APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-K
February 25, 2013

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, 2012

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 Z Cumulative Preferred Stock (Apartment Investment and Management Company)	New York Stock Exchange

Securities registered pursuant to Section 12(b) 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Indicate by check mark 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting 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 (Do not check if a smaller reporting company)	Smaller reporting company	o

AIMCO Properties, L.P.:

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

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

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

The 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 $3.9 billion as of June 30, 2012. As of February 22, 2013, there were 145,820,892 shares of Class A Common Stock 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, 2013, 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, 2012, 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 subsidiaries.

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, 2012, owned a 94.8% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 5.2% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership's day-to-day management.

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

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

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

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

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

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

To help investors understand the differences between Aimco and the Aimco Operating Partnership, this report provides separate consolidated financial statements for Aimco and the Aimco Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of Aimco's shareholders' equity and the Aimco Operating Partnership's 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 Exhibit 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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For the Fiscal Year Ended December 31, 2012

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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 rates and property operating results, the effect of acquisitions, dispositions and redevelopments, 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: financing risks, including the availability and cost of financing and the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; earnings may not be sufficient to maintain compliance with debt covenants; real estate risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for residents in such markets; national and local economic conditions, including the pace of job growth and the level of unemployment; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; the timing of acquisitions, dispositions and redevelopments; insurance risk, including the cost of insurance; natural disasters and severe weather such as hurricanes; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; energy costs; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" described in Item 1A of this Annual Report and the other documents we file from time to time with the Securities and Exchange Commission.

PART I

Item 1. Business

The Company

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

Aimco, through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as "OP Units." OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common partnership unit equivalents. At December 31, 2012, after eliminations for units held by consolidated subsidiaries, the Aimco Operating Partnership had 153,569,090 common partnership units and equivalents outstanding. At December 31, 2012, Aimco owned 145,563,903 of the common partnership units (94.8% of the outstanding common partnership units and equivalents of the Aimco Operating Partnership) and Aimco had outstanding an equal number of shares of its Class A Common Stock, which we refer to as Common Stock.

As of December 31, 2012, our portfolio of owned properties consists of 265 properties with 67,977 apartment units.

Business Overview

Our business activities are defined by a commitment to our core values of integrity, respect, collaboration, performance culture 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, continually shape our culture. In all our dealings with residents, team members, business partners and equity holders, we aim to be the best owner and operator of apartment communities and an outstanding corporate citizen.

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Our principal financial objective is to provide predictable and attractive returns to our equity holders. Our business plan to achieve this objective is to:

- operate our nationwide portfolio of desirable apartment homes with valued amenities and a high level of customer service in an efficient manner that realizes the benefits of our local management expertise;
- improve our geographically diversified portfolio of conventional apartment properties, which average “B/B+” in quality (defined under the Portfolio Management heading below) by selling properties inconsistent with our portfolio strategy and investing the proceeds from such sales through redevelopment and acquisition of higher-quality properties; and
- provide financial leverage primarily by the use of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk and provides a hedge against increases in interest rates, capitalization rates and inflation.

Our business is organized around two core activities: Property Operations and Portfolio Management. In the past few years, we have simplified our business, including winding down the portion of our business that generates transaction-based activity fees, reducing the size of our affordable portfolio, selling our legacy asset management business, and reducing the personnel and related costs involved in those activities. Our core activities, along with our leverage strategy, are described in more detail below.

Property Operations

Our real estate portfolio consists primarily of conventional real estate properties. Our conventional property operations consist of market-rate apartments with rents paid by the residents and included 175 properties with 55,879 units in which we held an average ownership of 97% as of December 31, 2012. We also operate a portfolio of affordable properties, which we expect to sell during the next four to five years. Our affordable property operations consist of apartments with rents that are generally paid, in whole or part, by a government agency and consisted of 90 properties with 12,098 units in which we held an average ownership of 76% as of December 31, 2012. Our conventional and affordable property operations comprise our reportable segments and generated 90% and 10%, respectively, of our proportionate property net operating income (as defined in Item 7) during the year ended December 31, 2012.

Our property operations are organized into two geographic areas, the West and East (as described in Item 2). To manage our nationwide portfolio more efficiently and to increase the benefits from our local management expertise, we have given direct responsibility for operations within each area to an area operations leader with regular senior management reviews. To enable the area operations leaders to focus on sales and service, as well as to improve financial control and budgeting, we have dedicated an area financial officer to support each area operations leader Additionally, with the exception of routine maintenance, our specialized Construction Services group manages all on-site capital spending, thus reducing the need for the area operations leaders to spend time on oversight of construction projects.

We seek to improve our property operations by: employing service-oriented, well-trained employees; upgrading systems; standardizing business processes, operational measurements and internal reporting; and enhancing financial controls over field operations. We focus on the following areas:

- Customer Service. Our operating culture is focused on our residents. Our goal is to provide our residents with a high level of service in clean, safe and attractive communities. We have automated certain aspects of our on-site operations to enable our on-site employees to focus more of their time on customer service as well as allow our current and future residents to interact with us in methods that are more efficient and effective for them, such as placing self-service work orders, self-guided property tours and electronic leases and renewals. We evaluate our performance through a customer satisfaction tracking system. In addition, we emphasize the quality of our on-site employees through recruiting, training and retention programs, which we believe contributes to improved customer service and leads to increased occupancy rates and enhanced operational performance.
- Resident Selection and Retention. In apartment properties, neighbors are a meaningful part of the product, together with the location of the property and the physical quality of the apartment units. Part of our property operations strategy is to focus on resident acquisition and retention - attracting and retaining credit-worthy residents who are good neighbors. We have structured goals and coaching for all of our sales personnel, a tracking system for inquiries and a standardized renewal communication program. We have standardized residential financial stability requirements and have policies and monitoring practices to maintain our resident quality.

