APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
August 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o 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)	84-1259577
Delaware (AIMCO Properties, L.P.)	84-1275621
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4582 South Ulster Street, Suite 1100	
Denver, Colorado	80237
(Address of principal executive offices)	(Zip Code)

(303) 757-8101
(Registrant’s telephone number, including area 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 x No o AIMCO Properties, L.P.: Yes x No o
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).
Apartment Investment and Management Company: Yes x No o AIMCO Properties, L.P.: Yes x No o

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

Apartment Investment and Management Company:

Large accelerated filer	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
			Emerging growth company	o

AIMCO Properties, L.P.:

Large accelerated filer	o		Accelerated filer	x
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
			Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act.

Apartment Investment and Management Company: o AIMCO Properties, L.P.: o

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 Company: Yes o No x AIMCO Properties, L.P.: Yes o No x

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The number of shares of Apartment Investment and Management Company Class A Common Stock outstanding as of August

The number of AIMCO Properties, L.P. Partnership Common Units outstanding as of August 3, 2018: 166,397,751

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EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended June 30, 2018, 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 June 30, 2018, owned a 94.6% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 5.4% 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. Pursuant to the Aimco Operating Partnership agreement, Aimco is required to contribute to the Aimco Operating Partnership any assets, which it may acquire including all proceeds from the offerings of its securities. In exchange for the contribution of these 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:

- We present our business as a whole, in the same manner our management views and operates the business;
- We eliminate duplicative disclosure and provide a more streamlined and readable presentation because a substantial portion of the disclosures apply to both Aimco and the Aimco Operating Partnership; and
- We save 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, the management of Aimco directs the management and operations of the Aimco Operating Partnership, and the members of the Board of Directors of Aimco are identical to those 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 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 condensed consolidated financial statements of Aimco and those of the Aimco Operating Partnership. Interests in the Aimco Operating Partnership held by entities other than Aimco, which we refer to as OP Units, 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 condensed consolidated financial statements for Aimco and the Aimco Operating Partnership; a single set of condensed 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, where appropriate.

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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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
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)

	June 30, 2018	December 31, 2017
ASSETS		
Buildings and improvements	$6,407,863	$6,174,149
Land	1,763,788	1,753,604
Total real estate	8,171,651	7,927,753
Accumulated depreciation	(2,452,947)	(2,522,358)
Net real estate	5,718,704	5,405,395
Cash and cash equivalents	46,703	60,498
Restricted cash	41,117	34,827
Other assets	365,564	272,739
Assets held for sale	94,314	17,959
Assets of partnerships served by Asset Management business held for sale at June 30, 2018:		
Real estate, net	216,875	224,873
Cash and cash equivalents	20,696	16,288
Restricted cash	30,055	30,928
Other assets	10,328	15,533
Total assets	$6,544,356	$6,079,040
LIABILITIES AND EQUITY		
Non-recourse property debt secured by Real Estate communities, net	$3,791,238	$3,545,109
Term loan, net	249,801	249,501
Revolving credit facility borrowings	220,170	67,160
Total indebtedness associated with Real Estate portfolio	4,261,209	3,861,770
Accrued liabilities and other	216,789	213,027
Liabilities related to assets held for sale	68,610	—
Liabilities of partnerships served by Asset Management business held for sale at June 30, 2018:		
Non-recourse property debt, net	224,112	227,141
Accrued liabilities and other	17,519	19,812
Total liabilities	4,788,239	4,321,750
Preferred noncontrolling interests in Aimco Operating Partnership	101,332	101,537
Commitments and contingencies (Note 4)		
Equity:		
Perpetual Preferred Stock	125,000	125,000
Common Stock, $0.01 par value, 500,787,260 shares authorized, 157,351,428 and 157,189,447 shares issued/outstanding at June 30, 2018 and December 31, 2017, respectively	1,574	1,572
Additional paid-in capital	3,887,260	3,900,042
Accumulated other comprehensive income	3,208	3,603

Distributions in excess of earnings	(2,402,101)	(2,367,073)
Total Aimco equity	1,614,941	1,663,144
Noncontrolling interests in consolidated real estate partnerships	(2,984)	(1,716)
Common noncontrolling interests in Aimco Operating Partnership	42,828	(5,675)
Total equity	1,654,785	1,655,753
Total liabilities and equity	$6,544,356	$6,079,040

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental and other property revenues attributable to Real Estate	$231,130	$227,703	$456,523	$452,931
Rental and other property revenues of partnerships served by Asset Management business	19,000	18,533	37,808	37,095
Tax credit and transaction revenues	57	2,856	3,576	5,547
Total revenues	250,187	249,092	497,907	495,573
OPERATING EXPENSES				
Property operating expenses attributable to Real Estate	76,031	79,082	154,318	158,708
Property operating expenses of partnerships served by Asset Management business	9,062	8,391	18,257	17,587
Depreciation and amortization	97,485	89,155	190,033	176,323
General and administrative expenses	13,882	10,108	25,237	21,071
Other expenses, net	4,366	2,650	7,324	4,389
Total operating expenses	200,826	189,386	395,169	378,078
Operating income	49,361	59,706	102,738	117,495
Interest income	2,884	2,012	5,056	4,204
Interest expense	(49,906)	(46,858)	(97,701)	(94,740)
Other, net	200	200	424	665
Income before income taxes and gain on dispositions	2,539	15,060	10,517	27,624
Income tax benefit	4,395	5,023	41,783	10,008
Income before gain on dispositions	6,934	20,083	52,300	37,632
Gain on dispositions of real estate, inclusive of related income tax	222	1,508	50,546	1,114
Net income	7,156	21,591	102,846	38,746
Noncontrolling interests:				
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(45)	(813)	(6,251)	(1,764)
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,934)	(1,939)	(3,871)	(3,888)
Net income attributable to common noncontrolling interests in Aimco Operating Partnership	(140)	(787)	(3,895)	(1,344)
Net income attributable to noncontrolling interests	(2,119)	(3,539)	(14,017)	(6,996)
Net income attributable to Aimco	5,037	18,052	88,829	31,750
Net income attributable to Aimco preferred stockholders	(2,149)	(2,149)	(4,297)	(4,297)
Net income attributable to participating securities	(71)	(60)	(190)	(119)
Net income attributable to Aimco common stockholders	$2,817	$15,843	$84,342	$27,334
Net income attributable to Aimco per common share – basic and diluted	$0.02	$0.10	$0.54	$0.17
Dividends declared per common share	$0.38	$0.36	$0.76	$0.72
Weighted average common shares outstanding – basic	156,703	156,305	156,656	156,282

