

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-K

March 01, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006**
- 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
(Exact name of registrant as specified in its charter)

Maryland
*(State or other jurisdiction of
incorporation or organization)*
4582 South Ulster Street Parkway, Suite 1100
Denver, Colorado
(Address of principal executive offices)

84-1259577
*(I.R.S. Employer
Identification No.)*
80237
(Zip Code)

Registrant's telephone number, including area code: (303) 757-8101

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock	New York Stock Exchange
Class G Cumulative Preferred Stock	New York Stock Exchange
Class T Cumulative Preferred Stock	New York Stock Exchange
Class U Cumulative Preferred Stock	New York Stock Exchange
Class V Cumulative Preferred Stock	New York Stock Exchange
Class Y Cumulative Preferred Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, was approximately \$4.1 billion as of June 30, 2006. As of February 23, 2007, there were 97,577,459 shares of Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be issued in conjunction with the registrant's annual meeting of stockholders to be held April 30, 2007 are incorporated by reference into Part III of this Annual Report.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

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For the Fiscal Year Ended December 31, 2006**

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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, including, without limitation, statements regarding the effect of acquisitions and redevelopments, our future financial performance, including our ability to maintain current or meet projected occupancy, rent levels and same store results, and the effect of government regulations. Actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation: natural disasters such as hurricanes; national and local economic conditions; the general level of interest rates; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; real estate risks, including variations of real estate values and the general economic climate in local markets and competition for residents in such markets; acquisition and development risks, including failure of such acquisitions to perform in accordance with projections; the timing of acquisitions and dispositions; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned 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 this Annual Report and the other documents we file from time to time with the Securities and Exchange Commission.

PART I

Item 1. Business

The Company

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of December 31, 2006, we owned or managed a real estate portfolio of 1,256 apartment properties containing 216,413 apartment units located in 46 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, as of January 1, 2006, we were the largest owner of apartment properties in the United States. Our portfolio includes garden style, mid-rise and high-rise properties.

We own an equity interest in, and consolidate the majority of, the properties in our owned real estate portfolio. These properties represent the consolidated real estate holdings in our financial statements, which we refer to as consolidated properties. In addition, we have an equity interest in, but do not consolidate for financial statement purposes, certain properties that are accounted for under the equity method. These properties represent our investment in unconsolidated real estate partnerships in our financial statements, which we refer to as unconsolidated properties. Additionally, we manage (both property and asset) but do not own an equity interest in other properties, although in certain cases we may indirectly own generally less than one percent of the operations of such

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properties through a partnership syndication or other fund. Our equity holdings and managed properties are as follows as of December 31, 2006:

	Total Portfolio	
	Properties	Units
Consolidated properties	703	162,432
Unconsolidated properties	102	11,791
Property management for third parties	41	3,573
Asset management for third parties	410	38,617
Total	1,256	216,413

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP, Inc., we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of December 31, 2006, we held approximately a 90% interest in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our 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 OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. Generally after a holding period of twelve months, holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership's option, Aimco Class A Common Stock, which we refer to as Common Stock. At December 31, 2006, we had 96,820,252 shares of our Common Stock outstanding and the Aimco Operating Partnership had 10,135,562 common OP Units and equivalents outstanding for a combined total of 106,955,814 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

Since our initial public offering in July 1994, we have completed numerous transactions, expanding our portfolio of owned or managed properties from 132 properties with 29,343 apartment units to 1,256 properties with 216,413 apartment units as of December 31, 2006. These transactions have included purchases of properties and interests in entities that own or manage properties, as well as corporate mergers.

Except as the context otherwise requires, we, our, us and the Company refer to Aimco, the Aimco Operating Partnership and their consolidated entities, collectively. 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 limited partner in a limited partnership or a member in a limited liability company.

