



Ministry
of Defence

JEREMY QUIN MP
MINISTER OF STATE FOR DEFENCE PROCUREMENT



MSU/4/6/1/ap

27 January 2022

Dear Tobias,

Annington Property Limited – Settlement of Site Rent Review and Exploration of Enfranchisement.

I am writing to you to highlight the announcement I made in the House of Commons earlier today on the Ministry of Defence's (MOD) provision of Service Family Accommodation in connection with Annington Property Limited (APL).

In my statement, I set out the nature of the current sale and leaseback arrangement the MOD has with APL and the steps the MOD is taking to deliver greater long-term value to Defence and the taxpayer.

In 1996, the MOD, in what was effectively a sale and leaseback agreement, granted a 999-year lease of over 55,000 Service Family Accommodation homes to APL and immediately leased the homes back on 200-year underleases. Under the terms of the underleases, the rent MOD pays to APL is adjusted downwards by 58% from open market rents. The level of this adjustment was subject to review after 25 years, with the process due to commence in 2021 for the first quarter of the estate. In order to expedite the process for agreeing revised discounts, MOD and APL entered into an arbitration agreement, agreeing that revised rentals and the level of adjustment would be assessed by an arbitral panel based on 27 representative sites across England and Wales.

After a period of arbitration followed by intense negotiation, a settlement has been reached in the Site Rent Review process, resulting in an overall discount to open market rents of 49.6%.

The Rt Hon Tobias Ellwood MP
Chair, Defence Select Committee
House of Commons
London
SW1A 0AA

It has long been accepted that under the terms of the leases with APL the current 58% discount rate would reduce as part of the current Site Rent Review reflecting current market conditions and volumes, we consider that this settlement is fair to both parties and represents good value for money.

We continue to pursue value for money in the management of the estate and plan to reduce the number of untenanted properties which MOD holds by returning these to Annington under the terms of the lease since these otherwise represent a liability for the taxpayer.

In addition and very importantly, we are exploring the exercise of MOD's statutory leasehold enfranchisement rights to buy out Annington's interest in the homes and gain full ownership rights over specified properties.

This process has started with a single test case claim for one house, which could be expanded once key principles of the test case are established.

Should the MOD move to a successful enfranchisement programme, the MOD would have greater flexibility in the management of its estate to the benefit of Defence, tenants, and potentially wider Government objectives. We believe it may also deliver good value for money for the taxpayer.

Tom



JEREMY QUIN MP