Weighted average common shares outstanding – diluted	156,833	156,715	156,786	156,735

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	$7,156	$21,591	$102,846	$38,746
Other comprehensive loss:				
Unrealized (losses) gains on interest rate swaps	(4)	(345)	415	(355)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	100	369	219	755
Unrealized (losses) gains on available for sale debt securities	(451)	1,080	(1,051)	(421)
Other comprehensive (loss) gain	(355)	1,104	(417)	(21)
Comprehensive income	6,801	22,695	102,429	38,725
Comprehensive income attributable to noncontrolling interests	(2,100)	(3,630)	(13,995)	(7,090)
Comprehensive income attributable to Aimco	$4,701	$19,065	$88,434	$31,635

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$102,846	$38,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	190,033	176,323
Gain on dispositions of real estate, inclusive of related income tax	(50,546)	(1,114)
Income tax benefit	(41,783)	(10,008)
Other adjustments	2,307	4,706
Net changes in operating assets and operating liabilities	(17,231)	(31,147)
Net cash provided by operating activities	185,626	177,506
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate and deposits related to purchases of real estate	(205,318)	(8,189)
Capital expenditures	(164,116)	(176,388)
Proceeds from dispositions of real estate	76,317	10,915
Purchases of corporate assets	(2,649)	(6,005)
Other investing activities	2,079	733
Net cash used in investing activities	(293,687)	(178,934)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from non-recourse property debt	360,613	68,535
Principal repayments on non-recourse property debt	(257,144)	(91,420)
Proceeds from term loan	—	250,000
Net borrowings on revolving credit facility	153,010	227,790
Payment of dividends to holders of Preferred Stock	(4,297)	(4,297)
Payment of dividends to holders of Common Stock	(119,288)	(112,661)
Payment of distributions to noncontrolling interests	(16,998)	(11,176)
Purchases and redemptions of noncontrolling interests	(11,395)	(323,165)
Other financing activities	(41)	53
Net cash provided by financing activities	104,460	3,659
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,601)	2,231
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	142,541	131,150
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$138,940	$133,381

See notes to condensed consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Buildings and improvements	$6,407,863	$6,174,149
Land	1,763,788	1,753,604
Total real estate	8,171,651	7,927,753
Accumulated depreciation	(2,452,947)	(2,522,358)
Net real estate	5,718,704	5,405,395
Cash and cash equivalents	46,703	60,498
Restricted cash	41,117	34,827
Other assets	365,564	272,739
Assets held for sale	94,314	17,959
Assets of partnerships served by Asset Management business held for sale at June 30, 2018:		
Real estate, net	216,875	224,873
Cash and cash equivalents	20,696	16,288
Restricted cash	30,055	30,928
Other assets	10,328	15,533
Total assets	$6,544,356	$6,079,040
LIABILITIES AND EQUITY		
Non-recourse property debt secured by Real Estate communities, net	$3,791,238	$3,545,109
Term loan, net	249,801	249,501
Revolving credit facility borrowings	220,170	67,160
Total indebtedness associated with Real Estate portfolio	4,261,209	3,861,770
Accrued liabilities and other	216,789	213,027
Liabilities related to assets held for sale	68,610	—
Liabilities of partnerships served by Asset Management business held for sale at June 30, 2018:		
Non-recourse property debt, net	224,112	227,141
Accrued liabilities and other	17,519	19,812
Total liabilities	4,788,239	4,321,750
Redeemable preferred units	101,332	101,537
Commitments and contingencies (Note 4)		
Partners' capital:		
Preferred units	125,000	125,000
General Partner and Special Limited Partner	1,489,941	1,538,144
Limited Partners	42,828	(5,675)
Partners' capital attributable to the Aimco Operating Partnership	1,657,769	1,657,469
Noncontrolling interests in consolidated real estate partnerships	(2,984)	(1,716)
Total partners' capital	1,654,785	1,655,753
Total liabilities and partners' capital	$6,544,356	$6,079,040

