APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-K
February 20, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-13232 (Apartment Investment and Management Company)
Commission File Number 0-24497 (AIMCO Properties, L.P.)

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

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

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

(303) 757-8101
(Registrant's telephone number, including area code)
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 (Apartment Investment and Management Company)	New York Stock Exchange
Class A Cumulative Preferred Stock (Apartment Investment and Management Company)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None (Apartment Investment and Management Company)
Partnership Common Units (AIMCO Properties, L.P.)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Apartment Investment and Management Company: Yes x No o AIMCO Properties, L.P.: Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

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

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.

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

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

Apartment Investment and Management Company:

Large accelerated filer	x		Accelerated filer	o
Non-accelerated filer	o		Smaller reporting company	o
			Emerging growth company	o

AIMCO Properties, L.P.:

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock of Apartment Investment and Management Company held by non-affiliates of Apartment Investment and Management Company was approximately $6.6 billion as of June 30, 2018. As of February 15, 2019, there were 148,766,616 shares of Class A Common Stock outstanding.

As of February 15, 2019, there were 158,495,487 Partnership Common Units outstanding.

Documents Incorporated by Reference

Portions of Apartment Investment and Management Company's definitive proxy statement to be issued in conjunction with Apartment Investment and Management Company's annual meeting of stockholders to be held April 30, 2019, are incorporated by reference into Part III of this Annual Report.

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EXPLANATORY NOTE

This filing combines the Annual Reports on Form 10-K for the fiscal year ended December 31, 2018, of Apartment Investment and Management Company, or Aimco, and AIMCO Properties, L.P., or the Aimco Operating Partnership. Where it is important to distinguish between the two entities, we refer to them specifically. Otherwise, references to “we,” “us” or “our” mean collectively Aimco, the Aimco Operating Partnership and their consolidated entities.

Aimco, a Maryland corporation, is a self-administered and self-managed real estate investment trust, or REIT. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of and, as of December 31, 2018, owned a 94.3% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 5.7% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership’s day-to-day management.

The Aimco Operating Partnership holds all of Aimco’s assets and manages the daily operations of Aimco’s business. Pursuant to the Aimco Operating Partnership agreement, Aimco is required to contribute to the Aimco Operating Partnership any assets, which it may acquire including all proceeds from the offerings of its securities. In exchange for the contribution of these assets, Aimco receives additional interests in the Aimco Operating Partnership with similar terms (e.g., if Aimco contributes proceeds of a stock offering, Aimco receives partnership units with terms substantially similar to the stock issued by Aimco).

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

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

We operate Aimco and the Aimco Operating Partnership as one enterprise, the management of Aimco directs the management and operations of the Aimco Operating Partnership, and the members of the Board of Directors of Aimco are identical to those of the Aimco Operating Partnership’s general partner.

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

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

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

This report also includes separate Part II, Item 9A. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for Aimco and the Aimco Operating Partnership in order to establish that the requisite certifications have been made and that Aimco and the Aimco Operating Partnership are both compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.

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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 Annual Report contains or may contain information that is forward-looking, within the meaning of the federal securities laws, including, without limitation, statements regarding: our ability to maintain current or meet projected occupancy, rental rate and property operating results; the effect of acquisitions, dispositions, redevelopments and developments; our ability to meet budgeted costs and timelines, and achieve budgeted rental rates related to our redevelopment and development investments; expectations regarding sales of our apartment communities and the use of proceeds thereof; and our ability to comply with debt covenants, including financial coverage ratios.

Actual results may differ materially from those described in these forward-looking statements and, in addition, will be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation:

- Real estate and operating risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for residents in such markets; national and local economic conditions, including the pace of job growth and the level of unemployment; the amount, location and quality of competitive new housing supply; the timing of acquisitions, dispositions, redevelopments and developments; and changes in operating costs, including energy costs;
- Financing risks, including the availability and cost of capital markets' financing; the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; and the risk that our earnings may not be sufficient to maintain compliance with debt covenants;
- Insurance risks, including the cost of insurance, natural disasters and severe weather such as hurricanes; and
- Legal and regulatory risks, including costs associated with prosecuting or defending claims and any adverse outcomes; the terms of governmental regulations that affect us and interpretations of those regulations; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of apartment communities presently or previously owned by us.

In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership.

Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" described in Item 1A of this Annual Report and the other documents we file from time to time with the Securities and Exchange Commission.

As used herein and except as the context otherwise requires, "we," "our" and "us" refer to Apartment Investment and Management Company (which we refer to as Aimco), AIMCO Properties, L.P. (which we refer to as the Aimco Operating Partnership) and their consolidated entities, collectively.

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

PART I

Item 1. Business

The Company

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. Aimco is a self-administered and self-managed real estate investment trust, or REIT, focused on the ownership, management, redevelopment and limited development of quality apartment communities located in some of the largest markets in the United States.

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Aimco, through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in AIMCO Properties, L.P., or the Aimco Operating Partnership, a Delaware limited partnership formed on May 16, 1994. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership.

Business Overview

Our business activities are defined by a commitment to our core values of integrity, respect, collaboration, performance and a focus on our customers. These values and our corporate mission, "to consistently provide quality apartment homes in a respectful environment delivered by a team of people who care," shape our culture. In all of our interactions with residents, team members, business partners, lenders, and equity holders, we aim to be the best owner and operator of apartment communities and an outstanding corporate citizen.

Our principal financial objective is to provide predictable and attractive returns to our equity holders. We measure our long- term total return using Economic Income, defined as Net Asset Value, or NAV, growth plus dividends. NAV is used by many investors because the value of company assets can be readily estimated, even for non-earning assets such as land or properties under development. NAV has the advantage of incorporating the investment decisions of thousands of real estate investors, enhancing comparability among companies that have differences in their accounting, and avoiding disparity that can result from application of GAAP to investment properties and various ownership structures. Some investors focus on multiples of Adjusted Funds From Operations, or AFFO, and Funds From Operations, FFO. Our disclosure of AFFO, a measure of current return, complements our focus on Economic Income. We also use Pro forma Funds From Operations, or Pro forma FFO, as a secondary measure of operational performance. Over the past five years, we have generated Economic Income at a compounded annual return of 11.5%.

Our business plan to achieve this principal financial objective is to:

- operate our portfolio of desirable apartment homes with a high level of focus on customer selection and customer satisfaction and in an efficient manner that produces predictable and growing Free Cash Flow;
- improve our portfolio of apartment communities, which is diversified both by geography and price point by selling apartment communities with lower projected Free Cash Flow internal rates of return and investing the proceeds from such sales through capital enhancements, redevelopment, limited development, and acquisitions with greater land value, higher expected rent growth, and projected Free Cash Flow internal rates of return in excess of those expected from the communities sold;
- use low levels of financial leverage primarily in the form of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity, a combination that reduces our refunding and re-pricing risk and provides a hedge against increases in interest rates; and
- focus intentionally on a collaborative and productive culture based on respect for others and personal responsibility.

Our business is organized around five areas of strategic focus: operational excellence; redevelopment; portfolio management; balance sheet; and team and culture. Our areas of strategic focus are described in more detail below. Recent accomplishments in the execution of such strategies are discussed in the Executive Overview in Item 7.

Operational Excellence

We own and operate a portfolio of market rate apartment communities, diversified by both geography and price point, which we refer to as our Real Estate portfolio. At December 31, 2018, our Real Estate portfolio included 134 apartment communities with 36,549 apartment homes in which we held an average ownership of approximately 99%. This portfolio was divided about two thirds by value to our "Same Store" portfolio of stabilized apartment communities and about one third by value to "Other Real Estate," which includes recently acquired communities and communities under redevelopment or development whose long-term financial contribution is not yet stabilized.

To manage our property operations efficiently and to increase the benefits from our local management expertise, we give direct responsibility for operations within each area to area operations leaders with regular oversight by senior management. To enable the area operations leaders to focus on sales and service, as well as to improve financial control and budgeting, we have dedicated area financial officers who support the operations leaders. Additionally, with the exception of routine maintenance and purchases and installation of equipment, we have specialized teams that manage capital spending related to larger and more complicated construction.

We seek to improve our property operations by: employing service-oriented, well-trained team members; taking advantage of advances in technology; centralizing operational tasks where efficient to do so; standardizing business processes, operational measurements, and internal reporting; and enhancing financial controls over field operations. We focus on the following areas:

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- Customer Satisfaction. Our operating culture is focused on our residents and providing them with a high level of service in a clean, safe, and respectful living environment. We regularly monitor and evaluate our performance by providing customers with numerous opportunities to grade our work. In 2018, we received 78,000 customer grades averaging 4.25 on a five-point scale. We use this customer feedback as a daily management tool. We also publish on-line these customer evaluations as important and credible information for prospective customers. We have automated certain aspects of our on-site operations to enable current and future residents to interact with us using methods that are efficient and effective for them, such as making on-line requests for service work and executing leases and lease renewals on-line. In addition, we emphasize the quality of our on-site team members through recruiting, training and retention programs, which, with continuous and real-time customer feedback, contributes to improved customer service. We believe that greater customer satisfaction leads to higher resident retention and increased occupancy rates, which in turn leads to increased revenue and reduced costs.
- Resident Selection and Retention. In our apartment communities, we believe that one’s neighbors are a meaningful part of the customer experience, together with the location of the community and the physical quality of the apartment homes. Part of our property operations strategy is to focus on attracting and retaining stable, credit-worthy residents who are also good neighbors. We have explicit criteria for resident selection, which we apply to new and renewal leases, including creditworthiness and behavior in accordance with our community standards and our written “Good Neighbor Commitment.” Our focus on resident selection and retention led to 54% of expiring leases being renewed in 2018, the highest result we have yet achieved.
- Revenue Management and Ancillary Services. We have a centralized revenue management system that leverages people, processes and technology to work in partnership with our local property management teams to develop rental rate pricing. We seek to increase Free Cash Flow, which we define as net operating income less Capital Replacements, by optimizing the balance between rental and occupancy rates, as well as taking into consideration costs such as preparing an apartment home for a new resident. We are focused on careful measurements of on-site operations, as we believe that timely and accurate collection of apartment community performance and resident profile data allows us to maximize Free Cash Flow through better property management and leasing decisions. We seek to maximize profit by performing timely data analysis of new and renewal pricing for each apartment home, thereby enabling us to adjust rents quickly in response to changes in supply and demand and minimize vacancy time. We also generate incremental revenue by providing or facilitating the provision of services to our residents, including, at certain apartment communities, telecommunications services, parking options, package lockers and storage space rental.
- Controlling Expenses. Innovation is the foundation of our cost control efforts. Innovative activities we have undertaken include: moving administrative tasks to our shared service center, which reduces costs and allows site teams to focus on sales and service; taking advantage of economies of scale at the corporate level, through electronic procurement which reduces complexity and increases purchasing volume discounts; focusing on life cycle costs by investing in more durable, longer-lived materials, which reduce turn times and costs; and leveraging technology to enhance the customer experience through such items as website design and package lockers, which meet today’s customer preference for self-service. These and other innovations contributed to a growth rate in controllable operating expense, which we define as property expenses less taxes, insurance and utility expenses, compounding for the past decade at an annual rate of 0.1%.
- Improving and Maintaining Apartment Community Quality. We believe that the physical condition and amenities of our apartment communities are important factors in our ability to maintain and increase rental rates. We invest in the maintenance and improvement of our apartment communities primarily through: Capital Enhancements, which may include kitchen and bath remodeling, energy conservation projects and investments in longer-lived materials as described above, all of which are generally lesser in scope than is a redevelopment and do not significantly disrupt property operations; Capital Improvements, which extend the useful life of an apartment community from its condition at our date of purchase; and Capital Replacements, which are capital additions made to replace the portion of an apartment community consumed during our ownership. During 2018, we invested approximately $2,890 per apartment home in Capital Enhancements, $4,670 per apartment home in Capital Improvements planned as part of our initial investment in apartment communities acquired in 2018, $270 per apartment home in Capital Improvements for

apartment communities acquired prior to 2018, and $1,052 per apartment home in Capital Replacements.

