Built by Homebuilders

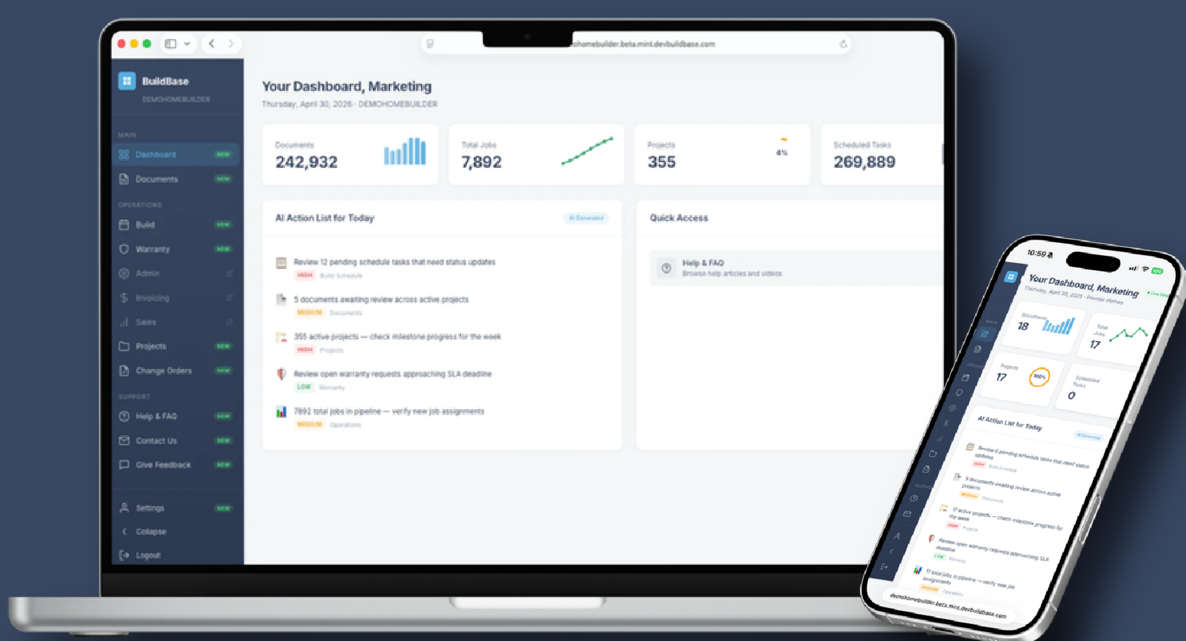
BuildBase™

Executive Reference

Margin Stack Glossary

A practical executive reference for defining, using, and interpreting margin in homebuilding — one shared language from sales price to net profit.

From Lot to Keys.



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HOW TO USE THIS GUIDE

One language for every margin conversation

Purpose
This glossary separates margin into logical information groups so leaders can standardize what each number means, what belongs in the calculation, when to use it, and how to interpret the result. The example amounts are illustrative and should be mapped to your own chart of accounts and reporting model.

LEADERSHIP RULE
Don't ask only **"What is the margin?"** Ask: which margin, at what stage, using what definition, and what changed since the last decision point?

GROUP 01
Revenue & Price Discipline
Separate headline price from economic revenue.

GROUP 02
Direct Cost & Community Economics
Connect construction performance to lot and land.

GROUP 03
Operating Contribution
What the home contributes before enterprise overhead.

GROUP 04
Enterprise Profitability
Board, lender, and shareholder-level reporting.

TIMING
Margin Across the Lifecycle
Watch the same home's margin move, checkpoint to checkpoint.

REFERENCE
Waterfall, Stage Map & Rules
The shared visual, decision map, and usage discipline.

THE SHARED VISUAL

Executive Waterfall View

Use this as the common picture in every leadership discussion — the same home, read all the way down from sales price to net profit.