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental and other property revenues attributable to Real Estate	$231,130	$227,703	$456,523	$452,931
Rental and other property revenues of partnerships served by Asset Management business	19,000	18,533	37,808	37,095
Tax credit and transaction revenues	57	2,856	3,576	5,547
Total revenues	250,187	249,092	497,907	495,573
OPERATING EXPENSES				
Property operating expenses attributable to Real Estate	76,031	79,082	154,318	158,694
Property operating expenses of partnerships served by Asset Management business	9,062	8,391	18,257	17,601
Depreciation and amortization	97,485	89,155	190,033	176,323
General and administrative expenses	13,882	10,108	25,237	21,071
Other expenses, net	4,366	2,650	7,324	4,389
Total operating expenses	200,826	189,386	395,169	378,078
Operating income	49,361	59,706	102,738	117,495
Interest income	2,884	2,012	5,056	4,204
Interest expense	(49,906)	(46,858)	(97,701)	(94,740)
Other, net	200	200	424	665
Income before income taxes and gain on dispositions	2,539	15,060	10,517	27,624
Income tax benefit	4,395	5,023	41,783	10,008
Income before gain on dispositions	6,934	20,083	52,300	37,632
Gain on dispositions of real estate, inclusive of related income tax	222	1,508	50,546	1,114
Net income	7,156	21,591	102,846	38,746
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(45)	(813)	(6,251)	(1,764)
Net income attributable to the Aimco Operating Partnership	7,111	20,778	96,595	36,982
Net income attributable to the Aimco Operating Partnership’s preferred unitholders	(4,083)	(4,088)	(8,168)	(8,185)
Net income attributable to participating securities	(79)	(63)	(204)	(123)
Net income attributable to the Aimco Operating Partnership’s common unitholders	$2,949	$16,627	$88,223	$28,674
Net income attributable to the Aimco Operating Partnership per common unit – basic	$0.02	$0.10	$0.54	$0.18
Net income attributable to the Aimco Operating Partnership per common unit – diluted	$0.02	$0.10	$0.54	$0.17
Distributions declared per common unit	$0.38	$0.36	$0.76	$0.72
Weighted average common units outstanding – basic	164,685	163,740	164,138	163,777
Weighted average common units outstanding – diluted	164,815	164,150	164,268	164,230

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	$7,156	$21,591	$102,846	$38,746
Other comprehensive loss:				
Unrealized (losses) gains on interest rate swaps	(4)	(345)	415	(355)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	100	369	219	755
Unrealized (losses) gains on available for sale debt securities	(451)	1,080	(1,051)	(421)
Other comprehensive (loss) gain	(355)	1,104	(417)	(21)
Comprehensive income	6,801	22,695	102,429	38,725
Comprehensive income attributable to noncontrolling interests	(45)	(856)	(6,251)	(1,865)
Comprehensive income attributable to the Aimco Operating Partnership	$6,756	$21,839	$96,178	$36,860

See notes to condensed consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$102,846	$38,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	190,033	176,323
Gain on dispositions of real estate, inclusive of related income tax	(50,546)	(1,114)
Income tax benefit	(41,783)	(10,008)
Other adjustments	2,307	4,706
Net changes in operating assets and operating liabilities	(17,231)	(31,147)
Net cash provided by operating activities	185,626	177,506
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate and deposits related to purchases of real estate	(205,318)	(8,189)
Capital expenditures	(164,116)	(176,388)
Proceeds from dispositions of real estate	76,317	10,915
Purchases of corporate assets	(2,649)	(6,005)
Other investing activities	2,079	733
Net cash used in investing activities	(293,687)	(178,934)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from non-recourse property debt	360,613	68,535
Principal repayments on non-recourse property debt	(257,144)	(91,420)
Proceeds from term loan	—	250,000
Net borrowings on revolving credit facility	153,010	227,790
Payment of distributions to holders of Preferred Units	(8,168)	(8,185)
Payment of distributions to General Partner and Special Limited Partner	(119,288)	(112,661)
Payment of distributions to Limited Partners	(5,625)	(5,408)
Payment of distributions to noncontrolling interests	(7,502)	(1,880)
Purchases of noncontrolling interests in consolidated real estate partnerships	(3,581)	(311,055)
Other financing activities	(7,855)	(12,057)
Net cash provided by financing activities	104,460	3,659
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,601)	2,231
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	142,541	131,150
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$138,940	$133,381

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(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, management, redevelopment and limited development of quality apartment communities located in several of the largest markets in the United States.
Aimco, 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, which we refer to as common OP Units, as well as partnership preferred units, which we refer to as preferred OP Units. As of June 30, 2018, after eliminations for units held by consolidated subsidiaries, the Aimco Operating Partnership had 166,403,852 common partnership units outstanding. As of June 30, 2018, Aimco owned 157,351,428 of the common partnership units (94.6% of the common partnership units) 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 June 30, 2018, we owned an equity interest in 138 apartment communities with 37,897 apartment homes in our Real Estate portfolio. Our Real Estate portfolio is diversified by both price point and geography and consists primarily of market rate apartment communities in which we own a substantial interest. We consolidated 134 of these apartment communities with 37,755 apartment homes and these communities comprise our reportable segment.
As of June 30, 2018, we also held nominal ownership positions in partnerships that own 46 low-income housing tax credit apartment communities with 6,898 apartment homes. We provide services to these partnerships and receive fees and other payments in return. Our relationship with these partnerships is different than real estate ownership and is better described as an asset management business, or Asset Management. In accordance with accounting principles generally accepted in the United States of America, or GAAP, we are required to consolidate partnerships owning an aggregate of 39 apartment communities with 6,211 apartment homes. We completed the sale of our Asset Management business on July 25, 2018.
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 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 six months ended June 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.
The balance sheets of Aimco and the Aimco Operating Partnership at December 31, 2017, 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, 2017. 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

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include the accounts of the Aimco Operating Partnership and its consolidated subsidiaries, including partnerships served by our Asset Management business (see Note 8). 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 condensed consolidated balance sheets as noncontrolling interests in the Aimco Operating Partnership. Interests in partnerships consolidated by the Aimco Operating Partnership that are held by third parties are reflected in our accompanying condensed consolidated balance sheets as noncontrolling interests in consolidated real estate partnerships.

Temporary Equity and Partners' Capital

The following table presents a reconciliation of the Aimco Operating Partnership's preferred OP Units from December 31, 2017 to June 30, 2018. The preferred OP Units may be redeemed at the holders' option (as further discussed in Note 5), and are therefore presented within temporary equity in Aimco's condensed consolidated balance sheets and within temporary capital in the Aimco Operating Partnership's condensed consolidated balance sheets (in thousands).

