

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-Q

August 07, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

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

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

Apartment Investment and Management Company

AIMCO Properties, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Apartment Investment and Management Company)	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 No AIMCO Properties, L.P.: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Apartment Investment and Management Company: Yes No AIMCO Properties, L.P.: Yes No

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

AIMCO Properties, L.P.:

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

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: AIMCO Properties, L.P.:

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 No AIMCO Properties, L.P.: Yes No

The number of shares of Apartment Investment and Management Company Class A Common Stock outstanding as of August 3, 2018: 166,397,751
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

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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

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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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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		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
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See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended 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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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
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Other assets	365,564	272,739
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Cash and cash equivalents	20,696	16,288
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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		Six Months Ended	
	June 30,		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 June 30,		Six Months Ended 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.

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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-

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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

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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
			Corporate and Amounts Not Allocated to Reportable Segment (2)	
	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)

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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, December 31,	
	2018	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

focus intentionally on a collaborative and productive culture based on respect for others and personal responsibility.

Our business is organized around five areas of strategic focus: operational excellence; redevelopment; portfolio management; balance sheet; and team and culture.

The results from the execution of our business plan during the three months ended June 30, 2018, are further described below.

Net income attributable to common stockholders per common share decreased by \$0.08 during the three months ended June 30, 2018 compared to 2017, due to higher depreciation from redevelopments placed into service and from apartment communities acquired during 2018 and to lower gains on sale of real estate.

Pro forma FFO per share was flat for the three months ended June 30, 2018, as compared to the same period in 2017.

The following items contributed to Pro forma FFO:

\$0.02 from Same Store property net operating income growth of 3.2%, driven by a 3.2% increase in revenue offset by a 3.3% increase in expenses; and

\$0.03 from leasing activity related to renovated homes at Redevelopment communities, 2018 acquisitions and the second quarter 2017 reacquisition of a 47% interest in the Palazzo communities, offset in part by lower property net operating income from apartment communities sold in 2017 and 2018.

As compared to 2017, this increase of \$0.05 to Pro forma FFO per share was offset primarily by increased interest expense on corporate borrowings, primarily related to acquisitions, increased personnel costs, primarily due to the timing of incentive compensation costs, and lower tax benefits.

AFFO per share increased 6% during the three months ended June 30, 2018, as compared to the same period in 2017, as a result of lower Capital Replacement spending. Approximately one-third of the decrease in Capital Replacement spending was due to our paired trade activity, including the sale of 2,300 apartment homes in 2017 and an additional 513 apartment homes through June 30, 2018, and the remaining decrease is due to the timing of 2018 capital spending. As we concentrate our investment capital in higher quality, higher price point communities, Free Cash Flow margin is increasing as Capital Replacements decline as a percentage of net operating income.

Operational Excellence

We own and operate a portfolio of market rate apartment communities, diversified by both geography and price point, which we refer to as our Real Estate portfolio. At June 30, 2018, our Real Estate portfolio included 138 apartment communities with 37,897 apartment homes in which we held an average ownership of approximately 99%. This portfolio was divided about two thirds by value to our "Same Store" portfolio of stabilized apartment communities and about one third by value to "Other Real Estate," which includes recently acquired communities and communities under redevelopment or development whose long-term financial contribution is not yet stabilized.

Our property operations team produced solid results for our Real Estate portfolio for the three months ended June 30, 2018. Highlights include:

Same Store net operating income growth of 3.2% for the three months ended June 30, 2018 compared to 2017;

Same Store rent increases on renewals and new leases averaged 4.8% and 1.9%, respectively, for a weighted average increase of 3.4%; and

Average daily occupancy of 96.3%, 40 basis points higher than the same period in 2017.

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Redevelopment

Our second line of business is the redevelopment of apartment communities, where we expect to create value of at least 25% to 35% of our incremental investment by repositioning communities within our portfolio. We measure the rate and quality of financial returns by net asset value creation, an important component of Economic Income, our primary measure of long-term financial performance. We also undertake ground-up development when warranted by risk-adjusted investment returns, either directly in connection with the redevelopment of an existing apartment community or, on a more limited basis, at a new location. When warranted, we rely on the expertise and credit of a third-party developer familiar with the local market to limit our exposure to construction risk.

We invest to earn risk-adjusted returns in excess of those expected from the apartment communities sold in paired trades to fund the redevelopment or development. Of these two activities, we favor redevelopment because it permits adjustment to the scope and timing of spending to align with changing market conditions and customer preferences. During the three months ended June 30, 2018, we invested \$42.2 million in redevelopment and development. In Center City, Philadelphia, we continued construction on the fourth and final tower of Park Towne Place; lease-up is underway. At June 30, 2018, 90% of the redeveloped apartment homes in the community were leased and 28 of the 136 homes still under renovation were pre-leased.

During the three months ended June 30, 2018, we invested \$9.8 million in the development of our Parc Mosaic community in Boulder, Colorado. We expect completion of construction in late 2019 and initial occupancy in the summer of 2019.

Our total potential net investment in our current redevelopments and developments is \$519.8 million with a projected weighted average net operating income yield on these investments of 6.1%, assuming untrended rents. Of this total, \$313.6 million has been funded. Our funding needs for 2018 for our remaining redevelopment and development investment will be satisfied through a combination of leverage and community sales, including proceeds from the July 25, 2018 sale of our Asset Management business and our four affordable communities located in Hunters Point included in our Real Estate portfolio, discussed below.

During the three months ended June 30, 2018, we leased 181 apartment homes at our redevelopment communities. As of June 30, 2018, our exposure to lease-up at active redevelopment and development projects was approximately 419 apartment homes, of which 108 were in the fourth tower of Park Towne Place and 215 were being constructed at Parc Mosaic and 96 were located in three active redevelopments.

During the third quarter, we expect to exercise our option to acquire approximately two acres of land adjacent to our 21 Fitzsimons apartment community, located on the University of Colorado Anschutz Medical Campus, for the development of an apartment community. Over the next two years, we expect to invest approximately \$87.0 million to construct 253 apartment homes and 4,600 square feet of retail space. We anticipate a stabilized net operating income yield in the low 6% range, driven by an 80% net operating income margin due to operational efficiencies from owning the adjacent property, and a Free Cash Flow internal rate of return greater than 10% resulting in value creation of at least 35%. Upon completion of the project, we will own and operate 853 apartment homes on the campus.

Employment on the campus has grown by 9% annually from 2015 to 2017, and exceeds 25,000 jobs today. This number is expected to grow to 46,000 jobs over the next 12 years. We have multi-year options to acquire the balance of the land on the campus that is zoned for multifamily, enough for an additional 600 apartment homes.

Please see below under the Liquidity and Capital Resources – Redevelopment and Development heading for additional information regarding our redevelopment and development investment during the six months ended June 30, 2018.

Portfolio Management

Our portfolio of apartment communities is diversified across “A,” “B,” and “C+” price points, averaging “B/B+” in quality, and is also diversified across several of the largest markets in the United States. We measure the quality of apartment communities in our Real Estate portfolio 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; as “C+” quality apartment communities those earning rents greater than \$1,100 per month, but lower than 90% of the local market average; and as “C” quality apartment communities those earning 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 the local market rent averages, the metrics used to classify apartment community quality as well as the period for which the local market rents are calculated may vary from company to company. Accordingly,

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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 up to 10% of our portfolio annually and to reinvest the proceeds from such sales in accretive uses such as capital enhancements, redevelopments, occasional development, and selective acquisitions with projected Free Cash Flow internal rates of return higher than expected from the communities being sold. Through this disciplined approach to capital recycling, since 2011, we have sold \$4.2 billion in lower-rated apartment communities and we have significantly increased the quality and expected growth rate of our portfolio.

	Three Months			
	Ended			
	June 30,			
	2018	2017		
Average revenue per Aimco apartment home (1)	\$2,090	\$1,950		
Portfolio average rents as a percentage of local market average rents	112	% 113	%	
Percentage A (2Q 2018 average revenue per Aimco apartment home \$2,770)	50	% 53	%	
Percentage B (2Q 2018 average revenue per Aimco apartment home \$1,839)	35	% 33	%	
Percentage C+ (2Q 2018 average revenue per Aimco apartment home \$1,669)	15	% 14	%	

(1) Represents average monthly rental and other property revenues (excluding resident reimbursement of utility cost) divided by the number of occupied apartment homes as of the end of the current period.

Our average revenue per apartment home was \$2,090 for three months ended June 30, 2018, a 7% increase compared to 2017. This increase is due to year-over-year growth in Same Store revenue as well as our acquisition activities, lease-up of redevelopment and acquisition properties, and the sale of communities with average monthly revenues per apartment home lower than those of the retained portfolio.

As we execute our portfolio strategy, we expect to increase average revenue per Aimco apartment home at a rate greater than market rent growth; increase Free Cash Flow margins; and maintain sufficient geographic and price point diversification to limit volatility and concentration risk.

