

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-K

March 01, 2007

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

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006**
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

**Commission File Number 1-13232
Apartment Investment and Management Company
(Exact name of registrant as specified in its charter)**

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

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For the Fiscal Year Ended December 31, 2006**

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this Report contains or may contain information that is forward-looking, including, without limitation, statements regarding the effect of acquisitions and redevelopments, our future financial performance, including our ability to maintain current or meet projected occupancy, rent levels and same store results, and the effect of government regulations. Actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation: natural disasters such as hurricanes; national and local economic conditions; the general level of interest rates; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; real estate risks, including variations of real estate values and the general economic climate in local markets and competition for residents in such markets; acquisition and development risks, including failure of such acquisitions to perform in accordance with projections; the timing of acquisitions and dispositions; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the section entitled Risk Factors described in Item 1A of this Annual Report and the other documents we file from time to time with the Securities and Exchange Commission.

PART I

Item 1. Business

The Company

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

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

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

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

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

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

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

Available Information

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

Financial Information About Industry Segments

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

Business Overview

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

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

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

Property Operations

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

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

Conventional

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

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

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

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

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

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

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

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

Aimco Capital

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

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

Portfolio Management

Conventional

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

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

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

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

the direct acquisition of a property or portfolio of properties;

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

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

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

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

Aimco Capital

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

Entitlements

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

Reinvestment in Properties

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

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

Cost of Capital

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

Productivity

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

Competition

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

Taxation

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

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

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

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

Regulation

General

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

Environmental

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

Insurance

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

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

Employees

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

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

Item 1A. Risk Factors

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

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

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

the general economic climate;

competition from other apartment communities and other housing options;

local conditions, such as loss of jobs or an increase in the supply of apartments, that might adversely affect apartment occupancy or rental rates;

changes in governmental regulations and the related cost of compliance;

increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;

changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing; and

changes in interest rates and the availability of financing.

Redevelopment and construction risks could affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

Increases in interest rates would increase our interest expense.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We depend on our senior management.

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

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

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

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

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

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

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

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

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

Moisture infiltration and resulting mold remediation may be costly.

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

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

From time to time, the Federal Bureau of Investigation, or FBI, and the United States Department of Homeland Security issue alerts regarding potential terrorist threats involving apartment buildings. Threats of future terrorist attacks, such as those announced by the FBI and the Department of Homeland Security, could have a negative effect on rent and occupancy levels at our properties. The effect that future terrorist activities or threats of such activities could have on our business is uncertain and unpredictable. If we incur a loss at a property as a result of an act of terrorism, we could lose all or a portion of the capital we have invested in the property, as well as the future revenue from the property.

We may fail to qualify as a REIT.

If we fail to qualify as a REIT, we will not be allowed a deduction for dividends paid to our stockholders in computing our taxable income, and we will be subject to Federal income tax at regular corporate rates, including any applicable alternative minimum tax. This would substantially reduce our funds available for payment to our investors. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. In addition, our failure to qualify as a REIT would trigger the following consequences:

we would be obligated to repurchase certain classes of our preferred stock; and

we would be in default under our primary credit facilities and certain other loan agreements.

We believe that we operate, and have always operated, in a manner that enables us to meet the requirements for qualification as a REIT for Federal income tax purposes. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, investment, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our income and assets on an ongoing basis. Moreover, the

proper classification of an instrument as debt or equity for Federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the Internal Revenue Service, or the IRS, will not contend that our interests in subsidiaries or other issuers constitutes a violation of the REIT requirements. Moreover, future economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT, or our Board of Directors may determine to revoke our REIT status.

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REIT distribution requirements limit our available cash.

As a REIT, we are subject to annual distribution requirements, which limit the amount of cash we retain for other business purposes, including amounts to fund our growth. We generally must distribute annually at least 90% of our net REIT taxable income, excluding any net capital gain, in order for our distributed earnings not to be subject to corporate income tax. We intend to make distributions to our stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

Limits on ownership of shares in our charter may result in the loss of economic and voting rights by purchasers that violate those limits.

Our charter limits ownership of our Common Stock by any single stockholder (applying certain beneficial ownership rules under the Federal securities laws) to 8.7% of our outstanding shares of Common Stock, or 15% in the case of certain pension trusts, registered investment companies and Mr. Considine. Our charter also limits ownership of our Common Stock and preferred stock by any single stockholder to 8.7% of the value of the outstanding Common Stock and preferred stock, or 15% in the case of certain pension trusts, registered investment companies and Mr. Considine. The charter also prohibits anyone from buying shares of our capital stock if the purchase would result in us losing our REIT status. This could happen if a transaction results in fewer than 100 persons owning all of our shares of capital stock or results in five or fewer persons (applying certain attribution rules of the Code) owning 50% or more of the value of all of our shares of capital stock. If anyone acquires shares in excess of the ownership limit or in violation of the ownership requirements of the Code for REITs:

the transfer will be considered null and void;

we will not reflect the transaction on our books;

we may institute legal action to enjoin the transaction;

we may demand repayment of any dividends received by the affected person on those shares;

we may redeem the shares;

the affected person will not have any voting rights for those shares; and

the shares (and all voting and dividend rights of the shares) will be held in trust for the benefit of one or more charitable organizations designated by us.

We may purchase the shares of capital stock held in trust at a price equal to the lesser of the price paid by the transferee of the shares or the then current market price. If the trust transfers any of the shares of capital stock, the affected person will receive the lesser of the price paid for the shares or the then current market price. An individual who acquires shares of capital stock that violate the above rules bears the risk that the individual:

may lose control over the power to dispose of such shares;

may not recognize profit from the sale of such shares if the market price of the shares increases;

may be required to recognize a loss from the sale of such shares if the market price decreases; and

may be required to repay to us any distributions received from us as a result of his or her ownership of the shares.

Our charter may limit the ability of a third party to acquire control of us.

The 8.7% ownership limit discussed above may have the effect of precluding acquisition of control of us by a third party without the consent of our Board of Directors. Our charter authorizes our Board of Directors to issue up to 510,587,500 shares of capital stock. As of December 31, 2006, 426,157,736 shares were classified as Common Stock, of which 96,820,252 were outstanding, and 84,429,764 shares were classified as preferred stock, of which 26,854,962 were outstanding. Under our charter, our Board of Directors has the authority to classify and reclassify

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any of our unissued shares of capital stock into shares of capital stock with such preferences, rights, powers and restrictions as our Board of Directors may determine. The authorization and issuance of a new class of capital stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our stockholders' best interests.

Maryland business statutes may limit the ability of a third party to acquire control of us.

As a Maryland corporation, we are subject to various Maryland laws that may have the effect of discouraging offers to acquire us and increasing the difficulty of consummating any such offers, even if an acquisition would be in our stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of our stock representing 10% or more of the voting power without our Board of Directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66²/₃% of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our capital stock that represent 10% or more of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote. Additionally, Maryland law provides, among other things, that the board of directors has broad discretion in adopting stockholders rights plans and has the sole power to fix the record date, time and place for special meetings of the stockholders. In addition, Maryland law provides that corporations that:

have at least three directors who are not employees of the entity or related to an acquiring person; and

are subject to the reporting requirements of the Securities Exchange Act of 1934,

may elect in their charter or bylaws or by resolution of the board of directors to be subject to all or part of a special subtitle that provides that:

the corporation will have a staggered board of directors;

any director may be removed only for cause and by the vote of two-thirds of the votes entitled to be cast in the election of directors generally, even if a lesser proportion is provided in the charter or bylaws;

the number of directors may only be set by the board of directors, even if the procedure is contrary to the charter or bylaws;

vacancies may only be filled by the remaining directors, even if the procedure is contrary to the charter or bylaws; and

the secretary of the corporation may call a special meeting of stockholders at the request of stockholders only on the written request of the stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting, even if the procedure is contrary to the charter or bylaws.

To date, we have not made any of the elections described above.

Item 1B. *Unresolved Staff Comments*

None.

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Our properties are located in 46 states, the District of Columbia and Puerto Rico. As of December 31, 2006, our conventional properties are operated through 17 regional operating centers. Affordable property operations are managed through Aimco Capital and are operated through three regional operating centers. The following table sets forth information on all of our property operations as of December 31, 2006 and 2005:

Regional Operating Center(1)	2006		2005	
	Number of Properties	Number of Units	Number of Properties	Number of Units
Conventional:				
Atlanta, GA	32	8,286	41	10,712
Austin, TX			25	5,566
Boston, MA	16	5,745	16	5,745
Chicago, IL	30	8,339	32	8,784
Columbus, OH	34	9,664	39	10,139
Dallas, TX	36	8,026	31	7,945
Denver, CO	33	7,487	33	7,487
Houston, TX	37	9,776	37	9,776
Indianapolis, IN	33	12,318	32	11,947
Los Angeles, CA	39	10,867	36	10,622
New York, NY	12	589		
Orlando, FL	29	8,041	31	8,600
Philadelphia, PA	16	7,493	15	7,180
Phoenix, AZ	28	7,544	36	10,002
Rockville, MD	29	12,157	29	12,156
South Florida	15	5,300	15	5,862
Tampa, FL	21	5,787	21	5,926
Tidewater, VA	28	7,618	28	7,716
University Communities(2)			15	4,443
Total conventional owned and managed	468	135,037	512	150,608
Affordable (Aimco Capital):				
Central	121	12,726	131	13,721
Northeast	87	12,551	104	14,769
West	63	6,908	71	7,607
Total affordable owned and managed	271	32,185	306	36,097
Owned but not managed	66	7,001	65	7,112
Property management for third parties	41	3,573	52	5,246
Asset management for third parties	410	38,617	435	41,421

Total	1,256	216,413	1,370	240,484
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- (1) As our portfolio changes due to property acquisitions and dispositions, we periodically evaluate the organization of our regional operating centers, or ROCs. During 2006, we combined the Austin and Dallas ROCs and added a ROC in New York.
- (2) The properties within University Communities at December 31, 2005 have been either sold or moved into various existing ROCs depending on the location of the property.

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At December 31, 2006, we owned an equity interest in and consolidated 703 properties containing 162,432 apartment units, which we refer to as consolidated. These consolidated properties contain, on average, 231 apartment units, with the largest property containing 2,877 apartment units. These properties offer residents a range of amenities, including swimming pools, clubhouses, spas, fitness centers, tennis courts and saunas. Many of the apartment units offer features such as vaulted ceilings, fireplaces, washer and dryer hook-ups, cable television, balconies and patios. Additional information on our consolidated properties is contained in Schedule III, Real Estate and Accumulated Depreciation in this Annual Report. At December 31, 2006, we held an equity interest in and did not consolidate 102 properties containing 11,791 apartment units, which we refer to as unconsolidated. In addition, we provided property management services for third parties owning 41 properties containing 3,573 apartment units, and asset management services for third parties owning 410 properties containing 38,617 apartment units, although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Substantially all of our consolidated properties are encumbered by mortgage indebtedness. At December 31, 2006, our consolidated properties were encumbered by aggregate mortgage indebtedness totaling \$6,265.1 million having an aggregate weighted average interest rate of 6.12%. Such mortgage indebtedness was secured by 680 properties with a combined net book value of \$8,936.3 million. Included in the 680 properties, we had a total of 60 mortgage loans, with an aggregate principal balance outstanding of \$693.5 million, that were each secured by property and cross-collateralized with certain (but not all) other mortgage loans within this group of 60 mortgage loans. See Note 6 of the consolidated financial statements in Item 8 for additional information about our indebtedness.

Item 3. *Legal Proceedings*

See the information under the caption Legal Matters in Note 8 of the consolidated financial statements in Item 8 for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

Table of Contents**PART II****Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our Common Stock has been listed and traded on the NYSE under the symbol AIV since July 22, 1994. The following table sets forth the quarterly high and low sales prices of our Common Stock, as reported on the NYSE, and the dividends declared in the periods indicated:

Quarter Ended	High	Low	Dividends Declared (per share)
2006			
December 31, 2006(1)	\$ 59.17	\$ 52.63	\$ 1.20
September 30, 2006	54.96	43.67	0.60
June 30, 2006	47.23	41.41	0.60
March 31, 2006	48.38	37.76	0.00
2005			
December 31, 2005(2)	39.80	34.93	1.20
September 30, 2005	44.14	37.57	0.60
June 30, 2005	41.30	36.24	0.60
March 31, 2005	39.39	34.17	0.60

(1) On December 19, 2006, our Board of Directors declared a quarterly cash dividend of \$0.60 per common share for the quarter ended December 31, 2006, that was paid on January 31, 2007, to stockholders of record on December 31, 2006. Our Board of Directors declared the dividend a month early in order to offset gains from 2006 property sales otherwise subject to REIT excise tax. Our Board of Directors anticipates that dividend declarations for the remainder of 2007 will occur on a schedule consistent with 2006.

(2) On December 28, 2005, our Board of Directors declared a quarterly cash dividend of \$0.60 per common share for the quarter ended December 31, 2005, that was paid on January 31, 2006, to stockholders of record on December 31, 2005. Our Board of Directors declared the dividend a month early in order to offset gains from 2005 property sales otherwise subject to REIT excise tax.

On February 23, 2007, the closing price of our Common Stock was \$60.53 per share, as reported on the NYSE, and there were 97,577,459 shares of Common Stock outstanding, held by 3,459 stockholders of record. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

As a REIT, we are required to distribute annually to holders of common stock at least 90% of our real estate investment trust taxable income, which, as defined by the Code and United States Department of Treasury regulations, is generally equivalent to net taxable ordinary income. We measure our economic profitability and intend to pay regular dividends to our stockholders based on Funds From Operations, less Capital Replacements during the relevant period. Future payment of dividends are at the discretion of our Board of Directors and will depend on numerous

factors including our financial condition, capital requirements, the annual distribution requirements under the provisions of the Code applicable to REITs and such other factors as our Board of Directors deems relevant.

From time to time, we issue shares of Common Stock in exchange for common and preferred OP Units tendered to the Aimco Operating Partnership for redemption in accordance with the terms and provisions of the agreement of limited partnership of the Aimco Operating Partnership. Such shares are issued based on an exchange ratio of one share for each common OP Unit or the applicable conversion ratio for preferred OP Units. The shares are generally issued in exchange for OP Units in private transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. During the three and twelve months ended December 31, 2006, approximately 36,000 and 99,000 shares of Common Stock were issued in exchange for common OP Units.

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During the three and twelve months ended December 31, 2006, zero shares of Common Stock were issued in exchange for preferred OP Units.

The following table summarizes repurchases of our equity securities in the quarter ended December 31, 2006 (1):

Fiscal period(2)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
October 1 - October 31, 2006	0	N/A	0	6,065,180
November 1 - November 30, 2006	0	N/A	0	6,065,180
December 1 - December 31, 2006	366,100	\$ 55.33	366,100	5,699,080
Total	366,100	\$ 55.33	366,100	

(1) Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. In April 2005, our Board of Directors authorized us to repurchase up to a total of eight million shares of our Common Stock. We have approximately 5.70 million shares remaining on that authorization. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

(2) During the year ended December 31, 2006, we repurchased approximately 2.3 million shares of Common Stock for cash totaling approximately \$120.3 million, or \$52.25 per share.

Dividend Payments. Our Credit Agreement includes customary covenants, including a restriction on dividends and other restricted payments, but permits dividends during any four consecutive fiscal quarters in an aggregate amount of up to 95% of our Funds From Operations for such period or such amount as may be necessary to maintain our REIT status.