Balance, December 31, 2017	$101,537
Distributions to holders of preferred OP Units	(3,871)
Redemption of preferred OP Units and other	(205)
Net income attributable to preferred OP Units	3,871
Balance, June 30, 2018	$101,332

Aimco Equity (including Noncontrolling Interests)

The following table presents a reconciliation of Aimco's consolidated permanent equity accounts from December 31, 2017 to June 30, 2018 (in thousands):

	Aimco Equity	Noncontrolling interests in consolidated real estate partnerships	Common noncontrolling interests in Aimco Operating Partnership	Total Equity
Balance, December 31, 2017	$1,663,144	$ (1,716)	$ (5,675)	$1,655,753
Contributions	—	(20)	—	(20)
Issuance of common OP Units	—	—	50,151	50,151
Dividends on Preferred Stock	(4,297)	—	—	(4,297)
Dividends and distributions on Common Stock and common OP Units	(119,558)	(7,499)	(5,973)	(133,030)
Redemptions of common OP Units	—	—	(7,611)	(7,611)
Amortization of stock-based compensation cost	4,481	—	780	5,261
Effect of changes in ownership for consolidated entities	(17,385)	—	7,283	(10,102)
Change in accumulated other comprehensive loss	(395)	—	(22)	(417)
Other	122	—	—	122
Net income	88,829	6,251	3,895	98,975
Balance, June 30, 2018	$1,614,941	$ (2,984)	$ 42,828	$1,654,785

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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, 2017 to June 30, 2018 (in thousands):

	Partners’ capital attributable to the Aimco Operating Partnership
Balance, December 31, 2017	$1,657,469
Issuance of common OP Units	50,151
Distributions to preferred units held by Aimco	(4,297)
Distributions to common units held by Aimco	(119,558)
Distributions to common units held by Limited Partners	(5,973)
Redemption of common OP Units	(7,611)
Amortization of Aimco stock-based compensation cost	5,261
Effect of changes in ownership for consolidated entities	(10,102)
Change in accumulated other comprehensive loss	(417)
Other	122
Net income	92,724
Balance, June 30, 2018	$1,657,769

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.

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.

Reclassifications

Certain items included in the 2017 financial statements have been reclassified to conform to the current presentation.

Income Taxes

As discussed in Note 9 to the consolidated financial statements in Item 8 of our Form 10-K for the year ended December 31, 2017, we have not completed our accounting for the tax effects of the enactment of the Tax Cuts and Jobs Act in late December 2017. During the six months ended June 30, 2018, we recognized a measurement period adjustment to reduce by $11.3 million an estimated valuation allowance recognized as of December 31, 2017. During the six months ended June 30, 2018, we also recognized an offsetting valuation allowance resulting from an intercompany transfer of assets related to our Asset Management business. These adjustments had no net effect on our results of operations or effective tax rate.

Accounting Pronouncements Adopted in the Current Year

Effective January 1, 2018, we adopted a new standard issued by the Financial Accounting Standards Board, or FASB, that affects accounting for revenue. Under this new standard, revenue is generally recognized when an entity has transferred control of goods or services to a customer for an amount reflecting the consideration to which the entity expects to be entitled for such exchange. In evaluating the contracts we enter into in the ordinary course of business, substantially all of our revenue is generated by lease agreements, which will continue to be subject to existing GAAP until 2019, when we will adopt the new lease accounting standard.

The new revenue standard also introduced new guidance for accounting for other income, including how we measure gains or losses on the sale of real estate. We adopted the new standard using the modified retrospective transition method effective January 1, 2018, with no effect on our results of operations or financial position.

Effective January 1, 2018, we also adopted new standards issued by the FASB that affect the presentation and disclosure of the statements of cash flows. We are now required to present combined inflows and outflows of cash, cash equivalents, and

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restricted cash in the consolidated statement of cash flows. Previously our consolidated statements of cash flows presented transfers between restricted and unrestricted cash accounts as operating, financing, and investing cash activities depending upon the required or intended purpose for the restricted funds. The new guidance also requires debt prepayment and other extinguishment related payments to be classified as financing activities. We previously classified such payments as operating activities. We have revised our condensed consolidated statements of cash flows for the six months ended June 30, 2017 to conform to this presentation, and the effect of the revisions to net cash flows from operating and investing activities as previously reported for the six months ended June 30, 2017 are summarized in the following table (in thousands):

	As Previously Reported	Adjustments	As Revised
Net cash flows from operating activities	$176,013	$ 1,493	$177,506
Net cash flows from investing activities	(177,154)	(1,780)	(178,934)

As of June 30, 2018, in addition to the balances presented as cash, cash equivalents and restricted cash on the condensed consolidated balance sheets, there is $0.4 million of cash, cash equivalents and restricted cash included in assets held for sale.

Note 3 — Significant Transactions, Dispositions of Apartment Communities and Assets Held for Sale

Acquisition of Apartment Communities

During the six months ended June 30, 2018, we purchased for $160.0 million Bent Tree Apartments, a 748-apartment home community in Fairfax County, Virginia. The purchase price, plus $1.0 million of capitalized transaction costs, was allocated as follows: $47.0 million to land; $113.0 million to buildings and improvements; and $1.0 million to other items.

