

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-Q

October 31, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from            to

Commission File Number 1-13232 (Apartment Investment and Management Company)

Commission File Number 0-24497 (AIMCO Properties, L.P.)

Apartment Investment and Management Company

AIMCO Properties, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Apartment Investment and Management Company)

Delaware (AIMCO Properties, L.P.)

(State or other jurisdiction of  
incorporation or organization)

84-1259577

84-1275621

(I.R.S. Employer  
Identification  
No.)

4582 South Ulster Street, Suite 1100

Denver, Colorado

(Address of principal executive offices)

(303) 757-8101

(Registrant's telephone number, including area code)

80237

(Zip Code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Apartment Investment and Management Company: Yes

☒ No ☐ AIMCO Properties, L.P.: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Apartment Investment and Management Company: Yes

☒ No ☐

AIMCO Properties, L.P.: Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Apartment Investment and Management Company:

Large accelerated  
filer ☒

Accelerated filer ☐

Non-accelerated  
filer ☐ (Do not check if a smaller reporting company)

Smaller reporting  
company ☐

AIMCO Properties, L.P.:

Large accelerated  
filer ☐

Accelerated filer ☒

Non-accelerated  
filer ☐ (Do not check if a smaller reporting company)

Smaller reporting  
company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Apartment Investment and Management

☐ No ☒

AIMCO Properties, L.P.:

Yes

☐ No ☒

Company: Yes

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The number of shares of Apartment Investment and Management Company

Class A Common Stock outstanding as of October 30, 2014: 146,205,371

The number of Partnership Common Units outstanding as of October 30, 2014: 153,860,959

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EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended September 30, 2014, of Apartment Investment and Management Company, or Aimco, and AIMCO Properties, L.P., or the Aimco Operating Partnership. Where it is important to distinguish between the two entities, we refer to them specifically. Otherwise, references to “we,” “us” or “our” mean, collectively, Aimco, the Aimco Operating Partnership and their consolidated entities. Aimco, a Maryland corporation, is a self-administered and self-managed real estate investment trust, or REIT. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of and, as of September 30, 2014, owned a 95.0% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 5.0% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership’s day-to-day management.

The Aimco Operating Partnership holds all of Aimco’s assets and manages the daily operations of Aimco’s business and assets. Aimco is required to contribute all proceeds from offerings of its securities to the Aimco Operating Partnership. In addition, substantially all of Aimco’s assets must be owned through the Aimco Operating Partnership; therefore, Aimco is generally required to contribute all assets acquired to the Aimco Operating Partnership. In exchange for the contribution of offering proceeds or assets, Aimco receives additional interests in the Aimco Operating Partnership with similar terms (e.g., if Aimco contributes proceeds of a stock offering, Aimco receives partnership units with terms substantially similar to the stock issued by Aimco).

We believe combining the periodic reports of Aimco and the Aimco Operating Partnership into this single report provides the following benefits:

- presents our business as a whole, in the same manner our management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosures apply to both Aimco and the Aimco Operating Partnership; and
- saves time and cost through the preparation of a single combined report rather than two separate reports.

We operate Aimco and the Aimco Operating Partnership as one enterprise and the management of Aimco directs the management and operations of the Aimco Operating Partnership.

We believe it is important to understand the few differences between Aimco and the Aimco Operating Partnership in the context of how Aimco and the Aimco Operating Partnership operate as a consolidated company. Aimco has no assets or liabilities other than its investment in the Aimco Operating Partnership. Also, Aimco is a corporation that issues publicly traded equity from time to time, whereas the Aimco Operating Partnership is a partnership that has no publicly traded equity. Except for the net proceeds from stock offerings by Aimco, which are contributed to the Aimco Operating Partnership in exchange for additional limited partnership interests (of a similar type and in an amount equal to the shares of stock sold in the offering), the Aimco Operating Partnership generates all remaining capital required by its business. These sources include the Aimco Operating Partnership’s working capital, net cash provided by operating activities, borrowings under its revolving credit facility, the issuance of secured debt and equity securities, including additional partnership units, and proceeds received from the sale of apartment communities. Equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Aimco and those of the Aimco Operating Partnership. Interests in the Aimco Operating Partnership held by entities other than Aimco are classified within partners’ capital in the Aimco Operating Partnership’s financial statements and as noncontrolling interests in Aimco’s financial statements.

To help investors understand the differences between Aimco and the Aimco Operating Partnership, this report provides separate consolidated financial statements for Aimco and the Aimco Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity’s stockholders’ equity or partners’ capital, as applicable; and a combined Management’s Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for Aimco and the Aimco Operating Partnership in order to establish that the requisite certifications have been made and that Aimco and the Aimco Operating Partnership are both compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.



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AIMCO PROPERTIES, L.P.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

APARTMENT INVESTMENT AND MANAGEMENT COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)  
(Unaudited)

|                                                                                                                                                                                | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                  |                       |                      |
| Buildings and improvements                                                                                                                                                     | \$6,069,042           | \$6,332,723          |
| Land                                                                                                                                                                           | 1,771,545             | 1,881,358            |
| Total real estate                                                                                                                                                              | 7,840,587             | 8,214,081            |
| Less accumulated depreciation                                                                                                                                                  | (2,615,712 )          | (2,822,872 )         |
| Net real estate (\$373,524 and \$392,245 related to VIEs)                                                                                                                      | 5,224,875             | 5,391,209            |
| Cash and cash equivalents (\$14,611 and \$24,094 related to VIEs)                                                                                                              | 29,186                | 55,751               |
| Restricted cash (\$37,832 and \$36,369 related to VIEs)                                                                                                                        | 166,024               | 127,037              |
| Other assets (\$212,276 and \$211,286 related to VIEs)                                                                                                                         | 470,328               | 505,416              |
| Assets held for sale                                                                                                                                                           | 47,050                | —                    |
| Total assets                                                                                                                                                                   | \$5,937,463           | \$6,079,413          |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                  |                       |                      |
| Non-recourse property debt (\$350,366 and \$355,372 related to VIEs)                                                                                                           | \$3,947,786           | \$4,337,785          |
| Revolving credit facility borrowings                                                                                                                                           | 14,450                | 50,400               |
| Total indebtedness                                                                                                                                                             | 3,962,236             | 4,388,185            |
| Accounts payable                                                                                                                                                               | 40,166                | 43,161               |
| Accrued liabilities and other (\$129,609 and \$140,910 related to VIEs)                                                                                                        | 288,688               | 287,595              |
| Deferred income                                                                                                                                                                | 86,853                | 107,775              |
| Liabilities related to assets held for sale                                                                                                                                    | 37,056                | —                    |
| Total liabilities                                                                                                                                                              | 4,414,999             | 4,826,716            |
| Preferred noncontrolling interests in Aimco Operating Partnership                                                                                                              | 78,909                | 79,953               |
| Commitments and contingencies (Note 6)                                                                                                                                         | —                     | —                    |
| Equity:                                                                                                                                                                        |                       |                      |
| Perpetual Preferred Stock                                                                                                                                                      | 186,126               | 68,114               |
| Common Stock, \$0.01 par value, 505,787,260 shares authorized, 146,205,371 and 145,917,387 shares issued/outstanding at September 30, 2014 and December 31, 2013, respectively | 1,462                 | 1,459                |
| Additional paid-in capital                                                                                                                                                     | 3,694,101             | 3,701,339            |
| Accumulated other comprehensive loss                                                                                                                                           | (5,517 )              | (4,602 )             |
| Distributions in excess of earnings                                                                                                                                            | (2,647,921 )          | (2,798,853 )         |
| Total Aimco equity                                                                                                                                                             | 1,228,251             | 967,457              |
| Noncontrolling interests in consolidated real estate partnerships                                                                                                              | 234,076               | 233,008              |
| Common noncontrolling interests in Aimco Operating Partnership                                                                                                                 | (18,772 )             | (27,721 )            |
| Total equity                                                                                                                                                                   | 1,443,555             | 1,172,744            |
| Total liabilities and equity                                                                                                                                                   | \$5,937,463           | \$6,079,413          |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|                                                                                                     | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|-----------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                                                                     | 2014                                | 2013      | 2014                               | 2013       |
| REVENUES                                                                                            |                                     |           |                                    |            |
| Rental and other property revenues                                                                  | \$239,873                           | \$236,546 | \$719,501                          | \$700,734  |
| Tax credit and asset management revenues                                                            | 6,970                               | 7,397     | 22,684                             | 22,458     |
| Total revenues                                                                                      | 246,843                             | 243,943   | 742,185                            | 723,192    |
| OPERATING EXPENSES                                                                                  |                                     |           |                                    |            |
| Property operating expenses                                                                         | 95,174                              | 93,898    | 288,816                            | 282,064    |
| Investment management expenses                                                                      | 1,279                               | 373       | 3,552                              | 3,503      |
| Depreciation and amortization                                                                       | 69,437                              | 72,040    | 211,143                            | 221,588    |
| Provision for real estate impairment losses                                                         | 1,413                               | —         | 1,413                              | —          |
| General and administrative expenses                                                                 | 10,665                              | 10,962    | 31,322                             | 33,894     |
| Other expenses, net                                                                                 | 1,408                               | 2,158     | 7,397                              | 6,281      |
| Total operating expenses                                                                            | 179,376                             | 179,431   | 543,643                            | 547,330    |
| Operating income                                                                                    | 67,467                              | 64,512    | 198,542                            | 175,862    |
| Interest income                                                                                     | 1,787                               | 3,587     | 5,187                              | 12,652     |
| Interest expense                                                                                    | (57,806)                            | ) (59,648 | ) (168,613                         | ) (175,724 |
| Other, net                                                                                          | 1,733                               | (1,563    | ) (57                              | ) (4,812   |
| Income before income taxes, discontinued operations and gain on dispositions                        | 13,181                              | 6,888     | 35,059                             | 7,978      |
| Income tax benefit (expense)                                                                        | 5,005                               | 87        | 13,110                             | (187       |
| Income from continuing operations                                                                   | 18,186                              | 6,975     | 48,169                             | 7,791      |
| Income from discontinued operations, net                                                            | —                                   | 72,435    | —                                  | 81,431     |
| Gain on dispositions of real estate, net of tax                                                     | 126,329                             | —         | 262,483                            | —          |
| Net income                                                                                          | 144,515                             | 79,410    | 310,652                            | 89,222     |
| Noncontrolling interests:                                                                           |                                     |           |                                    |            |
| Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships | (8,337                              | ) (6,776  | ) (21,952                          | ) 4,336    |
| Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership        | (1,601                              | ) (1,606  | ) (4,808                           | ) (4,818   |
| Net income attributable to common noncontrolling interests in Aimco Operating Partnership           | (6,549                              | ) (3,796  | ) (13,895                          | ) (4,668   |
| Net income attributable to noncontrolling interests                                                 | (16,487                             | ) (12,178 | ) (40,655                          | ) (5,150   |
| Net income attributable to Aimco                                                                    | 128,028                             | 67,232    | 269,997                            | 84,072     |
| Net income attributable to Aimco preferred stockholders                                             | (2,875                              | ) (702    | ) (5,087                           | ) (2,105   |
| Net income attributable to participating securities                                                 | (447                                | ) (262    | ) (962                             | ) (418     |
| Net income attributable to Aimco common stockholders                                                | \$124,706                           | \$66,268  | \$263,948                          | \$81,549   |
| Earnings attributable to Aimco per common share – basic (Note 7):                                   |                                     |           |                                    |            |
| Income from continuing operations                                                                   | \$0.86                              | \$0.04    | \$1.81                             | \$0.03     |
| Net income                                                                                          | \$0.86                              | \$0.46    | \$1.81                             | \$0.56     |
| Earnings attributable to Aimco per common share – diluted (Note 7):                                 |                                     |           |                                    |            |

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|                                     |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|
| Income from continuing operations   | \$0.85 | \$0.04 | \$1.81 | \$0.03 |
| Net income                          | \$0.85 | \$0.46 | \$1.81 | \$0.56 |
| Dividends declared per common share | \$0.26 | \$0.24 | \$0.78 | \$0.72 |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|                                                                                                            | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |          |   |
|------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|----------|---|
|                                                                                                            | 2014                                | 2013      | 2014                               | 2013     |   |
| Net income                                                                                                 | \$144,515                           | \$79,410  | \$310,652                          | \$89,222 |   |
| Other comprehensive loss:                                                                                  |                                     |           |                                    |          |   |
| Unrealized (losses) gains on interest rate swaps                                                           | (61                                 | ) (185    | ) (1,488                           | ) 1,423  |   |
| Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss | 421                                 | 422       | 1,265                              | 1,258    |   |
| Unrealized losses on debt securities classified as available-for-sale                                      | (566                                | ) (1,384  | ) (618                             | ) (4,440 | ) |
| Other comprehensive loss                                                                                   | (206                                | ) (1,147  | ) (841                             | ) (1,759 | ) |
| Comprehensive income                                                                                       | 144,309                             | 78,263    | 309,811                            | 87,463   |   |
| Comprehensive income attributable to noncontrolling interests                                              | (16,555                             | ) (12,132 | ) (40,728                          | ) (5,316 | ) |
| Comprehensive income attributable to Aimco                                                                 | \$127,754                           | \$66,131  | \$269,083                          | \$82,147 |   |

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                   | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                                   | 2014                               | 2013        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                    |             |
| Net income                                                                        | \$310,652                          | \$89,222    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |             |
| Depreciation and amortization                                                     | 211,143                            | 221,588     |
| Gain on dispositions of real estate, net of tax                                   | (262,483)                          | ) —         |
| Provision for real estate impairment losses                                       | 1,413                              | —           |
| Discontinued operations                                                           | —                                  | (63,424)    |
| Other adjustments                                                                 | (1,209)                            | ) 11,443    |
| Net changes in operating assets and operating liabilities                         | (26,127)                           | ) (10,706)  |
| Net cash provided by operating activities                                         | 233,389                            | 248,123     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                    |             |
| Purchases of real estate                                                          | (132,463)                          | ) (50,727)  |
| Capital expenditures                                                              | (277,214)                          | ) (275,116) |
| Proceeds from dispositions of real estate                                         | 564,687                            | 120,736     |
| Purchases of corporate assets                                                     | (6,405)                            | ) (8,618)   |
| Purchase of property loans                                                        | —                                  | (119,101)   |
| Change in restricted cash                                                         | (33,784)                           | ) 17,802    |
| Other investing activities                                                        | 854                                | 15,865      |
| Net cash provided by (used in) investing activities                               | 115,675                            | (299,159)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                    |             |
| Proceeds from non-recourse property debt                                          | 83,130                             | 187,642     |
| Principal repayments on non-recourse property debt                                | (376,713)                          | ) (295,725) |
| Net (repayments) borrowings on revolving credit facility                          | (35,950)                           | ) 298,550   |
| Proceeds from issuance of Preferred Stock                                         | 123,620                            | —           |
| Repurchase of Preferred Stock                                                     | (9,516)                            | ) —         |
| Proceeds from Common Stock option exercises                                       | 587                                | 993         |
| Payment of dividends to holders of Preferred Stock                                | (3,481)                            | ) (2,104)   |
| Payment of dividends to holders of Common Stock                                   | (113,988)                          | ) (105,033) |
| Payment of distributions to noncontrolling interests                              | (42,969)                           | ) (33,835)  |
| Other financing activities                                                        | (349)                              | ) (16,243)  |
| Net cash (used in) provided by financing activities                               | (375,629)                          | ) 34,245    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                  | (26,565)                           | ) (16,791)  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | 55,751                             | 84,413      |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | \$29,186                           | \$67,622    |

See notes to condensed consolidated financial statements.



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## AIMCO PROPERTIES, L.P.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

|                                                                         | September 30,<br>2014 | December 31,<br>2013 |
|-------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                           |                       |                      |
| Buildings and improvements                                              | \$6,069,042           | \$6,332,723          |
| Land                                                                    | 1,771,545             | 1,881,358            |
| Total real estate                                                       | 7,840,587             | 8,214,081            |
| Less accumulated depreciation                                           | (2,615,712 )          | (2,822,872 )         |
| Net real estate (\$373,524 and \$392,245 related to VIEs)               | 5,224,875             | 5,391,209            |
| Cash and cash equivalents (\$14,611 and \$24,094 related to VIEs)       | 29,186                | 55,751               |
| Restricted cash (\$37,832 and \$36,369 related to VIEs)                 | 166,024               | 127,037              |
| Other assets (\$212,276 and \$211,286 related to VIEs)                  | 470,328               | 505,416              |
| Assets held for sale                                                    | 47,050                | —                    |
| Total assets                                                            | \$5,937,463           | \$6,079,413          |
| <b>LIABILITIES AND EQUITY</b>                                           |                       |                      |
| Non-recourse property debt (\$350,366 and \$355,372 related to VIEs)    | \$3,947,786           | \$4,337,785          |
| Revolving credit facility borrowings                                    | 14,450                | 50,400               |
| Total indebtedness                                                      | 3,962,236             | 4,388,185            |
| Accounts payable                                                        | 40,166                | 43,161               |
| Accrued liabilities and other (\$129,609 and \$140,910 related to VIEs) | 288,688               | 287,595              |
| Deferred income                                                         | 86,853                | 107,775              |
| Liabilities related to assets held for sale                             | 37,056                | —                    |
| Total liabilities                                                       | 4,414,999             | 4,826,716            |
| Redeemable preferred units                                              | 78,909                | 79,953               |
| Commitments and contingencies (Note 6)                                  | —                     | —                    |
| Partners' Capital:                                                      |                       |                      |
| Preferred units                                                         | 186,126               | 68,114               |
| General Partner and Special Limited Partner                             | 1,042,125             | 899,343              |
| Limited Partners                                                        | (18,772 )             | (27,721 )            |
| Partners' capital attributable to the Aimco Operating Partnership       | 1,209,479             | 939,736              |
| Noncontrolling interests in consolidated real estate partnerships       | 234,076               | 233,008              |
| Total partners' capital                                                 | 1,443,555             | 1,172,744            |
| Total liabilities and partners' capital                                 | \$5,937,463           | \$6,079,413          |

See notes to condensed consolidated financial statements.