MARGIN LAYER	AMOUNT	MARGIN %	WHAT IT TELLS YOU
Sales price	$750,000	—	Revenue before economic adjustments
Adjusted revenue	$715,000	—	Revenue after incentives and concessions
House-level gross profit	$285,000	39.9%	Profit after direct vertical construction cost
Land-inclusive gross profit	$140,000	19.6%	Profit after lot / land cost
Contribution profit	$80,000	11.2%	Operating contribution before corporate overhead
Operating profit	$45,000	6.3%	Profit after allocated overhead
Net profit	$30,000	4.2%	Final retained profit under the company definition

*Percentages are calculated on **adjusted revenue**, so incentives and concessions are treated as real reductions in economic revenue.

GLOSSARY · DEFINITIONS

01 Revenue & Price Discipline

Sales Price — $750,000

The contracted selling price of the home before economic adjustments. It is the top-line revenue anchor, not a profitability measure.

Include / Deduct Here
Base home price, lot premium if included in the customer contract, structural options, design upgrades, and any other customer-facing charges captured in the sales contract.

When To Use
Use as the starting point for pricing, revenue forecasting, sales pace, backlog value, and community release discussions.

How to Interpret
A higher sales price is only useful if it survives the waterfall. Treat it as the headline number that requires reconciliation to adjusted revenue and margin.

Watch-Outs
Do not confuse sales price with value retained. Incentives, concessions, credits, and financing support can make the economic sales price materially lower.

Adjusted Revenue — $715,000

The economic revenue after deducting sales incentives, discounts, upgrade credits, closing concessions, and other buyer-facing givebacks.

Include / Deduct Here
Deduct base price discounts, promotional incentives, design center credits, upgrade allowances, closing cost support, financing buydowns funded by the builder, and other concessions that reduce realized revenue.

When To Use
Use for pricing discipline, sales management, absorption strategy, incentive governance, and comparing communities or plans where discounting differs.

How to Interpret
This shows whether the business is protecting price or buying volume. If adjusted revenue is falling while sales price appears stable, margin is being traded away at the sales desk.

Watch-Outs
Incentives should not sit outside the margin conversation. They are not just sales tactics; they are margin events.

GLOSSARY · DEFINITIONS

02 Direct Cost & Community Economics

Use these terms to connect construction performance to lot and land economics.

House-Level Gross Margin

$285,000 · 39.9%

Profit after deducting direct vertical construction costs from adjusted revenue. This is the first operational view of whether the home works against direct build cost.

Include / Deduct Here

Deduct direct labour, trade contracts, materials, scopes of work, site-specific construction costs, and option costs directly tied to the home.

When To Use

Use for estimating accuracy, purchasing performance, plan-level cost control, construction variance, and direct build efficiency.

How to Interpret

A strong house-level gross margin means the vertical build appears profitable before land and broader operating costs. It is useful, but incomplete.

Watch-Outs

This measure can overstate profitability if land, sales commissions, field overhead, warranty, carrying costs, or corporate overhead are ignored.

Land-Inclusive Gross Margin

$140,000 · 19.6%

Profit after deducting lot or land cost from house-level gross profit. This view connects vertical construction performance to community economics.

Include / Deduct Here

Deduct lot cost, serviced land cost, land allocation, development cost allocation, or residual land value depending on the builder's approved definition.

When To Use

Use for land underwriting, community profitability, product mix decisions, release strategy, and evaluating whether construction margin survives the land economics.

How to Interpret

This answers whether the home still looks profitable once the lot is included. A home can look excellent on vertical margin and weak on land-inclusive economics.

Watch-Outs

Be explicit about the land definition. Raw land, serviced lot cost, internal transfer price, and residual land economics can produce very different answers.

GLOSSARY · DEFINITIONS

03 Operating Contribution

Use this term to evaluate what the home contributes before enterprise overhead.