During the six months ended June 30, 2018, we agreed to acquire six apartment communities in the Philadelphia area for a stated purchase price of $445.0 million. The portfolio includes 1,006 existing apartment homes, 110 apartment homes under construction, and 185,000 square feet of office and retail space. On May 1, 2018, we purchased four of the six apartment communities, including 665 apartment homes and 153,000 square feet of office and retail space. The gross purchase price consisted of $208.9 million of assumed property-level debt and the issuance of 1.2 million OP Units. In accordance with GAAP, the OP Units were valued at $41.08 per unit, the closing price of Aimco’s common share on May 1, 2018. Total consideration, plus $6.4 million of capitalized transaction costs, was allocated as follows: $14.1 million to land; $282.5 million to buildings and improvements; $6.3 million to intangible assets; and $3.1 million to intangible liabilities. The purchase of the fifth apartment community is conditioned upon the City of Camden’s approval of the transfer of the existing PILOT tax agreement, which has not yet been received. The purchase of the sixth apartment community is expected upon completion of the construction in the first half of 2019.

Dispositions of Apartment Communities and Assets Held for Sale

During the six months ended June 30, 2018, we sold three apartment communities with 513 apartment homes for a gain on disposition of $50.6 million, net of income tax, and gross proceeds of $71.9 million resulting in $64.6 million in net proceeds to us. Two of these communities are located in southern Virginia and one is located in suburban Maryland.

During the six months ended June 30, 2018, we sold our interests in the entities owning the La Jolla Cove property in settlement of legal actions filed in 2014 by a group of disappointed buyers who had hoped to acquire the property. We provided seller financing with a stated value of $48.6 million and received net cash proceeds of approximately $5.0 million in the sale.

In addition to the apartment communities we sold during the periods presented, from time to time we may be 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 communities meet the criteria to be classified as held for sale. On July 25, 2018, we sold for $590.0 million our Asset Management business and our four affordable apartment communities located in Hunters Point. After payment of transaction costs and repayment of property-level debt encumbering the Hunters Point apartment communities, net proceeds were approximately $512.0 million. The related assets and liabilities were classified as held for sale as of June 30, 2018.

As of June 30, 2018, we also classified Chestnut Hill Village, an 821-apartment home community located in north Philadelphia, as held for sale. On July 27, 2018, we sold this community for gross proceeds of $170.4 million, resulting in $165.5 million of net proceeds to us.

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Note 4 — Commitments and Contingencies

Commitments

In connection with our redevelopment, development and capital improvement activities, we have entered into various construction-related contracts and we have made commitments to complete redevelopment of certain apartment communities, pursuant to financing or other arrangements. As of June 30, 2018, our commitments related to these capital activities totaled approximately $118.0 million, most of which we expect to incur during the next 12 months.

We 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

For various consolidated partnerships served by our Asset Management business, we are required to manage the partnerships and related apartment communities in compliance with various laws, regulations and contractual provisions that apply to 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 by the limited partners in these partnerships and would require a refund or reduction of investor capital contributions, which are reported as deferred income in our condensed consolidated balance sheets, until such time as our obligation to deliver tax benefits is relieved. In connection with the July 25, 2018, sale of our Asset Management business, the performance obligation related to continuing compliance was assumed by the purchaser.

Income Taxes

In 2014, the Internal Revenue Service initiated an audit of the Aimco Operating Partnership’s 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.

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 in the land or buildings of an apartment community. Such laws often impose liability without regard to fault or whether the owner or operator knew of, or was responsible for, the presence of such materials. The presence of, or the failure to manage or remediate properly, these materials may adversely affect occupancy at such apartment communities as well as the ability to sell or finance such apartment communities. In addition, governmental agencies may bring claims for costs associated with investigation and remediation actions. Moreover, private plaintiffs may potentially make claims for investigation and remediation costs they incur or for personal injury, disease, disability or other infirmities related to the alleged presence of hazardous materials. In addition to potential environmental liabilities or costs associated with our current apartment communities, we may also be responsible for such liabilities or costs associated with communities we acquire or manage in the future, or apartment communities we no longer own or operate.

We are engaged in discussions with the Environmental Protection Agency, or EPA, and the Indiana Department of Environmental Management, or IDEM, regarding contaminated groundwater in a residential area in the vicinity of an Indiana apartment community that has not been owned by us since 2008. The contamination allegedly derives from a dry cleaner that operated on our former property, prior to our ownership. We have undertaken a voluntary remediation of the dry cleaner contamination under IDEM’s oversight, and in previous years accrued our share of the then-estimated cleanup and abatement costs. In 2016, EPA listed our former community and a number of residential communities in the vicinity on the National Priorities List, or NPL (i.e. as a Superfund site). In May 2018, we prevailed on our federal judicial appeal vacating the Superfund listing. We continue to work with EPA and IDEM to identify options for clean-up of the site. Although the outcome of these processes are uncertain, we do not expect their resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We also have been contacted by regulators and the current owner of a property in Lake Tahoe, California, regarding environmental issues allegedly stemming from the historic operation of a dry cleaner. An entity owned by us was the former general partner of a now-dissolved partnership that previously owned a site that was used for dry cleaning. That entity and the current property owner have been remediating the dry cleaner site since 2009, under the oversight of the Lahontan Regional Water Quality Control Board, or Lahontan. In May 2017, Lahontan issued a final cleanup and abatement order that names four potentially-responsible parties, acknowledges that there may be additional responsible parties, and requires the named parties to perform additional groundwater investigation and corrective actions with respect to onsite and offsite contamination. We are appealing the final order while simultaneously complying with it. Although the outcome of this process is uncertain, we do not expect its 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 June 30, 2018, are immaterial to our consolidated financial condition, results of operations and cash flows.

Note 5 — Earnings per Share and Unit

Aimco and the Aimco Operating Partnership calculate basic earnings per common share and basic earnings per common unit based on the weighted average number of shares of Common Stock and common partnership units and participating securities outstanding, and calculate diluted earnings per share and diluted earnings per unit taking into consideration dilutive common stock and common partnership unit equivalents and dilutive convertible securities outstanding during the period.