Redevelopment

Our second line of business is the redevelopment and limited development of apartment communities. Through these activities, we expect to create value by repositioning communities within our portfolio. Over the past five years, we have spent approximately $1.0 billion on redevelopment and development, resulting in estimated value creation of approximately $400.0 million. We measure the rate and quality of financial returns by NAV creation, an important component of Economic Income, our primary measure of

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long-term financial performance. We invest to earn risk-adjusted returns in excess of those expected from the apartment communities sold in paired trades to fund the redevelopment or development.

We undertake a range of redevelopments, including those in which buildings or exteriors are renovated without the need to vacate apartment homes; those in which significant renovation of apartment homes may be accomplished upon lease expiration and turnover; and those in which an entire building or community is vacated. We often execute redevelopment using a phased approach, in which we renovate an apartment community in stages. Redevelopment work may include seeking entitlements from local governments, which enhance the value of our existing portfolio by increasing density, that is, the right to add apartment homes to a site.

We also undertake ground-up development when warranted by risk-adjusted investment returns, either directly or in connection with the redevelopment of an existing apartment community. When warranted, we rely on the expertise and credit of a third-party developer familiar with the local market to limit our exposure to construction risk. Of these two activities, we favor redevelopment because it permits adjustment to the scope and timing of spending to align with changing market conditions and customer preferences.

Portfolio Management

Our portfolio management strategy involves the allocation of investment capital to enhance rent growth and increase long-term capital values through portfolio design, emphasizing land value as well as location and submarket. We target geographic diversification in our portfolio in order to reduce the volatility of our rental revenue and to reduce the risk of undue concentration in any particular market. Similarly, we seek price point diversification by owning communities that offer apartment homes at rents below those asked by competitive new building supply.

Our portfolio of apartment communities is diversified across “A,” “B,” and “C+” price points, averaging “B/B+” in quality and is also diversified across several of the largest markets in the United States. Please refer to the Executive Overview heading under Item 7 for a description of our portfolio quality ratings. At December 31, 2018, our Real Estate portfolio was allocated about one-half to “A” rated properties, and about one-half to “B” and “C+” rated properties.

As part of our portfolio strategy, we seek to sell up to 10% of our portfolio annually and to reinvest the proceeds from such sales in accretive uses such as capital enhancements, redevelopments, limited development and selective acquisitions with projected Free Cash Flow internal rates of return higher than expected from the communities being sold.

Balance Sheet

Our leverage strategy seeks to magnify financial returns while using leverage with appropriate caution. We limit risk through balance sheet structure, employing low leverage, primarily non-recourse and long-dated property debt; build financial flexibility by maintaining ample unused and available credit as well as holding properties with substantial value unencumbered by property debt; and use partners’ capital when it enhances financial returns or reduces investment risk.

Our leverage includes our share of long-term, non-recourse, property debt encumbering apartment communities, outstanding borrowings under our revolving credit facility, and outstanding preferred equity.

We target a ratio of Proportionate Debt and Preferred Equity to Adjusted EBITDA below 7.0x and we target a ratio of Adjusted EBITDA to Adjusted Interest Expense and Preferred Dividends greater than 2.5x. Our ratios as of December 31, 2018 were 7.2x and 3.4x, respectively.

Our liquidity consists of cash balances and available capacity on our revolving line of credit. As of December 31, 2018, we had cash and restricted cash of $72.6 million and had capacity to borrow $632.5 million under our revolving credit facility.

We manage our financial flexibility by maintaining an investment grade rating and holding apartment communities that are unencumbered by property debt. As of December 31, 2018, we held unencumbered apartment communities with an estimated fair market value of approximately $2.7 billion, up 50% from December 31, 2017.

Please refer to the Executive Overview and Liquidity and Capital Resources headings under Item 7 for additional information regarding our balance sheet and liquidity.

Team and Culture

Our team and culture are keys to our success. Our intentional focus on a collaborative and productive culture based on respect for others and personal responsibility is reinforced by a preference for promotion from within. We focus on succession planning and talent development to produce a strong, stable team that is the enduring foundation of our success. In 2018, we were recognized

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by the Denver Post as a Top Work Place for the sixth consecutive year, an accomplishment shared with only seven other companies in Colorado.

Competition

In attracting and retaining residents to occupy our apartment communities we compete with numerous other housing providers. Our apartment communities compete directly with other rental apartments as well as condominiums and single-family homes that are available for rent or purchase in the markets in which our apartment communities are located. Principal factors of competition include rent or price charged, attractiveness of the location and apartment community, and the quality and breadth of services. The number of competitive apartment communities relative to demand in a particular area has a material effect on our ability to lease apartment homes at our communities and on the rents we charge. In certain markets, there exists an oversupply of newly-constructed apartment homes, single-family homes, and condominiums relative to consumer demand, which affects the pricing and occupancy of our rental apartments.

We also compete with other real estate investors, including other apartment REITs, pension and investment funds, partnerships and investment companies in acquiring, redeveloping, managing, obtaining financing for and disposing of apartment communities. This competition affects our ability to acquire apartment communities we want to add to our portfolio and the price that we pay in such acquisitions; our ability to finance or refinance communities in our portfolio and the cost of such financing; and our ability to dispose of communities we no longer desire to retain in our portfolio and the timing and price available to us when we seek to dispose of such communities.

Taxation

Aimco

Aimco has 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 intends to continue to operate in such a manner. The Code imposes various requirements related to organizational structure, distribution levels, diversity of stock ownership, and certain restrictions with regard to owned assets and categories of income that must be met in order to continue to qualify as a REIT. If Aimco continues to qualify for taxation as a REIT, Aimco will generally not be subject to United States federal corporate income tax on its 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 an investment in a corporation.

Certain of Aimco’s operations or a portion thereof, including property management and risk management are conducted through taxable REIT subsidiaries, each of which we refer to as a TRS. A TRS is a subsidiary 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 and investment partners that cannot be offered directly by a REIT. We also use TRS entities to hold investments in certain apartment communities.

The Aimco Operating Partnership

The Aimco Operating Partnership is treated as a “pass-through” entity for United States federal income tax purposes and is not subject to United States federal income taxation. Partners in the Aimco Operating Partnership, however, are subject to tax on their allocable share of partnership income, gains, losses, deductions and credits, regardless of whether the partners receive any actual distributions of cash or other property from the Aimco Operating Partnership during the taxable year. Generally, the characterization of any particular item is determined by the Aimco Operating Partnership, rather than at the partner level, and the amount of a partner’s allocable share of such item is governed by the terms of the Aimco Operating Partnership’s Partnership Agreement. The Aimco Operating Partnership is subject to tax in certain states.

Regulation

General

Apartment communities and their owners are subject to various laws, ordinances, and regulations, including those related to real estate broker licensing and 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 apartment communities 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, existing rent control laws, as well as 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.

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Environmental

Various federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials that may be present at an apartment community. These materials may include lead-based paint, asbestos, polychlorinated biphenyls and petroleum-based fuels. Such laws often impose liability without regard to fault or whether the owner or operator knew of, or was responsible for, the release or presence of such materials. In connection with the ownership, operation and management of apartment communities, we could potentially be liable for environmental liabilities or costs associated with our current apartment communities, communities we acquire or manage in the future, or communities we previously owned or operated in the past. 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 apartment communities against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood, terrorism 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 and litigation management procedures to manage our exposure.

Employees

At December 31, 2018, we had approximately 1,050 team members, of whom about 700 were at the apartment community level performing on-site functions or at our shared service center performing tasks that have been centralized there, with the balance managing corporate and area functions, including investment and debt transactions, legal, finance and accounting, information systems, human resources and other support functions. As of December 31, 2018, unions represented approximately 50 of our team members. We have never experienced a work stoppage and believe we maintain satisfactory relations with our team members.

Available Information

Our combined Annual Report on Form 10-K, our combined Quarterly Reports on Form 10-Q, Current Reports on Form 8-K filed by Aimco or the Aimco Operating Partnership 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 Aimco's website at www.aimco.com. The information contained on Aimco's website is not incorporated into this Annual Report. Aimco's Common Stock is listed on the New York Stock Exchange under the symbol "AIV." In 2018, Aimco's chief executive officer submitted his annual corporate governance listing standards certification to the New York Stock Exchange, which certification was unqualified.

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.

Redevelopment, development and construction risks could affect our profitability.

We are currently redeveloping certain of our apartment communities. During 2019, we expect to invest $225 million to $275 million in redevelopment and development activities. Redevelopment and development are subject to numerous risks, including the following:

- 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, such as litigation;
- we may be unable to complete construction and lease-up of an apartment community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;
- occupancy rates and rents at an apartment community may fail to meet our expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development of competing communities;
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- we may be unable to obtain financing with favorable terms, or at all, which may cause us to delay or abandon an opportunity;
- we may abandon opportunities that we have already begun to explore, or stop projects we have already commenced, 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 costs already incurred in exploring those opportunities;
- we may incur liabilities to third parties during the redevelopment or development process;

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- unexpected events or circumstances may arise during the redevelopment or development process that affect the timing of completion and the cost and profitability of the redevelopment or development; and
- loss of a key member of a redevelopment or development team could adversely affect our ability to deliver redevelopments and developments on time and within our budget.

Failure to generate sufficient net operating income may adversely affect our liquidity, limit our ability to fund necessary capital expenditures or adversely affect our ability to pay dividends or distributions.

Our ability to fund necessary capital expenditures on our apartment communities depends on, among other things, our ability to generate net operating income in excess of required debt payments. If we are unable to fund capital expenditures on our apartment communities, we may not be able to preserve the competitiveness of our communities, which could adversely affect their net operating income and long-term value.

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. Our net operating income and liquidity may be adversely affected by events or conditions beyond our control, including:

- the general economic climate;
- an inflationary environment in which the costs to operate and maintain our communities increase at a rate greater than our ability to increase rents, which we can only do upon renewal of existing leases or at the inception of new leases;
- competition from other apartment communities and other housing options;
- local conditions, such as loss of jobs, unemployment rates 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;
- 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.

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

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

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

Real estate investments are relatively illiquid and generally cannot be sold quickly. REIT tax rules also restrict our ability to sell apartment communities. 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 apartment communities in the future will depend on prevailing economic and market conditions, including the cost and availability of financing. This could have a material adverse effect on our financial condition or results of operations.

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

The selective acquisition of apartment communities is a component of our strategy. However, we may not be able to complete transactions successfully in the future. Although we seek to acquire apartment communities when such acquisitions increase our Free Cash Flow internal rate of returns and are accretive to Net Asset Value, such transactions may fail to perform in accordance with our expectations. In particular, following acquisition, the value and operational performance of an apartment community may be diminished if obsolescence or neighborhood changes occur before we are able to redevelop or sell the community. This could have an adverse effect on our financial condition or results of operations.

Our existing and future debt financing could result in foreclosure of our apartment communities, prevent us from making distributions on our equity, or otherwise adversely affect our liquidity.

We are 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 our non-recourse debt, our

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lenders could foreclose on the apartment communities and other collateral securing such debt, which would result in the loss to us of income and asset value. As of December 31, 2018, the majority of our apartment communities were encumbered by debt. 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 communities or pay distributions required to be paid in order to maintain Aimco's qualification as a REIT.

Disruptions in the financial markets could affect our ability to obtain financing and the cost of available financing and could adversely affect our liquidity.

Our ability to obtain financing and the cost of such financing depends on the overall condition of the United States credit markets. During periods of economic uncertainty the United States credit markets may experience significant liquidity disruptions, which may cause the spreads on debt financings to widen considerably and make obtaining financing, both non-recourse property debt and corporate borrowings such as those under our revolving credit agreement, more difficult. In particular, apartment borrowers have benefited from the historic willingness of Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, to make substantial amounts of loans secured by multi-family properties, even in times of economic distress. These two lenders are federally chartered and subject to federal regulation, which is subject to change, making uncertain their prospects and ability to provide liquidity in a future downturn.

