 the MOD paid £178 million in rental charges on 39,000 properties.<sup>4</sup> The [annual amount paid to Annington](#) between 1996 and 2016 was provided in a written answer in 2016.<sup>5</sup>

In January 2022, the MOD leased 37,620 properties in England and Wales from Annington.<sup>6</sup>

Annington describes itself as “[one of the largest providers of privately rented housing in the UK](#)” and its entire stock of over 40,000 (of which 94% is rented to the MOD) is valued at £8.4 billion.

### Vacant properties

One of the advantages of the deal, according to the NAO, was the incentive it gave to the MOD to quickly identify and return to Annington any surplus property, to avoid paying rent on these units.<sup>7</sup>

However, in 2018 the NAO found that the current vacancy rate was 19%, similar to that before the deal, and twice the MOD’s stated aim of keeping 10% of the estate empty to allow for short-term availability and movement by personnel. The NAO also said: “we are aware of at least one site of 80 properties which has been retained in a vacant state by the Department since 1996.”<sup>8</sup>

### Dilapidation payments

The Ministry of Defence is required to return properties to Annington Homes in a reasonable state or pay a compensation payment. The Ministry of Defence paid approximately £18.7m in dilapidation payments to Annington Homes between 2010 and 2016.<sup>9</sup> In 2019 the MOD said

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<sup>4</sup> [The Ministry of Defence’s arrangement with Annington Property Limited](#), National Audit Office, HC 762 2017-19, 30 January 2018

<sup>5</sup> [PQ53425](#), 21 November 2016

<sup>6</sup> [PQ104355 \[Annington Homes: Empty Property\]](#), 19 January 2022

<sup>7</sup> [The Sale of the Married Quarters Estate](#), National Audit Office, HC 239 Session 1997-98

<sup>8</sup> [The Ministry of Defence’s arrangement with Annington Property Limited](#), National Audit Office, HC 762 2017-19, 30 January 2018, para 3.10

<sup>9</sup> [PQ38684](#), 6 June 2016

they had reduced the average dilapidation fee for each unit from between £11,000 to £14,000 down to £7,000.<sup>10</sup>

## 1.2 Rental price renegotiation

As part of the agreement, the MOD received a discount of 58% compared to open market rates for the first 25 years of the contract. Or to put it another way, it pays 42% of open market rent for the leased properties to Annington Homes Ltd.

The rent paid by the MOD to Annington was reassessed in 2021 (25 years after the contract was signed). In 2016, when reviewing the MOD's financial plans for the whole defence estate, the NAO warned that failing to secure an equivalent reduction to that currently enjoyed (ie 58%) would "exacerbate the funding shortfall in the Department's budget."<sup>11</sup>

The MOD and Annington entered arbitration in 2021 after failing to agree on a new rental figure.<sup>12</sup>

In January 2022 the Defence Secretary announced a settlement had been agreed, with the overall adjustment to open market rents changing from 58% to 49.6%. Ben Wallace said the settlement achieves "value for money" and is a "good outcome and a fair settlement."<sup>13</sup>

Annington said the adjustment will be applied between 2021 and 2024 and will continue until the next review in 15 years' time. However, the MOD and Annington have agreed that the same downward adjustment of 49.6% will be applied at this review, meaning the next full review will take place between 2051 and 2054. This downward adjustment will be applied equally to all sites in the MQE [married quarters estate]. In its half-year report the company said postponing the full review to between 2051 and 2054 "provides both sides with greater certainty and allows the parties to avoid a further costly and lengthy process in 15 years' time".<sup>14</sup>

The rent paid by the MOD to Annington is entirely separate to the rent paid by service personnel to the MOD for their accommodation.

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<sup>10</sup> [Oral evidence: Military Homes](#), National Audit Office, HC 2136 2019, 8 May 2019, q15

<sup>11</sup> National Audit Office, [Delivering the Defence Estate](#), HC 782 2016-17, 15 November 2016, figure 6

<sup>12</sup> [DEP2021-090](#), 3 February 2021

<sup>13</sup> [HCWS563, 27 January 2022](#)

<sup>14</sup> [Annington Ltd half year condensed consolidated financial statements for the six months ended 30 September 2021](#); "Tycoon Hands plots £9bn sale of Ministry of Defence landlord Annington Homes", Sky News, 1 January 2022

## 2

## A “disastrous” deal

The 1996 agreement has been widely criticised and has been the subject of several parliamentary reports.