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The following graph compares cumulative total returns for our Common Stock, the Standard & Poor's 500 Total Return Index (the S&P 500), the NASDAQ Composite, the SNL Residential REIT Index and the MSCI US REIT Index. The SNL Residential REIT Index was prepared by SNL Securities, an independent research and publishing firm specializing in the collection and dissemination of data on the banking, thrift and financial services industries. The MSCI US REIT Index is published by Morgan Stanley Capital International Inc., a provider of equity indices. The indices are weighted for all companies that fit the definitional criteria of the particular index and are calculated to exclude companies as they are acquired and add them to the index calculation as they become publicly traded companies. All companies of the definitional criteria in existence at the point in time presented are included in the index calculations. The graph assumes the investment of \$100 in our Common Stock and in each index on December 31, 2001, and that all dividends paid have been reinvested.

Index	Period Ending					
	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
AIMCO	100.00	88.49	88.65	106.65	113.27	175.76
S&P 500	100.00	77.90	100.24	11.14	116.59	135.00
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL Residential REITS Index	100.00	94.37	118.81	157.59	179.03	250.45
MSCI US REIT Index	100.00	103.64	141.73	186.35	208.96	284.02

Source: (other than with respect to S&P 500) SNL Financial LC, Charlottesville, VA ©2007.

The Performance Graph will not be deemed to be incorporated by reference into any filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the same by reference.

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The following selected financial data is based on our audited historical financial statements. This information should be read in conjunction with such financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein or in previous filings with the Securities and Exchange Commission.

	For the Years Ended December 31,				
	2006(1)	2005(2)	2004(2)	2003(2)	2002(2)
	(Dollar amounts in thousands, except per share data)				
OPERATING DATA:					
Total revenues	\$ 1,690,994	\$ 1,408,464	\$ 1,279,205	\$ 1,207,131	\$ 1,105,589
Total operating expenses	(1,353,841)	(1,129,076)	(994,970)	(846,507)	(704,421)
Operating income	337,153	279,388	284,235	360,624	401,168
Income (loss) from continuing operations	(42,674)	(23,123)	57,785	59,609	132,946
Income from discontinued operations, net	219,461	94,105	209,669	99,248	36,100
Cumulative effect of change in accounting principle			(3,957)		
Net income	176,787	70,982	263,497	158,857	169,046
Net income attributable to preferred stockholders	81,132	87,948	88,804	93,565	93,558
Net income (loss) attributable to common stockholders	95,655	(16,966)	174,693	65,292	75,488
OTHER INFORMATION:					
Total consolidated properties (end of period)	703	619	676	679	728
Total consolidated apartment units (end of period)	162,432	158,548	169,932	174,172	187,506
Total unconsolidated properties (end of period)	102	264	330	441	511
Total unconsolidated apartment units (end of period)	11,791	35,269	44,728	62,823	73,924
Units managed for others (end of period)(3)	42,190	46,667	49,074	50,565	56,722
Earnings (loss) per common share basic:					
Income (loss) from continuing operations (net of income attributable to preferred stockholders)	\$ (1.29)	\$ (1.18)	\$ (0.33)	\$ (0.37)	\$ 0.46
Net income (loss) attributable to common stockholders	\$ 1.00	\$ (0.18)	\$ 1.88	\$ 0.70	\$ 0.88

Earnings (loss) per common share diluted:										
Income (loss) from continuing operations (net of income attributable to preferred stockholders)	\$	(1.29)	\$	(1.18)	\$	(0.33)	\$	(0.37)	\$	0.45
Net income (loss) attributable to common stockholders	\$	1.00	\$	(0.18)	\$	1.88	\$	0.70	\$	0.87
Dividends declared per common share	\$	2.40	\$	3.00	\$	2.40	\$	2.84	\$	3.28

**BALANCE SHEET
INFORMATION:**

Real estate, net of accumulated depreciation	\$	9,081,218	\$	8,189,238	\$	7,672,449	\$	7,079,098	\$	6,907,139
Total assets		10,289,775		10,019,160		10,074,316		10,087,394		10,309,101
Total indebtedness		6,872,753		6,021,857		5,372,870		5,040,912		4,867,271
Stockholders equity		2,339,892		2,716,103		3,008,160		2,860,657		3,163,387

- (1) Based on circumstances and analysis that occurred after the date of our Fourth Quarter 2006 Earnings Release, we recorded a \$2.9 million cumulative adjustment for the year ended December 31, 2006, which adjustment was based on an alternative valuation methodology and revised assumptions for certain High Performance Units of the Aimco Operating Partnership. As a result of this adjustment and the related impact on minority interest in the Aimco Operating Partnership, certain amounts reported in our 2006 consolidated financial statements differ from the corresponding amounts that were previously reported in our Fourth Quarter 2006 Earnings Release. This adjustment reduced our 2006 net income and stockholders equity by approximately \$2.6 million and reduced basic and diluted earnings per share by \$0.03. See *High Performance Units* in Note 10 to the consolidated financial statements in Item 8.

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- (2) Certain reclassifications have been made to conform to the 2006 presentation. These reclassifications primarily represent presentation changes related to discontinued operations resulting from the 2002 adoption of Statement of Financial Accounting Standards No. 144.
- (3) In 2006, 2005, 2004, 2003 and 2002 includes 38,617, 41,421, 41,233, 39,428 and 45,187 units, respectively, for which we provide asset management services only, although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Executive Overview

We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the ownership, acquisition, management and redevelopment of apartment properties. Our property operations are characterized by diversification of product, location and price point. As of December 31, 2006, we owned or managed 1,256 apartment properties containing 216,413 units located in 46 states, the District of Columbia and Puerto Rico. Our primary sources of income and cash are rents associated with apartment leases.

The key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance are: Funds From Operations, or FFO; FFO less spending for Capital Replacements, or AFFO; net asset value; same store property operating results; net operating income; net operating income less spending for Capital Replacements, or Free Cash Flow; financial coverage ratios; and leverage as shown on our balance sheet. These terms are defined and described in the sections captioned Funds From Operations and Capital Expenditures below. The key macro-economic factors and non-financial indicators that affect our financial condition and operating performance are: rates of job growth; single-family and multifamily housing starts; and interest rates.

Because our operating results depend primarily on income from our properties, the supply and demand for apartments influences our operating results. Additionally, the level of expenses required to operate and maintain our properties, the pace and price at which we redevelop, acquire and dispose of our apartment properties, and the volume and timing of fee transactions affect our operating results. Our cost of capital is affected by the conditions in the capital and credit markets and the terms that we negotiate for our equity and debt financings.

Our focus in 2006 has been to increase revenue and implement cost management and productivity initiatives, which includes centralizing purchasing, restructuring business processes, using technology to increase efficiency and implementing structured monthly reporting to identify issues and improve effectiveness of spending. We believe that our efforts are having their intended effect, and have resulted in positive operating results and built the foundation for improved long-term operating results. These initiatives and others have also resulted in improved asset quality, and we will continue to seek opportunities to reinvest in our properties through capital expenditures and to manage our portfolio through property sales and acquisitions.

For 2007, our focus will continue to include the following: enhance operations to improve and sustain customer satisfaction; obtain rate and occupancy increases to bring improved profitability; upgrade the quality of our portfolio through portfolio management, capital replacement, capital improvement and redevelopment; increase efficiency through improved business processes and automation; improve balance sheet flexibility; expand the use of tax credit equity to finance redevelopment of affordable properties; minimize our cost of capital; and monetize a portion of the value inherent in our properties with increased entitlements.

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

Results of Operations

Overview

2006 compared to 2005

We reported net income of \$176.8 million and net income attributable to common stockholders of \$95.7 million for the year ended December 31, 2006, compared to net income of \$71.0 million and net loss attributable to common stockholders of \$17.0 million for the year ended December 31, 2005, increases of \$105.8 million and \$112.7 million, respectively. These increases were principally due to the following items, all of which are discussed in further detail within this section:

an increase in net operating income associated with property operations, reflecting improved operations of our same store properties and other properties, and a large number of newly consolidated properties;

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an increase in income from discontinued operations, primarily related to higher net gains on dispositions of real estate; and

an increase in gain on disposition of unconsolidated real estate and other, including higher gains on sale of land parcels.

These increases were partially offset by:

an increase in depreciation and amortization expense;

an increase in interest expense; and

unfavorable changes in the effects of minority interests in our consolidated real estate partnerships.

Our reported operating results for 2006 were affected significantly by our adoption of EITF 04-5, as discussed in *Adoption of EITF 04-5* in Note 2 to the consolidated financial statements in Item 8. In accordance with the requirements of EITF 04-5, we consolidated 156 previously unconsolidated entities as of January 1, 2006. The consolidation of these entities contributed to increases in the reported amounts of certain revenue and expenses.

2005 compared to 2004

We reported net income of \$71.0 million and net loss attributable to common stockholders of \$17.0 million for the year ended December 31, 2005, compared to net income of \$263.5 million and net income attributable to common stockholders of \$174.7 million for the year ended December 31, 2004, decreases of \$192.5 million and \$191.7 million, respectively. These decreases were principally due to the following items, all of which are discussed in further detail within this section:

a decrease in income from discontinued operations, primarily related to lower net gains on dispositions of real estate;

a decrease in gain on disposition of unconsolidated real estate and other, primarily related to a 2004 gain on sale of land;

an increase in depreciation and amortization expense;

an increase in interest expense; and

an increase in general and administrative expenses.

These decreases were partially offset by an increase in net operating income associated with property operations, which included increases related to acquisition, newly consolidated and same store properties.

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

Rental Property Operations

Our operating income is generated primarily from the operations of our consolidated apartment properties. The following table summarizes the overall performance of our properties for the years ended December 31, 2006, 2005

and 2004 (in thousands):

	2006	2005	2004
Rental and other property revenues	\$ 1,629,988	\$ 1,346,587	\$ 1,211,865
Property operating expenses	758,128	633,984	567,937
Net operating income	\$ 871,860	\$ 712,603	\$ 643,928

For the year ended December 31, 2006, compared to the year ended December 31, 2005, net operating income for our consolidated property operations increased by \$159.3 million, or 22.3%. The majority of this increase is attributable to newly consolidated properties (143 properties first consolidated in 2006 and 15 properties first consolidated in 2005), which contributed net operating income of \$89.2 million in 2006. Newly consolidated properties are properties that: (i) were consolidated for all or part of the current year, (ii) were unconsolidated and

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accounted for by the equity method for all or part of the corresponding prior year, and (iii) were not sold or classified as held for sale during the current year. The consolidation of properties upon adoption of EITF 04-5 resulted in an unusually large number of newly consolidated properties in 2006 (see Note 2 to the consolidated financial statements in Item 8). The increase in rental property net operating income also reflects: a \$44.6 million increase for consolidated same store properties (see Conventional Same Store Property Operating Results below); a \$9.5 million increase related to operations of the acquisition properties, consisting of nine properties purchased in 2006 and six properties (including the Palazzo East at Park La Brea) purchased in 2005; a \$6.2 million improvement in our affordable property operations; and a \$5.4 million increase related to properties undergoing redevelopment.

For the year ended December 31, 2005, compared to the year ended December 31, 2004, net operating income for our consolidated property operations increased by \$68.7 million, or 10.7%. This increase was principally due to a \$40.3 million increase in consolidated same store net operating income (see Conventional Same Store Property Operating Results below); a \$21.3 million increase related to operations of acquisition properties, which were principally comprised of Palazzo East at Park La Brea and five other properties purchased in 2005 and The Palazzo at Park La Brea and 10 other properties purchased in 2004; a \$10.6 million increase related to operations of newly consolidated properties (15 properties first consolidated in 2005 and 36 properties first consolidated in 2004); a \$3.9 million increase related to operations of our affordable properties; and a \$2.7 million increase related to the completion of certain redevelopment properties. These increases were offset by \$6.4 million of increased property management expenses and \$3.3 million of higher net casualty losses in 2005 as compared to 2004, primarily relating to greater hurricane and tropical storm damage that occurred in 2005.

Conventional Same Store Property Operating Results

Same store operating results is a key indicator we use to assess the performance of our property operations and to understand the period over period operations of a consistent portfolio of properties. We define consolidated same store properties as conventional properties (i) that we manage, (ii) in which our ownership interest exceeds 10%, (iii) the operations of which have been stabilized for all periods presented, and (iv) that have not been classified as held for sale. The following tables summarize the operations of our consolidated conventional rental property operations:

	Year Ended December 31,		
	2006	2005	Change
Consolidated same store revenues	\$ 1,075,434	\$ 1,007,789	6.7%
Consolidated same store expenses	458,449	435,370	5.3%
Same store net operating income	616,985	572,419	7.8%
Reconciling items(1)	254,875	140,184	81.8%
Real estate segment net operating income	\$ 871,860	\$ 712,603	22.3%
Same store operating statistics:			
Properties	365	365	
Apartment units	107,430	107,430	
Average physical occupancy	94.4%	92.4%	2.0%
Average rent/unit/month	\$ 811	\$ 782	3.7%

(1)

Reflects property revenues and property operating expenses related to consolidated properties other than same store properties (e.g., affordable, acquisition, redevelopment and newly consolidated properties, including those properties consolidated as a result of the adoption of EITF 04-5) and casualty gains and losses.

For the year ended December 31, 2006, compared to the year ended December 31, 2005, consolidated same store net operating income increased \$44.6 million, or 7.8%. Revenues increased \$67.6 million, or 6.7%, primarily due to higher occupancy (up 2.0%), higher average rent (up \$29 per unit) and a \$7.5 million increase in utility reimbursements. Expenses increased by \$23.1 million, or 5.3%, primarily due to a \$6.5 million increase in real

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estate taxes, a \$6.2 million increase in utilities, a \$4.8 million increase in insurance, and a \$3.0 million increase in employee compensation and related expenses.

	Year Ended December 31,		
	2005	2004	Change
Consolidated same store revenues	\$ 988,952	\$ 925,806	6.8%
Consolidated same store expenses	428,218	405,370	5.6%
Same store net operating income	560,734	520,436	7.7%
Reconciling items(1)	151,869	123,502	23.0%
Real estate segment net operating income	\$ 712,603	\$ 643,938	10.7%
Same store operating statistics:			
Properties	357	357	
Apartment units	105,472	105,472	
Average physical occupancy	92.4%	90.1%	2.3%
Average rent/unit/month	\$ 782	\$ 753	3.9%

(1) Reflects property revenues and property operating expenses related to consolidated properties other than same store properties (e.g., affordable, acquisition, redevelopment and newly consolidated properties) and casualty gains and losses.

For the year ended December 31, 2005, compared to the year ended December 31, 2004, consolidated same store net operating income increased \$40.3 million, or 7.7%. Revenues increased \$63.1 million, or 6.8%, primarily due to higher occupancy (up 2.3%), higher average rent (up \$29 per unit), and a \$9.4 million decrease in bad debt expense. Expenses increased by \$22.8 million, or 5.6%, primarily due to a \$7.7 million increase in real estate taxes, a \$6.6 million increase in employee compensation and related expenses, and a \$6.0 million increase in utilities.

Property Management

We earn income from property management primarily from certain unconsolidated real estate partnerships for which we are the general partner. The income is primarily in the form of fees generated through property management and other associated activities. Reported revenue from property management decreases as we consolidate real estate partnerships because it is eliminated in consolidation. We expect this trend to continue as we increase our ownership in more of these partnerships or otherwise determine that consolidation is required by GAAP. Additionally, our revenue decreases as properties within our unconsolidated real estate partnerships are sold. Offsetting the revenue earned in property management are the direct expenses associated with property management.

