APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
April 29, 2016
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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 March 31, 2016
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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Apartment Investment and Management Company:

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

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 April 28, 2016: 156,605,152
The number of Partnership Common Units outstanding as of April 28, 2016: 164,407,158

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EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended March 31, 2016, 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 March 31, 2016, owned a 95.2% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 4.8% 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 since 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 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 consolidated financial statements for Aimco and the Aimco Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity’s stockholders’ equity or partners’ capital, as applicable; and a combined Management’s Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

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

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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)

	March 31, 2016	December 31, 2015
ASSETS		
Buildings and improvements	$6,525,006	$6,446,326
Land	1,861,157	1,861,157
Total real estate	8,386,163	8,307,483
Accumulated depreciation	(2,858,642)	(2,778,022)
Net real estate	5,527,521	5,529,461
Cash and cash equivalents	64,454	50,789
Restricted cash	90,158	86,956
Other assets	460,080	448,405
Assets held for sale	—	3,070
Total assets	$6,142,213	$6,118,681
LIABILITIES AND EQUITY		
Non-recourse property debt, net	$3,811,510	$3,822,141
Revolving credit facility borrowings	106,080	27,000
Total indebtedness	3,917,590	3,849,141
Accounts payable	37,792	36,123
Accrued liabilities and other	305,604	317,481
Deferred income	59,961	64,052
Liabilities related to assets held for sale	—	53
Total liabilities	4,320,947	4,266,850
Preferred noncontrolling interests in Aimco Operating Partnership	86,201	87,926
Commitments and contingencies (Note 5)		
Equity:		
Perpetual Preferred Stock	159,126	159,126
Common Stock, $0.01 par value, 500,787,260 shares authorized, 156,605,152 and 156,326,416 shares issued/outstanding at March 31, 2016 and December 31, 2015, respectively	1,566	1,563
Additional paid-in capital	4,068,196	4,064,659
Accumulated other comprehensive loss	(431)	(6,040)
Distributions in excess of earnings	(2,625,295)	(2,596,917)
Total Aimco equity	1,603,162	1,622,391
Noncontrolling interests in consolidated real estate partnerships	142,742	151,365
Common noncontrolling interests in Aimco Operating Partnership	(10,839)	(9,851)
Total equity	1,735,065	1,763,905
Total liabilities and equity	$6,142,213	$6,118,681

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 March 31, 2016	2015
REVENUES		
Rental and other property revenues	$241,481	$238,289
Tax credit and asset management revenues	4,758	5,976
Total revenues	246,239	244,265
OPERATING EXPENSES		
Property operating expenses	88,397	95,492
Investment management expenses	975	1,603
Depreciation and amortization	79,828	74,432
General and administrative expenses	11,935	10,652
Other expenses, net	1,570	1,019
Total operating expenses	182,705	183,198
Operating income	63,534	61,067
Interest income	1,835	1,725
Interest expense	(47,634)	(53,520)
Other, net	77	2,264
Income before income taxes and gain on dispositions	17,812	11,536
Income tax benefit	5,886	6,921
Income before gain on dispositions	23,698	18,457
Gain on dispositions of real estate, net of tax	6,187	85,693
Net income	29,885	104,150
Noncontrolling interests:		
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(930)	(4,756)
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,726)	(1,736)
Net income attributable to common noncontrolling interests in Aimco Operating Partnership	(1,172)	(4,398)
Net income attributable to noncontrolling interests	(3,828)	(10,890)
Net income attributable to Aimco	26,057	93,260
Net income attributable to Aimco preferred stockholders	(2,757)	(3,522)
Net income attributable to participating securities	(77)	(394)
Net income attributable to Aimco common stockholders	$23,223	$89,344
Net income attributable to Aimco per common share – basic and diluted (Note 7)	$0.15	$0.58
Dividends declared per common share	$0.33	$0.28
Weighted average common shares outstanding – basic	155,791	153,821
Weighted average common shares outstanding – diluted	156,117	154,277

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 March 31,	
	2016	2015
Net income	$29,885	$104,150
Other comprehensive income (loss):		
Unrealized losses on interest rate swaps	(674)	(786)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	420	423
Unrealized gains (losses) on debt securities classified as available-for-sale	6,183	(217)
Other comprehensive income (loss)	5,929	(580)
Comprehensive income	35,814	103,570
Comprehensive income attributable to noncontrolling interests	(4,148)	(10,863)
Comprehensive income attributable to Aimco	$31,666	$92,707

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)

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$29,885	$104,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,828	74,432
Gain on dispositions of real estate, net of tax	(6,187)	(85,693)
Other adjustments	(8,749)	(8,495)
Net changes in operating assets and operating liabilities	(20,824)	(19,743)
Net cash provided by operating activities	73,953	64,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(2,275)	(40,800)
Capital expenditures	(79,576)	(71,742)
Proceeds from dispositions of real estate	9,601	133,305
Purchases of corporate assets	(1,764)	(2,167)
Change in restricted cash	3,234	2,546
Other investing activities	5,209	(699)
Net cash (used in) provided by investing activities	(65,571)	20,443
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	7,766	18,473
Principal repayments on non-recourse property debt	(19,179)	(140,858)
Net borrowings (repayments) on revolving credit facility	79,080	(112,330)
Proceeds from issuance of Common Stock	—	366,585
Redemption of Preferred Stock	—	(27,000)
Payment of dividends to holders of Preferred Stock	(2,757)	(2,827)
Payment of dividends to holders of Common Stock	(51,523)	(43,758)
Payment of distributions to noncontrolling interests	(6,423)	(6,203)
Other financing activities	(1,681)	(1,657)
Net cash provided by financing activities	5,283	50,425
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,665	135,519
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,789	28,971
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$64,454	$164,490

See notes to condensed consolidated financial statements.