If our ability to obtain financing is adversely affected, we may be unable to satisfy scheduled maturities on existing financing through other sources of liquidity, which could result in lender foreclosure on the apartment communities securing such debt and loss of income and asset value, both of which would adversely affect our liquidity.

Increases in interest rates would increase our interest expense and reduce our profitability.

As of December 31, 2018, we had approximately $420.5 million of variable-rate indebtedness outstanding. We estimate that an increase in 30-day LIBOR of 100 basis points with constant credit risk spreads would reduce our net income and the amount of net income attributable to our common security holders (including Aimco common stockholders and the Aimco Operating Partnership's common unitholders) by approximately $4.2 million on an annual basis.

At December 31, 2018, we had approximately $72.6 million in cash and cash equivalents and restricted cash, a portion of which bear interest at variable rates indexed to LIBOR-based rates, which may partially mitigate the effect of an increase in variable rates on our variable-rate indebtedness discussed above.

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 revolving credit agreement provides, among other things, that we may not make distributions to our investors during any four consecutive fiscal quarters in an aggregate amount greater than 95% of our Funds From Operations for such period, subject to certain non-cash adjustments, or such amount as may be necessary to maintain Aimco's REIT status. Our outstanding classes of preferred stock or preferred units prohibit the payment of dividends on our Common Stock or common partnership units if we fail to pay the dividends to which the holders of the preferred stock or preferred units are entitled.

The Aimco Operating Partnership and its subsidiaries may be prohibited from making distributions and other payments.

All of Aimco's apartment communities are owned, and all of Aimco's operations are conducted, by the Aimco Operating Partnership. Further, many of the Aimco Operating Partnership's apartment communities are owned by subsidiaries of the Aimco Operating Partnership. As a result, Aimco depends on distributions and other payments from the Aimco Operating Partnership, and the Aimco Operating Partnership depends on distributions and payments from its subsidiaries in order to satisfy our financial obligations and make payments to our investors. The ability of the Aimco Operating Partnership and its subsidiaries to make such distributions and other payments depends on their earnings and cash flows and may be subject to statutory or contractual limitations. As an equity investor in the Aimco Operating Partnership and its 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.

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

Various federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials that may be present in the land or buildings of an apartment community. Potentially hazardous materials may include polychlorinated biphenyls, petroleum-based fuels, lead-based paint or asbestos, among other materials. Such laws often impose liability without regard to fault or whether the owner or operator

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knew of, or was responsible for, the presence of such materials. The presence of, or the failure to manage or remediate properly, these materials may adversely affect occupancy at such apartment communities as well as the ability to sell or finance such apartment communities. In addition, governmental agencies may bring claims for costs associated with investigation and remediation actions, damages to natural resources and for potential fines or penalties in connection with such damage or with respect to the improper management of hazardous materials. Moreover, private plaintiffs may potentially make claims for investigation and remediation costs they incur or personal injury, disease, disability or other infirmities related to the alleged presence of hazardous materials at an apartment community. In addition to potential environmental liabilities or costs associated with our current apartment communities, we may also be responsible for such liabilities or costs associated with communities we acquire or manage in the future, or apartment communities we no longer own or operate.

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. The Fair Housing Amendments Act of 1988, or FHAA, requires apartment communities first occupied after March 13, 1991, to comply with design and construction requirements for disabled access. For those apartment communities receiving federal funds, the Rehabilitation Act of 1973 also has requirements regarding disabled access. These and other federal, state and local laws may require structural modifications to our apartment communities or changes in policy/practice, or affect renovations of the communities. 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 apartment communities are substantially in compliance with present requirements, we may incur unanticipated expenses to comply with the ADA, the FHAA and the Rehabilitation Act of 1973 in connection with the ongoing operation or redevelopment of our apartment communities.

Moisture infiltration and resulting mold remediation may be costly.

Although we are proactively engaged in managing moisture intrusion and preventing the presence of mold at our apartment communities, it is not unusual for periodic moisture intrusion to cause mold in isolated locations within an apartment community. We have implemented policies, procedures and training, and include a detailed moisture intrusion and mold assessment during acquisition due diligence. We believe these measures will manage mold exposure at our apartment communities 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. We have only limited insurance coverage for property damage claims arising from the presence of mold and for personal injury claims related to mold exposure.

Although we are insured for certain risks, the cost of insurance, increased claims activity or losses resulting from casualty events may affect our operating results and financial condition.

We are insured for a portion of our consolidated apartment communities' exposure to casualty losses resulting from fire, earthquake, hurricane, tornado, flood and other perils, which insurance is subject to deductibles and self-insurance retention. We recognize casualty losses or gains based on the net book value of the affected apartment community and the amount of any related insurance proceeds. In many instances, the actual cost to repair or replace the apartment community may exceed its net book value and any insurance proceeds. We recognize the uninsured portion of losses as casualty losses in the periods in which they are incurred. 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 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 to reduce our exposure to 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.

Natural disasters and severe weather may affect our operating results and financial condition.

Natural disasters such as earthquakes and severe weather such as hurricanes may result in significant damage to our apartment communities. The extent of our casualty losses and loss in operating income in connection with such 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 event (such as a hurricane) affecting a region may have a significant adverse effect on our financial condition and results of operations. We cannot accurately predict natural disasters or severe weather, or the number and type of such events that will affect us. As a result, our operating and financial results may vary significantly from one period to the next. Although we anticipate and plan for losses, there can be no assurance that our financial

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results will not be adversely affected by our exposure to losses arising from natural disasters or severe weather 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. We have a succession planning and talent development process that is designed to identify potential replacements and develop our team members to provide depth in the organization and a bench of talent on which to draw. However, 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.

Aimco may fail to qualify as a REIT.

If Aimco fails to qualify as a REIT, Aimco will not be allowed a deduction for dividends paid to its stockholders in computing its taxable income, and will be subject to United States federal income tax at regular corporate rates. This would substantially reduce our funds available for distribution to our investors. Unless entitled to relief under certain provisions of the Code, Aimco also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT. In addition, Aimco's failure to qualify as a REIT would place us in default under our revolving credit agreement.

We believe that Aimco operates, and has since its taxable year ended December 31, 1994, operated, in a manner that enables it to meet the requirements for qualification as a REIT for United States federal income tax purposes. Aimco's continued qualification as a REIT will depend on its satisfaction of certain asset, income, investment, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Aimco's 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 do not obtain independent appraisals. Aimco's compliance with the REIT annual 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 United States 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 Aimco to fail to qualify as a REIT, or Aimco's Board of Directors may determine to revoke its REIT status.

REIT distribution requirements limit our available cash.

As a REIT, Aimco is subject to annual distribution requirements. The Aimco Operating Partnership pays distributions intended to enable Aimco to satisfy its distribution requirements. This limits the amount of cash available for other business purposes, including amounts to fund our growth. Aimco generally must distribute annually at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, in order for its distributed earnings not to be subject to United States federal corporate income tax. We intend to make distributions to Aimco's 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 apartment communities or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

Aimco may be subject to federal and state income taxes, in certain circumstances.

Even if Aimco qualifies as a REIT, Aimco may be subject to United States federal income and excise taxes in various situations, such as on its undistributed income. Aimco could also be required to pay a 100% tax on any net income on non-arm's length transactions between Aimco and a taxable REIT subsidiary and on any net income from sales of apartment communities that were held for sale primarily in the ordinary course. State and local tax laws may not conform to the United States federal income tax treatment, and Aimco may be subject to state or local taxation in various state or local jurisdictions in which Aimco transacts business. Any taxes imposed on Aimco would reduce our operating cash flow and net income and could negatively impact our ability to pay dividends and distributions.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

REITs are entitled to a United States federal tax deduction for dividends paid to their stockholders. As compared to other taxable corporations, this ability to reduce or eliminate the REIT's taxable income by paying dividends to stockholders is a principal benefit of maintaining REIT status, generally resulting in a lower combined tax liability of the REIT and its stockholders as

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compared to that of the combined tax liability of other taxable corporations and their stockholders. Notwithstanding this combined benefit, dividends payable by REITs may result in marginally higher taxes to the stockholder. C-corporations are generally required to pay United States federal income tax on earnings. After tax earnings are then available for stockholder dividends. The maximum U.S. federal tax rate applicable to income from “qualified dividends” payable to United States stockholders that are individuals, trusts and estates is currently 20%, plus the 3.8% investment tax surcharge. While dividends payable by REITs are generally not eligible for the qualified dividend reduced rates, stockholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends from REITs. This deduction is available for taxable years beginning after December 31, 2017, and before January 1, 2026, and will generally cause the maximum tax rate for ordinary dividends from REITs to be 29.6%, plus the 3.8% investment tax surcharge. The more favorable tax rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporates that pay dividends, which could adversely affect the value of the shares of REITs, including Aimco Common Stock.

Changes to United States federal income tax laws could materially and adversely affect Aimco and Aimco’s stockholders.

The present United States federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the United States federal income tax treatment of an investment in Aimco Common Stock. The United States federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the United States Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. We cannot predict how changes in the tax laws might affect Aimco or Aimco’s stockholders. Revisions in federal tax laws and interpretations thereof could significantly and negatively affect Aimco’s ability to qualify as a REIT and the tax considerations relevant to an investment in Aimco Common Stock, or could cause Aimco to change its investments and commitments.

Government housing regulations may limit the opportunities at some of our apartment communities and failure to comply with resident qualification requirements may result in financial penalties and/or loss of benefits, such as rental revenues paid by government agencies. Additionally, the government may cease to operate or reduce funding for government housing programs which would result in a loss of benefits from those programs.

We own equity interests in entities that own certain apartment communities that benefit from governmental programs intended to provide housing to people with low or moderate incomes. These programs, which are usually administered by the United States Department of Housing and Urban Development, or HUD, or state housing finance agencies, typically provide one or more of the following: mortgage insurance; favorable financing terms; tax-exempt interest; historic or low-income housing tax credits; or rental assistance payments to the apartment community owners. As a condition of the receipt of assistance under these programs, the apartment communities must comply with various requirements, which typically limit rents to pre-approved amounts and limit our choice of residents to those with incomes at or below certain levels. Failure to comply with these requirements may result in financial penalties or loss of benefits. We are usually required to obtain the approval of HUD in order to acquire or dispose of a significant interest in or manage a HUD-assisted apartment community. We may not always receive such approval.

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

Aimco’s charter limits ownership of Common Stock by any single stockholder (applying certain “beneficial ownership” rules under the federal securities laws) to 8.7% (or up to 12.0% upon a waiver from Aimco’s Board of Directors) of outstanding shares of Common Stock, or 15% in the case of certain pension trusts, registered investment companies and Mr. Considine (or up to 18.0% for such pension trusts or registered investment companies upon a waiver from Aimco’s Board of Directors). Aimco’s charter also limits ownership of Aimco’s 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 Aimco’s capital stock if the purchase would result in Aimco losing its REIT status. This could happen if a transaction results in fewer than 100 persons owning all of Aimco’s 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 Aimco's 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 Aimco's books;
- we may institute legal action to enjoin the transaction;

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- 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 Aimco.

Aimco 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 dividends received from us as a result of his or her ownership of the shares.

Aimco's charter may limit the ability of a third-party to acquire control of Aimco.

The 8.7% and other ownership limits discussed above may have the effect of delaying or precluding acquisition by a third-party of control of Aimco without the consent of Aimco's Board of Directors. Aimco's charter authorizes its Board of Directors to issue up to 510,587,500 shares of capital stock. As of December 31, 2018, 500,787,260 shares were classified as Common Stock, of which 149,133,826 were outstanding, and 9,800,240 shares were classified as preferred stock, of which 5,000,000 were outstanding. Under Aimco's charter, its Board of Directors has the authority to classify and reclassify any of Aimco's unissued shares of capital stock into shares of capital stock with such preferences, conversion or other rights, voting power restrictions, limitations as to dividends, qualifications or terms or conditions of redemptions as the 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 Aimco, where there is a difference of opinion between the Aimco Board of Directors and others as to what is in Aimco's stockholders' best interests.