Available Information

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the Securities and Exchange Commission are available free of charge as soon as reasonably practicable through our website at www.aimco.com. The information contained on our website is not incorporated into this Annual Report. Our Common Stock is listed on the New York Stock Exchange under the symbol AIV. In 2006, our chief executive officer submitted his annual corporate governance listing standards certification to the New York Stock Exchange, which certification was unqualified.

Financial Information About Industry Segments

We operate in two reportable segments: real estate (owning and operating apartments) and investment management business (providing property management and other services relating to the apartment business to third parties and affiliates). For further information on these segments, see Note 16 of the consolidated financial statements in Item 8, and Management's Discussion and Analysis in Item 7.

Business Overview

Our principal objective is to increase long-term stockholder value, which we believe results from increasing asset values, increasing operating cash flows and long-term, predictable Funds From Operations, or FFO (as defined by the National Association of Real Estate Investment Trusts), less capital spending for replacements. For a

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description of the meaning of FFO and its use and limitations as an operating measure, see the discussion titled Funds From Operations in Item 7.

We strive to meet our objectives by focusing on property operations, generation of fees, portfolio management, reinvestment in properties, increasing land values through entitlements, managing our cost of capital by using leverage that is largely long-term, non-recourse and property specific, and managing our general and administrative costs through increasing productivity.

Property Operations

We divide property operations into two business components: conventional and affordable. Our conventional operations, which are market-rate apartments with rents paid by the resident, include 469 properties with 135,289 units. Aimco Capital conducts our affordable operations of 336 properties with 38,934 units, which typically are apartments with rents frequently subsidized or paid by a government agency.

Our property operations are characterized by diversification of product, location and price point. We operate a broad range of property types, from suburban garden-style to urban high-rise properties in 46 states, the District of Columbia and Puerto Rico at a broad range of average monthly rental rates, with most between \$500 and \$1,100 per month, and reaching as high as \$6,500 per month at some of our premier properties. This geographic diversification insulates us, to some degree, from inevitable downturns in any one market.

Conventional

Our conventional operations are organized into four divisions, each of which is supervised by a Division Vice President, or DVP, and are further sub-divided into 17 regional operating centers, or ROCs. As changes in our portfolio occur, we reevaluate this structure. A Regional Vice President, or RVP, supervises each ROC. The ROCs are generally smaller business units with specialized operational, financial and human resource leadership. We seek to improve the operating results from our property operations by, among other methods, combining centralized financial control and uniform operating procedures with localized property management decision-making and market knowledge. To manage our nationwide portfolio more efficiently and to increase the benefits from our local management expertise, we have given direct responsibility for operations to the RVP with oversight from extensive regular reviews with senior management. To enable the RVPs to focus on sales and service, as well as improve financial control and budgeting, we have dedicated a regional financial officer to support each RVP. In addition, our construction services group handles all work on site beyond routine maintenance, thus reducing the need for RVPs to spend time on oversight of construction projects. We continue to improve our corporate-level oversight of conventional property operations by developing better systems, standardizing business goals, operational measurements and internal reporting, and enhancing financial controls over field operations. Our objectives are to focus on the areas discussed below:

Customer Service. Our operating culture is to be focused on our customers. Our goal is to provide our residents with consistent service in clean, safe and attractive communities. We evaluate our performance through a customer satisfaction tracking system. In addition, we emphasize the quality of our on-site employees through recruiting, training and retention programs, which we believe contributes to improved customer service and leads to increased occupancy rates and enhanced performance.

Resident Selection and Retention. In apartment properties, neighbors are a part of the product, together with the location of the property and the physical quality of the apartment units. Part of our conventional operations strategy is to focus on resident acquisition and retention – attracting and retaining credit-worthy residents who are good neighbors. We have structured goals and coaching for all of our sales personnel, a tracking system for

inquiries and a standardized renewal communication program. We have standardized residential financial stability requirements and have policies and monitoring practices to maintain our resident quality. We believe that the costs exceed the benefits when higher occupancy results from lowering of financial stability standards.