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

	March 31, 2016	December 31, 2015
ASSETS		
Buildings and improvements	$6,525,006	$6,446,326
Land	1,861,157	1,861,157
Total real estate	8,386,163	8,307,483
Accumulated depreciation	(2,858,642)	(2,778,022)
Net real estate	5,527,521	5,529,461
Cash and cash equivalents	64,454	50,789
Restricted cash	90,158	86,956
Other assets	460,080	448,405
Assets held for sale	—	3,070
Total assets	$6,142,213	$6,118,681
LIABILITIES AND EQUITY		
Non-recourse property debt, net	$3,811,510	$3,822,141
Revolving credit facility borrowings	106,080	27,000
Total indebtedness	3,917,590	3,849,141
Accounts payable	37,792	36,123
Accrued liabilities and other	305,604	317,481
Deferred income	59,961	64,052
Liabilities related to assets held for sale	—	53
Total liabilities	4,320,947	4,266,850
Redeemable preferred units	86,201	87,926
Commitments and contingencies (Note 5)		
Partners’ Capital:		
Preferred units	159,126	159,126
General Partner and Special Limited Partner	1,444,036	1,463,265
Limited Partners	(10,839)	(9,851)
Partners’ capital attributable to the Aimco Operating Partnership	1,592,323	1,612,540
Noncontrolling interests in consolidated real estate partnerships	142,742	151,365
Total partners’ capital	1,735,065	1,763,905
Total liabilities and partners’ capital	$6,142,213	$6,118,681

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 March 31,	
	2016	2015
REVENUES		
Rental and other property revenues	$241,481	$238,289
Tax credit and asset management revenues	4,758	5,976
Total revenues	246,239	244,265
OPERATING EXPENSES		
Property operating expenses	88,397	95,492
Investment management expenses	975	1,603
Depreciation and amortization	79,828	74,432
General and administrative expenses	11,935	10,652
Other expenses, net	1,570	1,019
Total operating expenses	182,705	183,198
Operating income	63,534	61,067
Interest income	1,835	1,725
Interest expense	(47,634)	(53,520)
Other, net	77	2,264
Income before income taxes and gain on dispositions	17,812	11,536
Income tax benefit	5,886	6,921
Income before gain on dispositions	23,698	18,457
Gain on dispositions of real estate, net of tax	6,187	85,693
Net income	29,885	104,150
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(930)	(4,756)
Net income attributable to the Aimco Operating Partnership	28,955	99,394
Net income attributable to the Aimco Operating Partnership’s preferred unitholders	(4,483)	(5,258)
Net income attributable to participating securities	(77)	(394)
Net income attributable to the Aimco Operating Partnership’s common unitholders	$24,395	$93,742
Net income attributable to the Aimco Operating Partnership per common unit – basic and diluted (Note 7)	$0.15	$0.58
Distributions declared per common unit	$0.33	$0.28
Weighted average common units outstanding – basic	163,639	161,461
Weighted average common units outstanding – diluted	163,965	161,917

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 March 31,	
	2016	2015
Net income	$29,885	$104,150
Other comprehensive income (loss):		
Unrealized losses on interest rate swaps	(674)	(786)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	420	423
Unrealized gains (losses) on debt securities classified as available-for-sale	6,183	(217)
Other comprehensive income (loss)	5,929	(580)
Comprehensive income	35,814	103,570
Comprehensive income attributable to noncontrolling interests	(969)	(4,756)
Comprehensive income attributable to the Aimco Operating Partnership	$34,845	$98,814

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$29,885	$104,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,828	74,432
Gain on dispositions of real estate, net of tax	(6,187)	(85,693)
Other adjustments	(8,749)	(8,495)
Net changes in operating assets and operating liabilities	(20,824)	(19,743)
Net cash provided by operating activities	73,953	64,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(2,275)	(40,800)
Capital expenditures	(79,576)	(71,742)
Proceeds from dispositions of real estate	9,601	133,305
Purchases of corporate assets	(1,764)	(2,167)
Change in restricted cash	3,234	2,546
Other investing activities	5,209	(699)
Net cash (used in) provided by investing activities	(65,571)	20,443
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	7,766	18,473
Principal repayments on non-recourse property debt	(19,179)	(140,858)
Net borrowings (repayments) on revolving credit facility	79,080	(112,330)
Proceeds from issuance of common partnership units to Aimco	—	366,585
Redemption of Preferred Units from Aimco	—	(27,000)
Payment of distributions to holders of Preferred Units	(4,483)	(4,563)
Payment of distributions to General Partner and Special Limited Partner	(51,523)	(43,758)
Payment of distributions to Limited Partners	(2,592)	(2,139)
Payment of distributions to noncontrolling interests	(2,105)	(2,328)
Other financing activities	(1,681)	(1,657)
Net cash provided by financing activities	5,283	50,425
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,665	135,519
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,789	28,971
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$64,454	$164,490

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016
(Unaudited)

Note 1 — Organization

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

Aimco, and through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as “OP Units.” OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common OP Unit equivalents. At March 31, 2016, after eliminations for units held by consolidated entities, the Aimco Operating Partnership had 164,450,933 common partnership units and equivalents outstanding. At March 31, 2016, Aimco owned 156,605,152 of the common partnership units (95.2% of the common partnership units and equivalents) of the Aimco Operating Partnership and Aimco had outstanding an equal number of shares of its Class A Common Stock, which we refer to as Common Stock.

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

As of March 31, 2016, we owned an equity interest in 139 conventional apartment communities with 40,376 apartment homes and 56 affordable apartment communities with 8,685 apartment homes. Of these, we consolidated 135 conventional apartment communities with 40,234 apartment homes and 49 affordable apartment communities with 7,998 apartment homes. Conventional and affordable apartment communities generated 90% and 10%, respectively, of the proportionate property net operating income (as defined in Note 8 and excluding amounts related to apartment communities sold or classified as held for sale) during the three months ended March 31, 2016.

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The balance sheets of Aimco and the Aimco Operating Partnership at December 31, 2015, 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, 2015. Except where indicated, the footnotes refer to both Aimco and the Aimco Operating Partnership.

Principles of Consolidation

Aimco's accompanying condensed consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated subsidiaries. The Aimco Operating Partnership's condensed consolidated financial statements include the accounts of the Aimco Operating Partnership and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are reflected in Aimco's accompanying balance sheets as noncontrolling interests in Aimco Operating Partnership. Interests in partnerships consolidated into the Aimco Operating Partnership that are held by third parties are reflected in our accompanying balance sheets as noncontrolling interests in consolidated real estate partnerships. The assets of real estate partnerships consolidated by the Aimco Operating Partnership must first be used to settle the liabilities of such consolidated real estate partnerships. These consolidated real estate partnerships' creditors do not have recourse to the general credit of the Aimco Operating Partnership.

