APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
May 02, 2014
Table of Contents

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

Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from to
Commission File Number 1-13232 (Apartment Investment and Management Company)
Commission File Number 0-24497 (AIMCO Properties, L.P.)

Apartment Investment and Management Company
AIMCO Properties, L.P.
(Exact name of registrant as specified in its charter)

Maryland (Apartment Investment and Management Company)	84-1259577
Delaware (AIMCO Properties, L.P.)	84-1275621
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

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

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

Apartment Investment and Management Company:

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

AIMCO Properties, L.P.:

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

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

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

The number of shares of Apartment Investment and Management Company Class A Common Stock outstanding as of May 1, 2014: 146,099,689

Table of Contents

EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended March 31, 2014, of Apartment Investment and Management Company, or Aimco, and AIMCO Properties, L.P., or the Aimco Operating Partnership. Where it is important to distinguish between the two entities, we refer to them specifically. Otherwise, references to "we," "us" or "our" mean, collectively, Aimco, the Aimco Operating Partnership and their consolidated entities.

Aimco, a Maryland corporation, is a self-administered and self-managed real estate investment trust, or REIT. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of and, as of March 31, 2014, owned a 94.9% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 5.1% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership's day-to-day management.

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

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

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

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

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

Equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Aimco and those of the Aimco Operating Partnership. Interests in the Aimco Operating Partnership held by entities other than Aimco are classified within partners' capital in the Aimco Operating Partnership's financial statements and as noncontrolling interests in Aimco's financial statements.

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

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

1

Table of Contents

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

TABLE OF CONTENTS

FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	March 31, 2014	December 31, 2013
ASSETS		
Buildings and improvements	$6,342,221	$6,332,723
Land	1,867,270	1,881,358
Total real estate	8,209,491	8,214,081
Less accumulated depreciation	(2,840,071)	(2,822,872)
Net real estate ($385,853 and $392,245 related to VIEs)	5,369,420	5,391,209
Cash and cash equivalents ($22,943 and $24,094 related to VIEs)	38,402	55,751
Restricted cash ($38,135 and $36,369 related to VIEs)	160,816	127,037
Other assets ($210,762 and $211,286 related to VIEs)	514,514	505,416
Total assets	$6,083,152	$6,079,413
LIABILITIES AND EQUITY		
Non-recourse property debt ($354,084 and $355,372 related to VIEs)	$4,284,763	$4,337,785
Revolving credit facility borrowings	110,060	50,400
Total indebtedness	4,394,823	4,388,185
Accounts payable	35,795	43,161
Accrued liabilities and other ($142,014 and $140,910 related to VIEs)	289,615	287,595
Deferred income	102,347	107,775
Total liabilities	4,822,580	4,826,716
Preferred noncontrolling interests in Aimco Operating Partnership	79,121	79,953
Commitments and contingencies (Note 6)	—	—
Equity:		
Perpetual Preferred Stock	58,114	68,114
Common Stock, $0.01 par value, 505,787,260 shares authorized, 146,099,689 and 145,917,387 shares issued/outstanding at March 31, 2014 and December 31, 2013, respectively	1,461	1,459
Additional paid-in capital	3,700,369	3,701,339
Accumulated other comprehensive loss	(4,503)	(4,602)
Distributions in excess of earnings	(2,772,345)	(2,798,853)
Total Aimco equity	983,096	967,457
Noncontrolling interests in consolidated real estate partnerships	223,806	233,008
Common noncontrolling interests in Aimco Operating Partnership	(25,451)	(27,721)
Total equity	1,181,451	1,172,744
Total liabilities and equity	$6,083,152	$6,079,413

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2014	2013
REVENUES		
Rental and other property revenues	$240,136	$230,252
Tax credit and asset management revenues	8,788	7,252
Total revenues	248,924	237,504
OPERATING EXPENSES		
Property operating expenses	99,270	93,868
Investment management expenses	1,252	1,433
Depreciation and amortization	70,307	75,716
General and administrative expenses	10,532	11,779
Other expense, net	2,390	2,069
Total operating expenses	183,751	184,865
Operating income	65,173	52,639
Interest income, net	1,729	6,414
Interest expense	(55,641)	(58,345)
Other, net	(1,979)	(2,266)
Income (loss) before income taxes, discontinued operations and gain on dispositions	9,282	(1,558)
Income tax benefit (expense)	2,758	(105)
Income (loss) from continuing operations	12,040	(1,663)
Income from discontinued operations, net	—	4,496
Gain on dispositions of real estate, net of tax	69,492	—
Net income	81,532	2,833
Noncontrolling interests:		
Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships	(11,389)	4,962
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,605)	(1,606)
Net income attributable to common noncontrolling interests in Aimco Operating Partnership	(3,611)	(297)
Net (income) loss attributable to noncontrolling interests	(16,605)	3,059
Net income attributable to Aimco	64,927	5,892
Net income attributable to Aimco preferred stockholders	(454)	(702)
Net income attributable to participating securities	(239)	(140)
Net income attributable to Aimco common stockholders	$64,234	$5,050
Earnings (loss) attributable to Aimco per common share – basic and diluted (Note 7):		
Income (loss) from continuing operations attributable to Aimco common stockholders	$0.44	$(0.01)
Income from discontinued operations attributable to Aimco common stockholders	—	0.04
Net income attributable to Aimco common stockholders	$0.44	$0.03
Weighted average common shares outstanding – basic	145,473	145,169
Weighted average common shares outstanding – diluted	145,681	145,169
Dividends declared per common share	$0.26	$0.24

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2014	2013
Net income	$81,532	$2,833
Other comprehensive income (loss):		
Unrealized (losses) gains on interest rate swaps	(761)	176
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	426	420
Unrealized gains (losses) on debt securities classified as available-for-sale	467	(1,708)
Other comprehensive income (loss)	132	(1,112)
Comprehensive income	81,664	1,721
Comprehensive (income) loss attributable to noncontrolling interests	(16,636)	3,049
Comprehensive income attributable to Aimco	$65,028	$4,770

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$81,532	$2,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,307	75,716
Gain on dispositions of real estate, net of tax	(69,492)	—
Discontinued operations	—	1,448
Other adjustments	3,425	277
Net changes in operating assets and operating liabilities	(30,971)	(31,382)
Net cash provided by operating activities	54,801	48,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(12,870)	(896)
Capital expenditures	(94,242)	(66,064)
Proceeds from dispositions of real estate	100,082	2,898
Purchases of corporate assets	(1,799)	(2,029)
Change in restricted cash	(28,511)	(8,993)
Other investing activities	(8,749)	1,515
Net cash used in investing activities	(46,089)	(73,569)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	39,530	81,658
Principal repayments on non-recourse property debt	(62,381)	(104,183)
Net borrowings on revolving credit facility	59,660	49,200
Repurchase of Preferred Stock	(9,500)	—
Proceeds from Common Stock option exercises	21	983
Payment of dividends to holders of Preferred Stock	(696)	(702)
Payment of dividends to holders of Common Stock	(37,970)	(34,996)
Payment of distributions to noncontrolling interests	(24,636)	(15,702)
Other financing activities	9,911	13,564
Net cash used in financing activities	(26,061)	(10,178)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,349)	(34,855)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	55,751	84,413
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$38,402	$49,558

See notes to condensed consolidated financial statements.