The Maryland General Corporation Law may limit the ability of a third-party to acquire control of Aimco.

As a Maryland corporation, Aimco is subject to various Maryland laws that may have the effect of discouraging offers to acquire Aimco and increasing the difficulty of consummating any such offers, where there is a difference of opinion between the Aimco Board of Directors and others as to what is in Aimco's stockholders' best interests. The Maryland General Corporation Law, specifically the Maryland Business Combination Act, restricts mergers and other business combination transactions between Aimco and any person who acquires, directly or indirectly, beneficial ownership of shares of Aimco's stock representing 10% or more of the voting power without Aimco's 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 66-2/3% of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. The Maryland General Corporation Law, specifically the Maryland Control Share Acquisition Act, provides generally that a person who acquires shares of Aimco's capital stock representing 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, the Maryland General Corporation 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. To date, Aimco has not adopted a stockholders' rights plan. In addition, the Maryland General Corporation Law provides that a corporation that:

- has at least three directors who are not officers or employees of the entity or related to an acquiring person; and
- has a class of equity securities registered under the Securities Exchange Act of 1934, as amended,

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may elect in its 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, Aimco has not made any of the elections described above.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Additional information about our consolidated apartment communities is contained in "Schedule III - Real Estate and Accumulated Depreciation" in this Annual Report on Form 10-K. Refer to Note 4 to the consolidated financial statements in Item 8 for additional information regarding property debt.

Our Real Estate portfolio is diversified by both price point and geography and consists of market rate apartment communities in which we own a substantial interest. Our Real Estate portfolio includes garden style, mid-rise and high-rise apartment communities located in 17 states and the District of Columbia. Our portfolio strategy seeks predictable rent growth from a portfolio of apartment communities diversified among some of the largest markets in the United States, and that is diversified across "A," "B" and "C+" price points, averaging "B/B+" in quality. As of December 31, 2018, our Real Estate portfolio consisted of roughly one-half "A" quality communities and one-half "B" and "C+" quality communities (as measured by gross asset value). Please refer to the Executive Overview heading under Item 7 for a description of our portfolio quality ratings. The following table sets forth information on the apartment communities in our Real Estate portfolio as of December 31, 2018:

	Number of Apartment Communities	Number of Apartment Homes	Average Economic Ownership
Atlanta	5	817	100 %
Bay Area	12	2,632	100 %
Boston	15	4,689	100 %
Chicago	10	3,246	100 %
Denver	8	2,151	98 %
Greater New York	18	1,040	100 %
Greater Washington, DC	14	5,900	100 %
Los Angeles	13	4,347	100 %
Miami	5	2,671	100 %
Philadelphia	8	2,638	97 %
San Diego	12	2,423	97 %
Seattle	2	239	100 %
Other markets	12	3,756	99 %
Total Real Estate portfolio	134	36,549	99 %

At December 31, 2018, we owned an equity interest in 134 apartment communities with 36,549 apartment homes in our Real Estate portfolio. We consolidated 130 of these apartment communities with 36,407 apartment homes. These consolidated apartment communities contained, on average, 280 apartment homes, with the largest community containing 2,113 apartment homes. These apartment communities offer residents a range of amenities, including resort pools with cabanas, grills, clubhouses, spas, fitness centers, package lockers, dog parks and large open spaces. Many of the apartment homes offer features such as granite countertops, wood flooring, stainless steel appliances, fireplaces, spacious closets, washer and dryer connections, balconies and patios.

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The majority of our consolidated apartment communities are encumbered by property debt. At December 31, 2018, apartment communities in our Real Estate portfolio were encumbered by, in aggregate, $3.9 billion of property debt with a weighted average interest rate of 4.18% and a weighted average maturity of 8.0 years. The apartment communities collateralizing this non-recourse property debt have an estimated aggregate fair value of $10.2 billion. At December 31, 2018, we held unencumbered apartment communities with an estimated fair value of approximately $2.7 billion.

Item 3. Legal Proceedings

As further discussed in Note 5 to the consolidated financial statements in Item 8, we are engaged in discussions with regulatory agencies regarding environmental matters at apartment communities we, or predecessor entities, previously owned. Although the outcome of these matters is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Aimco

Aimco's Common Stock has been listed and traded on the NYSE under the symbol "AIV" since July 22, 1994.

On February 15, 2019, there were 148,766,616 shares of Common Stock outstanding, held by 1,673 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 record holder.

From time to time, Aimco may issue shares of Common Stock in exchange for OP Units, defined under The Aimco Operating Partnership heading below. Please refer to Note 7 to the consolidated financial statements in Item 8 for further discussion of such exchanges. Aimco may also issue shares of Common Stock in exchange for limited partnership interests in consolidated real estate partnerships. During the year ended December 31, 2018, Aimco did not issue any shares of Common Stock in exchange for OP Units or limited partnership interests in consolidated real estate partnerships.

The following table summarizes Aimco's share repurchases (in thousands, except for per share data) for the three months ended December 31, 2018:

Fiscal period	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 (1)
October 1 - October 31, 2018	1,708	$ 43.91	1,708	17,616
November 1 - November 30, 2018	1,828	45.50	1,828	15,788
December 1 - December 31, 2018	4,683	46.00	4,683	11,105
Total	8,219	$ 45.43	8,219	

(1) Aimco's Board of Directors has, from time to time, authorized Aimco to repurchase shares of its outstanding capital stock. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

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Performance Graph

The following graph compares cumulative total returns for Aimco's Common Stock, the MSCI US REIT Index, the NAREIT Apartment Index, and the Standard & Poor's 500 Total Return Index (the "S&P 500"). The MSCI US REIT Index is published by Morgan Stanley Capital International Inc., a provider of equity indices. The NAREIT Apartment Index is published by The National Association of Real Estate Investment Trusts, or NAREIT, a representative of real estate investment trusts and publicly traded real estate companies with interests in United States real estate and capital markets. The MSCI REIT Index reflects total shareholder return for a broad range of REITs and the NAREIT Apartment Index provides a more direct multifamily peer comparison of total shareholder return. 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 to add companies to the index calculation as they become publicly traded companies. All companies that fit the definitional criteria and existed at the point in time presented are included in the index calculations. The graph assumes the investment of $100 in Aimco's Common Stock and in each index on December 31, 2013, and that all dividends paid have been reinvested. The historical information set forth below is not necessarily indicative of future performance.

	For the fiscal years ended December 31,					
Index	2013	2014	2015	2016	2017	2018
Aimco (1)	100.00	148.04	164.54	192.98	191.69	199.60
MSCI US REIT (1)	100.00	130.38	133.67	145.16	152.52	145.55
NAREIT Apartment Index (2)	100.00	139.62	162.60	167.24	173.46	179.88
S&P 500 (1)	100.00	113.69	115.26	129.05	157.22	150.33

(1) Source: S&P Global Market Intelligence © 2019

(2) Source: National Association of Real Estate Investment Trusts

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

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The Aimco Operating Partnership

Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common partnership units, which we refer to as common OP Units, as well as partnership preferred units, or preferred OP Units. There is no public market for the Aimco Operating Partnership's common partnership units, including OP Units, and we have no intention of listing the common partnership units on any securities exchange. In addition, the Aimco Operating Partnership's Partnership Agreement restricts the transferability of common partnership units, including OP Units.

At February 15, 2019, there were 158,495,487 common partnership units and equivalents outstanding (148,766,616 of which were held by Aimco) that were held by 2,515 unitholders of record.

The Aimco Operating Partnership's Partnership Agreement generally provides that after holding common OP Units for one year, limited partners other than Aimco have the right to redeem their common OP Units for cash or, at our election, shares of Aimco Common Stock on a one-for-one basis (subject to customary antidilution adjustments).

No common OP Units or preferred OP Units held by Limited Partners were redeemed for shares of Aimco Common Stock during the year ended December 31, 2018.

The following table summarizes the Aimco Operating Partnership's repurchases of common OP Units for the three months ended December 31, 2018:

Fiscal period	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Units that May Yet Be Purchased Under Plans or Programs
October 1 - October 31, 2018	11,150	$ 43.96	N/A	N/A
November 1 - November 30, 2018	3,765	43.47	N/A	N/A
December 1 - December 31, 2018	11,360	46.45	N/A	N/A
Total	26,275	$ 44.97		

Dividend and Distribution Payments

As a REIT, Aimco is required to distribute annually to holders of its Common Stock at least 90% of its "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. Aimco's Board of Directors determines and declares its dividends. In making a dividend determination, Aimco's Board of Directors considers a variety of factors, including: REIT distribution requirements; current market conditions; liquidity needs; and other uses of cash, such as for deleveraging and accretive investment activities. Aimco's Board of Directors targets a dividend payout ratio between 65% and 70% of Adjusted Funds From Operations.

In February 2019, the Aimco's Board of Directors declared a special dividend on the common stock that consists of $67.1 million in cash and 4.5 million shares of Class A Common Stock. The special dividend will be payable on March 22, 2019, to stockholders of record as of February 22, 2019. The special dividend amount includes the regular quarterly cash dividend, which for 2019 is expected to be $0.39 per share, which represents an increase of 3% compared to cash dividends paid during 2018. Stockholders will have the opportunity to elect to receive the special dividend in the form of all cash or all stock, subject to proration if either option is oversubscribed.

Stockholders receiving such dividend and any future dividend payable in cash and shares of Aimco Common Sock will be required to include the full amount of such dividends as ordinary income to the extent of Aimco's current and accumulated earnings and profits, as determined for United States federal income tax purposes for the year of such dividends, and may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. With respect to certain non-United States stockholders, Aimco may be required to withhold United States tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in Common

Stock.

The Board of Directors of the Aimco Operating Partnership's general partner determines and declares distributions on OP Units. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of and, as of December 31, 2018, owned a 94.3% ownership interest in the common partnership units of the Aimco Operating Partnership. The Aimco Operating Partnership holds all of Aimco's assets and manages the daily operations of Aimco's business. The distributions paid by the Aimco Operating Partnership to Aimco are used by Aimco to fund the dividends paid to its stockholders. Accordingly, the per share dividends Aimco pays to its stockholders generally equal the per unit distributions paid by the Aimco Operating Partnership to holders of its common partnership units.

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In February 2019, the Board of Directors of the Aimco Operating Partnership's general partner declared a special distribution on the common partnership units that consists of $71.5 million in cash and 4.8 million common partnership units. The special distribution will be payable on March 22, 2019, to unitholders of record as of February 22, 2019.

In order to neutralize the dilutive impact of the stock issued in the special dividend, Aimco's Board of Directors also authorized a reverse stock split in which every 1.03119 share of Class A Common Stock will be combined into one share of Class A Common Stock, effective at the close of business on February 20, 2019. The Board of Directors of the Aimco Operating Partnership's general partner authorized a corresponding reverse unit split to be effective concurrent with the Aimco reverse stock split. As a result, total shares and total units outstanding following completion of the transactions are expected to be unchanged from the total shares and units outstanding immediately prior to the transactions. Some stockholders may have more Aimco shares and some may have fewer based on their individual elections.

Our revolving credit agreement includes customary covenants, including a restriction on dividends and other restricted payments, but permits dividends and distributions during any four consecutive fiscal quarters in an aggregate amount of up to 95% of Aimco's Funds From Operations for such period, subject to certain non-cash adjustments, or such amount as may be necessary to maintain Aimco's REIT status.