Temporary Equity and Partners' Capital

The following table presents a reconciliation of the Aimco Operating Partnership's Preferred OP Units from December 31, 2015 to March 31, 2016. These amounts are presented within temporary equity in Aimco's condensed consolidated balance sheets as preferred noncontrolling interests in the Aimco Operating Partnership, and within temporary capital in the Aimco Operating Partnership's condensed consolidated balance sheets as redeemable preferred units (in thousands).

Balance, December 31, 2015	$87,926
Distributions to preferred unitholders	(1,726)
Redemption of preferred units and other	(1,725)
Net income	1,726
Balance, March 31, 2016	$86,201

Aimco Equity (including Noncontrolling Interests)

The following table presents a reconciliation of Aimco's consolidated permanent equity accounts from December 31, 2015 to March 31, 2016 (in thousands):

	Aimco Equity	Noncontrolling interests in consolidated real estate partnerships	Common noncontrolling interests in Aimco Operating Partnership	Total Equity
Balance, December 31, 2015	$1,622,391	$ 151,365	$ (9,851)	$1,763,905
Preferred stock dividends	(2,757)	—	—	(2,757)
Common dividends and distributions	(51,678)	(9,592)	(2,592)	(63,862)
Redemptions of common OP Units	—	—	(142)	(142)
Amortization of stock-based compensation cost	2,879	—	—	2,879
Stock option exercises	174	—	—	174
Effect of changes in ownership for consolidated entities	(293)	—	293	—
Change in accumulated other comprehensive loss	5,609	39	281	5,929
Other	780	—	—	780
Net income	26,057	930	1,172	28,159
Balance, March 31, 2016	$1,603,162	$ 142,742	$ (10,839)	$1,735,065

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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, 2015 to March 31, 2016 (in thousands):

	Partners' capital attributable to the Aimco Operating Partnership
Balance, December 31, 2015	$1,612,540
Distributions to preferred units held by Aimco	(2,757)
Distributions to common units held by Aimco	(51,678)
Distributions to common units held by Limited Partners	(2,592)
Redemption of common OP Units	(142)
Amortization of Aimco stock-based compensation cost	2,879
Common OP Units issued to Aimco in connection with Aimco stock option exercises	174
Change in accumulated other comprehensive loss	5,890
Other	780
Net income	27,229
Balance, March 31, 2016	$1,592,323

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.

Accounting Pronouncements Adopted in the Current Period

During 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Updates 2015-03 and 2015-15, which revised the presentation of debt issuance costs on the balance sheet. Under ASUs 2015-03 and 2015-15, entities generally present debt issuance costs associated with long term debt in their balance sheet as a direct deduction from the related debt liability, and debt issuance costs related to line-of-credit arrangements may continue to be deferred and presented as assets. Amortization of the deferred costs will continue to be included in interest expense. We have adopted the guidance in ASUs 2015-03 and 2015-15 effective as of January 1, 2016. We have elected to continue to reflect deferred issuance costs associated with our revolving credit facility as an asset, which is included in other assets on our condensed consolidated balance sheets. We have retrospectively applied the guidance to debt issuance costs associated with our non-recourse property debt to all prior periods, which resulted in the reclassification of $24.0 million from other assets to non-recourse property debt on our condensed consolidated balance sheet at December 31, 2015.

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, or ASU 2015-02, which significantly changed the consolidation analysis required under GAAP for variable interest entities, or VIEs. Under this revised guidance, limited partnerships are no longer VIEs when the limited partners hold certain rights over the general partner. Alternatively, limited partnerships not previously viewed as VIEs are now considered VIEs in the absence of such rights. We adopted the guidance in ASU 2015-02 as of March 31, 2016, as more fully described in Note 6.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Updated 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), or ASU 2016-09, which is intended to simplify the accounting for share-based compensation. Under current practice, tax benefits in excess of compensation cost, or windfalls, are recorded in equity and tax deficiencies, are recorded in equity up to the amount of previous windfalls and then recognized in earnings. Under ASU 2016-09 all of the tax effects related to share-based compensation will be recognized through earnings. This change is required to be applied prospectively to all windfalls and tax deficiencies resulting from settlements that occur after the date of adoption. ASU 2016-09 also removes the requirement to delay recognition of a windfall until it reduces current taxes payable. Under the new standard, the windfall will be

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recorded when it arises. This change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening retained earnings. ASU 2016-09 is effective for public entities for reporting periods beginning after December 15, 2016, and interim periods within that reporting period. We have not yet determined the effect that ASU 2016-09 will have on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842), or ASU 2016-02, its final standard on lease accounting. Under ASU 2016-02, lessor accounting will be substantially similar to the current model, but aligned with certain changes to the lessee model and Accounting Standards Update 2014-09, Revenue from Contracts with Customers. Lessors will continue to classify leases as operating, direct financing, or sales-type. Lessees will be required to recognize a right-of-use asset and a lease liability for virtually all leases, with such leases classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) and finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting.

ASU 2016-02 is effective for public entities for reporting periods beginning after December 15, 2018, and interim periods within those reporting periods, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, requiring application of the new guidance at the beginning of the earliest comparative period presented and provides for certain practical expedients. We have not yet determined the effect ASU 2016-02 will have on our consolidated financial statements.

Note 3 — Disposals and Other Significant Transactions

Summarized information regarding apartment communities sold during the three months ended March 31, 2016 and 2015, is set forth in the table below (dollars in thousands):

	Three Months Ended March 31,	
	2016	2015
Apartment communities sold	1	6
Apartment homes sold	96	1,100
(Loss) income before income taxes and gain on disposition	$(36)	$ 278
Gain on disposition of real estate, net of tax (1)	6,187	85,693
Income tax related to gain on disposition of real estate	195	—
Prepayment penalties incurred upon repayment of debt collateralized by apartment communities sold	—	12,135
Mark-to-market adjustment included in prepayment penalties	—	7,705

(1) We report gains on disposition net of incremental direct costs incurred in connection with the transactions, including any prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities being sold.

During the year ended December 31, 2015, we sold 11 apartment communities with 3,855 apartment homes, inclusive of the communities sold during the three months ended March 31, 2015 detailed in the table above. For the three months ended March 31, 2015 these communities generated $4.1 million of income before income taxes and gain on disposition.

