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SUSTAINABILITY REPORT 2016

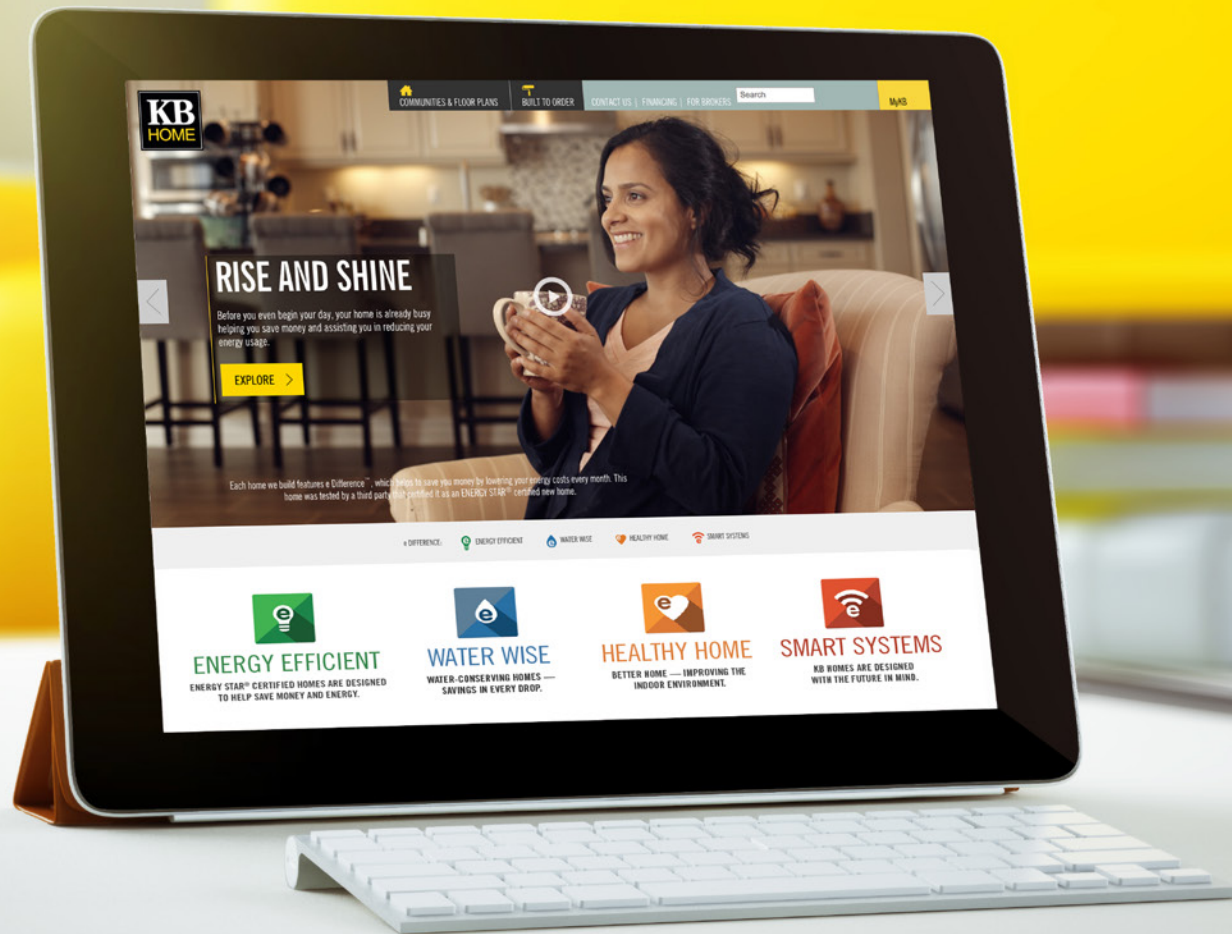


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Report Purpose and Structure

This is our 10th annual sustainability report, which follows our most recent report published on Earth Day in April 2016. In this report, we discuss our accomplishments and challenges in 2016 and our top goals and priorities for 2017 and beyond. We are committed to achieving these objectives, subject to shifts in the business climate. In addition, with this report we seek to foster continued discussion and engagement with all of our stakeholders on the complex issues surrounding sustainability. All information provided in this report is for our fiscal year ended November 30, 2016, unless otherwise noted. As with our previous reports, we continue to follow the Global Reporting Initiative (GRI) Guidelines, which provide a widely recognized level of accountability and transparency, and are considered by many environmental experts to be the current standard for sustainability reporting. A full accounting of the GRI indicators addressed in this report and more information on GRI Guidelines can be found in the GRI Index of Indicators section. We are committed to sharing our progress and goals in future sustainability reports and pursuing sustainable practices, where possible, as an integral component of our business.



KB Home: Innovation Is in Our Nature

KB Home is one of the largest and most recognized homebuilders in the United States and an industry leader in sustainability, building innovative and highly energy- and water-efficient new homes for a range of homebuyers across 36 markets in seven states. KB Home distinguishes itself in the industry by focusing on home affordability. Over our 60-year history, we have built nearly 600,000 new homes for families from coast to coast.

Since our founding in 1957, KB Home has established itself as an innovator, achieving a number of firsts. From becoming the first builder listed on the NYSE to being the first homebuilder to earn National Housing Quality Certification by the National Association of Home Builders to our industry-leading commitment

to build 100% of our homes to meet ENERGY STAR® standards, innovation has always been in our nature.

Characteristic of our forward-thinking approach, in 2007 we launched a company-wide sustainability initiative, with a focus on incorporating sustainable home features at little or no additional charge that could help lower the long-term costs of homeownership. We take a broad approach to sustainability under our eDifference™ platform, which includes four major areas that have direct consumer benefits: energy efficiency; water conservation; healthier indoor environments; and smart home capability, as well as our internal priority on waste reduction.

Our Vision for Sustainability

To become a leading environmentally sustainable national company by engaging the talents of our employees and trade partners; to utilize the power of our innovative business model to minimize the impact of our business and homes on the environment; to increase positive change in the protection of our Earth and its resources; and to continue to make the dream of homeownership attainable to consumers.

Guiding Principles for Sustainability

- Offer sustainable and affordably priced homes, products and features that minimize our homeowners' carbon footprint and energy usage, conserve natural resources and create more sustainable homes and communities.
- Utilize our history of innovation and process-driven approach to reduce waste and natural resource usage throughout our organization.
- Be an active and responsible member of the communities in which we operate.
- Be an educator for all our employees, homebuyers and business partners regarding home energy conservation and environmental sustainability.
- Maintain our standards of transparency and corporate citizenship by publicly reporting on the progress in and challenges to our sustainability efforts.



A History of Building the Future

2017 marks two important milestones for KB Home: 60 years that we have been in the business of building well-designed, affordably priced homes and the 10th publication of our annual Sustainability Report. It is a time to reflect on where we have been, what we have achieved and—most importantly—where we are headed.

KB Home began with a simple question that carries through to this day: “What if conventional wisdom is wrong?” From our founding in 1957, challenging the status quo and moving our industry forward has been a hallmark of KB Home’s history. In the 1950s, we introduced carports as a less expensive alternative to a full garage. In 1961, we became the first homebuilder to be listed on the New York Stock Exchange. In 1996, we pioneered a built-to-order homebuilding business on a national scale. From these early achievements to our current industry-leading position in sustainability and highly energy-efficient homebuilding, we have consistently upended expectations to envision for our homebuyers what they might not have been able to envision for themselves.

When I became President and Chief Executive Officer of KB Home in 2006, conventional wisdom was that sustainable homes were for an elite few, not for the mainstream entry-level and first move-up home market that we have proudly served from our earliest days. But we saw a clear opportunity to leverage the discipline of our built-to-order business model and our scale to bring sustainable homes within reach of our core homebuyers across the country. Rather than coming at a cost to our business, as many outsiders expected, it could actually become a strong competitive advantage.

KB Home takes a broad approach to sustainability, focusing on energy efficiency, as well as water conservation, healthier indoor environments, smart home capability and waste reduction. In our first Sustainability Report 10 years ago, we took the bold step of publicly committing to build 100% of our new homes going forward to ENERGY STAR® certification standards, becoming the first major homebuilder to do so. The following year, we extended our efforts beyond energy efficiency by becoming the first homebuilder to partner with EPA’s WaterSense® program and build WaterSense labeled homes. Five years later, we became the first production homebuilder to win EPA’s Indoor airPLUS Leader Award as part of an increasing focus on healthy homes. During these years, we also developed our ZeroHouse™ platform for net-zero energy homes and further expanded it in 2014 into the Double ZeroHouse, which also includes energy storage and greywater recycling.

In 2016, we collaborated with other thought leaders and innovators in building sciences and design to create the Greenbuild KB Home ProjeKt™, a concept home that projected forward into the future how people might live in 2050, and debuted at the Greenbuild International Conference and Expo in October 2016. We also reached two significant company milestones: building our 5,000th solar home and our 100,000th ENERGY STAR certified home.

Our sustainability journey has not always been easy. Innovation does not necessarily progress in a predictable trajectory. I am immensely proud, however, of the dedicated efforts and ingenuity of our team and business partners. Together, we have overcome challenges and advance our sustainable building practices far beyond what we imagined possible a decade ago.

These groundbreaking accomplishments, won from hard-earned experience, are key differentiators for our business today. What made them possible is the determination to push boundaries that reflects KB Home’s long history of challenging traditional thinking. Looking ahead to the next 60 years and beyond, we continue to strategically evolve our business to meet the changing needs of our customers, the communities in which we operate and our shared environment. We constantly question the way things have always been done in order to create a future that others have not dared to imagine. While we have made significant strides, in some respects, we are just getting started building this future together.

Sustainability: Good for the Earth. Good for Business.

Ten years ago, we made a major commitment to sustainability as a core business strategy. Both then and now, we have frequently been asked why. Yes, it is the right thing to do, but does it make good business sense? With a decade of dedication to sustainable homebuilding behind us, our answer is a resounding YES!

Reducing Waste Reduces Cost

Preserving natural resources and reducing waste not only reduces our environmental footprint, it reduces our costs. That is why we continue to innovate our production techniques, design efficiencies and alternative sustainable materials use to conserve natural resources and reduce waste.

Water Conservation Is the New Imperative

In recent years, various parts of the U.S. have experienced severe drought conditions. Building homes designed for these conditions conserves this precious resource while also reducing homeowner utility costs. In addition, increasing water efficiency can also save energy. This is yet another reason why we build water efficiency into every KB home as a standard business practice.