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## AIMCO PROPERTIES, L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

|                                                                                                     | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                                     | 2014                                | 2013      | 2014                               | 2013      |
| <b>REVENUES</b>                                                                                     |                                     |           |                                    |           |
| Rental and other property revenues                                                                  | \$239,873                           | \$236,546 | \$719,501                          | \$700,734 |
| Tax credit and asset management revenues                                                            | 6,970                               | 7,397     | 22,684                             | 22,458    |
| Total revenues                                                                                      | 246,843                             | 243,943   | 742,185                            | 723,192   |
| <b>OPERATING EXPENSES</b>                                                                           |                                     |           |                                    |           |
| Property operating expenses                                                                         | 95,174                              | 93,898    | 288,816                            | 282,064   |
| Investment management expenses                                                                      | 1,279                               | 373       | 3,552                              | 3,503     |
| Depreciation and amortization                                                                       | 69,437                              | 72,040    | 211,143                            | 221,588   |
| Provision for real estate impairment losses                                                         | 1,413                               | —         | 1,413                              | —         |
| General and administrative expenses                                                                 | 10,665                              | 10,962    | 31,322                             | 33,894    |
| Other expenses, net                                                                                 | 1,408                               | 2,158     | 7,397                              | 6,281     |
| Total operating expenses                                                                            | 179,376                             | 179,431   | 543,643                            | 547,330   |
| Operating income                                                                                    | 67,467                              | 64,512    | 198,542                            | 175,862   |
| Interest income                                                                                     | 1,787                               | 3,587     | 5,187                              | 12,652    |
| Interest expense                                                                                    | (57,806)                            | (59,648)  | (168,613)                          | (175,724) |
| Other, net                                                                                          | 1,733                               | (1,563)   | (57)                               | (4,812)   |
| Income before income taxes, discontinued operations and gain on dispositions                        | 13,181                              | 6,888     | 35,059                             | 7,978     |
| Income tax benefit (expense)                                                                        | 5,005                               | 87        | 13,110                             | (187)     |
| Income from continuing operations                                                                   | 18,186                              | 6,975     | 48,169                             | 7,791     |
| Income from discontinued operations, net                                                            | —                                   | 72,435    | —                                  | 81,431    |
| Gain on dispositions of real estate, net of tax                                                     | 126,329                             | —         | 262,483                            | —         |
| Net income                                                                                          | 144,515                             | 79,410    | 310,652                            | 89,222    |
| Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships | (8,337)                             | (6,776)   | (21,952)                           | 4,336     |
| Net income attributable to the Aimco Operating Partnership                                          | 136,178                             | 72,634    | 288,700                            | 93,558    |
| Net income attributable to the Aimco Operating Partnership's preferred unitholders                  | (4,476)                             | (2,308)   | (9,895)                            | (6,923)   |
| Net income attributable to participating securities                                                 | (447)                               | (262)     | (962)                              | (418)     |
| Net income attributable to the Aimco Operating Partnership's common unitholders                     | \$131,255                           | \$70,064  | \$277,843                          | \$86,217  |
| Earnings attributable to the Aimco Operating Partnership per common unit – basic (Note 7):          |                                     |           |                                    |           |
| Income from continuing operations                                                                   | \$0.86                              | \$0.04    | \$1.81                             | \$0.03    |
| Net income                                                                                          | \$0.86                              | \$0.46    | \$1.81                             | \$0.56    |
| Earnings attributable to the Aimco Operating Partnership per common unit – diluted (Note 7):        |                                     |           |                                    |           |
| Income from continuing operations                                                                   | \$0.85                              | \$0.04    | \$1.81                             | \$0.03    |
| Net income                                                                                          | \$0.85                              | \$0.46    | \$1.81                             | \$0.56    |
| Distributions declared per common unit                                                              | \$0.26                              | \$0.24    | \$0.78                             | \$0.72    |

See notes to condensed consolidated financial statements.

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AIMCO PROPERTIES, L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|                                                                                                            | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                                                                            | 2014                                | 2013     | 2014                               | 2013     |
| Net income                                                                                                 | \$144,515                           | \$79,410 | \$310,652                          | \$89,222 |
| Other comprehensive loss:                                                                                  |                                     |          |                                    |          |
| Unrealized (losses) gains on interest rate swaps                                                           | (61                                 | ) (185   | ) (1,488                           | ) 1,423  |
| Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss | 421                                 | 422      | 1,265                              | 1,258    |
| Unrealized losses on debt securities classified as available-for-sale                                      | (566                                | ) (1,384 | ) (618                             | ) (4,440 |
| Other comprehensive loss                                                                                   | (206                                | ) (1,147 | ) (841                             | ) (1,759 |
| Comprehensive income                                                                                       | 144,309                             | 78,263   | 309,811                            | 87,463   |
| Comprehensive (income) loss attributable to noncontrolling interests                                       | (8,419                              | ) (6,790 | ) (22,073                          | ) 4,065  |
| Comprehensive income attributable to the Aimco Operating Partnership                                       | \$135,890                           | \$71,473 | \$287,738                          | \$91,528 |

See notes to condensed consolidated financial statements.

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AIMCO PROPERTIES, L.P.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                   | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                                   | 2014                               | 2013        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                    |             |
| Net income                                                                        | \$310,652                          | \$89,222    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |             |
| Depreciation and amortization                                                     | 211,143                            | 221,588     |
| Gain on dispositions of real estate, net of tax                                   | (262,483)                          | ) —         |
| Provision for real estate impairment losses                                       | 1,413                              | —           |
| Discontinued operations                                                           | —                                  | (63,424)    |
| Other adjustments                                                                 | (1,209)                            | ) 11,443    |
| Net changes in operating assets and operating liabilities                         | (26,127)                           | ) (10,706)  |
| Net cash provided by operating activities                                         | 233,389                            | 248,123     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                    |             |
| Purchases of real estate                                                          | (132,463)                          | ) (50,727)  |
| Capital expenditures                                                              | (277,214)                          | ) (275,116) |
| Proceeds from dispositions of real estate                                         | 564,687                            | 120,736     |
| Purchases of corporate assets                                                     | (6,405)                            | ) (8,618)   |
| Purchase of property loans                                                        | —                                  | (119,101)   |
| Change in restricted cash                                                         | (33,784)                           | ) 17,802    |
| Other investing activities                                                        | 854                                | 15,865      |
| Net cash provided by (used in) investing activities                               | 115,675                            | (299,159)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                    |             |
| Proceeds from non-recourse property debt                                          | 83,130                             | 187,642     |
| Principal repayments on non-recourse property debt                                | (376,713)                          | ) (295,725) |
| Net (repayments) borrowings on revolving credit facility                          | (35,950)                           | ) 298,550   |
| Proceeds from issuance of Preferred Units to Aimco                                | 123,620                            | —           |
| Repurchase of Preferred Units from Aimco                                          | (9,516)                            | ) —         |
| Proceeds from Aimco Common Stock option exercises                                 | 587                                | 993         |
| Payment of distributions to holders of Preferred Units                            | (8,289)                            | ) (6,922)   |
| Payment of distributions to General Partner and Special Limited Partner           | (113,988)                          | ) (105,033) |
| Payment of distributions to Limited Partners                                      | (6,020)                            | ) (5,738)   |
| Payment of distributions to noncontrolling interests                              | (32,141)                           | ) (23,279)  |
| Other financing activities                                                        | (349)                              | ) (16,243)  |
| Net cash (used in) provided by financing activities                               | (375,629)                          | ) 34,245    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                  | (26,565)                           | ) (16,791)  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | 55,751                             | 84,413      |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | \$29,186                           | \$67,622    |

See notes to condensed consolidated financial statements.



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APARTMENT INVESTMENT AND MANAGEMENT COMPANY  
AIMCO PROPERTIES, L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

Note 1 — Organization

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. Aimco is a self-administered and self-managed real estate investment trust, or REIT. AIMCO Properties, L.P., or the Aimco Operating Partnership, is a Delaware limited partnership formed on May 16, 1994, to conduct our business, which is focused on the ownership and management of quality apartment communities located in the largest coastal and job growth markets in the United States.

Aimco, and through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as “OP Units.” OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common OP Unit equivalents. At September 30, 2014, after eliminations for units held by consolidated entities, the Aimco Operating Partnership had 153,862,956 common partnership units and equivalents outstanding. At September 30, 2014, Aimco owned 146,205,371 of the common partnership units (95.0% of the common partnership units and equivalents) of the Aimco Operating Partnership and Aimco had outstanding an equal number of shares of its Class A Common Stock, which we refer to as Common Stock.

Except as the context otherwise requires, “we,” “our” and “us” refer to Aimco, the Aimco Operating Partnership and their consolidated subsidiaries, collectively.

As of September 30, 2014, we owned an equity interest in 143 conventional apartment communities with 43,306 apartment homes and 61 affordable apartment communities with 9,142 apartment homes. Of these, we consolidated 139 conventional apartment communities with 43,164 apartment homes and 54 affordable apartment communities with 8,455 apartment homes. Conventional and affordable apartment communities generated 90% and 10%, respectively, of the proportionate property net operating income (as defined in Note 8 and excluding amounts related to apartment communities sold or classified as held for sale) during the nine months ended September 30, 2014.

Note 2 — Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The balance sheets of Aimco and the Aimco Operating Partnership at December 31, 2013, have been derived from their respective audited financial statements at that date, but do not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in Aimco’s and the Aimco Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2013. Certain 2013 financial statement amounts have been reclassified to conform to the 2014 and full year 2013 presentation, including adjustments for discontinued operations reported through December 31, 2013. Except where indicated, the footnotes refer to both Aimco and the Aimco Operating Partnership.

Principles of Consolidation

Aimco's accompanying condensed consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated subsidiaries. The Aimco Operating Partnership's condensed consolidated financial statements include the accounts of the Aimco Operating Partnership and its consolidated entities.

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We consolidate all variable interest entities for which we are the primary beneficiary. Generally, a variable interest entity, or VIE, is a legal entity in which the equity investors do not have the characteristics of a controlling financial interest or the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; and the similarity with and significance to our business activities and the business activities of the other investors. Significant judgments related to these determinations include estimates about the current and future fair values and performance of real estate held by these VIEs and general market conditions.

As of September 30, 2014, we were the primary beneficiary of, and therefore consolidated, 63 VIEs, which owned 49 apartment communities with 7,656 apartment homes. Substantially all these VIEs are partnerships that are involved in the ownership or operation of qualifying affordable housing apartment communities and which are structured to provide for the pass-through of low-income housing tax credits and deductions to their partners. Real estate with a carrying value of \$373.5 million collateralized \$350.4 million of debt of those VIEs. Any significant amounts of assets and liabilities related to our consolidated VIEs are identified parenthetically on our accompanying condensed consolidated balance sheets. The creditors of the consolidated VIEs do not have recourse to our general credit. In addition to the consolidated VIEs discussed above, at September 30, 2014, our consolidated financial statements included certain consolidated and unconsolidated VIEs that are part of the legacy asset management business we sold during 2012, which is discussed in Note 4. The assets and liabilities related to these consolidated and unconsolidated VIEs are each condensed into single line items within other assets and accrued liabilities and other, respectively, in our condensed consolidated balance sheets.

Generally, we consolidate real estate partnerships and other entities that are not variable interest entities when we own, directly or indirectly, a majority voting interest in the entity or are otherwise able to control the entity. All significant intercompany balances and transactions have been eliminated in consolidation.

Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are reflected in Aimco's accompanying balance sheets as noncontrolling interests in Aimco Operating Partnership. Interests in partnerships consolidated into the Aimco Operating Partnership that are held by third parties are reflected in our accompanying balance sheets as noncontrolling interests in consolidated real estate partnerships. The assets of consolidated real estate partnerships owned or controlled by the Aimco Operating Partnership generally are not available to pay creditors of Aimco or the Aimco Operating Partnership.

As used herein, and except where the context otherwise requires, "partnership" refers to a limited partnership or a limited liability company and "partner" refers to a partner in a limited partnership or a member of a limited liability company.

#### Temporary Equity and Partners' Capital

The following table presents a reconciliation of the Aimco Operating Partnership's Preferred OP Units from December 31, 2013 to September 30, 2014 (in thousands). These amounts are presented within temporary equity in Aimco's condensed consolidated balance sheets as preferred noncontrolling interests in the Aimco Operating Partnership, and within temporary capital in the Aimco Operating Partnership's condensed consolidated balance sheets as redeemable preferred units.

|                                         |          |
|-----------------------------------------|----------|
| Balance, December 31, 2013              | \$79,953 |
| Distributions to preferred unitholders  | (4,808 ) |
| Redemption of preferred units and other | (1,044 ) |
| Net income                              | 4,808    |
| Balance, September 30, 2014             | \$78,909 |

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## Aimco Equity (including Noncontrolling Interests)

The following table presents a reconciliation of Aimco's consolidated permanent equity accounts from December 31, 2013 to September 30, 2014 (in thousands):

|                                                          | Aimco<br>Equity | Noncontrolling<br>interests in<br>consolidated real<br>estate<br>partnerships | Common<br>noncontrolling<br>interests in<br>Aimco Operating<br>Partnership | Total<br>Equity |
|----------------------------------------------------------|-----------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------|
| Balance, December 31, 2013                               | \$967,457       | \$233,008                                                                     | \$(27,721)                                                                 | \$1,172,744     |
| Contributions                                            | —               | 10,915                                                                        | —                                                                          | 10,915          |
| Issuance of preferred stock                              | 123,620         | —                                                                             | —                                                                          | 123,620         |
| Repurchase of preferred stock                            | (9,516)         | ) —                                                                           | —                                                                          | (9,516)         |
| Preferred stock dividends                                | (5,314)         | ) —                                                                           | —                                                                          | (5,314)         |
| Common dividends and distributions                       | (113,988)       | ) (31,821)                                                                    | ) (6,020)                                                                  | ) (151,829)     |
| Redemptions of common OP Units                           | —               | —                                                                             | (7,581)                                                                    | ) (7,581)       |
| Amortization of stock-based compensation cost            | 4,824           | —                                                                             | —                                                                          | 4,824           |
| Stock option exercises                                   | 587             | —                                                                             | —                                                                          | 587             |
| Effect of changes in ownership for consolidated entities | (8,690)         | ) (76)                                                                        | ) 8,703                                                                    | (63)            |
| Change in accumulated other comprehensive loss           | (914)           | ) 121                                                                         | (48)                                                                       | ) (841)         |
| Other                                                    | 188             | (23)                                                                          | ) —                                                                        | 165             |
| Net income                                               | 269,997         | 21,952                                                                        | 13,895                                                                     | 305,844         |
| Balance, September 30, 2014                              | \$1,228,251     | \$234,076                                                                     | \$(18,772)                                                                 | \$1,443,555     |

## Partners' Capital attributable to the Aimco Operating Partnership

The following table presents a reconciliation of the consolidated partners' capital balances in permanent capital that are attributable to the Aimco Operating Partnership from December 31, 2013 to September 30, 2014 (in thousands):

|                                                                                 | Partners' capital<br>attributable to<br>the Partnership |
|---------------------------------------------------------------------------------|---------------------------------------------------------|
| Balance, December 31, 2013                                                      | \$939,736                                               |
| Issuance of Preferred Units to Aimco                                            | 123,620                                                 |
| Repurchase of Preferred Units from Aimco                                        | (9,516)                                                 |
| Distributions to preferred units held by Aimco                                  | (5,314)                                                 |
| Distributions to common units held by Aimco                                     | (113,988)                                               |
| Distributions to common units held by Limited Partners                          | (6,020)                                                 |
| Redemption of common OP Units                                                   | (7,581)                                                 |
| Amortization of Aimco stock-based compensation cost                             | 4,824                                                   |
| Common OP Units issued to Aimco in connection with Aimco stock option exercises | 587                                                     |
| Effect of changes in ownership for consolidated entities                        | 13                                                      |
| Change in accumulated other comprehensive loss                                  | (962)                                                   |
| Other                                                                           | 188                                                     |
| Net income                                                                      | 283,892                                                 |
| Balance, September 30, 2014                                                     | \$1,209,479                                             |

A separate reconciliation of noncontrolling interests in consolidated real estate partnerships and total partners' capital for the Aimco Operating Partnership is not presented as these amounts are identical to the corresponding noncontrolling interests in consolidated real estate partnerships and total equity for Aimco, which are presented above.



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### Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes thereto. Actual results could differ from those estimates.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, and International Accounting Standards Board issued their final standard on revenue from contracts with customers, which was issued by the FASB as Accounting Standards Update 2014-09, Revenue from Contracts with Customers, or ASU 2014-09. ASU 2014-09, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, supersedes most current GAAP applicable to revenue recognition and converges U.S. and international accounting standards in this area. The core principle of the new guidance is that revenue shall only be recognized when an entity has transferred control of goods or services to a customer and for an amount reflecting the consideration to which the entity expects to be entitled for such exchange.

ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, with no early adoption permitted, and allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. We have not yet determined the effect ASU 2014-09 will have on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements-Going Concern, or ASU 2014-15. ASU 2014-15 requires management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

This evaluation should include consideration of whether it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued, and should initially take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued (e.g. plans to raise capital, borrow money, restructure debt, etc). Entities must disclose the principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, as well as management's evaluation of those conditions and potential plans for mitigation.

ASU 2014-15 is effective for all entities for annual reporting periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not expect ASU 2014-15 to have a material effect on our consolidated financial statements.

### Note 3 — Disposals and Discontinued Operations

In April 2014, the FASB issued Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, or ASU 2014-08. ASU 2014-08 revised the definition of, and the requirements for reporting, a "discontinued operation." Specifically, ASU 2014-08 revised the reporting requirements to only allow a component of an entity, or group of components of an entity, to be reported in discontinued operations if their disposal represents a "strategic shift that has (or will have) a major effect on an entity's operations and financial results."

For public companies, ASU 2014-08 is generally required to be applied prospectively to disposals of components of an entity or classifications as held for sale of components of an entity that occur in annual periods commencing after December 15, 2014; however, we elected to adopt ASU 2014-08 effective January 1, 2014, as permitted by the transition provisions, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued.

Under ASU 2014-08, we believe routine sales of apartment communities and certain groups of apartment communities generally do not meet the requirements for reporting within discontinued operations. During the three and nine months ended September 30, 2014, we sold 15 and 26 consolidated apartment communities with an aggregate of 4,635 and 8,368 apartment homes, respectively. Based on our prospective application of the revised discontinued operation definition, the results of operations for the three and nine months ended September 30, 2014 and 2013, for these apartment communities are reflected within income from continuing operations in our condensed consolidated statements of operations. These apartment communities generated \$2.5 million and \$16.0 million of income (before gain on dispositions) prior to their sale during the three and nine months ended September 30, 2014, respectively. The sale of these apartment communities resulted in gains on disposition of real estate of \$126.3 million (which is net of \$21.1 million of related income taxes) and \$262.5 million (which is net of \$29.8 million of related income taxes), respectively, for the three and nine months ended September 30, 2014, which are reflected below income from discontinued

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operations within our condensed consolidated statements of operations. We report gains on disposition net of incremental direct costs incurred in connection with the transactions, including any prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities being sold. Such prepayment penalties totaled \$13.6 million and \$22.1 million for consolidated dispositions during the three and nine months ended September 30, 2014, respectively. In addition to the sales of consolidated apartment communities, during the nine months ended September 30, 2014, we sold our partnership interests in ten unconsolidated apartment communities with 439 apartment homes, for gross proceeds to us of \$0.1 million.