In addition to the apartment communities we sold, we are currently marketing for sale certain apartment communities that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such apartment communities meet the criteria to be classified as held for sale. As of March 31, 2016, we had no apartment communities classified as held for sale.

Asset Management Business Disposition

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

In accordance with the provisions of GAAP applicable to sales of real estate or interests therein, we have not recognized the sale and are accounting for the transaction under the profit sharing method. Until full payment has been received for the seller-financed notes or we otherwise meet the requirements to recognize a sale or partial sale for accounting purposes, we will continue to recognize the portfolio's assets and liabilities, each condensed into single line items within other assets and accrued liabilities

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and other, respectively, in our consolidated balance sheets, for all dates following the transaction. Similarly, we will continue to recognize the portfolio's results of operations, also condensed into a single line item within our consolidated statements of operations, for periods subsequent to the transaction. In January 2016, we received final payment on the first of the two seller-financed notes and as of March 31, 2016, the buyer is in compliance with the terms of the second seller-financed note.

Note 4 — Fair Value Measurements

Recurring Fair Value Measurements

We measure at fair value on a recurring basis our investment in the securitization trust that holds certain of our property debt, which we classify as available for sale, or AFS, securities, and our interest rate swaps, both of which are classified within Level 2 of the GAAP fair value hierarchy.

Our investments classified as AFS are presented within other assets in the accompanying 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 expected term of the investments, which, as of March 31, 2016, was approximately 5.2 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was $69.0 million and $67.8 million at March 31, 2016 and December 31, 2015, respectively. We estimated the fair value of these investments to be $72.8 million and $65.5 million at March 31, 2016 and December 31, 2015, respectively.

We estimate the fair value of these investments in accordance with GAAP using an income and market approach primarily with 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.

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

	Three Months Ended March 31,	
	2016	2015
Beginning balance	$(4,938)	$(5,273)
Unrealized losses included in interest expense	(11)	(12)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	420	423
Unrealized losses included in equity and partners' capital	(674)	(786)
Ending balance	$(5,203)	$(5,648)

As of March 31, 2016 and December 31, 2015, our interest rate swaps had aggregate notional amounts of $49.8 million and $49.9 million, respectively. As of March 31, 2016, these swaps had a weighted average remaining term of 4.8 years. We have designated these interest rate swaps as cash flow hedges. The fair value of these swaps is presented within accrued liabilities and other in our condensed consolidated balance sheets, and we recognize any changes in the fair value as an adjustment of accumulated other comprehensive loss within equity and partners' capital to the extent of their effectiveness.

If the forward rates at March 31, 2016 remain constant, we estimate that during the next 12 months, we would reclassify approximately $1.5 million of the unrealized losses in accumulated other comprehensive loss into earnings.

If market interest rates increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from net cash payments due to us from our counterparty to the interest rate swaps.

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Fair Value Disclosures

We believe that the aggregate fair value of our cash and cash equivalents, receivables and payables approximates their aggregate carrying amounts at March 31, 2016 and December 31, 2015, due to their relatively short-term nature and high probability of realization. The estimated aggregate fair value of our consolidated total indebtedness was approximately $4.1 billion and $4.0 billion at March 31, 2016 and December 31, 2015, respectively, as compared to aggregate carrying amounts of $3.9 billion and $3.8 billion, respectively. Substantially all of the difference between the fair value and the carrying value of our consolidated indebtedness relates to loans secured by apartment communities that we wholly own. We estimate the fair value of our consolidated debt using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, contractual interest rates, remaining periods to maturity, collateral quality and loan to value ratios on similarly encumbered assets within our portfolio. We classify the fair value of our consolidated debt within Level 3 of the GAAP valuation hierarchy based on the significance of certain of the unobservable inputs used to estimate their fair values.

Note 5 — 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 certain projects, pursuant to financing or other arrangements. As of March 31, 2016, our commitments related to these capital activities totaled approximately $85.0 million, most of which we expect to incur during the next 12 months. In addition, for our approved redevelopment projects, we have estimated capital spending of approximately $7.0 million that was not committed pursuant to construction-related contracts or financing or other arrangements discussed above, but which we expect to incur. Our remaining commitments related to our One Canal development project will be funded in part by a non-recourse property loan, of which $20.1 million was available to draw at March 31, 2016.

We have agreed to acquire a 463-home apartment community currently under construction in Northern California for $320.0 million, for which we have provided a nonrefundable deposit of $25.0 million. The acquisition is expected to close upon completion of construction in the summer of 2016.

We also enter into certain commitments for future purchases of goods and services in connection with the operations of our apartment communities. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our condensed consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 10 years. We do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Income Taxes

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

Legal Matters

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

Limited Partnerships

In connection with our acquisitions of interests in real estate partnerships, we are sometimes subject to legal actions, including allegations that such activities may involve breaches of fiduciary duties to the partners of such real estate partnerships or violations of the relevant partnership agreements. We may incur costs in connection with the defense or settlement of such litigation. We believe that we comply with our fiduciary obligations and relevant partnership agreements. Although the outcome of any litigation

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is uncertain, we do not expect any such legal actions to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Environmental