Item 6. Selected Financial Data

The following selected financial data is based on audited historical financial statements of Aimco and the Aimco Operating Partnership. 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.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(dollar amounts in thousands, except per share data)				
OPERATING DATA:					
Total revenues	$972,410	$1,005,437	$995,854	$981,310	$984,363
Net income	716,603	347,079	483,273	271,983	356,111
Net income attributable to Aimco/the Aimco Operating Partnership per common share/unit – diluted	$4.21	$1.96	$2.67	$1.52	$2.06
BALANCE SHEET INFORMATION:					
Total assets	$6,190,004	$6,079,040	$6,232,818	$6,118,681	$6,068,631
Total indebtedness	4,075,665	3,861,770	3,648,206	3,599,648	3,852,885
Non-recourse property debt of partnerships served by Asset Management business	—	227,141	236,426	249,493	255,140
OTHER INFORMATION:					
Dividends/distributions declared per common share/unit	$1.52	$1.44	$1.32	$1.18	$1.04

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

Executive Overview

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

Our principal financial objective is to provide predictable and attractive returns to our equity holders. We measure our long-term total return using Economic Income, defined as Net Asset Value, or NAV, growth plus dividends. NAV is used by many investors because the value of company assets can be readily estimated, even for non-earning assets such as land or properties under development. NAV has the advantage of incorporating the investment decisions of thousands of real estate investors, enhancing comparability among companies that have differences in their accounting, avoiding disparity that can result from application of GAAP to investment properties and various ownership structures. Some investors focus on multiples of Adjusted Funds From Operations, or AFFO, and Funds From Operations, or FFO. Our disclosure of AFFO, a measure of current return, complements our focus on Economic Income. We also use Pro forma Funds From Operations, or Pro forma FFO, as a secondary measure of operational performance. Over the last five years, our Economic Income grew at a compound annual return of 11.5%

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as of September 30, 2018, comprised of a 8.5% compounded annual growth in net asset value, or NAV, per share and $6.36 in cash dividends per share paid over the period. In 2018, AFFO grew by 1.9% to $2.16 per share.
Our business and five areas of strategic focus are described in more detail within the Business Overview in Item 1. The results from execution of our business plan in 2018 are further described in the sections that follow.
Net income attributable to common stockholders per common share increased by $2.25 for the year ended December 31, 2018, as compared to 2017, primarily due to gains on the sale of the Asset Management Business and lower-rated apartment communities.
For the year ended December 31, 2018, our NAV per share increased by about 6%, which, with our cash dividend, provided Economic Income of 8.5%.
Pro forma FFO per share increased $0.02, or 0.8%, for the year ended December 31, 2018, as compared to 2017 due to the following items:

- $0.08 from Same Store property net operating income growth of 3.1%, driven by a 3.1% increase in revenue, offset by a 3.3% increase in expenses;
- $0.16 net operating income contribution from redevelopment communities and lease-up communities; partially offset by
- A reduction of $0.14 from apartment communities sold to fund our investment activities;
- A reduction of $0.03 from the sale of the Asset Management business, net of the contribution from the reinvestment of the proceeds in 2018 acquisitions and repayment of debt;
- A reduction of $0.05 from lower tax benefits and other items, net.

The $0.02 increase in year-over-year Pro forma FFO per share plus $0.02 in lower capital replacement spending due to fewer apartment homes increased AFFO by $0.04, or 1.9% per share.
Operational Excellence
We own and operate a portfolio of market rate apartment communities diversified by both geography and price point, which we refer to as our Real Estate portfolio. At December 31, 2018, our Real Estate portfolio included 134 apartment communities with 36,549 apartment homes in which we held an average ownership of approximately 99%. This portfolio was divided about two-thirds by value to our “Same Store” portfolio of stabilized apartment communities and about one-third by value to “Other Real Estate,” which includes recently acquired communities and communities under redevelopment or development whose long-term financial contribution is not yet stabilized.
Our property operations team produced solid results for our Real Estate portfolio for the year ended December 31, 2018. Highlights include:

- Average daily occupancy of 96.5%, 50 basis points higher than the year ended 2017;
- Same Store net operating income increased 3.1% with 74.2% net operating income margin; and
- Same Store rent increases on renewals and new leases averaged 4.5% and 1.5%, respectively, for a weighted average increase of 3.0%.

Our focus on efficient operations through productivity initiatives such as centralization of administrative tasks, optimization of economies of scale at the corporate level, and investment in more durable, longer-lived materials has helped us control operating expenses. These and other innovations contributed to limiting growth in controllable operating expense (defined as property expenses less taxes, insurance and utility expenses) compounding for the past decade at an annual rate of 0.1%.
For the year ended December 31, 2018, our Real Estate portfolio provided 72% net operating income margins and 67% Free Cash Flow margins.
Redevelopment
Our second line of business is the redevelopment and limited development of apartment communities. Through these activities, we expect to create value by repositioning communities within our portfolio. We measure the rate and quality of financial returns by NAV creation, an important component of Economic Income, our primary measure of long-term financial performance. Over the past five years, we have spent approximately $1.0 billion on redevelopment and development, resulting in estimated value creation of approximately $400.0 million. We also undertake limited ground-up development when warranted by risk-adjusted

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investment returns, either directly or in connection with the redevelopment of an existing apartment community. When warranted, we rely on the expertise and credit of a third-party developer familiar with the local market to limit our exposure to construction risk.

We invest to earn risk-adjusted returns in excess of those expected from the apartment communities sold in paired trades to fund the redevelopment or development. Of these two activities, we favor redevelopment because it permits adjustment to the scope and timing of spending to align with changing market conditions and customer preferences.

During the year ended December 31, 2018, we invested $175.9 million in redevelopment and development.

In Boulder, Colorado, we have invested $68.9 million in the development of Parc Mosaic, a 226-unit apartment home community. The site is two miles from the new Google campus and is across the street from Ball Aerospace's Technology Campus and Foothills Hospital. Building in Boulder is highly regulated and new supply is limited, notwithstanding higher enrollment at the University of Colorado and increased employment generally.

At the University of Colorado Anschutz Medical Campus, we exercised our option to acquire approximately two acres of land adjacent to our 21 Fitzsimons apartment community, and broke ground on the development of The Fremont, a 253-apartment home community. We expect to invest approximately $87.0 million to construct the community, which is expected to be ready for occupancy in late 2020.

We also commenced the next phase of redevelopment at our Flamingo community, located in Miami Beach, bringing our potential net investment to $39.7 million. This phase includes extensive redevelopment of retail, leasing, and common areas, including major enhancements to the entryway.

In Center City, Philadelphia, we completed the redevelopment of Park Towne Place, and as of December 31, 2018, we had leased 95.6% of the apartment homes at the community. This multi-year redevelopment of 940 apartment homes, amenities, and common area spaces, was executed on plan and leased-up in-line with expectations with expected free cash flow returns of greater than 9%.

In San Jose, California we completed the redevelopment of Saybrook Pointe, a 324-apartment home, garden-style community. Construction was completed on time and in-line with underwritten costs, and lease-up of the community finished ahead of schedule and at rates above underwriting, increasing the expected free cash flow return to greater than 14%, a 100 basis point outperformance to underwriting.

As of December 31, 2018, our total estimated net investment in redevelopment and development activities is $571.2 million, with a projected weighted average net operating income yield on these investments of 6.1%, assuming untrended rents. As of December 31, 2018, $361.0 million of this total has been funded.

During the year ended December 31, 2018, we leased 457 apartment homes at our redevelopment and development communities. At December 31, 2018, our exposure to lease-up at active redevelopment and development communities was approximately 366 apartment homes, of which 208 were being constructed at Parc Mosaic, and 158 were located in four other communities. Additionally, we expect to acquire One Ardmore in 2019 upon its completion as part of the Philadelphia portfolio acquisition announced in April 2018. This acquisition will increase our exposure to lease-up risk by approximately 100 apartment homes.

See below under the Liquidity and Capital Resources – Redevelopment/Development heading for additional information regarding our redevelopment and development investment during the year ended December 31, 2018.

Portfolio Management

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

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As part of our portfolio strategy, we seek to sell up to 10% of our portfolio annually and to reinvest the proceeds from such sales in accretive uses such as capital enhancements, redevelopments, limited developments and selective acquisitions with projected Free Cash Flow internal rates of return higher than expected from the communities being sold. Through this disciplined approach to capital recycling, we have significantly increased the quality and expected growth rate of our portfolio.

	Three Months Ended December 31,	
	2018	2015
Average Revenue per Aimco apartment home (1)	$2,126	$1,771
Portfolio Average Rents as a Percentage of Local Market Average Rents	113 %	111 %
Percentage A (4Q 2018 Average Revenue per Aimco Apartment Home $2,786)	51 %	51 %
Percentage B (4Q 2018 Average Revenue per Aimco Apartment Home $1,850)	33 %	32 %
Percentage C+ (4Q 2018 Average Revenue per Aimco Apartment Home $1,706)	16 %	17 %

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

The quality of our portfolio improved through value created by our redevelopment and transaction activities, contributing to the increase in average revenue per apartment home. Our average revenue per apartment home was $2,126 for the three months ended December 31, 2018, a 6.4% compounded annual growth rate compared to 2015. This increase is due to growth in Same Store revenue as well as our acquisition activities, lease-up of redevelopment and acquisition communities, and the sale of communities with average monthly revenues per apartment home lower than those of the retained portfolio.

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

Apartment Community Acquisitions

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

During the year ended December 31, 2018, we acquired six apartment communities. We acquired for $307.9 million four apartment communities in the Philadelphia area including 665 apartment homes and 153,000 square feet of office and retail space. We also acquired for $160.0 million Bent Tree Apartments, a 748-apartment home community in Fairfax County, Virginia, and for $29.7 million Avery Row, a 67-apartment home community in Arlington, Virginia. In addition to the four communities in Philadelphia that were acquired in 2018, we also agreed last year to purchase a fifth community, One Ardmore, upon completion of its construction in the first half of 2019.

Dispositions

During the year ended December 31, 2018, we sold for $590.0 million our Asset Management business and four affordable apartment communities located in the Hunters Point area of San Francisco. After payment of transaction costs and repayment of property-level debt encumbering the Hunters Point apartment communities, net proceeds to us were $512.2 million.

During the year ended December 31, 2018, we also sold for $242.3 million four apartment communities with 1,334 apartment homes, which were previously included in our Real Estate segment. Net proceeds to us were $230.1 million. Two of these apartment communities were located in southern Virginia, one was located in suburban Maryland, and one was located in northern Philadelphia.

During the year ended December 31, 2018, we sold our interests in the entities owning the La Jolla Cove property in settlement of legal actions filed in 2014 by a group of disappointed buyers who had hoped to acquire the property. We provided seller financing with a stated value of $48.6 million and received net cash proceeds of approximately $5.0 million upon the sale.

In January 2019, we sold two apartment communities with 782 apartment homes for gross proceeds of $141.2 million. One community was located in Schaumberg, Illinois and the other located in Virginia Beach, Virginia.

Proceeds from the 2018 and 2019 sales were used to fund accretive investments in community acquisitions, capital enhancements, redevelopments and share repurchases, representing continued execution of our paired trade strategy. This reallocation of $1.1 billion in capital increased expected Free Cash Flow internal rates of return by 420 basis points.

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Balance Sheet

Leverage

Our leverage strategy seeks to increase financial returns while using leverage with appropriate caution. We limit risk through balance sheet structure, employing low leverage, primarily non-recourse and long-dated property debt; build financial flexibility by maintaining ample unused and available credit as well as holding properties with substantial value unencumbered by property debt; and use partners' capital when it enhances financial returns or reduces investment risk.

Our leverage includes our share of long-term, non-recourse property debt encumbering apartment communities, outstanding borrowings on the revolving credit facility and outstanding preferred equity. For additional information regarding our leverage, please see the discussion under the Liquidity and Capital Resources heading.