Table of Contents

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

	March 31, 2014	December 31, 2013
ASSETS		
Buildings and improvements	$6,342,221	$6,332,723
Land	1,867,270	1,881,358
Total real estate	8,209,491	8,214,081
Less accumulated depreciation	(2,840,071)	(2,822,872)
Net real estate ($385,853 and $392,245 related to VIEs)	5,369,420	5,391,209
Cash and cash equivalents ($22,943 and $24,094 related to VIEs)	38,402	55,751
Restricted cash ($38,135 and $36,369 related to VIEs)	160,816	127,037
Other assets ($210,762 and $211,286 related to VIEs)	514,514	505,416
Total assets	$6,083,152	$6,079,413
LIABILITIES AND EQUITY		
Non-recourse property debt ($354,084 and $355,372 related to VIEs)	$4,284,763	$4,337,785
Revolving credit facility borrowings	110,060	50,400
Total indebtedness	4,394,823	4,388,185
Accounts payable	35,795	43,161
Accrued liabilities and other ($142,014 and $140,910 related to VIEs)	289,615	287,595
Deferred income	102,347	107,775
Total liabilities	4,822,580	4,826,716
Redeemable preferred units	79,121	79,953
Commitments and contingencies (Note 6)	—	—
Partners’ Capital:		
Preferred units	58,114	68,114
General Partner and Special Limited Partner	924,982	899,343
Limited Partners	(25,451)	(27,721)
Partners’ capital attributable to the Aimco Operating Partnership	957,645	939,736
Noncontrolling interests in consolidated real estate partnerships	223,806	233,008
Total partners’ capital	1,181,451	1,172,744
Total liabilities and partners’ capital	$6,083,152	$6,079,413

See notes to condensed consolidated financial statements.

Table of Contents

AIMCO PROPERTIES, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit data)
(Unaudited)

	Three Months Ended March 31, 2014	2013
REVENUES		
Rental and other property revenues	$240,136	$230,252
Tax credit and asset management revenues	8,788	7,252
Total revenues	248,924	237,504
OPERATING EXPENSES		
Property operating expenses	99,270	93,868
Investment management expenses	1,252	1,433
Depreciation and amortization	70,307	75,716
General and administrative expenses	10,532	11,779
Other expense, net	2,390	2,069
Total operating expenses	183,751	184,865
Operating income	65,173	52,639
Interest income, net	1,729	6,414
Interest expense	(55,641)	(58,345)
Other, net	(1,979)	(2,266)
Income (loss) before income taxes, discontinued operations and gain on dispositions	9,282	(1,558)
Income tax benefit (expense)	2,758	(105)
Income (loss) from continuing operations	12,040	(1,663)
Income from discontinued operations, net	—	4,496
Gain on dispositions of real estate, net of tax	69,492	—
Net income	81,532	2,833
Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships	(11,389)	4,962
Net income attributable to the Aimco Operating Partnership	70,143	7,795
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(2,059)	(2,308)
Net income attributable to participating securities	(239)	(140)
Net income attributable to the Aimco Operating Partnership's common unitholders	$67,845	$5,347
Earnings (loss) attributable to the Aimco Operating Partnership per common unit – basic and diluted (Note 7):		
Income (loss) from continuing operations attributable to the Aimco Operating Partnership's common unitholders	$0.44	$(0.01)
Income from discontinued operations attributable to the Aimco Operating Partnership's common unitholders	—	0.04
Net income attributable to the Aimco Operating Partnership's common unitholders	$0.44	$0.03
Weighted average common units outstanding – basic	153,329	153,169
Weighted average common units outstanding – diluted	153,537	153,169
Distributions declared per common unit	$0.26	$0.24

See notes to condensed consolidated financial statements.

Table of Contents

AIMCO PROPERTIES, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net income	$81,532	$2,833
Other comprehensive income (loss):		
Unrealized (losses) gains on interest rate swaps	(761)	176
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	426	420
Unrealized gains (losses) on debt securities classified as available-for-sale	467	(1,708)
Other comprehensive income (loss)	132	(1,112)
Comprehensive income	81,664	1,721
Comprehensive (income) loss attributable to noncontrolling interests	(11,415)	4,890
Comprehensive income attributable to the Aimco Operating Partnership	$70,249	$6,611

See notes to condensed consolidated financial statements.

9

Table of Contents

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

	Three Months Ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$81,532	$2,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,307	75,716
Gain on dispositions of real estate, net of tax	(69,492)	—
Discontinued operations	—	1,448
Other adjustments	3,425	277
Net changes in operating assets and operating liabilities	(30,971)	(31,382)
Net cash provided by operating activities	54,801	48,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(12,870)	(896)
Capital expenditures	(94,242)	(66,064)
Proceeds from dispositions of real estate	100,082	2,898
Purchases of corporate assets	(1,799)	(2,029)
Change in restricted cash	(28,511)	(8,993)
Other investing activities	(8,749)	1,515
Net cash used in investing activities	(46,089)	(73,569)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	39,530	81,658
Principal repayments on non-recourse property debt	(62,381)	(104,183)
Net borrowings on revolving credit facility	59,660	49,200
Repurchase of Preferred Units from Aimco	(9,500)	—
Proceeds from Aimco Common Stock option exercises	21	983
Payment of distributions to Preferred Units	(2,301)	(2,308)
Payment of distributions to General Partner and Special Limited Partner	(37,970)	(34,996)
Payment of distributions to Limited Partners	(2,032)	(1,921)
Payment of distributions to noncontrolling interests	(20,999)	(12,175)
Other financing activities	9,911	13,564
Net cash used in financing activities	(26,061)	(10,178)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,349)	(34,855)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	55,751	84,413
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$38,402	$49,558

See notes to condensed consolidated financial statements.