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- Revenue Management and Ancillary Services. For our conventional properties, we have a centralized revenue management system that leverages people, processes and technology to work in partnership with our area operational management teams to develop rental rate pricing. We seek to increase revenue and net operating income by optimizing the balance between rental and occupancy rates, as well as taking into consideration the cost of preparing an apartment unit for a new tenant. We are also focused on careful measurements of on-site operations, as we believe that timely and accurate collection of property performance and resident profile data will enable us to maximize revenue through better property management and leasing decisions. We have standardized policies for new and renewal pricing with timely data and analyses by floor-plan, thereby enabling us to respond quickly to changing supply and demand for our product and maximize rental revenue. We also generate incremental revenue by providing services to our residents, including cable television, telephone services, appliance rental, and carport, garage and storage space rental at certain properties.
- Controlling Expenses. Cost controls are accomplished by local focus at the area level; taking advantage of economies of scale at the corporate level; and through electronic procurement.
- Maintaining and Improving Property Quality. We believe that the physical condition and amenities of our apartment properties are important factors in our ability to maintain and increase rental rates. In 2012, for properties included in continuing operations, we invested $64.1 million, or $955 per owned apartment unit, in Capital Replacements, which represent the share of additions that are deemed to replace the consumed portion of acquired capital assets. Additionally, for properties included in continuing operations, we invested $84.0 million, or $1,252 per owned apartment unit, in Capital Improvements, which are non-redevelopment capital additions that are made to enhance the value, profitability or useful life of an asset from its original purchase condition. We also improve property quality through the redevelopment of certain properties in superior locations. Refer to the Portfolio Management section below for further discussion of our redevelopment program.

Portfolio Management

Portfolio management involves the ongoing allocation of investment capital to meet our geographic and product type goals. We target geographic balance in our diversified portfolio in order to optimize risk-adjusted returns and to avoid the risk of undue concentration in any particular market. We also seek to balance the portfolio by product type, with both high quality properties in excellent locations and also high land value properties that support redevelopment activities.

Our portfolio strategy seeks predictable rent growth from a portfolio of “A,” “B” and “C” quality conventional apartment properties, which average “B/B+” in quality and are diversified among the largest coastal and job growth markets in the United States, as measured by total apartment value. Our target markets are primarily coastal markets, and also include several Sun Belt cities and Chicago. We measure conventional property quality based on average rents of our units 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 properties those earning rents greater than 125% of the local market average, as B-quality properties those earning rents 90% to 125% of the local market average and as C-quality properties those earning rents less than 90% of the local market average. We classify as B/B+ those properties earning rents ranging from 100% to 125% of the local market average. Although some companies and analysts within the multifamily real estate industry use property class ratings of A, B and C, some of which are tied to local market rent averages, the metrics used to classify property quality as well as the timing for which local market rents are calculated may vary from company to company. Accordingly, our rating system for measuring property quality is neither broadly nor consistently used in the multifamily real estate industry.

We upgrade the quality of our portfolio through the sale of properties with lower projected returns lower operating margins, and lower expected future rent growth. These properties are often located in markets we deem less desirable than our target markets. We reinvest the sale proceeds through the purchase of other properties or additional investment in properties already in our portfolio, including increased ownership or redevelopment. Increasing our ownership in properties in our portfolio is attractive as we already operate these properties and know them well, and these investments are especially accretive where we can eliminate overhead costs associated with the partnerships that own these properties. We believe redevelopment of certain properties in superior locations provides advantages over ground-up development, enabling us to generate rents comparable to new properties with lower financial risk, in less time and with reduced delays associated with governmental permits and authorizations. We believe redevelopment also provides superior risk adjusted returns with lower volatility compared to ground-up development. Redevelopment work may also include seeking entitlements from local governments, which enhance the value of our existing portfolio by increasing density, that is, the right to add residential units to a site. We have historically undertaken a range of redevelopment projects: from those in which there is significant renovation, such as exteriors, common areas or unit improvements, typically done upon lease expirations without the need to vacate units on any wholesale or substantial basis, to those in which a substantial number of all available units are vacated for significant renovations to the property. We have a specialized Redevelopment and Construction Services group to oversee these projects.

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During the year ended December 31, 2012, we sold 75 consolidated properties, generating net proceeds to Aimco of $289.9 million. We used proceeds from these property sales, the assumption of property debt and proceeds from new property debt to fund $100.1 million of redevelopment spending on our conventional properties; $50.7 million of acquisitions of the noncontrolling interests in 11 consolidated real estate partnerships that own 17 conventional properties with average revenues per unit of $1,066; and $127.8 million of conventional property acquisitions located in Phoenix, Arizona; Manhattan, New York City, New York; and San Diego, California. We underwrite our acquisitions based on a free cash flow internal rate of return, and the weighted average free cash flow rate of return for these three properties is expected to be between 8.0% and 8.5%. Revenues per effective unit at the Phoenix, Manhattan and San Diego properties averaged approximately $1,100, $4,000 and $1,880, respectively, and the properties' average rents per unit exceeded the local market averages by approximately 47%, 38% and 15%, respectively.

Leverage Strategy

Our leverage strategy seeks to balance our desire to increase financial returns with the inherent risks of leverage. At December 31, 2012, approximately 97% of our leverage consisted of property-level, non-recourse, long-dated debt and 3% consisted of perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk. The weighted average maturity of our property-level debt was 7.9 years, with an average of 5.3% of our unpaid principal balance maturing per year from 2013 through 2016. Approximately 97% of our property-level debt is fixed-rate, which provides a hedge against increases in interest rates, capitalization rates and inflation.