Various Federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials that may be present in the land or buildings of an apartment community. Potentially hazardous materials may include, among other items, polychlorinated biphenyls, petroleum-based fuels, lead-based paint, or asbestos. 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, damages to natural resources and for potential fines or penalties in connection with such damage or with respect to the improper management of hazardous materials. 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 at an apartment community. 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, 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 EPA alleges that we are liable for addressing the contamination in the residential area because a dry cleaner that operated on our former property, prior to our ownership, discharged hazardous materials into the sanitary sewers and the environment. We have undertaken a voluntary remediation of the dry cleaner contamination at our former property under the oversight of the Indiana Department of Environmental Management, or IDEM. However, IDEM has formally sought to terminate us from the voluntary remediation, and we are presently appealing that termination. Based on our review of the scientific data, we believe that the presence of hazardous materials in the separate residential area under review by the EPA is attributable to neighboring property owners (including an auto parts manufacturer), and not the dry cleaner. The EPA is now proposing to list the area on the National Priorities List (i.e., as a Superfund site), which would make the site eligible for additional Federal funding. We have filed formal comments with the EPA opposing the proposed listing. Were the site to be listed, the EPA could use the funding to further investigate and clean-up the residential area and could then seek to recoup its costs from responsible parties. Although the outcome of this process is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We also have been contacted by regulators and the current owner of a property in Lake Tahoe regarding environmental issues allegedly stemming from the historic operation of a dry cleaner on the site. An entity owned by us was the former general partner of a now-dissolved company that previously owned the dry cleaner site. 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. Lahontan, recently tested domestic wells in the area and found two wells with contaminants linked to dry cleaning. We entered into an agreement with Lahontan and the current owner to pay for an alternative water connection at an insignificant cost and have fulfilled our obligations under that agreement. During September 2015, Lahontan sent us and the current owner a proposed cleanup and abatement order that, if entered, would require us and the current owner to perform additional groundwater investigation and corrective actions with respect to onsite and offsite contamination. We have filed formal comments on the proposed cleanup and abatement order and we are currently assessing potential additional legal and technical grounds for challenging and/or narrowing the scope of the proposed order. Although the outcome of this process is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or apartment community casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of March 31, 2016, are immaterial to our consolidated financial condition, results of operations and cash flows.

Note 6 — Variable Interest Entities

As discussed in Note 2, effective January 1, 2016, we have adopted the guidance in ASU 2015-02. As a result, the Aimco Operating Partnership and each of our less than wholly-owned real estate partnerships has been deemed to have the characteristics of a VIE. However, we were not required to consolidate any previously unconsolidated entities or deconsolidate any previously consolidated entities as a result of the change in classification. Accordingly, there has been no change to the recognized amounts

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in our condensed consolidated balance sheets and statements of operations or amounts reported in our condensed consolidated statements of cash flows. We have, however, retrospectively revised the disclosure of significant assets and liabilities of consolidated VIEs as of December 31, 2015 shown below, to include the assets and liabilities of all of the Aimco Operating Partnership's consolidated real estate partnerships that are now designated as VIEs and did not meet the previous VIE definition. We determined that an additional 14 consolidated partnerships owning 18 apartment communities with 6,186 apartment homes are VIEs under the new standard. These VIEs had assets of $885.9 million and liabilities of $645.3 million as of December 31, 2015. Because the Aimco Operating Partnership is a VIE, all of our assets and liabilities are held through a VIE.

Aimco consolidates the Aimco Operating Partnership, which is a variable interest entity, or VIE, for which Aimco is the primary beneficiary. Aimco, through the Aimco Operating Partnership, consolidates all VIEs for which we are the primary beneficiary. Generally, a 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 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.

The VIEs that own interests in conventional apartment communities typically hold between one and five apartment communities and are structured to generate a return for their partners through the operation and ultimate sale of the apartment communities. Substantially all of the VIEs that own interests in affordable apartment communities are partnerships structured to provide for the pass-through of low-income housing tax credits and deductions to their partners. The table below summarizes information regarding VIEs that are consolidated by the Aimco Operating Partnership:

	March 31, 2016	December 31, 2015
VIEs with interests in conventional apartment communities	12	13
Conventional apartment communities held by VIEs	16	17
Apartment homes in conventional communities held by VIEs	5,993	6,089
VIEs with interests in affordable apartment communities	62	62
Affordable apartment communities held by VIEs	48	48
Apartment homes in affordable communities held by VIEs	7,556	7,556

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 VIEs are summarized in the table below (in thousands):

	March 31, 2016	December 31, 2015
Assets		
Net real estate	$1,190,106	$ 1,201,998
Cash and cash equivalents	34,233	28,118
Restricted cash	42,451	44,813
Liabilities		
Non-recourse property debt	955,424	959,523
Accrued liabilities and other	27,756	28,846

In addition to the consolidated VIEs discussed above, at March 31, 2016 and December 31, 2015, our consolidated financial statements include certain interests in consolidated and unconsolidated partnerships that are part of the legacy asset management business, as discussed in Note 3. Assets and liabilities of $141.6 million and $153.7 million, respectively, related to the legacy asset management business as of March 31, 2016, are each condensed into single line items within other assets and accrued liabilities and other in our condensed consolidated balance sheets.

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Note 7 — Earnings per Share/Unit

Aimco calculates earnings per common share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period.

The Aimco Operating Partnership calculates earnings per common unit based on the weighted average number of common partnership units and equivalents, participating securities and dilutive convertible securities outstanding during the period. The Aimco Operating Partnership considers both common OP Units and HPUs, which have identical rights to distributions and undistributed earnings, to be common units for purposes of calculating the earnings per unit data.

As of March 31, 2016, the common share equivalents or common partnership unit equivalents that could potentially dilute basic earnings per share or unit in future periods totaled 2.2 million. These securities 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. Additionally, unvested restricted stock awards that do not meet the definition of participating securities, would result in the issuance of additional shares and common partnership units equal to the number of shares that vest. The effect of these securities was dilutive for the three months ended March 31, 2016 and 2015, and accordingly has been included in the denominator for calculating diluted earnings per share and unit during these periods.

Certain of our restricted stock awards receive dividends similar to shares of Common Stock and common partnership units. These dividends are not forfeited in the event that the restricted stock does not vest. Therefore, the unvested restricted shares 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. At March 31, 2016 and 2015, there were 0.2 million shares and 0.8 million shares of unvested participating restricted shares, respectively.

Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership's option, Common Stock, and are paid distributions varying from 1.9% to 8.8% per annum per unit. As of March 31, 2016, a total of 3.2 million preferred OP Units were outstanding with an aggregate redemption value of $86.2 million and were potentially redeemable for approximately 2.1 million shares of Common Stock (based on the period end market price), or cash at the Aimco Operating Partnership's option. The Aimco Operating Partnership has a redemption policy that requires cash settlement of redemption requests for the preferred OP Units, subject to limited exceptions. Accordingly, we have excluded these securities from earnings per share and unit computations and we expect to exclude them in future periods.

Note 8 — Business Segments

We have two reportable segments: conventional real estate operations and affordable real estate operations. Our conventional real estate operations consist of market-rate apartment communities with rents paid by the residents and included 139 apartment communities with 40,376 apartment homes at March 31, 2016. Our affordable real estate operations consisted of 56 apartment communities with 8,685 apartment homes at March 31, 2016, with rents that are generally paid, in whole or part, by a government agency.