The Ministry of Defence argued at the time the deal would transfer property it did not need to own to the private sector; improve the management of SFA through greater involvement of the private sector; raise funds to improve the quality of SFA and achieve value for money through a competitive sale.<sup>15</sup>

However, the Public Accounts Committee questioned the deal’s value for money. The PAC said the married quarters were sold at a significant discount (£77 million to £139 million less than the assessed value of continued ownership and management). The PAC also noted that, by retaining responsibility for managing the properties, the department was “now in the business of maintaining and upgrading an estate which... is in effect owned by somebody else.”<sup>16</sup>

In 2018 the National Audit Office estimated that the MOD was £2.2 billion to £4.2 billion worse off over the first 21 years of the contract than if it had retained the estate, largely because of house price increases. The NAO added that while much of the house prices and rent increases could not have been foreseen at the time of the sale, the MOD’s assumptions in 1996 were over cautious. The NAO also noted the MOD sold at the bottom of the market and that the returns to Annington have been “significant”, estimating an annual rate of return of 13.4% rather than the 9.7% the MOD expected Annington to achieve when it struck the deal.<sup>17</sup>

In 2019 the Public Accounts Committee (PAC) described the deal as “disastrous”.<sup>18</sup> In evidence to the committee the Permanent Secretary of the MOD acknowledged the deal was a “poor one”.<sup>19</sup> Kevan Jones has separately said that when he was a defence minister (2008 to 2010) he tried to “unpick the shambles” of the contract.<sup>20</sup>

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<sup>15</sup> National Audit Office, [Delivering the Defence Estate](#), HC 782 2016-17, 15 November 2016, figure 6

<sup>16</sup> Public Accounts Committee, [Ministry of Defence: sale of the married quarters estate](#), HC 518 1997-98

<sup>17</sup> [The Ministry of Defence’s arrangement with Annington Property Limited](#), National Audit Office, HC 762 2017-19, 30 January 2018

<sup>18</sup> “[Military Homes](#)”, Public Accounts Committee, HC 2136 2019, 21 June 2019

<sup>19</sup> “[Military Homes](#)”, Public Accounts Committee, HC 2136 2019, 21 June 2019

<sup>20</sup> [HC Deb 25 June 2013 c269](#)

## 3

# Plans to recover ownership of the estate

In January 2022 the then Defence Secretary announced plans to gain full ownership rights of the estate from Annington.

Ben Wallace said the department will “explore the exercise of its statutory leasehold enfranchisement rights to buy out Annington’s interest in the homes and gain full ownership rights.” He said the MOD had made a single claim for one house as a test case which it hopes will establish certain key principles. Wallace explained “if the cost of recovering full ownership of the units from Annington is less than the present value of MOD’s ongoing liabilities, such a transaction is likely to represent good value for money.” The Defence Secretary added that Annington has notified the MOD that it is considering the impact of the claim and has “put the MOD on notice of a potential legal dispute.”<sup>21</sup>

Annington Funding PLC said in response that it is “of the firm view that the MoD has no legal right to exercise statutory leasehold enfranchisement rights to buy either the house which is the subject of the test claim or any others.”<sup>22</sup>

Private equity group Terra Firma, which owns Annington, said it would challenge the MOD’s move and that it expects to win a “very long and very expensive legal dispute”. Terra Firma has been reported to be looking to sell Annington, which it bought in 2012, and said the Defence Secretary’s decision will put the sale of Annington on hold.<sup>23</sup>

## 3.1

# High Court ruling

On 15 May 2023 the High Court of Justice handed down its ruling on the judicial review filed by Annington.<sup>24</sup> The High Court rejected Annington’s claims and found in favour of the Ministry of Defence. In a statement, Slaughter and May, acting for the Ministry of Defence, said the High Court

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<sup>21</sup> [HCWS563, 27 January 2022](#)

<sup>22</sup> Annington Funding PLC Annington Response to MOD Announcement, London Stock Exchange Aggregated Regulatory News Service, 27 January 2022

<sup>23</sup> “[MOD seeks to buy back 38,000 homes leased from billionaire](#)”, The Guardian, 27 January 2022; “[Tycoon Hands plots £9bn sale of Ministry of Defence landlord Annington Homes](#)”, Sky News, 1 January 2022

<sup>24</sup> [\[2023\] EWHC 1154 \[PDF\]](#), 15 May 2023

found that the MOD has acted lawfully in seeking, successfully, to establish MOD's right to enfranchise."<sup>25</sup>

In a statement, Annington said it was "disappointed" in the result and that the Court "was wrong to conclude that the steps taken by the Ministry of Defence are lawful". Annington says it will appeal the decision.<sup>26</sup>

The Ministry of Defence welcomed the decision of the High Court and said it has not yet taken a decision on next steps:

We welcome the decision of the high court, which finds that the MoD acted lawfully in seeking, successfully, to establish its right to enfranchisement.

No decision has been taken on further enfranchisement cases, but we will consider the high court's decision and the potential implications for securing better value for money for the taxpayer.<sup>27</sup>

In a written statement, the then Minister for Defence Procurement, James Cartledge, confirmed that "no formal decision" has been taken on further enfranchisement of the estate, but said the MOD "will consider further the potential implications for securing better value for money for the taxpayer in light of the High Court's findings." The Minister also said that if the MOD does pursue enfranchisement of other units, and the parties cannot agree then enfranchisement premium, an independent tribunal will determine the relevant premium.<sup>28</sup>

## 4 Agreement to buy back the estate

On 17 December 2024, the Defence Secretary, John Healey, announced that the MOD had agreed with Annington Property to reacquire 36,347 properties at a cost of £6 billion.<sup>29</sup>

The Defence Secretary said the agreement will save the MOD £230 million a year in rental costs and is a "decisive break with the failed approach of the past". He paid tribute to the previous government for initiating the legal challenge (see section 3) that resulted in this agreement.<sup>30</sup>