Apartment Community Acquisitions

We evaluate potential acquisitions with an eye for unique and opportunistic investments and fund acquisitions pursuant to our strict paired trade discipline.

During the three months ended June 30, 2018, we agreed to acquire six communities in the Philadelphia area. On May 1, 2018, we purchased four communities including 665 apartment homes and 153,000 square feet of office and retail space for \$307.9 million. 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 construction in the first half of 2019. We anticipate our operation of the five operating communities will generate a year one net operating income yield of 5.3%, and for all six communities, average revenue per apartment home of \$2,200 and a ten-year expected free cash flow internal rate of return of about 8%.

During the six months ended June 30, 2018, we purchased for \$160 million Bent Tree Apartments, a 748-apartment home community in Fairfax County, Virginia. This community is expected to achieve a 5.6% year one net operating income capitalization rate. Since acquisition, results have exceeded underwriting, with new lease rates increasing by 8% overall and 5% before taking into consideration rate increases following capital investments. Occupancy has increased by approximately 300 basis points from the date of acquisition, to 97%.

Dispositions

On July 25, 2018, we sold for \$590 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 to us were approximately \$512 million.

On July 27, 2018, we sold for \$170 million Chestnut Hill Village, an 821-apartment home community located in north Philadelphia.

We used the proceeds from the two sales to fund 2018 acquisitions, completing the paired trades. The sale of Chestnut Hill Village rebalanced our capital allocation to Philadelphia from a lower-rated apartment community in north Philadelphia to

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communities in the more desirable Center City and University City submarkets. We used the proceeds from these sales to repay in full our revolving credit facility and our term loan. We plan to use the remaining proceeds to reduce property-level borrowings and to fund an expected increase in 2018 redevelopment activity.

Balance Sheet

Our leverage includes our share of long-term, non-recourse property debt encumbering apartment communities in our Real Estate portfolio, outstanding borrowings under our revolving credit facility and term loan, and outstanding preferred equity. In our calculation of leverage, we exclude the non-recourse property debt obligations of consolidated partnerships served by our Asset Management business, as these were not our obligations and they had a limited effect on the amount of fees and other amounts we expected to receive in our role as asset manager for these partnerships. These obligations were derecognized in connection with the sale of our Asset Management business on July 25, 2018. Our leverage strategy seeks to increase financial returns while using leverage with appropriate caution. We limit risk through balance sheet structure, employing low leverage, primarily non-recourse and long-dated property debt; build financial flexibility by maintaining ample unused and available credit as well as holding properties with substantial value unencumbered by property debt; and use partners' capital when it enhances financial returns or reduces investment risk.

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 Adjusted Interest Expense and Preferred Dividends to be greater than 2.5x. Our leverage ratios for the three months ended June 30, 2018, are presented below:

Proportionate Debt to Pro forma EBITDA (1)	6.5x
Proportionate Debt and Preferred Equity to Pro forma EBITDA (1)	6.9x
Adjusted EBITDA to Adjusted Interest Expense	3.4x
Adjusted EBITDA to Adjusted Interest Expense and Preferred Dividends	3.1x

Our Proportionate Debt to Pro forma EBITDA and Proportionate Debt and Preferred Equity to Pro forma EBITDA ratios have been calculated on a pro forma basis to reflect the impact of the July 2018 dispositions of our Asset Management business, our four affordable apartment communities located in Hunters Point and Chestnut Hill (1) Village, described above. Pro forma EBITDA has also been adjusted to reflect our acquisition of the four Philadelphia apartment communities as if the transaction had closed on April 1, 2018. These adjustments reduced the ratios of Proportionate Debt to Adjusted EBITDA and Proportionate Debt and Preferred Equity to Adjusted EBITDA by 0.7x.

We calculate Pro forma EBITDA, Adjusted EBITDA and Adjusted Interest Expense used in our leverage ratios based on the most recent three month amounts, annualized. As used in the ratios above, Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units.

We expect our Proportionate Debt to Adjusted EBITDA and Proportionate Debt and Preferred Equity to Adjusted EBITDA ratios to decrease to 6.3x and 6.7x, respectively, before year-end.

Our liquidity consists of cash balances and available capacity on our revolving line of credit. As of June 30, 2018, we had on hand \$455.3 million in cash and restricted cash plus available capacity on our revolving line of credit. After the completion of the July dispositions, we used the proceeds to repay the term loan and outstanding borrowings on our revolving line of credit. On a pro forma basis, we would have had the capacity to borrow \$592.9 million under our revolving line of credit and additional cash of approximately \$207 million.

We also manage our financial flexibility by maintaining an investment grade rating and holding apartment communities that are unencumbered by property debt. At June 30, 2018, we held unencumbered apartment communities with an estimated fair value of approximately \$2.0 billion.

Two credit rating agencies rate our creditworthiness using different methodologies and ratios for assessing our credit, and both have rated our credit and outlook as 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 may not be indicative of the ratios that may be calculated by these agencies.

For additional information regarding our leverage, please see the discussion under the Liquidity and Capital Resources heading.

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Team and Culture

Our team and culture are keys to our success. Our intentional focus on a collaborative and productive culture based on respect for others and personal responsibility is reinforced by a preference for promotion from within. We focus on succession planning and talent development to produce a strong, stable team that is the enduring foundation of our success. In 2018, we were recognized by the Denver Post as a Top Work Place for the sixth consecutive year, an accomplishment shared with only seven other companies in Colorado.

Key Financial Indicators

The key financial indicators we use in managing our business and in evaluating our operating performance are Economic Income, our measure of long-term total return, and Adjusted Funds From Operations, our measure of current return. In addition to these indicators, we evaluate our operating performance and financial condition using: Pro forma FFO; Free Cash Flow; same store property net operating income; proportionate property net operating income; average revenue per effective apartment home; leverage ratios; and net leverage.

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 included in Item 1.

Three and Six Months Ended June 30, 2018 compared to June 30, 2017

Net income attributable to Aimco decreased by \$13.0 million and increased by \$57.1 million, respectively, during the three and six months ended June 30, 2018 as compared to 2017. Net income attributable to the Aimco Operating Partnership decreased by \$13.7 million and increased by \$59.6 million, respectively, during the three and six months ended June 30, 2018 as compared to 2017. The following discussion describes the primary drivers of the changes in the net income attributable to Aimco and the Aimco Operating Partnership for the three and six months ended June 30, 2018 compared to 2017.

Property Operations

As described under the preceding Executive Overview heading, our Real Estate portfolio consists primarily of market rate apartment communities in which we hold a substantial equity ownership interest.

We use proportionate property net operating income to assess the operating performance of our Real Estate Portfolio. Proportionate property net operating income reflects our share of rental and other property revenues less direct property operating expenses, including real estate taxes, for consolidated apartment communities we manage. Accordingly, the results of operations of our Real Estate segment discussed below are presented on a proportionate basis and exclude the results of four apartment communities with 142 apartment homes that we neither manage nor consolidate.

Additionally, we evaluate the revenue and expense performance of our segment as adjusted for utility reimbursements. Nearly two-thirds of our utility costs are reimbursed by residents. These reimbursements are included in rental and other property revenues in our condensed consolidated statements of operations prepared in accordance with GAAP, but beginning in 2018, our segment results below reflect utility reimbursements as a reduction of the corresponding expense. We have revised the 2017 amounts to conform to this presentation.

We do not include 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 7 in the condensed consolidated financial statements in Item 1 for further discussion regarding our reportable segments including a reconciliation of these proportionate amounts to the corresponding amounts in our condensed consolidated statements of operations.

Real Estate Proportionate Property Net Operating Income

We classify apartment communities within our Real Estate segment as Same Store and Other Real Estate. Same Store communities are those that have reached a stabilized level of operations as of the beginning of a two-year comparable period and maintained it throughout the current and comparable prior periods, and are not expected to be sold within

12 months. Other Real

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Estate includes apartment communities that do not meet the Same Store definition, including, but not limited to: redevelopment and development apartment communities, which are those currently under construction that have not achieved a stabilized level of operations and those that have been completed in recent years that have not achieved and maintained stabilized operations for both the current and comparable prior year; acquisition apartment communities, which are those we have acquired since the beginning of a two-year comparable period; and communities that we expect to sell within 12 months but do not yet meet the criteria to be classified as held for sale.

As of June 30, 2018, our Real Estate segment consisted of 95 Same Store apartment communities with 26,367 apartment homes and 34 Other Real Estate communities with 9,963 apartment homes.

From December 31, 2017 to June 30, 2018, on a net basis, our Same Store portfolio increased by three apartment communities and decreased by 19 apartment homes. These changes consisted of:

the addition of one developed apartment community with 91 apartment homes and one redeveloped apartment community with 104 apartment homes that were classified as Same Store upon maintaining stabilized operations for the entirety of the periods presented;

the addition of one acquired apartment community with 115 apartment homes that was classified as Same Store because we have now owned it for the entirety of both periods presented;

the addition of one apartment community with 492 apartment homes that we no longer expect to sell within 12 months; and

the reduction of one apartment community with 821 apartment homes, which was classified as held for sale as of June 30, 2018.