The following table summarizes the overall performance of our property management business for the years ended December 31, 2006, 2005 and 2004 (in thousands):

	2006	2005	2004
Property management revenues, primarily from affiliates	\$ 12,312	\$ 24,528	\$ 32,461

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Property management expenses	4,912	7,361	9,789
Net operating income from property management	\$ 7,400	\$ 17,167	\$ 22,672

For the year ended December 31, 2006, compared to the year ended December 31, 2005, net operating income from property management decreased by \$9.8 million, or 56.9%. For the year ended December 31, 2005, compared to the year ended December 31, 2004, net operating income from property management decreased by \$5.5 million, or 24.3%. In both comparisons the decreases were principally due to reductions in the numbers of unaffiliated and unconsolidated real estate partnerships that we managed. Most of these decreases resulted from the consolidation of partnerships due to increased ownership and GAAP requirements (including the adoption of EITF 04-5 in 2006 as discussed in *Adoption of EITF 04-5* in Note 2 to the consolidated financial statements in Item 8), which required

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elimination of fee income and reclassification of related property management expenses. Sales of properties by unconsolidated partnerships also contributed to the decreases in income from property management.

Activity Fees and Asset Management

Activity fees are generated from transactions, including dispositions, refinancings, sales promotes and tax credit syndications and redevelopments. These transactions occur on varying timetables, thus the income varies from period to period. The majority of these fees are realized in connection with transactions related to affordable properties within the Aimco Capital portfolio. We have a large number of affiliated real estate partnerships for which we have identified a pipeline of transactional opportunities. As a result, we view activity fees as a predictable part of our core business strategy. Asset management revenue is from the financial management of partnerships, rather than management of day-to-day property operations. Asset management revenue includes certain fees that were earned in a prior period, but not recognized at that time because collectibility was not reasonably assured. Those fees may be recognized in a subsequent period upon occurrence of a transaction or improvement in operations that generates sufficient cash to pay the fees. Activity and asset management expenses are the direct expenses associated with transactional activities and asset management. These activities are conducted primarily by our taxable subsidiaries and the related operating income is generally subject to income taxes. As discussed in *Tax Credit Arrangements* in Note 2 to the consolidated financial statements in Item 8, in 2006 we revised our treatment of income from certain tax credit arrangements.

The following table summarizes the operating results of our transactional and asset management activities for the years ended December 31, 2006, 2005 and 2004, excluding related income tax effects (in thousands):

	2006	2005	2004
Activity fees and asset management revenues	\$ 48,694	\$ 37,349	\$ 34,879
Activity and asset management expenses	9,521	10,628	11,879
Net operating income from activity fees and asset management	\$ 39,173	\$ 26,721	\$ 23,000

Included in the activity fees and asset management revenues, primarily from affiliates for the years ended December 31, 2006, 2005 and 2004, were \$41.4 million, \$33.3 million and \$30.3 million, respectively, of fees related to affordable properties within the Aimco Capital portfolio.

For the year ended December 31, 2006, compared to the year ended December 31, 2005, net operating income from activity fees and asset management increased \$12.5 million, or 46.6%. This increase is primarily attributable to growth in our affordable housing tax credit syndication business, including a \$4.3 million increase in syndication fees and a \$4.6 million increase in other revenue earned in connection with these arrangements. The increase also reflects a \$2.4 million increase in promote distributions from partnerships.

For the year ended December 31, 2005, compared to the year ended December 31, 2004, net operating income from activity fees and asset management increased by \$3.7 million, or 16.2%. This overall increase was principally a result of increased activity fees related to syndication and developer activities of \$6.0 million and \$3.7 million, respectively, as well as a \$1.3 million decrease in expenses associated with these activities. Additionally, we received \$3.1 million in promote distributions from an unconsolidated partnership, as a result of us, as general partner, achieving financial returns to the limited partners in excess of established targets. These increases were offset by a \$5.2 million decrease in asset management fees and decreases of \$3.3 million and \$1.9 million in activity fees related to disposition and refinancing activities, respectively.

Depreciation and Amortization

For the year ended December 31, 2006, compared to the year ended December 31, 2005, depreciation and amortization increased \$94.4 million, or 25.1%. This increase was principally due to \$39.7 million of depreciation for newly consolidated properties, particularly properties that were consolidated in 2006 in connection with the adoption of EITF 04-5 (see *Adoption of EITF 04-5* in Note 2 to the consolidated financial statements in Item 8) and \$46.2 million of depreciation related to assets recently placed in service, including acquired properties, redevelopment projects and other capital expenditures. Additionally, a \$4.8 million increase resulted from a change

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effective July 1, 2005 in estimated useful lives that apply to capitalized payroll and certain indirect costs (see *Capital Expenditures and Related Depreciation* in Note 2 of the consolidated financial statements in Item 8).

For the year ended December 31, 2005, compared to the year ended December 31, 2004, depreciation and amortization increased \$60.8 million, or 19.3%. This increase was principally due to \$31.9 million of additional depreciation on certain real estate assets where the depreciation was adjusted prospectively (see *Impairment of Long-Lived Assets* in Note 2 of the consolidated financial statements in Item 8); \$13.8 million and \$8.3 million of additional depreciation related to newly consolidated and acquisition properties, respectively; and \$11.0 million from the completion of certain redevelopment projects. Additionally, \$4.3 million of the increase was due to a change in estimated useful lives that apply to capitalized payroll and certain indirect costs (see *Capital Expenditures and Related Depreciation* in Note 2 of the consolidated financial statements in Item 8).

General and Administrative Expenses

For the year ended December 31, 2006, compared to the year ended December 31, 2005, general and administrative expenses increased \$8.9 million, or 9.6%. This increase reflects a \$9.6 million increase in employee compensation and related costs, including higher stock-based compensation and variable compensation based on achievement of established performance targets. The increase was partially offset by a \$3.9 million decrease in legal, audit and consulting expenses. In addition, in 2006 we recorded a \$2.9 million adjustment based on an alternative method and revised assumptions for the valuation of High Performance Units (see *High Performance Units* in Note 10 to the consolidated financial statements in Item 8).

For the year ended December 31, 2005, compared to the year ended December 31, 2004, general and administrative expenses increased \$15.4 million, or 19.9%. This increase was principally due to \$14.1 million in higher compensation related to increased staffing levels, increased health care costs, and transition costs associated with the chief financial and chief accounting officer positions. Additionally, in 2005 we accrued \$0.6 million in severance costs related to the restructuring of regional operating centers as a result of property dispositions.

Other Expenses (Income), Net

Other expenses (income), net includes income tax provision/benefit, franchise taxes, risk management activities related to our unconsolidated partnerships, partnership administration expenses and various other items.

For the year ended December 31, 2006, compared to the year ended December 31, 2005, other expenses (income), net increased by \$0.9 million, or 11.6%. This increase was primarily attributable to a \$4.9 million decrease in the income tax benefit for our continuing operations, reflecting smaller losses of our taxable REIT subsidiaries (see Note 9 to the consolidated financial statements in Item 8). The decrease was partially offset by net favorable legal settlements and adjustments to accruals for loss contingencies.

For the year ended December 31, 2005, compared to the year ended December 31, 2004, other expenses (income), net decreased by \$4.4 million, or 35.6%. This decrease was principally due to a \$9.5 million higher income tax benefit for our continuing operations, reflecting increased losses of our taxable REIT subsidiaries (see Note 9 to the consolidated financial statements in Item 8). The decrease in other expenses was partially offset by a \$3.8 million increase in partnership expenses, which was largely the result of higher professional fees, and other expenses increases and reclassifications.

Interest Income

Interest income consists primarily of interest on notes receivable from non-affiliates and unconsolidated real estate partnerships, interest on cash and restricted cash accounts, and accretion of discounts on certain notes receivable from unconsolidated real estate partnerships. Transactions that result in accretion occur infrequently and thus accretion income may vary from period to period.

For the year ended December 31, 2006, as compared to the year ended December 31, 2005, interest income increased \$1.3 million, or 4.2%. This increase reflects \$8.0 million in interest income on cash and restricted cash balances of newly consolidated properties, particularly properties consolidated as a result of adopting EITF 04-5 in 2006 (see *Adoption of EITF 04-5* in Note 2 the consolidated financial statements in Item 8). The increase also

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reflects a \$4.6 million increase in interest income related to increased balances of notes receivable from non-affiliates (see Note 5 to the consolidated financial statements in Item 8) and \$4.2 million of accretion income in connection with two property sales in 2006. These increases were largely offset by the elimination of \$14.0 million in interest income on notes receivable from real estate partnerships that were consolidated in 2006 in connection with the adoption of EITF 04-5.

For the year ended December 31, 2005, as compared to the year ended December 31, 2004, interest income decreased \$1.1 million, or 3.4%. This decrease was principally the result of a \$3.8 million reduction in accretion income, partially offset by higher interest income from money market and interest-bearing accounts due to increased interest rates and higher cash balances.

Interest Expense

For the year ended December 31, 2006, compared to the year ended December 31, 2005, interest expense, which includes the amortization of deferred financing costs, increased \$64.7 million, or 18.9%. This increase reflects \$35.4 million in interest expense of newly consolidated properties, particularly those consolidated as a result of adopting EITF 04-5 in 2006 (see *Adoption of EITF 04-5* in Note 2 the consolidated financial statements in Item 8). Additionally, interest expense on property debt increased by \$33.9 million due to higher interest rates on variable rate loans, higher average balances related to refinancings and acquisitions. These increases were partially offset by a \$6.9 million increase in capitalized interest, reflecting an increase in properties undergoing redevelopment and construction.

For the year ended December 31, 2005, compared to the year ended December 31, 2004, interest expense increased \$25.3 million, or 8.0%. This increase was principally due to interest on the additional debt related to acquisition and newly consolidated properties \$16.0 million and \$5.0 million, respectively, and a \$17.7 million increase due to higher borrowings and interest rates on variable rate debt. These increases were partially offset by \$4.8 million in lower amortization of loan costs, primarily due to corporate debt restructuring in 2005, \$8.6 million in higher capitalized interest due to increased redevelopment activity, and a \$2.1 million decrease related to the redemption of mandatorily redeemable preferred securities in 2004 and early 2005.

Deficit Distributions to Minority Partners

When real estate partnerships consolidated in our financial statements make cash distributions to partners in excess of the carrying amount of the minority interest, we record a charge equal to the excess amount, even though there is no economic effect or cost.

For the year ended December 31, 2006, as compared to the year ended December 31, 2005, deficit distributions to minority partners increased \$9.4 million, or 80.8%. This increase reflects higher levels of distributions to minority interests in 2006, including several large distributions in connection with debt refinancing transactions.

For the year ended December 31, 2005, as compared to the year ended December 31, 2004, deficit distributions to minority partners decreased \$5.8 million, or 33.1%. This decrease was due to reduced levels of distributions being made by our consolidated real estate partnerships as a result of lower refinancing activity, decreased operating results, and our increased ownership of certain partnerships.

Gain on Dispositions of Unconsolidated Real Estate and Other

Gain on dispositions of unconsolidated real estate and other includes our share of gains related to dispositions of real estate by unconsolidated real estate partnerships, gains on dispositions of investments in unconsolidated real estate

partnerships, gains on dispositions of land and other non-depreciable assets, and costs related to asset disposal activities. The amounts of reported gains reflect the changing level of our disposition activity and may vary from period to period. Losses incurred in connection with these transactions are reported separately as impairments.

For the year ended December 31, 2006, as compared to the year ended December 31, 2005, gain on dispositions of unconsolidated real estate and other increased \$15.6 million. This increase is primarily attributable to an \$11.0 million gain on the disposition of our interest in an unconsolidated joint venture that owned and operated several student housing properties and a \$9.0 million increase in gains on disposition of land and other non-

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depreciable assets. These increases were partially offset by a decrease in our share of gains on sales of real estate by unconsolidated partnerships.

For the year ended December 31, 2005, as compared to the year ended December 31, 2004, gain on dispositions of unconsolidated real estate and other decreased \$50.3 million. This decrease reflects a \$34.6 million gain on the sale of a parcel of land located in Florida and \$17.4 million representing our share of a gain from the sale of an unconsolidated core property, both of which occurred in 2004.

Minority Interest in Consolidated Real Estate Partnerships

Minority interest in consolidated real estate partnerships reflects minority partners' share of operating results of consolidated real estate partnerships. This generally includes the minority partners' share of property management fees, interest on notes and other amounts eliminated in consolidation that we charge to such partnerships. However, we generally do not recognize a benefit for the minority interest share of partnership losses for partnerships that have deficits in partners' equity.

For the year ended December 31, 2006, as compared to the year ended December 31, 2005, minority interest in consolidated real estate partnerships changed unfavorably by \$24.7 million. This change is primarily attributable to our recognition of \$25.0 million for minority partners' share of losses of partnerships with deficits in equity as a result of adopting EITF 04-5 in 2006 (see *Adoption of EITF 04-5* in Note 2 to the consolidated financial statements in Item 8). The change also reflects differences related to our revised accounting treatment for tax credit arrangements (see *Tax Credit Arrangements* in Note 2 to the consolidated financial statements in Item 8), including (i) the reversal in 2006 of a previously recognized benefit of \$9.0 million for losses of tax credit partnerships that were allocated to minority interests in prior years, but which are absorbed by us under our revised accounting treatment and (ii) a \$6.7 million benefit recognized in 2005 for losses allocated to minority interests in tax credit partnerships, while no comparable amount was recognized in 2006 under our revised accounting treatment. These unfavorable changes were partially offset by a \$16.0 million net increase in the minority interest share of other real estate partnership losses.

For the year ended December 31, 2005, as compared to the year ended December 31, 2004, the benefit from minority interest in consolidated real estate partnerships decreased \$9.6 million. This decrease was driven by general improvement in property operating results during 2005 as compared to 2004, which resulted in minority interests absorbing a lower amount of partnership losses.

Income from Discontinued Operations, Net

For properties accounted for as held for sale, the results of operations for properties sold during the period or designated as held for sale at the end of the period are generally required to be classified as discontinued operations for all periods presented. The components of net earnings that are classified as discontinued operations include all property-related revenues and operating expenses, depreciation expense recognized prior to the classification as held for sale, property-specific interest expense to the extent there is secured debt on the property, and any related minority interest. In addition, any impairment losses on assets held for sale, and the net gain on the eventual disposal of properties held for sale are reported in discontinued operations.

For the years ended December 31, 2006, 2005, and 2004, income from discontinued operations, net totaled \$219.5 million, \$94.1 million and \$209.7 million, respectively, which includes losses from operations of \$0.8 million and \$4.5 million in 2006 and 2005, respectively, and income from operations of \$5.4 million in 2004. For 2006, the income from operations included the operating results of 77 properties and one tower of the Flamingo South Beach property (the South Tower) that were sold during 2006. For 2005 and 2004, the income from operations included the operating results of 160 properties and 214 properties, respectively, that were sold or classified as held for sale in

2004, 2005 and 2006. Due to varying number of properties and the timing of sales, the income from operations is not comparable year to year.

During 2006, we sold 77 properties and the South Tower, resulting in a net gain on sale of approximately \$227.3 million (which is net of \$32.9 million of related income taxes). Additionally, we recognized \$0.4 million in impairment recoveries on assets sold in 2006 and \$15.9 million of net recoveries of deficit distributions to minority

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partners. During 2005, we sold 83 properties, resulting in a net gain on sale of approximately \$98.5 million (which is net of \$4.5 million of related income taxes). Additionally, we recognized \$3.8 million in impairment losses on assets sold or held for sale in 2005 and \$14.6 million of net recoveries of deficit distributions to minority partners. During 2004, we sold 54 properties, resulting in a net gain on sale of approximately \$233.3 million (which is net of \$16.0 million of related income taxes). Additionally, we recognized \$7.3 million in impairment losses on assets sold or held for sale in 2004 and \$3.2 million of net recoveries of deficit distributions to minority partners.