Revenue Increases. We increase rents where feasible and seek to improve occupancy rates. We are also focused on the automation of on-site operations, as we believe that timely and accurate collection of property

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performance and resident profile data will enable us to maximize revenue through better property management and leasing decisions. We have standardized policies for new and renewal pricing with timely data and analyses by floor-plan, thereby enabling us to maximize our ability to modify pricing, even in challenging sub-markets.

Controlling Expenses. Cost controls are accomplished by local focus at the ROC level and by taking advantage of economies of scale at the corporate level. As a result of the size of our portfolio and our regional concentrations of properties, we have the ability to spread over a large property base fixed costs for general and administrative expenditures and certain operating functions, such as purchasing, insurance and information technology. We expanded our local vendor consolidation program and implemented an electronic procurement system to provide better ongoing control over purchasing decisions and to take advantage of volume discounts. We also are implementing initiatives to retain our current residents and reduce the time and costs associated with resident turnover. Additionally, we have focused on energy management and centralized media programs to control expenses.

Ancillary Services. We believe that our ownership and management of properties provide us with unique access to a customer base that allows us to provide additional services and thereby increase occupancy and rents, while also generating incremental revenue. We currently provide cable television, telephone services, appliance rental, and carport, garage and storage space rental at certain properties.

Aimco Capital

We are among the largest owners and operators of affordable properties in the United States. Aimco Capital was organized to focus on our affordable housing properties, the operations of which are most often subsidized or financed by the United States Department of Housing and Urban Development, or HUD, state housing agencies or tax credit financing, and is led by a management team dedicated to this sector. Aimco Capital operates our affordable properties through three ROCs. Affordable properties tend to have stable rents and occupancy due to government subsidies and thus are much less affected by market circumstances.

Aimco Capital also generates activity fees from transactions related to affordable holdings (including tax credit redevelopments, syndications, dispositions and refinancings), and asset management income from the financial management of our owned and operated affordable portfolio as well as two other large portfolios for which we provide asset management services only.

Portfolio Management

Conventional

We view our conventional property portfolio in terms of core and non-core properties. Core properties are those properties that are located in markets where population and employment growth are expected to exceed national trends and where we believe there is potential for long-term growth at higher rates of return. Our core operations are focused in 27 markets, located primarily in coastal states as well as the Rocky Mountain region and Chicago. We plan to exit certain Texas and Midwest markets where the average four-year growth rate is projected to be below the average of the remainder of the core portfolio. At December 31, 2006, we had 270 conventional core properties, which generally we intend to hold and improve over the long-term. Within our core portfolio, the largest single market (Washington, D.C.) contributed approximately 10%, and the five largest markets (Washington, D.C., Southern California, New England, Philadelphia and Miami-Fort Lauderdale) together contributed approximately 38%, to income before depreciation and interest expense, or net operating income. At December 31, 2006, we had 199 conventional non-core properties, which we generally intend to hold for investment for the intermediate term.

Non-core properties are those properties located within the 26 markets we intend to exit or in less favored locations within the 27 markets that comprise our core portfolio. We exited six markets in 2006. During 2007, we expect to exit an additional eight markets and over the next several years we expect to exit the remaining markets in which we hold our non-core properties.

Portfolio management includes expanding our core portfolio through acquisitions of properties located in markets where our core portfolio is concentrated. We specifically seek investments in a variety of asset qualities and

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types at a purchase price below replacement cost. Currently, we acquire properties and property interests primarily in three ways:

the direct acquisition of a property or portfolio of properties;

acquisition of a portfolio of properties through a purchase from, or a merger or business combination with, an entity that owns or controls the property or portfolio being acquired; and

the purchase from third parties, subject to our fiduciary duties, of additional interests in partnerships where we own a general partnership interest.