Leverage Ratios

We target the ratio of Proportionate Debt and Preferred Equity to Adjusted EBITDA to be below 7.0x and we target the ratio of Adjusted EBITDA to Adjusted Interest Expense and Preferred Dividends to be greater than 2.5x. Our leverage ratios for the three months ended December 31, 2018, are presented below:

Proportionate Debt to Adjusted EBITDA	6.8x
Proportionate Debt and Preferred Equity to Adjusted EBITDA	7.2x
Adjusted EBITDA to Adjusted Interest Expense	3.8x
Adjusted EBITDA to Adjusted Interest Expense and Preferred Dividends	3.4x

Our Adjusted EBITDA has been calculated on a pro forma basis to adjust for significant items impacting the three months ended December 31, 2018 for which annualization would distort the results. Leverage ratios are elevated by 0.5x due to the use of debt to fund temporarily the Aimco common share repurchases completed during the three months ended December 31, 2018. We intend to reduce our Proportionate Debt and Preferred Equity to Adjusted EBITDA to 6.9x by the end of 2019 from earnings growth, primarily due to increasing contribution from Same Store apartment communities and reduction of debt balances due to regularly-scheduled debt amortization and apartment community sales, partially offset by the loss of earnings from communities sold. As used in the ratios above, Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP units.

Refinancing Activity

During the year ended December 31, 2018, we addressed approximately half of our property loans maturing in 2019, 2020, and 2021. We placed $867.4 million of new loans, $740.4 million of fixed-rate loans at a weighted average interest rate of 4.20% and a weighted average term of 9.3 years, and $127.0 million of variable-rate loans with rates floating at 115 basis points over 30-day LIBOR and a weighted average term of 5.1 years. This refinancing activity results in an annual interest savings of $13.0 million.

Liquidity

Our liquidity consists of cash balances and available capacity on our revolving line of credit. During the year ended December 31, 2018, we exercised our option to expand our revolving credit facility by $200.0 million, bringing the total borrowing capacity to $800.0 million. As of December 31, 2018, we had cash and restricted cash of $72.6 million and had the capacity to borrow up to $632.5 million on our revolving credit facility, after consideration of $7.1 million letters of credit backed by the facility. We use our credit facility primarily for working capital and other short-term purposes and to secure letters of credit.

We manage our financial flexibility by maintaining an investment grade rating and holding apartment communities that are unencumbered by property debt. At December 31, 2018, we held unencumbered apartment communities with an estimated fair market value of approximately $2.7 billion, up 50% from December 31, 2017.

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

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Equity Capital Activities

During the year ended December 31, 2018, we repurchased 8.7 million shares of common stock, of which 0.5 million settled in January 2019, all for $394.1 million, at a weighted average price of $45.33 per share, approximately a 20% discount to our published NAV per share. Approximately half of the repurchases were funded with proceeds from 2018 and January 2019 property sales at a premium to the values ascribed to these communities in our published NAV. The remaining half of repurchases are temporarily funded with borrowings on our credit facility. We expect to repay these borrowings with proceeds from the sale of communities now under contract, again at prices greater than those used in our published NAV. With the completion of these transactions, we will have increased NAV by an estimated $0.67 per share.

The 2019 property sales necessary to fund our share repurchases are expected to generate taxable gains of $285 million, which is in excess of our regular quarterly dividend. Accordingly, on February 3, 2019, Aimco's Board of Directors declared a special dividend on the common stock that consists of $67.1 million in cash and 4.5 million shares of common stock. The special dividend will be payable on March 22, 2019, to stockholders of record as of February 22, 2019. The special dividend also includes the regular quarterly cash dividend, which for 2019 is expected to be $0.39 per share, which represents an increase of 3% compared to cash dividends paid during 2018.

Stockholders will have the opportunity to elect to receive the special dividend in the form of all cash or all stock, subject to proration if either option is oversubscribed. Based on Aimco's closing share price on February 15, 2019, we estimate the aggregate value of the special dividend to be approximately $290.3 million. However, the actual value will vary depending on the price of Aimco common stock on the dividend valuation dates (March 11 and 12, 2019).

In order to neutralize the dilutive impact of the stock issued in the special dividend, Aimco's Board also authorized a reverse stock split, effective on February 20, 2019. As a result, total shares outstanding following completion of both the special dividend and the reverse stock split are expected to be unchanged from the total shares outstanding immediately prior to the transactions. Some stockholders may have more Aimco shares and some may have fewer based on their individual elections. The reverse split will facilitate comparability of Aimco per share results before and after these transactions.

In aggregate, these transactions:

- Increase NAV per share by 1%;
- Do not affect Aimco's regular quarterly cash dividend;
- Reduce the number of Aimco shares outstanding by 6% (as a result of the share repurchases);
- Minimize the aggregate tax paid by Aimco and its stockholders;
- Are leverage neutral; and
- Result in no change in the number of shares outstanding (as a result of the special dividend and the reverse stock split), thereby improving comparability of per share results.

Team and Culture

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

Key Financial Indicators

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

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Results of Operations

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

The following discussion and analysis of the results of our operations and financial condition should be read in conjunction with the accompanying consolidated financial statements in Item 8.

Overview

2018 compared to 2017

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership increased by $350.5 million and $370.4 million, respectively, for the year ended December 31, 2018 as compared to 2017. The increase in income was primarily due to an increase in gain on dispositions of real estate, including the 2018 sale of our Asset Management business, and results of operations described more fully below, partially offset by an increase in depreciation and amortization resulting from redeveloped and developed apartment homes placed into service.

2017 compared to 2016

Net income attributable to Aimco and net income attributable to the Aimco Operating Partnership decreased by $114.6 million and $120.0 million, respectively, for the year ended December 31, 2017 as compared to 2016. The decrease in income was principally due to a decrease in gain on dispositions of real estate and an increase in depreciation and amortization resulting from redeveloped apartment homes placed into service and the completion of One Canal and the acquisition of Indigo in 2016, partially offset by improved operating results.

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

Property Operations

As described under the preceding Executive Overview heading, we have a single reportable segment, Real Estate, which consists of market rate apartment communities in which we hold a substantial equity ownership interest.

We use proportionate property net operating income to assess the operating performance of our Real Estate portfolio. Proportionate property net operating income reflects our share of rental and other property revenues, excluding resident utility reimbursement, less direct property operating expenses, net of resident utility reimbursement, and including real estate taxes, for consolidated apartment communities we manage. Accordingly, the results of operations of our Real Estate segment discussed below are presented on a proportionate basis and exclude the results of four apartment communities with 142 apartment homes that we neither manage nor consolidate. Beginning in 2018, our segment results below reflect utility reimbursements as a reduction of the corresponding expense. We have revised the 2017 and 2016 amounts to conform to this presentation.

We do not include offsite costs associated with property management or casualty-related amounts in our assessment of segment performance. Accordingly, these items are not allocated to our segment results discussed below.

Refer to Note 12 to the consolidated financial statements in Item 8 for further discussion regarding our reportable segment, including a reconciliation of these proportionate amounts to consolidated rental and other property revenues and property operating expenses.

Real Estate Proportionate Property Net Operating Income

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

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As of December 31, 2018, our Real Estate segment consisted of 93 Same Store communities with 25,905 apartment homes and 35 Other Real Estate communities with 9,720 apartment homes.

From December 31, 2017 to December 31, 2018, on a net basis, our Same Store portfolio increased by one community and decreased by 481 apartment homes. These changes consisted of:

- the addition of one developed apartment community with 91 apartment homes and one redeveloped apartment community with 104 apartment homes that were classified as Same Store upon maintaining stabilized operations for the entirety of the periods presented;
- the addition of one acquired apartment community with 115 apartment homes that was classified as Same Store because we have now owned it for the entirety of the periods presented;
- the addition of one apartment community with 492 apartment homes which we no longer expect to sell within 12 months;
- the reduction of one apartment community with 821 apartment homes sold during the period;
- the reduction of one apartment community with 94 apartment homes we expect to sell during 2019; and
- the reduction of one apartment community with 368 apartment homes classified as held for sale at December 31, 2018.

As of December 31, 2018, our Other Real Estate communities included:

- 13 apartment communities with 6,294 apartment homes in redevelopment or development;
- 7 apartment communities with 1,943 apartment homes recently acquired; and
- 15 apartment communities with 1,483 apartment homes that do not meet the definition of Same Store because they are either subject to agreements that limit the amount by which we may increase rents or have not reached or maintained a stabilized level of occupancy as of the beginning of a two-year comparable period, often due to a casualty event.

Our Real Estate segment results for the years ended December 31, 2018 and 2017, as presented below, are based on the apartment community classifications as of December 31, 2018.

	Year Ended December 31,			
(in thousands)	2018	2017	$ Change	% Change
Rental and other property revenues before utility reimbursements:				
Same Store communities	$580,536	$563,040	$17,496	3.1 %
Other Real Estate communities	273,704	218,154	55,550	25.5 %
Total	854,240	781,194	73,046	9.4 %
Property operating expenses, net of utility reimbursements:				
Same Store communities	150,042	145,301	4,741	3.3 %
Other Real Estate communities	88,818	77,430	11,388	14.7 %
Total	238,860	222,731	16,129	7.2 %
Proportionate property net operating income:				
Same Store communities	430,494	417,739	12,755	3.1 %
Other Real Estate communities	184,886	140,724	44,162	31.4 %
Total	$615,380	$558,463	$56,917	10.2 %

For the year ended December 31, 2018 compared to 2017, our Real Estate segment's proportionate property net operating income increased $56.9 million, or 10.2%.

Same Store proportionate property net operating income increased by $12.8 million, or 3.1%. This increase was primarily attributable to a $17.5 million, or 3.1%, increase in rental and other property revenues due to higher average monthly revenues of $50 per Aimco apartment home comprised of increases in rental rates and a 50 basis point increase in average daily occupancy. Renewal rents, which is the rent paid by an existing resident who renewed a lease compared to the rent paid prior to renewal, were up 4.5% for the year ended December 31, 2018, and new lease rents, which is the rent paid by a new resident compared to the rent paid by the previous resident of the same apartment home, were up 1.5%, resulting in a weighted average increase of 3.0%. The increase in Same Store rental and other property revenues was partially offset by a $4.7 million, or 3.3%, increase in property operating expenses, primarily due to increases in real estate taxes and repairs and maintenance costs. During the year ended

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December 31, 2018 compared to 2017, controllable operating expenses, which exclude utility costs, real estate taxes and insurance, increased by $1.5 million, or 2.0%.

The proportionate property net operating income of Other Real Estate communities increased by $44.2 million, or 31.4%, for the year ended December 31, 2018 compared to 2017 primarily due to:

- a $24.1 million increase in property net operating income due to the 2018 acquisition of the four Philadelphia communities, Bent Tree Apartments and Avery Row, as well as the stabilization of Indigo;
- an $11.0 million increase in property net operating income due to leasing activities at redevelopment and development communities, partially offset by decreases due to apartment homes taken out of service for redevelopment; and
- higher property net operating income of $9.1 million from other communities, primarily the effect of our increased ownership interest in the Palazzo communities from our June 2017 reacquisition of a 47% limited partner interest in the related joint venture.

As of December 31, 2017, as defined by our segment performance metrics, our Real Estate portfolio consisted of 90 Same Store apartment communities with 25,197 apartment homes and 32 Other Real Estate communities with 8,845 apartment homes.

As of December 31, 2017, our Other Real Estate communities included:

- 15 apartment communities with 6,386 apartment homes in redevelopment or development;
- 2 apartment communities with 578 apartment homes recently acquired; and
- 15 apartment communities with 1,881 apartment homes that do not meet the definition of Same Store because they are either subject to agreements that limit the amount by which we may increase rents or have not reached or maintained a stabilized level of occupancy as of the beginning of a two-year comparable period, often due to a casualty event.

Our Real Estate segment results for the years ended December 31, 2017 and 2016, as presented below, are based on the apartment community classifications as of December 31, 2017, and exclude amounts related to apartment communities sold or classified as held for sale during 2018. The results of operations for these communities are reflected in the comparable periods in the tables below.