Contribution Margin

$80,000 · 11.2%

Profit remaining after deducting the costs required to sell, manage, and deliver the home, but before full corporate overhead allocation.

Include / Deduct Here

Deduct sales commissions, field supervision, indirect construction costs, permits and fees, insurance, carrying costs, warranty reserve, and other direct operating costs tied to delivering the home or community.

When To Use

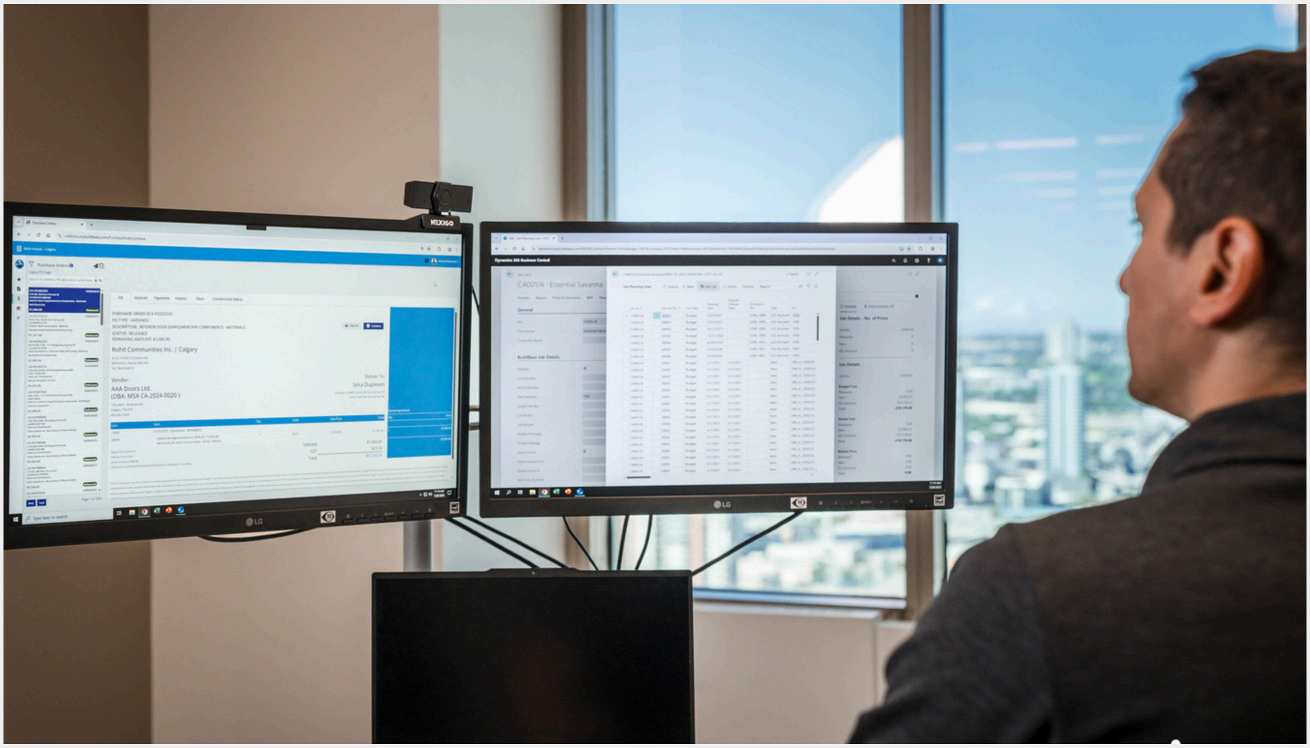
Use for executive operating decisions, plan and community comparisons, pricing actions, sales program evaluation, construction performance, and resource allocation.

How to Interpret

This is often where the operating truth starts to show up. It indicates what the home contributes to the business before broader corporate overhead.

Watch-Outs

Contribution margin is only valuable if the included cost categories are consistent across communities and periods. Otherwise comparisons become misleading.