As of June 30, 2018, our Other Real Estate communities included:

13 apartment communities with 6,284 apartment homes in redevelopment or development;

6 apartment communities with 1,876 apartment homes recently acquired; and

15 apartment communities with 1,803 apartment homes that do not meet the definition of Same Store because they are either subject to agreements that limit the amount by which we may increase rents or have not reached or maintained a stabilized level of occupancy as of the beginning of a two-year comparable period, often due to a casualty event.

Our Real Estate segment results for the three months ended June 30, 2018 and 2017, as presented below, are based on the apartment community populations as of June 30, 2018.

(in thousands)	Three Months Ended June 30,		\$ Change	% Change	
	2018	2017			
Rental and other property revenues before utility reimbursements:					
Same Store communities	\$ 146,950	\$ 142,372	\$ 4,578	3.2	%
Other Real Estate Communities	67,528	51,536	15,992	31.0	%
Total	214,478	193,908	20,570	10.6	%
Property operating expenses, net of utility reimbursements:					
Same Store communities	38,496	37,261	1,235	3.3	%
Other Real Estate Communities	22,434	18,298	4,136	22.6	%
Total	60,930	55,559	5,371	9.7	%
Proportionate property net operating income:					
Same Store communities	108,454	105,111	3,343	3.2	%
Other Real Estate Communities	45,094	33,238	11,856	35.7	%
Total	\$ 153,548	\$ 138,349	\$ 15,199	11.0	%

For the three months ended June 30, 2018 compared to 2017, our Real Estate segment's proportionate property net operating income increased \$15.2 million, or 11.0%.

Same Store proportionate property net operating income increased by \$3.3 million, or 3.2%. This increase was primarily attributable to a \$4.6 million, or 3.2%, increase in rental and other property revenues due to higher average revenues of \$53 per Aimco apartment home comprised of increases in rental rates and a 40 basis point increase in average daily occupancy. Renewal

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rents, which is the rent paid by an existing resident who renewed her lease compared to the rent she previously paid, were up 4.8% for the three months ended June 30, 2018, and new lease rents, which is the rent paid by a new resident compared to the rent paid by the previous resident of the same apartment home, were up 1.9%, resulting in a weighted average increase of 3.4%. The increase in Same Store rental and other property revenues was partially offset by a \$1.2 million, or 3.3%, increase in property operating expenses primarily due to repairs and maintenance costs and increases in insurance and real estate taxes. During the three months ended June 30, 2018 compared to 2017, controllable operating expenses, which exclude utility costs, real estate taxes and insurance, increased by \$0.5 million, or 2.6%. The proportionate property net operating income of Other Real Estate communities increased by \$11.9 million, or 35.7%, for the three months ended June 30, 2018 compared to 2017 due to:

a \$5.4 million increase in property net operating income due to the 2018 acquisition of Bent Tree Apartments and the four Philadelphia properties as well as the lease-up of Indigo located in Redwood City, California;

a \$0.9 million increase in property net operating income due to leasing activities at redevelopment and development communities, partially offset by decreases due to apartment homes taken out of service for development; and higher property net operating income of \$5.6 million from other communities, primarily the effect of our increased ownership interest in the Palazzo communities from our June 2017 reacquisition of a 47% limited partner interest in the related joint venture.

(in thousands)	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
Rental and other property revenues before utility reimbursements:				
Same Store communities	\$291,804	\$283,582	\$8,222	2.9 %
Other Real Estate Communities	128,996	101,832	27,164	26.7 %
Total	420,800	385,414	35,386	9.2 %
Property operating expenses, net of utility reimbursements:				
Same Store communities	77,419	75,375	2,044	2.7 %
Other Real Estate Communities	42,854	36,359	6,495	17.9 %
Total	120,273	111,734	8,539	7.6 %
Proportionate property net operating income:				
Same Store communities	214,385	208,207	6,178	3.0 %
Other Real Estate Communities	86,142	65,473	20,669	31.6 %
Total	\$300,527	\$273,680	\$26,847	9.8 %

For the six months ended June 30, 2018 compared to 2017, our Real Estate segment's proportionate property net operating income increased \$26.8 million, or 9.8%.

Same Store proportionate property net operating income increased by \$6.2 million, or 3.0%. This increase was primarily attributable to an \$8.2 million, or 2.9%, increase in rental and other property revenues due to higher average revenues of approximately \$48 per effective home, comprised primarily of increases in rental rates and a 40 basis point increase in average daily occupancy. Renewal rents, which is the rent paid by an existing resident who renewed her lease compared to the rent she previously paid, were up 4.8% for the six months ended June 30, 2018, and new lease rents, which is the rent paid by a new resident compared to the rent paid by the previous resident of the same apartment home, were up 1.3%, resulting in a weighted average increase of 3.1%. The increase in Same Store rental and other property revenues was partially offset by a \$2.0 million, or 2.7%, increase in property operating expenses, primarily due to increase in real estate taxes, repairs and maintenance costs and insurance. During the six months ended June 30, 2018 compared to 2017, controllable operating expenses, which exclude utility costs, real estate taxes and insurance, increased by \$0.8 million, or 2.0%.

The proportionate property net operating income of our Other Real Estate communities increased by \$20.7 million, or 31.6% for the six months ended June 30, 2018 compared to 2017, due to:

a \$7.9 million increase in property net operating income due to the 2018 acquisition of Bent Tree Apartments and the four Philadelphia properties as well as the lease-up of Indigo;

a \$2.8 million increase in property net operating income due to leasing activities at redevelopment and development communities, partially offset by decreases due to apartment homes taken out of service for redevelopment; and

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higher property net operating income of \$10.0 million from other communities, primarily the effect of our increased ownership interest in the Palazzo communities from our June 2017 reacquisition of a 47% limited partner interest in the related joint venture.

Non-Segment Real Estate Operations

Operating income amounts not attributed to our Real Estate segment include offsite costs associated with property management, casualty losses, and the results of apartment communities sold, reported in consolidated amounts, which we do not allocate to our Real Estate segment for purposes of evaluating segment performance (see Note 7 to the condensed consolidated financial statements in Item 1).

For the three months ended June 30, 2018, casualty losses totaled \$0.6 million and included a large claim due to storm damage. For the three months ended June 30, 2017, casualty losses totaled \$2.4 million and included several large claims primarily related to fire damage.

For the six months ended June 30, 2018, casualty losses totaled \$1.6 million and included several large claims primarily related to winter storm damage, partially offset by recovery from insurance carriers for insured losses in excess of policy limits. For the six months ended June 30, 2017, casualty losses totaled \$4.3 million and included several large claims primarily related to fire damage.

Net operating income decreased for the three and six months ended June 30, 2018 compared to 2017, by \$6.9 million and \$13.5 million, respectively, due to apartment communities previously in our Real Estate portfolio that were sold as of June 30, 2018.

Asset Management Results

We provided asset management and other services to certain consolidated partnerships owning apartment communities that qualify for low-income housing tax credits and are structured to provide for the pass-through of tax credits and tax deductions to their partners. In July 2018, we completed the sale of our Asset Management business. Contribution from Asset Management included in our condensed consolidated financial statements included: fees and other amounts paid to us from the net operating income of partnerships served by our Asset Management business, less interest expense incurred on non-recourse property debt obligations of the partnerships; income associated with delivery of tax credits to the third-party investors in the partnerships, which included amounts received during the period and amounts received in previous periods; and transactional revenue and other income less asset management expenses, which included certain allocated offsite costs related to the operation of this business.

The contribution from Asset Management for the three and six months ended June 30, 2018 compared to 2017, is presented in the table below.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net operating income of partnerships served by Asset Management business	\$10,783	\$11,040	\$21,201	\$21,240
Interest expense on non-recourse property debt of partnerships	(3,241)	(3,280)	(6,527)	(6,511)
Amount available for payment of Asset Management fees	7,542	7,760	14,674	14,729
Tax credit income, net	(32)	2,516	1,785	5,029
Asset management expenses	(961)	(1,005)	(1,983)	(2,026)
Transactional revenue and other income	42	420	1,688	882
Contribution from Asset Management business	\$6,591	\$9,691	\$16,164	\$18,614

For the periods presented above, the contribution from the Asset Management business decreased primarily due to a decrease in tax credit income, net, following our early 2018 acquisition of an investor limited partner's interest in two of the tax credit partnerships (and their rights to undelivered tax credits) prior to the end of the tax credit delivery period.

Depreciation and Amortization

For the three and six months ended June 30, 2018 compared to 2017, depreciation and amortization increased \$8.3 million, or 9.3%, and \$13.7 million, or 7.8%, respectively, primarily due to renovated apartment homes placed in service after their completion, partially offset by decreases associated with apartment communities sold.