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<sup>25</sup> Slaughter and May, [Slaughter and May is advising the Ministry of Defence on its successful defence of claims by Annington Homes](#), 15 May 2023

<sup>26</sup> Annington Funding PLC, [High Court judgement – investor conference call](#) [PDF], 15 May 2023

<sup>27</sup> The Guardian, [UK government wins right to take back control of military homes worth £8 bn](#), 15 May 2023

<sup>28</sup> [HCWS789](#), 22 May 2023

<sup>29</sup> HCWS323 [[Developments in military housing](#)], 17 December 2024

<sup>30</sup> HCWS323 [[Developments in military housing](#)], 17 December 2024



The Defence Secretary said the 1996 agreement “left the British taxpayer nearly £8 billion worse off”. In a subsequent press release, the MOD provided a breakdown for this figure:

- £4.3 billion spent in rent.
- 18,000 properties handed back to Annington – with an estimated current market value of £5.2 billion.
- £1.7 billion income generated in 1996 for the taxpayer as part of the original deal.
- Total - £7.8 billion worse off.<sup>31</sup>

The Defence Secretary said the properties are valued at £10.1 billion by Annington when not subject to leases.<sup>32</sup>

The MOD will buy the estate for £6 billion. In a subsequent written statement, the Defence Secretary set out a new cash requirement to buy the 36,347 properties from Annington.<sup>33</sup> This will initially be met from the Contingencies Fund until approval is given in a supplementary estimate:

The agreed purchase price is nearly £6 billion however eliminating the liabilities associated with the leases creates budgetary headroom to partially fund this purchase, meaning that the public expenditure impact of this measure, and the impact on public sector net debt, is confined to £1.7 billion. The ONS have agreed this fiscal impact approach. Funding for the deal is being provided by HMT. The Treasury scored additional funding to the Reserve at Autumn Budget for this purpose.

Parliamentary approval for additional capital of £1,698,300,000 for this new expenditure and additional cash of £4,296,200,000 will be sought in a Supplementary Estimate for the MOD. Pending that approval, urgent expenditure estimated at £5,994,500,000 will be met by repayable cash advances from the Contingencies Fund.<sup>34</sup>

The Defence Secretary also said that “this is funding for a one-off financial transaction, and therefore does not reflect the MOD’s cash management position”.<sup>35</sup>

On 9 January 2025, the MOD announced the formal completion of the deal.<sup>36</sup>

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<sup>31</sup> MOD, [Major housing deal completed, bringing benefits to forces families](#), 9 January 2025

<sup>32</sup> HCWS323 [\[Developments in military housing\]](#), 17 December 2024

<sup>33</sup> HCWS350 [\[Contingency fund advance: Annington Homes\]](#), 6 January 2025

<sup>34</sup> HCWS350 [\[Contingency fund advance: Annington Homes\]](#), 6 January 2025

<sup>35</sup> HCWS350 [\[Contingency fund advance: Annington Homes\]](#), 6 January 2025

<sup>36</sup> MOD, [Major housing deal completed, bringing benefits to forces families](#), 9 January 2025



## 5 List of NAO and Committee reports

Defence Select Committee, Sale of the Married Quarters Estate, HC 94, Session 1996-97

National Audit Office, [The Sale of the Married Quarters Estate](#), HC 239, Session 1997-98

Public Accounts Committee, [Ministry of Defence: sale of the married quarters estate](#), HC 518, 1997-98

National Audit Office, [Managing Reductions in the Number of Vacant Family Quarters](#), HC 435, 1999-2000

Public Accounts Committee, [Managing Reductions in the Number of Vacant Family Quarters](#), HC 291, 2000-2001

National Audit Office, [Ministry of Defence Service Families Accommodation](#), HC 13, 2008-2009

Defence committee, [The Armed Forces Covenant in action? Part 2: Accommodation](#), 26 June 2012, HC 331, 2012-13

National Audit Office, [Service Family Accommodation](#) (memorandum for the House of Commons Committee of Public Accounts), June 2016

Public Accounts Committee, [Service Family Accommodation](#), HC 77 2016-17, 13 July 2016

National Audit Office, [Delivering the Defence Estate](#), 15 November 2016, HC 782, 2016-17

National Audit Office, [Service Family Accommodation update](#) (memorandum to the House of Commons Committee of Public Accounts), January 2017

National Audit Office, [The Ministry of Defence's arrangement with Annington Property Limited](#), HC 762, 2017-19, 30 January 2018

Public Accounts Committee, [Military Homes](#), HC 2136, 2019, 21 June 2019

Military Homes, [Government response to PAC report](#), Treasury Minutes, CP 176, October 2019

National Audit Office, [Improving Single Living Accommodation](#), HC 1129, 2019-21, 3 February 2021

Public Accounts Committee, [Optimising the defence estate](#) (PDF), HC 179, 2021-22, 12 October 2021

The Armed Forces Covenant annual reports include chapters on housing. Annual reports published since 2012 are collated on Gov.uk: [Armed Forces Covenant annual reports](#).

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