In 2006, we completed direct acquisitions of nine conventional core properties, containing approximately 1,700 residential units for an aggregate purchase price of approximately \$177 million (including transaction costs). These properties are located in California, Florida and North Carolina. In addition, we originated approximately \$100 million in loans secured by 87 properties with 1,597 residential units and 42 commercial spaces in the West Harlem District of New York City. In conjunction with this loan agreement, we obtained an option to purchase some or all of the properties during the next ten years. We also acquired additional interests in 48 partnerships for approximately \$18 million (including transaction costs).

Portfolio management also includes dispositions of properties located within markets we intend to exit, properties in less favored locations within the 27 markets that comprise our core portfolio or properties that do not meet our long-term investment criteria. Additionally, from time to time, we may dispose of certain core properties that are consistent with our long-term investment strategy but offer attractive returns, such as in sales to buyers who intend to convert the properties to condominiums. The sales of core and non-core properties partially fund our acquisitions and capital improvements on our existing properties. In 2006, we sold 63 non-core properties and two core properties generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of \$505 million.

Aimco Capital

The portfolio management strategy for Aimco Capital is similar to that of our Conventional portfolio. Aimco Capital seeks to dispose of properties that are inconsistent with our long-term investment strategy and Aimco Capital's operations. During 2006, we sold 23 non-core properties from within the Aimco Capital portfolio, generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of \$19.5 million. At December 31, 2006 within the Aimco Capital portfolio, we had 237 consolidated properties, a majority of which are non-core properties that we generally intend to hold for investment for the intermediate term. During 2007, we intend to sell approximately the same number of Aimco Capital properties as we sold in 2006.

Entitlements

We have the opportunity to improve land values by seeking new entitlements for many properties. Entitlements provide us the opportunity to enhance the value of our existing portfolio by obtaining local governmental approvals to increase density and add dwelling or residential units to a site. Also, we seek to add incremental value through redevelopment of existing units and excess land sales. We achieved new entitlements on five projects, with approximately 2,000 units, in 2006. We currently have approximately 20 entitlement projects underway or under review. These properties are typically well located and in many cases were built 30 or more years ago.

Reinvestment in Properties

We believe that the physical condition and amenities of our apartment properties are important factors in our ability to maintain and increase rental rates. In 2006, we spent \$76.6 million, or \$535 per owned apartment unit, for Capital Replacements, which represent the share of expenditures that are deemed to replace the consumed portion of acquired capital assets. Additionally, we spent \$99.2 million for Capital Improvements, which are non-redevelopment capital expenditures that are made to enhance the value, profitability or useful life of an asset from its original purchase condition.

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In addition to maintenance and improvements of our properties, we focus on the redevelopment of certain properties each year. We believe redevelopment of certain properties in superior locations provides advantages over ground-up development, enabling us to generate rents comparable to new properties with relatively lower financial risk, in less time and with reduced delays associated with governmental permits and authorizations. We undertake two types of redevelopment projects: major projects, where a substantial number of all available units are vacated for significant renovations to the property; and moderate projects, where there is significant renovation, such as exteriors, common areas or unit improvements, typically done upon lease expirations without the need to vacate units on any wholesale or substantial basis. We have a specialized Redevelopment and Construction Services Group, which includes engineers, architects and construction managers, to oversee these projects. As of December 31, 2006, we had 54 projects at various stages of redevelopment. Of the 54 projects, 45 are conventional properties (one major project and 44 moderate projects) and nine are affordable properties. During 2006, redevelopment expenditures totaled \$258.6 million, of which our share totaled \$230.8 million, and we completed three projects as well as interior upgrades or new construction on approximately 2,300 conventional units. Total redevelopment expenditures for our 45 active conventional projects will be approximately \$493 million, of which approximately \$296 million remains to be spent. Total redevelopment expenditures for our nine affordable redevelopments will be approximately \$68 million, of which approximately \$30 million remains to be spent, most of which will be funded by third-party tax credit equity and tax-exempt debt. In 2007, we plan to invest between \$275 and \$325 million in conventional redevelopment projects that will affect approximately 79 properties with over 30,000 units. Additionally, in 2007 redevelopment expenditures on affordable properties will be approximately \$36 million, predominantly funded by third-party tax credit equity, affecting more than 15 properties with more than 1,800 units.