Although our primary sources of leverage are property-level, non-recourse, long-dated, fixed-rate, amortizing debt and perpetual preferred equity, we also have a $500.0 million Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement, to meet our short-term liquidity needs. At December 31, 2012, we had no outstanding borrowings under the Credit Agreement and we had the capacity to borrow $454.6 million, net of $45.4 million for undrawn letters of credit backed by the Credit Agreement. The Credit Agreement matures in December 2014, and may be extended for two additional one-year periods, subject to certain conditions.

We have set leverage targets of Debt and Preferred Equity to EBITDA of less than 7.0x and EBITDA Coverage of Interest and Preferred Dividends of greater than 2.5x. Our annualized fourth quarter 2012 ratios were 7.7x and 2.4x, respectively. We also focus on Debt to EBITDA and EBITDA Coverage of Interest ratios. Debt, as used in these ratios, represents our proportionate share of debt, net of our proportionate share of cash and restricted cash and our investment in the subordinate tranches of a securitization that holds certain of our property loans, and Preferred Equity represents Aimco's preferred stock and the Aimco Operating Partnership's preferred OP Units. EBITDA is calculated by adding to our Pro forma FFO our proportionate share of interest expense, taxes, depreciation and amortization related to non-real estate assets, non-cash stock-based compensation, and dividends and distributions on our preferred equity instruments. Interest, as used in these ratios, represents our proportionate share of interest expense, excluding debt prepayment penalties and amortization of deferred financing costs, and reduced by interest income we receive on our investment in the subordinate tranches of a securitization that holds certain of our property loans. Our leverage ratios are discussed further in Item 7.

Competition

In attracting and retaining residents to occupy our properties we compete with numerous other housing alternatives. Our properties compete directly with other rental apartments as well as condominiums and single-family homes that are available for rent or purchase in the markets in which our properties are located. Principal factors of competition include rent or price charged, attractiveness of the location and property and quality and breadth of services. The number of competitive properties relative to demand in a particular area has a material effect on our ability to lease apartment units at our properties and on the rents we charge. In certain markets there exists an oversupply of single family homes and condominiums and a reduction of households, both of which affect 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 properties. This competition affects our ability to acquire properties we want to add to our portfolio and the price that we pay in such acquisitions; our ability to finance or refinance properties in our portfolio and the cost of such financing; and our ability to dispose of properties we no longer desire to retain in our portfolio and the timing and price for which we dispose of such properties.

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

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

Certain of Aimco's operations or a portion thereof, including property management, asset management and risk management are conducted through taxable REIT subsidiaries, each of which we refer to as a TRS. A TRS is a C-corporation that has not elected REIT status and, as such, is subject to United States Federal corporate income tax. We use TRS entities to facilitate our ability to offer certain services and activities to our residents and investment partners that cannot be offered directly by a REIT. We also use TRS entities to hold investments in certain properties.

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. Each of its partners, however, is subject to tax on his or her allocable share of partnership tax items, including partnership income, gains, losses, deductions and credits, or Partnership Tax Items, for each taxable year during which he or she is a partner, regardless of whether he or she receives any actual distributions of cash or other property from the Aimco Operating Partnership during the taxable year. Generally, the characterization of any particular Partnership Tax Item is determined by us, 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 General Partner is our "tax matters partner" for United States Federal income tax purposes. The tax matters partner is authorized, but not required, to take certain actions on behalf of the Aimco Operating Partnership with respect to tax matters. The Aimco Operating Partnership is subject to tax in certain states.

Regulation

General

Apartment properties 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 properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect our net income and cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws, such as legislation that has been considered in New York, or other laws regulating multifamily housing may reduce rental revenue or increase operating costs in particular markets.

Environmental

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

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Insurance

Our primary lines of insurance coverage are property, general liability, and workers'compensation. We believe that our insurance coverages adequately insure our properties against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood, 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, 2012, we had approximately 2,150 employees, of which approximately 1,550 were at the property level, performing various on-site functions, with the balance managing corporate and area operations, including investment and debt transactions, legal, financial reporting, accounting, information systems, human resources and other support functions. As of December 31, 2012, unions represented approximately 90 of our employees. We have never experienced a work stoppage and believe we maintain satisfactory relations with our employees.

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 and/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 2012, 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.

Our existing and future debt financing could render us unable to operate, result in foreclosure on our properties, 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 secured debt, our lenders could foreclose on the properties and other collateral securing such debt, which would result in loss of income and asset value to us. As of December 31, 2012, substantially all of the properties that we owned or controlled 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 properties 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. In recent years, the United States credit markets experienced significant liquidity disruptions, which caused the spreads on debt financings to widen considerably and made obtaining financing, both non-recourse property debt and corporate borrowings, such as our Credit Agreement, more difficult. Additionally, Federal Home Loan Mortgage Corporation, or Freddie Mac, and Federal National Mortgage Association, or Fannie Mae, have historically provided significant capital in the secondary credit markets at a relatively low cost. Freddie Mac and Fannie Mae are currently under conservatorship of the Housing Finance Agency, and their future role in the housing finance market is uncertain. Any significant reduction in Freddie Mac's or Fannie Mae's level of involvement in the secondary credit markets may adversely affect the pricing at which we may obtain non-recourse property debt financing.

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 properties securing such debt and loss of income and asset value, each of which would adversely affect our liquidity.

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

As of December 31, 2012, on a consolidated basis, we had approximately $154.6 million of variable-rate indebtedness outstanding and $37.0 million of variable rate preferred securities outstanding. Of the total debt subject to variable interest rates, floating rate tax-exempt bond financing was approximately $130.6 million. Floating rate tax-exempt bond financing is benchmarked against the Securities Industry and Financial Markets Association Municipal Swap Index, or SIFMA, rate, which since 1992 has averaged 75% of the 30-day LIBOR rate. If this historical relationship continues, we estimate that an increase in 30-day LIBOR of 100 basis points (75 basis points for tax-exempt interest rates) with constant credit risk spreads would result in Aimco's net income and net income attributable to Aimco common stockholders being reduced (or the amounts of net loss and net loss attributable to Aimco common stockholders being increased) by $1.2 million and $1.4 million, respectively, on an annual basis. We estimate this same increase in interest rates would result in the Aimco Operating Partnership's net income and net income attributable to the Aimco Operating Partnership's common unitholders being reduced (or the amounts of net loss and net loss attributable to the Aimco Operating Partnership's common unitholders being increased) by $1.2 million and $1.5 million, respectively, on an annual basis.