Changes in the level of gains recognized from period to period reflect the changing level of our disposition activity from period to period. Additionally, gains on properties sold are determined on an individual property basis or in the aggregate for a group of properties that are sold in a single transaction, and are not comparable period to period. See Note 13 of the consolidated financial statements in Item 8 for additional information on discontinued operations.

Cumulative Effect of Change in Accounting Principle

On March 31, 2004, we recorded a \$4.0 million cumulative effect of change in accounting principle related to the adoption of FIN 46. This charge is attributable to our recognition of cumulative losses allocable to minority interest that would otherwise have resulted in minority interest deficits. See Note 2 of the consolidated financial statements in Item 8 for further information.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates and assumptions. We believe that the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment of Long-Lived Assets

Real estate and other long-lived assets to be held and used are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows, excluding interest charges, of the property. If the carrying amount exceeds the aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property.

Real estate investments are subject to varying degrees of risk. Several factors may adversely affect the economic performance and value of our real estate investments. These factors include:

the general economic climate;

competition from other apartment communities and other housing options;

local conditions, such as loss of jobs or an increase in the supply of apartments, that might adversely affect apartment occupancy or rental rates;

changes in governmental regulations and the related cost of compliance;

increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;

changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing;

changes in market capitalization rates; and

the relative illiquidity of such investments.

Any adverse changes in these and other factors could cause an impairment in our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. Based on periodic tests of recoverability of long-lived assets, for the year ended December 31, 2005, we recorded impairment losses of \$3.4 million related to

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properties to be held and used. For the years ended December 31, 2006 and 2004, we determined that the carrying amount for our properties to be held and used was recoverable and, therefore, we did not record any impairment losses related to such properties.

Notes Receivable and Interest Income Recognition

Notes receivable from unconsolidated real estate partnerships consist primarily of notes receivable from partnerships in which we are the general partner. The ultimate repayment of these notes is subject to a number of variables, including the performance and value of the underlying real estate property and the claims of unaffiliated mortgage lenders. Our notes receivable include loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes, and loans extended by predecessors whose positions we generally acquired at a discount, which we refer to as discounted notes.

We record interest income on par value notes as earned in accordance with the terms of the related loan agreements. We discontinue the accrual of interest on such notes when the notes are impaired, as discussed below, or when there is otherwise significant uncertainty as to the collection of interest. We record income on such nonaccrual loans using the cost recovery method, under which we apply cash receipts first to the recorded amount of the loan; thereafter, any additional receipts are recognized as income.

We recognize interest income on discounted notes receivable based upon whether the amount and timing of collections are both probable and reasonably estimable. We consider collections to be probable and reasonably estimable when the borrower has entered into certain closed or pending transactions (which include real estate sales, refinancings, foreclosures and rights offerings) that provide a reliable source of repayment. In such instances, we recognize accretion income, on a prospective basis using the effective interest method over the estimated remaining term of the loans, equal to the difference between the carrying amount of the discounted notes and the estimated collectible value. We record income on all other discounted notes using the cost recovery method. Accretion income recognized in any given period is based on our ability to complete transactions to monetize the notes receivable and the difference between the carrying value and the estimated collectible value of the notes; therefore, accretion income varies on a period by period basis and could be lower or higher than in prior periods.

Allowance for Losses on Notes Receivable

We assess the collectibility of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. In certain instances where other sources of cash flow are available to repay the loan, the impairment is measured by discounting the estimated cash flows at the loan's original effective interest rate.

During the year ended December 31, 2006, we identified and recorded an impairment loss on notes receivable of \$2.8 million. For the years ended December 31, 2005 and 2004, we recorded net recoveries of \$1.4 million and \$1.8 million of previously recorded impairment losses on notes receivable, respectively. We will continue to evaluate the collectibility of these notes, and we will adjust related allowances in the future due to changes in market conditions and other factors.

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital expenditure activities, including redevelopment and construction projects, other tangible property improvements, and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital expenditure activities at the property level. We characterize as indirect costs an allocation of certain department costs, including payroll, at the regional operating center and corporate levels that clearly relate to capital expenditure activities. We capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects

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are in progress. Costs incurred in connection with capital expenditure activities are capitalized where the costs of the improvements or replacements exceed \$250. We charge to expense as incurred costs that do not relate to capital expenditure activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses. See *Capital Expenditures and Related Depreciation* in Note 2 to the consolidated financial statements in Item 8 for further information.

For the years ended December 31, 2006, 2005 and 2004, for continuing and discontinued operations, we capitalized \$24.7 million, \$18.1 million and \$9.5 million, respectively, of interest costs and \$66.2 million, \$53.3 million and \$46.7 million, respectively of site payroll and indirect costs.

Funds From Operations

Funds From Operations, or FFO, is a non-GAAP financial measure that we believe, when considered with the financial statements determined in accordance with GAAP, is helpful to investors in understanding our performance because it captures features particular to real estate performance by recognizing that real estate generally appreciates over time or maintains residual value to a much greater extent than do other depreciable assets such as machinery, computers or other personal property. The Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss), computed in accordance with GAAP, excluding gains from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. We compute FFO for all periods presented in accordance with the guidance set forth by NAREIT's April 1, 2002, White Paper, which we refer to as the White Paper. We calculate FFO (diluted) by subtracting redemption related preferred stock issuance costs and dividends on preferred stock and adding back dividends/distributions on dilutive preferred securities and interest expense on dilutive mandatorily redeemable convertible preferred securities. FFO should not be considered an alternative to net income or net cash flows from operating activities, as determined in accordance with GAAP, as an indication of our performance or as a measure of liquidity. FFO is not necessarily indicative of cash available to fund future cash needs. In addition, although FFO is a measure used for comparability in assessing the performance of real estate investment trusts, there can be no assurance that our basis for computing FFO is comparable with that of other real estate investment trusts.

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For the years ended December 31, 2006, 2005 and 2004, our FFO is calculated as follows (in thousands):

	2006	2005	2004
Net income (loss) attributable to common stockholders(1)	\$ 95,655	\$ (16,966)	\$ 174,693
Adjustments:			
Depreciation and amortization(2)	470,597	376,231	315,451
Depreciation and amortization related to non-real estate assets	(19,620)	(17,700)	(18,349)
Depreciation of rental property related to minority partners and unconsolidated entities(3)	(4,409)	(12,474)	(14,457)
Depreciation of rental property related to minority partners interest adjustment(4)	7,377		
Gain on dispositions of unconsolidated real estate and other	(34,567)	(18,958)	(69,294)
Gain on dispositions of non-depreciable assets	11,525	2,480	38,977
Deficit distributions to minority partners(5)	21,004	11,615	17,374
Cumulative effect of change in accounting principle			3,957
Discontinued operations:			
Gain on dispositions of real estate, net of minority partners interest(3)	(260,206)	(102,972)	(249,353)
Depreciation of rental property, net of minority partners interest(3)	16,910	51,897	59,297
Recovery of deficit distributions to minority partners, net(5)	(15,927)	(14,604)	(3,231)
Income tax arising from disposals	32,918	4,481	16,015
Minority interest in Aimco Operating Partnership's share of above adjustments	(21,721)	(28,382)	(10,289)
Preferred stock dividends	74,284	86,825	85,315
Redemption related preferred stock issuance costs	6,848	1,123	3,489
Funds From Operations	\$ 380,668	\$ 322,596	\$ 349,595
Preferred stock dividends	(74,284)	(86,825)	(85,315)
Redemption related preferred stock issuance costs	(6,848)	(1,123)	(3,489)
Dividends/distributions on dilutive preferred securities	202	168	2,798
Funds From Operations attributable to common stockholders diluted	\$ 299,738	\$ 234,816	\$ 263,589
Weighted average number of common shares, common share equivalents and dilutive preferred securities outstanding:			
Common shares and equivalents(6)	98,451	94,465	93,252
Dilutive preferred securities	71	74	1,106
Total	98,522	94,539	94,358

Notes:

- (1) Represents the numerator for earnings per common share, calculated in accordance with GAAP. Based on circumstances and analysis that occurred after the date of our Fourth Quarter 2006 Earnings Release, we

recorded a \$2.9 million cumulative adjustment for the year ended December 31, 2006, which adjustment was based on an alternative valuation methodology and revised assumptions for certain High Performance Units of the Aimco Operating Partnership. As a result of this adjustment and the related impact on minority interest in the Aimco Operating Partnership, our net income attributable to common stockholders and Funds From Operations for the year ended December 31, 2006, is approximately \$2.6 million lower than the corresponding amounts previously reported in our Fourth Quarter 2006 Earnings Release. See *High Performance Units* in Note 10 to the consolidated financial statements in Item 8.

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- (2) Includes amortization of management contracts where we are the general partner. Such management contracts were established in certain instances where we acquired a general partner interest in either a consolidated or an unconsolidated partnership. Because the recoverability of these management contracts depends primarily on the operations of the real estate owned by the limited partnerships, we believe it is consistent with the White Paper to add back such amortization, as the White Paper directs the add-back of amortization of assets uniquely significant to the real estate industry.
- (3) Minority partners' interest, means minority interest in our consolidated real estate partnerships.
- (4) Represents prior period depreciation of certain tax credit redevelopment properties that Aimco included in an adjustment to minority interest in real estate partnerships for the year ended December 31, 2006 (See *Tax Credit Arrangements* in Note 2 to the consolidated financial statements). This prior period depreciation is added back to determine FFO in accordance with the NAREIT White Paper.
- (5) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our income statement when cash is distributed to a non-controlling partner in a consolidated real estate partnership in excess of the positive balance in such partner's capital account, which is classified as minority interest on our balance sheet. We record these charges for GAAP purposes even though there is no economic effect or cost. Deficit distributions to minority partners occur when the fair value of the underlying real estate exceeds its depreciated net book value because the underlying real estate has appreciated or maintained its value. As a result, the recognition of expense for deficit distributions to minority partners represents, in substance, either (a) our recognition of depreciation previously allocated to the non-controlling partner or (b) a payment related to the non-controlling partner's share of real estate appreciation. Based on White Paper guidance that requires real estate depreciation and gains to be excluded from FFO, we add back deficit distributions and subtract related recoveries in our reconciliation of net income to FFO.
- (6) Represents the denominator for earnings per common share—diluted, calculated in accordance with GAAP, plus additional common share equivalents that are dilutive for FFO.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through the sale or maturity of existing assets or by the acquisition of additional funds through working capital management. Both the coordination of asset and liability maturities and effective working capital management are important to the maintenance of liquidity. Our primary source of liquidity is cash flow from our operations. Additional sources are proceeds from property sales and proceeds from refinancings of existing mortgage loans and borrowings under new mortgage loans.

Our principal uses for liquidity include normal operating activities, payments of principal and interest on outstanding debt, capital expenditures, dividends paid to stockholders and distributions paid to partners, and acquisitions of, and investments in, properties. We use our cash and cash equivalents and our cash provided by operating activities to meet short-term liquidity needs. In the event that our cash and cash equivalents and our cash provided by operating activities is not sufficient to cover our short-term liquidity demands, we have additional means, such as short-term borrowing availability and proceeds from property sales and refinancings, to help us meet our short-term liquidity demands. We use our revolving credit facility for general corporate purposes and to fund investments on an interim basis. We expect to meet our long-term liquidity requirements, such as debt maturities and property acquisitions, through long-term borrowings, both secured and unsecured, the issuance of debt or equity securities (including OP Units), the sale of properties and cash generated from operations.

At December 31, 2006, we had \$229.8 million in cash and cash equivalents, an increase of \$68.1 million from December 31, 2005. This increase reflects cash balances of newly consolidated properties and proceeds from sales and refinancing transactions that had not been distributed or applied to the outstanding balance of the revolving credit facility (see Note 8 to the consolidated financial statements in Item 8). At December 31, 2006, we had \$347.5 million of restricted cash, primarily consisting of reserves and escrows held by lenders for bond sinking funds, capital expenditures, property taxes and insurance. In addition, cash, cash equivalents and restricted cash are held by partnerships that are not presented on a consolidated basis. The following discussion relates to changes in

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cash due to operating, investing and financing activities, which are presented in our consolidated statements of cash flows in Item 8.

Operating Activities

For the year ended December 31, 2006, our net cash provided by operating activities of \$532.3 million was primarily from operating income from our consolidated properties, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of properties. Cash provided by operating activities increased \$176.7 million compared with the year ended December 31, 2005, driven by an increase in net income and changes in operating assets and liabilities. The changes in operating assets and liabilities were primarily due to a decrease in restricted cash, net of an increase in restricted cash from newly consolidated properties, and an increase in deferred revenues.

Investing Activities

For the year ended December 31, 2006, our net cash provided by investing activities of \$233.0 million primarily resulted from proceeds received from the sales of properties, partially offset by originations of notes receivable relating to the West Harlem transaction, investments in our existing real estate assets through capital spending as well as the acquisition of nine properties (see Note 3 to the consolidated financial statements in Item 8 for further information on acquisitions).

Although we hold all of our properties for investment, we sell properties when they do not meet our investment criteria or are located in areas that we believe do not justify our continued investment when compared to alternative uses for our capital. During the year ended December 31, 2006, we sold 77 consolidated properties and the South Tower of the Flamingo South Beach property. These properties and the South Tower were sold for an aggregate sales price of \$1,110.7 million and generated proceeds totaling \$958.6 million, after the payment of transaction costs and the assumption of debt. Sales proceeds were used to repay a portion of our outstanding short-term indebtedness and for other corporate purposes.

We are currently marketing for sale certain properties that are inconsistent with our long-term investment strategy. Additionally, from time to time, we may market certain properties that are consistent with our long-term investment strategy but offer attractive returns, such as sales to buyers who intend to convert the properties to condominiums. Gross sales proceeds from 2007 dispositions are expected to be \$400 million to \$600 million, and we plan to use our share of the net proceeds from such dispositions to reduce debt, fund capital expenditures on existing assets, fund property and partnership acquisitions, potentially repurchase Common Stock and for other operating needs and corporate purposes.

Capital Expenditures

We classify all capital spending as Capital Replacements (which we refer to as CR), Capital Improvements (which we refer to as CI), casualties or redevelopment. Non-redevelopment and non-casualty capitalizable expenditures are apportioned between CR and CI based on the useful life of the capital item under consideration and the period we have owned the property (i.e., the portion that was consumed during our ownership of the item represents CR; the portion of the item that was consumed prior to our ownership represents CI).

For the year ended December 31, 2006, we spent a total of \$76.6 million on CR. These are expenditures that represent the share of expenditures that are deemed to replace the consumed portion of acquired capital assets. For the year ended December 31, 2006, we spent a total of \$99.2 million, \$35.8 million and \$230.8 million, respectively, on CI, casualties and redevelopment. CI expenditures represent all non-redevelopment and non-casualty capital expenditures

that are made to enhance the value, profitability or useful life of an asset from its original purchase condition. Casualty expenditures represent capitalized costs incurred in connection with casualty losses and are associated with the restoration of the asset. A portion of the restoration costs may be reimbursed by insurance carriers subject to deductibles associated with each loss. Redevelopment expenditures represent expenditures that substantially upgrade the property.