Our common stock and common partnership unit equivalents include 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. These equivalents also include unvested total stockholder return, or TSR, restricted stock awards that do not meet the definition of participating securities, which would result in an increase in the number of common shares and common partnership units outstanding equal to the number of shares that vest. The effect of 0.1 million and 0.4 million of these securities was dilutive for the three months ended June 30, 2018 and 2017, respectively. The effect of 0.1 million and 0.5 million of these securities was dilutive for the six months ended June 30, 2018 and 2017, respectively. Securities with dilutive effect are included in the denominator for calculating diluted earnings per share and unit during these periods. There were 0.2 million potential shares and 0.2 million potential units not dilutive and excluded from the denominator for calculating diluted earnings per share and per unit, respectively, for both the three and six months ended June 30, 2018 and 2017.

Our time-based restricted stock awards receive dividends similar to shares of Common Stock and common partnership units prior to vesting and our TSR long-term incentive partnership units receive a percentage of the distributions paid to common partnership units prior to vesting. These dividends and distributions are not forfeited if the awards fail to vest. Therefore, the unvested shares and units related to these awards are participating securities. The effect of participating securities is included in basic and diluted earnings per share and unit computations using the two-class method of allocating distributed and undistributed earnings when the two-class method is more dilutive than the treasury method. There were 0.3 million and 0.2 million unvested participating securities as of June 30, 2018 and 2017, respectively.

The Aimco Operating Partnership has various classes of preferred OP Units, which may be redeemed at the holders' option. The Aimco Operating Partnership may redeem these units for cash, or at its option, shares of Common Stock. As of June 30, 2018, these preferred OP Units were potentially redeemable for approximately 2.4 million shares of Common Stock (based on the period end market price), or cash. 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 and we expect to exclude them in future periods.

Note 6 — Fair Value Measurements

Recurring Fair Value Measurements

We measure at fair value on a recurring basis our investments in the securitization trust that holds certain of our property debt, which we classify as available for sale, or AFS, debt securities, and our interest rate swaps, both of

which are classified within Level 2 of the GAAP fair value hierarchy.
Our investments in debt securities classified as AFS are presented within other assets in the accompanying condensed consolidated balance sheets. We hold several positions in the securitization trust that pay interest currently and we also hold the first loss position in the securitization trust, which accrues interest over the term of the investment. 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 term of the investments, which, as of June 30, 2018, was approximately 2.9 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was $80.6 million and $77.7

million at June 30, 2018 and December 31, 2017, respectively. We estimated the fair value of these investments to be $84.6 million and $82.8 million at June 30, 2018 and December 31, 2017, respectively.

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. The fair value of the positions that pay interest currently typically moves in an inverse relationship with movements in interest rates. The fair value of the first loss position is primarily correlated to collateral quality and demand for similar subordinate commercial mortgage-backed securities.

Certain consolidated partnerships served by our Asset Management business entered into interest rate swap agreements, which limited exposure to interest rate risk on the partnerships' debt by effectively converting the interest from a variable rate to a fixed rate. We estimated 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.

The following table sets forth a summary of the changes in fair value of these interest rate swaps (in thousands):

	Six Months Ended June 30,	
	2018	2017
Beginning balance	$(1,795)	$(3,175)
Unrealized losses included in interest expense	—	(23)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	219	755
Unrealized gains (losses) included in equity and partners' capital	415	(355)
Ending balance	$(1,161)	$(2,798)

As of June 30, 2018 and December 31, 2017, the interest rate swaps had aggregate notional amounts of $21.7 million and $22.0 million, respectively. We designated these interest rate swaps as cash flow hedges. As of June 30, 2018, the fair value of these swaps is presented within liabilities held for sale in our condensed consolidated balance sheets, and we recognized 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. Effective July 25, 2018, in connection with the sale of our Asset Management business, these obligations were derecognized.

Fair Value Disclosures

We believe that the carrying values of the consolidated amounts of cash and cash equivalents, receivables and payables approximate their fair values at June 30, 2018, and December 31, 2017, due to their relatively short-term nature and high probability of realization. The estimated fair value of the total indebtedness associated with our Real Estate portfolio was approximately $4.2 billion at June 30, 2018, as compared to a carrying amount of $4.3 billion at June 30, 2018. The carrying value of the total indebtedness associated with our Real Estate portfolio approximated its estimated fair value at December 31, 2017. 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 apartment communities within our portfolio. We classify the fair value of debt within Level 3 of the GAAP valuation hierarchy based on the significance of certain of the unobservable inputs used to estimate its fair value.

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Note 7 — Business Segments

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 is defined as our share of rental and other property revenue less our share of property operating expenses, including real estate taxes, for consolidated apartment communities we own and manage. Beginning in 2018, we exclude from rental and other property revenues the amount of utilities cost reimbursed by residents and reflect such amount as a reduction of the related utility expense within property operating expenses in our evaluation of segment results. In our condensed consolidated statements of operations, utility reimbursements are included in rental and other property revenues, in accordance with GAAP. The tables below have been revised to conform to this presentation.

Apartment communities are classified as either part of our Real Estate portfolio or those owned through partnerships served by our Asset Management business. As of June 30, 2018, for segment performance evaluation, our Real Estate segment included 134 consolidated apartment communities with 37,755 apartment homes and excluded four apartment communities with 142 apartment homes that we neither manage nor consolidate.

As of June 30, 2018, through our Asset Management business we also held nominal ownership positions in consolidated partnerships that own 39 low-income housing tax credit apartment communities with 6,211 apartment homes. Neither the results of operations nor the assets of these partnerships and apartment communities are quantitatively material; therefore, we have one reportable segment, Real Estate.