Cost of Capital

We are focused on minimizing our cost of capital. We have a deliberate policy of using non-recourse property debt. The lower risk inherent in non-recourse property debt permits us to operate with higher debt leverage and a lower weighted average cost of capital. During 2006, we closed loans totaling \$1,224.6 million at an average interest rate of 5.66%, which included the refinancing of loans totaling \$586.3 million with prior interest rates averaging 6.34%.

Productivity

Over the past several years, we had growth in our general and administrative spending as a result of the building of our infrastructure in certain areas in which we had needs, including, operational systems, information technology and other automation, human resources, and expanded accounting, legal, and financial planning and analysis functions. During 2006, we reduced general and administrative expenses before variable compensation by approximately \$8 million as compared to 2005. We are focused on continued containment of this spending going forward through enhanced productivity and process improvements.

Competition

In attracting and retaining residents to occupy our properties we compete with numerous other housing alternatives. Our properties compete directly with other rental apartments, as well as with condominiums and single-family homes that are available for rent or purchase in the markets in which our properties are located. Principal factors of competition include rent or price charged, attractiveness of the location and property and quality and breadth of services. The number of competitive properties in a particular area has a material effect on our ability to lease apartment units at our properties and on the rents we charge. Additionally, we compete with other real estate investors, including other apartment REITs, pension and investment funds, partnerships and investment companies in acquiring, redeveloping and managing apartment properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price that we pay in such acquisitions.

Taxation

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to as the Code, commencing with our taxable year ended December 31, 1994, and intend to continue to operate in such

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a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Code, which are related to organizational structure, distribution levels, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to United States Federal corporate income tax on our taxable income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that generally results from investment in a corporation.

Even if we qualify as a REIT, we may be subject to United States Federal income and excise taxes in various situations, such as on our undistributed income. We also will be required to pay a 100% tax on any net income on non-arm's length transactions between us and a TRS (described below) and on any net income from sales of property that was property held for sale to customers in the ordinary course. We and our stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or our stockholders reside. In addition, we could also be subject to the alternative minimum tax, or AMT, on our items of tax preference. Any taxes imposed on us could reduce our operating cash flow and net income. The state and local tax laws may not conform to the United States Federal income tax treatment.

Certain of our operations (property management, asset management, risk, etc.) are conducted through taxable REIT subsidiaries, each of which we refer to as a TRS. A TRS is a C-corporation that has not elected REIT status and as such is subject to United States Federal corporate income tax. We use TRS entities to facilitate our ability to offer certain services and activities to our residents, as these services and activities generally cannot be offered directly by the REIT.

Regulation

General

Apartment properties are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, activity centers and other common areas. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect our net income and cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental revenue or increase operating costs in particular markets.

Environmental

Various Federal, state and local laws subject property owners or operators to liability for management, and the costs of removal or remediation, of certain hazardous substances present on a property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of the hazardous substances. In connection with the ownership, operation and management of properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future. These and other risks related to environmental matters are described in more detail in Item 1A, Risk Factors.

Insurance

Our primary lines of insurance coverage are property, general liability, and workers' compensation. We believe that our insurance coverages adequately insure our properties against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood and other perils and adequately insure us against other risk. Our coverage includes

deductibles, retentions and limits that are customary in the industry. We have established loss prevention, loss mitigation, claims handling, litigation management and loss reserving procedures to manage our exposure.

Employees

We currently have approximately 6,000 employees, of which approximately 4,700 are at the property level, performing various on-site functions, with the balance managing corporate and regional operations, including investment and debt transactions, legal, financial reporting, accounting, information systems, human resources and

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other support functions. Unions represent approximately 100 of our employees. We have never experienced a work stoppage and believe we maintain satisfactory relations with our employees.