	Year Ended December 31,			
(in thousands)	2017	2016	$ Change	% Change
Rental and other property revenues before utility reimbursements:				
Same Store communities	$547,912	$530,619	$17,293	3.3 %
Other Real Estate communities	233,282	189,683	43,599	23.0 %
Total	781,194	720,302	60,892	8.5 %
Property operating expenses, net of utility reimbursements:				
Same Store communities	141,773	140,007	1,766	1.3 %
Other Real Estate communities	80,958	70,419	10,539	15.0 %
Total	222,731	210,426	12,305	5.8 %
Proportionate property net operating income:				
Same Store communities	406,139	390,612	15,527	4.0 %
Other Real Estate communities	152,324	119,264	33,060	27.7 %
Total	$558,463	$509,876	$48,587	9.5 %

For the year ended December 31, 2017 compared to 2016, our Real Estate segment's proportionate property net operating income increased $48.6 million, or 9.5%.

Same Store proportionate property net operating income increased by $15.5 million, or 4.0%. This increase was primarily attributable to a $17.3 million, or 3.3%, increase in rental and other property revenues due to higher average revenues of approximately $59 per effective home, comprised primarily of increases in rental rates. Renewal rents, which is the rent paid by an existing resident who renewed a lease compared to the rent paid prior to renewal, were up 4.6% for the year ended December 31, 2017, and new lease rents, which is the rent paid by a new resident compared to the rent paid by the previous resident of the same apartment home, were up 0.6%, resulting in a weighted average increase of 2.5%. The increase in Same Store rental and other property revenues was partially offset by a $1.8 million, or 1.3%, increase in property operating expenses, primarily due to

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increases in real estate taxes. During the year ended December 31, 2017 compared to 2016, controllable operating expenses, which exclude utility costs, real estate taxes and insurance, decreased by $1.6 million, or 2.1%.

The proportionate property net operating income of Other Real Estate communities increased by $33.1 million, or 27.7%, for the year ended December 31, 2017 compared to 2016 primarily due to:

- redevelopment and lease-up activities during the year ended December 31, 2017, which helped contribute to incremental property net operating income of $20.9 million compared to 2016; and
- higher property net operating income of $12.0 million from other communities, including the effect of our increased ownership interest in the Palazzo communities from our June 2017 reacquisition of the 47% limited partner interest in the related joint venture.

Non-Segment Real Estate Operations

Operating income amounts not attributed to our Real Estate segment include offsite costs associated with property management, casualty losses, and the results of apartment communities sold or held for sale, reported in consolidated amounts, which we do not allocate to our Real Estate segment for purposes of evaluating segment performance, as described in Note 12 to the consolidated financial statements in Item 8.

For the years ended December 31, 2018, 2017 and 2016, casualty losses totaled $4.0 million, $8.2 million and $5.6 million, respectively. Casualty losses during the year ended December 31, 2018 included several claims, primarily due to storm and fire damage, partially offset by recovery from insurance carriers for insured losses in excess of policy limits. Casualty losses were elevated during the year ended December 31, 2017, primarily due to hurricane damage.

For the years ended December 31, 2018, 2017 and 2016, apartment communities previously in our Real Estate portfolio that were sold or classified as held for sale generated net operating income of $22.3 million, $59.6 million and $79.7 million, respectively.

Asset Management Results

Prior to the July 2018 sale of our Asset Management business, we provided asset management and other services to certain consolidated partnerships owning apartment communities that qualify for low-income housing tax credits and are structured to provide for the pass-through of tax credits and tax deductions to their partners.

Contribution from Asset Management in our consolidated financial statements included: fees and other amounts paid to us from the net operating income of partnerships served by our Asset Management business, less interest expense incurred on non-recourse property debt obligations of the partnerships; income associated with delivery of tax credits to the third-party investors in the partnerships; and transactional revenue and other income less asset management expenses, which included certain allocated offsite costs related to the operation of this business.

For the year ended December 31, 2018 compared to 2017, contribution from Asset Management decreased $19.3 million due to its July 2018 sale.

For the year ended December 31, 2017 compared to 2016, contribution from Asset Management decreased $8.8 million due to decreases in tax credit income as the result of delivering final credits and acquiring certain partners' interests in the partnerships, as well as transactional revenues.

Depreciation and Amortization

For the year ended December 31, 2018 compared to 2017, depreciation and amortization expense increased by $11.6 million primarily due to apartment homes acquired in 2018 and renovated apartment homes placed in service after their completion, partially offset by decreases associated with apartment communities sold.

For the year ended December 31, 2017 compared to 2016, depreciation and amortization expense increased by $33.1 million primarily due to renovated apartment homes placed in service after their completion, a full year of depreciation following the 2016 completion of our One Canal development and 2016 acquisition of Indigo, and other capital additions, partially offset by decreases associated with apartment communities sold.

General and Administrative Expenses

In recent years, we have worked toward simplifying our business, including the sale of our Asset Management Business, which allowed us to reduce overhead and other costs. This simplification and our scale reductions have allowed us to reduce our offsite

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costs, which consist of general and administrative expenses, property management expenses and investment management expenses, by $6.4 million, or 8.6%, over the last three years.

For the year ended December 31, 2018 compared to 2017, general and administrative expenses increased $2.6 million, primarily due to higher variable incentive compensation cost.

For the year ended December 31, 2017 compared to 2016, general and administrative expenses decreased $3.1 million, primarily due to lower personnel and related costs including incentive compensation, professional services, technology costs and other corporate costs.

Other Expenses, Net

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

For the year ended December 31, 2018 compared to 2017, other expenses, net decreased by $7.4 million, primarily due to the resolution of our litigation against Airbnb, and settlement of litigation related to the challenge to the title of the La Jolla Cove property which we acquired in 2014.

For the year ended December 31, 2017 compared to 2016, other expenses, net decreased by $3.1 million. The decrease was primarily due to the 2016 recognition of estimated future environmental clean-up and abatement costs associated with the matters discussed in Note 5 to the consolidated financial statements in Item 8, partially offset by legal costs we incurred related to a challenge to the title of the La Jolla Cove property.

Provision for Real Estate Impairment Loss

We recognized no provisions for impairment losses during the years ended December 31, 2018 or 2016.

During the year ended December 31, 2018, we agreed to sell our interests in the entities owning the La Jolla Cove property in settlement of legal actions filed in 2014 by a group of disappointed buyers who had hoped to acquire the property. As a result of the settlement, we recognized in our 2017 results a gross impairment loss of $35.8 million, $25.6 million of which related to the establishment of a deferred tax liability assumed in connection with our acquisition of the business entities. The tax liability was assumed by the buyer, resulting in no economic loss to us. The remaining $10.2 million loss was offset by cash distributions paid to us during our ownership and avoided legal costs for continued litigation. On an economic basis, we agreed to sell these entities at roughly our purchase price, adjusted for retained cash distributions and avoided legal costs.

Interest Income

For the year ended December 31, 2018 compared to 2017, interest income increased $2.6 million, primarily due to interest earned on the seller financing notes received as consideration in the sale of the La Jolla Cove property.

Interest Expense

For the year ended December 31, 2018 compared to 2017, interest expense, which includes the amortization of debt issuance costs and amortization of deferred financing costs, increased by $6.0 million, or 3.1%. The increase was primarily due to debt prepayment penalties of $14.9 million incurred in connection with 2018 property-level debt refinancing activity undertaken to refinance property-level debt that was scheduled to mature in 2019, 2020, and 2021, partially offset by a decrease in mortgage interest expense for communities sold and the sale of the Asset Management business in July 2018, and lower corporate-level interest.

For the year ended December 31, 2017 compared to 2016, interest expense decreased by $1.8 million, or 0.9%. The decrease was primarily due to lower average outstanding balances on non-recourse property debt for our Real Estate apartment communities and lower interest rates, resulting in an $11.9 million reduction in interest expense. These decreases were partially offset by higher amounts outstanding on corporate borrowings (including our term loan and incremental line borrowings used to temporarily fund the reacquisition of the Palazzo limited partner interests) and a decrease in capitalized interest associated with our redevelopment and development activities.

Other, Net

Other, net includes our equity in the income or loss of unconsolidated real estate partnerships, and the results of operations related to the NAPICO business, which we accounted for under the profit sharing method prior to the derecognition of the final property during 2017.

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For the year ended December 31, 2018 compared to 2017, other, net decreased by $7.4 million, primarily due to the derecognition of the final NAPICO property in 2017, which resulted in a gain. For the year ended December 31, 2017 compared to 2016, other, net increased by $2.1 million, also attributed to gain recognized upon the derecognition of a NAPICO property.

Gain on Dispositions of Real Estate

The table below summarizes dispositions of apartment communities from our Real Estate portfolio during the years ended 2018, 2017 and 2016 (dollars in millions):

	December 31,		
	2018	2017	2016
Real Estate			
Number of apartment communities sold	4	5	7
Gross proceeds	$242.3	$397.0	$517.0
Net proceeds (1)	$235.7	$385.3	$511.0
Gain on disposition	$175.2	$297.9	$383.6

(1) Net proceeds are after repayment of debt, if any, net working capital settlements, payment of transaction costs and debt prepayment penalties, if applicable.

The apartment communities sold from our Real Estate portfolio during 2018, 2017 and 2016 were primarily located outside of our primary markets or in lower-rated locations within our primary markets and had average revenues per apartment home significantly below those of our retained portfolio.

During the year ended December 31, 2018, we sold for $590 million our Asset Management business and our four Hunters Point communities. Please refer to Note 3 to the consolidated financial statements in Item 8 for further details regarding this sale.

Income Tax Benefit

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

Our income tax benefit calculated in accordance with GAAP includes: (a) income taxes associated with the income or loss of our TRS entities, for which the tax consequences have been realized or will be realized in future periods; (b) low income housing tax credits generated prior to the sale of our Asset Management business that offset REIT taxable income, primarily from retained capital gains; and (c) historic tax credits that offset income tax obligations of our TRS entities. Income taxes related to these items, as well as changes in valuation allowance and the establishment of incremental deferred tax items in conjunction with intercompany asset transfers (if applicable), are included in income tax benefit in our consolidated statements of operations.

For the year ended December 31, 2018 compared to 2017, income tax benefit decreased by $17.8 million, from $30.8 million to $13.0 million. The decrease is primarily due to the reversal of a $19.3 million net tax benefit we recognized as a result of the December 2017 tax reform legislation in 2017 (as further discussed in Note 9 to the consolidated financial statements in Item 8) and higher tax expense related to gains on sale of real estate for communities held through TRS entities.

For the year ended December 31, 2017 compared to 2016, income tax benefit increased by $12.0 million, from $18.8 million to $30.8 million. The increase is primarily due to lower tax expense on the gains of sale of apartment communities, higher net operating losses at the TRS entities (including the La Jolla Cove impairment loss discussed above), higher tax benefit associated with low-income housing tax credits, and the $0.5 million net tax benefit we recognized for December 2017 tax reform legislation (as further discussed in Note 9 to the consolidated financial statements in Item 8).

Noncontrolling Interests in Consolidated Real Estate Partnerships

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

For the years ended December 31, 2018, 2017 and 2016, we allocated net income of $8.2 million, $9.1 million, and $25.3 million, respectively, to noncontrolling interests in consolidated real estate partnerships. The amount of net income allocated to noncontrolling interests was driven by three primary factors: the operations of the consolidated apartment communities; gains on the sale of apartment communities with noncontrolling interest holders; and the results of operations of the NAPICO business, as further discussed below.

- The amount of net income allocated to noncontrolling interests resulting from operations of the consolidated apartment communities was $0.3 million, $2.4 million and $4.4 million for the years ended December 31, 2018, 2017 and 2016.
- Gains on the sale of apartment communities allocated to noncontrolling interests totaled $7.9 million, $7.3 million and $13.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.
- We derecognized the NAPICO business in two transactions, which occurred in 2017 and 2016. We allocated an $8.1 million gain on sale and a $0.6 million net loss, respectively, to the noncontrolling interest holders in connection with the 2017 and 2016 transactions.

Net Income Attributable to Aimco Preferred Stockholders and the Aimco Operating Partnership's Preferred Unitholders

Net income attributable to Aimco preferred stockholders and the Aimco Operating Partnership's preferred unitholders decreased by $3.4 million and $2.9 million, respectively, during the year ended December 31, 2017 as compared to 2016. These decreases were primarily due to Aimco's redemption of its Class Z Preferred Stock in 2016.