In accordance with GAAP prior to our adoption of ASU 2014-08, we reported as discontinued operations apartment communities that met the definition of a component of an entity and had been sold or met the criteria to be classified as held for sale. For years ended December 31, 2013 or earlier, and interim periods within those years, we included the results of such apartment communities, including any gain or loss on their disposition, less applicable income taxes, in income from discontinued operations within the consolidated statements of operations. During the three and nine months ended September 30, 2013, we sold 8 and 13 consolidated apartment communities with an aggregate of 2,280 and 2,510 apartment homes, respectively, and during the year ended December 31, 2013, we sold 29 consolidated apartment communities with an aggregate of 6,953 apartment homes. The results of operations for the three and nine months ended September 30, 2013, for those apartment communities sold as of December 31, 2013, and gains related to apartment communities sold during the three and nine months ended September 30, 2013, are included in discontinued operations and are summarized below, along with the related amounts of income from discontinued operations attributable to Aimco, the Aimco Operating Partnership and noncontrolling interests (in thousands).

|                                                                                                                       | Three Months<br>Ended September<br>30, 2013 | Nine Months<br>Ended September<br>30, 2013 |   |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------|---|
| Rental and other property revenues                                                                                    | \$17,969                                    | \$55,236                                   |   |
| Property operating expenses                                                                                           | (8,843)                                     | (25,471)                                   | ) |
| Depreciation and amortization                                                                                         | (4,741)                                     | (14,459)                                   | ) |
| (Provision for) recovery of real estate impairment losses                                                             | (108)                                       | 16                                         | ) |
| Operating income                                                                                                      | 4,277                                       | 15,322                                     |   |
| Interest income                                                                                                       | 123                                         | 316                                        |   |
| Interest expense                                                                                                      | (3,700)                                     | (12,074)                                   | ) |
| Income before gain on dispositions of real estate and income tax                                                      | 700                                         | 3,564                                      |   |
| Gain on dispositions of real estate                                                                                   | 74,664                                      | 80,656                                     |   |
| Income tax expense                                                                                                    | (2,929)                                     | (2,789)                                    | ) |
| Income from discontinued operations, net                                                                              | \$72,435                                    | \$81,431                                   |   |
| Income from discontinued operations attributable to noncontrolling interests in consolidated real estate partnerships | (8,079)                                     | (548)                                      | ) |
| Income from discontinued operations attributable to the Aimco Operating Partnership                                   | 64,356                                      | 80,883                                     |   |
| Income from discontinued operations attributable to noncontrolling interests in Aimco Operating Partnership           | (3,443)                                     | (4,309)                                    | ) |
| Income from discontinued operations attributable to Aimco                                                             | \$60,913                                    | \$76,574                                   |   |

The gain on dispositions for the three and nine months ended September 30, 2013, is net of incremental direct costs incurred in connection with the transactions, including \$5.4 million and \$6.4 million, respectively, of prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities sold. For periods prior to our adoption of ASU 2014-08, we classified interest expense related to property debt within discontinued operations when the related apartment community was sold or classified as held for sale.

In connection with sales of apartment communities during the nine months ended September 30, 2014, the purchasers assumed approximately \$56.9 million of non-recourse property debt. In connection with sales of apartment communities during the nine months ended September 30, 2013, the purchasers assumed approximately \$48.3 million of non-recourse property debt.

We are currently marketing for sale certain apartment communities that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such apartment communities meet the criteria to be classified as held for sale. As of September 30, 2014, we had five apartment communities with a total of 667 apartment homes classified as held for sale. During the three and nine months ended September 30, 2014, we recognized a \$1.4 million provision for real estate impairment loss related to an asset classified as held for sale as of September 30, 2014. The impairment loss related to estimated costs to sell, inclusive of a debt prepayment penalty.

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## Note 4 — Other Significant Transactions

## Investment in Apartment Communities

During the three months ended September 30, 2014, we acquired for \$118.5 million a 600-apartment home community located in the Denver, Colorado suburb of Aurora. In connection with this acquisition, we preliminarily allocated \$1.6 million of the purchase price to in-place lease intangible assets, resulting in a total fair value of \$116.9 million allocated to real estate.

## Asset Management Business Disposition

In December 2012, we sold the Napico portfolio, our legacy asset management business. The transaction was primarily seller-financed, and the associated notes are scheduled to be repaid over several years. The notes will be repaid from the operation and liquidation of the portfolio and are collateralized by the buyer's interests in the portfolio.

In accordance with the provisions of GAAP applicable to sales of real estate or interests therein, for accounting purposes, we have not recognized the sale and are accounting for the transaction under the profit sharing method. Until full payment has been received for the seller-financed notes, we will continue to recognize the portfolio's assets and liabilities, each condensed into single line items within other assets and accrued liabilities and other, respectively, in our consolidated balance sheets, for all dates following the transaction. Similarly, we will continue to recognize the portfolio's results of operations, also condensed into a single line item within our consolidated statements of operations, for periods subsequent to the transaction. To date we have received all required payments under the seller-financed notes.

At September 30, 2014, the Napico portfolio consisted of 17 partnerships that held investments in 14 apartment communities that were consolidated and 57 apartment communities that were accounted for under the equity or cost methods of accounting. The portfolio's assets and liabilities included in our condensed consolidated balance sheets are summarized below (in thousands):

|                                                                       | September 30, 2014 | December 31, 2013 |
|-----------------------------------------------------------------------|--------------------|-------------------|
| Real estate, net                                                      | \$119,416          | \$120,175         |
| Cash and cash equivalents                                             | 21,448             | 22,602            |
| Investment in unconsolidated real estate partnerships                 | 8,065              | 10,817            |
| Other assets                                                          | 10,731             | 10,255            |
| Total assets                                                          | \$159,660          | \$163,849         |
| <br>Total indebtedness                                                | <br>\$106,642      | <br>\$106,032     |
| Accrued and other liabilities                                         | 6,135              | 19,263            |
| Total liabilities                                                     | \$112,777          | \$125,295         |
| <br>Noncontrolling interests in consolidated real estate partnerships | <br>45,267         | <br>35,818        |
| Equity attributable to Aimco and the Aimco Operating Partnership      | 1,616              | 2,736             |
| Total liabilities and equity                                          | \$159,660          | \$163,849         |

During the nine months ended September 30, 2014, approximately \$9.2 million of non-recourse debt payable to a noncontrolling limited partner was contributed to the partnership's capital, pursuant to the dissolution provisions of the partnership, resulting in an increase in noncontrolling interests.

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Summarized information regarding the Napico portfolio's results of operations, including any expense we recognize under the profit sharing method, is shown below in thousands. The net loss related to Napico (before noncontrolling interests) is included in other, net in our condensed consolidated statements of operations.

|                                                                                                                   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                                                                                   | 2014                                | 2013    | 2014                               | 2013     |
| Revenues                                                                                                          | \$9,884                             | \$5,676 | \$21,234                           | \$18,036 |
| Expenses                                                                                                          | (5,114)                             | (5,311) | (15,992)                           | (16,107) |
| Equity loss of unconsolidated entities, gains or losses on dispositions and other, net                            | (3,246)                             | (2,188) | (5,198)                            | (7,663)  |
| Net income (loss) related to legacy asset management business                                                     | 1,524                               | (1,823) | 44                                 | (5,734)  |
| Income tax benefit (expense) associated with legacy asset management business                                     | 101                                 | 8       | 411                                | (27)     |
| (Income) loss allocated to noncontrolling interests in consolidated real estate partnerships                      | (1,768)                             | 1,725   | (1,580)                            | 5,976    |
| Net (losses) income of legacy asset management business attributable to Aimco and the Aimco Operating Partnership | \$(143)                             | \$(90)  | \$(1,125)                          | \$215    |

The results of operations for the consolidated apartment communities sold by the owner of this portfolio through December 31, 2013, are presented within income from discontinued operations in our consolidated statement of operations for the three and nine months ended September 30, 2013, and are excluded from the summary above.

Revenues increased during the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, due to an adjustment to increase subsidized rents to reflect current market rates for one of the apartment communities in this portfolio.

Based on our limited economic ownership in this portfolio, most of the assets and liabilities are allocated to noncontrolling interests and do not significantly affect our consolidated equity and partners' capital. Additionally, the operating results of this portfolio generally have an insignificant effect on the amounts of income or loss attributable to us. Income or loss attributable to these noncontrolling interests will continue to be recognized commensurate with the recognition of the results of operations of the portfolio. If full payment is received on the notes and we meet the requirements to recognize the sale for accounting purposes, we expect to recognize a gain attributable to Aimco and the Aimco Operating Partnership.

#### Equity and Partners' Capital Transactions

During the nine months ended September 30, 2014, Aimco issued 5,000,000 shares of 6.875% Class A Cumulative Preferred Stock, par value \$0.01 per share, in an underwritten public offering, for net proceeds per share of \$24.15 (reflecting a public offering price of \$25.00 per share, less an underwriting discount and transaction costs of approximately \$0.85 per share). The offering generated net proceeds of \$120.8 million.

During the nine months ended September 30, 2014, Aimco also issued 117,400 shares of its 7.00% Class Z Cumulative Preferred Stock, par value \$0.01 per share, through an at-the-market, or ATM, offering program for net proceeds per share of \$25.14 (reflecting an average price to the public of \$25.65 per share, less an underwriting discount and transaction costs of approximately \$0.51 per share). The ATM offerings generated net proceeds of \$3.0 million.

In connection with Aimco's preferred stock issuances, Aimco contributed the net proceeds to the Aimco Operating Partnership in exchange for an equal number of the corresponding class of partnership preferred units.

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## Note 5 — Fair Value Measurements

## Recurring Fair Value Measurements

We measure at fair value on a recurring basis our investment in the securitization trust that holds certain of our property debt, which we classify as available for sale (AFS) securities, and our interest rate swaps. Information regarding these items measured at fair value, both of which are classified within Level 2 of the GAAP fair value hierarchy, is presented below (in thousands):

|                                                                                                            | AFS<br>Investments | Interest Rate<br>Swaps | Total      |
|------------------------------------------------------------------------------------------------------------|--------------------|------------------------|------------|
| Fair value at December 31, 2012                                                                            | \$59,145           | \$(7,968)              | ) \$51,177 |
| Investment accretion included in interest income                                                           | 2,556              | —                      | 2,556      |
| Unrealized losses included in interest expense                                                             | —                  | (36)                   | ) (36)     |
| Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss | —                  | 1,258                  | 1,258      |
| Unrealized (losses) gains included in equity and partners' capital                                         | (4,440)            | ) 1,423                | (3,017)    |
| Fair value at September 30, 2013                                                                           | \$57,261           | \$(5,323)              | ) \$51,938 |
| Fair value at December 31, 2013                                                                            | \$58,408           | \$(4,604)              | ) \$53,804 |
| Investment accretion included in interest income                                                           | 2,833              | —                      | 2,833      |
| Unrealized losses included in interest expense                                                             | —                  | (36)                   | ) (36)     |
| Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss | —                  | 1,265                  | 1,265      |
| Unrealized losses included in equity and partners' capital                                                 | (618)              | ) (1,488)              | ) (2,106)  |
| Fair value at September 30, 2014                                                                           | \$60,623           | \$(4,863)              | ) \$55,760 |

Our investments classified as AFS are presented within other assets in the accompanying consolidated balance sheets. We hold the most subordinate position in the securitization, along with several mezzanine positions. We estimate the fair value of these investments using an income and market approach with primarily observable inputs, including yields and other information regarding similar types of investments, and adjusted for certain unobservable inputs specific to these investments. We are accreting the discount to the \$100.9 million face value of the investments into interest income using the effective interest method over the remaining expected term of the investments, which, as of September 30, 2014, was approximately 6.7 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was \$62.6 million and \$59.8 million at September 30, 2014 and December 31, 2013, respectively. The amortized cost exceeded the fair value of the most subordinate position at September 30, 2014, primarily due to increases in market interest rates and a decrease in demand for similar investments as compared to when we purchased the investments. We currently expect to hold each of the investments to their maturity dates and we believe we will fully recover our basis in the investments. Accordingly, we believe the current impairment in the fair value, as compared to the amortized cost basis, of the most subordinate position is temporary and we have not recognized any of the loss in value in earnings.

For our variable rate debt, we are sometimes required by limited partners in our consolidated real estate partnerships to limit our exposure to interest rate fluctuations by entering into interest rate swap agreements, which moderate our exposure to interest rate risk by effectively converting the interest on variable rate debt to a fixed rate. We estimate the fair value of interest rate swaps using an income approach with primarily observable inputs including information regarding the hedged variable cash flows and forward yield curves relating to the variable interest rates on which the hedged cash flows are based.

As of September 30, 2014 and December 31, 2013, we had interest rate swaps with aggregate notional amounts of \$50.4 million and \$50.7 million, respectively. As of September 30, 2014, these swaps had a weighted average remaining term of 6.3 years. We have designated these interest rate swaps as cash flow hedges. The fair value of these swaps is presented within accrued liabilities and other in our condensed consolidated balance sheets, and we recognize any changes in the fair value as an adjustment of accumulated other comprehensive loss within equity and partners' capital to the extent of their effectiveness.

If the forward rates at September 30, 2014, remain constant, we estimate that during the next 12 months, we would reclassify into earnings approximately \$1.7 million of the unrealized losses in accumulated other comprehensive loss. If market interest rates increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from net cash payments due to us from our counterparty to the interest rate swaps.

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### Fair Value Disclosures

We believe that the aggregate fair value of our cash and cash equivalents, receivables and payables approximates their aggregate carrying amounts at September 30, 2014 and December 31, 2013, due to their relatively short-term nature and high probability of realization. The estimated aggregate fair value of our consolidated total indebtedness was approximately \$4.2 billion and \$4.5 billion at September 30, 2014 and December 31, 2013, respectively, as compared to aggregate carrying amounts of \$4.0 billion and \$4.4 billion, respectively. Substantially all of the difference between the fair value and the carrying value relates to apartment communities we wholly own. We estimate the fair value of our consolidated debt using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, contractual interest rates, remaining periods to maturity, collateral quality and loan to value ratios on similarly encumbered assets within our portfolio. We classify the fair value of our consolidated debt within Level 3 of the GAAP valuation hierarchy based on the significance of certain of the unobservable inputs used to estimate their fair values.

### Note 6 — Commitments and Contingencies

#### Commitments

In connection with our development, redevelopment and capital improvement activities, we have entered into various construction related contracts. Additionally, pursuant to financing and/or other arrangements on our One Canal Street, Lincoln Place, and The Preserve at Marin projects, we are contractually obligated to complete the planned activities. As of September 30, 2014, our commitments related to these capital activities totaled approximately \$189.6 million, most of which we expect to incur during the next 12 months. We also enter into certain commitments for future purchases of goods and services in connection with the operations of our apartment communities. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

#### Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our condensed consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 12 years. We do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

#### Income Taxes

On October 25, 2012, the Internal Revenue Service, or IRS, issued Final Partnership Administrative Adjustments with respect to the Aimco Operating Partnership's 2006 and 2007 tax years. On January 18, 2013, AIMCO-GP, Inc., in its capacity as tax matters partner of the Aimco Operating Partnership, filed a petition challenging those adjustments in the United States Tax Court in Washington, D.C. On December 20, 2013, the parties agreed on the terms of a settlement of that litigation. On July 23, 2014, the United States Tax Court approved the stipulated decision document previously filed by the IRS and the Aimco Operating Partnership. The settlement had no material effect on our unrecognized tax benefits, financial condition or results of operations.

On March 19, 2014, the IRS notified the Aimco Operating Partnership of its intent to audit the 2011 and 2012 tax years. We do not believe the audit will have any material effect on our unrecognized tax benefits, financial condition or results of operations.

#### Legal Matters

In addition to the matters described below, we are a party to various legal actions and administrative proceedings arising in the ordinary course of business, some of which are covered by our general liability insurance program, and none of which we expect to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

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Limited Partnerships

In connection with our acquisitions of interests in real estate partnerships, we are sometimes subject to legal actions, including allegations that such activities may involve breaches of fiduciary duties to the partners of such real estate partnerships or violations of the relevant partnership agreements. We may incur costs in connection with the defense or settlement of such litigation. We believe that we comply with our fiduciary obligations and relevant partnership agreements. Although the outcome of any litigation is uncertain, we do not expect any such legal actions to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Environmental

Various federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials that may be present at an apartment community, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, and other miscellaneous materials that may have impacted an apartment community as a result of historical property uses or off-site sources. Such laws often impose liability without regard to fault or whether the owner or operator knew of, or was responsible for, the release or presence of such materials. The presence of, or the failure to manage or remediate properly, these materials may adversely affect occupancy at affected apartment communities and the ability to sell or finance affected apartment communities. In addition, governmental agencies may bring claims for costs associated with investigation and remediation actions, damages to natural resources and for potential fines or penalties in connection therewith or with respect to the improper management of hazardous materials. Moreover, the presence of hazardous materials at an apartment community could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose cleanup liability on anyone who arranges for the disposal or treatment of these materials at an off-site facility owned by a third party (such as a landfill) even if the treatment or disposal facility is properly licensed and operated in compliance with applicable law. In connection with the ownership, operation and management of apartment communities, we could potentially be responsible for environmental liabilities or costs associated with our current apartment communities, communities we acquire or manage in the future, or communities we previously owned or operated in the past.

We are engaged in discussions with the Environmental Protection Agency, or EPA, regarding environmental conditions identified in the vicinity of an Indiana apartment community that has not been owned by us since 2008. The EPA alleges that a dry cleaner that operated on our former property, prior to our ownership, discharged hazardous materials into the sanitary sewers and the environment. Based on our review of the scientific data, we believe that the presence of hazardous materials in the area under review by the EPA is attributable to neighboring property owners (including an auto parts manufacturer), and not the dry cleaner. Although the outcome of these discussions is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or apartment community casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of September 30, 2014, are immaterial to our consolidated financial condition, results of operations and cash flows.