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General and Administrative Expenses

For the three and six months ended June 30, 2018, compared to the 2017, general and administrative expenses increased \$3.8 million, or 37.3%, and \$4.2 million, or 19.8%, respectively, primarily due to the timing of incentive compensation costs.

Other Expenses, net

Other expenses, net includes franchise taxes, costs associated with our risk management activities, partnership administration expenses and certain non-recurring items.

For the three and six months ended June 30, 2018 compared to 2017, other expenses increased by \$1.7 million and \$2.9 million, respectively, primarily due to higher legal costs associated with our ongoing litigation against Airbnb to protect our property right to select our residents and their neighbors and severance costs incurred during the three months ended June 30, 2018, in connection with the July 25, 2018 sale of our Asset Management business, partially offset by a reduction in other legal costs.

Interest Expense

For the three and six months ended June 30, 2018 compared to 2017, interest expense, which includes the amortization of debt issuance costs, increased by \$3.0 million, or 6.5%, and \$3.0 million, or 3.1%, respectively. The increases were primarily due to assumption of debt associated with the 2018 acquisition of four properties in Philadelphia and higher amounts outstanding on corporate borrowings used to fund the 2018 acquisition of Bent Tree Apartments, partially offset by properties refinanced with lower interest rates.

Income Tax Benefit

Certain of our operations, including property management and risk management, are conducted through TRS entities. Additionally, some of our apartment communities are owned through TRS entities.

Our income tax benefit calculated in accordance with GAAP includes: (a) income taxes associated with the income or loss of our TRS entities, for which the tax consequences have been realized or will be realized in future periods; (b) low income housing tax credits that offset REIT taxable income, primarily from retained capital gains; and (c) historic tax credits that offset income tax obligations of our TRS entities. Income taxes related to these items (before gains on dispositions) are included in income tax benefit in our condensed consolidated statements of operations.

For the three and six months ended June 30, 2018 compared to 2017, income tax benefit decreased by \$0.6 million and increased \$31.8 million, respectively. Income tax benefit decreased during the three months ended primarily due to lower historic tax credits generated through the redevelopment of certain apartment communities. Income tax benefit increased during the six months ended June 30, 2018 primarily due to a tax benefit recognized in connection with an intercompany transfer of assets related to our Asset Management business, offset slightly by lower historic tax credits generated.

Gain on Dispositions of Real Estate, Inclusive of Related Income Tax

Real Estate

We did not sell any apartment communities from our Real Estate portfolio during the three months ended June 30, 2018. During the six months ended June 30, 2018, we sold three apartment communities with 513 apartment homes for a gain 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.

We did not sell any apartment communities from our Real Estate portfolio during the three and six months ended June 30, 2017, though we sold a commercial property resulting in a small gain.

Asset Management

Consolidated partnerships served by our Asset Management business did not sell any apartment communities during the three and six months ended June 30, 2018.

During the three months ended June 30, 2017, a consolidated partnership served by our Asset Management business sold an apartment community with 200 apartment homes for a gain of \$1.9 million and gross proceeds of \$8.5 million, resulting in \$4.5 million in net proceeds to us. During the six months ended June 30, 2017, consolidated partnerships served by our Asset Management business sold two apartment communities with 252 apartment homes for a gain of \$2.6 million and gross proceeds of \$10.9 million, resulting in \$5.0 million in net proceeds to us.

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Noncontrolling Interests in Consolidated Real Estate Partnerships

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

The amount of net income allocated to noncontrolling interests was driven by two primary factors: the operations of the consolidated apartment communities and gains on the sale of apartment communities with noncontrolling interest holders, as further discussed below.

For the three months ended June 30, 2018, we allocated nominal net income and for the three months ended June 30, 2017, we allocated net income of \$0.8 million to noncontrolling interests in consolidated real estate partnerships resulting from operations of the consolidated apartment communities.

For the six months ended June 30, 2018 and 2017, we allocated net income of \$6.3 million and \$1.8 million, respectively, to noncontrolling interests in consolidated real estate partnerships.

The amount of net income allocated to noncontrolling interests resulting from operations of the consolidated apartment communities was \$0.1 million and \$1.8 million for the six months ended June 30, 2018 and 2017, respectively. The decrease was primarily due to the 2017 reacquisition of our limited partner's interests in the Palazzo joint venture.

Gains on the sale of apartment communities allocated to noncontrolling interests totaled \$6.2 million for the six months ended June 30, 2018, and there was no such allocation for the six months ended June 30, 2017.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with GAAP, which requires us to make estimates and assumptions. We believe that the critical accounting policies that involve our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements relate to the impairment of long-lived assets and capitalized costs.

Our critical accounting policies are described in more detail in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of Aimco's and the Aimco Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes in our critical accounting policies from those reported in our Form 10-K and we believe that the related judgments and assessments have been consistently applied and produce financial information that fairly depicts the results of operations for all periods presented.

Non-GAAP Measures

Various of the key financial indicators we use in managing our business and in evaluating our financial condition and operating performance are non-GAAP measures. Key non-GAAP measures we use are defined and described below, and for those non-GAAP measures used or disclosed within this quarterly report, reconciliations of the non-GAAP measures to the most comparable financial measure computed in accordance with GAAP are provided.

Funds From Operations, or FFO, Pro forma FFO and AFFO are non-GAAP financial measures, which are defined and further described below under the Funds From Operations, Pro forma Funds From Operations and Adjusted Funds From Operations heading.

Free Cash Flow, as calculated for our retained portfolio, represents an apartment community's property net operating income, or NOI, less spending for capital replacements, which represents our estimation of the capital additions made to replace capital assets consumed during our ownership period (further discussed under the Funds From Operations, Pro forma Funds From Operations and Adjusted Funds From Operations heading and the Liquidity and Capital Resources heading). Free Cash Flow margin represents an apartment community's NOI less \$1,200 per apartment home of assumed annual capital replacement spending, as a percentage of the apartment community's rental and other property revenues. Capital replacement spending represents a measure of the cost of capital asset usage during the period; therefore, we believe that Free Cash Flow is useful to investors as a supplemental measure of apartment community performance because it takes into consideration costs incurred during the period to replace capital assets that have been consumed during our ownership.

Economic Income represents stockholder value creation as measured by the change in estimated net asset value per share plus cash dividends per share. We believe Economic Income is important to investors as it represents a measure of the total return we have earned for our stockholders. We report and reconcile Economic Income annually. Please refer to the section entitled

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Management's Discussion and Analysis of Financial Condition and Results of Operations described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017, for more information about Economic Income, Funds From Operations, Pro Forma Funds From Operations and Adjusted Funds From Operations

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

In addition to FFO, we compute Pro forma FFO and AFFO, which are also non-GAAP financial measures that we believe are helpful to investors in understanding our performance. Pro forma FFO represents FFO attributable to Aimco common stockholders (diluted), excluding preferred equity redemption-related amounts and certain litigation costs. Preferred equity redemption-related amounts (gains or losses) are items that periodically affect our operating results and we exclude these items from our calculation of Pro forma FFO because such amounts are not representative of our operating performance. We are engaged in litigation with Airbnb to protect our property right to select our residents and their neighbors. Due to the unpredictable nature of these cases and associated legal costs, we exclude such costs from Pro forma FFO. In connection with the sale of our Asset Management business, we incurred severance costs during the three months ended June 30, 2018. We believe these costs incurred are clearly and closely related to the sale of the business and exclude such costs from Pro forma FFO.

AFFO represents Pro forma FFO reduced by Capital Replacements, which represents our estimation of the capital additions made to replace capital assets consumed during our ownership period. When we make capital additions at an apartment community, we evaluate whether the additions extend the useful life of an asset as compared to its condition at the time we purchased the apartment community. We classify as Capital Improvements those capital additions that meet these criteria and we classify as Capital Replacements those that do not. AFFO is a key financial indicator that we use to evaluate our operational performance and measure our current return. AFFO is one of the factors that we use to determine the amounts of our dividend payments.

FFO, Pro forma FFO and AFFO should not be considered alternatives to net income, as determined in accordance with GAAP, as indications of our performance. Although we use these non-GAAP measures for comparability in assessing our performance compared to other REITs, not all REITs compute these same measures, and those who do may not compute them in the same manner. Additionally, our computation of AFFO is subject to our definition of Capital Replacement spending. Accordingly, there can be no assurance that our basis for computing these non-GAAP measures is comparable with that of other REITs.