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The table below details our share of actual spending, on both consolidated and unconsolidated real estate partnerships, for CR, CI, casualties and redevelopment for the year ended December 31, 2006 on a per unit and total dollar basis (based on approximately 143,054 ownership equivalent units (excluding non-managed units) weighted for the portion of the period that we owned the property), and reconciles it to our consolidated statement of cash flows for the same period (in thousands, except per unit amounts).

	Actual Cost	Cost Per Unit
Capital Replacements Detail:		
Building and grounds	\$ 24,997	\$ 175
Turnover related	40,002	279
Includes: carpet, vinyl, tile, appliance, and fixture replacements		
Capitalized site payroll and indirect costs	11,600	81
Our share of Capital Replacements	\$ 76,599	\$ 535
Capital Replacements:		
Conventional	\$ 69,202	
Affordable	7,397	
Our share of Capital Replacements	76,599	
Capital Improvements:		
Conventional	83,138	
Affordable	16,108	
Our share of Capital Improvements	99,246	
Casualties:		
Conventional	29,756	
Affordable	6,088	
Our share of casualties	35,844	
Redevelopment:		
Conventional	177,902	
Affordable	52,944	
Our share of redevelopment	230,846	
Our share of capital expenditures	442,535	
Plus minority partners' share of consolidated spending	73,027	
Less our share of unconsolidated spending	(2,998)	
Total capital expenditures per consolidated statement of cash flows	\$ 512,564	

Included in the above spending for CI, casualties and redevelopment, was approximately \$54.8 million of our share of capitalized site payroll and indirect costs related to these activities for the year ended December 31, 2006.

We funded all of the above capital expenditures with cash provided by operating activities, working capital, property sales and borrowings under the revolving credit facility.

Financing Activities

For the year ended December 31, 2006, net cash used in financing activities of \$697.2 million primarily related to repayments of property loans, redemptions of Class Q Cumulative Preferred Stock, Class R Cumulative Preferred Stock and Class X Cumulative Convertible Preferred Stock, Common Stock and preferred stock dividends, distributions to minority interests, and repurchases of Common Stock. Proceeds from property loans, issuance of preferred stock and stock option exercises partially offset the cash outflow.

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Mortgage Debt

At December 31, 2006 and 2005, we had \$6.3 billion and \$5.7 billion, respectively, in consolidated mortgage debt outstanding, which included zero and \$384.3 million, respectively, of mortgage debt classified within liabilities related to assets held for sale. During the year ended December 31, 2006, we refinanced or closed mortgage loans on 66 consolidated properties generating \$1,224.6 million of proceeds from borrowings with a weighted average interest rate of 5.66%. Our share of the net proceeds after repayment of existing debt, payment of transaction costs and distributions to limited partners, was \$589.4 million. We used these total net proceeds for capital expenditures and other corporate purposes. We intend to continue to refinance mortgage debt to generate proceeds in amounts exceeding our scheduled amortizations and maturities.

Revolving Credit Facility and Term Loans

We have an Amended and Restated Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement. On March 22, 2006, we amended various terms in our Credit Agreement, including the ability to request an increase in the aggregate commitments (which may be revolving or term loan commitments) by an amount not to exceed \$150 million; a reduction in the interest rate spread applicable to revolving loans to LIBOR plus a margin that can range from 1.125% to 1.75%; a reduction in the interest rate spread applicable to letters of credit; a reduction in the spread applicable to term loans to LIBOR plus 1.5%; and an extension of the maturity dates from November 2, 2007, to May 1, 2009, for the revolver and from November 2, 2009, to March 22, 2011, for the term loans.

The aggregate amount of commitments and loans under the Credit Agreement is \$850.0 million, comprised of \$400.0 million in term loans and \$450.0 million of revolving loan commitments. At December 31, 2006, the term loans had an outstanding principal balance of \$400.0 million and an interest rate of 6.91%. At December 31, 2006, the revolving loans had an outstanding principal balance of \$140.0 million and a weighted average interest rate of 6.725% (based on various weighted average LIBOR borrowings outstanding with various maturities). The amount available under the revolving credit facility at December 31, 2006, was \$277.3 million (after giving effect to \$32.7 million outstanding for undrawn letters of credit issued under the revolving credit facility). The proceeds of revolving loans are generally permitted to be used to fund working capital and for other corporate purposes. For more information, see Note 7 of the consolidated financial statements in Item 8.

Equity Transactions

During the year ended December 31, 2006, we redeemed all outstanding shares of our 10.0% Class R Cumulative Preferred Stock for \$173.5 million, all outstanding shares of our 10.1% Class Q Cumulative Preferred Stock for \$63.3 million, and all outstanding shares of our 8.5% Class X Cumulative Convertible Preferred Stock for \$50.0 million. On June 29, 2006, we sold 200 shares of Series A Community Reinvestment Act Perpetual Preferred Stock, \$0.01 par value per share, which we refer to as the CRA Preferred Stock, with a liquidation preference of \$500,000 per share, for net proceeds of approximately \$97.5 million. See *Preferred Stock* in Note 11 to the consolidated financial statements in Item 8 for additional information about our preferred stock transactions during 2006.

Under our shelf registration statement, as of December 31, 2006 we had available for issuance approximately \$877 million of debt and equity securities and the Aimco Operating Partnership had available for issuance \$500 million of debt securities.

Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. During the year ended December 31, 2006, we repurchased approximately 2.3 million shares of Common Stock for cash totaling approximately \$120.3 million. Currently, we are authorized to repurchase up to an additional 5.7 million shares of our Common Stock under an authorization that has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

Table of Contents**Contractual Obligations**

This table summarizes information contained elsewhere in this Annual Report regarding payments due under contractual obligations and commitments as of December 31, 2006 (amounts in thousands):

	Total	Less than One Year	1-3 Years	3-5 Years	More than 5 Years
Scheduled long-term debt maturities	\$ 6,332,753	\$ 449,848	\$ 1,077,408	\$ 847,195	\$ 3,958,302
Secured credit facility and term loans	540,000		140,000	400,000	
Redevelopment and other construction commitments	146,655	106,319	40,336		
Leases for space occupied	39,804	8,270	13,763	9,126	8,645
Other obligations(1)	16,900	16,900			
Total	\$ 7,076,112	\$ 581,337	\$ 1,271,507	\$ 1,256,321	\$ 3,966,947

(1) Includes a commitment to fund \$14.4 million in second mortgage loans on certain properties in West Harlem, New York City and the final \$2.5 million development fee payment to Casden Properties, LLC as a retainer on account for redevelopment services.

In addition, we may enter into commitments to purchase goods and services in connection with the operations of our properties. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

Future Capital Needs

In addition to the items set forth in *Contractual Obligations* above, we expect to fund any future acquisitions, additional redevelopment projects and capital improvements principally with proceeds from property sales (including tax-free exchange proceeds), short-term borrowings, debt and equity financings and operating cash flows.

In 2007, we plan to invest between \$275 and \$325 million in conventional redevelopment projects that will impact approximately 79 properties with over 30,000 units. Additionally, in 2007 redevelopment expenditures on affordable properties will be approximately \$36 million, predominantly funded by third-party tax credit equity, impacting more than 15 properties with more than 1,800 units.

Off-Balance Sheet Arrangements

We own general and limited partner interests in unconsolidated real estate partnerships, in which our total ownership interests range typically from less than 1% up to 50%. However, based on the provisions of the relevant partnership agreements, we are not deemed to have control of these partnerships sufficient to require or permit consolidation for accounting purposes (see Note 2 of the consolidated financial statements in Item 8). There are no lines of credit, side agreements, or any other derivative financial instruments related to or between our unconsolidated real estate

partnerships and us and no material exposure to financial guarantees. Accordingly, our maximum risk of loss related to these unconsolidated real estate partnerships is limited to the aggregate carrying amount of our investment in the unconsolidated real estate partnerships and any outstanding notes receivable as reported in our consolidated financial statements. See Note 4 of the consolidated financial statements in Item 8 for additional information about our investments in unconsolidated real estate partnerships.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Our primary market risk exposure relates to changes in interest rates. We are not subject to any foreign currency exchange rate risk or commodity price risk, or any other material market rate or price risks. We use predominantly long-term, fixed-rate non-recourse mortgage debt in order to avoid the refunding and repricing risks of short-term borrowings. We use short-term debt financing and working capital primarily to fund short-term uses

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and acquisitions and generally expect to refinance such borrowings with cash from operating activities, property sales proceeds, long-term debt or equity financings.

We had \$1,663.4 million of floating rate debt outstanding at December 31, 2006. Of the total floating rate debt, the major components were floating rate tax-exempt bond financing (\$640.6 million), floating rate secured notes (\$482.8 million), revolving loans (\$140.0 million), and term loans (\$400.0 million). Historically, changes in tax-exempt interest rates have been at a ratio of less than 1:1 with changes in taxable interest rates. Floating rate tax-exempt bond financing is benchmarked against the BMA Index, which since 1981 has averaged 68% of the 30-day LIBOR rate. If this relationship continues, an increase in 30-day LIBOR of 1.0% (0.68% in tax-exempt interest rates) would result in our income before minority interests and cash flows being reduced by \$14.6 million on an annual basis. This would be offset by variable rate interest income earned on certain assets, including cash and cash equivalents and notes receivable, as well as interest that is capitalized on a portion of this variable rate debt incurred in connection with our redevelopment activities. Considering these offsets, the same increase in 30-day LIBOR would result in our income before minority interests and cash flows being reduced by \$4.4 million on an annual basis. Comparatively, if 30-day LIBOR had increased by 1% in 2005, our income before minority interests and cash flows, after considering such offsets, would have been reduced by \$8.5 million on an annual basis. The potential reduction of income before minority interests was lower in 2006 as compared to 2005 primarily due to lower floating rate balances resulting from the sale of several properties that were encumbered by variable rate mortgages and the refinancing of existing variable rate mortgages.

We believe that the fair value of our floating rate secured tax-exempt bond debt and floating rate secured long-term debt as of December 31, 2006, approximate their carrying values. The fair value for our fixed-rate debt agreements was estimated based on the market rate for debt with the same or similar terms. The combined carrying amount of our fixed-rate secured tax-exempt bonds and fixed-rate secured notes payable at December 31, 2006 was \$5.1 billion compared to the estimated fair value of \$5.3 billion (see Note 2 to the consolidated financial statements in Item 8). If market rates for our fixed-rate debt were higher by 1%, the estimated fair value of our fixed-rate debt would have decreased from \$5.3 billion to \$5.0 billion. If market rates for our fixed-rate debt were lower by 1%, the estimated fair value of our fixed-rate debt would have increased from \$5.3 billion to \$5.6 billion.

Item 8. *Financial Statements and Supplementary Data*

The independent registered public accounting firm's report, consolidated financial statements and schedule listed in the accompanying index are filed as part of this report and incorporated herein by this reference. See Index to Financial Statements on page F-1 of this Annual Report.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

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Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are adequate.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on their assessment, management concluded that, as of December 31, 2006, our internal control over financial reporting is effective.

Our independent registered public accounting firm has issued an audit report on management's assessment of our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act) during fourth quarter 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors of Apartment Investment and Management Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Apartment Investment and Management Company (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Apartment Investment and Management Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Apartment Investment and Management Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Apartment Investment and Management Company as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2007

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Item 9B. *Other Information*

Fourth Amended and Restated Agreement of Limited Partnership of the Aimco Operating Partnership

On February 28, 2007, AIMCO-GP, Inc., the general partner of the Aimco Operating Partnership amended and restated the Third Amended and Restated Agreement of Limited Partnership, as amended to date. AIMCO-GP, Inc. determined that the Fourth Amended and Restated Agreement of Limited Partnership includes only such amendments as are permitted to be effected by AIMCO-GP, Inc. as the general partner pursuant to the terms of the partnership agreement.

Amendment to Purchase and Sale Agreement for Flamingo South Beach Property

On February 17, 2006, we closed the sale of a portion of the Flamingo South Beach property known as the South Tower. The South Tower sale price was \$163.5 million and included 562 residential units and our rights to the property's marina. Additionally, the buyer paid \$5 million (which is non-refundable) for the option to purchase the 614-unit North Tower for \$169 million between September 1, 2006, and February 28, 2007 (subject to the right to extend for up to six months subject to certain conditions), and the option to purchase the 513-unit Central Tower, along with the remainder of improvements on the property, for \$267.5 million between December 1, 2007, and May 31, 2008 (subject to the right to extend for up to four months subject to certain conditions and provided that the buyer has previously purchased the North Tower). The agreement also granted us a \$19.8 million profit participation interest in the buyer's proposed condominium conversion after certain development fees and certain returns on the buyer's equity have been achieved, plus twenty percent of the buyer's net profits thereafter. On February 23, 2007, we amended the related purchase and sale agreement. The amendment gives the buyer the right to commence a marketing and sales program at the North Tower with respect to its planned condominium conversion; extends the option period for the North Tower to October 31, 2007, and extends the outside closing date to December 31, 2007. In order to extend the option period to October 31, 2007, the buyer must deliver notice by May 1, 2007, along with a \$1 million non-refundable deposit. The parties entered into a revenue guarantee with respect to the North Tower whereby the buyer will pay any shortfall between actual revenue and budgeted revenue. In addition, the amendment reduced the profit participation interest to \$14.8 million and, in exchange for that reduction and the buyer's right to commence marketing and extend the closing date, the buyer has agreed to pay amounts totaling \$5.0 million at the earlier of closing or at the time the buyer fails to exercise the purchase option on the North Tower.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item is presented under the captions Board of Directors and Officers, Corporate Governance Matters Code of Ethics, Other Matters Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Matters Nominating and Corporate Governance Committee, Corporate Governance Matters Audit Committee, and Corporate Governance Matters Audit Committee Financial Expert in the proxy statement for our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this item is presented under the captions Compensation Discussion and Analysis, Compensation and Human Resources Committee Report to Stockholders, Summary Compensation Table, Grants of Plan-Based Awards, Outstanding Equity Awards at Fiscal Year End, Option Exercises and Stock Vested, Potential

Payments Upon Termination or Change in Control, Corporate Governance Matters Director Compensation, and Corporate Governance Matters Compensation and Human Resources Committee Interlocks and Insider Participation, in the proxy statement for our 2007 annual meeting of stockholders and is incorporated herein by reference.

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Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is presented under the captions Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance Under Equity Compensation Plans in the proxy statement for our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is presented under the caption Certain Relationships and Related Transactions and Corporate Governance Matters Independence of Directors in the proxy statement for our 2007 annual meeting of stockholders and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is presented under the caption Principal Accountant Fees and Services in the proxy statement for our 2007 annual meeting of stockholders and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The financial statements listed in the Index to Financial Statements on Page F-1 of this report are filed as part of this report and incorporated herein by reference.

(a)(2) The financial statement schedule listed in the Index to Financial Statements on Page F-1 of this report is filed as part of this report and incorporated herein by reference.

(a)(3) The Exhibit Index is incorporated herein by reference.