Table of Contents

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

Note 1 — Organization

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

Aimco, and through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as “OP Units.” OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common OP Unit equivalents. At March 31, 2014, after eliminations for units held by consolidated entities, the Aimco Operating Partnership had 153,911,534 common partnership units and equivalents outstanding. At March 31, 2014, Aimco owned 146,099,689 of the common partnership units (94.9% of the common partnership units and equivalents) of the Aimco Operating Partnership and Aimco had outstanding an equal number of shares of its Class A Common Stock, which we refer to as Common Stock.

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

As of March 31, 2014, we owned an equity interest in 161 conventional apartment communities with 49,314 apartment homes and 72 affordable apartment communities with 9,680 apartment homes. Of these, we consolidated 157 conventional apartment communities with 49,172 apartment homes and 56 affordable apartment communities with 8,566 apartment homes. These conventional and affordable apartment communities generated 91% and 9%, respectively, of our proportionate property net operating income (as defined in Note 8) during the three months ended March 31, 2014.

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

Basis of Presentation

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

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

Principles of Consolidation

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

Table of Contents

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

As of March 31, 2014, we were the primary beneficiary of, and therefore consolidated, 63 VIEs, which owned 49 apartment communities with 7,656 apartment homes. Substantially all these VIEs are partnerships that operate qualifying affordable housing apartment communities and which are structured to provide for the pass-through of low-income housing tax credits and deductions to their partners. Real estate with a carrying value of $385.9 million collateralized $354.1 million of debt of those VIEs. Any significant amounts of assets and liabilities related to our consolidated VIEs are identified parenthetically on our accompanying condensed consolidated balance sheets. The creditors of the consolidated VIEs do not have recourse to our general credit.

In addition to the consolidated VIEs discussed above, at March 31, 2014, our consolidated financial statements included certain consolidated and unconsolidated VIEs that are part of the legacy asset management business we sold during 2012, which is discussed in Note 4. The assets and liabilities related to these consolidated and unconsolidated VIEs are each condensed into single line items within other assets and accrued liabilities and other, respectively, in our condensed consolidated balance sheets.

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

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

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

Temporary Equity and Partners' Capital

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

Balance, December 31, 2013	$79,953
Distributions to preferred unitholders	(1,605)
Redemption of preferred units and other	(832)
Net income	1,605
Balance, March 31, 2014	$79,121

Table of Contents

Aimco Equity (including Noncontrolling Interests)

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

	Aimco Equity	Noncontrolling interests in consolidated real estate partnerships	Common noncontrolling interests in Aimco Operating Partnership	Total Equity
Balance, December 31, 2013	$967,457	$233,008	$(27,721)	$1,172,744
Contributions	—	458	—	458
Repurchase of preferred stock	(9,500)	—	—	(9,500)
Preferred stock dividends	(696)	—	—	(696)
Common dividends and distributions	(37,970)	(20,999)	(2,032)	(61,001)
Redemptions of common OP Units	—	—	(2,921)	(2,921)
Amortization of stock-based compensation cost	1,753	—	—	1,753
Stock option exercises	21	—	—	21
Effect of changes in ownership for consolidated entities	(3,575)	(76)	3,607	(44)
Change in accumulated other comprehensive loss	101	26	5	132
Other	578	—	—	578
Net income	64,927	11,389	3,611	79,927
Balance, March 31, 2014	$983,096	$223,806	$(25,451)	$1,181,451

Partners' Capital attributable to the Aimco Operating Partnership

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

	Partners' capital attributable to the Partnership
Balance, December 31, 2013	$939,736
Repurchase of Preferred Units from Aimco	(9,500)
Distributions to preferred units held by Aimco	(696)
Distributions to common units held by Aimco	(37,970)
Distributions to common units held by Limited Partners	(2,032)
Redemption of common OP Units	(2,921)
Amortization of Aimco stock-based compensation cost	1,753
Common OP Units issued to Aimco in connection with Aimco stock option exercises	21
Effect of changes in ownership for consolidated entities	32
Change in accumulated other comprehensive loss	106
Other	578
Net income	68,538
Balance, March 31, 2014	$957,645

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.

Table of Contents

Note 3 — Disposals and Discontinued Operations

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

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

Under ASU 2014-08, we believe routine sales of apartment communities and certain groups of apartment communities generally do not meet the requirements for reporting within discontinued operations. During the three months ended March 31, 2014, we sold five apartment communities with an aggregate of 1,606 apartment homes. Based on our prospective application of the revised discontinued operation definition, the results of operations for the three months ended March 31, 2014 and 2013, for these apartment communities is reflected within income from continuing operations in our condensed consolidated statements of operations. These apartment communities did not generate a significant amount of income (before gain on dispositions) prior to their sale during the three months ended March 31, 2014. The sale of these apartment communities resulted in a gain on disposition of real estate, net of tax, of $69.5 million for the three months ended March 31, 2014, which is reflected below income from discontinued operations within our condensed consolidated statements of operations. We report gains on disposition net of incremental direct costs incurred in connection with the transactions, including any prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities being sold. Such prepayment penalties totaled $5.8 million for dispositions during the three months ended March 31, 2014.

In accordance with GAAP prior to our adoption of ASU 2014-08, we reported as discontinued operations apartment communities that met the definition of a component of an entity and had been sold or met the criteria to be classified as held for sale. For years ended December 31, 2013 or earlier, and interim periods within those years, we included the results of such apartment communities, including any gain or loss on their disposition, less applicable income taxes, in income from discontinued operations within the consolidated statements of operations. During the three months ended March 31, 2013, we sold three apartment communities with an aggregate of 66 apartment homes, and during the year ended December 31, 2013, we sold 29 consolidated apartment communities with an aggregate of 6,953 apartment homes. The results of operations for the three months ended March 31, 2013, for those apartment communities sold as of December 31, 2013, and gains related to apartment communities sold during the three months ended March 31, 2013, are included in discontinued operations and are summarized below, along with the related amounts of income from discontinued operations attributable to Aimco, the Aimco Operating Partnership and noncontrolling interests (in thousands).