Environmentally Responsible Homes Can Be More Affordable to Own

Affordability is the #1 concern for our core customer, which includes a large proportion of first-time homeowners. That is why the initial emphasis of our sustainability program was on energy efficiency and decreasing the long-term cost of homeownership. The ENERGY STAR® certified homes built by KB Home in 2016 are up to 72% more efficient than typical existing homes. This built-in efficiency can potentially translate to over \$10,000 in energy bill savings within the first 10 years of homeownership.

Our Scale and Leadership Allow Us to Have an Impact

We delivered more than 9,800 homes in 2016. As a production builder, making each of our homes more energy- and resource-efficient than typical new and resale homes means we can have a larger positive impact on the environment than small or niche builders. In 2016, our commitment to sustainability resulted in KB Home reaching the 100,000 ENERGY STAR certified homes mark. Total cumulative carbon reduction of these ENERGY STAR certified homes is 3.5 billion pounds. That is the equivalent of removing 335,483 cars from the road or planting 41 million trees. In addition, the aggregate solar photovoltaic systems we installed on KB homes are equivalent in size and impact to an 11-megawatt solar power plant. These systems help our homeowners have a cleaner energy profile and a smaller carbon footprint.



Sustainability Practices in Our Supply Chain Add Depth to Our Initiatives

We have developed strong partnerships with innovative, industry-leading suppliers over many years that are built in part on a shared commitment to conserving natural resources and being leading voices in our industries for sustainable business practices. We hold an annual meeting with our strategic suppliers to further develop strong partnerships, particularly in the area of continued sustainability leadership. Each year we select three exemplary partners and recognize them with our Innovation and Sustainability Award.

We Can Build Sustainable Homes at a Lower Cost than Smaller Builders

Because of our scale and operational discipline, we can incorporate sustainable features and designs into the new homes we build at a lower cost generally than smaller builders, which helps bring energy efficiency within reach for more families across our markets.

Technology and Innovation Go Hand in Hand with Sustainability

Technology has become essential to creating meaningful, large-scale sustainable innovation. The efficiency of advanced, integrated technologies, products and supermaterials are key to building more sustainable homes, giving homeowners the tools to live better, healthier and more sustainable lives. Going beyond the concept of the smart home, they are an integral part of the “aware home,” which not only responds to homeowners’ needs, it actually anticipates them. These homes also work in the background to generate and store energy and seamlessly deliver a sustainable living experience.

Sustainability Is a Compelling Competitive Advantage

Today, sustainability is increasingly about we can *give* consumers in terms of increased quality of life rather than just about what they can *save* in money and energy. The features we build into our homes and communities save energy and conserve natural resources while offering our homeowners a more desirable lifestyle, a compelling combination. Whether it is integrated smart home systems that increase personal efficiency while also increasing energy efficiency or innovative home designs with multi-purpose spaces that offer a multitude of functions within a reduced physical footprint—it adds up to a significant advantage compared to our competitors.

**We do this because it is the right thing to do. For our business,
our customers, our communities and the environment we all share.**

A Decade of Commitment to Sustainability



Leading Commitment. Leading Results.



The **100,000+ ENERGY STAR** certified homes KB Home has built have saved **\$577 million** in utility bills and **reduced CO₂ emissions by 3.5 billion pounds**, which is the equivalent of **removing 335,000 cars from the road or planting 41 million trees**.

KB Home has built **5,000+ solar photovoltaic-powered homes**, with a cumulative **11.4 megawatts** installed, producing **18.2 million kilowatt hours** annually, removing **30 million pounds of CO₂** and saving **\$3.6 million** each year.



Built **11,000+ WaterSense® and Water Smart homes** and installed nearly **400,000 WaterSense labeled fixtures**, conserving **1.2 billion gallons of water** each year.



Installed **68,000+ enhanced air filters** (mostly MERV 8 rated) that can improve indoor air quality and create healthier living conditions. Also, we were early adopters of low- or no-VOC paint, carpeting and insulation.



Installed **12,000+ smart thermostats** (COR® and Wiser®) that help homeowners manage their heating and cooling energy usage through remote access and software platforms that provide performance monitoring, data analytics and visualization. In addition, we pioneered smart system technologies like energy and water usage dashboards and Demand/Response systems; smart appliances; energy storage systems; LED lighting; and smart locks and security systems.

Estimated savings are based on comparisons to typical existing homes that do not have similar efficiencies and features.

Sustainability Progress Overview

In this, our 10th annual Sustainability Report, we detail the ways in which we have continued our steadfast commitment to sustainable homebuilding that is reflected in every KB home we build. Consistent daily action, punctuated by innovative leaps forward is at the heart of what KB Home has done from the beginning of our 60-year history and continue to be the hallmark of our commitment to environmentally responsible homebuilding.

2016 was a year of continued progress for KB Home. We achieved a number of significant sustainability milestones, which we are pleased to share with our customers, stockholders, industry colleagues and the environmental community as we continue to create the future of homebuilding together.



2016 Awards and Recognition

We are honored to be consistently recognized for our work with numerous awards from government agencies and independent organizations. KB Home remains the only production builder ever to receive awards across multiple categories from EPA, as well as the U.S. Department of Energy and RESNET®, reflecting our early and consistent commitment to environmentally responsible homebuilding.

In 2016, EPA recognized us once again with their highest major national awards, including:



ENERGY STAR® Partner of the Year — Sustained Excellence, EPA's highest possible distinction for energy efficiency. Honored for the sixth year in a row.



ENERGY STAR Partner of the Year — Climate Communications, for outstanding efforts to elevate the issue of climate change through our actions. Honored for the third year in a row and the first and only homebuilder to receive this prestigious honor.



WaterSense® Sustained Excellence Award, EPA's highest possible distinction for water efficiency. This is the third year we have been so honored and are privileged to be the first and only homebuilder to receive this designation, following four consecutive years as WaterSense Builder Partner of the Year.

We also received recognition in August 2016 for building our 100,000th ENERGY STAR certified home in a letter from former EPA Administrator Gina McCarthy, the first homebuilder to be recognized for achieving this milestone.

“As a multi-year recipient of ENERGY STAR’s Partner of the Year Award, KB Home has been setting a shining example for other homebuilders since your company first became an ENERGY STAR partner in 2000.”

*– Gina McCarthy
Former Administrator, U.S. Environmental Protection Agency
August 16, 2016*

In addition, we received **17 EPA 2016 ENERGY STAR Certified Homes Market Leader Awards** for building homes that advance energy efficiency.

RESNET President’s Award, part of the 2016 RESNET Cross Border Home Builder Challenge, for delivering the most homes in the U.S. with a HERS Index Score below 55. Honored for the third year in a row.





Greenbuild KB Home ProjeKt: Coming Home to the Future

In 2016, KB Home partnered with some of the premier experts and leaders in architecture, building sciences, technology, academia and design to conceptualize and build a demonstration home for the 2016 Greenbuild International Conference and Expo. The Greenbuild KB Home ProjeKt envisioned what our world and our environment would look like in 2020 and 2030, and how the American home would evolve, then extended those concepts forward to 2050. We approached the ProjeKt as an innovation laboratory, not only in conceptual design and building science, but also in how homes could engage with their residents in creating an improved quality of life and how our business could operate in this new environment for increased innovation and breakthroughs in both our design process and our supply chain relationships.

Collaboration as a Tool for Sustainable Innovation

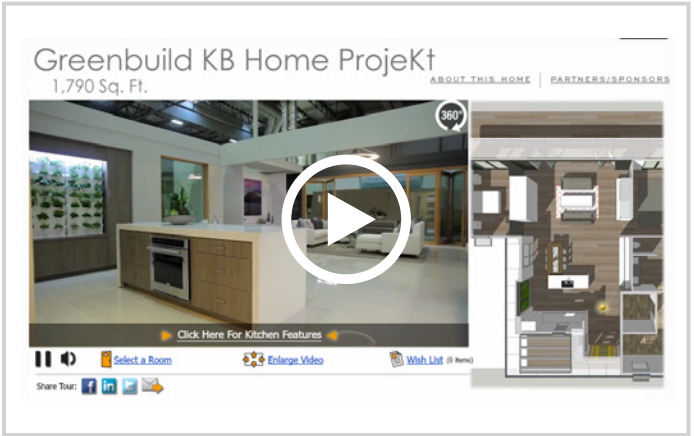
At the heart of the ProjeKt home was an expansive concept of *collaboration* within the supply chain. It was as much about inventing and innovating the *process* by which we can create sustainable, meaningful change within the homebuilding industry as it was about building a physical model of the future. Using a team approach gave us greater opportunities to incorporate what can be complex and expensive products and technologies in a simplified, integrated way that offered more effective designs and reduced costs. In addition, at the conference, we crowd-sourced ideas for future living from people as they toured the ProjeKt home, with an artist on hand to capture their ideas and opinions.

An Interactive and Flexible Home

The ProjeKt home was also a showcase for the potential for a home to adapt to the people who live in it in a flexible, organic way. The ProjeKt home’s “hybrid home” design conceived of a single, flexible space that can be configured and reconfigured seamlessly to serve multiple functions with exceptional efficiency. In order to adapt living space to accommodate a client meeting, expand space for entertaining or create a guest room for visiting family, the hybrid home incorporated moveable walls, fold-down built-in furniture and rotating appliance panels. Each configuration is driven by the individual homeowner’s needs, choices and lifestyle. Rather than being a static space, the design of the home is ongoing and evolving, with all the tools in the consumer’s hands to create incredible engagement and interaction with the environments in which they live.

Modularity and Production Innovations

The ProjeKt home was designed to be built utilizing building “cartridges” as its core parts, with many components added to them, like kitchens and baths. Cartridges are constructed off site utilizing computer numerical control (CNC) machines and robotics, and employing additive fabrication techniques for maximum precision, quality and efficiency. These cartridges are then integrated into the on-site building envelope in a “plug-and-play” system. This means that the home can evolve over time by reconfiguring its functionality to meet changing life phases or family sizes and demographics within each of the cartridge components. In addition, new technologies and products can easily be integrated into the home by modifying or replacing cartridges, extending its potential useful life. These cartridges make the home more affordable by leveraging economies of scale and minimizing material waste.



Clockwise from top:
“Living wall” kitchen garden
Bark accent walls expand connectivity with the outdoors
Rotating appliance panels are part of the reconfigurable hybrid home design
Take a virtual tour of the Greenbuild KB Home ProjeKt

Utilizing Supermaterials and Innovations in Building Science

Our partners on the cutting edge of supermaterials development and materials science collaborated to utilize these innovations to create the home of tomorrow. We leveraged both their future-oriented expertise on emerging building science and explored how to achieve maximum levels of efficiency, resiliency and quality utilizing technologies that are available today.