INDEX TO EXHIBITS(1)(2)

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of December 3, 2001, by and among Apartment Investment and Management Company, Casden Properties, Inc. and XYZ Holdings LLC (Exhibit 2.1 to Aimco's Current Report on Form 8-K, filed December 6, 2001, is incorporated herein by this reference)
3.1	Charter (Exhibit 3.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, is incorporated herein by this reference)
3.2	Bylaws (Exhibit 3.2 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, is incorporated herein by this reference)
10.1	Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of July 29, 1994 as amended and restated as of February 28, 2007
10.2	Amended and Restated Secured Credit Agreement, dated as of November 2, 2004, by and among Aimco, AIMCO Properties, L.P., AIMCO/Bethesda Holdings, Inc., and NHP Management Company as the borrowers and Bank of America, N.A., Keybank National Association, and the Lenders listed therein (Exhibit 4.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, is incorporated herein by this reference)
10.3	First Amendment to Amended and Restated Secured Credit Agreement, dated as of June 16, 2005, by and among Aimco, AIMCO Properties, L.P., AIMCO/Bethesda Holdings, Inc., and NHP Management Company as the borrowers and Bank of America, N.A., Keybank National Association, and the Lenders listed therein (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated June 16, 2005, is incorporated herein by this reference)
10.4	Second Amendment to Amended and Restated Senior Secured Credit Agreement, dated as of March 22, 2006, by and among Aimco, AIMCO Properties, L.P., and AIMCO/Bethesda Holdings, Inc., as the borrowers, and Bank of America, N.A., Keybank National Association, and the lenders listed therein (Exhibit 10.1 to Aimco's Current Report on Form 10-K, dated March 22, 2006, is incorporated herein by this reference)
10.5	Master Indemnification Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., XYZ Holdings LLC, and the other parties signatory thereto (Exhibit 2.3 to Aimco's Current Report on Form 8-K, filed December 6, 2001, is incorporated herein by this reference)
10.6	Tax Indemnification and Contest Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, National Partnership Investments, Corp., and XYZ Holdings

LLC and the other parties signatory thereto (Exhibit 2.4 to Aimco's Current Report on Form 8-K, filed December 6, 2001, is incorporated herein by this reference)

- 10.7 Limited Liability Company Agreement of AIMCO JV Portfolio #1, LLC dated as of December 30, 2003 by and among AIMCO BRE I, LLC, AIMCO BRE II, LLC and SRV-AJVP#1, LLC (Exhibit 10.54 to Aimco's Annual Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference)

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Exhibit No.	Description
10.8	Employment Contract executed on July 29, 1994 by and between AIMCO Properties, L.P. and Terry Considine (Exhibit 10.44C to Aimco's Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by this reference)*
10.9	Apartment Investment and Management Company 1997 Stock Award and Incentive Plan (October 1999) (Exhibit 10.26 to Aimco's Annual Report on Form 10-K for the year ended December 31, 1999, is incorporated herein by this reference)*
10.10	Form of Restricted Stock Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.11 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, is incorporated herein by this reference)*
10.11	Form of Incentive Stock Option Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.42 to Aimco's Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by this reference)*
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Agreement re: disclosure of long-term debt instruments

(1) Schedule and supplemental materials to the exhibits have been omitted but will be provided to the Securities and Exchange Commission upon request.

(2) The file reference number for all exhibits is 001-13232, and all such exhibits remain available pursuant to the Records Control Schedule of the Securities and Exchange Commission.

* Management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of March 2007.

Apartment Investment and
Management Company

/s/ Terry Considine

Terry Considine
*Chairman of the Board,
Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Terry Considine Terry Considine	Chairman of the Board, Chief Executive Officer and President (principal executive officer)	March 1, 2007
/s/ Thomas M. Herzog Thomas M. Herzog	Executive Vice President and Chief Financial Officer (principal financial officer)	March 1, 2007
/s/ Scott W. Fordham Scott W. Fordham	Senior Vice President and Chief Accounting Officer (principal accounting officer)	March 1, 2007
/s/ James N. Bailey James N. Bailey	Director	March 1, 2007
/s/ Richard S. Ellwood Richard S. Ellwood	Director	March 1, 2007
/s/ J. Landis Martin J. Landis Martin	Director	March 1, 2007
/s/ Thomas L. Rhodes Thomas L. Rhodes	Director	March 1, 2007
/s/ Michael A. Stein Michael A. Stein	Director	March 1, 2007

Michael A. Stein

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

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<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-8
Financial Statement Schedule:	
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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto	

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors Apartment Investment and Management Company

We have audited the accompanying consolidated balance sheets of Apartment Investment and Management Company as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the accompanying Index to Financial Statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apartment Investment and Management Company at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted the provisions of Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Apartment Investment and Management Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 26, 2007

Table of Contents**APARTMENT INVESTMENT AND MANAGEMENT COMPANY****CONSOLIDATED BALANCE SHEETS****As of December 31, 2006 and 2005****(In thousands, except share data)**

	2006	2005
ASSETS		
Real estate:		
Buildings and improvements	\$ 9,561,537	\$ 8,002,413
Land	2,420,948	2,196,111
Total real estate	11,982,485	10,198,524
Less accumulated depreciation	(2,901,267)	(2,009,286)
Net real estate	9,081,218	8,189,238
Cash and cash equivalents	229,824	161,730
Restricted cash	347,506	283,684
Accounts receivable	85,772	59,889
Accounts receivable from affiliates	20,763	43,070
Deferred financing costs	73,749	63,738
Notes receivable from unconsolidated real estate partnerships	40,641	177,200
Notes receivable from non-affiliates	139,352	23,760
Investment in unconsolidated real estate partnerships	39,000	173,437
Other assets	231,950	211,245
Deferred income tax assets, net		9,835
Assets held for sale		622,334
Total assets	\$ 10,289,775	\$ 10,019,160
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	\$ 936,082	\$ 995,897
Property loans payable	5,329,011	4,320,688
Term loans	400,000	400,000
Credit facility	140,000	217,000
Other borrowings	67,660	88,272
Total indebtedness	6,872,753	6,021,857
Accounts payable	54,972	34,381
Accrued liabilities and other	410,071	335,363
Deferred income	165,684	46,466
Security deposits	44,428	36,767
Deferred income tax liabilities, net	4,379	
Liabilities related to assets held for sale		392,815
Total liabilities	7,552,287	6,867,649

Minority interest in consolidated real estate partnerships	212,149	217,679
Minority interest in Aimco Operating Partnership	185,447	217,729
Stockholders' equity:		
Preferred Stock, perpetual	723,500	860,250
Preferred Stock, convertible	100,000	150,000
Class A Common Stock, \$.01 par value, 426,157,976 shares authorized, 96,820,252 and 95,732,200 shares issued and outstanding, at December 31, 2006 and 2005, respectively	968	957
Additional paid-in capital	3,095,430	3,081,706
Notes due on common stock purchases	(4,714)	(25,911)
Distributions in excess of earnings	(1,575,292)	(1,350,899)
Total stockholders' equity	2,339,892	2,716,103
Total liabilities and stockholders' equity	\$ 10,289,775	\$ 10,019,160

See notes to consolidated financial statements.

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Table of Contents**APARTMENT INVESTMENT AND MANAGEMENT COMPANY**

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2006, 2005 and 2004
(In thousands, except per share data)

	2006	2005	2004
REVENUES:			
Rental and other property revenues	\$ 1,629,988	\$ 1,346,587	\$ 1,211,865
Property management revenues, primarily from affiliates	12,312	24,528	32,461
Activity fees and asset management revenues	48,694	37,349	34,879
Total revenues	1,690,994	1,408,464	1,279,205
OPERATING EXPENSES:			
Property operating expenses	758,128	633,984	567,937
Property management expenses	4,912	7,361	9,789
Activity and asset management expenses	9,521	10,628	11,879
Depreciation and amortization	470,597	376,231	315,451
General and administrative expenses	101,702	92,826	77,424
Other expenses (income), net	8,981	8,046	12,490
Total operating expenses	1,353,841	1,129,076	994,970
Operating income	337,153	279,388	284,235
Interest income	32,315	31,001	32,101
Recovery of (provision for) losses on notes receivable	(2,785)	1,365	1,765
Interest expense	(408,075)	(343,335)	(318,006)
Deficit distributions to minority partners	(21,004)	(11,615)	(17,374)
Equity in losses of unconsolidated real estate partnerships	(2,070)	(3,139)	(1,768)
Real estate impairment (losses) recoveries, net	813	(6,120)	(3,426)
Gain on dispositions of unconsolidated real estate and other	34,567	18,958	69,294
Income (loss) before minority interests, discontinued operations and cumulative effect of change in accounting principle	(29,086)	(33,497)	46,821
Minority interests:			
Minority interest in consolidated real estate partnerships	(19,628)	5,065	14,630
Minority interest in Aimco Operating Partnership, preferred	(7,153)	(7,226)	(7,858)
Minority interest in Aimco Operating Partnership, common	13,193	12,535	4,192
Total minority interests	(13,588)	10,374	10,964
Income (loss) from continuing operations	(42,674)	(23,123)	57,785
Income from discontinued operations, net	219,461	94,105	209,669
Income before cumulative effect of change in accounting principle	176,787	70,982	267,454
Cumulative effect of change in accounting principle			(3,957)

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Net income	176,787	70,982	263,497
Net income attributable to preferred stockholders	81,132	87,948	88,804
Net income (loss) attributable to common stockholders	\$ 95,655	\$ (16,966)	\$ 174,693
Earnings (loss) per common share basic:			
Loss from continuing operations (net of preferred dividends)	\$ (1.29)	\$ (1.18)	\$ (0.33)
Income from discontinued operations	2.29	1.00	2.25
Cumulative effect of change in accounting principle			(0.04)
Net income (loss) attributable to common stockholders	\$ 1.00	\$ (0.18)	\$ 1.88
Earnings (loss) per common share diluted:			
Loss from continuing operations (net of preferred dividends)	\$ (1.29)	\$ (1.18)	\$ (0.33)
Income from discontinued operations	2.29	1.00	2.25
Cumulative effect of change in accounting principle			(0.04)
Net income (loss) attributable to common stockholders	\$ 1.00	\$ (0.18)	\$ 1.88
Weighted average common shares outstanding	95,758	93,894	93,118
Weighted average common shares and equivalents outstanding	95,758	93,894	93,118
Dividends declared per common share	\$ 2.40	\$ 3.00	\$ 2.40

See notes to consolidated financial statements.

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Table of Contents**APARTMENT INVESTMENT AND MANAGEMENT COMPANY****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

For the Years Ended December 31, 2006, 2005 and 2004

(In thousands)

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Notes Due on Common Stock Purchases	Distributions in Excess of Earnings	Total
	Shares Issued	Amount	Shares Issued	Amount				
Balances at December 31, 2003	32,125	\$ 855,242	93,887	\$ 939	\$ 3,042,540	\$ (40,046)	\$ (998,018)	\$ 2,860,657
Issuance of Preferred Stock	18,805	372,500			(12,828)			359,672
Redemption of Preferred Stock	(11,355)	(186,242)			3,638		(3,489)	(186,093)
Conversion of Aimco Operating Partnership units to Common Stock			743	7	23,574			23,581
Conversion of mandatorily redeemable convertible preferred stock to Common Stock			2		100			100
Repurchases of Common Stock			(397)	(4)	(12,594)			(12,598)
Repayment of notes receivable from officers Casden acquisition contingent consideration adjustment						4,639		4,639
			550	6	(4,848) 2,363	(1,318)		(4,848) 1,051

Officer and employee stock awards and purchases, net								
Stock options exercised		69	1		1,882			1,883
Amortization of stock option and restricted stock compensation cost					6,506			6,506
Net income							263,497	263,497
Common Stock dividends							(225,903)	(225,903)
Preferred Stock dividends							(83,984)	(83,984)
Balances at December 31, 2004	39,575	1,041,500	94,854	949	3,050,333	(36,725)	(1,047,897)	3,008,160
Redemption of Preferred Stock	(1,250)	(31,250)			1,123		(1,123)	(31,250)
Conversion of Aimco Operating Partnership units to Common Stock			426	4	16,890			16,894
Preferred Stock issuance costs					(409)			(409)
Repayment of notes receivable from officers							12,255	12,255
Officer and employee stock awards and purchases, net			379	4	2,219	(1,441)		782
Stock options exercised			65		2,315			2,315
Purchase of Oxford warrants					(1,050)			(1,050)

Common Stock issued as consideration for acquisition of interest in real estate			8		310			310
Amortization of stock option and restricted stock compensation cost					9,975			9,975
Net income							70,982	70,982
Common Stock dividends							(284,254)	(284,254)
Preferred Stock dividends							(88,607)	(88,607)
Balances at December 31, 2005	38,325	1,010,250	95,732	957	3,081,706	(25,911)	(1,350,899)	2,716,103
Cumulative effect of change in accounting principle adoption of EITF 04-5							(75,012)	(75,012)
Issuance of 200 shares of CRA Preferred Stock		100,000			(2,509)			97,491
Redemption of Preferred Stock	(11,470)	(286,750)			6,848		(6,848)	(286,750)
Conversion of Aimco Operating Partnership units to Common Stock			99	1	4,560			4,561
Repurchases of Common Stock			(2,301)	(23)	(120,235)			(120,258)
Repayment of notes receivable from officers							21,844	21,844

Officer and employee stock awards and purchases, net	456	5	678	(647)	36			
Stock options exercised	2,826	28	107,575		107,603			
Excess income tax benefits related to stock-based compensation and other			454		454			
Common Stock issued as consideration for acquisition of interest in real estate	8		479		479			
Amortization of stock option and restricted stock compensation cost			15,874		15,874			
Net income				176,787	176,787			
Common Stock dividends				(232,185)	(232,185)			
Preferred Stock dividends				(87,135)	(87,135)			
Balances at December 31, 2006	26,855	\$ 823,500	96,820	\$ 968	\$ 3,095,430	\$ (4,714)	\$ (1,575,292)	\$ 2,339,892

See notes to consolidated financial statements.

Table of Contents**APARTMENT INVESTMENT AND MANAGEMENT COMPANY**

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006, 2005 and 2004
(In thousands)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 176,787	\$ 70,982	\$ 263,497
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	470,597	376,231	315,451
Deficit distributions to minority partners	21,004	11,615	17,374
Equity in losses of unconsolidated real estate partnerships	2,070	3,139	1,768
Gain on dispositions of unconsolidated real estate and other	(34,567)	(18,958)	(69,294)
Real estate impairment losses (recoveries), net	(813)	6,120	3,426
Deferred income tax provision (benefit)	14,895	(19,146)	706
Cumulative effect of change in accounting principle			3,957
Minority interest in Aimco Operating Partnership	(6,040)	(5,309)	3,666
Minority interest in consolidated real estate partnerships	19,628	(5,065)	(14,630)
Stock-based compensation expense	15,874	9,975	6,506
Amortization of deferred loan costs and other	18,471	1,700	5,484
Discontinued operations:			
Depreciation and amortization	20,101	58,634	67,277
Gain on dispositions of real estate, net of minority partners interest	(260,206)	(102,972)	(249,354)
Other adjustments to income from discontinued operations	4,267	(3,139)	26,959
Changes in operating assets and operating liabilities:			
Accounts receivable	(3,178)	11,450	(2,067)
Other assets	45,332	17,542	(11,406)
Accounts payable, accrued liabilities and other	28,057	(57,250)	(3,797)
Total adjustments	355,492	284,567	102,026
Net cash provided by operating activities	532,279	355,549	365,523
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of real estate	(153,426)	(243,996)	(280,002)
Capital expenditures	(512,564)	(443,882)	(301,937)
Proceeds from dispositions of real estate	958,604	718,434	971,568
Change in funds held in escrow from tax-free exchanges	(19,021)	(4,571)	5,489
Cash from newly consolidated properties	23,269	4,186	14,765
Distributions and sales proceeds from investments in real estate partnerships	45,662	57,706	72,160
Purchases of partnership interests and other assets	(37,570)	(125,777)	(132,711)
Originations of notes receivable	(94,640)	(38,336)	(76,157)
Proceeds from repayment of notes receivable	9,604	28,556	79,599