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## Note 7 — Earnings per Share/Unit

## Aimco

Aimco calculates earnings per share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates Aimco's calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2014 and 2013 (in thousands, except per share data):

|                                                                                                     | Three Months Ended<br>September 30,<br>2014 |           | September 30,<br>2013 |          | Nine Months Ended<br>September 30,<br>2014 |  | September 30,<br>2013 |  |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|-----------------------|----------|--------------------------------------------|--|-----------------------|--|
| Numerator:                                                                                          |                                             |           |                       |          |                                            |  |                       |  |
| Income from continuing operations                                                                   | \$18,186                                    |           | \$6,975               |          | \$48,169                                   |  | \$7,791               |  |
| Gain on dispositions of real estate, net of tax                                                     | 126,329                                     |           | —                     |          | 262,483                                    |  | —                     |  |
| Income from continuing operations and gain on dispositions attributable to noncontrolling interests | (16,487                                     | ) (656    | ) (40,655             | ) (293   | )                                          |  |                       |  |
| Income attributable to preferred stockholders                                                       | (2,875                                      | ) (702    | ) (5,087              | ) (2,105 | )                                          |  |                       |  |
| Income attributable to participating securities                                                     | (447                                        | ) (262    | ) (962                | ) (418   | )                                          |  |                       |  |
| Income from continuing operations attributable to Aimco common stockholders                         | \$124,706                                   |           | \$5,355               |          | \$263,948                                  |  | \$4,975               |  |
| Income from discontinued operations                                                                 | \$—                                         |           | \$72,435              |          | \$—                                        |  | \$81,431              |  |
| Income from discontinued operations attributable to noncontrolling interests                        | —                                           | (11,522   | ) —                   | (4,857   | )                                          |  |                       |  |
| Income from discontinued operations attributable to Aimco common stockholders                       | \$—                                         |           | \$60,913              |          | \$—                                        |  | \$76,574              |  |
| Net income                                                                                          | \$144,515                                   |           | \$79,410              |          | \$310,652                                  |  | \$89,222              |  |
| Net income attributable to noncontrolling interests                                                 | (16,487                                     | ) (12,178 | ) (40,655             | ) (5,150 | )                                          |  |                       |  |
| Net income attributable to preferred stockholders                                                   | (2,875                                      | ) (702    | ) (5,087              | ) (2,105 | )                                          |  |                       |  |
| Net income attributable to participating securities                                                 | (447                                        | ) (262    | ) (962                | ) (418   | )                                          |  |                       |  |
| Net income attributable to Aimco common stockholders                                                | \$124,706                                   |           | \$66,268              |          | \$263,948                                  |  | \$81,549              |  |
| Denominator:                                                                                        |                                             |           |                       |          |                                            |  |                       |  |
| Weighted average common shares outstanding – basic                                                  | 145,672                                     |           | 145,334               |          | 145,601                                    |  | 145,274               |  |
| Dilutive potential common shares                                                                    | 432                                         |           | 229                   |          | 323                                        |  | 268                   |  |
| Weighted average common shares outstanding – diluted                                                | 146,104                                     |           | 145,563               |          | 145,924                                    |  | 145,542               |  |
| Earnings attributable to Aimco per common share – basic:                                            |                                             |           |                       |          |                                            |  |                       |  |
| Income from continuing operations                                                                   | \$0.86                                      |           | \$0.04                |          | \$1.81                                     |  | \$0.03                |  |
| Income from discontinued operations                                                                 | —                                           |           | 0.42                  |          | —                                          |  | 0.53                  |  |
| Net income                                                                                          | \$0.86                                      |           | \$0.46                |          | \$1.81                                     |  | \$0.56                |  |
| Earnings attributable to Aimco per common share – diluted:                                          |                                             |           |                       |          |                                            |  |                       |  |
| Income from continuing operations                                                                   | \$0.85                                      |           | \$0.04                |          | \$1.81                                     |  | \$0.03                |  |
| Income from discontinued operations                                                                 | —                                           |           | 0.42                  |          | —                                          |  | 0.53                  |  |
| Net income                                                                                          | \$0.85                                      |           | \$0.46                |          | \$1.81                                     |  | \$0.56                |  |

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## The Aimco Operating Partnership

The Aimco Operating Partnership calculates earnings per unit based on the weighted average number of common partnership units and equivalents, participating securities and dilutive convertible securities outstanding during the period. The Aimco Operating Partnership considers both common OP Units and HPUs, which have identical rights to distributions and undistributed earnings, to be common units for purposes of the earnings per unit data presented below. The following table illustrates the Aimco Operating Partnership's calculation of basic and diluted earnings per unit for the three and nine months ended September 30, 2014 and 2013 (in thousands, except per unit data):

|                                                                                                            | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                                            | 2014                                | 2013      | 2014                               | 2013      |
| Numerator:                                                                                                 |                                     |           |                                    |           |
| Income from continuing operations                                                                          | \$18,186                            | \$6,975   | \$48,169                           | \$7,791   |
| Gain on dispositions of real estate, net of tax                                                            | 126,329                             | —         | 262,483                            | —         |
| (Income) loss from continuing operations and gain on dispositions attributable to noncontrolling interests | (8,337)                             | ) 1,303   | (21,952)                           | ) 4,884   |
| Income attributable to the Aimco Operating Partnership's preferred unitholders                             | (4,476)                             | ) (2,308) | ) (9,895)                          | ) (6,923) |
| Income attributable to participating securities                                                            | (447)                               | ) (262)   | ) (962)                            | ) (418)   |
| Income from continuing operations attributable to the Aimco Operating Partnership's common unitholders     | \$131,255                           | \$5,708   | \$277,843                          | \$5,334   |
| Income from discontinued operations                                                                        | \$—                                 | \$72,435  | \$—                                | \$81,431  |
| Income from discontinued operations attributable to noncontrolling interests                               | —                                   | (8,079)   | ) —                                | (548)     |
| Income from discontinued operations attributable to the Aimco Operating Partnership's common unitholders   | \$—                                 | \$64,356  | \$—                                | \$80,883  |
| Net income                                                                                                 | \$144,515                           | \$79,410  | \$310,652                          | \$89,222  |
| Net (income) loss attributable to noncontrolling interests                                                 | (8,337)                             | ) (6,776) | ) (21,952)                         | ) 4,336   |
| Net income attributable to the Aimco Operating Partnership's preferred unitholders                         | (4,476)                             | ) (2,308) | ) (9,895)                          | ) (6,923) |
| Net income attributable to participating securities                                                        | (447)                               | ) (262)   | ) (962)                            | ) (418)   |
| Net income attributable to the Aimco Operating Partnership's common unitholders                            | \$131,255                           | \$70,064  | \$277,843                          | \$86,217  |
| Denominator:                                                                                               |                                     |           |                                    |           |
| Weighted average common units outstanding – basic                                                          | 153,337                             | 153,287   | 153,326                            | 153,242   |
| Dilutive potential common units                                                                            | 432                                 | 229       | 323                                | 268       |
| Weighted average common units outstanding – diluted                                                        | 153,769                             | 153,516   | 153,649                            | 153,510   |
| Earnings attributable to the Aimco Operating Partnership per common unit – basic:                          |                                     |           |                                    |           |
| Income from continuing operations                                                                          | \$0.86                              | \$0.04    | \$1.81                             | \$0.03    |
| Income from discontinued operations                                                                        | —                                   | 0.42      | —                                  | 0.53      |
| Net income                                                                                                 | \$0.86                              | \$0.46    | \$1.81                             | \$0.56    |
| Earnings attributable to the Aimco Operating Partnership per common unit – diluted:                        |                                     |           |                                    |           |
| Income from continuing operations                                                                          | \$0.85                              | \$0.04    | \$1.81                             | \$0.03    |

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|                                     |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|
| Income from discontinued operations | —      | 0.42   | —      | 0.53   |
| Net income                          | \$0.85 | \$0.46 | \$1.81 | \$0.56 |

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## Aimco and the Aimco Operating Partnership

As of September 30, 2014, the common share equivalents or common partnership unit equivalents that could potentially dilute basic earnings per share or unit in future periods totaled 2.5 million. These securities represent options to purchase shares of Common Stock, which, if exercised, would result in Aimco's issuance of additional shares and the Aimco Operating Partnership's issuance to Aimco of additional common partnership units equal to the number of shares purchased under the options. The effect of these securities was dilutive for the three and nine months ended September 30, 2014 and 2013, and accordingly has been included in the denominator for calculating diluted earnings per share and unit during these periods. Participating securities, consisting of unvested restricted shares of Common Stock, receive dividends similar to shares of Common Stock and common partnership units and totaled 0.5 million and 0.6 million at September 30, 2014 and 2013, respectively. The effect of participating securities is included in basic and diluted earnings per share and unit computations for the periods presented above using the two-class method of allocating distributed and undistributed earnings.

Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership's option, Common Stock, and are paid distributions varying from 1.8% to 8.8% per annum per unit. As of September 30, 2014, a total of 2.9 million preferred OP Units were outstanding with an aggregate redemption value of \$78.9 million and were potentially redeemable for approximately 2.5 million shares of Common Stock (based on the period end market price), or cash at the Aimco Operating Partnership's option. The Aimco Operating Partnership has a redemption policy that requires cash settlement of redemption requests for the preferred OP Units, subject to limited exceptions. Accordingly, we have excluded these securities from earnings per share and unit computations for the periods presented above, and we expect to exclude them in future periods.

## Note 8 — Business Segments

We have two reportable segments: conventional real estate operations and affordable real estate operations. Our conventional real estate operations consist of market-rate apartment communities with rents paid by the residents and included 143 apartment communities with 43,306 apartment homes at September 30, 2014. Our affordable real estate operations consisted of 61 apartment communities with 9,142 apartment homes at September 30, 2014, with rents that are generally paid, in whole or part, by a government agency.

Due to the diversity of our economic ownership interests in our apartment communities, our chief executive officer, who is our chief operating decision maker, uses proportionate property net operating income to assess the operating performance of our apartment communities. Proportionate property net operating income reflects our share of rental and other property revenues less direct property operating expenses, including real estate taxes, for the consolidated and unconsolidated apartment communities that we manage.

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our conventional and affordable real estate operations segments on a proportionate basis (excluding amounts related to apartment communities sold or classified as held for sale) for the three and nine months ended September 30, 2014 and 2013 (in thousands):

|                                             | Conventional<br>Real Estate<br>Operations | Affordable<br>Real Estate<br>Operations | Proportionate<br>Adjustments (1) | Corporate and<br>Amounts Not<br>Allocated to<br>Segments (2) | Consolidated |
|---------------------------------------------|-------------------------------------------|-----------------------------------------|----------------------------------|--------------------------------------------------------------|--------------|
| Three Months Ended September 30, 2014:      |                                           |                                         |                                  |                                                              |              |
| Rental and other property revenues (3)      | \$ 195,965                                | \$23,728                                | \$8,148                          | \$12,032                                                     | \$239,873    |
| Tax credit and asset management revenues    | —                                         | —                                       | —                                | 6,970                                                        | 6,970        |
| Total revenues                              | 195,965                                   | 23,728                                  | 8,148                            | 19,002                                                       | 246,843      |
| Property operating expenses (3)             | 67,646                                    | 9,278                                   | 2,822                            | 15,428                                                       | 95,174       |
| Investment management expenses              | —                                         | —                                       | —                                | 1,279                                                        | 1,279        |
| Depreciation and amortization (3)           | —                                         | —                                       | —                                | 69,437                                                       | 69,437       |
| Provision for real estate impairment losses | —                                         | —                                       | —                                | 1,413                                                        | 1,413        |
| (3)                                         |                                           |                                         |                                  |                                                              |              |

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|                                               |            |           |          |            |             |
|-----------------------------------------------|------------|-----------|----------|------------|-------------|
| General and administrative expenses           | —          | —         | —        | 10,665     | 10,665      |
| Other expenses, net                           | —          | —         | —        | 1,408      | 1,408       |
| Total operating expenses                      | 67,646     | 9,278     | 2,822    | 99,630     | 179,376     |
| Net operating income (loss)                   | 128,319    | 14,450    | 5,326    | (80,628    | ) 67,467    |
| Other items included in continuing operations | —          | —         | —        | (49,281    | ) (49,281 ) |
| Income (loss) from continuing operations      | \$ 128,319 | \$ 14,450 | \$ 5,326 | \$(129,909 | ) \$ 18,186 |

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|                                                    | Conventional<br>Real Estate<br>Operations | Affordable<br>Real Estate<br>Operations | Proportionate<br>Adjustments (1) | Corporate and<br>Amounts Not<br>Allocated to<br>Segments (2) | Consolidated |
|----------------------------------------------------|-------------------------------------------|-----------------------------------------|----------------------------------|--------------------------------------------------------------|--------------|
| Three Months Ended September 30, 2013:             |                                           |                                         |                                  |                                                              |              |
| Rental and other property revenues (3)             | \$ 181,691                                | \$ 23,238                               | \$ 7,794                         | \$ 23,823                                                    | \$ 236,546   |
| Tax credit and asset management revenues           | —                                         | —                                       | —                                | 7,397                                                        | 7,397        |
| Total revenues                                     | 181,691                                   | 23,238                                  | 7,794                            | 31,220                                                       | 243,943      |
| Property operating expenses (3)                    | 63,071                                    | 9,379                                   | 2,760                            | 18,688                                                       | 93,898       |
| Investment management expenses                     | —                                         | —                                       | —                                | 373                                                          | 373          |
| Depreciation and amortization (3)                  | —                                         | —                                       | —                                | 72,040                                                       | 72,040       |
| General and administrative expenses                | —                                         | —                                       | —                                | 10,962                                                       | 10,962       |
| Other expenses, net                                | —                                         | —                                       | —                                | 2,158                                                        | 2,158        |
| Total operating expenses                           | 63,071                                    | 9,379                                   | 2,760                            | 104,221                                                      | 179,431      |
| Net operating income (loss)                        | 118,620                                   | 13,859                                  | 5,034                            | (73,001 )                                                    | 64,512       |
| Other items included in continuing<br>operations   | —                                         | —                                       | —                                | (57,537 )                                                    | (57,537 )    |
| Income (loss) from continuing operations           | \$ 118,620                                | \$ 13,859                               | \$ 5,034                         | \$(130,538 )                                                 | \$ 6,975     |
|                                                    | Conventional<br>Real Estate<br>Operations | Affordable<br>Real Estate<br>Operations | Proportionate<br>Adjustments (1) | Corporate and<br>Amounts Not<br>Allocated to<br>Segments (2) | Consolidated |
| Nine Months Ended September 30, 2014:              |                                           |                                         |                                  |                                                              |              |
| Rental and other property revenues (3)             | \$ 573,171                                | \$ 70,731                               | \$ 24,110                        | \$ 51,489                                                    | \$ 719,501   |
| Tax credit and asset management revenues           | —                                         | —                                       | —                                | 22,684                                                       | 22,684       |
| Total revenues                                     | 573,171                                   | 70,731                                  | 24,110                           | 74,173                                                       | 742,185      |
| Property operating expenses (3)                    | 198,977                                   | 29,143                                  | 7,915                            | 52,781                                                       | 288,816      |
| Investment management expenses                     | —                                         | —                                       | —                                | 3,552                                                        | 3,552        |
| Depreciation and amortization (3)                  | —                                         | —                                       | —                                | 211,143                                                      | 211,143      |
| Provision for real estate impairment losses<br>(3) | —                                         | —                                       | —                                | 1,413                                                        | 1,413        |
| General and administrative expenses                | —                                         | —                                       | —                                | 31,322                                                       | 31,322       |
| Other expenses, net                                | —                                         | —                                       | —                                | 7,397                                                        | 7,397        |
| Total operating expenses                           | 198,977                                   | 29,143                                  | 7,915                            | 307,608                                                      | 543,643      |
| Net operating income (loss)                        | 374,194                                   | 41,588                                  | 16,195                           | (233,435 )                                                   | 198,542      |
| Other items included in continuing<br>operations   | —                                         | —                                       | —                                | (150,373 )                                                   | (150,373 )   |
| Income (loss) from continuing operations           | \$ 374,194                                | \$ 41,588                               | \$ 16,195                        | \$(383,808 )                                                 | \$ 48,169    |

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|                                                  | Conventional<br>Real Estate<br>Operations | Affordable<br>Real Estate<br>Operations | Proportionate<br>Adjustments (1) | Corporate and<br>Amounts Not<br>Allocated to<br>Segments (2) | Consolidated |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------|----------------------------------|--------------------------------------------------------------|--------------|
| Nine Months Ended September 30, 2013:            |                                           |                                         |                                  |                                                              |              |
| Rental and other property revenues (3)           | \$ 537,639                                | \$ 69,660                               | \$ 23,005                        | \$ 70,430                                                    | \$ 700,734   |
| Tax credit and asset management revenues         | —                                         | —                                       | —                                | 22,458                                                       | 22,458       |
| Total revenues                                   | 537,639                                   | 69,660                                  | 23,005                           | 92,888                                                       | 723,192      |
| Property operating expenses (3)                  | 188,812                                   | 28,302                                  | 8,073                            | 56,877                                                       | 282,064      |
| Investment management expenses                   | —                                         | —                                       | —                                | 3,503                                                        | 3,503        |
| Depreciation and amortization (3)                | —                                         | —                                       | —                                | 221,588                                                      | 221,588      |
| General and administrative expenses              | —                                         | —                                       | —                                | 33,894                                                       | 33,894       |
| Other expenses, net                              | —                                         | —                                       | —                                | 6,281                                                        | 6,281        |
| Total operating expenses                         | 188,812                                   | 28,302                                  | 8,073                            | 322,143                                                      | 547,330      |
| Net operating income (loss)                      | 348,827                                   | 41,358                                  | 14,932                           | (229,255 )                                                   | 175,862      |
| Other items included in continuing<br>operations | —                                         | —                                       | —                                | (168,071 )                                                   | (168,071 )   |
| Income (loss) from continuing operations         | \$ 348,827                                | \$ 41,358                               | \$ 14,932                        | \$(397,326 )                                                 | \$ 7,791     |

Represents adjustments for the noncontrolling interests in consolidated real estate partnerships' share of the results of our consolidated apartment communities and the results of consolidated apartment communities that we do not manage, which are excluded from our measurement of segment performance but included in the related consolidated amounts, and our share of the results of operations of our unconsolidated real estate partnerships that we manage, which are included in our measurement of segment performance but excluded from the related consolidated amounts.

Our basis for assessing segment performance excludes the results of apartment communities sold or classified as held for sale. As discussed in Note 3, effective January 1, 2014, we adopted ASU 2014-08, which revised the definition of a discontinued operation. In the segment presentation above, the current year and prior year operating results for apartment communities sold or classified as held for sale during 2014 are presented within the Corporate and Amounts Not Allocated to Segments column. The operating results for the three and nine months ended September 30, 2013, for apartment communities sold through December 31, 2013, are presented within discontinued operations and are accordingly excluded from the segment presentation above.

Proportionate property net operating income, our key measurement of segment profit or loss excludes property management revenues (which are included in rental and other property revenues), property management expenses and casualty gains and losses (which are included in property operating expenses), depreciation and amortization and provision for real estate impairment losses. Accordingly, we do not allocate these amounts to our segments. For the nine months ended September 30, 2014 and 2013, capital additions related to our conventional segment totaled \$270.4 million and \$249.8 million, respectively, and capital additions related to our affordable segment totaled \$6.6 million and \$7.0 million, respectively.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements in certain circumstances. Certain information included in this report contains or may contain information that is forward-looking, within the meaning of the federal securities laws, including, without limitation, statements regarding: our ability to maintain current or meet projected occupancy, rental rates and property operating results; the effect of acquisitions, dispositions, developments and redevelopments; our ability to meet budgeted costs and timelines, and achieve budgeted rental rates related to our development and redevelopment investments; expectations regarding sales of our apartment communities and the use of proceeds thereof; possible payment of a special dividend to stockholders; and our ability to comply with debt covenants, including financial coverage ratios.