Internet of Things and Technology Integration

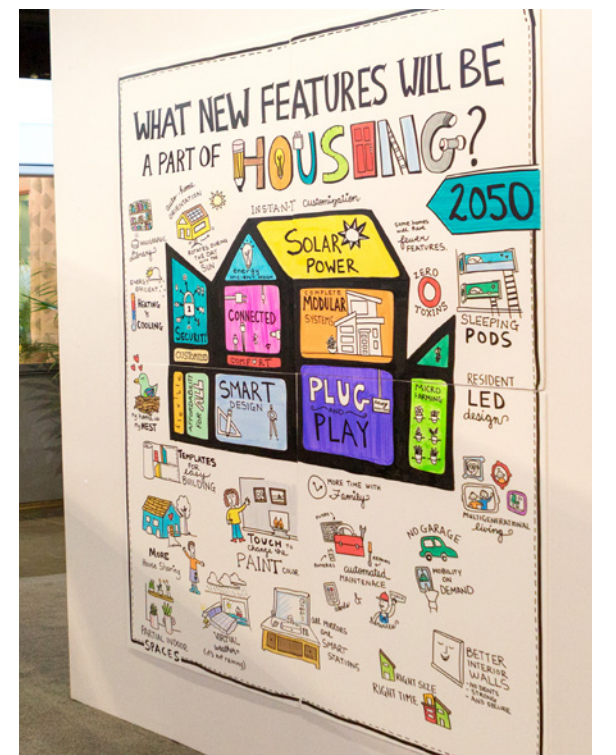
The ProjeKt home utilized integrated technologies to create an “Internet of Things” experience of future living. What made these emerging technologies so effective is that they are seamless to the end user. The ProjeKt home showcased several of these “aware home” technologies that can anticipate homeowners’ needs and preferences. For example, lighting and sound preferences in the bedroom were aligned with circadian rhythms as well as individual homeowner behaviors to promote more restful sleep and gentler waking while also reducing energy consumption. Ventilation systems were connected to a network of sensors that monitored indoor air quality levels and energy usage to optimize performance throughout the day. The featured Tesla Powerwall battery storage system allowed solar energy generated beyond the home’s needs to be stored for later use. The home was also outfitted for the future with a drone landing pad for package deliveries.

Greenbuild KB Home ProjeKt Takeaways

We do not view the ProjeKt home as a one-time thought experiment, but as a milestone in the ongoing evolution of our business, propelling us into the future. In addition to demonstrating specific products and technologies, the ProjeKt home provided a tangible experience of future living for the attendees of the 2016 Greenbuild International Conference and Expo, with approximately a thousand people touring the ProjeKt home. It also demonstrated the power of collaboration and broadened perspectives about supply chain relationships and the open sharing of ideas across the industry.

From the beginning, we also viewed the ProjeKt home as a proving ground where we could learn how to more effectively bring ideas about the future into today’s KB homes. As we do with every new innovation and product, we are piloting some of the products, technologies, production methods and design inspirations that were incorporated into the ProjeKt home in upcoming communities and will be analyzing consumer response for further learning and refinement. Some of the immediate items we are looking to pilot in 2017–2018 include the flexible and interactive moveable walls, battery storage systems, the circadian lighting systems, integrated home automation systems, and some of the newer, innovative materials.

We are also taking the learnings from our collaboration into future projects, building on the trust and creativity that we have established to continue to evolve our processes and find new and innovative ways to work together to continue to create the future of the sustainable American home.



Above, top: View the Greenbuild KB Home ProjeKt at the Expo and hear from Dan Bridleman, KB Home's Senior Vice President, Sustainability, Technology, and Strategic Sourcing

Above, bottom: Hear Jacob Atalla, KB Home's Vice President, Sustainability, explain how The Greenbuild KB Home ProjeKt is a true home IoT experience

Top, right: Interactive mirror display provides real-time health information

Bottom, left: Tesla Powerwall stores excess solar energy for later use

Bottom, right: 2050 future home ideas crowd-sourced live at Greenbuild 2016

Collaboration Partners:

Builder Magazine

KTGY Architecture
+ Planning

Virginia Tech, School of
Architecture + Design

SmithGroup JJR

Cradle to Cradle Products
Innovation Institute

For a list of sponsors,
visit [Greenbuild KB Home ProjeKt Sponsor Pavilion.](#)

2016 Environmental Goals and Results

In 2016, we made meaningful progress toward the long-term strategic goals and environmental priorities we outlined in our 2015 Sustainability Report in the areas of energy efficiency, water conservation, healthy home, smart systems and waste reduction. The results of these efforts are detailed below.



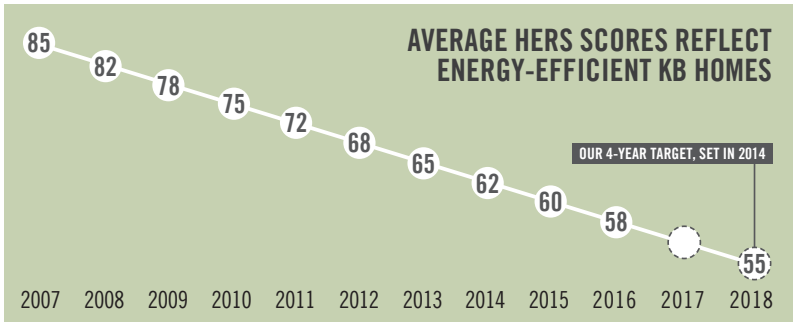
LONG-TERM STRATEGIC GOAL: ENERGY EFFICIENCY

We will leverage our economies of scale and position as an industry leader to continuously increase the energy efficiency of our homes and reduce the total cost of ownership, while always maintaining a focus on affordability for our core first-time and first move-up homebuyers.

2016 Key Achievements: Energy Efficiency

Energy efficiency has been at the heart of our sustainability program from its inception, for the simple reason that it is the area that we can make the most impact. 2016 was a year of significant milestones in the area of energy efficiency. These include:

- Delivering our **100,000th ENERGY STAR® certified new home**. We received special recognition from EPA for this pioneering accomplishment.
- Building our **5,000th solar home** since launching our solar program in 2010. In 2016 alone, we built 759 solar homes. These solar power systems total 11.4 megawatts installed and add up to more than \$3.6 million in savings for our homeowners every year.
- Reducing our national average **HERS® Index score to 58**, down 27 points since 2007 and a two-point improvement from the prior year. We are on track to reach our goal of a 55 HERS score by the end of 2018. For the fourth year in a row, we received the RESNET® President’s Award for having built the most homes with a HERS score of 53 or lower in the United States in 2016. KB Home’s best-scoring home built in 2016 was in Phoenix, Arizona, which achieved an impressive HERS score of 31 and included a solar photovoltaic system.
- Continuing to evolve our **industry-first Energy Performance Guide® (EPG®)**, which details individual HERS scores and utility bill projections for every home design we offer nationwide, to reflect shifts in energy market conditions. This tool gives consumers an easy way to understand and compare energy efficiency and potential savings.
- Showcasing numerous emerging energy innovations as part of the ProjeKt home (see page 15), including a residential fuel cell energy system that converts natural gas to electricity on-site without carbon emissions and a Tesla Powerwall that stores electricity from the home’s solar system for use during power grid outages.
- Contributing to the future of net-zero homebuilding by participating in the California Energy Commission’s research programs to provide our input and real-world perspective on the development of the energy code in California, which aims for net-zero energy new homes early in the next decade.



An Industry-Leading Commitment Delivers: Reaching 100,000 ENERGY STAR® Certified Homes



Ten years ago, in our inaugural Sustainability Report, we made a bold commitment to build 100% of our homes to achieve the ENERGY STAR certification, the first in our industry to do so. As a result of this commitment, in 2016, we built and delivered our 100,000th ENERGY STAR home. This is a major accomplishment because only one in 10 homes built in the United States in 2016 met ENERGY STAR’s rigorous standards.

We had built our first ENERGY STAR certified home in 2000, but the decision to build 100% of our homes to ENERGY STAR standards was the starting point for making our commitment to sustainability a key company strategy. It meant making ENERGY STAR work in every climate zone, real estate market, economic condition, home size, customer demographic, and regulatory framework, and having every home we build inspected by third-party, accredited home energy raters. It doesn’t always come easily, and we have had to continuously balance energy efficiency and affordability for our homebuyers. But it is this level of commitment that drove us to hit this major milestone in 2016.

Our ENERGY STAR commitment served as the launch platform for our energy efficiency program. It led to our company-wide commitment to HERS® ratings and then to promoting the HERS energy efficiency scores for each of our homes on our proprietary EPG®, to expanding our solar power program and putting it in reach for average families, and to piloting energy innovations that are propelling us into the future.

We are pleased to continue to lead our industry in pursuing the next evolution in energy-efficient living.

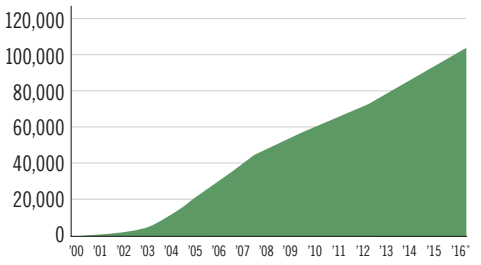
100,000th ENERGY STAR KB Homeowners

To celebrate our 100,000th ENERGY STAR certified home, KB Home’s Phoenix division surprised the home’s owners, the Reyes family, with a check for \$1,716, their home’s estimated annual savings based on their Energy Performance Guide® (EPG®).

Before purchasing their 2,300-square-foot ENERGY STAR certified KB home, the Reyes family was renting a 1,500-square-foot apartment. “The savings were immediate,” said Jose Reyes. “We purchased a larger home so we expected our energy bills to rise. However, we were pleasantly surprised when the bill came, and it was actually lower than what we had been paying when we were renting.”



Cumulative ENERGY STAR Certified Homes Built by KB Home



Total cumulative savings of ENERGY STAR certified homes KB Home has built since 2000:

\$577 MILLION
in utility bill savings

3.5 BILLION
lbs. of carbon reduction

That is equivalent to:

335,483 CARS
removed from the road

41 MILLION
trees planted

Estimated savings are based on comparisons to typical existing homes that do not have similar efficiencies and features.

2016 ENVIRONMENTAL GOALS AND RESULTS



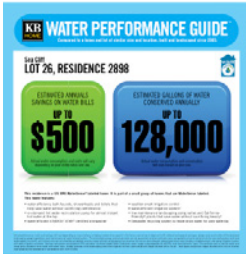
LONG-TERM STRATEGIC GOAL: WATER CONSERVATION

We will continue our leadership in building water-efficient new homes using both existing technologies and new innovations, and raise awareness of the energy-water nexus with both homebuyers and within our industry.