At December 31, 2012, we had approximately $334.2 million in cash and cash equivalents, restricted cash and notes receivable, a portion of which bear interest at variable rates indexed to LIBOR-based rates, and which may mitigate the effect of an increase in variable rates on our variable-rate indebtedness and preferred stock discussed above.

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 properties 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 properties, we may not be able to preserve the competitiveness of our properties, which could adversely affect our net operating income.

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 properties 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.

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

Some of our debt and other securities contain covenants that restrict our ability to make distributions or other payments to our investors unless certain financial tests or other criteria are satisfied. Our Credit Agreement provides, among other things, that we may make distributions to our investors during any four consecutive fiscal quarters in an aggregate amount that does not exceed the greater of 95% of our Funds From Operations for such period, 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.

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

Real estate investments are relatively illiquid and cannot always be sold quickly. REIT tax rules also restrict our ability to sell properties. 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 properties 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.

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

Our apartment properties compete for residents with other housing alternatives, including other rental apartments 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 in a particular area could adversely affect our ability to lease apartments and to increase or maintain rental rates. Recent challenges in the credit and housing markets have increased housing inventory that competes to some extent with our apartment properties.

Our subsidiaries may be prohibited from making distributions and other payments to us.

All of Aimco's properties are owned, and all of Aimco's operations are conducted, by the Aimco Operating Partnership. Further, many of the Aimco Operating Partnership's properties are owned by other subsidiaries. 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 collective 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 these 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.

Redevelopment and construction risks could affect our profitability.

We are currently redeveloping, and we intend to continue to redevelop, certain of our properties. During 2013, we expect to invest approximately $130.0 million to $160.0 million in redevelopment of our conventional properties. Redevelopment activities are subject to the following risks:

- we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;
- we may incur costs that exceed our original estimates due to increased material, labor or other costs, such as litigation;
- we may be unable to complete construction and lease up of a property on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;
- occupancy rates and rents at a property may fail to meet our expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities;
- we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a property, which may cause us to delay or abandon an opportunity;
- we may abandon opportunities that we have already begun to explore for a number of reasons, including changes in local market conditions or increases in construction or financing costs, and, as a result, we may fail to recover expenses already incurred in exploring those opportunities;
- we may incur liabilities to third parties during the redevelopment process;
- unexpected events or circumstances may arise during the redevelopment process that affect the timing of completion and the cost and profitability of the project; and
- loss of a key member of a project team could adversely affect our ability to deliver redevelopment projects on time and within our budget.

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 properties' 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 property and the amount of any related insurance proceeds. In many instances, the actual cost to repair or replace the property may exceed its net book value and any insurance proceeds. We also insure certain unconsolidated properties for a portion of their exposure to such losses. With respect to our consolidated properties, we recognize the uninsured portion of losses as part of 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 insurance obligations to unconsolidated properties and our exposure to claims of third parties, we establish reserves at levels that reflect our known and estimated losses. The ultimate cost of losses and the impact of unforeseen events may vary materially from recorded reserves, and variances may adversely affect our operating results and financial condition. We purchase insurance 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

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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 and severe weather such as hurricanes may result in significant damage to our properties. 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 negative 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 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.

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

The selective acquisition of properties is a component of our strategy. However, we may not be able to complete transactions successfully in the future. Although we seek to acquire properties when such acquisitions increase our property net operating income, Funds From Operations, Adjusted Funds From Operations or Net Asset Value, such transactions may fail to perform in accordance with our expectations. In particular, following acquisition, the value and operational performance of a property may be diminished if obsolescence or neighborhood changes occur before we are able to redevelop or sell the property.

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

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

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

We own consolidated and unconsolidated equity interests in entities that own certain properties that benefit from governmental programs intended to provide housing to people with low or moderate incomes. These programs, which are usually administered by the U.S. 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; tax-credit equity; or rental assistance payments to the property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and 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 property. We may not always receive such approval.

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Additionally, there is no guarantee that the government will continue to operate these programs or that the programs will be operated in a manner that generates benefits consistent with those received in the past. Any cessation of or change in the administration of benefits from these government housing programs may result in our loss or reduction in the amount of the benefits we receive under these programs, including rental subsidies. During 2012, 2011 and 2010, for continuing and discontinued operations, our rental revenues include $117.3 million, $133.6 million and $142.4 million, respectively, of subsidies from government agencies. Of the 2012 subsidy amounts, $97.9 million related to properties included in continuing operations, approximately 4.8% of which related to properties benefitting from housing assistance contracts that expire in 2013, which we anticipate renewing, and the remainder related to properties benefitting from housing assistance contracts that expire after 2013 and have a weighted average term of 10.7 years. Any loss or reduction in the amount of these benefits may adversely affect our liquidity and results of operations.

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 properties first occupied after March 13, 1991, to comply with design and construction requirements for disabled access. For those projects receiving Federal funds, the Rehabilitation Act of 1973 also has requirements regarding disabled access. These and other Federal, state and local laws may require modifications to our properties, or affect renovations of the properties. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although we believe that our properties are substantially in compliance with present requirements, we may incur unanticipated expenses to comply with the ADA, the FHAA and the Rehabilitation Act of 1973 in connection with the ongoing operation or redevelopment of our properties.