	Three Months Ended March 31, 2013	
Rental and other property revenues	$18,620	
Property operating expenses	(8,553	)
Depreciation and amortization	(4,880	)
Recovery of real estate impairment losses	227	
Operating income	5,414	
Interest income	78	
Interest expense	(4,201	)
Income before gain on dispositions of real estate and income tax	1,291	
Gain on dispositions of real estate	3,329	

Income tax expense	(124	)
Income from discontinued operations, net	$4,496	
Loss from discontinued operations attributable to noncontrolling interests in consolidated real estate partnerships	2,217	
Income from discontinued operations attributable to the Aimco Operating Partnership	6,713	
Income from discontinued operations attributable to noncontrolling interests in Aimco Operating Partnership	(316	)
Income from discontinued operations attributable to Aimco	$6,397	

Table of Contents

The gain on dispositions for the three months ended March 31, 2013, is net of incremental direct costs incurred in connection with the transactions, including $0.3 million of prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities sold. For periods prior to our adoption of ASU 2014-08, we classified interest expense related to property debt within discontinued operations when the related apartment community was sold or classified as held for sale.

In connection with sales of apartment communities during the three months ended March 31, 2014 and 2013, the purchasers assumed approximately $29.8 million and $2.1 million, respectively, of non-recourse property debt.

Note 4 — Other Significant Transactions

Asset Management Business Disposition

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

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

At March 31, 2014, the Napico portfolio consisted of 17 partnerships that held investments in 14 apartment communities that were consolidated and 60 apartment communities that were accounted for under the equity or cost method of accounting. The portfolio's assets and liabilities included in our condensed consolidated balance sheets are summarized below (in thousands):

	March 31, 2014	December 31, 2013
Real estate, net	$118,583	$120,175
Cash and cash equivalents and restricted cash	30,334	29,046
Investment in unconsolidated real estate partnerships	10,335	10,817
Other assets	3,700	3,811
Total assets	$162,952	$163,849
Total indebtedness	$106,971	$106,032
Accrued and other liabilities	18,833	19,263
Total liabilities	$125,804	$125,295
Noncontrolling interests in consolidated real estate partnerships	34,945	35,818
Equity attributable to Aimco and the Aimco Operating Partnership	2,203	2,736
Total liabilities and equity	$162,952	$163,849

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

	Three Months Ended March 31,	
	2014	2013
Revenues	$5,675	$5,447
Expenses	(5,201)	(5,664)
Equity loss of unconsolidated entities, gains or losses on dispositions and other, net	(1,994)	(2,489)
Net loss related to legacy asset management business	(1,520)	(2,706)

Income tax benefit (expense) associated with legacy asset management business	70	(26)
Loss allocated to noncontrolling interests in consolidated real estate partnerships	899	2,682
Net losses of legacy asset management business attributable to Aimco and the Aimco Operating Partnership	$(551)	$(50)

15

Table of Contents

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

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

Note 5 — Fair Value Measurements

Recurring Fair Value Measurements

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

	AFS Investments	Interest Rate Swaps	Total
Fair value at December 31, 2012	$59,145	$(7,968)	$51,177
Investment accretion included in interest income	830	—	830
Unrealized losses included in interest expense	—	(12)	(12)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	—	420	420
Unrealized (losses) gains included in equity and partners' capital	(1,708)	176	(1,532)
Fair value at March 31, 2013	$58,267	$(7,384)	$50,883
Fair value at December 31, 2013	58,408	(4,604)	53,804
Investment accretion included in interest income	920	—	920
Unrealized losses included in interest expense	—	(12)	(12)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	—	426	426
Unrealized gains (losses) included in equity and partners' capital	467	(761)	(294)
Fair value at March 31, 2014	$59,795	$(4,951)	$54,844

Our investments classified as AFS are presented within other assets in the accompanying consolidated balance sheets. We hold the most subordinate position in the securitization, along with several mezzanine positions. We estimate the fair value of these investments using an income and market approach with primarily observable inputs, including yields and other information regarding similar types of investments, and adjusted for certain unobservable inputs specific to these investments. We are accreting the discount to the $100.9 million face value of the investments into interest income using the effective interest method over the remaining expected term of the investments, which, as of March 31, 2014, was approximately 7.2 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was $60.7 million and $59.8 million at March 31, 2014 and December 31, 2013, respectively. The amortized cost exceeded the fair value of the most subordinate position at March 31, 2014, primarily due to increases in market interest rates and a decrease in demand for similar investments as compared to when we purchased the investments. We currently expect to hold each of the investments to their maturity dates and we believe we will fully recover our basis in the investments. Accordingly, we believe the current impairment in the fair value, as compared to the amortized cost basis, of the most subordinate position is temporary and we have not recognized any of the loss in value in earnings.

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

Table of Contents

As of March 31, 2014 and December 31, 2013, we had interest rate swaps with aggregate notional amounts of $50.6 million and $50.7 million, respectively. As of March 31, 2014, these swaps had a weighted average remaining term of 6.8 years. We have designated these interest rate swaps as cash flow hedges. The fair value of these swaps is presented within accrued liabilities and other in our consolidated balance sheets, and we recognize any changes in the fair value as an adjustment of accumulated other comprehensive loss within equity and partners' capital to the extent of their effectiveness.

If the forward rates at March 31, 2014, remain constant, we estimate that during the next 12 months, we would reclassify into earnings approximately $1.7 million of the unrealized losses in accumulated other comprehensive loss. If market interest rates increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from net cash payments due to us from our counterparty to the interest rate swaps.

Fair Value Disclosures

We believe that the aggregate fair value of our cash and cash equivalents, receivables and payables approximates their aggregate carrying amounts at March 31, 2014 and December 31, 2013, due to their relatively short-term nature and high probability of realization. The estimated aggregate fair value of our consolidated debt (including outstanding borrowings under our revolving credit facility) was approximately $4.6 billion and $4.5 billion at March 31, 2014 and December 31, 2013, respectively, as compared to aggregate carrying amounts of $4.4 billion and $4.4 billion, respectively. We estimate the fair value of our consolidated debt using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, contractual interest rates, remaining periods to maturity, collateral quality and loan to value ratios on similarly encumbered assets within our portfolio. We classify the fair value of our consolidated debt within Level 3 of the valuation hierarchy based on the significance of certain of the unobservable inputs used to estimate their fair values.