2016 Key Achievements: Water Conservation

As a builder operating in some of the most water-challenged areas of the country, we have taken a leadership position in the industry on water conservation. In 2016, we achieved a number of significant results in this area, including:

- **Building 265 WaterSense® labeled new homes** in 2016 in **nine KB Home communities**, where the entire neighborhood's homes were built to this leading water-efficiency standard, our highest single-year delivery volume to date. We also built **807 Water Smart certified homes** in the Las Vegas area in partnership with the Southern Nevada Water Authority. This brings the **total number of WaterSense and Water Smart homes we have built to more than 11,000**.
- Installing nearly **82,000 WaterSense labeled fixtures** in 2016. We feature WaterSense labeled fixtures standard in all our homes nationwide, delivering a 20–30% increase in water efficiency compared to typical fixtures at no additional cost to our homebuyers. Since 2008, we have installed nearly 400,000 WaterSense labeled fixtures.
- Continuing our **leadership in the area of greywater recycling**, despite experiencing challenges with installations of the initial recycling system that we piloted in 2015. In 2016, we took the lessons learned and began working with a new provider to explore a smaller, lower-cost greywater recycling system. We are testing this system at a community in California and expect the test to continue in 2017. Through our participation in testing and analysis, we provide feedback to innovators on certain aspects of their product development, with an aim to enhance our future readiness to conserve more water.
- **Piloting a proprietary Water Performance Guide™ (WPG™)**, designed to show the estimated annual savings on water bills, as well as estimated gallons of water conserved annually for each home. Initially, we calculated the savings based on data and formulas from various sources. However, to expand the pilot to all our markets, we identified the need for a national rating system for water efficiency, like the HERS® national rating system for energy efficiency. Leaders from KB Home, EPA and the NRDC co-chair the Water Efficiency Rating Index initiative that has been launched by RESNET®, the organization behind HERS Index.
- Completing the **company-wide transition to lavatory faucets that are 20% more efficient** than current standard WaterSense labeled lavatory faucets. Following a successful pilot in 2015, we committed to transitioning to these faucets company-wide. This change is estimated to save nearly 4 million additional gallons of water annually, based on our 2016 deliveries.



Cumulatively, KB Home has built more than **11,000** WaterSense and Water Smart homes and installed nearly **400,000** WaterSense labeled fixtures. In combination, each year our homes conserve approximately **1.2 billion** gallons of water.

KB Homeowner Video: Water Efficiency

Watch two KB homeowners share the benefits of living in their water-efficient KB home.



The Energy-Water Nexus: Measuring the Real-World Impact of WaterSense®



As a builder operating in some of the most water-challenged areas of the country in 2016, water efficiency is a critical focus. So, when EPA launched the WaterSense for New Homes whole-house water-efficiency standard, we quickly made a commitment to the program and built our first community of WaterSense labeled new homes in 2010.

To quantify the specific impact of our water conservation efforts, we wanted to study the real-world impact of an entire community of WaterSense labeled homes. We worked with the EPA WaterSense program team in early 2017 to analyze our Cadanera community in West Covina, California, which is made up of 45 2,000–2,500 square-foot homes built exclusively to WaterSense criteria in 2015 and 2016.

EPA's analysis, using a draft of RESNET's Water Efficiency Rating Index tool, found that **the water-saving features and fixtures of each of these homes save an average of 31,000 gallons of water annually compared to a typical new home that's not WaterSense labeled.**

What many consumers don't realize is that, in addition to directly saving water, WaterSense and other water-efficient homes also indirectly save the energy that would be required to move, treat and heat that water. In fact, [a recent UC Davis study](#) found that the water savings from a 2015 California mandatory water reduction also saved 460gWh in electricity—as much energy as all of the state's energy-efficiency programs combined. This nexus between water and energy is also demonstrated in the results of our Cadanera study, with each of the homes in that community indirectly **reducing its energy usage by the equivalent of 1,600 kWh each year** compared to a typical new home that is not WaterSense labeled.

We are proud to have been an early WaterSense partner. As water resources may experience further constraints in the future, we believe that it is important to take a leadership position in water conservation. Whether partnering with water-conserving technology entrepreneurs or creating a Water Performance Guide or helping to develop the Water Efficiency Rating Index with RESNET, KB Home is committed to being part of the future of conserving this precious natural resource.



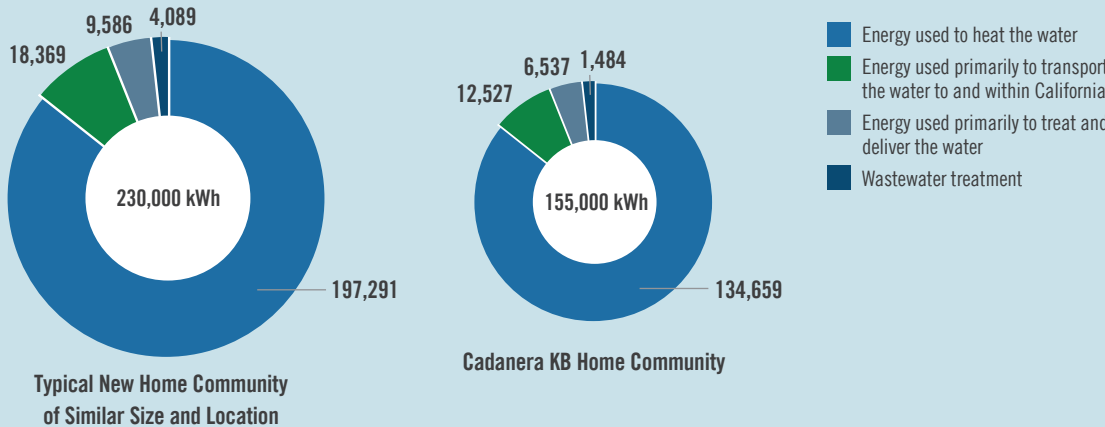
KB Home's Cadanera WaterSense Community

Total annual savings of all homes at Cadanera:

1.4 MILLION
gallons of water

74,000 kWh
of energy

Energy Used for Water Each Year: Typical New Home Community vs. Cadanera KB Home Community





LONG-TERM STRATEGIC GOAL: **HEALTHY HOME**

We will expand our focus on raising homebuyers' awareness about existing healthier products and techniques and increasing our offerings of optional and standard products that contribute to the wellness of our homeowners and the greater community in order to help give them an increased quality of life, in addition to saving them money and energy.

2016 Key Achievements: **Healthy Home**

In addition to prioritizing the health of our earth's environment, from the outset, we have focused on providing our homeowners with healthier new homes. In 2016, we continued to move this goal forward with a number of achievements, including:

- Continuing our longstanding commitment to building ENERGY STAR® certified homes that are designed to be built for improved indoor air quality, in addition to being 15–30% more energy efficient than typical new homes. This includes providing high-performance ventilation systems with filtration for the whole home to reduce allergens and irritants while providing fresh air and focusing on sealing entry points around the roof, walls and windows so that water and pests do not come in.
- Building with materials and products that contribute to a healthier indoor living environment. We have selected carpeting, hardwood flooring, paints and other materials that meet independent low-emission standards and certifications. For example, we exclusively utilize **Shaw® low-VOC carpeting that meet the [Carpet and Rug Institute \(CRI\) Green Label Plus standards](#).**
- Working with our suppliers to **lower the cost of LED lighting in order to implement it on a more widespread level.** Improving day-lighting and overall lighting, with an emphasis on wellness through optimized lighting design and products, is part of our commitment to designing and building healthier indoor environments.
- Beginning rollout of **Kwikset® Microban® antimicrobial interior doorknobs** in select communities for interior doorknobs and levers in high-traffic areas of the home, like bedrooms and baths, to support greater wellness for our homeowners.
- Showcasing **biophilic design features in our ProjeKt concept house** (see page 15), including a vertical “**living wall**” kitchen garden; **river rock shower flooring** that provides a passive foot massage; **natural bark walls** that expand the connectivity between the indoors and outdoors; and **circadian wellness lighting** that mimics the body's natural rhythms.
- **Opening an urban farm community, Patterson Ranch, in Fremont, California, which is planned to include a 1000-square-foot urban farm barn, communal garden and orchard. In 2016, Patterson Ranch opened to the public, and soil conditioning and orchard plantings continued.** Construction on the working barn and the community center is anticipated to be completed in late Spring 2017. The barn will include workspace and tools homeowners can utilize, while **the orchard will include fruit trees, and the community garden will have vegetables, herbs and plants native to California.** The urban farm will utilize organic materials, planting and growing practices, including drip irrigation, no pesticides and organic weed abatement.



ProjeKt Kitchen Living Wall



Patterson Ranch Community Barn



**Creating a Healthier Indoor Ecosystem:
Partnering with EPA's Indoor airPLUS Program**

One of the reasons that building homes is a privilege is that we deliver a product that helps our homeowners and their families create a place for them to build their lives. So, we strive to ensure our homes offer an indoor ecosystem that is healthier for them as they sleep, eat, play and spend time together in their new home. This is an emerging area of sustainability focus and one in which we have found homeowners increasingly interested in learning more about.

Our ENERGY STAR® certified KB homes provide a healthier indoor living environment with **improved air quality, better ventilation and filtration, reduced outside noise due to the well-insulated building envelope and important air-sealing and moisture control provision requirements.**

We were among the first homebuilders to join EPA's Indoor airPLUS program and the first production builder to be recognized for our commitment to improved indoor air quality with EPA's Indoor airPLUS Leader Award. **Indoor airPLUS builds on the foundation of EPA's ENERGY STAR requirements for new homes and provides additional construction specifications designed to provide comprehensive indoor air quality protections in new homes.** Construction specifications include moisture and mold control, radon resistant construction, pest barriers and healthier building materials.

In 2017, after having built Indoor airPLUS qualified homes in a few regional divisions, we made a commitment going forward to build Indoor airPLUS qualified homes company-wide. **Beginning this year, every KB Home division will build Indoor airPLUS qualified homes,** with a minimum of one home under construction in each division by the end of 2017.

We are proud to embrace a larger view of sustainability that supports the health of our homeowners and their families along with the health of our planet's environment.



Healthier indoor environments support healthier homeowners and their families



LONG-TERM STRATEGIC GOAL: SMART SYSTEMS

We will take a leadership role in our industry in demonstrating and implementing intelligent efficiency capabilities and home technologies in order to increase resource efficiency and provide an integrated, seamless experience that enhances our homeowners’ quality of life.