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

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

Moisture infiltration and resulting mold remediation may be costly.

Although we are proactively engaged in managing moisture intrusion and preventing the presence of mold at our properties, it is not unusual for periodic moisture intrusion issues to cause mold in isolated locations within a property. 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 properties and will minimize the effects that mold may have on our residents. To date, we have not incurred any material costs or liabilities relating to claims of mold exposure or to abate mold conditions. 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. Because the law regarding mold is unsettled and subject to change, we can make no assurance that liabilities resulting from the presence of or exposure to mold will not have a material adverse effect on our consolidated financial condition or results of operations.

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, including any applicable AMT. 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 primary credit facilities.

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We believe that Aimco operates, and has always operated, in a manner that enables it to meet the requirements for qualification as a REIT for 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 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. As Aimco's operating partnership, the Aimco Operating Partnership pays distributions intended to satisfy Aimco's distribution requirements. This limits the amount of cash we have 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 properties or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

Limits on ownership of shares in 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. 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;
- 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 distributions received from us as a result of his or her ownership of the shares.

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

The 8.7% ownership limit discussed above may have the effect of delaying or precluding acquisition of control of Aimco by a third party 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, 2012, 505,787,260 shares were classified as Common Stock, of which 145,563,903 were outstanding, and 4,800,240 shares were classified as preferred stock, of which 1,274,317 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, even if a change in control were 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, even if an acquisition would be 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,

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.

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Item 2. Properties

Our portfolio includes garden style, mid-rise and high-rise properties located in 24 states, the District of Columbia and Puerto Rico. Our geographic allocation strategy focuses on the largest coastal and job growth markets in the United States, which are grouped according to the East and West areas into which our property operations team is organized.

The following table sets forth information on all of our properties as of December 31, 2012:

	Number of Properties	Number of Units	Average Ownership	
Conventional:				
Los Angeles	13	4,248	85	%
Orange County	4	1,213	100	%
San Diego	11	2,370	97	%
East Bay	2	413	100	%
San Jose	1	224	100	%
San Francisco	7	1,208	100	%
Seattle	2	239	100	%
Houston	5	2,237	97	%
Denver	8	2,177	97	%
Phoenix	6	1,806	83	%
Chicago	11	3,393	98	%
West	70	19,528	94	%
Washington - Northern Virginia - Maryland	14	6,547	99	%
Boston	11	4,129	100	%
Philadelphia	7	3,888	98	%
Manhattan	21	959	100	%
Suburban New York - New Jersey	2	1,162	100	%
Miami	5	2,482	100	%
Palm Beach - Fort Lauderdale	2	776	100	%
Orlando	6	1,715	100	%
Jacksonville	4	1,643	100	%
Atlanta	5	1,295	87	%
East	77	24,596	99	%
Total target markets	147	44,124	96	%
Opportunistic and other markets	28	11,755	98	%
Total conventional owned and managed	175	55,879	97	%
Affordable	90	12,098	76	%
Total	265	67,977	93	%

At December 31, 2012, we owned an equity interest in and consolidated 243 properties containing 66,107 apartment units. These consolidated properties contain, on average, 272 apartment units, with the largest property containing 2,113 apartment units. These properties offer residents a range of amenities, including swimming pools, clubhouses, spas, fitness centers, dog parks and open spaces. Many of the apartment units offer features such as vaulted ceilings, fireplaces, washer and dryer connections, cable television, balconies and patios. Additional information on our consolidated properties is contained in “Schedule III - Real Estate and Accumulated Depreciation” in this Annual Report on Form 10-K. At December 31, 2012, we held an equity interest in and did not consolidate 22 properties containing 1,870 apartment units.

Substantially all of our consolidated properties are encumbered by property debt. At December 31, 2012, our consolidated properties were encumbered by, in aggregate, $4,688.4 million of property debt with a weighted average interest rate of 5.44% and a weighted average maturity of 7.9 years, respectively. Each of the non-recourse property debt instruments comprising this total are collateralized by one of 242 properties, without cross-collateralization, with an aggregate gross book value of $8,212.8 million. Refer to Note 7 to the consolidated financial statements in Item 8 for additional information regarding our property debt.

Item 3. Legal Proceedings

None.

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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. The following table sets forth the quarterly high and low sales prices of our Common Stock, as reported on the NYSE, and the dividends declared in the periods indicated:

Quarter Ended	High	Low	Dividends Declared (per share)
December 31, 2012	$27.13	$24.05	$0.20
September 30, 2012	28.30	25.52	0.20
June 30, 2012	27.98	25.17	0.18
March 31, 2012	26.44	22.19	0.18
December 31, 2011	$27.26	$20.08	$0.12
September 30, 2011	28.12	21.92	0.12
June 30, 2011	27.67	24.50	0.12
March 31, 2011	26.33	23.38	0.12

Aimco's Board of Directors determines and declares our 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. In January 2013, Aimco's Board of Directors declared a cash dividend of $0.24 per share on its Common Stock for the quarter ended December 31, 2012. Aimco's Board of Directors anticipates similar per share quarterly dividends for the remainder of 2013. However, the Board of Directors may adjust the dividend amount or the frequency with which the dividend is paid based on then prevailing facts and circumstances.

On February 22, 2013, the closing price of the Common Stock was $29.83 per share, as reported on the NYSE, and there were 145,820,892 shares of Common Stock outstanding, held by 2,231 stockholders of record. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

As a REIT, 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.

From time to time, Aimco may issue shares of Common Stock in exchange for common and preferred OP Units tendered to the Aimco Operating Partnership for redemption in accordance with the terms and provisions of the agreement of limited partnership of the Aimco Operating Partnership. Such shares are issued based on an exchange ratio of one share for each common OP Unit or the applicable conversion ratio for preferred OP Units. The shares are generally issued in exchange for OP Units in private transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. During the year ended December 31, 2012, we did not issue any shares of Common Stock in exchange for common OP Units or preferred OP Units.