Note 6 — Commitments and Contingencies

Commitments

In connection with our redevelopment and capital improvement activities, we have entered into various construction related contracts. Additionally, pursuant to financing and/or other arrangements on our One Canal Street, Lincoln Place, Pacific Bay Vistas and The Preserve at Marin projects we are contractually obligated to complete the planned activities. As of March 31, 2014, our commitments related to these capital activities totaled approximately $302.1 million, over half of which we expect to incur during the next 12 months. We also enter into certain commitments for future purchases of goods and services in connection with the operations of our apartment communities. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

Tax Credit Arrangements

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

Income Taxes

On October 25, 2012, the Internal Revenue Service issued Final Partnership Administrative Adjustments with respect to the Aimco Operating Partnership's 2006 and 2007 tax years. On January 18, 2013, AIMCO-GP, Inc., in its capacity as tax matters partner of the Aimco Operating Partnership, filed a petition challenging those adjustments in the United States Tax Court in Washington, D.C. On December 20, 2013, the parties agreed on the terms of a settlement of that litigation. The parties are in the process of documenting that settlement. The settlement regarding the 2006 or 2007 proposed adjustments will not have any material effect on our unrecognized tax benefits, financial condition or results of operations.

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

Legal Matters

Table of Contents

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

Limited Partnerships

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

Environmental

Various federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials present on an apartment community, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, and other miscellaneous materials. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials. The presence of, or the failure to manage or remedy properly, these materials may adversely affect occupancy at affected apartment communities and the ability to sell or finance affected apartment communities. In addition to the costs associated with investigation and remediation actions brought by government agencies, and potential fines or penalties imposed by such agencies in connection therewith, the improper management of these materials on an apartment community could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose liability for the cost of removal, remediation or disposal of these materials through a licensed disposal or treatment facility. Anyone who arranges for the disposal or treatment of these materials is potentially liable under such laws for the proper operation of the disposal facility. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. In connection with the ownership, operation and management of apartment communities, we could potentially be responsible for environmental liabilities or costs associated with our apartment communities or communities we acquire or manage in the future.

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or apartment community casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of March 31, 2014, are immaterial to our consolidated financial condition, results of operations and cash flows.

Table of Contents

Note 7 — Earnings (Loss) per Share/Unit

Aimco

Aimco calculates earnings (loss) per share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates Aimco's calculation of basic and diluted earnings (loss) per share for the three months ended March 31, 2014 and 2013 (in thousands, except per share data):

	Three Months Ended March 31, 2014	2013
Numerator:		
Income (loss) from continuing operations	$12,040	$(1,663)
Gain on dispositions of real estate, net of tax	69,492	—
(Income) loss from continuing operations and gain on dispositions attributable to noncontrolling interests	(16,605)	1,158
Income attributable to preferred stockholders	(454)	(702)
Income attributable to participating securities	(239)	(140)
Income (loss) from continuing operations attributable to Aimco common stockholders	$64,234	$(1,347)
Income from discontinued operations	$—	$4,496
Loss from discontinued operations attributable to noncontrolling interests	—	1,901
Income from discontinued operations attributable to Aimco common stockholders	$—	$6,397
Net income	$81,532	$2,833
Net (income) loss attributable to noncontrolling interests	(16,605)	3,059
Net income attributable to preferred stockholders	(454)	(702)
Net income attributable to participating securities	(239)	(140)
Net income attributable to Aimco common stockholders	$64,234	$5,050
Denominator:		
Weighted average common shares outstanding – basic	145,473	145,169
Dilutive potential common shares	208	—
Weighted average common shares outstanding – diluted	145,681	145,169
Earnings (loss) per common share – basic and diluted:		
Income (loss) from continuing operations attributable to Aimco common stockholders	$0.44	$(0.01)
Income from discontinued operations attributable to Aimco common stockholders	—	0.04
Net income attributable to Aimco common stockholders	$0.44	$0.03

Table of Contents

The Aimco Operating Partnership

The Aimco Operating Partnership calculates earnings (loss) per unit based on the weighted average number of common partnership units and equivalents, participating securities and dilutive convertible securities outstanding during the period. The Aimco Operating Partnership considers both common OP Units and HPUs, which have identical rights to distributions and undistributed earnings, to be common units for purposes of the earnings per unit data presented below. The following table illustrates the Aimco Operating Partnership's calculation of basic and diluted earnings (loss) per unit for the three months ended March 31, 2014 and 2013 (in thousands, except per unit data):

	Three Months Ended March 31, 2014	2013
Numerator:		
Income (loss) from continuing operations	$12,040	$(1,663)
Gain on dispositions of real estate, net of tax	69,492	—
(Income) loss from continuing operations and gain on dispositions attributable to noncontrolling interests	(11,389)	2,745
Income attributable to the Aimco Operating Partnership's preferred unitholders	(2,059)	(2,308)
Income attributable to participating securities	(239)	(140)
Income (loss) from continuing operations attributable to the Aimco Operating Partnership's common unitholders	$67,845	$(1,366)
Income from discontinued operations	$—	$4,496
Loss from discontinued operations attributable to noncontrolling interests	—	2,217
Income from discontinued operations attributable to the Aimco Operating Partnership's common unitholders	$—	$6,713
Net income	$81,532	$2,833
Net (income) loss attributable to noncontrolling interests	(11,389)	4,962
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(2,059)	(2,308)
Net income attributable to participating securities	(239)	(140)
Net income attributable to the Aimco Operating Partnership's common unitholders	$67,845	$5,347
Denominator:		
Weighted average common units outstanding – basic	153,329	153,169
Dilutive potential common units	208	—
Weighted average common units outstanding – diluted	153,537	153,169
Earnings (loss) per common unit – basic and diluted:		
Income (loss) from continuing operations attributable to the Aimco Operating Partnership's common unitholders	$0.44	$(0.01)
Income from discontinued operations attributable to the Aimco Operating Partnership's common unitholders	—	0.04
Net income attributable to the Aimco Operating Partnership's common unitholders	$0.44	$0.03

Aimco and the Aimco Operating Partnership

As of March 31, 2014, the common share equivalents or common partnership unit equivalents that could potentially dilute basic earnings per share or unit in future periods totaled 3.0 million. These securities represent options to purchase shares of Common Stock, which, if exercised, would result in Aimco's issuance of additional shares and the Aimco Operating Partnership's issuance to Aimco of additional common partnership units equal to the number of shares purchased under the options. The effect of these securities was dilutive for the three months ended March 31, 2014, and accordingly has been included in the denominator for calculating diluted earnings per share and unit during these periods. These securities have been excluded from the earnings (loss) per share or unit computations for the three months ended March 31, 2013, because their effect would have been anti-dilutive. Participating securities, consisting of unvested restricted shares of Common Stock, receive dividends similar to shares of Common Stock and common partnership units and totaled 0.5 million and 0.6 million at March 31, 2014 and 2013, respectively. The effect of participating securities is included in basic and diluted earnings (loss) per share and unit computations for the periods presented above using the two-class method of allocating distributed and undistributed earnings.