Noncontrolling Interests in Aimco Operating Partnership

In Aimco's consolidated financial statements, noncontrolling interests in the Aimco Operating Partnership reflects the results of the Aimco Operating Partnership that are allocated to the OP Unit holders. Allocations to noncontrolling interests in the Aimco Operating Partnership fluctuate in proportion to variations in net income, as described above. For the year ended December 31, 2018 compared to 2017, net income allocated to noncontrolling interests in the Aimco Operating Partnership increased $20.0 million primarily due to the increase in net income, as well as an increase in the percentage allocated following the issuance of OP Units as partial consideration for the acquisition of the four Philadelphia properties, discussed further in Note 3 to the consolidated financial statements. Net income allocated to noncontrolling interests in the Aimco Operating Partnership for the year ended December 31, 2017 decreased $5.9 million as compared to 2016 due to the decrease in net income between the periods.

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.

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital additions activities, including redevelopments and developments, other tangible apartment community improvements and replacements of existing apartment community 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 additions activities at the apartment community level. We characterize as "indirect costs" an allocation of certain department costs, including payroll, at the area operations and corporate levels that clearly relate to capital additions activities. We also capitalize interest, property taxes and insurance during periods in which redevelopments and developments are in progress. We commence capitalization of costs, including certain indirect costs, incurred in connection with our capital addition activities, at the point in time when activities necessary to get apartment communities ready for their intended use begin. These activities include when apartment communities or apartment homes are undergoing physical construction, as well as when apartment homes are held vacant in advance of planned construction, provided that other activities such as permitting, planning and design are in progress. We cease the capitalization of costs when the apartment communities or components thereof are substantially complete and ready for their intended use, which is typically when construction has been completed and apartment homes are available for occupancy. We charge costs including ordinary repairs, maintenance and resident turnover costs to property operating expense, as incurred. Refer to the discussion of investing activities within the Liquidity and Capital Resources section for a summary of costs capitalized during the periods presented.

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 an apartment community 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 apartment community. If the carrying amount exceeds the estimated aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the apartment community.

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As part of our portfolio strategy, we seek to sell up to 10% of our portfolio annually and to reinvest the proceeds from such sales in accretive uses such as capital enhancements, redevelopments, occasional developments, and selective acquisitions with projected Free Cash Flow internal rates of return higher than expected from the communities being sold. As we execute this strategy, we evaluate alternatives to sell or reduce our interest in apartment communities that do not align with our long-term investment strategy, although there is no assurance that we will sell or reduce our investment in such apartment communities during the desired time frame. For any apartment communities that are sold or meet the criteria to be classified as held for sale during the next 12 months, the reduction in the estimated holding period for these apartment communities may result in impairment losses.

Non-GAAP Measures

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

We measure our long-term total return using Economic Income, which is a non-GAAP financial measure and is defined and further described below under the Economic Income heading.

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

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

Economic Income

Economic Income represents stockholder value creation as measured by the change in estimated NAV per share plus cash dividends per share. We believe Economic Income is important to investors as it represents a measure of the total return we have earned for our stockholders. NAV, as used in our calculation of Economic Income, is a non-GAAP measure and represents the estimated fair value of assets net of liabilities attributable to Aimco's common stockholders and the Aimco Operating Partnership's common unitholders on a diluted basis. We believe NAV is considered useful by some investors in real estate companies because the value of company assets can be readily estimated, even for non-earning assets such as land or properties under development. NAV has the advantage of incorporating the investment decisions of thousands of real estate investors. We believe it enhances comparability among companies that have differences in their accounting. While NAV is not identical to liquidation value in that some costs and benefits are disregarded, it is often considered a floor with upside for value ascribed to the operating platform. NAV also provides an objective basis for the perceived quality and predictability of future cash flows as well as their expected growth as these are factors considered by real estate investors.

Our estimated NAV per share and the quoted share price of Aimco Common Stock are not necessarily equal. Although we use Economic Income and NAV for comparability in assessing our value creation compared to other REITs, not all REITs publish these measures and those who do may not compute them in the same manner. Accordingly, there can be no assurance that our basis for computing these measures is comparable with that of other REITs.

We report NAV on a semiannual basis, as of the end of the first and third quarters. Economic Income for 2018 was calculated using the change in NAV per share between September 30, 2017 and 2018. NAV will fluctuate over time. This NAV information should not be relied upon as representative of the amount a stockholder could expect to receive in a liquidation event, now or in the future. Certain assets are excluded as are certain liabilities, such as taxes and transaction costs associated with a liquidation. In addition, NAV is based on management’s subjective judgments, assumptions and opinions as of the date of determination. We assume no obligation to revise or update NAV to reflect subsequent or future events or circumstances. Our NAV estimate is subject to a variety of risks and uncertainties, many of which are beyond our control, including, without limitation, those described in Item 1A. Risk Factors.

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A reconciliation of NAV to Aimco's total equity, which we believe is the most directly comparable GAAP measure, as of September 30, 2018, is provided below (in millions, except per share data):

Total equity			$2,194
Fair value adjustment for Real Estate portfolio			
Less: consolidated real estate, at depreciated cost		$(5,731)	
Plus: fair value of real estate (1)			
Stabilized portfolio fair value (2)	$10,806		
Non-stabilized portfolio fair value (3)	2,052		
Total real estate at fair value		12,858	
Adjustment to present real estate at fair value			7,127
Fair value adjustment for total indebtedness			
Plus: consolidated total indebtedness, net related to Real Estate portfolio		3,647	
Less: fair value of indebtedness related to real estate shown above (4)		(3,591)	
Adjustment to present indebtedness at fair value			56
Adjustments to present other tangible assets, liabilities and preferred equity at fair value (5)			(155)
Estimated NAV			$9,222
Total shares, units and dilutive share equivalents (6)			166
Estimated NAV per weighted average common share and unit - diluted			$56

(1) We compute NAV by estimating the value of our communities, using methods we believe are appropriate based on the characteristics of the communities. For purposes of estimating NAV, real estate at fair value disclosed above includes wholly owned apartment communities plus our proportionate share of communities held by non-wholly owned entities (both consolidated and unconsolidated). A reconciliation of our consolidated apartment communities to those communities included in total real estate at fair value in the table above is as follows:

Consolidated apartment communities as of September 30, 2018	129
Plus: Unconsolidated apartment communities	4
Apartment communities in total real estate at fair value for NAV	133

For valuation purposes at September 30, 2018, we segregated these 133 communities into the following categories: stabilized portfolio and non-stabilized portfolio.

(2) As of September 30, 2018, our stabilized portfolio includes 122 communities that had reached stabilized operations and were not expected to be sold within twelve months. We value this portfolio using a direct capitalization rate method based on the annualized proportionate property NOI for the three months ended September 30, 2018, less a 2% management fee. Market property management fees range between 1.5% and 3.0% with larger, higher quality portfolios at the lower end of that range. The weighted average estimated capitalization rate as applied to the annualized property NOI was 4.96%, which we calculate on a property-by-property basis, based primarily on information published by a third-party. Community characteristics that we use to determine comparable market capitalization rates include: the market in which the community is located; infill or suburban location within the market; property quality grade; and whether the community is stabilized or value-add. We used this valuation method for approximately 84% of real estate fair value at September 30, 2018.

(3) The non-stabilized portfolio includes six apartment communities under redevelopment or development at September 30, 2018. We valued these communities by discounting projected future cash flows. Key assumptions used to estimate the value of these communities include: revenues, which are based on in-place rents, projected submarket rent growth to community stabilization based on projections published by third parties and adjusted for the impacts of redevelopment; expenses, which are based on estimated operating costs adjusted for inflation and a management fee equal to 2% of projected revenue; estimated remaining costs to complete construction; and a terminal value based on current market capitalization rates plus five basis points per year from September 30, 2018 to community stabilization. Discount rates applied to estimated future cash flows of these communities ranged between 6.30% and 6.40% depending on construction and lease-up progress as of September 30, 2018. We used this valuation method for approximately 12% of the real estate fair value at September 30, 2018. The non-stabilized portfolio also included five recently acquired apartment communities valued at purchase price and certain land investments at Aimco’s carrying value that represent approximately 4% of real estate fair value at September 30, 2018. Our calculation of NAV does not include such future values as air rights, the potential for increased density, nor the potential for completion of future phases of redevelopments.

(4) We calculate the fair value of indebtedness related to real estate as the carrying value of our non-recourse property debt adjusted for the mark-to-market asset on our fixed-rate property debt as of September 30, 2018, plus the outstanding balances on the revolving line of credit and term loan, which approximate their fair value as of September 30, 2018. The fair value of debt takes into account the duration of the existing property debt, as well as its loan to value ratio and debt service coverage. For purposes of estimating NAV, the fair value of debt includes our proportionate share of debt related to non-wholly owned entities (both consolidated and unconsolidated).

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(5) Other tangible assets consist of cash, restricted cash, accounts receivable and other assets for which we reasonably expect to receive cash through the normal course of operations or another future event. Other tangible liabilities consist of accounts payable, accrued liabilities and other tangible liabilities we reasonably expect to settle in cash through the normal course of operations or another future event. Other tangible assets and liabilities were generally valued at their carrying amounts and reduced by the noncontrolling interests' portion of these amounts and exclude intangible assets and liabilities reflected on our consolidated balance sheet. The fair value of our preferred stock is estimated as the closing share price on September 30, 2018, less accrued dividends. Such accrued dividends are assumed to be accounted for in the closing share price and these amounts are also included in other tangible liabilities. For purposes of this NAV calculation, no realizable value has been assigned to goodwill or other intangible assets. Deferred income, which includes below market lease liabilities, recognized in accordance with GAAP in connection with the purchase of the related apartment communities, and cash received in prior periods and required to be deferred under GAAP, is excluded from this NAV calculation.

(6) Total shares, units and dilutive share equivalents represents Common Stock, OP Units, participating unvested restricted shares and the dilutive effect of common stock equivalents outstanding as of September 30, 2018.

Funds From Operations, Pro forma Funds From Operations and Adjusted Funds From Operations

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

In addition to FFO, we compute Pro forma FFO and AFFO, which are also non-GAAP financial measures that we believe are helpful to investors in understanding our performance. Pro forma FFO represents FFO attributable to Aimco common stockholders (diluted), excluding preferred equity redemption-related amounts and certain other income or costs, adjusted for noncontrolling interests. Preferred equity redemption-related amounts (gains or losses) are items that periodically affect our operating results and we exclude these items from our calculation of Pro forma FFO because such amounts are not representative of our operating performance.

In computing 2018 Pro forma FFO, we made a number of adjustments. We were engaged in litigation with Airbnb, which was resolved during the year. Due to the unpredictable nature of these proceedings, related amounts recognized, net of income tax effect, have been excluded from Pro forma FFO. In connection with the sale of our Asset Management business, we incurred severance costs during 2018. We exclude such costs from Pro forma FFO because we believe these costs incurred are closely related to the sale of the business. We also excluded from Pro forma FFO the tax benefit due to the release of a valuation allowance. Due to the sale of the Asset Management business, we expect to realize our deferred tax benefits. As a result, we determined the valuation allowance recorded in connection with recognizing the effect of the 2017 tax reform is no longer necessary. We excluded the effect of the establishment of the valuation allowance from Pro forma FFO and as such have excluded the benefit from its release. We have also excluded the impact of tax reform. Finally, we addressed approximately half of our property loans maturing in 2019, 2020 and 2021. In connection with this activity, we incurred debt extinguishment costs, which we have excluded from Pro forma FFO.

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

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

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For the years ended December 31, 2018, 2017 and 2016, Aimco's FFO, Pro forma FFO and AFFO are calculated as follows (in thousands):

	2018	2017	2016
Net income attributable to Aimco common stockholders (1)	$656,597		