GLOSSARY · DEFINITIONS

04 Enterprise Profitability

Use these terms for operating model, board, lender, and shareholder-level reporting.

Operating Margin

$45,000 · 6.3%

Profit after deducting allocated corporate overhead from contribution profit. This shows what remains after the organization's cost structure is considered.

Include / Deduct Here

Deduct allocated corporate overhead such as leadership, finance, IT, HR, estimating support, design center support, office costs, and other shared service costs according to the company's methodology.

When To Use

Use for executive management, business model discipline, annual planning, community portfolio review, and understanding whether the operating platform is scaled appropriately.

How to Interpret

Operating margin shows whether homes and communities are supporting the cost structure of the business. It is a stronger enterprise management measure than gross margin alone.

Watch-Outs

Overhead allocation can become political. The method does not need to be perfect, but it must be consistent, visible, and understood.

Net Margin

$30,000 · 4.2%

The final retained profit under the company's definition after operating profit and below-the-line impacts.

Include / Deduct Here

Deduct financing and interest impacts, other below-the-line costs, taxes where applicable, extraordinary items, or any other items included in the company's approved net margin definition.

When To Use

Use for board reporting, lender discussions, shareholder reporting, annual performance review, and final enterprise profitability assessment.

How to Interpret

Net margin shows what the business ultimately retains. It is the most complete view, but often the least actionable if reviewed only after close or year-end.

Watch-Outs

Do not use vague labels like net-net or true margin without a written formula. More modifiers do not create more clarity.

WHY TIMING MATTERS

The same home, a different margin at every checkpoint

Margin is not a fact you state once — it is a moving figure. Naming the stage is half the answer.

THE FIVE LIFECYCLE CHECKPOINTS

Pro Forma	Sold	Committed	Closed	Post-Warranty
BEFORE ACQUISITION OR RELEASE	AT CONTRACT	AFTER PO RELEASE	AT HOME CLOSE	AFTER SERVICE EXPOSURE
An assumption-driven feasibility number — a hypothesis to test, not a guarantee.	The economics once price, incentives, and buyer selections are known — the first read on leakage.	Where estimated cost becomes committed cost across trades and suppliers.	The delivery scorecard — what the home actually retained at closing.	Whether reported profit survived the quality and service obligations attached to the home.

TIMING LENS

Margin Changes by Stage

Match the lens to the decision in front of you — the same home answers a different question at each stage.

STAGE	PRIMARY MARGIN	DECISION QUESTION
Pro forma	Land, product, and release assumptions	Can the deal work before commitments are made?
Estimate	Cost book, take-offs, options, scopes	Does the planned home still meet target economics?
Sale	Actual price, incentives, concessions, buyer selections	Did the sales decision protect contribution?
Start	Locked scope, budget, schedule, permit assumptions	Are we starting with a margin we are willing to defend?
PO release / Commitment	Trade awards, supplier pricing, scope changes	Where has estimate risk become committed cost?
Construction Variance	Actual field performance, cycle time, change orders	Where is margin leaking during delivery?
Close	Actual job cost, sales adjustments, indirects	What did the home contribute at delivery?
Post-warranty	Service cost, defects, reserves, customer experience	Did the home remain profitable after quality obligations?

DISCIPLINE

Executive Usage Rules

- ✓ Always name the margin layer before discussing the number.
- ✓ Always state whether percentages are calculated on sales price or adjusted revenue.
- ✓ Never compare communities unless inclusions, exclusions, and timing are consistent.
- ✓ Treat incentives, concessions, warranty, carrying costs, and overhead as explicit margin decisions.
- ✓ Use the margin definition that fits the decision: pricing, estimating, construction, land, operations, or enterprise reporting.
- ✓ Reconcile movement between pro forma, sold, committed, closed, and post-warranty margin.

THE BEST EXECUTIVE QUESTION

"Which margin are we talking about, at what stage, using what definition, and what changed since the last decision point?"