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Other investing activities	13,122	(2,281)	(15,861)
Net cash provided by (used in) investing activities	233,040	(49,961)	336,913
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from property loans	1,185,670	721,414	501,611
Principal repayments on property loans	(1,004,142)	(735,816)	(728,084)
Proceeds from tax-exempt bond financing	75,568		69,471
Principal repayments on tax-exempt bond financing	(229,287)	(78,648)	(188,577)
Net borrowings (paydowns) on term loans and revolving credit facility	(77,000)	248,300	(66,687)
Proceeds (paydowns) on other borrowings	(22,838)		38,871
Redemption of mandatorily redeemable preferred securities		(15,019)	(98,875)
Proceeds from issuance of preferred stock, net	97,491		359,672
Redemptions of preferred stock	(286,750)	(31,250)	(186,093)
Repurchase of Class A Common Stock	(109,937)		(12,597)
Proceeds from Class A Common Stock option exercises	107,603	2,315	1,883
Principal repayments received on notes due on Class A Common Stock purchases	21,844	12,255	4,639
Payment of Class A Common Stock dividends	(231,697)	(226,815)	(225,903)
Payment of preferred stock dividends	(74,700)	(86,582)	(83,984)
Contributions from minority interest	458	34,990	44,292
Payment of distributions to minority interest	(130,585)	(78,739)	(119,056)
Other financing activities	(18,923)	(15,606)	(22,108)
Net cash used in financing activities	(697,225)	(249,201)	(711,525)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	68,094	56,387	(9,089)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	161,730	105,343	114,432
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 229,824	\$ 161,730	\$ 105,343

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006, 2005 and 2004
(In thousands)

	2006	2005	2004
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ 438,946	\$ 399,511	\$ 372,703
Cash paid for income taxes	9,807	4,785	
Non-cash transactions associated with the acquisition of real estate and interests in unconsolidated real estate partnerships:			
Secured debt assumed in connection with purchase of real estate	47,112	38,740	83,114
Issuance of OP Units for interests in unconsolidated real estate partnerships and acquisitions of real estate	13	125	2,609
Non-cash transactions associated with consolidation of real estate partnerships:			
Real estate, net	675,621	201,492	231,932
Investments in and notes receivable primarily from affiliated entities	(219,691)	(72,341)	(40,178)
Restricted cash and other assets	94,380	16,942	47,744
Secured debt	503,342	112,521	204,243
Accounts payable, accrued and other liabilities	41,580	17,326	21,394
Minority interest in consolidated real estate partnerships	57,157	6,834	29,439
Other non-cash transactions:			
Conversion of common OP Units for Class A Common Stock	4,362	16,853	23,322
Conversion of preferred OP Units for Class A Common Stock	199	41	259
Origination of notes receivable from officers for Class A Common			
Stock purchases, net of cancellations	647	1,441	1,318
Exchanges of preferred stock			150,000
Tenders payable for purchase of limited partner interests		950	2,799

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Note 1 Organization

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

As of December 31, 2006, we:

owned an equity interest in and consolidated 162,432 units in 703 properties (which we refer to as consolidated), of which 161,584 units were also managed by us;

owned an equity interest in and did not consolidate 11,791 units in 102 properties (which we refer to as unconsolidated), of which 5,638 units were also managed by us; and

provided services or managed, for third-party owners, 42,190 units in 451 properties, primarily pursuant to long-term agreements (including 38,617 units in 410 properties for which we provide asset management services only, and not also property management services), although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP, Inc., we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of December 31, 2006, we held approximately a 90% interest in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. The Aimco Operating Partnership's income is allocated to holders of common OP Units based on the weighted average number of common OP Units outstanding during the period. The Aimco Operating Partnership records the issuance of common OP Units and the assets acquired in purchase transactions based on the market price of Aimco Class A Common Stock (which we refer to as Common Stock) at the date of closing of the transaction. The holders of the common OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid to holders of Common Stock. Holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership's option, Common Stock. During each of 2006, 2005 and 2004, the weighted average ownership interest in the Aimco Operating Partnership held by the common OP Unit holders was approximately 10%. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At December 31, 2006, 96,820,252 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 10,135,562 common OP Units and equivalents outstanding for a combined total of 106,955,814 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

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

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated entities. As used herein, and except where the context otherwise requires, partnership refers to a limited partnership or a limited liability company and partner refers to a limited partner

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in a limited partnership or a member in a limited liability company. Interests held in consolidated real estate partnerships by limited partners other than us are reflected as minority interest in consolidated real estate partnerships. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of consolidated real estate partnerships owned or controlled by Aimco or the Aimco Operating Partnership generally are not available to pay creditors of Aimco or the Aimco Operating Partnership.

As discussed under *Variable Interest Entities* below, we consolidate real estate partnerships and other entities that are variable interest entities when we are the primary beneficiary. 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. As discussed under *Adoption of EITF 04-5* below, we have applied new criteria after June 29, 2005, in determining whether we control and consolidate certain partnerships.

Variable Interest Entities

FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46, addresses the consolidation by business enterprises of variable interest entities. As a result of the adoption of FIN 46, as of March 31, 2004, we consolidate all variable interest entities for which we are the primary beneficiary. Generally, a variable interest entity, or VIE, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about an entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. FIN 46 requires a VIE to be consolidated in the financial statements of the entity that is determined to be the primary beneficiary of the VIE. The primary beneficiary generally is the entity that will receive a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

Upon adoption of FIN 46, we determined that we were the primary beneficiary of 27 previously unconsolidated and five previously consolidated VIEs. These VIEs consisted of partnerships that are engaged, directly or indirectly, in the ownership and management of 29 apartment properties with 3,478 units. The initial consolidation of the previously unconsolidated entities as of March 31, 2004 resulted in an increase in our consolidated total assets (primarily real estate), liabilities (primarily indebtedness) and minority interest of approximately \$113.5 million, \$90.6 million and \$26.8 million, respectively. We recorded a charge of approximately \$4.0 million for the cumulative effect on retained earnings resulting from the adoption of FIN 46. This charge is attributable to our recognition of cumulative losses allocable to minority interests that would otherwise have resulted in minority interest deficits.

As of December 31, 2006, we were the primary beneficiary of, and therefore consolidated, 53 VIEs, which owned 49 apartment properties with 6,845 units. Real estate with a carrying value of \$457.2 million collateralized the debt of those VIEs. The creditors of the consolidated VIEs do not have recourse to our general credit. As of December 31, 2006, we also held variable interests in 188 VIEs for which we were not the primary beneficiary. Those VIEs consist primarily of partnerships that are engaged, directly or indirectly, in the ownership and management of 246 apartment properties with 13,371 units. We are involved with those VIEs as an equity holder, lender, management agent, or through other contractual relationships. At December 31, 2006, our maximum exposure to loss as a result of our involvement with unconsolidated VIEs is limited to our recorded investments in and receivables from those VIEs totaling \$131.0 million and our contractual obligation to advance funds to certain VIEs totaling \$14.4 million. We may be subject to additional losses to the extent of any financial support that we voluntarily provide in the future.

Adoption of EITF 04-5

In June 2005, the Financial Accounting Standards Board ratified Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, or EITF 04-5. EITF 04-5 provides an accounting

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model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of substantive kick-out rights and substantive participating rights held by the limited partners, and provides additional guidance on what constitutes those rights. EITF 04-5 was effective after June 29, 2005 for general partners of (a) all newly formed limited partnerships and (b) existing limited partnerships for which the partnership agreements have been modified. We consolidated four partnerships in the fourth quarter of 2005 based on EITF 04-5 requirements. The consolidation of those partnerships had an immaterial effect on our consolidated financial statements. EITF 04-5 was effective on January 1, 2006, for general partners of all limited partnerships and similar entities. We applied EITF 04-5 as of January 1, 2006, using a transition method that does not involve retrospective application to our financial statements for prior periods.

We consolidated 156 previously unconsolidated partnerships as a result of the application of EITF 04-5 in 2006. Those partnerships own, or control other entities that own, 149 apartment properties. Our direct and indirect interests in the profits and losses of those partnerships range from less than one percent to 50 percent, and average approximately 22 percent. The initial consolidation of those partnerships resulted in increases (decreases), net of intercompany eliminations, in amounts reported in our consolidated balance sheet as of January 1, 2006, as follows (in thousands):

	Increase (Decrease)
Real estate, net	\$ 664,286
Accounts and notes receivable from affiliates	(150,057)
Investment in unconsolidated real estate partnerships	(64,419)
All other assets	122,545
Total assets	\$ 572,355
Total indebtedness	\$ 521,711
All other liabilities	81,950
Minority interest in consolidated real estate partnerships	53,258
Minority interest in Aimco Operating Partnership	(9,552)
Stockholders' equity	(75,012)
Total liabilities and stockholders' equity	\$ 572,355

Our income from continuing operations for the year ended December 31, 2006, include the following amounts for the partnerships consolidated as of January 1, 2006, in accordance with EITF 04-5 (in thousands):

Revenues	\$ 159,415
Operating expenses	114,680
Operating income	44,735
Interest expense	(32,776)
Interest income	3,651
Income (loss) before minority interests	\$ 15,610

In prior periods, we used the equity method to account for our investments in the partnerships that we consolidated in 2006 in accordance with EITF 04-5. Under the equity method, we recognized partnership income or losses based generally on our percentage interest in the partnership. Consolidation of a partnership does not ordinarily result in a change to the net amount of partnership income or loss that is recognized using the equity method. However, when a partnership has a deficit in equity, generally accepted accounting principles may require the controlling partner that consolidates the partnership to recognize any losses that would otherwise be allocated to noncontrolling partners, in addition to the controlling partner's share of losses. Certain of the partnerships that we consolidated in accordance with EITF 04-5 had deficits in equity that resulted from losses or deficit distributions during prior periods when we accounted for our investment using the equity method. We would have been required to recognize the noncontrolling partners' share of those losses had we applied EITF 04-5 in those prior periods. In

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accordance with our transition method for the adoption of EITF 04-5, we recorded a \$75.0 million charge to retained earnings as of January 1, 2006, for the cumulative amount of additional losses that we would have recognized had we applied EITF 04-5 in prior periods. Substantially all of those losses were attributable to real estate depreciation expense. As a result of applying EITF 04-5 for the year ended December 31, 2006, our income from continuing operations includes partnership losses in addition to losses that would have resulted from continued application of the equity method of \$25.0 million.

Tax Credit Arrangements

We sponsor certain partnerships that own and operate apartment properties that qualify for tax credits under Section 42 of the Internal Revenue Code and HUD subsidized rents under the Section 8 program. These partnerships acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. The tax credits are generally realized ratably over the first ten years of the tax credit arrangement and are subject to the partnership's compliance with applicable laws and regulations for a period of 15 years. Typically, we are the general partner with a legal ownership interest of one percent or less. We market limited partner interests of at least 99 percent to unaffiliated institutional investors (tax credit investors or investors) and receive a syndication fee from each investor upon such investor's admission to the partnership. At inception, each investor agrees to fund capital contributions to the partnerships. We agree to perform various services to the partnerships in exchange for fees over the expected duration of the tax credit service period. The related partnership agreements generally require adjustment of each tax credit investor's required capital contributions if actual tax benefits to such investor differ from projected amounts.

In connection with our adoption of FIN 46 as of March 31, 2004, we determined that the partnerships in these arrangements are variable interest entities and, where we are general partner, we are the primary beneficiary that is required to consolidate the partnerships. During the period April 1, 2004, through June 30, 2006, we accounted for these partnerships as consolidated subsidiaries with a noncontrolling interest (minority interest) of at least 99 percent. Accordingly, we allocated to the minority interest substantially all of the income or losses of the partnerships, including the effect of fees that we charged to the partnerships. In 2006, in consultation with our independent auditors, we determined that we were required to revise our accounting treatment for tax credit transactions to more fully comply with the requirements of FIN 46. We also determined that our accounting treatment did not fully reflect the economic substance of the arrangements wherein we possess substantially all of the economic interests in the partnerships. Based on the contractual arrangements that obligate us to deliver tax benefits to the investors, and that entitle us through fee arrangements to receive substantially all available cash flow from the partnerships, we concluded that these partnerships are most appropriately accounted for by us as wholly owned subsidiaries. We also concluded that capital contributions received by the partnerships from tax credit investors represent, in substance, consideration that we receive in exchange for our obligation to deliver tax credits and other tax benefits to the investors. We have concluded that these receipts are appropriately recognized as revenue in our consolidated financial statements when our obligation to the investors is relieved upon delivery of the expected tax benefits.

In summary, our revised accounting treatment recognizes the income or loss generated by the underlying real estate based on our economic interest in the partnerships. Proceeds received in exchange for the transfer of the tax credits are recognized as revenue proportionately as the tax benefits are delivered to the tax credit investors and our obligation is relieved. Syndication fees and related costs are recognized in income upon completion of the syndication effort. Other direct and incremental costs incurred in structuring these arrangements are deferred and amortized over the expected duration of the arrangement in proportion to the recognition of related income. Investor contributions in excess of recognized revenue are reported as deferred income in our consolidated balance sheet.

We have applied the revised accounting treatment described above in our 2006 financial statements. We also recognized the cumulative effect of retroactive application of this revised accounting treatment in our operations for

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the year ended December 31, 2006. Adjustments related to prior years had the following effects on our net income for the year ended December 31, 2006 (in thousands):

Revenues	\$ (1,542)
Operating expenses	3,054
Minority interest in consolidated real estate partnerships	(9,030)
Minority interest in Aimco Operating Partnership	734
Net decrease in net income	\$ (6,784)

Acquisition of Real Estate Assets and Related Depreciation and Amortization

We capitalize the purchase price and incremental direct costs associated with the acquisition of properties as the cost of the assets acquired. In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, or SFAS 141, we allocate the cost of acquired properties to tangible assets and identified intangible assets based on their fair values. We determine the fair value of tangible assets, such as land, building, furniture, fixtures and equipment, on an as-if vacant basis, generally using internal valuation techniques that consider comparable market transactions, discounted cash flow techniques, replacement costs and other available information. We determine the fair value of identified intangible assets (or liabilities), which typically relate to in-place leases, using internal valuation techniques that consider the terms of the in-place leases, current market data for comparable leases, and our experience in leasing similar properties. The intangible assets or liabilities related to in-place leases are comprised of:

1. The value of the above- and below-market leases in-place. An asset or liability is recognized based on the difference between (a) the contractual amounts to be paid pursuant to the in-place leases and (b) our estimate of fair market lease rates for the corresponding in-place leases, measured over the period, including estimated lease renewals for below-market leases, that the leases are expected to remain in effect.
2. The estimated unamortized portion of avoided leasing commissions and other costs that ordinarily would be incurred to acquire the in-place leases.
3. The value associated with vacant units during the absorption period (estimates of lost rental revenue during the expected lease-up periods based on current market demand and stabilized occupancy levels).

The values of the above- and below-market leases are amortized to rental revenue over the expected remaining terms of the associated leases. Other intangible assets related to in-place leases are amortized to operating expenses over the expected remaining terms of the associated leases. Amortization is adjusted, as necessary, to reflect any early lease terminations that were not anticipated in determining amortization periods.

Depreciation for all tangible real estate assets is calculated using the straight-line method over their estimated useful lives. Acquired buildings and improvements are depreciated over a composite life of 14 to 52 years, based on the age, condition and other physical characteristics of the property. As discussed under *Impairment of Long Lived Assets* below, we may adjust depreciation of properties that are expected to be disposed of or demolished prior to the end of their useful lives. Furniture, fixtures and equipment associated with acquired properties are depreciated over five years.