Actual results may differ materially from those described in these forward-looking statements and, in addition, may be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation: financing risks, including the availability and cost of financing and the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; the risk that our earnings may not be sufficient to maintain compliance with debt covenants; real estate risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for residents in such markets; national and local economic conditions, including the pace of job growth and the level of unemployment; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; the timing of acquisitions, dispositions, developments and redevelopments; insurance risk, including the cost of insurance; natural disasters and severe weather such as hurricanes; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; energy costs; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of apartment communities presently or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" described in Item 1A of Apartment Investment and Management Company's and AIMCO Properties, L.P.'s combined Annual Report on Form 10-K for the year ended December 31, 2013, and the other documents we file from time to time with the Securities and Exchange Commission. As used herein and except as the context otherwise requires, "we," "our" and "us" refer to Apartment Investment and Management Company (which we refer to as Aimco), AIMCO Properties, L.P. (which we refer to as the Aimco Operating Partnership) and their consolidated entities, collectively.

Executive Overview

Aimco and the Aimco Operating Partnership are focused on the ownership and management of quality apartment communities located in the largest coastal and job growth markets in the United States. Our business activities are defined by a commitment to our core values of integrity, respect, collaboration, a focus on our customers and a performance culture. These values and our corporate mission, to consistently provide quality apartment homes in a respectful environment delivered by a team of people who care, continually shape our culture. In all our dealings with residents, team members, business partners and equity holders, we aim to be the best owner and operator of apartment communities and an outstanding corporate citizen.

Our principal financial objective is to provide predictable and attractive returns to our equity holders, as measured by growth in our Net Asset Value and Adjusted Funds From Operations (each defined under the Key Financial Indicators heading below). Our business plan to achieve this objective is to:

- operate our portfolio of desirable apartment homes with valued amenities, with a high level of customer service and in an efficient manner that realizes the benefits of our local management expertise;
- improve our geographically diversified portfolio of apartment communities, which average "B/B+" in quality (defined below) by selling apartment communities inconsistent with our portfolio strategy and investing the proceeds from such sales through property upgrades, capital improvements, redevelopment, development and

- acquisition of higher-quality apartment communities; and  
provide financial leverage primarily by the use of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk and provides a hedge against increases in interest rates, capitalization rates and inflation.

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Our property operations consist primarily of our diversified portfolio of market-rate apartment communities, which we refer to as conventional apartment communities. At September 30, 2014, our conventional property operations included 143 apartment communities with 43,306 apartment homes in which we held an average ownership of approximately 97%. We also operate a portfolio of affordable apartment communities, which consists of apartments with rents that are generally paid, in whole or part, by a government agency. At September 30, 2014, our affordable property operations consisted of 61 apartment communities with 9,142 apartment homes in which we held an average ownership of approximately 93%. Our conventional and affordable property operations comprise our reportable segments and generated 90% and 10%, respectively, of our proportionate property net operating income (defined below under the Results of Operations – Property Operations heading) during the nine months ended September 30, 2014. We may sell our affordable apartment communities and reinvest the proceeds in our conventional portfolio as the tax credit delivery or compliance periods expire, which expirations occur primarily between 2015 and 2023. For the three months ended September 30, 2014, excluding the results of apartment communities that were sold, our conventional portfolio had average revenue per effective apartment home of \$1,649 and provided 65% operating margins and 58% free cash flow margins. Free cash flow, or FCF, as calculated for our retained portfolio, represents an apartment community's property net operating income, less capital spending required to maintain the condition of the apartment community. Average revenue per effective apartment home represents rental and other property revenues divided by the number of actual apartment homes multiplied by our ownership interest in the property as of the end of the current period. The average revenue per apartment home for our conventional portfolio increased 15.6% from average revenues of \$1,426 for the three months ended September 30, 2013, as a result of year-over-year per home revenue growth of 4.2% for our conventional same store apartment communities and the sale of conventional apartment communities during 2014 and 2013 with average revenues per home substantially lower than the apartment communities in the retained portfolio and reinvestment of the proceeds in higher-rent apartment communities through redevelopment and acquisitions. During the three months ended September 30, 2014, on average, combined conventional same store new and renewal lease rates were 6.0% higher than expiring lease rates. Our portfolio strategy seeks predictable rent growth from a portfolio of “A,” “B” and “C+” quality market-rate apartment communities, which average “B/B+” in quality and are diversified among the largest coastal and job growth markets in the United States, as measured by total apartment value. We measure conventional apartment community quality based on average rents of our apartment homes compared to local market average rents as reported by a third-party provider of commercial real estate performance and analysis. Under this rating system, we classify as “A” quality apartment communities those earning rents greater than 125% of the local market average, as “B” quality apartment communities those earning rents 90% to 125% of the local market average and as “C+” quality apartment communities those earning rents lower than 90% of the local market average, but greater than \$1,100 per month. We classify as “B/B+” quality a portfolio that on average earns rents between 100% and 125% of the local market average rents where the portfolio is located. Although some companies and analysts within the multifamily real estate industry use apartment community class ratings of “A,” “B” and “C+,” some of which are tied to local market rent averages, the metrics used to classify apartment community quality as well as the timing for which local markets rents are calculated may vary from company to company. Accordingly, our rating system for measuring apartment community quality is neither broadly nor consistently used in the multifamily real estate industry. We upgrade the quality of our portfolio through the sale of apartment communities with lower projected returns, lower operating margins, and lower expected future rent growth, and we reinvest the sale proceeds in apartment communities already in our portfolio, through property upgrades, capital improvements and redevelopment, or through the purchase of other apartment communities and, in limited situations, the development of apartment communities. We execute our strategy through leverage neutral, tax-efficient paired trades when the projected FCF internal rate of return exceeds that of the apartment community sold and portfolio quality is enhanced. For the purpose of comparing FCF of dispositions to future investments, we calculate FCF internal rate of return using an annual assumed future \$1,200 of capital spending per apartment home required to maintain the condition of the apartment community. During 2012 and 2013, our execution of this strategy resulted in the sale of approximately 40 conventional apartment communities and 60 affordable apartment communities with average revenue per effective apartment home of \$863.

We reinvested the sales proceeds through: redevelopment and development projects, which, at the time of the investments, we expected to yield average revenue per effective apartment home of \$2,200; the acquisition of six apartment communities with average revenue per apartment home of \$1,490 at their dates of purchase; and property upgrades. The projected FCF internal rate of return of the apartment communities sold during this period ranged from 6-7%, as compared to a range of 8-15% for our reinvestments through redevelopment, development, acquisition and property upgrades.

In addition to improving our portfolio through the capital expenditures discussed below under the Liquidity and Capital Resources heading, during the nine months ended September 30, 2014, we upgraded our portfolio through the acquisition, for \$118.5 million, of a 600-apartment home community located in Aurora, Colorado, ten miles east of Denver. The community is located on the Anschutz Medical Campus in the heart of the Fitzsimons Life Sciences District, which is anchored by the University of Colorado Health Sciences Center, Children's Hospital Colorado, and the U.S. Department of Veteran's Affairs Hospital. The

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Campus is currently home to more than 20,000 jobs, a total expected to increase to 45,000 upon completion of planned medical, bioscience, and research facilities. 21 Fitzsimons has been designated as the "Town Center" for residential and retail use in the Fitzsimons master plan and is located on the only land within the campus currently zoned for multifamily use.

21 Fitzsimons was constructed in three phases. The first phase, consisting of 240 apartment homes, state-of-the-art amenities and approximately 16,000 square feet of commercial space, was completed in 2008. In 2012, 187 additional apartment homes were constructed. The third phase of construction, consisting of 173 apartment homes, additional amenities and an additional 1,400 square feet of commercial space, was completed in September 2014. The apartment community was 96.2% occupied as of September 30, 2014, with average monthly revenues of \$1,365 per apartment home, making this an "A" quality asset. This acquisition increases our exposure to Denver, which is a robust market to which we are underallocated.

During the nine months ended September 30, 2014, we also acquired for \$12.0 million two buildings containing a total of 40 apartment homes in the Upper East Side of Manhattan. Each of these two buildings is contiguous to other buildings we own and operate in Manhattan, allowing for operational efficiency, as well as the assemblage of air rights. The apartment buildings we acquired had average revenues per home of \$2,120 at the date of their acquisition. We intend to add value to the apartment buildings through redevelopment of apartment homes and operational improvements.

Our leverage strategy seeks to balance our desire to increase financial returns with the inherent risks of leverage and we have set leverage targets of Debt and Preferred Equity to Adjusted EBITDA below 7.0x and Adjusted EBITDA Coverage of Interest and Preferred Dividends of greater than 2.5x. We also focus on the ratios of Debt to Adjusted EBITDA and Adjusted EBITDA Coverage of Interest.

Debt, as used in these ratios, represents our proportionate share of debt, net of our proportionate share of cash and restricted cash and our investment in the subordinate tranches of a securitization that holds certain of our property debt, and Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units. Adjusted EBITDA is calculated by adding to our Pro forma Funds From Operations, which is calculated on a proportionate basis, our proportionate share of interest expense, taxes, depreciation and amortization related to non-real estate assets, stock-based compensation, and dividends and distributions on our preferred equity instruments. Interest, as used in these ratios, represents our proportionate share of interest expense, excluding debt prepayment penalties and amortization of deferred financing costs, and reduced by interest income we receive on our investment in the securitization discussed above. Our leverage ratios for the trailing twelve month periods ended September 30, 2014 and 2013, are presented below:

|                                                              | Trailing Twelve Months Ended<br>September 30, |      |
|--------------------------------------------------------------|-----------------------------------------------|------|
|                                                              | 2014                                          | 2013 |
| Debt to Adjusted EBITDA                                      | 6.6x                                          | 7.8x |
| Debt and Preferred Equity to Adjusted EBITDA                 | 7.1x                                          | 8.0x |
| Adjusted EBITDA Coverage of Interest                         | 2.7x                                          | 2.5x |
| Adjusted EBITDA Coverage of Interest and Preferred Dividends | 2.6x                                          | 2.4x |

We expect future leverage reduction from both earnings growth, especially as apartment communities now being redeveloped are completed, and from regularly scheduled property debt amortization funded from retained earnings. We also expect to increase our financial flexibility by expanding our pool of unencumbered apartment communities. As of September 30, 2014, this pool included 13 consolidated apartment communities, which we expect to hold beyond 2014, with an estimated fair value of approximately \$750.0 million. We expect to unencumber an additional two apartment communities during the balance of 2014, bringing the size of our unencumbered pool to approximately \$1.0 billion.

In April 2014, one of the rating agencies rating us upgraded our credit rating outlook, from BB+ (stable) to BB+ (positive). During its review, this agency also outlined the factors that would have a positive impact on our ratings, which include: reducing our leverage, as measured by a debt to EBITDA ratio, closer to the low end of the range of 7.0x to 7.5x; reducing our ratio of debt to undepreciated capital (defined as the sum of debt, equity and accumulated

depreciation), to 50% or lower; and continuing to strengthen our fixed charge coverage ratio such that the agency believes a 2.0x coverage is achievable.

In June 2014, the other agency rating us affirmed its June 2013 BB+ (positive) rating of our creditworthiness, and maintained the factors that may have a positive impact on our ratings with one exception. In its affirmation, the agency outlined an increase in the unencumbered asset pool to more than \$600 million (based on a stressed 8% capitalization rate, as specified by the rating agency), with asset quality consistent with the overall portfolio, from the \$500 million previously outlined to remain consistent with the size of our revolving loan commitments under our Credit Agreement (defined below). The unchanged factors that may have a positive impact on our ratings are: sustaining leverage below 7.5x, defined by the rating agency as the ratio of net debt to recurring operating EBITDA; and sustaining a fixed charge coverage ratio, also as defined by the rating agency, above 2.0x.

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These rating agencies use different methodologies and ratios for assessing our credit rating. Although the descriptions of some of the ratios they use are similar to those we use to measure our leverage, there are differences in our methods of calculation and therefore our leverage ratios disclosed above are not indicative of the ratios as may be calculated by these agencies.

In addition to lowering the cost of borrowings under our line of credit, an increase in our credit rating to an investment grade may lower the cost of any future preferred equity issuance, provide additional flexibility for sources of capital and provide other intangible benefits.

At September 30, 2014, approximately 93% of our leverage consisted of property-level, non-recourse, long-dated debt and 7% consisted of perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk.

The weighted average maturity of our property-level debt was 8.4 years, with no maturities during the remainder of 2014, and on average, 7.6% of our unpaid principal balance maturing per year from 2015 through 2017.

Approximately 97% of our property-level debt is fixed-rate, which provides a hedge against increases in interest rates, capitalization rates and inflation.

During the nine months ended September 30, 2014, Aimco issued 5,000,000 shares of 6.875% Class A Cumulative Preferred Stock, par value \$0.01 per share, in an underwritten public offering. The offering generated net proceeds of \$120.8 million, which we used primarily to repay outstanding borrowings under our Credit Agreement.

Although our primary sources of leverage are property-level, non-recourse, long-dated, fixed-rate, amortizing debt and perpetual preferred equity, we also have a Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as our Credit Agreement. The Credit Agreement provides for \$600.0 million of revolving loan commitments, which we use for working capital and other short-term purposes. Borrowings under the Credit Agreement bear interest at a rate set forth on a pricing grid, which varies based on our leverage. As of September 30, 2014, we had \$14.5 million of outstanding borrowings under our Credit Agreement, and we had the capacity to borrow \$543.1 million, net of the outstanding borrowings and \$42.4 million for undrawn letters of credit backed by the Credit Agreement. The Credit Agreement matures in September 2017, and may be extended for an additional one-year period, subject to certain conditions.

Under the Credit Agreement, we have agreed to Debt Service and Fixed Charge Coverage covenants as specified by the lenders, as well as other covenants customary to similar revolving credit arrangements. For the twelve month period ended September 30, 2014, our Debt Service and Fixed Charge Coverage ratios were 1.81x and 1.74x, respectively, compared to covenants of 1.50x and 1.30x, respectively, and ratios of 1.73x and 1.68x, respectively, for the twelve month period ended September 30, 2013. We expect to remain in compliance with these covenants during the next 12 months. The Fixed Charge Coverage covenant will increase in 2015 to 1.40x.

### Key Financial Indicators

The key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance are: Net Asset Value and Adjusted Funds From Operations. In addition to these indicators, we also use Pro forma Funds From Operations; Free Cash Flow, Free Cash Flow internal rate of return, same store property operating results, proportionate property net operating income, financial coverage ratios, and leverage as shown on our balance sheet to evaluate our operating performance and financial condition.

Net Asset Value is the estimated fair value of our assets, net of liabilities, noncontrolling interests and preferred equity. Adjusted Funds From Operations and Pro forma Funds From Operations are defined and further described below under the Funds From Operations and Adjusted Funds From Operations heading, and proportionate property net operating income is defined and further described below under the Results of Operations – Property Operations heading. Free Cash Flow represents net operating income less spending for Capital Replacements and Free Cash Flow internal rate of return represents the rate of return generated by the Free Cash Flow from an apartment community and the proceeds from its eventual sale, and is a common benchmark used in the real estate industry for relative comparison of real estate valuations.

The key macro-economic factors and non-financial indicators that affect our financial condition and operating performance are: household formations; rates of job growth; single-family and multifamily housing starts; interest rates; and availability and cost of financing.



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### Results of Operations

Because our operating results depend primarily on income from our apartment communities, the supply of and demand for apartments influences our operating results. Additionally, the level of expenses required to operate and maintain our apartment communities and the pace and price at which we redevelop, acquire and dispose of our apartment communities affect our operating results.

The following discussion and analysis of the results of our operations and financial condition should be read in conjunction with the accompanying condensed consolidated financial statements in Item 1.

#### Overview

Highlights of our results of operations for the three months ended September 30, 2014, are summarized below:

Conventional Same Store revenues and expenses for the three months ended September 30, 2014, increased by 4.4% and 4.5%, respectively, resulting in a 4.4% increase in net operating income as compared to the three months ended September 30, 2013;

Average revenue per apartment home for our retained portfolio of Conventional apartment communities increased by 15.6%, from \$1,426 for the three months ended September 30, 2013 to \$1,649 for the three months ended September 30, 2014 primarily as a result of Conventional Same Store year-over-year revenue growth of 4.2% and the sale of conventional apartment communities with average revenues per apartment home substantially lower than those of our retained portfolio and reinvestment of the proceeds in higher-rent apartment communities through redevelopment and acquisitions; and

Average daily occupancy for Conventional Same Store apartment communities increased from 95.5% for the three months ended September 30, 2013, to 95.7% for the three months ended September 30, 2014.

#### Three Months Ended September 30, 2014 compared to September 30, 2013

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership increased by \$60.8 million and \$63.5 million, respectively, during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase in income for Aimco and the Aimco Operating Partnership was principally due to an increase in gains on dispositions.

#### Nine Months Ended September 30, 2014 compared to September 30, 2013

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership increased by \$185.9 million and \$195.1 million, respectively, during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase in income for Aimco and the Aimco Operating Partnership was principally due to an increase in gains on dispositions.

The following paragraphs discuss these and other items affecting the results of operations of Aimco and the Aimco Operating Partnership in more detail.

#### Property Operations

As described under the preceding Executive Overview heading, our owned real estate portfolio consists primarily of conventional apartment communities, and we also operate a portfolio of affordable apartment communities. Our conventional and affordable property operations comprise our reportable segments.

In accordance with accounting principles generally accepted in the United States of America, or GAAP, we consolidate certain apartment communities in which we hold an insignificant economic interest and in some cases we do not consolidate other apartment communities in which we have a significant economic interest. Due to the diversity of our economic ownership interests in our apartment communities, our chief operating decision maker emphasizes as a key measurement of segment profit or loss proportionate property net operating income, which represents our share of the property net operating income of the consolidated and unconsolidated apartment communities that we own and manage. Accordingly, the results of operations of our conventional and affordable segments discussed below are presented on a proportionate basis and exclude the results of four conventional apartment communities with 142 apartment homes and eight affordable apartment communities with 739 apartment homes that we do not manage.

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We do not include the net operating income related to apartment communities that have been sold or classified as held for sale, property management revenues, offsite costs associated with property management or casualty-related amounts in our assessment of segment performance. Accordingly, these items are not allocated to our segment results discussed below. Refer to Note 8 in the condensed consolidated financial statements in Item 1 for further discussion regarding our reportable segments, including a reconciliation of these proportionate amounts to consolidated rental and other property revenues and property operating expenses.