2016 Key Achievements: Smart Systems

In 2016, we expanded our commitment to Smart Systems as a key component of our sustainability program, with a focus on both increasing energy efficiency through advancements in smart home technology *and* giving our homeowners a more desirable quality of life in their homes. Some of our achievements include:

- Being selected by Apple as **one of only four builders worldwide to roll out an Apple HomeKit smart-home package** (see inset box on opposite page).
- **Implementing Carrier® Côr® smart-home thermostats as standard in KB homes**, which we began rolling out in late 2015. The Côr thermostat uses Wi-Fi® technology, can be controlled from any smart device and delivers intuitive usage reports to help homeowners understand and modify their heating and cooling system’s performance. With this thermostat, the KB homes are well equipped to play a meaningful role in the emerging smart power grid, with demand/response optimization functions to assist in grid load leveling and shifting. In 2016, we coordinated with Carrier to make the Côr **compatible with Lutron-, Apple- and Amazon-connected home ecosystems**, in order to offer maximum platform compatibility for our homeowners.
- Exploring energy innovations and energy storage system options in limited pilots we have been conducting since 2010, when we tested a BYD battery system. In 2016, to continue our research, we demonstrated a **residential fuel cell electricity-generating system** currently in use in Europe that was featured as part of the Greenbuild KB Home ProjeKt house. ProjeKt also showcased a **Tesla Powerwall energy storage system**, which stores electricity from a home’s solar system for use during power grid outages. **In 2017, we are launching an initiative to expand our working relationship with Tesla** and continue to learn about the Tesla Powerwall’s performance, as well as installation best practices to help us as we move forward with our long-term goal of providing energy storage systems to our homebuyers.
- Rolling out the **Aladdin Connect™ garage door opener system**, which allows for monitoring and control of garage doors from smart devices for increased convenience, available as an option at select KB Home Design Studios, following our successful 2015 pilot.



Tesla Powerwall in the Greenbuild KB Home ProjeKt house



Toward Smarter Homes:
Integrated Technology That Anticipates Needs

A decade ago, when we published our first Sustainability Report, the integration of technology and sustainability was in its infancy. The iPhone was the brand-new disruptor and “There’s an app for that” became a part of the cultural lexicon. Then came the proliferation of apps for everything and data everywhere and the need for technologies to integrate all of this functionality and data became clear. Our path toward Smart Systems in the homebuilding industry has evolved as well. We didn’t sit out this decade and wait for the perfect technology—we engaged from the beginning. We started with individual products with technologies that focused just on the functionality of that specific product, like smart thermostats, smart door locks and lighting controls.

Today, we are moving toward the model of the “**aware home**,” one that does not just respond, but can *anticipate* your needs and integrate various aspects of the home’s operations under centralized systems. Rather than “There’s an app for that,” it’s now “Do it for me.” With our ProjeKt home this year (see page 15), we modeled how we can utilize big data, artificial intelligence and “Internet of Things” throughout the home to create an integrated, seamless and personalized experience that we believe is the future of the American home.

As a production homebuilder, we operate as curators of the best-of-breed technologies that offer convenience for our buyers and fit well in our construction schedules, while at the same time minimizing complexity and providing robust security features. These have included pioneering smart system technologies like energy and water usage dashboards and Demand/Response systems; smart appliances; energy storage; and smart locks and security systems.

In 2016, Apple selected KB Home as one of only four builders worldwide to roll out their Apple HomeKit smart-home package. Apple’s Home app delivers a simple and secure interface to manage HomeKit-integrated home automation products in one place, allowing homeowners to connect and control their environment at home or away. For example, the Home app allows users to set customized scenes, like “Leaving Home,” that can turn off lights, lock the doors and lower the thermostat. In 2016, KB Home showcased Apple HomeKit in model homes, demonstrating how homeowners can simply and securely monitor and control lighting, door locks and other security features from their iPhone, iPad or Apple Watch. We are now offering HomeKit as an optional feature in select California communities and assessing homebuyer interest for potential widespread implementation.



Watch Apple HomeKit in action



LONG-TERM STRATEGIC GOAL: WASTE REDUCTION

We will monitor, measure and continuously seek to reduce the waste resulting from our construction operations as well as support waste reduction within our supply chain, with a long-term goal of reaching zero landfill waste.

2016 Key Achievements: Waste Reduction

Waste reduction is the area of our sustainability initiative that works quietly and consistently behind the scenes. We partner with our suppliers, division teams and subcontractors to raise awareness of waste throughout our supply chain, with a specific focus on reducing jobsite waste. We utilize the process disciplines of our business model to spread best practices across every one of our divisions. This area of our sustainability initiative remains relatively unchanged year to year, rooted as it is in operational consistency. Some of our consistent achievements in this area in 2016 include:

- **Continuing to drive toward waste-free jobsite through a combination of more efficient design, more precise materials ordering and jobsite recycling.** In 2016, more of our divisions adopted advanced bill-of-materials methods and value engineered their plans to order exact quantities of materials and optimize their use. In addition to preserving natural resources and reducing waste, this also reduces our operational costs and contributes to the economic sustainability of our business.
- **Selecting our trade partners based in part on a shared commitment to conserving natural resources.** Our supply chain sustainability strategies are an effective multiplier and deep extension of our internal initiatives mentioned above. For example, we continually press our suppliers for reduced packaging materials. For example, we collaborated with our suppliers, Kwikset® and Moen®, to reduce packaging in order to minimize waste on jobsites. Another example is our partnership with Shaw®, in which we continue to jointly emphasize the use of Shaw carpeting that contains recycled content and can be recycled back into new carpeting (rather than downcycled). In 2016, we used 1.4 million yards of [Cradle to Cradle Silver Certified™ carpeting](#). We have a similar focus with other materials and suppliers.
- **Tracking and managing the energy consumption in our model homes.** We seek not only to build highly energy-efficient new homes for our homebuyers, but also to optimize all of our operations. This includes the operation of hundreds of model homes open as showcases for our home designs. These homes are built to the same quality standards as all of our new homes and are ENERGY STAR® certified. Reducing our model homes' energy consumption is good for our business and also contributes to lessening our operational carbon footprint. In 2012, we undertook an extensive audit and improvement process to reduce our model homes' electricity consumption. We were able to achieve a 10% reduction in the first year. The electricity we saved was an estimated 2.5 million kWh, which would have produced more than 1,000 metric tons of carbon dioxide emissions. We continue to improve on these steps and monitor this metric to make our model homes more efficient by tracking the average energy spend per model home on an ongoing basis.



KB Home exclusively utilizes Cradle to Cradle Certified Shaw carpeting



Taking Waste Reduction to the Next Level: Zero Landfill Waste by 2025

Waste reduction has been a focus from the beginning of our overall sustainability initiative. We apply the operational disciplines of our business model to reduce waste, with our primary focus on reducing construction waste on our jobsites. In 2008, we launched an internal waste reduction initiative called GROW: Get Rid of Waste. GROW focuses on the three most significant areas of waste reduction opportunity within our business:

- Utilizing materials takeoff plans to maximize efficiency in usage of natural materials in our home designs and community development plans.
- Reducing construction site waste through recycling and materials diversion.
- Identifying opportunities to reduce the consumption and waste of energy, water, paper and office supplies in every office.

For the last decade, we monitored, tracked and improved our waste reduction efforts. We started with a baselining exercise to define our waste outflows at jobsites and offices. Since then, we reduced our use of paper, printers and toner; minimized use of water bottles; promoted lower energy use; and encouraged the diversion of construction waste away from landfills. We also favored materials with recycled content, and when possible, we picked **Cradle to Cradle Certified™** materials. These ongoing efforts have been amplified with more in-depth waste analysis efforts intended to provide benchmarks for ongoing improvement. For example, **in 2016, our Inland Empire Division increased its waste diversion to a minimum of 80% across 23 communities, well above the 50% diversion required by the California Green Building Standards Code.** Materials included concrete, wood, paper and glass. In addition to diverting material, the division took steps to reduce the amount of waste generated in the first place. **The division reduced paper, cardboard and glass waste by 30% per home and landfill trash by 18% per home.**

After monitoring, tracking and improving on our waste reduction efforts, we are ready to take this commitment to the next level with a specific, **long-term waste reduction goal of reaching zero landfill waste company wide by 2025.** To achieve this goal, we will begin with a waste reduction analysis across our divisions to create a baseline and use this information to create a detailed action plan.

We believe that we are the first in our industry to publicly commit to such a goal and are pleased to be leading the way in raising this issue for consideration across our industry.



KB Home construction sites



2016 Economic and Social Sustainability Progress Overview

Along with environmental sustainability, we believe that economic and social sustainability are also essential for the long-term success of our business. We strive to conduct our daily operations mindful that we are contributing to the overall long-term sustainability of the homes, neighborhoods and wider communities in which we build. We must balance environmental and social priorities with the economic viability of the company for both our homebuyers, in the form of affordability, and our business, in the form of profitability. Below, we outline some of our priorities and performance in the areas of social and economic sustainability.

Building Lasting Communities

We are in the business of building communities, not simply houses. For 60 years, KB Home has been designing and creating neighborhoods where families can put down roots in and which are designed to mature into communities that thrive in the long term. **Through 2016, we have built thousands of communities across the United States.** These are neighborhoods where lasting community ties and social bonds can be formed. Our planning and design often includes **communal spaces and community infrastructure, like community centers, recreational facilities, walking and bike trails, elementary schools, community gardens and more.** In fact, in 2016, KB Home contributed more than \$33 million in local school fees.

Housing as a Form of Infrastructure

Contributing to the housing stock of a community is a form of infrastructure development. It not only offers a single family a home, but also creates a meaningful, positive and long-term impact on the social and economic sustainability of the wider communities in which we build. We believe building homes that are highly energy-efficient and environmentally responsible makes an incremental positive impact on the overall sustainability of these communities and their future generations.

A Key Driver for the U.S. Economy

For decades, the homebuilding industry has been a key engine of growth for the U.S. economy. **Each time a new single-family home is built, the amount of paid employment created is equivalent to three new jobs for a year,** measured in full-time equivalents, according to a 2015 study by the National Association of Homebuilders. In addition, the purchase of a new home can generate additional economic activity for a variety of businesses as the family moves in and furnishes their new home. After moving in, our homeowners often become customers for local businesses, like grocery stores, restaurants, dry cleaners and gardening services.