Item 1A. Risk Factors

The risk factors noted in this section and other factors noted throughout this Annual Report, describe certain risks and uncertainties that could cause our actual results to differ materially from those contained in any forward-looking statement.

Failure to generate sufficient net operating income may limit our ability to pay dividends.

Our ability to make payments to our investors depends on our ability to generate net operating income in excess of required debt payments and capital expenditure requirements. Net operating income may be adversely affected by events or conditions beyond our control, including:

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.

Redevelopment and construction risks could affect our profitability.

We intend to continue to redevelop certain of our properties. These activities are subject to the following risks:

we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;

we may incur costs that exceed our original estimates due to increased material, labor or other costs;

we may be unable to complete construction and lease up of a property on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;

occupancy rates and rents at a property may fail to meet our expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities;

we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a property, which may cause us to delay or abandon an opportunity;

we may abandon opportunities that we have already begun to explore for a number of reasons, including changes in local market conditions or increases in construction or financing costs, and, as a result, we may fail to recover expenses already incurred in exploring those opportunities;

we may incur liabilities to third parties during the redevelopment process, for example, in connection with tenant terminations, or managing existing improvements on the site prior to tenant terminations; and

loss of a key member of project team could adversely affect our ability to deliver redevelopment projects on time and within our budget.

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If we are not successful in our acquisition of properties, our results of operations could be adversely affected.

The selective acquisition of properties is a component of our strategy. However, we may not be able to complete transactions successfully in the future. Although we seek to acquire, properties only when such activities increase our net income, Funds From Operations or net asset value, such transactions may fail to perform in accordance with our expectations.

Our existing and future debt financing could render us unable to operate, result in foreclosure on our properties or prevent us from making distributions on our equity.

Our strategy is generally to incur debt to increase the return on our equity while maintaining acceptable interest coverage ratios. For the year ended December 31, 2006, we had a ratio of free cash flow (net operating income less spending for capital replacements) to combined interest expense and preferred stock dividends of 1.6:1. Our organizational documents do not limit the amount of debt that we may incur, and we have significant amounts of debt outstanding. Payments of principal and interest may leave us with insufficient cash resources to operate our properties or pay distributions required to be paid in order to maintain our qualification as a REIT. We are also subject to the risk that our cash flow from operations will be insufficient to make required payments of principal and interest, and the risk that existing indebtedness may not be refinanced or that the terms of any refinancing will not be as favorable as the terms of existing indebtedness. If we fail to make required payments of principal and interest on secured debt, our lenders could foreclose on the properties securing such debt, which would result in loss of income and asset value to us. As of December 31, 2006, substantially all of the properties that we owned or controlled were encumbered by debt.

Increases in interest rates would increase our interest expense.

As of December 31, 2006, we had approximately \$1,663.4 million of variable-rate indebtedness outstanding. Of the total debt subject to variable interest rates, floating rate tax-exempt bond financing was \$640.6 million. Floating rate tax-exempt bond financing is benchmarked against the BMA Index, which since 1981 has averaged 68% of the 30-day LIBOR rate. If this relationship continues, an increase in 30-day LIBOR of 1.0% (0.68% in tax-exempt interest rates) would result in our income before minority interests and cash flows being reduced by \$14.6 million on an annual basis. This would be offset by variable rate interest income earned on certain assets, including cash and cash equivalents and notes receivable, as well as interest that is capitalized on a portion of this variable rate debt incurred in connection with our redevelopment activities. Considering these offsets, the same increase in 30-day LIBOR would result in our income before minority interests being reduced by \$4.4 million on an annual basis.

Covenant restrictions may limit our ability to make payments to our investors.