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For the three and six months ended June 30, 2018 and 2017, Aimco's FFO, Pro forma FFO and AFFO are calculated as follows (in thousands):

	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	2018	2017
Net income attributable to Aimco common stockholders (1)	\$2,817	\$15,843	\$84,342	\$27,334
Adjustments:				
Real estate depreciation and amortization, net of noncontrolling partners' interest	95,238	84,649	185,632	167,530
Gain on dispositions and other, net noncontrolling partners' interest	(217)	(1,741)	(47,240)	(2,180)
Income tax adjustments related to gain on dispositions and other items (2)	85	410	(30,635)	1,442
Common noncontrolling interests in Aimco Operating Partnership's share of above adjustments	(4,610)	(3,783)	(5,167)	(7,633)
Amounts allocable to participating securities	(82)	(41)	(97)	(79)
FFO attributable to Aimco common stockholders – diluted	\$93,231	\$95,337	\$186,835	\$186,414
Litigation costs, net of common noncontrolling interests in Aimco Operating Partnership and participating securities (3)	1,557	—	1,906	—
Severance costs, net of common noncontrolling interests in Aimco OP and participating securities (4)	1,215	—	1,215	—
Pro forma FFO attributable to Aimco common stockholders – diluted	\$96,003	\$95,337	\$189,956	\$186,414
Capital Replacements, net of common noncontrolling interests in Aimco Operating Partnership and participating securities	(11,710)	(15,360)	(21,477)	(26,306)
AFFO attributable to Aimco common stockholders – diluted	\$84,293	\$79,977	\$168,479	\$160,108
Weighted average common shares outstanding – diluted (FFO, Pro forma FFO and AFFO) (5)	156,833	156,715	156,786	156,735
Net income attributable to Aimco per common share – diluted	\$0.02	\$0.10	\$0.54	\$0.17
FFO per share – diluted	\$0.59	\$0.61	\$1.19	\$1.19
Pro forma FFO per share – diluted	\$0.61	\$0.61	\$1.21	\$1.19
AFFO per share – diluted	\$0.54	\$0.51	\$1.07	\$1.02

(1) Represents the numerator for calculating Aimco's earnings per common share in accordance with GAAP.

Income tax adjustments related to gain on dispositions and other items for the six months ended June 30, 2018 includes a \$33.6 million tax benefit related to an intercompany transfer of assets related to our Asset Management (2) business. On July 25, 2018, we completed the sale of this business. In subsequent periods, the related taxes will be reflected within our statement of operations within gain on dispositions of real estate, inclusive of related income tax. Accordingly, we have excluded the benefit related to the reorganization from FFO.

We are engaged in litigation with Airbnb to protect our property right to select our residents and their neighbors.

(3) Due to the unpredictable nature of these cases and associated legal costs, we exclude such costs from Pro forma FFO and AFFO.

In connection with the sale of our Asset Management business, we incurred severance costs of \$1.2 million during (4) the three months ended June 30, 2018. We believe these costs are closely related to the sale of the business and have excluded such costs from Pro forma FFO and AFFO.

(5) Represents the denominator for Aimco's earnings per common share – diluted, calculated in accordance with GAAP. Refer to the Executive Overview for discussion of our Pro forma FFO and AFFO results for 2018 compared to 2017. Refer to the Liquidity and Capital Resources section for further information regarding our capital investing activities, including Capital Replacements.

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

Partnership, as well as limited differences between the amounts of net income attributable to Aimco's common stockholders and the Aimco Operating Partnership's unit holders during the periods presented, FFO, Pro forma FFO and AFFO amounts on a per unit basis for the Aimco Operating Partnership would be expected to be substantially the same as the corresponding per share amounts for Aimco.

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Leverage Ratios

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 Adjusted Interest Expense and Preferred Dividends to be greater than 2.5x. We believe these ratios are important measures as they are commonly used by investors and analysts to assess the relative financial risk associated with balance sheets of companies within the same industry, and they are believed to be similar to measures used by rating agencies to assess entity credit quality.

We calculate Adjusted EBITDA, Pro forma EBITDA and Adjusted Interest used in our leverage ratios based on the most recent three month amounts, annualized.

Proportionate Debt, as used in our leverage ratios, is a non-GAAP measure and includes our share of the long-term, non-recourse property debt secured by apartment communities in the Real Estate portfolio and outstanding borrowings under our revolving credit facility and term loan, reduced by our share of the cash and restricted cash of our consolidated and unconsolidated partnerships owning communities in our Real Estate portfolio, and also by our investment in the subordinate tranches of a securitization trust that holds certain of our property debt, which is essentially an investment in our own non-recourse property loans.

In our Proportionate Debt computation, we increase our recorded debt by unamortized debt issue costs because these amounts represent cash expended in earlier periods and do not reduce our contractual obligations, and we reduce our recorded debt by the amounts of cash and restricted cash on-hand which are primarily restricted under the terms of our property debt agreements, assuming these amounts would be used to reduce our outstanding leverage. We further reduce our recorded debt by the value of our investment in a securitization trust that holds certain of our property debt, as our payments of principal and interest associated with such property debt will ultimately repay our investments in the trust. We exclude from our leverage the non-recourse property debt obligations of consolidated partnerships served by our Asset Management business, as these were not our obligations and they had a limited effect on the amount of fees and other amounts we expected to receive in our role as asset manager for these partnerships. These obligations were derecognized in connection with the sale of our Asset Management business on July 25, 2018.

We believe Proportionate Debt is useful to investors as it is a measure of our net exposure to debt obligations.

Proportionate Debt, as used in our leverage ratios, is calculated as set forth in the table below.

Preferred Equity, as used in our leverage ratios, represents the redemption amounts for Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units. Preferred Equity, although perpetual in nature, is another component of our overall leverage.

Adjusted EBITDA is a non-GAAP measure. We believe Adjusted EBITDA provides investors relevant and useful information because it allows investors to view income from our operations on an unleveraged basis, before the effects of taxes, depreciation and amortization, gains or losses on sales of and impairment losses related to real estate, and various other items described below. Adjusted EBITDA represents Aimco's share of the consolidated amount of our net income, adjusted to exclude the effect of the following items for the reasons set forth below:

Adjusted Interest Expense, defined below, to allow investors to compare a measure of our earnings before the effects of our indebtedness with that of other companies in the real estate industry;

preferred dividends, to allow investors to compare a measure of our performance before the effects of our capital structure (including indebtedness) with that of other companies in the real estate industry;

income taxes, to allow investors to measure our performance independent of income taxes, which may vary significantly from other companies within our industry due to leverage and tax planning strategies, among other factors;

depreciation and amortization, gains or losses on dispositions and impairment losses related to real estate, for similar reasons to those set forth in our discussion of FFO, Pro forma FFO and AFFO in the preceding section; and other items, including gains on dispositions of non-depreciable assets, as these are items that periodically affect our operations but that are not necessarily representative of our ability to service our debt obligations.

In addition to Adjusted EBITDA, from time to time, we compute Pro forma EBITDA, which is also a non-GAAP financial measure that we believe is helpful to investors because it allows investors to view income from our operations after adjustment for significant acquisitions that have occurred during the quarter or dispositions that occurred subsequent to the quarter but for which the proceeds have been reflected in Proportionate Debt, as described

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While Adjusted EBITDA and Pro forma EBITDA are relevant measures of performance and are commonly used in leverage ratios, they do not represent net income as defined by GAAP, and should not be considered as alternatives to net income in evaluating our performance. Further, our definition and computation of Adjusted EBITDA and Pro forma EBITDA may not be comparable to similar measures reported by other companies.

Adjusted Interest Expense, as calculated in our leverage ratios, is a non-GAAP measure that we believe is meaningful for investors and analysts as it presents our share of current recurring interest requirements associated with leverage.

Adjusted Interest Expense represents our proportionate share of interest expense on non-recourse property debt encumbering apartment communities in the Real Estate portfolio and interest expense on our term loan and revolving credit facility borrowings. We exclude from our calculation of Adjusted Interest Expense:

- debt prepayment penalties, which are items that, from time to time, affect our operating results but are not representative of our scheduled interest obligations;

- the amortization of debt issue costs, as these amounts have been expended in previous periods and are not representative of our current or prospective debt service requirements; and

- the income we receive on our investment in the securitization trust that holds certain of our property debt, as this income is being generated indirectly from interest we pay with respect to property debt held by the trust.

Preferred Dividends represents the preferred dividends paid on Aimco's preferred stock and the preferred distributions paid on the Aimco Operating Partnership's preferred OP Units, exclusive of preferred equity redemption related amounts. We add Preferred Dividends to Adjusted Interest Expense for a more complete picture of the interest and dividend requirements of our leverage, inclusive of perpetual preferred equity.

Reconciliations of the most closely related GAAP measures to our calculations of Proportionate Debt, Preferred Equity, Adjusted EBITDA, Pro forma EBITDA, Adjusted Interest Expense and Preferred Dividends, as used in our leverage ratios, are as follows (in thousands):

	June 30, 2018
Total indebtedness associated with Real Estate portfolio	\$4,261,209
Adjustments:	
Debt issue costs related to non-recourse property debt	19,586
Debt issue costs related to term loan	199
Proportionate share adjustments related to debt obligations of consolidated and unconsolidated partnerships	(9,554)
Cash and restricted cash	(87,820)
Proportionate share adjustments related to cash and restricted cash held by consolidated and unconsolidated partnerships	1,085
Securitization trust investment and other	(84,565)
Pro forma adjustment	(745,000)
Pro forma Proportionate Debt (1)	\$3,355,140
Preferred stock	\$125,000
Preferred OP Units	101,332
Preferred Equity	226,332
Pro forma Proportionate Debt and Preferred Equity (1)	\$3,581,472

(1) Amounts have been adjusted to reflect proceeds, net of transaction costs, from the July 2018 sales of our Asset Management business, our four affordable apartment communities located in Hunters Point and Chestnut Hill Village.