Product Satisfaction

A home is the largest purchase most people make in their lifetimes, and as a homebuilder, we take customer satisfaction seriously. **As reported in 2016 by H2insight, our 30-day post-purchase satisfaction rating from homeowners was 92%, and 89% of our homeowners said they would recommend KB Home to a friend.** In addition, 91% of our 2015 homebuyers reported satisfaction with the energy efficiency of their homes nearly a year after purchase, which we believe reinforces the importance of sustainability to prospective buyers of our homes.

Providing Meaningful Employment and a Great Place to Work

Building homes for our homeowners is work that we are proud to do every day. **We strive to create a workplace environment in which our employees have satisfying work and are given fair opportunities for growth and development, as well as being able to support their communities and achieve a work/family balance.** That may be why a number of our employees have been with KB Home for more than 25 years. In March 2017, our Chairman, President and Chief Executive Officer, Jeffrey Mezger, and a team of employees from across the company averaging 17 years in tenure, rang the opening bell at the NYSE to celebrate our 60th anniversary. We strive always to honor the value that a variety of perspectives and backgrounds bring to the strategic management and daily operations of our business.

Community Service and Charitable Contributions

At its core, homebuilding is about creating communities and connections. That is why **we encourage community service at every level of our organization and in every region.** We take great pride in the many projects initiated and organized by our employees each year. **As a homebuilder, we place particular emphasis on the importance of programs that benefit on the environment and that provide shelter and assistance for women and children in the regions in which we build.** Our divisions also participate each year in numerous local causes and events. We partner with nonprofits, schools, medical care providers, food pantries and other charitable organizations to make a positive impact, including delivering backpacks and school supplies to students in need and raising funds for a cause by running in races.

At KB Home, going above and beyond to give to the communities in which we live and work is fundamental. We take great pride in the many projects initiated and organized by our employees each year.

A couple examples of our 2016 outreach efforts:

- **Our Las Vegas division teamed with Green Our Planet, a nonprofit conservation organization, to install and plant soil into garden beds at Liberty High School for their first Outdoor Garden Classroom.** Students will learn about cultivating their own produce, proper irrigation techniques and more. KB Home volunteers will continue to support the school by attending meetings and tracking the progress of the vegetable garden.
- **KB Home Jacksonville team members participated in Beaches Habitat for Humanity's Women in Construction event and helped build affordable homes for deserving families.** In addition to helping several grateful families achieve the dream of homeownership, our team demonstrated the strength and commitment of women in the building profession, through laying sod to building trusses.

We share these social sustainability actions with the public and our stakeholders via social media and press releases, using the hashtag #kbcares.



KB Home Las Vegas employees build Outdoor Garden Classroom at Liberty High School



The women of KB Home Jacksonville volunteer at the Beaches Habitat for Humanity's Women in Construction

Business Overview

Founded: 1957

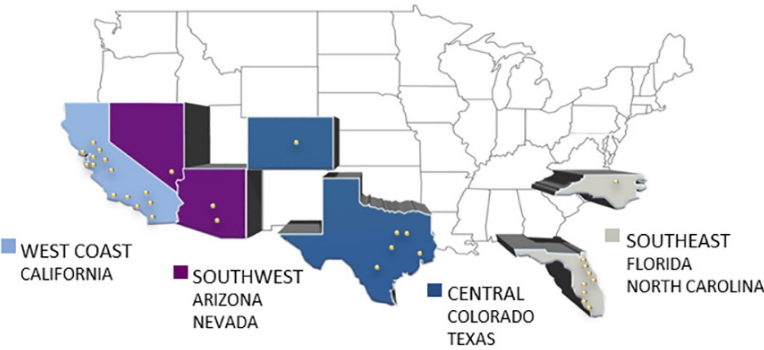
Chairman, President and CEO:
Jeffrey T. Mezger

Principal business:
Building new homes designed
primarily for first-time, first move-up
and active-adult homebuyers

2016 revenues: \$3.6 billion

Homes built in 2016: 9,829

Ticker symbol: KBH



KB Home builds in 36 markets from coast to coast.

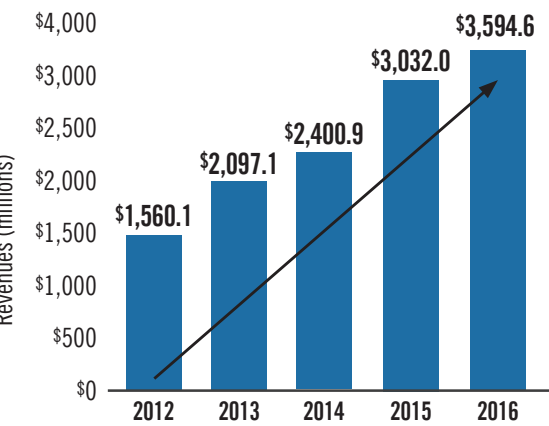
Fiscal Year in Review

With favorable conditions in most of our served markets, reflecting generally positive economic and employment trends, and our steady execution of our key strategies during 2016, we significantly expanded both our revenues and earnings compared to 2015. Within our homebuilding operations, housing revenues grew 23% year over year to \$3.58 billion as the number of homes we delivered increased 20% to 9,829 and the overall average selling price of those homes rose 3% to \$363,800. For the year ended November 30, 2016, we posted net income of \$105.6 million, up 25% from 2015, and diluted earnings per share of \$1.12, up 32% from a year ago.

During 2016, we invested \$1.36 billion in land and land development to expand the number of our community openings in 2017 and beyond. In 2015, such investments totaled \$967.2 million.

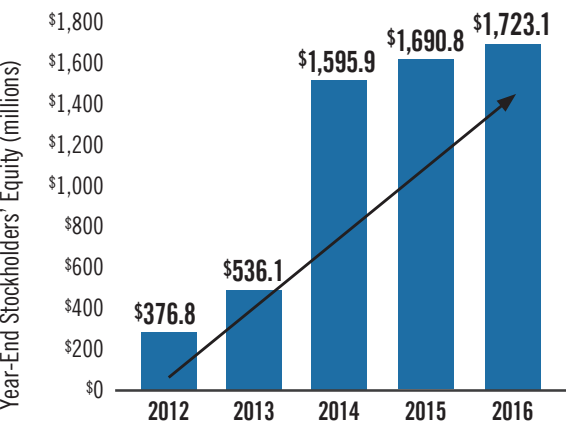
For more information on our financial and operational results, please see our Annual Report or Form 10-K for the fiscal year ended November 30, 2016.

REVENUES 2012–2016



Increased revenues by \$1.5 billion since 2012

YEAR-END STOCKHOLDERS' EQUITY 2012–2016



Increased Stockholder Equity by \$1.3 billion since 2012



Jade Tree in Chino Hills, CA

Long-Term Strategic Goals and 2017 Environmental Priorities

In 2017, we will continue to focus our sustainability efforts and environmental priorities against the long-term strategic goals we outlined in our inaugural sustainability report 10 years ago and which have continued to evolve over time. We will also continue our holistic approach to sustainability, focusing not only on energy efficiency, but also on water conservation, healthier home environments, smart systems and waste reduction, for an integrated experience that helps improve our homebuyers' quality of life, reduce the cost of homeownership and support the environment we all share.

ENERGY EFFICIENCY

We will leverage our economies of scale and position as an industry leader to continuously increase the energy efficiency of our homes and help reduce the total cost of ownership, while always maintaining a focus on affordability for our core first-time and first move-up homebuyers.

2017 Priorities

- Increase the energy efficiency of our new homes, working toward our longstanding commitment to achieving an average HERS® Index Score of 55 by the end of 2018.
- Further improve the overall efficiency of our lighting features in all of our homes.
- Enhance the performance of our heating and cooling equipment.
- Pilot certain products from the ProjeKt home in select homes and communities in order to accelerate these future-oriented innovations into the mainstream.
- Emphasize *affordability* in order to ensure that our homebuyers can both support the environment and achieve homeownership.

WATER CONSERVATION

We will continue our leadership in building water-efficient new homes using both existing technologies and new innovations, and raise awareness of the energy-water nexus both with homebuyers and within our industry.

2017 Priorities

- Build water-efficient new homes and introduce new innovations ranging from more efficient fixtures to ways to reuse water.
- Demonstrate water technologies like intelligent water management systems that raise awareness of water usage in real time.
- Pilot rating the water efficiency of our homes, using RESNET®'s Water Efficiency Rating Index, in order to facilitate the expansion of our Water Performance Guide (WPG).

HEALTHY HOME

We will expand our focus on raising homebuyers' awareness about existing healthier products and techniques and increasing our offerings of optional and standard products that contribute to the wellness of our homeowners and the greater community in order to help give them an increased quality of life, in addition to saving them money and energy.

2017 Priorities

- Launch an expanded homebuyer education and marketing program to highlight the healthier products, construction techniques and materials that are incorporated into KB homes. This will include piloting Indoor airPLUS certified homes.
- Focus on products that are designed to contribute to better indoor air quality and evaluate ways to validate that improvement.
- Offer options that can contribute to the overall wellness of our homeowners.

SMART SYSTEMS

We will take a leadership role in our industry in demonstrating and implementing intelligent efficiency capabilities and home technologies in order to increase resource efficiency and provide an integrated, seamless experience that enhances our homeowners' quality of life.

2017 Priorities

- Expand our focus on smart home features that support a holistic definition of sustainable homes and enhance our homebuyers' quality of life.
- Pilot solar battery storage systems, offering them as optional or standard features at select communities in order to continue to learn from real-world applications and consumer preferences as well as to understand how to best integrate with today's power grid.

WASTE REDUCTION

We will monitor, measure and continuously seek to reduce the waste resulting from our construction operations as well as raise awareness of waste reduction within our supply chain, with a long-term goal of reaching zero landfill waste.

2017 Priorities

- Divert production waste from landfills, with our goal of reaching zero landfill waste by 2025.
- Drive toward a waste-free supply chain by ordering more accurate quantities of products. We will continue to press our suppliers to use more recycled materials in their products and make their products recyclable at the end of their useful life as well as reducing the packaging of their products.
- Reduce energy and water consumption in our model homes, which should reduce our utility expenses and operational carbon footprint.

Organizational Profile and Governance

Governance

Our business is conducted under the direction of our Chairman, President and Chief Executive Officer with the oversight of our Board of Directors, including a lead independent director. Our Board of Directors is elected by our stockholders to oversee the management of our business and to assure that the long-term interests of our stockholders are being served. To support this goal, we believe that a substantial majority of our Board members should be independent. With the exception of our President and Chief Executive Officer, all Board members who served during our 2016 fiscal year were independent under the Board’s independence standards.