**Conventional Real Estate Operations**

Our conventional segment consists of apartment communities we classify as Conventional Same Store, Conventional Redevelopment and Other Conventional apartment communities. Conventional Same Store apartment communities are those we manage, that have reached and maintained a stabilized occupancy (greater than 90%) during the current year-to-date and prior year-to-date periods, and that are not expected to be sold within 12 months. Conventional Redevelopment apartment communities are those in which a substantial number of available apartment homes have been vacated for major renovations or have not been stabilized in occupancy as of January 1, 2013, due to ongoing or completed renovations, such as exteriors, common areas or apartment home improvements. Other Conventional apartment communities includes conventional apartment communities that have significant rent control restrictions; apartment communities that had not reached and maintained a stabilized level of occupancy as of January 1, 2013, often due to a casualty event; the operations of properties that are not multifamily, such as fitness centers; apartment communities acquired subsequent to January 1, 2013; and those apartment communities we expect to sell in the next 12 months, but that have not yet met the criteria to be classified as held for sale.

As of September 30, 2014, as defined by our segment performance metrics, our Conventional Same Store portfolio, Conventional Redevelopment portfolio and our Other Conventional portfolio consisted of 107, 7 and 24 apartment communities with 37,419, 2,860 and 2,541 apartment homes, respectively. From December 31, 2013 to September 30, 2014, on a net basis, our Conventional Same Store portfolio decreased by 15 apartment communities and 7,721 apartment homes. This decrease consisted of 16 apartment communities with 7,640 apartment homes that were sold or classified as held for sale and one apartment community with 537 apartment homes that was reclassified from our Conventional Same Store portfolio to our Conventional Redevelopment portfolio when we commenced redevelopment of the community. This decrease was partially offset by two apartment communities with 372 and 84 apartment homes that were reclassified from our Conventional Redevelopment and Other Conventional portfolios to our Conventional Same Store portfolio when they reached stabilization following redevelopment and acquisition, respectively.

| (in thousands)                      | Three Months Ended September 30, |            |           |          |   |
|-------------------------------------|----------------------------------|------------|-----------|----------|---|
|                                     | 2014                             | 2013       | \$ Change | % Change |   |
| Rental and other property revenues: |                                  |            |           |          |   |
| Conventional Same Store             | \$ 168,021                       | \$ 160,865 | \$ 7,156  | 4.4      | % |
| Conventional Redevelopment          | 13,949                           | 9,144      | 4,805     | 52.5     | % |
| Other Conventional                  | 13,995                           | 11,682     | 2,313     | 19.8     | % |
| Total                               | 195,965                          | 181,691    | 14,274    | 7.9      | % |
| Property operating expenses:        |                                  |            |           |          |   |
| Conventional Same Store             | 55,669                           | 53,265     | 2,404     | 4.5      | % |
| Conventional Redevelopment          | 5,576                            | 4,580      | 996       | 21.7     | % |
| Other Conventional                  | 6,401                            | 5,226      | 1,175     | 22.5     | % |
| Total                               | 67,646                           | 63,071     | 4,575     | 7.3      | % |
| Property net operating income:      |                                  |            |           |          |   |
| Conventional Same Store             | 112,352                          | 107,600    | 4,752     | 4.4      | % |
| Conventional Redevelopment          | 8,373                            | 4,564      | 3,809     | 83.5     | % |
| Other Conventional                  | 7,594                            | 6,456      | 1,138     | 17.6     | % |
| Total                               | \$ 128,319                       | \$ 118,620 | \$ 9,699  | 8.2      | % |

For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, our conventional segment's proportionate property net operating income increased \$9.7 million, or 8.2%. For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, Conventional Same Store proportionate property net operating income increased by \$4.8 million, or 4.4%. This increase was primarily attributable to a \$7.2 million, or 4.4%, increase in rental and other property revenues due to higher average revenues (approximately \$65 per home), comprised of increases in rental rates and utility reimbursements, a reduction in bad debt expense, and a 20 basis point

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increase in average daily occupancy. Excluding utility reimbursements, which increased due to higher utility costs discussed below and due to an increase in the percentage of utility costs reimbursed by our residents, rental and other property revenues increased by 4.1%. Rental rates on new leases transacted during the three months ended September 30, 2014, were 6.4% higher than expiring lease rates, and renewal rates were 5.6% higher than expiring lease rates. The increase in Conventional Same Store rental and other property revenues was partially offset by a \$2.4 million, or 4.5%, increase in property operating expenses, primarily due to increases in utility costs, real estate taxes, and repairs and maintenance, partially offset by a decrease in contract services. Excluding utility costs, which are largely reimbursed by residents, Conventional Same Store property operating expenses increased by \$1.5 million, or 3.5%. Our Conventional Redevelopment proportionate property net operating income increased by \$3.8 million during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to increases in net operating income associated with apartment homes placed into service following completion of construction activities. From September 30, 2013 to September 30, 2014, we placed an additional 540, 308 and 72 apartment homes into service at our Lincoln Place, Pacific Bay Vistas and The Preserve at Marin apartment communities, respectively.

Our Other Conventional proportionate property net operating income increased by \$1.1 million, or 17.6%, during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to apartment communities we acquired during 2014 and 2013.

| (in thousands)                      | Nine Months Ended September 30, |           |           |          |   |
|-------------------------------------|---------------------------------|-----------|-----------|----------|---|
|                                     | 2014                            | 2013      | \$ Change | % Change |   |
| Rental and other property revenues: |                                 |           |           |          |   |
| Conventional Same Store             | \$497,870                       | \$476,810 | \$21,060  | 4.4      | % |
| Conventional Redevelopment          | 36,801                          | 26,165    | 10,636    | 40.6     | % |
| Other Conventional                  | 38,500                          | 34,664    | 3,836     | 11.1     | % |
| Total                               | 573,171                         | 537,639   | 35,532    | 6.6      | % |
| Property operating expenses:        |                                 |           |           |          |   |
| Conventional Same Store             | 165,214                         | 160,638   | 4,576     | 2.8      | % |
| Conventional Redevelopment          | 15,347                          | 12,329    | 3,018     | 24.5     | % |
| Other Conventional                  | 18,416                          | 15,845    | 2,571     | 16.2     | % |
| Total                               | 198,977                         | 188,812   | 10,165    | 5.4      | % |
| Property net operating income:      |                                 |           |           |          |   |
| Conventional Same Store             | 332,656                         | 316,172   | 16,484    | 5.2      | % |
| Conventional Redevelopment          | 21,454                          | 13,836    | 7,618     | 55.1     | % |
| Other Conventional                  | 20,084                          | 18,819    | 1,265     | 6.7      | % |
| Total                               | \$374,194                       | \$348,827 | \$25,367  | 7.3      | % |

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, our conventional segment's proportionate property net operating income increased \$25.4 million, or 7.3%.

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, Conventional Same Store proportionate property net operating income increased by \$16.5 million, or 5.2%. This increase was primarily attributable to a \$21.1 million, or 4.4%, increase in rental and other property revenues due to higher average revenues (approximately \$62 per home), comprised of increases in rental rates, fee income and utility reimbursements, and a 30 basis point increase in average daily occupancy. Excluding utility reimbursements, which increased due to higher utility costs discussed below and due to an increase in the percentage of utility costs reimbursed by our residents, rental and other property revenues increased by 3.9%. Rental rates on new leases transacted during the nine months ended September 30, 2014, were 4.5% higher than expiring lease rates, and renewal rates were 5.3% higher than expiring lease rates. The increase in Conventional Same Store rental and other property revenues was partially offset by a \$4.6 million, or 2.8%, increase in property operating expenses, primarily due to increases in utility costs and real estate taxes, partially offset by a decrease in insurance costs. Excluding utility costs, which are largely reimbursed by residents, Conventional Same Store property operating expenses increased by \$1.5 million, or 1.2%.



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Our Conventional Redevelopment proportionate property net operating income increased by \$7.6 million during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to increases in net operating income associated with apartment homes placed into service following completion of construction activities. From September 30, 2013 to September 30, 2014, we placed an additional 540, 308 and 72 apartment homes into service at our Lincoln Place, Pacific Bay Vistas and The Preserve at Marin apartment communities, respectively.

Our Other Conventional proportionate property net operating income increased by \$1.3 million, or 6.7%, during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to apartment communities we acquired during 2014 and 2013.

Affordable Real Estate Operations

Our affordable segment consists of apartment communities we classify as Affordable Same Store or Other Affordable. Affordable Same Store apartment communities are those we manage that are subject to tax credit agreements and that have reached and maintained a stabilized occupancy (greater than 90%) during the current year and prior year-to-date periods. Other Affordable apartment communities are those that do not meet the Affordable Same Store apartment community definition because they have not maintained a stabilized level of occupancy, often due to a casualty event, we do not manage them and/or they are not subject to tax credit agreements.

At September 30, 2014, as defined by our segment performance metrics, our Affordable Same Store portfolio and Other Affordable portfolio consisted of 44 and five apartment communities with 7,111 and 969 apartment homes, respectively. From December 31, 2013 to September 30, 2014, on a net basis, our Affordable Same Store portfolio decreased by two apartment communities and 313 apartment homes. This decrease consisted of one apartment community with 113 apartment homes that became classified as held for sale and one apartment community with 200 apartment homes that we reclassified from our Affordable Same Store portfolio to our Affordable Other portfolio following a casualty loss. Our affordable results for the three and nine months ended September 30, 2014 and 2013 presented below are based on the apartment community populations at September 30, 2014.

| (in thousands)                      | Three Months Ended September 30, |          |           |          |   |
|-------------------------------------|----------------------------------|----------|-----------|----------|---|
|                                     | 2014                             | 2013     | \$ Change | % Change |   |
| Rental and other property revenues: |                                  |          |           |          |   |
| Affordable Same Store               | \$21,306                         | \$20,856 | \$450     | 2.2      | % |
| Other Affordable                    | 2,422                            | 2,382    | 40        | 1.7      | % |
| Total                               | 23,728                           | 23,238   | 490       | 2.1      | % |
| Property operating expenses:        |                                  |          |           |          |   |
| Affordable Same Store               | 8,366                            | 8,363    | 3         | —        | % |
| Other Affordable                    | 912                              | 1,016    | (104)     | (10.2)   | % |
| Total                               | 9,278                            | 9,379    | (101)     | (1.1)    | % |
| Property net operating income:      |                                  |          |           |          |   |
| Affordable Same Store               | 12,940                           | 12,493   | 447       | 3.6      | % |
| Other Affordable                    | 1,510                            | 1,366    | 144       | 10.5     | % |
| Total                               | \$14,450                         | \$13,859 | \$591     | 4.3      | % |

For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, our affordable segment's proportionate property net operating income increased by \$0.6 million, or 4.3%. The increase in proportionate property net operating income was primarily attributed to an increase in rental income driven by higher rental rates.

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| (in thousands)                      | Nine Months Ended September 30, |          |           |          |    |
|-------------------------------------|---------------------------------|----------|-----------|----------|----|
|                                     | 2014                            | 2013     | \$ Change | % Change |    |
| Rental and other property revenues: |                                 |          |           |          |    |
| Affordable Same Store               | \$63,451                        | \$62,351 | \$1,100   | 1.8      | %  |
| Other Affordable                    | 7,280                           | 7,309    | (29)      | (0.4)    | )% |
| Total                               | 70,731                          | 69,660   | 1,071     | 1.5      | %  |
| Property operating expenses:        |                                 |          |           |          |    |
| Affordable Same Store               | 25,861                          | 25,030   | 831       | 3.3      | %  |
| Other Affordable                    | 3,282                           | 3,272    | 10        | 0.3      | %  |
| Total                               | 29,143                          | 28,302   | 841       | 3.0      | %  |
| Property net operating income:      |                                 |          |           |          |    |
| Affordable Same Store               | 37,590                          | 37,321   | 269       | 0.7      | %  |
| Other Affordable                    | 3,998                           | 4,037    | (39)      | (1.0)    | )% |
| Total                               | \$41,588                        | \$41,358 | \$230     | 0.6      | %  |

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, our affordable segment's proportionate property net operating income increased by \$0.2 million, or 0.6%. The increase in proportionate property net operating income was primarily attributable to an increase in rental income driven by higher rental rates, substantially offset by an increase in utility costs.

#### Non-Segment Real Estate Operations

As discussed in Note 3 to the condensed consolidated financial statements in Item 1, effective January 1, 2014 we adopted ASU 2014-08, which revised the definition of, and reporting requirements for, discontinued operations. As a result, commencing in 2014, routine apartment community sales are no longer considered discontinued operations and the results of operations for these apartment communities are included in income from continuing operations.

However, we continue to exclude the results of apartment communities sold and classified as held for sale from our conventional or affordable segments for purposes of evaluating segment performance. For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, property net income attributable to apartment communities that have been sold decreased by \$8.4 million and \$13.5 million, respectively. Real estate operations net operating income amounts not attributed to our conventional or affordable segments also include property management revenues, offsite costs associated with property management, and casualty losses, reported in consolidated amounts, which we do not allocate to our conventional or affordable segments for purposes of evaluating segment performance (see Note 8 to the condensed consolidated financial statements in Item 1).

For the three months ended September 30, 2014 and 2013, property management expenses, which includes offsite costs associated with managing apartment communities we own (both our share and the share that we allocate to the limited partners in our consolidated partnerships), totaled \$6.2 million and \$7.5 million, respectively. For the nine months ended September 30, 2014 and 2013, property management expenses totaled \$18.5 million and \$22.8 million, respectively. The decreases in property management expense are primarily due to a decrease in the number of apartment communities we own and manage.

For the three months ended September 30, 2014, compared to the three months ended September 30, 2013, casualty losses increased by \$1.4 million, primarily due to casualty losses from a severe hail storm at one of our apartment communities in 2014 as well as increases in minor casualty losses incurred at our apartment communities in 2014.

For the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, casualty losses increased by \$5.6 million, primarily due to increases in casualty losses at apartment communities in the Northeast and Midwest resulting from severe winter weather associated with the "2014 polar vortex" as well as casualty losses from a severe hail storm at one of our apartment communities in 2014.

#### Tax Credit and Asset Management Revenues

We sponsor certain consolidated partnerships that acquire, develop and operate qualifying affordable housing apartment communities and are structured to provide for the pass-through of tax credits and deductions to their partners. We recognize income associated with the delivery of tax credits associated with these partnerships to their partners. Tax credit and other activities are conducted in part by our taxable subsidiaries, and the related net operating

income may be subject to income taxes.

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For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, tax credit and asset management revenues decreased by \$0.4 million. This decrease was primarily attributable to a decrease in amortization of tax credit income due to final delivery of credits on several partnerships.

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, tax credit and asset management revenues increased by \$0.2 million. This increase was attributable to an increase in disposition and other transactional fees earned in 2014, as compared to 2013, partially offset by a decrease in amortization of tax credit income.

**Investment Management Expenses**

For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, investment management expenses increased \$0.9 million and by less than \$0.1 million, respectively, due to increases in transaction and other costs. The increases in transaction and other costs during the nine months ended September 30, 2014, were offset by a decrease in personnel and related costs.

**Depreciation and Amortization**

For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, depreciation and amortization decreased \$2.6 million, or 3.6%, and \$10.4 million, or 4.7%, respectively, primarily due to assets that became fully depreciated and current year apartment community sales, partially offset by an increase associated with our redevelopment apartment communities as completed apartment homes were placed into service.

**Provision for Real Estate Impairment Losses**

During the three and nine months ended September 30, 2014, we recognized a \$1.4 million provision for real estate impairment loss related to an asset classified as held for sale as of September 30, 2014. The impairment loss related to estimated costs to sell, inclusive of a debt prepayment penalty.

**General and Administrative Expenses**

For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, general and administrative expenses decreased \$0.3 million, or 2.7%, and \$2.6 million, or 7.6%, respectively, primarily due to decreases in personnel and related costs.

**Other Expenses, net**

For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, other expenses, net decreased \$0.8 million, primarily due to reductions in legal and environmental costs.

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, other expenses, net increased \$1.1 million, primarily due to an increase in legal costs, partially offset by a decrease in environmental costs.

**Interest Income**

Interest income consists primarily of interest on notes receivable, accretion of discounts on certain notes receivable, interest on cash and restricted cash accounts and interest on investments in debt securities of a securitization that holds certain of our property debt, which investments are classified within other assets in our condensed consolidated balance sheets.

For the three months ended September 30, 2014, compared to the three months ended September 30, 2013, interest income decreased by \$1.8 million, primarily related to notes receivable collateralized by apartment communities in New York City, which were repaid in late 2013.

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, interest income decreased by \$7.5 million. Interest income decreased primarily due to \$4.0 million of accretion income recognized in 2013 related to a property sale for which the net proceeds available for repayment of partnership loans exceeded the amounts previously anticipated. The remainder of the decrease in interest income primarily relates to notes receivable collateralized by apartment communities in New York City, which were repaid in late 2013.

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### Interest Expense

For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, interest expense, which includes the amortization of deferred financing costs, decreased by \$1.8 million, or 3.1%, and \$7.1 million, or 4.0%, respectively. Interest expense decreased during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to lower average borrowings under our Credit Agreement. Interest expense also decreased during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily as a result of lower average outstanding balances on non-recourse property debt for our existing properties (inclusive of the expansion of our pool of unencumbered apartment communities) and from sales, partially offset by an increase of \$3.6 million of prepayment penalties related to apartment communities added to our unencumbered pool.

### Other, net

Other, net includes gains or losses on disposition of interests in unconsolidated real estate partnerships, our equity in the income or loss of unconsolidated real estate partnerships, and the results of operations related to our legacy asset management business, which we account for under the profit sharing method, as further discussed in Note 4 to the condensed consolidated financial statements in Item 1.

During the three months ended September 30, 2014 and 2013, other, net primarily consisted of \$1.5 million of net income and \$1.8 million of net losses, respectively, related to our legacy asset management business. After income taxes and noncontrolling interest allocations, our share of the net results of the legacy asset management business totaled \$0.1 million of net losses for both the three months ended September 30, 2014 and 2013.

During the nine months ended September 30, 2014 and 2013, other, net primarily consisted of less than \$0.1 million of net income and \$5.7 million of net losses, respectively, related to our legacy asset management business. After income taxes and noncontrolling interest allocations, our share of the net income and losses of the legacy asset management business totaled \$1.1 million of net losses and \$0.2 million of net income for the nine months ended September 30, 2014 and 2013, respectively.

### Income Tax Benefit (Expense)

Certain of our operations or a portion thereof, including property management, asset management and risk management, are conducted through TRS entities. Income taxes related to the results of continuing operations of our TRS entities (before gains on dispositions) are included in income tax benefit (expense) in our condensed consolidated statements of operations.

For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, income tax benefit increased by \$4.9 million and \$13.3 million, respectively, primarily due to historic tax credits related to the redevelopment of our Lincoln Place apartment community, as well as an increase in taxable losses recognized by our TRS entities.