Aimco's Board of Directors has, from time to time, authorized Aimco to repurchase shares of its outstanding capital stock. There were no repurchases of Aimco shares during the year ended December 31, 2012. As of December 31, 2012, Aimco was authorized to repurchase approximately 19.3 million shares. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

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Performance Graph

The following graph compares cumulative total returns for Aimco's Common Stock, the MSCI US REIT 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 indices are weighted for all companies that fit the definitional criteria of the particular index and are calculated to exclude companies as they are acquired and add them to the index calculation as they become publicly traded companies. All companies of the definitional criteria in existence at the point in time presented are included in the index calculations. The graph assumes the investment of $100 in Aimco's Common Stock and in each index on December 31, 2007, 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	2007	2008	2009	2010	2011	2012
Aimco	$100.00	$53.79	$76.83	$126.47	$114.32	$139.11
MSCI US REIT	100.00	62.03	79.78	102.50	111.41	131.20
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59

Source: SNL Financial LC, Charlottesville, VA ©2013

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.

The information required by Item 5 with respect to securities authorized for issuance under equity compensation plans is incorporated by reference in Part III, Item 12 of this Annual Report.

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The Aimco Operating Partnership

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. The following table sets forth the distributions declared per common partnership unit in each quarterly period during the two years ended December 31, 2012 and 2011:

Quarter Ended	2012	2011
December 31	$0.20	$0.27
September 30	0.20	0.12
June 30	0.18	0.12
March 31	0.18	0.12

During the years ended December 31, 2012 and 2011, our distributions per common partnership unit were equal to the dividends Aimco declared per share of its Common Stock, with the exception of an additional $0.15 per unit distribution we declared and paid during the three months ended December 31, 2011, which is further discussed in Note 13 to the consolidated financial statements in Item 8. We intend for our future common OP Unit distributions to be equal to Aimco's Common Stock dividends.

At February 22, 2013, there were 153,818,664 common partnership units and equivalents outstanding (145,820,892 of which were held by Aimco) that were held by 3,067 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, subject to our prior right to cause Aimco to acquire some or all of the common OP Units tendered for redemption in exchange for shares of Aimco Common Stock. Common OP Units redeemed for shares of Aimco Common Stock are exchanged on a one-for-one basis (subject to antidilution adjustments).

As discussed in Note 13 to the consolidated financial statements in Item 8, during 2012, the Aimco Operating Partnership exchanged its investment in shares of Aimco Common Stock for Aimco's holdings of a corresponding number of common partnership units. No common OP Units or preferred OP Units held by Limited Partners were redeemed in exchange for shares of Aimco Common Stock in 2012.

The following table summarizes the Aimco Operating Partnership's repurchases of common OP Units for the three months ended December 31, 2012:

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 (1)	Maximum Number of Units that May Yet Be Purchased Under Plans or Programs (1)
October 1 - October 31, 2012	12,733	$26.21	N/A	N/A
November 1 - November 30, 2012	3,175	26.29	N/A	N/A
December 1 - December 31, 2012	80,072	25.25	N/A	N/A
Total	95,980	$25.41		

(1) The terms of the Aimco Operating Partnership's Partnership Agreement do not provide for a maximum number of units that may be repurchased, and other than the express terms of the Aimco Operating Partnership's Partnership Agreement, the Aimco Operating Partnership has no publicly announced plans or programs of repurchase. However, whenever Aimco repurchases its Common Stock, it is expected that Aimco will fund the repurchase with a concurrent repurchase by the Aimco Operating Partnership of common partnership units held by Aimco at a price per unit that is equal to the price per share paid for the Common Stock. Refer to the preceding discussion of

Aimco's authorization for equity repurchases.

Dividend and Distribution Payments

Our 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.

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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.

Aimco

	For The Years Ended December 31,				
	2012	2011 (1)	2010 (1)	2009 (1)	2008 (1)
	(dollar amounts in thousands, except per share data)				
OPERATING DATA:					
Total revenues	$1,033,197	$981,919	$958,540	$956,561	$1,001,709
Total operating expenses (2)	(833,037)	(828,762)	(855,957)	(887,008)	(992,187)
Operating income (2)	200,160	153,157	102,583	69,553	9,522
Loss from continuing operations (2)	(14,906)	(135,603)	(160,777)	(193,610)	(118,091)
Income from discontinued operations, net (3)	210,267	77,439	71,153	148,810	745,093
Net income (loss)	195,361	(58,164)	(89,624)	(44,800)	627,002
Net (income) loss attributable to noncontrolling interests	(62,905)	1,077	17,896	(19,474)	(214,995)
Net income attributable to preferred stockholders	(49,888)	(45,852)	(53,590)	(50,566)	(53,708)
Net income (loss) attributable to Aimco common stockholders	82,146	(103,161)	(125,318)	(114,840)	351,314
Earnings (loss) per common share - basic and diluted:					
Loss from continuing operations attributable to Aimco common stockholders	$(0.59)	$(1.22)	$(1.48)	$(1.70)	$(2.11)
Net income (loss) attributable to Aimco common stockholders	$0.61	$(0.86)	$(1.08)	$(1.00)	$3.96
BALANCE SHEET INFORMATION:					
Total real estate	$8,333,419	$8,152,903	$8,072,369	$7,927,530	$7,753,758
Total assets	6,401,380	6,871,862	7,378,566	7,906,468	9,441,870
Total indebtedness	4,688,447	4,772,774	4,776,481	4,793,777	5,108,570
Total equity	1,154,894	1,144,674	1,306,772	1,534,703	1,646,749
OTHER INFORMATION:					
Dividends declared per common share (4)	$0.76	$0.48	$0.30	$0.40	$7.48
Total consolidated properties (end of period)	243	331	399	426	514
Total consolidated apartment units (end of period)	66,107	79,093	89,875	95,202	117,719
Total unconsolidated properties (end of period)	22	39	48	77	85
Total unconsolidated apartment units (end of period)	1,870	4,353	5,637	8,478	9,613