Our Board of Directors has adopted Corporate Governance Principles that provide the framework within which we conduct our business and pursue our strategic goals. In addition, all of our Board members and employees are expected to follow the highest ethical standards when representing KB Home’s interests and must abide by our Ethics Policy. We also maintain an Ethics Policy hotline (800-304-0657) and reporting website (kbhome.ethicspoint.com), administered by an independent third party to ensure maximum possible

confidentiality and neutrality. Our Corporate Governance Principles and Ethics Policy are available on our website at www.kbhome.com/investor/corporategovernance. Print copies of our Corporate Governance Principles and Ethics Policy are available without charge through written requests to our Corporate Secretary. In addition, comments or questions for the KB Home Board of Directors or any individual Board member can be directed in care of our Corporate Secretary at KB Home, 10990 Wilshire Blvd., Los Angeles, CA 90024.

Stakeholder Engagement

Maintaining our sustainability commitment requires more than simply establishing an environmental initiative. It involves ongoing consensus-building and close collaboration across the organization to leverage the combined experience, creativity and dedication of the entire KB Home team. In a business that depends as heavily as ours does on a network of business and trade partners at both the national and local levels as well as the support of community partners and other non- governmental organizations, it is essential to create consensus within our larger network of key stakeholders.

We work closely with a variety of stakeholders at the national and divisional levels, including:

- homeowners
- potential homebuyers
- stockholders and potential investors
- employees
- local community and neighborhood organizations
- elected officials, governmental regulators, planners and other public officials
- environmental groups and other non-governmental organizations
- suppliers and trade partners

In addition to informal stakeholder engagement, we actively seek out formal input from stakeholders through our National Advisory Board, which is described in further detail on page 36.

Public Policy Participation

We believe that actively participating in the public policymaking process is an important aspect of being a responsible member of the communities in which we build and necessary to appropriately pursuing our business goals. To this end, we engage with public officials and other policy makers at all levels of government in discussions about issues that affect homeownership.

We make contributions to candidates for public office, irrespective of political party affiliation, and to certain ballot initiatives. We support candidates who understand the homebuilding process and champion the broadening of homeownership opportunities. We support ballot initiatives that enhance community development and services—primarily bond measures for schools, parks, transportation, water and environmental protection.

We are committed to complying with all laws that apply to the making and public reporting of political campaign contributions. Contributions to federal campaigns are made only by the KB Home American Dream Political Action Committee. We contribute to state and local campaigns as permitted by applicable law.

Our senior executive for government and public affairs oversees our participation in the public policymaking process.

There is an internal management approval process in place for political campaign contributions and a reporting process to our Board of Directors’ Nominating and Corporate Governance Committee.

In 2016, the KB Home American Dream Political Action Committee contributed \$7,000 to candidates for Congressional offices and campaign committees. These contributions were reported to the Federal Election Commission and can be found on its website at www.fec.gov.

In 2016, we contributed \$173,850 to campaigns for state and local offices in California, Colorado and Nevada. The California contributions can be found on the California Secretary of State’s website at www.cal-access.ss.ca.gov.

We are also members of various trade associations in our markets, primarily to establish business connections with local building industry companies. From time to time, we obtain services from these trade associations, including local marketing studies, signage and advertising placements, and continuing education or training classes. Some of these trade associations automatically allocate a portion of the fees we pay for membership dues and services to use for their own independent political activities, and we do not monitor or control how these automatic allocations are used. To the extent we are informed of such automatic allocations by trade associations to which we pay fees of more than \$50,000 in a fiscal year, we will publicly report the total amount automatically allocated. In our 2016 fiscal year, there were six such trade associations—Building Industry Association of Southern California, Home Builders Association of Central Arizona, Home Builders Association of Metro Denver, Leading Builders of America, North State Building Industry Association and Southern Nevada Home Builders Association. Based solely on their reports to us, these six trade associations automatically allocated an aggregate total of \$125,517.

Sustainability Oversight Structure

We have a number of governance structures that are specifically tasked with driving our sustainability strategies and actions throughout our entire organization:

- Board of Directors Oversight. The Board of Directors supports sustainability as an important corporate goal. Board member Kenneth M. Jastrow, II, serves as the advisor on sustainability matters.
- National Advisory Board. As discussed on page 36, nationally recognized leaders meet twice yearly with KB Home to discuss recommendations related to sustainability and other issues.
- Environmental Leadership Team. A group of key executives convenes on a regular basis to discuss sustainability strategies, craft and refine company policies and initiatives, and create buy-in with leaders across all of our operating regions and major functional departments.

Inquiries regarding our sustainability initiatives can be directed to sustainability@kbhome.com.

Carbon Footprint Reporting

KB Home has been publishing carbon footprint measurement information since the release of our inaugural 2007 Sustainability Report. In 2009, we significantly expanded our methodology for capturing and reporting this data (explained in detail in our 2009 Sustainability Report), and we intend to continue to report on it as a normal course of business.

National Advisory Board

Formed in 2009, our National Advisory Board is designed to provide an independent perspective on KB Home’s sustainability initiatives to help us navigate the balance between advancing sustainability and ensuring the affordability of our homes. The Board is comprised of leaders in diverse disciplines, including environmental protection, finance, law, architecture, government, higher education, minority needs and consumer advocacy. With the participation of our Chief Executive Officer, senior executive for sustainability, and senior executive for government and public affairs, our National Advisory Board meets at least twice a year, and its members consult with us from time to time throughout the year.

NATIONAL ADVISORY BOARD MEMBERS

Professor Magali Delmas

Professor of Management, Institute of the Environment and Sustainability, Anderson School of Management, UCLA

Dr. Jonathan Fink

Professor of Geology, Senior Advisor, Office of the President, Portland State University

Peter Harkness

Former Group Publisher, Governing, Senior Policy Advisor, Pew Center on the States

Sheila Hollis, Esq.

Partner, Duane Morris LLP

Anne Kelly

Senior Program Director, Policy and BICEP Program, CERES

Nancy LeaMond

Executive Vice President for Social Impact, AARP

Lou Moret

Former CalPERS Board Member

Andre Pettigrew

Clean Economy Consultant

Sam Rashkin

Chief Architect, Department of Energy
Retired from Board in 2016

Tim Smith

Principal – AIA, AICP, SERA Architects, Inc.

Key Environmental Performance Indicators

Environmental Performance Overview

Performance Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total # of homes delivered	23,743	12,438	8,488	7,346	5,812	6,282	7,145	7,215	8,196	9,829
Energy Efficiency										
# of ENERGY STAR® certified homes delivered	7,467	4,736	5,258	6,631	5,677	6,207	7,078	7,168	8,099	9,768
% of total homes delivered that were ENERGY STAR certified	31%	38%	62%	90%	98%	99%	99%	99%	99%	99%
% of KB Home divisions building at least some homes to ENERGY STAR specifications	83%	91%	100%	100%	100%	100%	100%	100%	100%	100%
# of ENERGY STAR certified appliances installed ¹	N/A	18,804	12,718	13,292	9,929	9,065	9,695	9,789	11,181	13,261
Homeowner satisfaction ratings on the energy efficiency of their KB home ²	N/A	N/A	N/A	91.9%	92.5%	93.1%	92.8%	91.5%	91%	91%
Water Conservation										
# of KB homes built to EPA's new WaterSense® specifications ³	N/A	N/A	N/A	11	97	85	61	96	233	265
# of Water Smart homes built ⁴	1,964	881	393	521	412	438	503	400	589	807
# of EPA WaterSense-labeled fixtures installed in KB homes: ⁵										
• lavatory faucets	N/A	154	15,189	19,096	18,240	22,500	23,500	23,800	28,700	34,400
• toilets	N/A	486	1,260	2,026	14,500	18,100	20,000	20,200	23,000	27,600
• showerheads	N/A	N/A	N/A	241	12,200	13,700	15,000	15,150	16,400	19,700
MY HOME. MY EARTH.® Optional Products and Upgrades										
Total # of My Home. My Earth. optional upgrades installed. ⁶	N/A	N/A	21,010	23,155	18,412	20,039	33,582	35,373	46,717	52,094

¹ Began tracking in 2008.

² Began tracking in 2010, from a 12-month post-closing survey on a scale of 0–100% satisfaction.

³ Construction commenced in late 2010.

⁴ Las Vegas market only; in conjunction with the Southern Nevada Water Authority.

⁵ 2012-2014 figures are estimated.

⁶ Began tracking in 2009. Optional upgrades include appliances, HVAC equipment, WaterSense-labeled fixtures, ENERGY STAR certified doors and low-E windows. Figures are estimated.

Environmental Performance Overview

Performance Indicator	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Office Sustainability Practices										
% of office supplies purchased that are earth conscious	23%	27%	26%	33%	29%	22%	15%	20%	19%	22%
Number of meeting hours hosted on iLab ¹	N/A	1,934	1,978	1,665	1,708	1,533	1,988	2,048	1,939	1,978
Recycled paper (office grade) processed through our national service provider, which recycles the paper after shredding (lbs). ²										
• trees saved	56,440	148,940	72,390	467,979	158,129	94,703	123,637	66,114	203,341	165,606
• water saved (gal.)	479	1,266	615	3,978	1,344	805	1,051	555	1,706	1,389
• air pollution avoided (lbs.)	197,540	521,290	253,365	1,637,925	553,451	331,459	432,728	906,125	2,786,903	2,269,713
• landfill reduction (cu. yds.)	16,932	44,682	21,717	14,039	4,743	2,841	3,709	47,867	147,219	119,899
• electricity saved (kWh)	84	223	109	702	237	142	185	165	508	414
• oil saved (gal.)	115,702	305,327	148,400	959,356	324,164	191,140	253,455	74,709	229,776	187,134
	12,981	34,256	16,650	107,635	36,370	21,782	28,436	N/A	N/A	N/A
Our Carbon Footprint										
Estimated greenhouse gas emission for KB Home operations (CO ₂ e in metric tons)	N/A ³	42,204	20,296	17,015	14,549	13,468	14,092	16,078	19,186	22,961
Estimated greenhouse gas emission from intensity per delivered home ⁴	N/A ⁵	0.0000139 (42,204 metric tons/US \$3,033,936,000 total revenue)	0.0000112 (20,296 metric tons/US \$1,824,850,000 total revenue)	0.0000107 (17,015 metric tons/US \$1,589,996,000 total revenue)	0.0000111 (14,549 metric tons/US \$1,315,866,000 total revenue)	0.0000086 (13,468 metric tons/US \$1,560,115,000 total revenue)	0.0000068 (14,092 metric tons/US \$2,084,978,000 total revenue)	0.0000067 (16,078 metric tons/US \$2,400,949,000 total revenue)	0.0000063 (19,186 metric tons/US \$3,032,030,000 total revenue)	0.0000064 (22,961 metric tons/US \$3,582,900,000 total revenue)
Estimated greenhouse gas emission activity-related intensity (CO ₂ e in metric tons per delivered home)	N/A ⁶	3.4 (42,204 metric tons/ 12,438 homes)	2.4 (20,296 metric tons/ 8,488 homes)	2.3 (17,015 metric tons/ 7,346 homes)	2.5 (14,549 metric tons/ 5,812 homes)	2.1 (13,468 metric tons/ 6,282 homes)	2.0 (14,092 metric tons/ 7,145 homes)	2.2 (16,078 metric tons/ 7,215 homes)	2.3 (19,186 metric tons/ 8,196 homes)	2.3 (22,961 metric tons/ 9,829 homes)
Waste Reduction and Recycling										
% of KB homes built with preconstructed panels ⁷	65%	90%	90%	100%	100%	98%	85% (est.)	85% (est.)	85% (est.)	85% (est.)
% of KB Home communities incorporating recycling into their standard job site processes. ⁸	N/A	N/A	44%	71%	91%	64%	70% (est.)	80% (est.)	85% (est.)	85% (est.)