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

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The following tables present the revenues, net operating income and income before gain on dispositions of our conventional and affordable real estate operations segments on a proportionate basis (excluding amounts related to apartment communities sold or classified as held for sale) for the three months ended March 31, 2016 and 2015 (in thousands):

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended March 31, 2016:					
Rental and other property revenues (3)	$ 207,729	$ 24,910	$ 8,822	$ 20	$ 241,481
Tax credit and asset management revenues	—	—	—	4,758	4,758
Total revenues	207,729	24,910	8,822	4,778	246,239
Property operating expenses (3)	67,446	10,070	2,907	7,974	88,397
Investment management expenses	—	—	—	975	975
Depreciation and amortization (3)	—	—	—	79,828	79,828
General and administrative expenses	—	—	—	11,935	11,935
Other expenses, net	—	—	—	1,570	1,570
Total operating expenses	67,446	10,070	2,907	102,282	182,705
Net operating income	140,283	14,840	5,915	(97,504)	63,534
Other items included in income before gain on dispositions (4)	—	—	—	(39,836)	(39,836)
Income before gain on dispositions	$ 140,283	$ 14,840	$ 5,915	$ (137,340)	$ 23,698

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended March 31, 2015:					
Rental and other property revenues (3)	$ 194,204	$ 24,232	$ 8,397	$ 11,456	$ 238,289
Tax credit and asset management revenues	—	—	—	5,976	5,976
Total revenues	194,204	24,232	8,397	17,432	244,265
Property operating expenses (3)	66,283	10,230	3,604	15,375	95,492
Investment management expenses	—	—	—	1,603	1,603
Depreciation and amortization (3)	—	—	—	74,432	74,432
General and administrative expenses	—	—	—	10,652	10,652
Other expenses, net	—	—	—	1,019	1,019
Total operating expenses	66,283	10,230	3,604	103,081	183,198
Net operating income	127,921	14,002	4,793	(85,649)	61,067
Other items included in income before gain on dispositions (4)	—	—	—	(42,610)	(42,610)
Income before gain on dispositions	$ 127,921	$ 14,002	$ 4,793	$ (128,259)	$ 18,457

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

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(2) Our basis for assessing segment performance excludes the results of apartment communities sold or classified as held for sale. In the segment presentation above, the current year and prior year operating results for apartment communities sold or classified as held for sale during 2016 or 2015 are presented within the Corporate and Amounts Not Allocated to Segments column. Proportionate property net operating income, our key measurement of segment profit or loss, also excludes property management expenses and casualty gains and losses (which are included in property operating expenses) and depreciation and amortization. Accordingly, we do not allocate these amounts to our segments and they are presented within the Corporate and Amounts Not Allocated to Segments column.

(3) Proportionate property net operating income, our key measurement of segment profit or loss excludes property management revenues (which are included in rental and other property revenues), property management expenses and casualty gains and losses (which are included in property operating expenses) and depreciation and amortization. Accordingly, we do not allocate these amounts to our segments.

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

For the three months ended March 31, 2016 and 2015, capital additions related to our conventional segment totaled $70.0 million and $61.3 million, respectively, and capital additions related to our affordable segment totaled $2.1 million and $2.6 million, respectively.

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

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements in certain circumstances. Certain information included in this 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 development and redevelopment 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, may be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation: real estate risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for residents in such markets; national and local economic conditions, including the pace of job growth and the level of unemployment; the amount, location and quality of competitive new housing supply; financing risks, including the availability and cost of capital markets financing and the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; the risk that our earnings may not be sufficient to maintain compliance with debt covenants; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; the timing of acquisitions, dispositions, redevelopments and developments; insurance risk, including the cost of insurance; natural disasters and severe weather such as hurricanes; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; energy costs; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of apartment communities presently or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" described in Item 1A of Apartment Investment and Management Company's and AIMCO Properties, L.P.'s combined Annual Report on Form 10-K for the year ended December 31, 2015, and the other documents we file from time to time with the Securities and Exchange Commission. As used herein and except as the context otherwise requires, "we," "our" and "us" refer to Apartment Investment and Management Company (which we refer to as Aimco), AIMCO Properties, L.P. (which we refer to as the Aimco Operating Partnership) and their consolidated entities, collectively.

Executive Overview

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

Our principal financial objective is to provide predictable and attractive returns to our equity holders, as measured by growth in Economic Income and Adjusted Funds From Operations (each defined under the Non-GAAP Performance and Liquidity Measures heading below). Our business plan to achieve this objective is to:

- operate our portfolio of desirable apartment homes with valued amenities, with a high level of focus on customer selection and customer satisfaction, and in an efficient manner that realizes the benefits of our corporate systems and local management expertise;
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improve our geographically diversified portfolio of apartment communities, which average “B/B+” in quality (defined under the Portfolio Management heading below) by selling lower rated apartment communities and investing the proceeds from such sales through property upgrades, redevelopment, development and acquisition of higher-quality apartment communities;

- provide financial leverage primarily by the use 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

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- emphasize a collaborative, respectful, and performance-oriented culture while maintaining high morale and team engagement.

Our long-standing business is organized around our strategic areas of focus: excellence in property operations; adding value through redevelopment and limited development; upgrading our portfolio through disciplined portfolio management; maintaining a safe and liquid balance sheet; and fostering a performance culture. Recent accomplishments in the execution of such strategies are discussed below.

Property Operations

We own and operate a diversified portfolio of conventional apartment communities. At March 31, 2016, our conventional portfolio included 139 apartment communities with 40,376 apartment homes in which we held an average ownership of approximately 98%. We also operate a portfolio of affordable apartment communities, which consists of apartments with rents that are generally paid, in whole or part, by a government agency. At March 31, 2016, our Affordable portfolio consisted of 56 apartment communities with 8,685 apartment homes in which we held an average ownership of approximately 95%. Our conventional and affordable portfolios comprise our reportable segments and generated 90% and 10%, respectively, of our proportionate property net operating income (defined below under the Results of Operations – Real Estate Operations heading) during the three months ended March 31, 2016.