Table of Contents

Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership's option, Common Stock, and are paid distributions varying from 1.8% to 8.8% per annum per unit. As of March 31, 2014, a total of 2.9 million preferred OP Units were outstanding with an aggregate redemption value of $79.1 million and were potentially redeemable for approximately 2.6 million shares of Common Stock (based on the period end market price), or cash at the Aimco Operating Partnership's option. The Aimco Operating Partnership has a redemption policy that requires cash settlement of redemption requests for the preferred OP Units, subject to limited exceptions. Accordingly, we have excluded these securities from earnings (loss) per share and unit computations for the periods presented above, and we expect to exclude them in future periods.

Note 8 — Business Segments

We have two reportable segments: conventional real estate operations and affordable real estate operations. Our conventional real estate operations consist of market-rate apartment communities with rents paid by the residents and included 161 apartment communities with 49,314 apartment homes at March 31, 2014. Our affordable real estate operations consisted of 72 apartment communities with 9,680 apartment homes at March 31, 2014, with rents that are generally paid, in whole or part, by a government agency.

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

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our conventional and affordable real estate operations segments on a proportionate basis for the three months ended March 31, 2014 and 2013 (in thousands):

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended March 31, 2014:					
Rental and other property revenues (3)	$204,314	$24,243	$8,865	$2,714	$240,136
Tax credit and asset management revenues	—	—	—	8,788	8,788
Total revenues	204,314	24,243	8,865	11,502	248,924
Property operating expenses (3)	73,751	10,576	3,242	11,701	99,270
Investment management expenses	—	—	—	1,252	1,252
Depreciation and amortization (3)	—	—	—	70,307	70,307
General and administrative expenses	—	—	—	10,532	10,532
Other expense, net	—	—	—	2,390	2,390
Total operating expenses	73,751	10,576	3,242	96,182	183,751
Net operating income (loss)	130,563	13,667	5,623	(84,680)	65,173
Other items included in continuing operations	—	—	—	(53,133)	(53,133)
Income (loss) from continuing operations	$130,563	$13,667	$5,623	$(137,813)	$12,040

21

Table of Contents

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended March 31, 2013:					
Rental and other property revenues (3)	$ 193,441	$ 23,994	$ 8,476	$ 4,341	$ 230,252
Tax credit and asset management revenues	—	—	—	7,252	7,252
Total revenues	193,441	23,994	8,476	11,593	237,504
Property operating expenses (3)	70,099	9,952	3,020	10,797	93,868
Investment management expenses	—	—	—	1,433	1,433
Depreciation and amortization (3)	—	—	—	75,716	75,716
General and administrative expenses	—	—	—	11,779	11,779
Other expense, net	—	—	—	2,069	2,069
Total operating expenses	70,099	9,952	3,020	101,794	184,865
Net operating income (loss)	123,342	14,042	5,456	(90,201)	52,639
Other items included in continuing operations	—	—	—	(54,302)	(54,302)
Income (loss) from continuing operations	$ 123,342	$ 14,042	$ 5,456	$ (144,503)	$ (1,663)

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

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

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

For the three months ended March 31, 2014 and 2013, capital additions related to our conventional segment totaled $86.6 million and $64.6 million, respectively, and capital additions related to our affordable segment totaled $1.7 million and $2.0 million, respectively.

Table of Contents

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

Forward Looking Statements

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

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

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

Executive Overview

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

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

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

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

Table of Contents

Our property operations consist primarily of our diversified portfolio of market-rate apartment communities, which we refer to as conventional apartment communities. At March 31, 2014, our conventional property operations included 161 apartment communities with 49,314 apartment homes in which we held an average ownership of approximately 97%. We also operate a portfolio of affordable apartment communities, which consists of apartments with rents that are generally paid, in whole or part, by a government agency. At March 31, 2014, our affordable property operations consisted of 72 apartment communities with 9,680 apartment homes in which we held an average ownership of approximately 89%. Our conventional and affordable property operations comprise our reportable segments and generated 91% and 9%, respectively, of our proportionate property net operating income (defined below under the Results of Operations – Property Operations heading) during the three months ended March 31, 2014. Over the next four to five years, we expect to dispose of our affordable apartment communities and reinvest the proceeds in our conventional portfolio.

For the three months ended March 31, 2014, excluding the results of sold apartment communities, our conventional portfolio had average revenue per effective apartment home of $1,505 and provided 64% operating margins and 59% free cash flow margins. Free cash flow, or FCF, as calculated for our retained portfolio, represents an apartment community's property net operating income, less capital spending required to maintain the condition of the apartment community. Average revenue per effective apartment home represents rental and other property revenues divided by the number of actual apartment homes multiplied by our ownership interest in the property as of the end of the current period. The average revenue per apartment home for our conventional portfolio increased 9.9% from average revenues of $1,370 for the three months ended March 31, 2013, as a result of year-over-year per home revenue growth of 4.3% for our conventional same store properties and the sale of conventional apartment communities during 2013 with average revenues per home substantially lower than the apartment communities in the retained portfolio. During the three months ended March 31, 2014, on average, combined conventional new and renewal lease rates were 2.8% higher than expiring lease rates.

Our portfolio strategy seeks predictable rent growth from a portfolio of “A,” “B” and “C” quality market-rate apartment communities, which average “B/B+” in quality and are diversified among the largest coastal and job growth markets in the United States, as measured by total apartment value. We measure conventional apartment community quality based on average rents of our apartment homes compared to local market average rents as reported by a third-party provider of commercial real estate performance and analysis. Under this rating system, we classify as “A” quality apartment communities those earning rents greater than 125% of the local market average, as "B" quality apartment communities those earning rents 90% to 125% of the local market average and as “C” quality apartment communities those earning rents less than 90% of the local market average. We classify as “B/B+” those apartment communities earning rents ranging from 100% to 125% of the local market average. Although some companies and analysts within the multifamily real estate industry use apartment community class ratings of “A,” “B” and “C,” some of which are tied to local market rent averages, the metrics used to classify apartment community quality as well as the timing for which local markets rents are calculated may vary from company to company. Accordingly, our rating system for measuring apartment community quality is neither broadly nor consistently used in the multifamily real estate industry.