Some of our debt and other securities contain covenants that restrict our ability to make distributions or other payments to our investors unless certain financial tests or other criteria are satisfied. Our credit facility provides, among other things, that we may make distributions to our investors during any four consecutive fiscal quarters in an aggregate amount that does not exceed the greater of 95% of our Funds From Operations for such period or such amount as may be necessary to maintain our REIT status. Our outstanding classes of preferred stock prohibit the payment of dividends on our Common Stock if we fail to pay the dividends to which the holders of the preferred stock are entitled.

Competition could limit our ability to lease apartments or increase or maintain rents.

Our apartment properties compete for residents with other housing alternatives, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartments and to increase or maintain rental rates.

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We depend on distributions and other payments from our subsidiaries that they may be prohibited from making to us.

All of our properties are owned, and all of our operations are conducted, by the Aimco Operating Partnership and our other subsidiaries. As a result, we depend on distributions and other payments from our subsidiaries in order to satisfy our financial obligations and make payments to our investors. The ability of our subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual limitations. As an equity investor in our subsidiaries, our right to receive assets upon their liquidation or reorganization will be effectively subordinated to the claims of their creditors. To the extent that we are recognized as a creditor of such subsidiaries, our claims may still be subordinate to any security interest in or other lien on their assets and to any of their debt or other obligations that are senior to our claims.

Because real estate investments are relatively illiquid, we may not be able to sell properties when appropriate.

Real estate investments are relatively illiquid and cannot always be sold quickly. Thus, we may not be able to change our portfolio promptly in response to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. This could have a material adverse effect on our financial condition or results of operations.

We may be subject to litigation associated with partnership acquisitions that could increase our expenses and prevent completion of beneficial transactions.

We have engaged in, and intend to continue to engage in, the selective acquisition of interests in partnerships that own apartment properties. In some cases, we have acquired the general partner of a partnership and then made an offer to acquire the limited partners' interests in the partnership. In these transactions, we may be subject to litigation based on claims that we, as the general partner, have breached our fiduciary duty to our limited partners or that the transaction violates the relevant partnership agreement or state law. Although we intend to comply with our fiduciary obligations and the relevant partnership agreements, we may incur additional costs in connection with the defense or settlement of this type of litigation. In some cases, this type of litigation may adversely affect our desire to proceed with, or our ability to complete, a particular transaction. Any litigation of this type could also have a material adverse effect on our financial condition or results of operations.

We are self-insured for certain risks and the cost of insurance, increased claims activity or losses resulting from catastrophic events may affect our operating results and financial condition.

We are self-insured for a portion of our consolidated properties' exposure to casualty losses resulting from fire, earthquake, hurricane, tornado, flood and other perils. We recognize casualty losses or gains based on the net book value of the affected property and any related insurance proceeds. In many instances, the actual cost to repair or replace the property may exceed its net book value and any insurance proceeds. We also insure certain unconsolidated properties for a portion of their exposure to such losses. In addition, we are self-insured for a portion of our exposure to third-party claims related to our employee health insurance plans, workers' compensation coverage, and general liability exposure. With respect to our insurance obligations to unconsolidated properties and our exposure to claims of third parties, we establish reserves at levels that reflect our known and estimated losses. The ultimate cost of losses and the impact of unforeseen events may vary materially from recorded reserves, and variances may adversely affect our operating results and financial condition. We purchase insurance (or reinsurance where we insure unconsolidated properties) to reduce our exposure to catastrophe losses and limit our financial losses on large individual risks. The availability and cost of insurance are determined by market conditions outside our control. No assurance can be made that we will be able to obtain and maintain insurance at the same levels and on the same terms as we do today. If we

are not able to obtain or maintain insurance in amounts we consider appropriate for our business, or if the cost of obtaining such insurance increases materially, we may have to retain a larger portion of the potential loss associated with our exposures to risks. The extent of our losses in connection with catastrophic events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe (such as an earthquake) or destructive weather trend affecting a region may have a significant impact on our financial

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condition and results of operations. We cannot accurately predict catastrophes, or the number and type of catastrophic events that will affect us. As a result, our operating and financial results may vary significantly from one period to the next. While we anticipate and plan for catastrophe losses, there can be no assurance that our financial results will not be adversely affected by our exposure to losses arising from catastrophic events in the future that exceed our previous experience and assumptions.