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	Three Months Ended June 30, 2018
Net income attributable to Aimco Common Stockholders	\$2,817
Adjustments:	
Adjusted Interest Expense	42,425
Income tax benefit	(4,395)
Depreciation and amortization, net of noncontrolling interest	97,561
Gain on disposition and other, inclusive of related income taxes and net of noncontrolling partners' interests	(132)
Preferred stock dividends	2,149
Net income attributable to noncontrolling interests in Aimco Operating Partnership	2,145
Adjusted EBITDA	\$142,570
Pro forma adjustment	(11,517)
Pro forma EBITDA (1)	\$131,053
Annualized Adjusted EBITDA	\$570,280
Annualized Pro forma EBITDA	\$524,212

(1) Pro forma EBITDA has been adjusted to reflect the impact of the July 2018 dispositions of our Asset Management business, our four affordable apartment communities located in Hunters Point and Chestnut Hill Village. Pro forma EBITDA has also been adjusted to reflect the acquisition of the four Philadelphia apartment communities as if the transaction had closed on April 1, 2018.

	Three Months Ended June 30, 2018
Interest expense	\$49,906
Interest expense related to non-recourse property debt obligations of consolidated partnerships served by our Asset Management business	(3,241)
Interest expense attributable to Real Estate portfolio	46,665
Adjustments:	
Proportionate share adjustments related to interest of consolidated and unconsolidated partnerships	(101)
Debt prepayment penalties and other non-interest items	(590)
Amortization of debt issue costs	(1,664)
Interest income earned on securitization trust investment	(1,885)
Adjusted Interest Expense	\$42,425
Preferred stock dividends	2,149
Preferred OP Unit distributions	1,934
Preferred Dividends	4,083
Adjusted Interest Expense and Preferred Dividends	\$46,508
Annualized Adjusted Interest Expense	\$169,700
Annualized Adjusted Interest Expense and Preferred Dividends	\$186,032
Liquidity and Capital Resources	
Liquidity	

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

Our principal uses for liquidity include normal operating activities, payments of principal and interest on outstanding property debt, capital expenditures, dividends paid to stockholders, distributions paid to noncontrolling interest partners and acquisitions of apartment communities. We use our cash and cash equivalents and our cash provided by operating activities to meet short-term liquidity needs. In the event that our cash and cash equivalents and cash provided by operating activities are not sufficient to cover

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our short-term liquidity needs, we have additional means, such as short-term borrowing availability and proceeds from apartment community sales and refinancings. We may use our revolving credit facility for working capital and other short-term purposes, such as funding investments on an interim basis. We expect to meet our long-term liquidity requirements, such as debt maturities, redevelopment spending and apartment community acquisitions, through primarily non-recourse, long-term borrowings, the issuance of equity securities (including OP Units), the sale of apartment communities and cash generated from operations.

As of June 30, 2018, our primary sources of liquidity were as follows:

\$46.7 million in cash and cash equivalents;

- \$41.1 million of restricted cash, which consists primarily of escrows related to resident security deposits and reserves and escrows held by lenders for capital additions, property taxes and insurance; and
- \$367.5 million of capacity to borrow under our revolving credit facility after consideration of outstanding borrowings of \$220.2 million and \$12.3 million of letters of credit backed by the facility. After the completion of the sale of our Asset Management business, our four affordable apartment communities located in Hunters Point and Chestnut Hill Village in July 2018, we used the proceeds to repay the outstanding borrowings on our revolving credit facility. On a pro forma basis, giving effect to the application of such proceeds, we would have had the capacity to borrow \$592.9 million under our revolving credit facility and additional cash of approximately \$207 million.

At June 30, 2018, we also held unencumbered apartment communities with an estimated fair market value of approximately \$2.0 billion. Each of the amounts presented above exclude amounts attributable to partnerships served by our Asset Management business, which was sold on July 25, 2018.

Leverage and Capital Resources

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

Two credit rating agencies rate our creditworthiness and both have rated our credit and outlook as BBB- (stable), an investment grade rating. Our investment grade rating would be useful in accessing capital through the sale of bonds in private or public transactions. However, our intention and historical practice has been to raise debt capital in the form of property-level, non-recourse, long-dated, fixed-rate, amortizing debt, the cost of which is generally less than that of recourse debt and the terms of which also provide for greater balance sheet safety.

As of June 30, 2018, approximately 84.7% of our leverage consisted of property-level, non-recourse, long-dated, amortizing debt. Approximately 96.5% of this property-level debt is fixed-rate, which provides a hedge against increases in interest rates, capitalization rates and inflation. The weighted average maturity of our property-level debt was 7.0 years.

For property-level debt encumbering the communities in our Real Estate portfolio, \$6.6 million of our unpaid principal balances mature during the remainder of 2018, and on average, 12.8% of our unpaid principal balance will mature each year from 2019 through 2021.

While our primary source of leverage is property-level, non-recourse, long-dated, fixed-rate, amortizing debt, we also have a Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as our Credit Agreement. Our Credit Agreement provides for \$600.0 million of revolving loan commitments. As of June 30, 2018, we had \$220.2 million of outstanding borrowings under our revolving loan commitments, representing 4.8% of our total leverage, which we repaid with proceeds from the sale of our Asset Management business on July 25, 2018. The Credit Agreement provides us with an option to expand the aggregate loan commitments, subject to customary conditions, by up to \$200.0 million.

The Credit Agreement also provided for a \$250.0 million term loan, which represented 5.5% of our total leverage as of June 30, 2018 and was extended to mature on September 30, 2018. Subsequent to the completion of the sale of our

Asset Management business, we utilized proceeds from the sale to repay the term loan.

As of June 30, 2018, our outstanding perpetual preferred equity represented approximately 5.0% of our total leverage. Our preferred securities are perpetual in nature; however, for illustrative purposes, we compute the weighted average maturity of our total leverage assuming a 40-year maturity for our preferred securities.

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The combination of non-recourse property-level debt, borrowings under our Credit Agreement and perpetual preferred equity that comprises our total leverage, reduces our refunding and re-pricing risk. The weighted average maturity for our total leverage described above was 8.2 years as of June 30, 2018. We used these proceeds, net of transaction costs from the sales of our Asset Management business, our four affordable apartment communities located in Hunters Point and Chestnut Hill Village to repay outstanding borrowings on the revolving credit facility and the term loan in July 2018, after giving effect to these repayments, on a pro forma basis, the weighted average maturity of our total leverage would be 8.9 years.

Under the Credit Agreement, we have agreed to maintain a Fixed Charge Coverage ratio of 1.40x, as well as comply with other covenants customary for similar revolving credit arrangements. For the trailing twelve month period ended June 30, 2018, our Fixed Charge Coverage ratio was 2.00x, compared to a ratio of 1.97x for the trailing twelve month period ended June 30, 2017. We expect to remain in compliance with this covenant during the next 12 months.

Changes in Cash, Cash Equivalents and Restricted Cash

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

Operating Activities

For the six months ended June 30, 2018, net cash provided by operating activities was \$185.6 million. Our operating cash flow is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of apartment communities. Cash provided by operating activities for the six months ended June 30, 2018, increased by \$8.1 million compared to 2017, due to improved operating results of our Same Store communities and increased contribution from our redevelopment and lease-up communities, partially offset by lower net operating income associated with apartment communities sold in 2017.

Investing Activities

For the six months ended June 30, 2018, net cash used in investing activities of \$293.7 million consisted primarily of the acquisitions of Bent Tree Apartments and four apartment communities in Philadelphia and capital expenditures, partially offset by proceeds from the disposition of apartment communities. Capital expenditures totaled \$164.1 million and \$176.4 million during the six months ended June 30, 2018 and 2017, respectively. We generally fund capital expenditures with cash provided by operating activities and cash proceeds from apartment community sales. Further information about the acquisitions of Bent Tree Apartments and the four apartment communities in Philadelphia, and sales of the three apartment communities completed during the six months ended June 30, 2018, is included in Note 3 to the condensed consolidated financial statements in Item 1.

Capital additions for our Real Estate segment totaled \$158.4 million and \$163.2 million during the six months ended June 30, 2018 and 2017, respectively. We generally fund capital additions with cash provided by operating activities and cash proceeds from sales of apartment communities.