The following tables present the revenues, net operating income and income before gain on dispositions of our Real Estate segment on a proportionate basis and excluding amounts related to apartment communities sold or held for sale as of June 30, 2018 for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Real Estate	Proportionate and Other Adjustments (1)	Corporate and Amounts Not Allocated to Reportable Segment (2)	Consolidated
Three months ended June 30, 2018:				
Rental and other property revenues attributable to Real Estate	$214,478	$ 8,192	$8,460	$ 231,130
Rental and other property revenues of partnerships served by Asset Management business	—	—	19,000	19,000
Tax credit and transaction revenues	—	—	57	57
Total revenues	214,478	8,192	27,517	250,187
Property operating expenses attributable to Real Estate	60,930	7,655	7,446	76,031
Property operating expenses of partnerships served by Asset Management business	—	—	9,062	9,062
Other operating expenses not allocated to reportable segment (3)	—	—	115,733	115,733
Total operating expenses	60,930	7,655	132,241	200,826
Operating income	153,548	537	(104,724)	49,361
Other items included in income before gain on dispositions (4)	—	—	(42,427)	(42,427)
Income before gain on dispositions	$153,548	$ 537	$(147,151)	$ 6,934

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	Real Estate	Proportionate and Other Adjustments (1)	Corporate and Amounts Not Allocated to Reportable Segment (2)	Consolidated
Three months ended June 30, 2017:				
Rental and other property revenues attributable to Real Estate	$193,908	$ 13,547	$20,248	$ 227,703
Rental and other property revenues of partnerships served by Asset Management business	—	—	18,533	18,533
Tax credit and transaction revenues	—	—	2,856	2,856
Total revenues	193,908	13,547	41,637	249,092
Property operating expenses attributable to Real Estate	55,559	8,870	14,653	79,082
Property operating expenses of partnerships served by Asset Management business	—	—	8,391	8,391
Other operating expenses not allocated to reportable segment (3)	—	—	101,913	101,913
Total operating expenses	55,559	8,870	124,957	189,386
Operating income	138,349	4,677	(83,320)	59,706
Other items included in income before gain on dispositions (4)	—	—	(39,623)	(39,623)
Income before gain on dispositions	$138,349	$ 4,677	$(122,943)	$ 20,083

	Real Estate	Proportionate and Other Adjustments (1)	Corporate and Amounts Not Allocated to Reportable Segment (2)	Consolidated
Six months ended June 30, 2018:				
Rental and other property revenues attributable to Real Estate	$420,800	$ 16,978	$18,745	$ 456,523
Rental and other property revenues of partnerships served by Asset Management business	—	—	37,808	37,808
Tax credit and transaction revenues	—	—	3,576	3,576
Total revenues	420,800	16,978	60,129	497,907
Property operating expenses attributable to Real Estate	120,273	15,914	18,131	154,318
Property operating expenses of partnerships served by Asset Management business	—	—	18,257	18,257
Other operating expenses not allocated to reportable segment (3)	—	—	222,594	222,594
Total operating expenses	120,273	15,914	258,982	395,169
Operating income	300,527	1,064	(198,853)	102,738
Other items included in income before gain on dispositions (4)	—	—	(50,438)	(50,438)

Income before gain on dispositions	$300,527	$ 1,064	$(249,291)	$ 52,300

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	Real Estate	Proportionate and Other Adjustments (1)	Corporate and Amounts Not Allocated to Reportable Segment (2)	Consolidated
Six months ended June 30, 2017:				
Rental and other property revenues attributable to Real Estate	$385,414	$ 27,388	$40,129	$ 452,931
Rental and other property revenues of partnerships served by Asset Management business	—	—	37,095	37,095
Tax credit and transaction revenues	—	—	5,547	5,547
Total revenues	385,414	27,388	82,771	495,573
Property operating expenses attributable to Real Estate	111,734	17,880	29,094	158,708
Property operating expenses of partnerships served by Asset Management business	—	—	17,587	17,587
Other operating expenses not allocated to reportable segment (3)	—	—	201,783	201,783
Total operating expenses	111,734	17,880	248,464	378,078
Operating income	273,680	9,508	(165,693)	117,495
Other items included in income before gain on dispositions (4)	—	—	(79,863)	(79,863)
Income before gain on dispositions	$273,680	$ 9,508	$(245,556)	$ 37,632

(1) Represents adjustments for the noncontrolling interests in consolidated real estate partnerships' share of the results of consolidated apartment communities in our Real Estate segment, which are included in the related consolidated amounts, but excluded from proportionate property net operating income for our segment evaluation. Also includes the reclassification of utility reimbursements from revenues to property operating expenses for the purpose of evaluating segment results. Utility reimbursements are included in rental and other property revenues in our condensed consolidated statements of operations prepared in accordance with GAAP.

(2) Includes the operating results of apartment communities sold during the periods shown or held for sale at the end of the period, if any, and the operating results of apartment communities owned by consolidated partnerships served by our Asset Management business. Corporate and Amounts Not Allocated to Reportable Segment also includes property management expenses and casualty gains and losses, which are included in consolidated property operating expenses and are not part of our segment performance measure.

(3) Other operating expenses not allocated to reportable segment consists of depreciation and amortization, general and administrative expenses and other operating expenses, which are not included in our measure of segment performance.

(4) Other items included in income before gain on dispositions primarily consists of interest and income tax benefit.