### Income from Discontinued Operations, Net

As discussed in Note 3 to the condensed consolidated financial statements in Item 1, effective January 1, 2014, we adopted ASU 2014-08, which generally eliminates the requirement that we classify within discontinued operations the results of operations and any gain or loss on sale related to apartment communities sold or classified as held for sale commencing in 2014. Based on the prospective application of the new accounting standard, the net earnings for any consolidated apartment communities sold through December 31, 2013, will continue to be included within income from discontinued operations. The components of net earnings that were classified as discontinued operations included all property-related revenues and operating expenses, depreciation expense recognized prior to the sale, property-specific interest expense and debt extinguishment gains and losses to the extent there was secured debt on the apartment community. In addition, any impairment losses on assets sold or held for sale and the net gain or loss on the disposal of apartment communities held for sale are reported in discontinued operations for the three and nine months ended September 30, 2013.

For the three months ended September 30, 2013, income from discontinued operations totaled \$72.4 million and was primarily comprised of \$0.7 million of income before gain on dispositions and income tax for apartment communities sold through December 31, 2013, a \$74.7 million gain recognized on our sale of eight apartment communities during the three months ended September 30, 2013, and \$2.9 million of income tax expense.

For the nine months ended September 30, 2013, income from discontinued operations totaled \$81.4 million and was primarily comprised of \$3.6 million of income before gain on dispositions and income tax for apartment communities sold through December 31, 2013, a \$80.7 million gain recognized on our sale of 13 apartment communities during the nine months ended September 30, 2013, and \$2.8 million of income tax expense.

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## Gain on Dispositions of Real Estate, Net of Tax

As discussed above (refer to the Income from Discontinued Operations, Net discussion), commencing in 2014, the results of operations (both for current and prior periods) and gain or loss on sale for apartment communities sold or classified as held are no longer required to be classified within income from discontinued operations. During the three and nine months ended September 30, 2014, we recognized gains on disposition of real estate of \$126.3 million (which is net of \$21.1 million of related income taxes) and \$262.5 million (which is net of \$29.8 million of related income taxes), on our disposal of 15 and 26 consolidated apartment communities, respectively. The net gains recognized related to apartment communities sold during the three and nine months ended September 30, 2013, are presented within income from discontinued operations.

Net operating income, or NOI, capitalization rate and free cash flow, or FCF, capitalization rate are common benchmarks used in the real estate industry for relative comparison of real estate valuations, including for apartment community sales. We calculate NOI capitalization rates using an apartment community's trailing twelve month NOI prior to sale, less a 3.0% management fee, divided by gross proceeds. We calculate FCF capitalization rates using an apartment community's NOI, less a 3.0% management fee, and further reduced by an annual assumed future \$1,200 of capital spending per apartment home required to maintain the condition of the apartment community, divided by the gross proceeds from its sale. The NOI capitalization rates and FCF capitalization rates for our consolidated conventional and affordable apartment community sales (for both continuing and discontinued operations) during the three and nine months ended September 30, 2014 and 2013 were as follows:

|                          | Three Months Ended September 30, |       | Nine Months Ended September 30, |       |   |
|--------------------------|----------------------------------|-------|---------------------------------|-------|---|
|                          | 2014                             | 2013  | 2014                            | 2013  |   |
| NOI capitalization rate: |                                  |       |                                 |       |   |
| Conventional             | 6.7                              | % 7.3 | % 6.8                           | % 7.3 | % |
| Affordable               | —                                | % 6.2 | % 6.7                           | % 6.0 | % |
| FCF capitalization rate: |                                  |       |                                 |       |   |
| Conventional             | 5.2                              | % 5.5 | % 5.3                           | % 5.5 | % |
| Affordable               | —                                | % 5.3 | % 5.5                           | % 5.0 | % |

Net proceeds from property dispositions are expected to be used to fund 2014 and 2015 investment activities. As a result of the increased volume of 2014 property dispositions, and taxable gains related thereto, we may be required to pay a special dividend in 2015. The amount of any such special dividend will depend on the amount of 2015 sales and related taxable gains. If a special dividend is required, we may elect to pay a portion in stock.

## Noncontrolling Interests in Consolidated Real Estate Partnerships

Noncontrolling interests in consolidated real estate partnerships reflects the results of our consolidated real estate partnerships allocated to the owners who are not affiliated with Aimco. The amounts of income or loss of our consolidated real estate partnerships that we allocate to the owners not affiliated with Aimco includes their share of property management fees, interest on notes and other amounts that we charge to these partnerships.

For the three months ended September 30, 2014 and 2013, we allocated net income of \$8.3 million and \$6.8 million, respectively, to noncontrolling interests in consolidated real estate partnerships, an increase of \$1.6 million.

For the nine months ended September 30, 2014, we allocated net income of \$22.0 million to noncontrolling interests in consolidated real estate partnerships, compared to net losses of \$4.3 million allocated to these noncontrolling interests for the nine months ended September 30, 2013, or a variance of \$26.3 million. This change was primarily due to an increase in the noncontrolling interest partners' share of gains on dispositions of real estate (inclusive of their allocation of gains from continuing and discontinued operations) and a decrease in losses recognized by the legacy asset management business.

## Noncontrolling Interests in Aimco Operating Partnership

In Aimco's consolidated financial statements, noncontrolling interests in Aimco Operating Partnership reflects the results of the Aimco Operating Partnership that are allocated to the holders of OP Units. Aimco allocates the Aimco Operating Partnership's income or loss to the holders of common OP Units and equivalents based on the weighted average number of these units (including those held by Aimco) outstanding during the period. The amount of the

Aimco Operating Partnership's income allocated to holders of the preferred OP Units is equal to the amount of distributions they receive.

For the three months ended September 30, 2014 and 2013, the OP Unit holders' share of the Aimco Operating Partnership's operating results represented income of \$8.2 million and \$5.4 million, respectively, an increase in their share of income of \$2.7 million.

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For the nine months ended September 30, 2014 and 2013, the OP Unit holders' share of the Aimco Operating Partnership's operating results represented income of \$18.7 million and \$9.5 million, respectively, an increase in their share of income of \$9.2 million.

Net Income Attributable to Aimco Preferred Stockholders and the Aimco Operating Partnership's Preferred Unitholders

Net income attributable to Aimco Preferred Stockholders and the Aimco Operating Partnership's Preferred Unitholders both increased by \$2.2 million and \$3.0 million during the three and nine months ended September 30, 2014, respectively, primarily due to the issuance during May 2014 of \$125.0 million of preferred securities.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates and assumptions. We believe that the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment of Long-Lived Assets

Real estate and other long-lived assets to be held and used are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of an apartment community may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows, excluding interest charges, of the apartment community. If the carrying amount exceeds the estimated aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the apartment community.

We currently have several apartment communities in varying stages of significant redevelopment and one property under development. We assess the recoverability of the carrying amount of these apartment communities by comparing our estimate of undiscounted future cash flows based on the expected service potential of the apartment communities upon completion to the carrying amounts.

Real estate investments are subject to varying degrees of risk. Several factors may adversely affect the economic performance and value of our real estate investments. These factors include:

- the general economic climate;
- competition from other apartment communities and other housing options;
- local conditions, such as loss of jobs or an increase in the supply of apartments, that might adversely affect apartment occupancy or rental rates;
- changes in governmental regulations and the related cost of compliance;
- increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;
- changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing; and
- changes in interest rates and the availability of financing.

Any adverse changes in these and other factors could cause an impairment of our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. As we execute our portfolio strategy over the next few years, we are evaluating alternatives to sell or reduce our interest in a significant number of apartment communities that do not align with our long-term investment strategy. While there is no assurance that we will sell or reduce our investment in these apartment communities during the desired time frame, the size of our portfolio is likely to change as we continue to execute our portfolio management strategy. For any apartment communities that are sold or meet the criteria to be classified as held for sale during the next twelve months, the reduction in the estimated holding period for these apartment communities or the recognition of estimated selling costs (including prepayment penalties) for apartment communities that become classified as held for sale may result in additional impairment losses.

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### Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital additions activities, including redevelopment, development and construction projects, other tangible property improvements and replacements of existing apartment community components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital additions activities at the apartment community level. We characterize as “indirect costs” an allocation of certain department costs, including payroll, at the area operations and corporate levels that clearly relate to capital additions activities. We also capitalize interest, property taxes and insurance during periods in which development, redevelopment and construction projects are in progress. We commence the capitalization of costs, including certain indirect costs, incurred in connection with our capital addition activities, at the point in time when activities necessary to get apartment communities ready for their intended use are in progress. This includes when apartment communities or apartment homes are undergoing physical construction, as well as when apartment homes are held vacant in advance of planned construction, provided that other activities such as permitting, planning and design are in progress. We cease the capitalization of costs when the assets are substantially complete and ready for their intended use, which is typically when construction has been completed and apartment homes are available for occupancy. We charge to property operating expense, as incurred, costs including ordinary repairs, maintenance and resident turnover costs.

### Funds From Operations and Adjusted Funds From Operations

Funds From Operations, or FFO, is a non-GAAP financial measure that we believe, when considered with the financial statements determined in accordance with GAAP, is helpful to investors in understanding our performance because it captures features particular to real estate performance by recognizing that real estate generally appreciates over time or maintains residual value to a much greater extent than do other depreciable assets such as machinery, computers or other personal property. The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income or loss computed in accordance with GAAP, excluding gains from sales of, and impairment losses recognized with respect to, depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated on the same basis to determine FFO. We calculate FFO attributable to Aimco common stockholders (diluted) by subtracting, if dilutive, redemption or repurchase related preferred stock issuance costs and dividends on preferred stock, and adding back dividends/distributions on dilutive preferred securities and premiums or discounts on preferred stock redemptions or repurchases.

In addition to FFO, we compute Pro forma FFO and Adjusted FFO, or AFFO, which are also non-GAAP financial measures that we believe are helpful to investors in understanding our performance. Pro forma FFO represents FFO attributable to Aimco common stockholders (diluted), excluding preferred equity redemption-related amounts (adjusted for noncontrolling interests). Preferred equity redemption-related amounts (gains or losses) are items that periodically affect our operating results and we exclude these items from our calculation of Pro forma FFO because such amounts are not representative of our operating performance. AFFO represents Pro forma FFO reduced by Capital Replacements (also adjusted for noncontrolling interests), which represents our estimation of the capital additions required to maintain the value of our portfolio during our ownership period. When we make capital additions at an apartment community, we evaluate whether the additions enhance the value, profitability or useful life of an asset as compared to its condition at the time we purchased the asset. We classify as Capital Improvements those capital additions that meet these criteria and we classify as Capital Replacements those that do not. AFFO is a key financial indicator that we use to evaluate our operational performance, and which helps us determine the amounts of our dividend payments.

FFO, Pro forma FFO and AFFO should not be considered alternatives to net income (loss) or net cash flows from operating activities, as determined in accordance with GAAP, as indications of our performance or as measures of liquidity. Although we use these non-GAAP measures for comparability in assessing our performance against other REITs, not all REITs compute these same measures. Additionally, computation of AFFO is subject to definitions of capital spending, which are subjective. Accordingly, there can be no assurance that our basis for computing these non-GAAP measures is comparable with that of other REITs. For the three and nine months ended September 30, 2014 and 2013, Aimco’s FFO, Pro forma FFO and AFFO are calculated as follows (in thousands):



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|                                                                                                                                   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                                                                   | 2014                                | 2013      | 2014                               | 2013      |
| Net income attributable to Aimco common stockholders (1)                                                                          | \$124,706                           | \$66,268  | \$263,948                          | \$81,549  |
| Adjustments:                                                                                                                      |                                     |           |                                    |           |
| Depreciation and amortization, net of noncontrolling partners' interest                                                           | 67,531                              | 69,254    | 205,513                            | 213,919   |
| Depreciation and amortization related to non-real estate assets, net of noncontrolling partners' interest                         | (2,439 )                            | (2,915 )  | (7,211 )                           | (8,777 )  |
| (Gain) loss on dispositions and other, net of income taxes and noncontrolling partners' interest                                  | (119,807 )                          | 376       | (242,824 )                         | 736       |
| Provision for (recovery of) impairment losses related to depreciable real estate assets, net of noncontrolling partners' interest | 1,413                               | (13 )     | 1,790                              | 24        |
| Discontinued operations:                                                                                                          |                                     |           |                                    |           |
| Gain on dispositions of real estate, net of income taxes and noncontrolling partners' interest                                    | —                                   | (63,143 ) | —                                  | (75,738 ) |
| Provision for (recovery of) impairment losses related to depreciable real estate assets, net of noncontrolling partners' interest | —                                   | 108       | —                                  | (855 )    |
| Depreciation of rental property, net of noncontrolling partners' interest                                                         | —                                   | 3,919     | —                                  | 11,868    |
| Common noncontrolling interests in Aimco Operating Partnership's share of above adjustments                                       | 2,200                               | (398 )    | 1,650                              | (7,622 )  |
| Amounts allocable to participating securities                                                                                     | 188                                 | (29 )     | 152                                | (446 )    |
| FFO / Pro forma FFO Attributable to Aimco common stockholders - Diluted                                                           | \$73,792                            | \$73,427  | \$223,018                          | \$214,658 |
| Capital Replacements, net of common noncontrolling interests in Aimco Operating Partnership and participating securities          | (16,325 )                           | (22,314 ) | (39,918 )                          | (55,126 ) |
| AFFO attributable to Aimco common stockholders – Diluted                                                                          | \$57,467                            | \$51,113  | \$183,100                          | \$159,532 |
| Weighted average common shares outstanding – diluted (2)                                                                          | 146,104                             | 145,563   | 145,924                            | 145,542   |

(1) Represents the numerator for calculating Aimco's earnings per common share in accordance with GAAP (see Note 7 to the condensed consolidated financial statements in Item 1).

(2) Represents the denominator for Aimco's earnings per common share – diluted, calculated in accordance with GAAP. For the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013, FFO and Pro forma FFO (on a diluted per share basis) increased 2% and 4%, respectively, as a result of improved property operating results, lower offsite costs and increased contribution from redevelopment properties. For the same periods, AFFO (on a diluted per share basis) increased 11% and 15%, respectively, as a result of the FFO growth, lower Capital Replacement spending associated with multi-phase capital projects started in prior years, and lower Capital Replacements due to the sale of approximately 7,000 apartment homes during 2013 and 8,400 apartment homes during the nine months ended September 30, 2014. Capital Replacements associated with our conventional portfolio have decreased as compared to 2013. As Aimco concentrates its investment capital in higher quality, higher price-point apartment communities, Capital Replacements are declining as a percentage of net operating income. Refer to the Liquidity and Capital Resources section for further information regarding our Capital Replacements and other capital investing activities.

The Aimco Operating Partnership does not separately compute or report FFO, Pro forma FFO or AFFO. However, based on Aimco's method for allocation of amounts of FFO, Pro forma FFO and AFFO to noncontrolling interests in the Aimco Operating Partnership, as well as the limited differences between Aimco's and the Aimco Operating

Partnership's net income amounts during the periods presented, FFO, Pro forma FFO and AFFO amounts on a per unit basis for the Aimco Operating Partnership would be expected to be substantially the same as the corresponding per share amounts for Aimco.

#### Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations. Our primary source of liquidity is cash flow from our operations. Additional sources are proceeds from sales of apartment communities, proceeds from refinancings of existing property debt, borrowings under new property debt, borrowings under our Credit Agreement and proceeds from equity offerings.

Our principal uses for liquidity include normal operating activities, payments of principal and interest on outstanding property debt, capital expenditures, dividends paid to stockholders, distributions paid to noncontrolling interest partners and acquisitions of, and investments in, apartment communities. We use our cash and cash equivalents and our cash provided by operating activities to meet short-term liquidity needs. In the event that our cash and cash equivalents and cash provided by operating activities are

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not sufficient to cover our short-term liquidity needs, we have additional means, such as short-term borrowing availability and proceeds from apartment community sales and refinancings. We may use our Credit Agreement for working capital and other short-term purposes, such as funding investments on an interim basis. We expect to meet our long-term liquidity requirements, such as debt maturities and apartment community acquisitions, through long-term borrowings, primarily secured, the issuance of equity securities (including OP Units), the sale of apartment communities and cash generated from operations.

The availability of credit and its related effect on the overall economy may affect our liquidity and future financing activities, both through changes in interest rates and access to financing. Currently, interest rates are low compared to historical levels and many lenders are active in the market. However, any adverse changes in the lending environment could negatively affect our liquidity. We believe we have mitigated much of this exposure by reducing our short and intermediate term maturity risk through refinancing such loans with long-dated, fixed-rate property debt. However, if property financing options become unavailable for our further debt needs, we may consider alternative sources of liquidity, such as reductions in capital spending or proceeds from asset dispositions.

At September 30, 2014, we had \$29.2 million in cash and cash equivalents and \$166.0 million of restricted cash, a decrease in cash and cash equivalents of \$26.6 million and an increase in restricted cash of \$39.0 million from December 31, 2013. Restricted cash primarily consists of sales proceeds deposited with an intermediary in connection with potential tax-deferred exchange transactions, reserves and escrows held by lenders for bond sinking funds, capital additions, property taxes and insurance, and escrows related to tenant security deposits.

The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our condensed consolidated statements of cash flows in Item 1.

**Operating Activities**

For the nine months ended September 30, 2014, our net cash provided by operating activities of \$233.4 million was primarily related to operating income from our consolidated apartment communities, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of apartment communities, in excess of payments of operating accounts payable and accrued liabilities. Cash provided by operating activities for the nine months ended September 30, 2014 decreased by \$14.7 million as compared to the three months ended September 30, 2013, primarily due to a decrease in the net operating income of our portfolio resulting from sales of apartment communities during 2014 and 2013, as well as an increase in cash used for working capital requirements during 2014 as compared to 2013.

**Investing Activities**

For the nine months ended September 30, 2014, our net cash provided by investing activities of \$115.7 million consisted primarily of proceeds from our disposition of real estate, partially offset by capital expenditures, purchases of real estate and sales proceeds deposited with an intermediary in connection with potential tax-deferred exchange transactions. Capital expenditures totaled \$277.2 million and \$275.1 million during the nine months ended September 30, 2014 and 2013, respectively. We generally fund capital additions with cash provided by operating activities and cash proceeds from apartment community sales. We categorize our capital spending broadly into six primary categories: capital replacements, property upgrades, capital improvements, redevelopment, development, and casualty replacements spending. We exclude from these measures the amounts of capital spending related to apartment communities sold or classified as held for sale at the end of the period. A summary of the capital spending for these categories, along with a reconciliation of the total for these categories to the capital expenditures reported in the accompanying condensed consolidated statements of cash flow for the nine months ended September 30, 2014 and 2013 are presented below (in thousands):

|                         | 2014     | 2013     |
|-------------------------|----------|----------|
| Capital Replacements    | \$35,054 | \$49,906 |
| Capital Improvements    | 18,884   | 42,478   |
| Property Upgrades       | 35,396   | 24,761   |
| Redevelopment additions | 147,081  | 124,446  |
| Development additions   | 31,814   | 10,106   |
| Casualty replacements   | 4,627    | 5,315    |

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|                                                                        |           |           |
|------------------------------------------------------------------------|-----------|-----------|
| Total capital additions                                                | 272,856   | 257,012   |
| Plus: additions related to apartment communities sold or held for sale | 4,162     | 8,006     |
| Consolidated capital additions                                         | 277,018   | 265,018   |
| Plus: net change in accrued capital spending                           | 196       | 10,098    |
| Capital expenditures per consolidated statement of cash flows          | \$277,214 | \$275,116 |

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## Redevelopment and Development

During the nine months ended September 30, 2014, our redevelopment activities focused on seven apartment communities with \$147.1 million of investment, and our development activities focused on one apartment community with \$31.8 million of investment.