We categorize capital spending for communities in our Real Estate portfolio broadly into six primary categories:

- capital replacements, which represent capital additions made to replace the portion of acquired apartment communities consumed during our period of ownership;
- capital improvements, which represent capital additions made to replace the portion of acquired apartment communities consumed prior to our period of ownership;
- capital enhancements, which may include kitchen and bath remodeling, energy conservation projects and investments in longer-lived materials designed to reduce turnover costs and maintenance, all of which are generally lesser in scope than redevelopment additions and do not significantly disrupt property operations;
- redevelopment additions, which represent capital additions intended to enhance the value of the apartment community through the ability to generate higher average rental rates, and may include costs related to entitlement, which enhance the value of a community through increased density, and costs related to renovation of exteriors, common areas or apartment homes;
- development additions, which represent construction and related capitalized costs associated with development of apartment communities; and

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casualty capital additions, which represent construction and related capitalized costs incurred in connection with the restoration of an apartment community after a casualty event such as a severe snow storm, hurricane, tornado, flood or fire.

We exclude from these measures the amounts of capital spending related to apartment communities sold or classified as held for sale at the end of the period, as well as amounts expended by consolidated partnerships served by our Asset Management business as such amounts did not affect the amount of proceeds we received from the sale of our Asset Management business in July 2018. We have also excluded from these measures indirect capitalized costs, which are allocated later in the year to apartment communities with capital additions, and their related capital spending categories.

A summary of the capital spending for these categories, along with a reconciliation of the total for these categories to the capital expenditures reported in the accompanying condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017, are presented below (in thousands):

	Six Months Ended June 30,	
	2018	2017
Real Estate		
Capital replacements	\$ 14,569	\$ 19,363
Capital improvements	5,600	7,985
Capital enhancements	45,927	44,481
Redevelopment additions	70,692	84,665
Development additions	17,416	3,137
Casualty capital additions	4,149	3,566
Real Estate capital additions	158,353	163,197
Plus: additions related to apartment communities sold or held for sale and unallocated indirect capitalized costs	7,412	12,149
Plus: additions related to consolidated asset managed communities	1,720	814
Consolidated capital additions	167,485	176,160
Plus: net change in accrued capital spending	(3,369)) 228
Capital expenditures per condensed consolidated statement of cash flows	\$ 164,116	\$ 176,388

For the six months ended June 30, 2018 and 2017, we capitalized \$3.9 million and \$4.2 million of interest costs, respectively, and \$17.7 million and \$17.4 million of other direct and indirect costs, respectively.

We invested \$45.9 million in capital enhancements during the six months ended June 30, 2018, and we anticipate a full year investment ranging from \$80 million to \$100 million.

Redevelopment and Development

We execute redevelopments using a range of approaches. We prefer to limit risk by executing redevelopments using a phased approach, in which we renovate an apartment community in stages. Smaller phases provide us the flexibility to maintain current earnings while aligning the timing of the completed apartment homes with market demand. The following table summarizes value-creating investments related to redevelopments of this nature at June 30, 2018 (dollars in millions):

	Location	Apartment Homes Approved for Redevelopment	Estimated/Potential Net Investment	Inception-to-Date Net Investment
Bay Parc	Miami, FL	15	\$ 20.0	\$ 19.4
Calhoun Beach Club	Minneapolis, MN	275	28.7	10.5
Flamingo South Beach	Miami, FL	—	9.7	8.8
Palazzo West at The Grove	Los Angeles, CA	389	24.5	18.3
Saybrook Pointe	San Jose, CA	324	18.3	16.5
Yorktown	Lombard, IL	292	25.7	19.4

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Other	Various	92	12.9	10.5
Total		1,387	\$ 139.8	\$ 103.4

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We also undertake ground-up development when warranted by risk-adjusted investment returns, either directly or in connection with the redevelopment of an existing apartment community or, on a more limited basis, at a new location. When smaller redevelopment phases are not possible, we may engage in redevelopment activities where an entire building or community is vacated. The following table summarizes our value-creating investments related to these developments and redevelopments at June 30, 2018 (dollars in millions):

	Location	Apartment Homes Approved for Redevelopment or Development	Estimated/Potential Net Investment	Inception-to-Date Net Investment	Stabilized Occupancy	NOI Stabilization
Anschutz Expansion	Aurora, CO	253	\$ 87.0	\$ 3.2	3Q 2021	4Q 2022
Parc Mosaic	Boulder, CO	226	117.0	39.8	4Q 2020	1Q 2022
Park Towne Place	Philadelphia, PA	940	176.0	167.2	1Q 2019	2Q 2020
Total		1,419	\$ 380.0	\$ 210.2		

Net investment represents the total actual or estimated investment, net of tax and other credits earned as a direct result of our redevelopment or development of the community. For phased redevelopments, potential net investment relates to the current phase of the redevelopment.

Stabilized Occupancy represents the period in which we expect to achieve stabilized occupancy, generally greater than 90%.

NOI Stabilization represents the period in which we expect the communities to achieve stabilized rents and operating costs, generally five quarters after occupancy stabilization.

During the six months ended June 30, 2018, we invested \$88.1 million in redevelopment and development. In Center City, Philadelphia, we continued construction on the fourth and final tower of Park Towne Place; lease-up is underway. At June 30, 2018, 90% of the redeveloped homes in the community were leased and 28 of the 136 homes still under renovation were pre-leased.

During the six months ended June 30, 2018, we invested \$12.8 million in the development of our Parc Mosaic community in Boulder, Colorado. We expect completion of construction in late 2019 and initial occupancy in the summer of 2019.

Our total estimated or potential net investment in redevelopment and development is \$519.8 million with a projected weighted average net operating income yield on these investments of 6.1%, assuming untrended rents. Of this total, \$313.6 million has been funded. We expect to fund the remaining redevelopment and development investment through a combination of leverage and community sales, including the proceeds from the July 25, 2018 sale of our Asset Management business and our four affordable apartment communities located in Hunters Point.

During the six months ended June 30, 2018, we leased 181 apartment homes at our redevelopment communities. As of June 30, 2018, our exposure to lease-up at active redevelopment and development projects was approximately 419 apartment homes, of which 108 were in the fourth tower of Park Towne Place and 215 were being constructed at Parc Mosaic and 96 were located in three other active redevelopments.

During the third quarter, we expect to exercise our option to acquire approximately two acres of land adjacent to our 21 Fitzsimons apartment community, located on the University of Colorado Anschutz Medical Campus, for the development of an apartment community. Over the next two years, we expect to invest approximately \$87 million to construct 253 apartment homes and 4,600 square feet of retail space. Upon completion, we will own and operate 853 apartment homes on the campus.

We expect our total development and redevelopment spending to range from \$120 million to \$200 million for the year ending December 31, 2018.

Financing Activities

For the six months ended June 30, 2018, net cash provided by financing activities of \$104.5 million was primarily attributed to proceeds from non-recourse property debt and net borrowings on our revolving credit facility, partially offset by principal payments on property loans, dividends paid to common security holders, and distributions paid to noncontrolling interests.

Net borrowings on our revolving credit facility primarily relate to the timing of apartment community acquisitions and dispositions and of property debt financing activities.

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Proceeds from non-recourse property debt borrowings during the period consisted of the closing of two fixed-rate, amortizing, non-recourse property loans totaling \$242.0 million. These loans have 10-year terms and a weighted average interest rate of 3.48%, 126 basis points more than the corresponding Treasury rate at the time of pricing. The net effect of 2018 fixed-rate property debt refinancing activities has been to lower our weighted average fixed interest rate by 12 basis points since December 31, 2017, to 4.52%, reducing prospective interest expense by more than \$4.3 million.

Proceeds from non-recourse property debt borrowing during the period also included the closing of two non-recourse, variable-rate property loans totaling \$118.6 million. These loans each have a five-year term and bear interest at 30-day LIBOR plus 1.25%. The five-year terms fill a hole in our laddered maturities and, taken together with the planned repayment of the variable term loan, reduce our exposure to increasing short-term interest rates to less than 8% of our leverage.

We like the discipline of financing our investments in real estate through the use of fixed-rate, amortizing, non-recourse property debt, as the amortization gradually reduces our leverage and reduces our refunding risk, and the fixed-rate provides a hedge against increases in interest rates, and the non-recourse feature avoids entity risk.

Principal payments on property loans during the period totaled \$257.1 million, consisting of scheduled principal amortization of \$42.1 million and repayments of \$215.0 million.

Net cash used in financing activities also includes \$140.6 million of payments to equity holders, as further detailed in the table below.

Equity and Partners' Capital Transactions

The following table presents the Aimco Operating Partnership's distribution activity (including distributions paid to Aimco) during the six months ended June 30, 2018 (in thousands):

Cash distributions paid by the Aimco Operating Partnership to holders of noncontrolling interests in consolidated real estate partnerships	\$7,502
Cash distributions paid by the Aimco Operating Partnership to preferred unitholders (1)	8,168
Cash distributions paid by the Aimco Operating Partnership to common unitholders (2)	124,913
Total cash distributions paid by the Aimco Operating Partnership	\$140,583

(1) \$4.3 million represented distributions to Aimco, and \$3.9 million represented distributions paid to holders of OP Units.