We depend on our senior management.

Our success depends upon the retention of our senior management, including Terry Considine, our chief executive officer and president. There are no assurances that we would be able to find qualified replacements for the individuals who make up our senior management if their services were no longer available. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. We do not currently maintain key-man life insurance for any of our employees. The loss of any member of senior management could adversely affect our ability to pursue effectively our business strategy.

Affordable housing regulations may limit the opportunities at some of our properties and failure to comply with resident qualification requirements may result in financial penalties and/or loss of benefits.

We own consolidated and unconsolidated equity interests in certain properties and manage for third parties and affiliates other properties that benefit from governmental programs intended to provide housing to people with low or moderate incomes. These programs, which are usually administered by HUD or state housing finance agencies, typically provide mortgage insurance, favorable financing terms, tax-credit equity, or rental assistance payments to the property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and impose restrictions on resident incomes. Failure to comply with these requirements and restrictions may result in financial penalties or loss of benefits. We usually need to obtain the approval of HUD in order to manage, or acquire a significant interest in, a HUD-assisted property. We may not always receive such approval.

Laws benefiting disabled persons may result in our incurrence of unanticipated expenses.

Under the Americans with Disabilities Act of 1990, or ADA, all places intended to be used by the public are required to meet certain Federal requirements related to access and use by disabled persons. Likewise, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped. These and other Federal, state and local laws may require modifications to our properties, or restrict renovations of the properties. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although we believe that our properties are substantially in compliance with present requirements, we may incur unanticipated expenses to comply with the ADA and the FHAA.

Potential liability or other expenditures associated with potential environmental contamination may be costly.

Various Federal, state and local laws subject property owners or operators to liability for management, and the costs of removal or remediation, of certain hazardous substances present on a property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of the hazardous substances. The presence of, or the failure to manage or remedy properly, hazardous substances may adversely affect occupancy at affected apartment communities and the ability to sell or finance affected properties. In addition to the costs associated with investigation and remediation actions brought by government agencies, and potential fines or penalties imposed by such agencies in connection therewith, the presence of hazardous substances

on a property could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose liability for the cost of removal, remediation or disposal of hazardous substances through a licensed disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous substances is potentially liable under such laws. These laws often impose liability whether or not the person arranging for the

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disposal ever owned or operated the disposal facility. In connection with the ownership, operation and management of properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

Moisture infiltration and resulting mold remediation may be costly.

We have been named as a defendant in lawsuits that have alleged personal injury and property damage as a result of the presence of mold. In addition, we are aware of lawsuits against owners and managers of multifamily properties asserting claims of personal injury and property damage caused by the presence of mold, some of which have resulted in substantial monetary judgments or settlements. We have only limited insurance coverage for property damage loss claims arising from the presence of mold and for personal injury claims related to mold exposure. We have implemented policies, procedures, third-party audits and training, and include a detailed moisture intrusion and mold assessment during acquisition due diligence. We believe these measures will prevent or eliminate mold exposure from our properties and will minimize the effects that mold may have on our residents. To date, we have not incurred any material costs or liabilities relating to claims of mold exposure or to abate mold conditions. Because the law regarding mold is unsettled and subject to change we can make no assurance that liabilities resulting from the presence of or exposure to mold will not have a material adverse effect on our consolidated financial condition or results of operations.

The FBI has issued alerts regarding potential terrorist threats involving apartment buildings.

From time to time, the Federal Bureau of Investigation, or FBI, and the United States Department of Homeland Security issue alerts regarding potential terrorist threats involving apartment buildings. Threats of future terrorist attacks, such as those announced by the FBI and the Department of Homeland Security, could have a negative effect on rent and occ