¹ Began tracking in 2008. iLab is a virtual meeting system that minimizes air and car travel for training, meetings and events.

² This service provider also calculated the environmental benefits in the related rows below. This figure does not include the recycling programs we have established in the majority of our local offices. Increase in 2010 was primarily due to our Northern California division recycling over 11,500 boxes of archived documents in 2010. Division reduced their document storage by 50% to cut costs and improve efficiency.

³ Data not available for comprehensive emissions estimate.

⁴ Based on the methodology identified by the Carbon Disclosure Project.

⁵ Data not available for comprehensive emissions estimate.

⁶ Data not available for comprehensive emissions estimate.

⁷ Preconstructed panels help to minimize waste and increase durability, and are constructed offsite for greater precision. Using these panels results in more airtight homes that are better insulated, helping to reduce energy bills

⁸ Began tracking in 2009.

Key Economic and Social Performance Indicators

Economic Performance Overview

Note: Below are key financial and overall customer satisfaction performance indicators. Additional operational results for fiscal 2011 and prior years, as well as additional information about our financial performance and business operations, including discussion of the material risk factors, are available in the periodic and other reports we file with the U.S. Securities and Exchange Commission, which can be found on our website at www.kbhome.com/investor or at www.sec.gov.

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TOTAL # OF HOMES DELIVERED	23,743	12,438	8,488	7,346	5,812	6,282	7,145	7,215	8,196	9,829
FINANCIAL										
Total revenue (in thousands)	\$6,416,526	\$3,033,936	\$1,824,850	\$1,589,996	\$1,315,866	\$1,560,115	\$2,084,978	\$2,400,949	\$3,032,030	\$3,594,646
Net income/loss (in thousands)	(\$929,414)	(\$976,131)	(\$101,784)	(\$69,368)	(\$178,768)	(\$58,953)	\$39,963	\$918,349	\$84,643	\$105,615
Net orders	19,490	8,274	8,341	6,556	6,632	6,703	7,125	7,567	9,253	10,283
Backlog <ul style="list-style-type: none">• units• value (in thousands)	6,322 \$1,498,835	2,269 \$521,386	2,126 \$422,496	1,336 \$263,794	2,156 \$458,950	2,577 \$618,626	2,577 \$682,489	2,909 \$914,025	3,966 \$1,281,478	4,420 \$1,519,089
Average selling price	\$261,600	\$236,400	\$207,100	\$214,500	\$224,600	\$246,500	\$291,700	\$328,400	\$354,800	\$363,800
Housing gross margin	(5.7%)	(7.1%)	6.5%	17.4%	13.4%	14.9%	16.7%	18.1%	16.3%	16.2%
CUSTOMER SATISFACTION										
Customer satisfaction index ¹	8.9	9.3	9.5	9.5	9.5	9.4	9.2	9.1	9.1	9.2
Customer recommendation rating ²	N/A	N/A	N/A	9.5	9.5	9.4	9.1	9.0	8.9	8.9

Social Performance Overview

PERFORMANCE INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TOTAL # OF HOMES DELIVERED	23,743	12,438	8,488	7,346	5,812	6,282	7,145	7,215	8,196	9,829
STAKEHOLDER AND COMMUNITY INVOLVEMENT										
National Advisory Board	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Infrastructure development – approx. school-related fees paid	N/A	\$35 million	\$25 million	\$21 million	\$20 million	\$22 million	\$26 million	\$25 million	\$28 million	\$34 million
EMPLOYEES, TRAINING AND LABOR PRACTICES										
# of full-time employees	3,556	1,892	1,446	1,346	1,204	1,172	1,422	1,605	1,710	1,797
# of collective bargaining agreements with employees	0	0	0	0	0	0	0	0	0	0
Employee injuries by region: <ul style="list-style-type: none">• West• Southwest• Central• Southeast	6 3 5 7	13 3 16 13	13 3 3 3	6 1 5 4	7 3 2 1	4 1 14 1	8 1 5 6	6 7 5 5	7 6 10 6	14 8 11 8
Average online training certifications per employee ¹	46	36	17	14	12	12	17	13	14	10
Average online training hours per employee ²	35	27	13	11	10	12	13	10	11	8
Annual core training certification rate: <ul style="list-style-type: none">• KBnxt White Papers³• Ethics Policy• 100% Complete/100% Satisfied⁴• <i>My Home. My Earth.</i>^{®5}	92% 100% 94% N/A	98% 100% 99% 99%	96% 100% 98% 99%	97% 100% 97% 95%	91% 99% 92% 93%	90% 99% 97% 83%	83% 98% 100% 85%	87% 96% 90% 85%	83% 97% 85% 81%	66% 100% 75% 64%
Number of safety certifications ⁶	6,874	2,125	210	200	20	235	894	1,045	901	861

¹ Decline is due in large part to our lower numbers of new employees, who are required to complete a large number of certifications as part of our new-hire orientation.
² Decline is due in large part to lower numbers of new employees, who are required to complete more hours of training as part of our new-hire orientation. In addition to online training and certifications, we conduct on-site field training of employees that is not reflected in these numbers.
³ As of 2010, required for new hires only. Decline in 2016 is due to transition to a new learning management system.
⁴ As of 2010, required for new hires only. Decline in 2016 is due to transition to a new learning management system.
⁵ As of 2010, required for new hires only. Decline in 2016 is due to transition to a new learning management system.
⁶ Required for new hires only; significantly declined in 2011 due to lower numbers of new employees in relevant positions.

Global Reporting Initiative Index of Indicators

The Global Reporting Initiative (GRI) is a multi-stakeholder organization founded in 1997 to increase transparency in sustainability reporting by providing a framework to measure and report economic, environmental and social performance to a diverse range of stakeholders. This report was prepared based on the GRI's 2013 G4 Sustainability Reporting Guidelines. These guidelines are considered to be the current international standard for sustainability reporting, allowing organizations to present a balanced view of their operations.

Please reference the following tables to locate this data more easily in the report. “10-K” refers to our 2016 Annual Report on Form 10-K for the fiscal year ended November 30, 2016. GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For more information on GRI Guidelines, visit <http://www.globalreporting.org>.

Indicator	Description	Location
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ENVIRONMENTAL

G4-EN7	Reductions in energy requirements of products and services	pages 11, 20–21
G4-EN15	Direct Greenhouse Gas (GHG) emissions (scope 1)	pages 37, 39
G4-EN16	Energy indirect Greenhouse Gas (GHG) emissions (scope 2)	pages 37, 39
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	pages 11, 20–23, 38–39

ECONOMIC

G4-EC1	Direct economic value generated and distributed	pages 32, 40; 10-K
G4-EC2	Financial implications and other risks and opportunities for the organization’s activities due to climate change	10-K
G4-EC7	Development and impact of infrastructure investments and services supported	page 41

SOCIAL PERFORMANCE: SOCIETY

G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	pages 30–31, 36–37
G4-S04	Communication and training on anti-corruption policies and procedures	pages 36, 41

SOCIAL PERFORMANCE: LABOR PRACTICES & DECENT WORK

G4-LA6	Type of injury and rates of injury	page 41
G4-LA9	Average hours of training per year per employee	page 41

SOCIAL PERFORMANCE: PRODUCT RESPONSIBILITY

G4-PR3	Type of product and service information required by the organization’s procedures for product and service information and labeling	pages 20–29, 31
G4-PR5	Results of surveys measuring customer satisfaction	pages 31, 40

STRATEGY AND ANALYSIS

G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization’s strategy for addressing sustainability	pages 6–7
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Indicator	Description	Location
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ORGANIZATIONAL PROFILE

G4-3	Report the name of the organization	page 4
G4-4	Report the primary brands, products, and services	page 4
G4-5	Report the location of the organization’s headquarters	pages 36, 44
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	page 4
G4-7	Report the nature of ownership and legal form	10-K
G4-8	Report the markets served	page 32; 10-K
G4-9	Report the scale of the organization	pages 4, 36; 10-K
G4-10	Report the total number of employees	page 41
G4-11	Report the percentage of total employees covered by collective bargaining agreements	page 41
G4-13	Report any significant changes during the reporting period regarding the organization’s size, structure, ownership, or its supply chain	pages 32; 10-K
G4-17	List all entities included in the organization’s consolidated financial statements or equivalent documents and report whether any entity included in the organization’s consolidated financial statements or equivalent documents is not covered by the report	pages 36; 10-K

REPORT PARAMETERS

G4-18	Identified material aspects and boundaries	page 3
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	N/A
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	N/A
G4-28	Reporting period (such as fiscal or calendar year) for information provided	page 3
G4-29	Date of most recent previous report (if any)	page 3
G4-30	Reporting cycle (such as annual, biennial)	page 3
G4-31	Provide the contact point for questions regarding the report or its contents	page 37

GOVERNANCE, COMMITMENTS AND ENGAGEMENT

G4-24	Provide a list of stakeholder groups engaged by the organization	pages 36–37
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	pages 36–37
G4-26	Report the organization’s approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	pages 36–37 page 36–37; 10-K or proxy
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	page 36
G4-37	Mechanisms for providing recommendations to highest governing body	page 36
G4-38	Board structure and independence of members	page 36; 10-K or proxy
G4-39	Report whether the Chair of the highest governance body is also an executive officer	page 36



For more information on our
environmentally sustainable homes, visit:

kbhome.com/sustainability
kbhome.com/eDIFFERENCE

KB Home
10990 Wilshire Blvd.
Los Angeles, CA 90024

888-KB-HOMES • kbhome.com