Developer Profit

Competitive Return to a Willing Developer

2.12 The evidence in this paper indicates that the **minimum profit level** used within viability testing should be a blended rate of **20% on Gross Development Value plus 25% ROCE across all tenures, subject to consideration of the risk profile of the scheme**. The reference to ROCE is particularly important on large capital intensive schemes. In these cases the relevant hurdle rate for site specific appraisal is an **Internal Rate of Return of at least 25%.**

2.13 A number of viability consultants argue that a different profit level should be applied to private and affordable housing. If this is the case, then the blended margin across all tenure should equate to the hurdle rate referred to above. As an indication, a developer's blended profit margin on site of 20% of Gross Development Value could be a combination of Affordable Housing at an 8% margin on cost and Market Housing at a 23% margin on Gross Development Value.

2.14 It is increasingly common for developers to purchase land prior to securing an offer from Registered Providers who are subject to more market risk from the current affordable housing regime than in previous systems of funding. There is subsequently a risk associated with the affordable housing, in addition to increased holding and finance costs.