We upgrade the quality of our portfolio through the sale of apartment communities with lower projected returns, lower operating margins, and lower expected future rent growth, and we reinvest the sale proceeds in apartment communities already in our portfolio, through property upgrades, capital improvements and redevelopment, or through the purchase of other apartment communities and, in limited situations, the development of apartment communities. We execute our strategy though leverage neutral, tax-efficient paired trades when the projected FCF internal rate of return exceeds that of the apartment community sold and portfolio quality is enhanced. For the purpose of comparing FCF of dispositions to future investments, we calculate FCF internal rate of return using an assumed future $1,200 of capital spending per apartment home required to maintain the condition of the apartment community During 2012 and 2013, our execution of this strategy resulted in the sale of approximately 40 conventional apartment communities and 60 affordable apartment communities with average revenue per effective apartment home of $863. We reinvested the sales proceeds through: redevelopment and development projects, which, at the time of the investments, we expected to yield average revenue per effective apartment home of $2,200; the acquisition of six apartment communities with average revenue per apartment home of $1,490 at their dates of purchase; and property

upgrades. The projected FCF internal rate of return of the apartment communities sold during this period ranged from 6-7%, as compared to a range of 8-15% for our reinvestments through redevelopment, development, acquisition and property upgrades.
In addition to improving our portfolio through the capital expenditures discussed below under the Liquidity and Capital Resources heading, during the three months ended March 31, 2014, we upgraded our portfolio through the acquisition for $12.0 million of two buildings containing a total of 40 units in the Upper East Side of Manhattan. Each of these buildings is contiguous to other buildings we own and operate, allowing for operational efficiency, as well as the assemblage of air rights. The apartment buildings we acquired had average revenues per home of $2,120 at the the date of their acquisition. Aimco intends to add value to the apartment buildings through redevelopment of apartment homes and operational improvements.

Table of Contents

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

Debt, as used in these ratios, represents our proportionate share of debt, net of our proportionate share of cash and restricted cash and our investment in the subordinate tranches of a securitization that holds certain of our property debt, and Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units. Adjusted EBITDA is calculated by adding to our Pro forma Funds From Operations, which is calculated on a proportionate basis, our proportionate share of interest expense, taxes, depreciation and amortization related to non-real estate assets, non-cash stock-based compensation, and dividends and distributions on our preferred equity instruments. Interest, as used in these ratios, represents our proportionate share of interest expense, excluding debt prepayment penalties and amortization of deferred financing costs, and reduced by interest income we receive on our investment in the subordinate tranches of a securitization that holds certain of our property debt. Our leverage ratios for the trailing twelve month periods ended March 31, 2014 and 2013, are presented below:

	Trailing Twelve Months Ended March 31,	
	2014	2013
Debt to Adjusted EBITDA	7.1x	7.5x
Debt and Preferred Equity to Adjusted EBITDA	7.4x	7.8x
Adjusted EBITDA Coverage of Interest	2.6x	2.4x
Adjusted EBITDA Coverage of Interest and Preferred Dividends	2.5x	2.3x

We expect future leverage reduction from earnings growth and from regularly scheduled property debt amortization funded from retained earnings. We also expect to increase our financial flexibility by expanding our pool of unencumbered apartment communities. As of March 31, 2014, this pool included eight consolidated apartment communities, which we expect to hold beyond 2014, with an estimated fair value of approximately $410.0 million. As of March 31, 2014, we also had two unencumbered consolidated apartment communities with an estimated fair value of approximately $106.0 million, which we do not include in our unencumbered pool based on our expectation to sell them during 2014. Through our normal course of refinancing activity as loans mature, we have the opportunity to grow our unencumbered pool by $150 to $200 million per year.

In June 2013, one of the rating agencies rating us completed its initial review of our creditworthiness and outlined the factors that may have a positive impact on our ratings. These factors are: growing the unencumbered asset pool to more than $500 million (based on a stressed 8% capitalization rate, as directed by the rating agency) with asset quality consistent with the overall portfolio; sustaining leverage, defined by the rating agency as the ratio of net debt to recurring operating EBITDA, below 7.5x; and sustaining a fixed charge coverage ratio, also as defined by the rating agency, above 2.0x.

In April 2014, the other agency rating us upgraded our credit rating outlook, from BB+ (stable) to BB+ (positive), which is consistent with the other agency's rating. During its review, this agency also outlined the factors that would have a positive impact on our ratings, which include: reducing our leverage, as measured by a debt to EBITDA ratio closer to the low end of the range of 7.0x to 7.5x; reducing our ratio of debt to undepreciated capital (defined as the sum of debt, equity and accumulated depreciation), to 50% or lower; and continuing to strengthen our fixed charge coverage ratio such that the agency believes a 2.0x coverage is achievable.

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

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

At March 31, 2014, approximately 94% of our leverage consisted of property-level, non-recourse, long-dated debt and 3% consisted of perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk. The weighted average maturity of our property-level debt was 8.2 years, with 1.8% of our unpaid principal balance maturing during the remainder of 2014, and on average, 7.8% of our unpaid principal balance maturing per year from 2015 through 2017. Approximately 97% of our property-level debt is fixed-rate, which provides a hedge against increases in interest rates, capitalization rates and inflation.

Table of Contents

Although our primary sources of leverage are property-level, non-recourse, long-dated, fixed-rate, amortizing debt and perpetual preferred equity, we also have a Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as our Credit Agreement. The Credit Agreement provides for $600.0 million of revolving loan commitments, which we use for working capital and other short-term purposes. Borrowings under the Credit Agreement bear interest at a rate set forth on a pricing grid, which varies based on our leverage. As of March 31, 2014, we had $110.1 million of outstanding borrowings under our Credit Agreement, and we had the capacity to borrow $445.4 million, net of the outstanding borrowings and $44.5 million for undrawn letters of credit backed by the Credit Agreement. The Credit Agreement matures in September 2017, and may be extended for an additional one-year period, subject to certain conditions.

Under the Credit Agreement, we have agreed to Debt Service and Fixed Charge Coverage covenants as specified by the lenders, as well as other covenants customary to similar revolving credit arrangements. For the twelve month period ended March 31, 2014, our Debt Service and Fixed Charge Coverage ratios were 1.80x and 1.74x, respectively, compared to covenants of 1.50x and 1.30x, respectively, and ratios of 1.68x and 1.58x, respectively, for the twelve month period ended March 31, 2013. We expect to remain in compliance with these covenants during the remainder of 2014. The Fixed Charge Coverage covenant will increase in 2015 to 1.40x.