Information regarding our redevelopment and development projects at September 30, 2014 are presented below (dollars in millions):

|                             |                                                              | Schedule                       |                                        |                       |                      |                          |                         |
|-----------------------------|--------------------------------------------------------------|--------------------------------|----------------------------------------|-----------------------|----------------------|--------------------------|-------------------------|
|                             | Total<br>Number<br>of<br>Apartment<br>Homes at<br>Completion | Estimated<br>Net<br>Investment | Inception-to-Date<br>Net<br>Investment | Construction<br>Start | Initial<br>Occupancy | Construction<br>Complete | Stabilized<br>Occupancy |
| Redevelopment               |                                                              |                                |                                        |                       |                      |                          |                         |
| 2900 on First Apartments    | 135                                                          | \$15                           | \$ 7.9                                 | 1Q 2014               | 1Q 2014              | 1Q 2015                  | 1Q 2015                 |
| The Palazzo at Park La Brea | 521                                                          | 16                             | 14.1                                   | 1Q 2012               | 4Q 2012              | 4Q 2014                  | 4Q 2014                 |
| The Sterling                | 536                                                          | 25                             | 15.2                                   | 4Q 2013               | 3Q 2014              | 2Q 2015                  | 4Q 2014                 |
| Lincoln Place (1)           | 795                                                          | 365                            | 350.7                                  | Multiple              | Multiple             | 1Q 2015                  | 2Q 2015                 |
| The Preserve at Marin       | 126                                                          | 126                            | 111.8                                  | 4Q 2012               | 1Q 2014              | 1Q 2015                  | 2Q 2015                 |
| Ocean House on Prospect     | 53                                                           | 15                             | 1.0                                    | 4Q 2014               | 3Q 2015              | 4Q 2015                  | 1Q 2016                 |
| Park Towne Place (2)        | 954                                                          | 60                             | 4.6                                    | Multiple              | 3Q 2015              | 3Q 2016                  | 2Q 2016                 |
| Development                 |                                                              |                                |                                        |                       |                      |                          |                         |
| One Canal Street (3)        | 310                                                          | 190                            | 47.7                                   | 4Q 2013               | 1Q 2016              | 2Q 2016                  | 2Q 2017                 |
| Total                       | 3,430                                                        | \$812                          | \$ 553                                 |                       |                      |                          |                         |

Our estimated net investment in Lincoln Place represents total estimated capital costs of \$390 million, reduced by \$25 million of historic tax and other credits expected to be earned in connection with the redevelopment. The investment in Lincoln Place is funded in part by a \$190.1 million non-recourse property loan, of which \$17.6 million was available to draw at September 30, 2014.

Our estimated net investment in Park Towne Place represents total estimated capital costs of \$71.0 million, reduced by \$11 million of historic tax credits expected to be earned in connection with the redevelopment.

The investment in One Canal Street is funded in part by a \$114.0 million non-recourse property loan, of which \$99.1 million was available to draw at September 30, 2014.

Construction continues at 2900 on First, in Seattle, Washington, The Palazzo at Park La Brea, in Los Angeles, California, The Sterling, in Philadelphia, Pennsylvania, Lincoln Place, in Venice, California, and Preserve at Marin, in Corte Madera, California. Work at these communities is progressing as planned. As of September 30, 2014, 483 of the 540 completed apartment homes at Lincoln Place were occupied and 44 of the 72 completed apartment homes at Preserve at Marin were occupied.

During the three months ended September 30, 2014, we also approved two new redevelopment projects at Ocean House on Prospect in La Jolla, California, and at Park Towne Place in Philadelphia, Pennsylvania, which are discussed below.

Aimco acquired Ocean House on Prospect, a 60-apartment home community, in 2013, with the intent of redeveloping the community at a future date. The \$14.8 million redevelopment of Ocean House includes renovation of all apartment homes, common areas, exteriors and amenities. During construction, we expect to combine some apartment homes so that the community, at completion, will include 53 apartment homes. In order to facilitate the extensive construction activity, we began de-leasing the building during the three months ended December 31, 2014. Based on current rents, upon stabilization, we expect revenues per apartment home at this community to average \$4,070, an increase of 51%. During the nine months ended September 30, 2014, we completed a multi-phase capital project at Park Towne Place in anticipation of subsequent redevelopment, which is now underway. We expect to redevelop Park Towne Place in

several phases, the first of which includes renovating existing commercial space, upgrading common areas and amenities, and redeveloping one of the four residential towers. During construction, we expect to combine some apartment homes in this 234-apartment home building so that the tower, at completion, will include 229 apartment homes. In order to facilitate the extensive construction activity, we began de-leasing the one tower during the three months ended December 31, 2014.

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Based on current rents, upon stabilization, we expect revenues per apartment home for the redeveloped building to average \$2,750, an increase of 56%. Across the entire 954-apartment home community, revenues per apartment home are expected to average \$2,090, an increase of 18%.

Depending on the success of this initial phase and other investment alternatives, we may redevelop additional apartment homes at Park Towne Place. Should we elect to redevelop the other three residential towers, the net investment in Park Towne Place, including the work described above, could be between \$148 and \$160 million, reflecting a gross investment of \$180 to \$195 million reduced by \$32 to \$35 million of historic tax credits.

As expected, Pacific Bay Vistas, in San Bruno, California, achieved stabilized occupancy during the three months ended September 30, 2014.

During the three months ended September 30, 2014, we invested \$14.6 million in the development of our One Canal Street apartment community in Boston. One Canal Street will include 310 apartment homes and 22,000 square feet of commercial space. We expect completion of construction during the three months ended June 30, 2016, with lease-up to follow.

For the nine months ended September 30, 2014 and 2013, we capitalized \$11.3 million and \$13.6 million of interest costs, respectively, and \$21.9 million and \$25.6 million of other direct and indirect costs, respectively.

### Financing Activities

For the nine months ended September 30, 2014, our net cash used in financing activities of \$375.6 million was primarily attributed to principal payments on property loans, dividends paid to common security holders and distributions paid to noncontrolling interests, partially offset by proceeds from our issuance of preferred securities and proceeds from property loans.

### Property Debt

At September 30, 2014, exclusive of amounts related to assets classified as held for sale, we had \$3.9 billion of consolidated property debt outstanding, approximately 3.1% of which was variable rate. We intend to continue to refinance property debt primarily as a means of extending current and near term maturities and we also intend to use property debt to finance certain capital projects.

### Credit Agreement

Our Credit Agreement provides for \$600.0 million of revolving loan commitments. Borrowings under the Credit Agreement bear interest at a rate set forth on a pricing grid which rate varies based on our leverage (initially either LIBOR, plus 1.875%, or, at our option, Prime plus 0.5%). The Credit Agreement matures in September 2017, and may be extended for an additional one-year period, subject to certain conditions.

As of September 30, 2014, we had \$14.5 million of outstanding borrowings under our Credit Agreement, and we had the capacity to borrow \$543.1 million, net of the outstanding borrowings and \$42.4 million for undrawn letters of credit backed by the Credit Agreement. The interest rate on our outstanding borrowings was 3.75% at September 30, 2014. In addition to the cost of borrowings outstanding under our Credit Agreement, we recognize interest expense associated with the cost of having a credit facility, including deferred financing costs and an unused facility fee, which for the nine months ended September 30, 2014, totaled \$1.8 million. The proceeds of revolving loans are generally used for working capital and other short-term purposes.

### Equity and Partners' Capital Transactions

During the nine months ended September 30, 2014, Aimco paid cash dividends totaling \$3.5 million and \$114.0 million, respectively, to preferred and common stockholders.

During the nine months ended September 30, 2014, the Aimco Operating Partnership paid cash distributions totaling \$8.3 million and \$120.0 million to preferred unitholders and common unitholders, respectively, of which \$3.5 million and \$114.0 million, respectively, represented distributions to Aimco, and \$4.8 million and \$6.0 million, respectively, represented distributions paid to holders of OP Units. The distributions paid to the holders OP Units are reflected as distributions to noncontrolling interests in the Aimco Operating Partnership within Aimco's condensed consolidated financial statements.

During the nine months ended September 30, 2014, Aimco and the Aimco Operating Partnership paid cash distributions of \$32.1 million to holders of noncontrolling interests in consolidated real estate partnerships, primarily related to apartment community sales during 2013 and 2014.



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During the nine months ended September 30, 2014, Aimco purchased shares of its Series A Community Reinvestment Act Preferred Stock with a \$10.0 million liquidation preference for \$9.5 million. In connection with Aimco's purchase of this preferred stock, the Aimco Operating Partnership purchased from Aimco an equal number of the corresponding class of partnership preferred units.

During the nine months ended September 30, 2014, Aimco issued 5,000,000 shares of 6.875% Class A Cumulative Preferred Stock, par value \$0.01 per share, in an underwritten public offering, for net proceeds per share of \$24.15 (reflecting a public offering price of \$25.00 per share, less an underwriting discount and transaction costs of approximately \$0.85 per share). The offering generated net proceeds of \$120.8 million.

During the nine months ended September 30, 2014, Aimco also issued 117,400 shares of its 7.00% Class Z Cumulative Preferred Stock, par value \$0.01 per share, through an at-the-market, or ATM, offering program, for net proceeds per share of \$25.14 (reflecting an average price to the public of \$25.65 per share, less an underwriting discount and transaction costs of approximately \$0.51 per share). The ATM offerings generated net proceeds of \$3.0 million.

In connection with Aimco's preferred stock issuances, Aimco contributed the net proceeds to the Aimco Operating Partnership in exchange for an equal number of the corresponding class of partnership preferred units.

Pursuant to ATM offering programs active at September 30, 2014, Aimco has the capacity to issue up to 3.5 million shares of its Common Stock and 3.4 million shares of its Class Z Cumulative Preferred Stock. In the event of any such issuances, Aimco would contribute the net proceeds to the Aimco Operating Partnership in exchange for a number of common OP Units or Class Z Partnership Preferred Units, as the case may be, equal to the number of shares issued and sold. Additionally, the Aimco Operating Partnership and Aimco have a shelf registration statement that provides for the issuance of debt securities by the Aimco Operating Partnership and equity securities by Aimco.

### Future Capital Needs

We expect to fund any future acquisitions, development and redevelopment projects, Capital Improvements and Capital Replacements principally with proceeds from property sales, short-term borrowings, debt and equity financing and operating cash flows.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As of the date of this report, there have been no material changes from the market risk information provided in Aimco's and the Aimco Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2013.

### ITEM 4. Controls and Procedures

#### Aimco

#### Disclosure Controls and Procedures

Aimco's management, with the participation of Aimco's chief executive officer and chief financial officer, has evaluated the effectiveness of Aimco's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, Aimco's chief executive officer and chief financial officer have concluded that, as of the end of such period, Aimco's disclosure controls and procedures are effective.

#### Changes in Internal Control Over Financial Reporting

There has been no change in Aimco's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, Aimco's internal control over financial reporting.

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The Aimco Operating Partnership

Disclosure Controls and Procedures

The Aimco Operating Partnership's management, with the participation of the chief executive officer and chief financial officer of Aimco, who are the equivalent of the Aimco Operating Partnership's chief executive officer and chief financial officer, respectively, has evaluated the effectiveness of the Aimco Operating Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange) as of the end of the period covered by this report. Based on such evaluation, the chief executive officer and chief financial officer of Aimco have concluded that, as of the end of such period, the Aimco Operating Partnership's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There has been no change in the Aimco Operating Partnership's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, the Aimco Operating Partnership's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

As of the date of this report, there have been no material changes from the risk factors in Aimco's and the Aimco Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2013.

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## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Aimco

(a) Unregistered Sales of Equity Securities. Aimco did not issue any unregistered shares of Common Stock during the nine months ended September 30, 2014.

(c) Repurchases of Equity Securities. There were no repurchases by Aimco of its common equity securities during the nine months ended September 30, 2014. Aimco's Board of Directors has, from time to time, authorized Aimco to repurchase shares of its outstanding capital stock. As of September 30, 2014, Aimco was authorized to repurchase approximately 19.3 million additional shares. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

## The Aimco Operating Partnership

(a) Unregistered Sales of Equity Securities. The Aimco Operating Partnership did not issue any common OP Units in exchange for shares of Aimco Common Stock during the nine months ended September 30, 2014.

(c) Repurchases of Equity Securities. The Aimco Operating Partnership's Partnership Agreement generally provides that after holding the common OP Units for one year, Limited Partners have the right to redeem their common OP Units for cash, subject to the Aimco Operating Partnership's prior right to cause Aimco to acquire some or all of the common OP Units tendered for redemption in exchange for shares of Common Stock. Common OP Units redeemed for Common Stock are exchanged on a one-for-one basis (subject to antidilution adjustments). During the nine months ended September 30, 2014, no common OP Units were redeemed in exchange for shares of Common Stock. The following table summarizes repurchases of the Aimco Operating Partnership's equity securities for the nine months ended September 30, 2014.

| Period                           | Total Number of Units Purchased | Average Price Paid per Unit | Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Units that May Yet Be Purchased Under the Plans or Programs (1) |
|----------------------------------|---------------------------------|-----------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| July 1 - July 31, 2014           | 2,565                           | \$32.07                     | N/A                                                                                 | N/A                                                                               |
| August 1 - August 31, 2014       | 7,629                           | 33.80                       | N/A                                                                                 | N/A                                                                               |
| September 1 - September 30, 2014 | 4,073                           | 34.27                       | N/A                                                                                 | N/A                                                                               |
| Total                            | 14,267                          | \$33.62                     |                                                                                     |                                                                                   |

The terms of the Aimco Operating Partnership's Partnership Agreement do not provide for a maximum number of units that may be repurchased, and other than the express terms of its Partnership Agreement, the Aimco Operating Partnership has no publicly announced plans or programs of repurchase. However, whenever Aimco repurchases shares of its Common Stock, it is expected that Aimco will fund the repurchase with proceeds from a concurrent repurchase by the Aimco Operating Partnership of common partnership units held by Aimco at a price per unit that is equal to the price per share paid for its Common Stock.

## Aimco and the Aimco Operating Partnership

Dividend and Distribution Payments. Our Credit Agreement includes customary covenants, including a restriction on dividends and distributions and other restricted payments, but permits dividends and distributions during any 12-month period in an aggregate amount of up to 95% of Aimco's Funds From Operations, subject to certain non-cash adjustments, for such period or such amount as may be necessary for Aimco to maintain its REIT status.

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ITEM 6. Exhibits

The following exhibits are filed with this report:

EXHIBIT NO. (1) DESCRIPTION

|      |                                                                                                                                                                                                                                                                                                                 |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1  | Aimco – Charter (Exhibit 3.1 to Aimco’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, is incorporated herein by this reference)                                                                                                                                                   |
| 3.2  | Aimco – Amended and Restated Bylaws (Exhibit 3.2 to Aimco’s Current Report on Form 8-K dated February 2, 2010, is incorporated herein by this reference)                                                                                                                                                        |
| 10.1 | Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 29, 1994, as amended and restated as of February 28, 2007 (Exhibit 10.1 to Aimco’s Annual Report on Form 10-K for the year ended December 31, 2006, is incorporated herein by this reference) |
| 10.2 | First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of December 31, 2007 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K, dated December 31, 2007, is incorporated herein by this reference)                                       |
| 10.3 | Second Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 30, 2009 (Exhibit 10.1 to Aimco’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, is incorporated herein by this reference)               |
| 10.4 | Third Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of September 2, 2010 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K, dated September 3, 2010, is incorporated herein by this reference)                                   |
| 10.5 | Fourth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 26, 2011 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K, dated July 26, 2011, is incorporated herein by this reference)                                          |
| 10.6 | Fifth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of August 24, 2011 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K, dated August 24, 2011, is incorporated herein by this reference)                                       |
| 10.7 | Sixth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of December 31, 2011 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K, dated December 31, 2011, is incorporated herein by this reference)                                   |
| 10.8 | Seventh Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of May 13, 2014 (Exhibit 10.1 to Aimco’s Current Report on Form 8-K dated May 15, 2014, is incorporated by this reference)                                                   |
| 31.1 | Aimco – Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                            |
| 31.2 | Aimco – Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                            |
| 31.3 | The Aimco Operating Partnership – Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                  |
| 31.4 | The Aimco Operating Partnership – Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                  |
| 32.1 | Aimco – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                  |
| 32.2 | Aimco – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                  |
| 32.3 | The Aimco Operating Partnership – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                        |

- 32.4 The Aimco Operating Partnership – Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Aimco – Agreement Regarding Disclosure of Long-Term Debt Instruments
- 99.2 The Aimco Operating Partnership – Agreement Regarding Disclosure of Long-Term Debt Instruments
- 101 XBRL (Extensible Business Reporting Language). The following materials from Aimco’s and the Aimco Operating Partnership’s combined Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, tagged in XBRL: (i) condensed consolidated balance sheets; (ii) condensed consolidated statements of operations; (iii) condensed consolidated statements of comprehensive income; (iv) condensed consolidated statements of cash flows; and (v) notes to condensed consolidated financial statements.
- (1) Schedules and supplemental materials to the exhibits have been omitted but will be provided to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APARTMENT INVESTMENT AND  
MANAGEMENT COMPANY

By: /s/ ERNEST M. FREEDMAN  
Ernest M. Freedman  
Executive Vice President and Chief Financial  
Officer  
(duly authorized officer and  
principal financial officer)

By: /s/ PAUL BELDIN  
Paul Beldin  
Senior Vice President and  
Chief Accounting Officer

AIMCO PROPERTIES, L.P.

By: AIMCO-GP, Inc., its general partner

By: /s/ ERNEST M. FREEDMAN  
Ernest M. Freedman  
Executive Vice President and Chief Financial  
Officer  
(duly authorized officer and  
principal financial officer)

By: /s/ PAUL BELDIN  
Paul Beldin  
Senior Vice President and  
Chief Accounting Officer

Date: October 31, 2014