(2) \$119.3 million represented distributions to Aimco, and \$5.6 million represented distributions paid to holders of OP Units.

The following table presents Aimco's dividend activity during the six months ended June 30, 2018 (in thousands):

Cash distributions paid by Aimco to holders of noncontrolling interests in consolidated real estate partnerships	\$7,502
Cash distributions paid by Aimco to holders of OP Units	9,496
Cash dividends paid by Aimco to preferred stockholders	4,297
Cash dividends paid by Aimco to common stockholders	119,288
Total cash dividends and distributions paid by Aimco	\$140,583

During the six months ended June 30, 2018, we repurchased \$7.6 million of OP Units at an average discount of 20% to our published net asset value.

Future Capital Needs

We expect to fund any future acquisitions, redevelopment, development, and other capital spending principally with proceeds from apartment community sales, short-term borrowings, debt and equity financing and operating cash flows. Our near term business plan does not contemplate the issuance of equity.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2018, on a consolidated basis, we had approximately \$133.1 million of variable-rate property debt outstanding, and \$470.2 million of variable-rate borrowings under our Credit Agreement, including a \$250.0 million term loan. We estimate that a change in 30-day LIBOR of 100 basis points with constant credit risk spreads would reduce or increase net income attributable to Aimco common stockholders and the Aimco Operating Partnership's common unitholders by approximately \$3.5 million on an annual basis. The term loan was excluded from this estimation as it was repaid in July 2018.

At June 30, 2018, our Real Estate segment had approximately \$87.8 million in cash and cash equivalents and restricted cash, a portion of which bears interest at variable rates, which may offset somewhat a change in rates on our variable-rate debt discussed above.

We estimate the fair value for debt instruments as described in Note 6 to the condensed consolidated financial statements in Item 1. The estimated fair value of total indebtedness associated with the Real Estate portfolio was approximately \$4.2 billion at June 30, 2018, inclusive of a \$68.2 million mark-to-market asset. The mark-to-market liability at December 31, 2017 was \$55.1 million.

If market rates for consolidated fixed-rate debt in our Real Estate segment were higher by 100 basis points with constant credit risk spreads, the estimated fair value of consolidated debt discussed above would decrease from \$4.3 billion in the aggregate to \$4.2 billion. If market rates for consolidated debt discussed above were lower by 100 basis points with constant credit risk spreads, the estimated fair value of consolidated fixed-rate debt would increase from \$4.3 billion in the aggregate to \$4.4 billion.

ITEM 4. Controls and Procedures

Aimco

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There has been no change in Aimco's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of 2018 that has materially affected, or is reasonably likely to materially affect, Aimco's internal control over financial reporting.

The Aimco Operating Partnership

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There has been no change in the Aimco Operating Partnership's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Aimco Operating Partnership's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

As of the date of this report, there have been no material changes from the risk factors in Aimco's and the Aimco Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2017.

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

Aimco

(a) Unregistered Sales of Equity Securities. Aimco did not issue any unregistered shares of Common Stock during the three months ended June 30, 2018.

(c) Repurchases of Equity Securities. There were no repurchases by Aimco of its common equity securities during the three months ended June 30, 2018. Aimco's Board of Directors has, from time to time, authorized Aimco to repurchase shares of its outstanding capital stock. As of June 30, 2018, Aimco was authorized to repurchase approximately 19.3 million additional shares. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

The Aimco Operating Partnership

(a) Unregistered Sales of Equity Securities. On May 1, 2018, the Aimco Operating Partnership issued 1.2 million OP Units as partial consideration for the acquisition of four apartment communities in the Philadelphia area. Such OP Units were issued in private placement transactions exempt from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

(c) Repurchases of Equity Securities. The Aimco Operating Partnership's Partnership Agreement generally provides that after holding the common OP Units for one year, limited partners have the right to redeem their common OP Units for cash, subject to the Aimco Operating Partnership's prior right to cause Aimco to acquire some or all of the common OP Units tendered for redemption in exchange for shares of Common Stock. Common OP Units redeemed for Common Stock are exchanged on a one-for-one basis (subject to antidilution adjustments). During the three months ended June 30, 2018, no common OP Units were redeemed in exchange for shares of Common Stock. The following table summarizes repurchases, or redemptions in exchange for cash, of the Aimco Operating Partnership's equity securities for the three months ended June 30, 2018.

Period	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Units that May Yet Be Purchased Under the Plans or Programs (1)
April 1 - April 30, 2018	4,185	\$ 39.89	N/A	N/A
May 1 - May 31, 2018	1,951	40.56	N/A	N/A
June 1 - June 30, 2018	10,150	39.62	N/A	N/A
Total	16,286	\$ 39.80		

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

Aimco and the Aimco Operating Partnership

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

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ITEM 6. Exhibits

The following exhibits are filed with this report:

EXHIBIT

NO. DESCRIPTION

(1)

3.1 Charter

3.2 Amended and Restated Bylaws (Exhibit 3.1 to Aimco's Current Report on Form 8-K dated January 26, 2016, is incorporated herein by this reference)

10.1 Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 29, 1994, as amended and restated as of February 28, 2007 (Exhibit 10.1 to Aimco's Annual Report on Form 10-K for the year ended December 31, 2006, is incorporated herein by this reference)

10.2 First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of December 31, 2007 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 31, 2007, is incorporated herein by this reference)

10.3 Second Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 30, 2009 (Exhibit 10.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, is incorporated herein by this reference)

10.4 Third Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of September 2, 2010 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated September 3, 2010, is incorporated herein by this reference)

10.5 Fourth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of July 26, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated July 26, 2011, is incorporated herein by this reference)

10.6 Fifth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of August 24, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated August 24, 2011, is incorporated herein by this reference)

10.7 Sixth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of December 31, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 31, 2011, is incorporated herein by this reference)

10.8 Seventh Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of May 13, 2014 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated May 13, 2014, is incorporated herein by this reference)

10.9 Eighth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of October 31, 2014 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated November 4, 2014, is incorporated herein by this reference)

10.10 Ninth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of August 16, 2016 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated August 16, 2016, is incorporated herein by this reference)

10.11 Tenth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership, dated as of January 31, 2017 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated January 31, 2017, is incorporated herein by this reference)

10.12 Second Amended and Restated Senior Secured Credit Agreement, dated as of June 30, 2017, among Aimco, the Aimco Operating Partnership, AIMCO/Bethesda Holdings, Inc., the lenders party thereto and KeyBank N. A., as administrative agent, swing line lender and letter of credit issuer. (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated June 30, 2017, is incorporated herein by this reference)

10.13 Aimco Executive Severance Policy (Exhibit 10.1 to Aimco's Current Report on Form 8-K dated February 22, 2018, is incorporated herein by this reference)*

10.14 Aimco Second Amended and Restated 2015 Stock Award and Incentive Plan (as amended and restated effective February 22, 2018) (Exhibit A to Aimco's Proxy Statement on Schedule 14A filed with the Securities

and Exchange Commission on March 8, 2018 is incorporated herein by this reference)*

10.15 Form of Performance Vesting LTIP II Unit Agreement (2015 Stock Award and Incentive Plan) (Exhibit 10.15 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, is incorporated herein by this reference)*

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Aimco

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Aimco

31.3 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – the Aimco Operating Partnership

31.4 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – the Aimco Operating Partnership

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EXHIBIT

NO. DESCRIPTION

- (1)
- 32.1 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Aimco
- 32.2 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – the Aimco Operating Partnership
- 99.1 Agreement Regarding Disclosure of Long-Term Debt Instruments – Aimco
- 99.2 Agreement Regarding Disclosure of Long-Term Debt Instruments – the Aimco Operating Partnership
- 101 XBRL (Extensible Business Reporting Language). The following materials from Aimco’s and the Aimco Operating Partnership’s combined Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, tagged in XBRL: (i) condensed consolidated balance sheets; (ii) condensed consolidated statements of operations; (iii) condensed consolidated statements of comprehensive income; (iv) condensed consolidated statements of cash flows; and (v) notes to condensed consolidated financial statements.
- (1) Schedules and supplemental materials to the exhibits have been omitted but will be provided to the Securities and Exchange Commission upon request.
- * Management contract or compensatory plan or arrangement

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SIGNATURES

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

APARTMENT INVESTMENT AND
MANAGEMENT COMPANY

By: /s/ PAUL BELDIN

Paul Beldin
Executive Vice President and Chief Financial
Officer
(duly authorized officer and
principal financial officer)

AIMCO PROPERTIES, L.P.

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

By: /s/ PAUL BELDIN

Paul Beldin
Executive Vice President and Chief Financial
Officer
(duly authorized officer and
principal financial officer)

Date: August 6, 2018