Key Financial Indicators

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

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

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

Results of Operations

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

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

Overview

Highlights of our results of operations for the three months ended March 31, 2014, are summarized below:

- Conventional Same Store revenues and expenses for the three months ended March 31, 2014, increased by 4.6% and 2.8%, respectively, resulting in a 5.6% increase in net operating income as compared to the three months ended March 31, 2013;
- Average revenue per apartment home for our retained portfolio of Conventional apartment communities increased by 9.9%, from $1,370 for the three months ended March 31, 2013 to $1,505 for the three months ended March 31, 2014 primarily as a result of year-over-year revenue growth of 4.3% and the sale of Conventional apartment communities with average revenues per apartment home substantially lower that those of our retained portfolio; and
-

Average daily occupancy for Conventional Same Store apartment communities increased from 95.4% for three months ended March 31, 2013 to 95.7% for three months ended March 31, 2014.

Table of Contents

Three Months Ended March 31, 2014 compared to March 31, 2013

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership increased by $59.0 million and $62.3 million, respectively, during the the three months ended March 31, 2014, as compared to the three months ended March 31, 2013. The increase in income for Aimco and the Aimco Operating Partnership was principally due to an increase in gains on dispositions.

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

Property Operations

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

In accordance with accounting principles generally accepted in the United States of America, or GAAP, we consolidate certain apartment communities in which we hold an insignificant economic interest and in some cases we do not consolidate other apartment communities in which we have a significant economic interest. Due to the diversity of our economic ownership interests in our apartment communities, our chief operating decision maker emphasizes as a key measurement of segment profit or loss proportionate property net operating income, which represents our share of the property net operating income of the consolidated and unconsolidated apartment communities that we own and manage. Accordingly, the results of operations of our conventional and affordable segments discussed below are presented on a proportionate basis and exclude the results of four conventional apartment communities with 142 apartment homes and 19 affordable apartment communities with 1,276 apartment homes that we do not manage.

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

Conventional Real Estate Operations

Our conventional segment consists of properties we classify as Conventional Same Store, Conventional Redevelopment and Other Conventional apartment communities. Conventional Same Store apartment communities are those we manage, that have reached and maintained a stabilized occupancy (greater than 90%) during the current year-to-date and prior year-to-date periods, and that are not expected to be sold within 12 months. Conventional Redevelopment apartment communities are those in which a substantial number of available apartment homes have been vacated for major renovations or have not been stabilized in occupancy for at least one year as of the earliest period presented, or for which other significant non-apartment home renovations are underway or have been complete for less than one year. Based on the small number of Conventional Redevelopment apartment communities at March 31, 2014, we have included their results in the Other Conventional classification within the presentation below. Other Conventional apartment communities also includes conventional apartment communities that have significant rent control restrictions, apartment communities that had not reached and maintained a stabilized level of occupancy as of January 1, 2013, often due to a casualty event, the operations of properties that are not multifamily, such as fitness centers, apartment communities acquired during the periods, and those apartment communities we expect to sell in the next 12 months, but that have not yet met the criteria to be classified as held for sale.

As of March 31, 2014, as defined by our segment performance metrics, our Conventional Same Store portfolio and our Other Conventional portfolio consisted of 117 and 40 apartment communities with 42,174 and 6,998 apartment homes, respectively. From December 31, 2013 to March 31, 2014, on a net basis, our Conventional Same Store portfolio decreased by five apartment communities and 2,966 apartment homes. The decreases in our Conventional Same Store portfolio consisted of three apartment communities with 1,219 apartment homes that were sold, three apartment communities with 1,666 apartment homes that were reclassified from our Conventional Same Store portfolio portfolio to our Conventional Other portfolio that we expect to sell within 12 months but that do not yet meet the criteria for classification as held for sale, and one apartment community with 537 apartment homes that was reclassified from our Conventional Same Store portfolio portfolio to our Conventional Other portfolio when we commenced redevelopment of the community. These decreases were partially offset by two apartment communities with 372 and 84 apartment homes that were reclassified from our Other Conventional portfolio to our Conventional Same Store portfolio when they reached stabilization following redevelopment and acquisition, respectively.

Table of Contents

	Three Months Ended March 31,			
(in thousands)	2014	2013	$ Change	% Change
Rental and other property revenues:				
Conventional Same Store	$174,914	$167,174	$7,740	4.6 %
Other Conventional	29,400	26,267	3,133	11.9 %
Total	204,314	193,441	10,873	5.6 %
Property operating expenses:				
Conventional Same Store	59,717	58,067	1,650	2.8 %
Other Conventional	14,034	12,032	2,002	16.6 %
Total	73,751	70,099	3,652	5.2 %
Property net operating income:				
Conventional Same Store	115,197	109,107	6,090	5.6 %
Other Conventional	15,366	14,235	1,131	7.9 %
Total	$130,563	$123,342	$7,221	5.9 %

For the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, our conventional segment's proportionate property net operating income increased $7.2 million, or 5.9%.

For the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, Conventional Same Store proportionate property net operating income increased by $6.1 million, or 5.6%. This increase was primarily attributable to a $7.7 million, or 4.6%, increase in rental and other property revenues due to higher average revenues (approximately $62 per home), comprised of increases in rental rates, fee income and utility reimbursements. Excluding utility reimbursements, which increased due to higher utility costs discussed below and due to an increase in the percentage of utilities costs reimbursed by our residents, rental and other property revenues increased by 3.6%. Rental rates on new leases transacted during the three months ended March 31, 2014, were 1.0% higher than expiring lease rates, and renewal rates were 4.9% higher than expiring lease rates. The increase in Conventional Same Store rental and other property revenues was partially offset by a $1.7 million, or 2.8%, increase in property operating expenses, primarily due to increases in utility expenses and real estate taxes, partially offset by a decrease in insurance costs. Excluding utility costs, which are largely reimbursed by residents, Conventional Same Store property operating expenses increased by $0.2 million, or 0.4%.

Our Other Conventional proportionate property net operating income increased by $1.1 million, or 7.9%, during the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, primarily due to increases in net operating income associated with apartment homes placed back into service following completion of redevelopment projects and apartment communities we acquired during 2013.

Affordable Real Estate Operations

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

At March 31, 2014, as defined by our segment performance metrics, our Affordable Same Store portfolio and Other Affordable portfolio consisted of 46 and seven apartment communities with 7,424 and 980 apartment homes, respectively. Our affordable results for the three months ended March 31, 2014 and 2013 presented below are based on the apartment community populations at March 31, 2014.

Table of Contents

	Three Months Ended March 31,				
(in thousands)	2014	2013	$ Change	% Change	
Rental and other property revenues:					
Affordable Same Store	$21,887	$21,688	$199	0.9	%
Other Affordable	2,356	2,306	50		