The assets of our reportable segment and the consolidated assets not allocated to our segment are as follows (in thousands):

	June 30, 2018	December 31, 2017
Real Estate	$5,853,287	$ 5,391,816
Corporate and other assets (1)	691,069	687,224
Total consolidated assets	$6,544,356	$ 6,079,040

(1)

Includes the assets not allocated to our reportable segment, primarily the assets of consolidated partnerships served by our Asset Management business and apartment communities sold or held for sale as of June 30, 2018.

For the six months ended June 30, 2018 and 2017, capital additions related to our Real Estate segment totaled $158.4 million and $163.2 million, respectively.

Note 8 — Variable Interest Entities

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. A limited partnership is considered a VIE when the majority of the limited partners unrelated to the general partner possess neither the right to remove the general partner without cause, nor certain rights to participate in the decisions that most significantly affect the financial results of the partnership. 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

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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.

Aimco consolidates the Aimco Operating Partnership, which is a VIE for which Aimco is the primary beneficiary. Aimco, through the Aimco Operating Partnership, consolidates all VIEs for which the Aimco Operating Partnership is the primary beneficiary.

All of the VIEs we consolidate own interests in one or more apartment communities. VIEs that own apartment communities we classify as part of our Real Estate segment are typically structured to generate a return for their partners through the operation and ultimate sale of the communities. We are the primary beneficiary in the limited partnerships in which we are the sole decision maker and have a substantial economic interest.

Certain partnerships served by our Asset Management business own interests in low-income housing tax credit apartment communities that are structured to provide for the pass-through of tax credits and tax deductions to their partners and are VIEs. We held a nominal ownership position in these partnerships, generally one percent or less. As general partner in these partnerships, we were the sole decision maker and we received fees and other payments in return for the asset management and other services we provided and thus shared in the economics of the partnerships, and as such, we were the primary beneficiary of these partnerships. On July 25, 2018, we completed the sale of our Asset Management business. The table below summarizes information regarding VIEs consolidated by the Aimco Operating Partnership:

	June 30, 2018	December 31, 2017
Real Estate portfolio:		
VIEs with interests in apartment communities	13	14
Apartment communities owned by VIEs	13	14
Apartment homes in communities owned by VIEs	4,196	4,321
Consolidated partnerships served by Asset Management business:		
VIEs with interests in apartment communities	41	49
Apartment communities owned by VIEs	31	37
Apartment homes in communities owned by VIEs	4,879	5,893

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Assets of the Aimco Operating Partnership's consolidated VIEs must first be used to settle the liabilities of such consolidated VIEs. These consolidated VIEs' creditors do not have recourse to the general credit of the Aimco Operating Partnership. Assets and liabilities of consolidated VIEs are summarized in the table below (in thousands):

	June 30, 2018	December 31, 2017
Real Estate portfolio:		
Assets		
Net real estate	$478,774	$ 529,898
Cash and cash equivalents	13,776	16,111
Restricted cash	6,302	4,798
Assets held for sale	57,596	—
Liabilities		
Non-recourse property debt secured by Real Estate communities, net	340,874	412,205
Accrued liabilities and other	12,204	10,623
Liabilities related to assets held for sale	68,443	—
Consolidated partnerships served by Asset Management business:		
Assets held for sale at June 30, 2018		
Real estate, net	171,281	215,580
Cash and cash equivalents	14,366	15,931
Restricted cash	22,691	30,107
Liabilities related to assets held for sale at June 30, 2018		
Non-recourse property debt	183,188	220,356
Accrued liabilities and other	15,118	20,241

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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 Quarterly 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 rate and property operating results; the effect of acquisitions, dispositions, redevelopments and developments; our ability to meet budgeted costs and timelines, and achieve budgeted rental rates related to our redevelopment and development investments; expectations regarding sales of our apartment communities and the use of proceeds thereof; 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, will be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation:

- Real estate and operating 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 amount, location and quality of competitive new housing supply; the timing of acquisitions, dispositions, redevelopments and developments; and changes in operating costs, including energy costs;
- Financing risks, including the availability and cost of capital markets’ financing; the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; and the risk that our earnings may not be sufficient to maintain compliance with debt covenants;
- Insurance risks, including the cost of insurance, natural disasters and severe weather such as hurricanes; and
- Legal and regulatory risks, including costs associated with prosecuting or defending claims and any adverse outcomes; the terms of governmental regulations that affect us and interpretations of those regulations; 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, 2017, 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.

Certain financial and operating measures found herein and used by management are not defined under accounting principles generally accepted in the United States, or GAAP. These measures are defined and reconciled to the most comparable GAAP measures under the Non-GAAP Measures heading and include: Funds From Operations, Pro forma Funds From Operations, Adjusted Funds From Operations, Free Cash Flow, Economic Income, and the measures used to compute our leverage ratios.

Executive Overview

We are focused on the ownership, management, redevelopment and limited development of quality apartment communities located in several of the largest markets in the United States.

Our principal financial objective is to provide predictable and attractive returns to our equity holders. We measure our current return using Adjusted Funds From Operations, or AFFO, and our long-term total return using Economic Income. We also use Pro forma Funds From Operations, or Pro forma FFO, as a measure of operational performance. Our business plan to achieve this principal financial objective is to:

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operate our portfolio of desirable apartment homes with a high level of focus on customer selection and customer satisfaction and in an efficient manner that produces predictable and growing Free Cash Flow;

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- improve our portfolio of apartment communities, which is diversified both by geography and price point by selling apartment communities with lower projected Free Cash Flow internal rates of return and investing the proceeds from such sales through capital enhancements, redevelopment, development, and acquisitions with greater land value, higher expected rent growth, and projected Free Cash Flow internal rates of return in excess of those expected from communities sold;
- use low levels of financial leverage, primarily in the form of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity, a combination which reduces our refunding and re-pricing risk and which provides a hedge against increases in interest rates; and