Capital Expenditures and Related Depreciation

We capitalize costs, including certain indirect costs, incurred in connection with our capital expenditure activities, including redevelopment and construction projects, other tangible property improvements, and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital expenditure activities at the property level. We characterize as indirect costs an allocation of certain department costs, including payroll, at the regional operating center and corporate levels that clearly relate to capital expenditure activities. We capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects are in progress. Costs incurred in connection with capital expenditure activities are capitalized where the costs of the improvements or replacements exceed \$250. We charge to expense as incurred costs that do not relate to capital

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expenditure activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses.

We depreciate capitalized costs using the straight-line method over the estimated useful life of the related component or improvement, which is five, 15 or 30 years. Prior to July 1, 2005, we recorded capitalized site payroll costs and most capitalized indirect costs separately from other costs of the related capital projects. We depreciated capitalized site payroll costs over five years and capitalized indirect costs associated with capital replacement and improvement projects over five or 15 years. Capitalized indirect costs associated with redevelopment projects, together with other costs of the redevelopment projects, were depreciated over the estimated useful lives of those projects, predominantly 30 years.

Effective July 1, 2005, we refined the estimated useful lives for the capitalized site payroll and indirect costs that were recorded separately from other costs of the related capital projects. All capitalized site payroll and indirect costs incurred after June 30, 2005 are allocated proportionately, based on direct costs, among capital projects and depreciated over the estimated useful lives of such projects. This change in estimate is also being applied prospectively to the June 30, 2005 carrying amounts, net of accumulated depreciation, of previously incurred site payroll and indirect costs. Those amounts, based on the periods the costs were incurred, were allocated among capital projects that were completed in the corresponding periods in proportion to the original direct costs of such projects and are being depreciated over the remaining useful lives of the projects. We anticipate that these refinements will result in generally higher depreciation expense in foreseeable future accounting periods. For the year ended December 31, 2005, these changes in estimated useful lives resulted in a decrease in net income of approximately \$4.6 million, and resulted in a decrease in basic and diluted earnings per share of \$0.05.

Certain homogeneous items that are purchased in bulk on a recurring basis, such as carpeting and appliances, are depreciated using group methods that reflect the average estimated useful life of the items in each group. Except in the case of property casualties, where the net book value of lost property is written off in the determination of casualty gains or losses, we generally do not recognize any loss in connection with the replacement of an existing property component because normal replacements are considered in determining the estimated useful lives used in connection with our composite and group depreciation methods.

For the years ended December 31, 2006, 2005 and 2004, we capitalized interest costs totaling \$24.7 million, \$18.1 million and \$9.5 million, respectively, and site payroll and indirect costs totaling \$66.2 million, \$53.3 million and \$46.7 million, respectively.

Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, or FIN 47. FIN 47 clarifies the accounting for legal obligations to perform asset retirement activity in which the timing and/or method of settlement are conditional on future events. FIN 47 requires the fair value of such conditional asset retirement obligations to be recorded as incurred, if the fair value of the liability can be reasonably estimated. We have determined that FIN 47 applies to certain obligations that we have based on laws that require property owners to remove or remediate hazardous substances in certain circumstances. We adopted the provisions of FIN 47 as of December 31, 2005 and determined that asset retirement obligations that are required to be recognized under FIN 47 are immaterial to our financial condition and results of operations. See Note 8 for further discussion of asset retirement obligations.

Impairment of Long-Lived Assets

We apply the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS 144, to determine whether our real estate and other long-lived assets are impaired. Such assets to be held and used are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows, excluding interest charges, of the property. If the carrying amount exceeds the aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. Based on periodic tests of

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recoverability of long-lived assets, for the year ended December 31, 2005, we recorded impairment losses of \$3.4 million related to properties to be held and used. For the years ended December 31, 2006 and 2004, we determined that the carrying amounts of our properties to be held and used were recoverable and, therefore, we did not record any impairment losses related to such properties. The amounts reported in continuing operations for real estate impairment (losses) recoveries, net include impairment losses related to consolidated properties to be held and used, as well as our share of all impairment losses or recoveries related to unconsolidated properties. We report impairment losses or recoveries related to properties classified as held for sale in discontinued operations.

Our tests of recoverability address real estate assets that do not currently meet all conditions to be classified as held for sale, but are expected to be disposed of prior to the end of their estimated useful lives. If an impairment loss is not required to be recorded in accordance with SFAS 144, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We also may adjust depreciation prospectively to reduce to zero the carrying amount of buildings that we plan to demolish in connection with a redevelopment project. These depreciation adjustments decreased net income by \$31.2 million and \$31.9 million, and resulted in decreases in basic and diluted earnings per share of \$0.33 and \$0.34, for the years ended December 31, 2006 and 2005, respectively.

Cash Equivalents

We consider highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash includes capital replacement reserves, tax-free exchange funds, completion repair reserves, bond sinking fund amounts and tax and insurance escrow accounts held by lenders.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally comprised of amounts receivable from residents, amounts receivable from non-affiliated real estate partnerships for which we provide property management and other services and other miscellaneous receivables from non-affiliated entities. We evaluate collectibility of accounts receivable from residents and establish an allowance, after the application of security deposits and other anticipated recoveries, for accounts greater than 30 days past due for current residents and all receivables due from former residents. Accounts receivable from residents are stated net of allowances for doubtful accounts of approximately \$1.9 million and \$2.3 million as of December 31, 2006 and 2005, respectively.

We evaluate collectibility of accounts receivable from non-affiliated entities and establish an allowance for amounts that are considered to be uncollectible. Accounts receivable relating to non-affiliated entities are stated net of allowances for doubtful accounts of approximately \$4.1 million and \$4.2 million as of December 31, 2006 and 2005, respectively.

Accounts Receivable and Allowance for Doubtful Accounts from Affiliates

Accounts receivable from affiliates are generally comprised of receivables related to property management and other services provided to unconsolidated real estate partnerships in which we have an ownership interest. We evaluate collectibility of accounts receivable balances from affiliates on a periodic basis, and establish an allowance for the amounts deemed to be uncollectible. Accounts receivable from affiliates are stated net of allowances for doubtful accounts of approximately \$5.3 million and \$4.7 million as of December 31, 2006 and 2005, respectively.

Deferred Costs

We defer lender fees and other direct costs incurred in obtaining new financing and amortize the amounts over the terms of the related loan agreements. Amortization of these costs is included in interest expense.

We defer leasing commissions and other direct costs incurred in connection with successful leasing efforts and amortize the costs over the terms of the related leases. Amortization of these costs is included in operating expenses.

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Advertising Costs

We generally expense all advertising costs as incurred to property operating expense. For the years ended December 31, 2006, 2005 and 2004, for both continuing and discontinued operations, total advertising expense was \$34.7 million, \$36.1 million and \$33.1 million, respectively.

Notes Receivable from Unconsolidated Real Estate Partnerships and Related Interest Income and Provision for Losses

Notes receivable from unconsolidated real estate partnerships consist primarily of notes receivable from partnerships in which we are the general partner. The ultimate repayment of these notes is subject to a number of variables, including the performance and value of the underlying real estate property and the claims of unaffiliated mortgage lenders. Our notes receivable include loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes, and loans extended by predecessors whose positions we generally acquired at a discount, which we refer to as discounted notes.

We record interest income on par value notes as earned in accordance with the terms of the related loan agreements. We discontinue the accrual of interest on such notes when the notes are impaired, as discussed below, or when there is otherwise significant uncertainty as to the collection of interest. We record income on such nonaccrual loans using the cost recovery method, under which we apply cash receipts first to the recorded amount of the loan; thereafter, any additional receipts are recognized as income.

We recognize interest income on discounted notes receivable based upon whether the amount and timing of collections are both probable and reasonably estimable. We consider collections to be probable and reasonably estimable when the borrower has entered into certain closed or pending transactions (which include real estate sales, refinancings, foreclosures and rights offerings) that provide a reliable source of repayment. In such instances, we recognize accretion income, on a prospective basis using the effective interest method over the estimated remaining term of the loans, equal to the difference between the carrying amount of the discounted notes and the estimated collectible value. We record income on all other discounted notes using the cost recovery method.

We assess the collectibility of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. In certain instances where other sources of cash flow are available to repay the loan, the impairment is measured by discounting the estimated cash flows at the loan's original effective interest rate.

Investments in Unconsolidated Real Estate Partnerships

We own general and limited partner interests in real estate partnerships that own apartment properties. We generally account for investments in real estate partnerships that we do not consolidate under the equity method. Under the equity method, our share of the earnings or losses of the entity for the periods being presented is included in equity in earnings (losses) from unconsolidated real estate partnerships, except for our share of impairments and property disposition gains related to such entities, which we report separately in the consolidated statements of income. Certain investments in real estate partnerships that were acquired in business combinations were determined to have insignificant value at the acquisition date and are accounted for under the cost method. Any distributions received

from such partnerships are recognized as income when received.

The excess of the cost of the acquired partnership interests over the historical carrying amount of partners' equity or deficit is ascribed generally to the fair values of land and buildings owned by the partnerships. We amortize the excess cost related to the buildings over the estimated useful lives of the buildings. Such amortization is recorded as a component of equity in losses of unconsolidated real estate partnerships.

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Intangible Assets

At December 31, 2006 and 2005, other assets included goodwill associated with our real estate segment of \$81.9 million. We account for goodwill and other intangible assets in accordance with the requirements of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, or SFAS 142. SFAS 142 does not permit amortization of goodwill and other intangible assets with indefinite lives, but requires an annual impairment test of such assets. The impairment test compares the fair value of reporting units with their carrying amounts, including goodwill. Based on the application of the goodwill impairment test set forth in SFAS 142, we determined that our goodwill was not impaired in 2006, 2005 or 2004. As discussed in Note 9, we reduced goodwill by \$6.2 million in 2005 in connection with the recognition of deferred income tax assets that were acquired in connection with business combinations in prior years.

Other assets also includes intangible assets for purchased management contracts with finite lives that we amortize on a straight-line basis over terms ranging from five to twenty years and intangible assets for in-place leases as discussed under *Acquisition of Real Estate Assets and Related Depreciation and Amortization*.

Capitalized Software Costs

Purchased software and other costs related to software developed for internal use are capitalized during the application development stage and are amortized using the straight-line method over the estimated useful life of the software, generally five years. We write off the costs of software development projects when it is no longer probable that the software will be completed and placed in service. For the years ended December 31, 2006, 2005 and 2004, we capitalized software development costs totaling \$6.3 million, \$9.9 million and \$18.1 million, respectively. At December 31, 2006 and 2005, other assets included \$31.6 million and \$40.2 million of net capitalized software, respectively.

Minority Interest in Consolidated Real Estate Partnerships

We report unaffiliated partners' interests in consolidated real estate partnerships as minority interest in consolidated real estate partnerships. Minority interest in consolidated real estate partnerships represents the minority partners' share of the underlying net assets of our consolidated real estate partnerships. When these consolidated real estate partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we generally record a charge equal to the amount of such excess distribution, even though there is no economic effect or cost. We report this charge in the consolidated statements of income as deficit distributions to minority partners. We allocate the minority partners' share of partnership losses to minority partners to the extent of the carrying amount of the minority interest. We generally record a charge when the minority partners' share of partnership losses exceed the carrying amount of the minority interest, even though there is no economic effect or cost. We report this charge in the consolidated statements of income within minority interest in consolidated real estate partnerships. We do not record charges for distributions or losses in certain limited instances where the minority partner has a legal obligation and financial capacity to contribute additional capital to the partnership. For the years ended December 31, 2006, 2005, and 2004, we recorded charges for partnership losses resulting from depreciation of approximately \$31.8 million, \$9.5 million and \$5.2 million, respectively, that were not allocated to minority partners because the losses exceeded the carrying amount of the minority interest.

Minority interest in consolidated real estate partnerships consists primarily of equity interests held by limited partners in consolidated real estate partnerships that have finite lives. The terms of the related partnership agreements generally require the partnership to be liquidated following the sale of the partnership's real estate. As the general partner in these partnerships, we ordinarily control the execution of real estate sales and other events that could lead to the

liquidation, redemption or other settlement of minority interests. The aggregate carrying value of minority interests in consolidated real estate partnerships is approximately \$212.1 million at December 31, 2006. The aggregate fair value of these interests varies based on the fair value of the real estate owned by the partnerships. Based on the number of classes of finite-life minority interests, the number of properties in which there is direct or indirect minority ownership, complexities in determining the allocation of liquidation proceeds among partners and other factors, we believe it is impracticable to determine the total required payments to the minority interests in an assumed liquidation at December 31, 2006. As a result of real estate depreciation that is recognized in our financial

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statements and appreciation in the fair value of real estate that is not recognized in our financial statements, we believe that the aggregate fair value of our minority interests exceeds their aggregate carrying value. As a result of our ability to control real estate sales and other events that require payment of minority interests and our expectation that proceeds from real estate sales will be sufficient to liquidate related minority interests, we anticipate that the eventual liquidation of these minority interests will not have an adverse impact on our financial condition.

Revenue Recognition

Our properties have operating leases with apartment residents with terms generally of twelve months or less. We recognize rental revenue related to these leases, net of any concessions, on a straight-line basis over the term of the lease. We recognize revenues from property management, asset management, syndication and other services when the related fees are earned and are realized or realizable.

Stock-Based Compensation

On January 1, 2006 we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (see Note 12).

Discontinued Operations

In accordance with SFAS 144, we classify certain properties and related liabilities as held for sale (see Note 13). The operating results of such properties are presented in discontinued operations in both current periods and all comparable periods presented. Depreciation is not recorded on properties held for sale; however, depreciation expense recorded prior to classification as held for sale is included in discontinued operations. The net gain on sale and any impairment losses are presented in discontinued operations when recognized.

Derivative Financial Instruments

We primarily use long-term, fixed-rate and self-amortizing non-recourse debt to avoid, among other things, risk related to fluctuating interest rates. For our variable rate debt, we are sometimes required by our lenders to limit our exposure to interest rate fluctuations by entering into interest rate swap or cap agreements. The interest rate swap agreements moderate our exposure to interest rate risk by effectively converting the interest on variable rate debt to a fixed rate. The interest rate cap agreements effectively limit our exposure to interest rate risk by providing a ceiling on the underlying variable interest rate. The fair values of these instruments are reflected as assets or liabilities in the balance sheet, and periodic changes in fair value are included in interest expense. These instruments are not material to our financial position and results of operations.

Insurance

We believe that our insurance coverages insure our properties adequately against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood, and other perils. In addition, we have insurance coverage for substantial portions of our property, workers compensation, health, and general liability exposures. Losses are accrued based upon our estimates of the aggregate liability for uninsured losses incurred using certain actuarial assumptions followed in the insurance industry and based on our experience.

Income Taxes

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

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

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

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

For our taxable REIT subsidiaries, deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for Federal income tax purposes, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. We reduce deferred tax assets by recording a valuation allowance when we determine based on available evidence that it is more likely than not that the assets will not be realized.

Earnings per Share

We calculate earnings per share based on the weighted average number of shares of Common Stock, common stock equivalents, and other potentially dilutive securities outstanding during the period (see Note 14).

Fair Value of Financial Instruments

We believe that the aggregate fair value of our cash and cash equivalents, receivables, payables and short-term secured debt approximates their aggregate carrying value at December 31, 2006, due to their relatively short-term nature and high probability of realization. We further believe that the aggregate fair value of our variable rate secured tax-exempt bond financing, variable rate property loans payable, term loans and borrowings under our credit facility also approximate their aggregate carrying value due to terms in the related agreements that require periodic interest adjustments based on market interest rates. For notes receivable, fixed rate secured tax-exempt bond debt and secured long-term debt, we estimate fair values using present value techniques. Present