Our property operations team delivered solid results for the three months ended March 31, 2016. Highlights for the quarter include:

- Conventional Same Store net operating income increased by 7.1%, consisting of revenue growth of 4.8% and expense growth of 10 basis points;
- Increases on renewals and new leases averaged 6.0% and 3.5%, respectively, for the three months ended March 31, 2016, for a weighted average increase of 4.6% for our conventional same store portfolio, higher than the three months ended March 31, 2015 by 180 basis points; and
- For the three months ended March 31, 2016, our Conventional Same Store portfolio provided 68% net operating income margins and 62% free cash flow margins.

Net operating income margin, free cash flow and free cash flow margin are defined under the Non-GAAP Performance and Liquidity Measures heading below.

Redevelopment and Development

We invest in the redevelopment of certain apartment communities in superior locations and have undertaken a range of redevelopment projects: including those in which buildings or exteriors are renovated without the need to vacate apartment homes; those in which significant renovation of apartment homes may be accomplished upon lease expiration and turnover; and those in which an entire building or community is wholly vacated. We execute certain of our redevelopment projects using a phased approach, in which we renovate portions of an apartment community in stages, which allows additional flexibility of project costs and the ability to tailor our product offerings to customer response and rent achievement. In addition, we undertake ground-up development, either directly in connection with the redevelopment of an existing apartment community or, on a more limited basis, at a new location with a third party development partner with expertise in the local market.

During the three months ended March 31, 2016, we invested $31.0 million in redevelopment, most of which related to the ongoing redevelopment of The Sterling and Park Towne Place, mixed-use communities located in Center City Philadelphia. Since 2014, we have completed the redevelopment of 279 apartment homes, or 68% of the total approved for redevelopment, at The Sterling. As of March 31, 2016, we had leased 91% of the completed apartment homes in The Sterling at rental rates above underwriting. At Park Towne Place, we had completed redevelopment of 223 apartment homes, or 47% of the total approved for redevelopment. As of March 31, 2016, we had leased 88% of the completed apartment homes in Park Towne Place at rental rates above underwriting. Costs for both projects are consistent with underwriting.

During the three months ended March 31, 2016, we invested $15.6 million in our One Canal development in Boston. We expect completion of construction in second quarter 2016. Leasing is progressing as planned and as of March 31, 2016, 6% of the apartment homes were leased at rental rates ahead of underwriting. Initial occupancy is expected in May 2016.

During the three months ended March 31, 2016, we continued the lease-up of Vivo, a 91-home apartment community located in Cambridge, Massachusetts. As of March 31, 2016, 62% of the apartment homes were leased at rental rates above underwriting.

See below under the Liquidity and Capital Resources – Redevelopment and Development heading for additional information regarding our ongoing redevelopment and development projects during the three months ended March 31, 2016.

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Portfolio Management

Our portfolio strategy seeks predictable rent growth from a portfolio of apartment communities that is diversified across "A," "B" and "C+" price points, averaging "B/B+" in quality, and that is also diversified across large coastal and job growth markets in the United States. We measure conventional apartment community quality based on average rents of our apartment homes compared to local market average rents as reported by a third-party provider of commercial real estate performance and analysis. Under this rating system, we classify as "A" quality apartment communities those earning rents greater than 125% of the local market average, as "B" quality apartment communities those earning rents between 90% and 125% of the local market average; "C+" quality assets are those with rents greater than $1,100 per month, but lower than 90% of the local market average; and "C" quality assets are those with rents less than $1,100 per month and lower than 90% of the local market average. We classify as "B/B+" quality a portfolio that on average earns rents between 100% and 125% of the local market average rents where the portfolio is located. Although some companies and analysts within the multifamily real estate industry use apartment community quality ratings of "A," "B" and "C," some of which are tied to local market rent averages, the metrics used to classify apartment community quality as well as the timing for which local markets rents are calculated may vary from company to company. Accordingly, our rating system for measuring apartment community quality is neither broadly nor consistently used in the multifamily real estate industry.

As part of our portfolio strategy, we seek to sell each year the lowest-rated 5% to 10% of our portfolio and to reinvest the proceeds from such sales in higher quality apartment communities through redevelopment of communities in our current portfolio, occasional development of new communities, and selective acquisitions. Through this disciplined approach to capital recycling, we have significantly increased the quality and expected growth rate of our portfolio.

	Three Months Ended March 31,	
	2016	2015
% Net Operating Income in target markets	91 %	87 %
Average Revenue per Effective Apartment Home	$1,864	$1,704
Portfolio Average Rents as a Percentage of Local Market Average Rents	112 %	109 %
Percentage A (1Q 2016 Average Revenue per Effective Apartment Home $2,367)	48 %	43 %
Percentage B (1Q 2016 Average Revenue per Effective Apartment Home $1,687)	35 %	36 %
Percentage C+ (1Q 2016 Average Revenue per Effective Apartment Home $1,552)	17 %	19 %
Percentage C	— %	2 %

During three months ended March 31, 2016, our conventional portfolio average revenue per effective apartment home was $1,864, a 9% increase compared to three months ended March 31, 2015, due to year-over-year Conventional Same Store average revenue per effective apartment home growth of 4.7% and the sale of conventional apartment communities in 2015 and 2016, with average revenues per effective apartment home substantially lower than those of the retained portfolio. We have reinvested the sales proceeds through redevelopment, development and acquisition of apartment communities with higher rents and better prospects. Average revenue per effective apartment home is a non-GAAP financial measure, which is further discussed under the Non-GAAP Performance and Liquidity Measures heading.

As we execute our portfolio strategy, we expect to increase conventional portfolio average revenue per apartment home at a rate greater than market rent growth; to increase FCF margins; and to increase to 95% or more the percentage of our conventional property net operating income earned in our target markets.

During three months ended March 31, 2016, we sold one conventional apartment community with 96 apartment homes for gross proceeds of $10.0 million.

We have agreed to acquire for $320 million a 463-home apartment community currently under construction in Northern California. Closing of the acquisition is expected to occur upon completion of construction, which is anticipated for the summer 2016. We have begun leasing and as of March 31, 2016, had leased approximately 5% of the apartment homes at rental rates above underwriting.

Balance Sheet and Liquidity

Our leverage strategy seeks to increase financial returns while using leverage with appropriate caution. We target the ratio of Proportionate Debt and Preferred Equity to Adjusted EBITDA to be below 7.0x and we target the ratio of Adjusted EBITDA to

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Adjusted Interest Expense and Preferred Dividends to be greater than 2.5x. We also focus on the ratios of Proportionate Debt to Adjusted EBITDA and Adjusted EBITDA to Adjusted Interest Expense.