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The Aimco Operating Partnership

	For The Years Ended December 31,				
	2012	2011 (1)	2010 (1)	2009 (1)	2008 (1)
	(dollar amounts in thousands, except per unit data)				
OPERATING DATA:					
Total revenues	$1,033,197	$981,919	$958,540	$956,561	$1,001,709
Total operating expenses (2)	(833,037)	(828,762)	(855,957)	(887,008)	(992,187)
Operating income (2)	200,160	153,157	102,583	69,553	9,522
Loss from continuing operations (2)	(14,906)	(134,304)	(159,918)	(192,790)	(117,305)
Income from discontinued operations, net (3)	210,267	77,439	71,153	148,810	745,093
Net income (loss)	195,361	(56,865)	(88,765)	(43,980)	627,788
Net (income) loss attributable to noncontrolling interests	(51,218)	257	13,301	(22,442)	(155,749)
Net income attributable to preferred unitholders	(56,384)	(52,535)	(58,554)	(56,854)	(61,354)
Net income (loss) attributable to the Aimco Operating Partnership’s common unitholders	87,337	(109,365)	(134,018)	(123,276)	403,700
Earnings (loss) per common unit - basic and diluted:					
Loss from continuing operations attributable to the Aimco Operating Partnership’s common unitholders	$(0.59)	$(1.21)	$(1.47)	$(1.70)	$(1.96)
Net income (loss) attributable to the Aimco Operating Partnership’s common unitholders	$0.61	$(0.86)	$(1.07)	$(1.00)	$4.11
BALANCE SHEET INFORMATION:					
Total real estate	$8,333,419	$8,152,903	$8,072,369	$7,927,530	$7,753,758
Total assets	6,401,380	6,871,862	7,395,796	7,922,839	9,457,421
Total indebtedness	4,688,447	4,772,774	4,776,481	4,793,777	5,108,570
Total partners’ capital	1,154,894	1,144,674	1,324,002	1,551,074	1,662,300
OTHER INFORMATION:					
Distributions declared per common unit (5)	$0.76	$0.63	$0.30	$0.40	$7.48
Total consolidated properties (end of period)	243	331	399	426	514
Total consolidated apartment units (end of period)	66,107	79,093	89,875	95,202	117,719
Total unconsolidated properties (end of period)	22	39	48	77	85
Total unconsolidated apartment units (end of period)	1,870	4,353	5,637	8,478	9,613

(1) Certain reclassifications have been made to conform to the current financial statement presentation, including retroactive adjustments to reflect additional properties sold during 2012 as discontinued operations (see Note 15 to the consolidated financial statements in Item 8).

(2) Total operating expenses, operating income and loss from continuing operations for the year ended December 31, 2008, include a $91.1 million pre-tax provision for impairment losses on real estate development assets.

(3) Income from discontinued operations for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 includes $234.5 million, $108.2 million, $94.9 million, $221.8 million and $800.3 million in gains on disposition of real estate, respectively. Income from discontinued operations for 2012, 2011 and 2010 is discussed further in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

(4)

Aimco's dividends declared per common share during the year ended December 31, 2008, included $5.08 of per share dividends that were paid through the issuance of shares of Aimco Common Stock.

(5) The Aimco Operating Partnership's distributions declared per common unit during the year ended December 31, 2011, included a $0.15 per unit special distribution discussed in Note 13 to the consolidated financial statements in Item 8. The Aimco Operating Partnership's distributions declared per common unit during the year ended December 31, 2008, included $5.08 of per share distributions that were paid to Aimco through the issuance of common partnership units.

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

Executive Overview

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

Our principal financial objective is to provide predictable and attractive returns to our equity holders. Our business plan to achieve this objective is to:

- operate our nationwide portfolio of desirable apartment homes with valued amenities and a high level of customer service in an efficient manner that realizes the benefits of our local management expertise;
- improve our geographically diversified portfolio of conventional apartment properties, which average "B/B+" in quality (defined below) by selling properties inconsistent with our portfolio strategy and investing the proceeds from such sales through redevelopment and acquisition of higher-quality properties; and
- provide financial leverage primarily by the use of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk and provides a hedge against increases in interest rates, capitalization rates and inflation.

Our real estate portfolio consists primarily of conventional real estate properties. Our conventional property operations consist of market-rate apartments with rents paid by the residents and included 175 properties with 55,879 units in which we held an average ownership of 97% as of December 31, 2012. We also operate a portfolio of affordable properties. Our affordable property operations consist of apartments with rents that are generally paid, in whole or part, by a government agency and consisted of 90 properties with 12,098 units in which we held an average ownership of 76% as of December 31, 2012. Our conventional and affordable property operations comprise our reportable segments and generated 90% and 10%, respectively, of our proportionate property net operating income (defined below under "Results of Operations – Real Estate Operations") during the year ended December 31, 2012. Over the next four to five years, we expect to sell essentially all of our affordable properties and reinvest this capital into our conventional portfolio.