Proportionate Debt, Adjusted EBITDA and Adjusted Interest Expense, as used in these ratios, are non-GAAP financial measures, which are further discussed and reconciled under the Non-GAAP Performance and Liquidity Measures – Leverage Ratios heading. Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units.

Our leverage ratios for the trailing twelve month periods ended March 31, 2016 and 2015, are presented below:

	Trailing Twelve Months Ended March 31,	
	2016	2015
Proportionate Debt to Adjusted EBITDA	6.4x	6.5x
Proportionate Debt plus Preferred Equity to Adjusted EBITDA	6.8x	6.9x
Adjusted EBITDA to Adjusted Interest Expense	3.2x	2.8x
Adjusted EBITDA to Adjusted Interest Expense and Preferred Dividends	2.9x	2.6x

We expect future leverage reduction from earnings growth, especially as apartment communities now being redeveloped or developed are completed and leased, and from regularly scheduled property debt amortization repaid from operating cash flows. As of March 31, 2016, we had an unencumbered pool that included 25 consolidated apartment communities and had an estimated fair value of approximately $1.8 billion.

Two credit rating agencies rate our creditworthiness, using different methodologies and ratios for assessing our credit. In 2015, both of these agencies upgraded our credit rating and outlook to BBB- (stable), an investment grade rating. Although some of the ratios they use are similar to those we use to measure our leverage, there are differences in our methods of calculation and therefore our leverage ratios disclosed above are not indicative of the ratios that may be calculated by these agencies.

Culture

Our culture is the key to our success. Our emphasis on a collaborative, respectful, and performance-oriented culture is what enables the continuing transformation of the Aimco business. During the first quarter of 2016, Aimco was recognized by the Denver Post as a Top Work Place for the fourth consecutive year.

Key Financial Indicators

Key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance include: Economic Income; Net Asset Value; and Adjusted Funds From Operations. In addition to these indicators, we also use Pro forma Funds From Operations; Free Cash Flow, Free Cash Flow capitalization rate, net operating income, or NOI, capitalization rate, same store property operating results, proportionate property NOI, average revenue per effective apartment home, financial coverage ratios, and leverage as shown on our balance sheet to evaluate our operating performance and financial condition. Most of these financial indicators are non-GAAP financial measures, which are defined, further described, and for certain of the measures, reconciled to comparable GAAP-based measures, under the Non-GAAP Performance and Liquidity Measures heading.

Results of Operations

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

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

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Three Months Ended March 31, 2016 compared to March 31, 2015

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership decreased by $67.2 million and $70.4 million, respectively, during the the three months ended March 31, 2016, as compared to the three months ended March 31, 2015. The decreases in income for Aimco and the Aimco Operating Partnership were principally due to a decrease in gains on dispositions of real estate.

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

Property Operations

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

Due to the diversity of our economic ownership interests in our apartment communities, our chief operating decision maker uses proportionate property net operating income to assess the operating performance of our apartment communities. Proportionate property net operating income reflects our share of rental and other property revenues less direct property operating expenses, including real estate taxes, for the consolidated and unconsolidated apartment communities that we own and manage. Accordingly, the results of operations of our conventional and affordable segments discussed below are presented on a proportionate basis and exclude the results of four conventional apartment communities with 142 apartment homes and nine affordable apartment communities with 779 apartment homes that we do not manage.

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

Conventional Real Estate Operations

Our conventional segment consists of apartment communities we classify as Conventional Same Store, Conventional Redevelopment and Development, Conventional Acquisition, and Other Conventional apartment communities. Conventional Same Store apartment communities are those we own and manage, that have reached stabilized occupancy (greater than 90%) as of January 1, 2015 and maintained it throughout the current and comparable prior periods and that are not expected to be sold within 12 months. Conventional Redevelopment and Development apartment communities are those currently under construction and those that have been completed in recent years that had not achieved and maintained stabilized occupancy for both the current and the comparable prior periods. Conventional Acquisition apartment communities are those we have acquired since January 1, 2015. Other Conventional apartment communities includes are those that do not meet the Conventional Same Store definition because they have significant rent control restrictions or had not reached and maintained a stabilized level of occupancy as of January 1, 2015, often due to a casualty event, or are expected to be sold within 12 months but do not yet meet the criteria to be classified as held for sale.

As of March 31, 2016, as defined by our segment performance metrics, our conventional portfolio consisted of the following:

- 111 Conventional Same Store apartment communities with 34,384 apartment homes;
- 8 Conventional Redevelopment and Development apartment communities with 2,962 apartment homes;
- 2 Conventional Acquisition apartment communities with 209 apartment homes; and
- 14 Other Conventional apartment communities with 2,679 apartment homes.

From December 31, 2015 to March 31, 2016, on a net basis, our Conventional Same Store portfolio increased by four apartment communities and 1,235 apartment homes. This increase consisted of:

- four apartment communities with 1,142 apartment homes that were reclassified from our Conventional Acquisition portfolio as we have now owned them for the entirety of both periods presented; and
- two apartment communities with 443 apartment homes that were reclassified from our Conventional Redevelopment and Development portfolio upon maintaining stabilized occupancy for the entirety of both periods presented.

These increases were offset by the removal of one apartment community with 104 apartment homes that was reclassified into Conventional Redevelopment and Development and one apartment community with 246 apartment homes that was reclassified

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into Other Conventional as a result of a casualty event. Our conventional portfolio results for the three months ended March 31, 2016 and 2015, as presented below, are based on the apartment community populations as of March 31, 2016.

	Three Months Ended March 31,			
(in thousands)	2016	2015	$ Change	% Change
Rental and other property revenues:				
Conventional Same Store	$172,930	$164,970	$7,960	4.8 %
Conventional Redevelopment and Development	16,609	13,254	3,355	25.3 %
Conventional Acquisition	1,740	122	1,618	1,326.2 %
Other Conventional	16,450	15,858	592	3.7 %
Total	207,729	194,204	13,525	7.0 %
Property operating expenses:				
Conventional Same Store	53,924	53,851	73	0.1 %