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

We upgrade the quality of our portfolio through the sale of properties with lower projected returns, lower operating margins, and lower expected future rent growth. These properties are often located in markets we deem less desirable than our target markets. We reinvest the sale proceeds through the purchase of other properties or additional investment in properties already in our portfolio, including increased ownership or redevelopment. Increasing our ownership in properties in our portfolio is attractive as we already operate these properties and know them well, and these investments are especially accretive where we can eliminate overhead costs associated with the partnerships that own these properties. We believe redevelopment of certain properties in superior locations provides advantages over ground-up development, enabling us to generate rents comparable to new properties with lower financial risk, in less time and with reduced delays associated with governmental permits and authorizations. We believe redevelopment also provides superior risk adjusted returns with lower volatility compared to ground-up development. Redevelopment work may also include seeking entitlements from local governments, which enhance the value of our existing portfolio by increasing density, that is, the right to add residential units to a site. We have historically undertaken a range of redevelopment projects: from those in which there is significant renovation, such as exteriors, common areas or unit improvements, typically done upon lease expirations without the need to vacate units on any wholesale or substantial basis, to those in which a

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substantial number of all available units are vacated for significant renovations to the property. We have a specialized Redevelopment and Construction Services group to oversee these projects.

During the year ended December 31, 2012, we sold 75 consolidated properties, generating net proceeds to Aimco of $289.9 million. We used proceeds from these property sales, the assumption of property debt and proceeds from new property debt to fund $100.1 million of redevelopment spending on our conventional properties; $50.7 million of acquisitions of the noncontrolling interests in 11 consolidated real estate partnerships that own 17 conventional properties with average revenues per unit of $1,066; and $127.8 million of conventional property acquisitions located in Phoenix, Arizona; Manhattan, New York City, New York; and San Diego, California. We underwrite our acquisitions based on a free cash flow internal rate of return, and the weighted average free cash flow rate of return for these three properties is expected to be between 8.0% and 8.5%. Revenues per effective unit at the Phoenix, Manhattan and San Diego properties averaged approximately $1,100, $4,000 and $1,880, respectively, and the properties' average rents per unit exceeded the local market averages by approximately 47%, 38% and 15%, respectively.

Our leverage strategy seeks to balance our desire to increase financial returns with the inherent risks of leverage and we have set leverage targets of Debt and Preferred Equity to EBITDA of less than 7.0x and EBITDA Coverage of Interest and Preferred Dividends of greater than 2.5x. We also focus on Debt to EBITDA and EBITDA Coverage of Interest ratios. Refer to the Leverage Strategy discussion in Item 1 for a definition of each of these items.

Our leverage ratios for the years and annualized three month periods ended December 31, 2012 and 2011, are presented below:

	Years ended December 31,		Annualized three months ended December 31,	
	2012	2011	2012	2011
Debt to EBITDA	7.5x	8.2x	7.4x	8.2x
Debt and Preferred Equity to EBITDA	7.8x	9.5x	7.7x	9.6x
EBITDA Coverage of Interest	2.3x	2.1x	2.5x	2.2x
EBITDA Coverage of Interest and Preferred Dividends	2.2x	1.8x	2.4x	1.8x

The 2012 EBITDA Coverage of Interest and Preferred Dividends ratios presented above are on a pro forma basis to exclude dividends on the preferred stock we redeemed during the year ended December 31, 2012.

During the year ended December 31, 2012, we reduced our leverage substantially by using the proceeds from the issuance of common stock to redeem $600.9 million of preferred stock. With these preferred stock redemptions, we made significant progress toward our stated leverage targets and we now expect to achieve them by early 2014, almost two years earlier than we had anticipated at the beginning of 2012. We expect future leverage reduction from earnings growth generated by the current portfolio and by regularly scheduled property debt amortization funded from retained earnings. We also expect to increase our financial flexibility in the future by creating a pool of unencumbered properties. At December 31, 2012, we had one unencumbered consolidated property with a fair value of $68.2 million.

At December 31, 2012, approximately 97% of our leverage consisted of property-level, non-recourse, long-dated debt and 3% consisted of perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk. The weighted average maturity of our property-level debt was 7.9 years, with an average of 5.3% of our unpaid principal balance maturing per year from 2013 through 2016. Approximately 97% of our property-level debt is fixed-rate, which provides a hedge against increases in interest rates and inflation.

Although our primary sources of leverage are property-level, non-recourse, long-dated, fixed-rate, amortizing debt and perpetual preferred equity, we also have our Credit Agreement, which provides for $500.0 million of revolving loan commitments, to meet our short-term liquidity needs. At December 31, 2012, we had no outstanding borrowings under our Credit Agreement and we had the capacity to borrow $454.6 million, net of $45.4 million for undrawn letters of credit backed by the Credit Agreement. The Credit Agreement matures in December 2014, and may be extended for two additional one-year periods, subject to certain conditions.

Under our Credit Agreement, we have agreed to Debt Service and Fixed Charge Coverage covenants. For the year ended December 31, 2012, our Debt Service and Fixed Charge Coverage ratios were 1.65x and 1.50x, respectively, compared to covenants of 1.50x and 1.30x, respectively, and ratios of 1.61x and 1.37x, respectively, for the year ended December 31, 2011.

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Key Financial Indicators

The key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance are: Net Asset Value; Funds From Operations; Pro forma Funds From Operations; Adjusted Funds From Operations; property net operating income, which is rental and other property revenues less direct property operating expenses, including real estate taxes; proportionate property net operating income; same store property operating results; Free Cash Flow, which is net operating income less spending for Capital Replacements; Free Cash Flow internal rate of return; financial coverage ratios; and leverage as shown on our balance sheet. Funds From Operations, Pro forma Funds From Operations and Adjusted Funds From Operations are defined and further described in "Funds From Operations," and proportionate property net operating income is defined and further described in "Results of Operations – Real Estate Operations." The key macro-economic factors and non-financial indicators that affect our financial condition and operating performance are: household formations; rates of job growth; single-family and multifamily housing starts; interest rates; and availability and cost of financing.

Results of Operations

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

2012 Highlights

Highlights of our results of operations for the year ended December 31, 2012, are summarized below:

- Conventional Same Store revenues and expenses for 2012, increased by 4.7% and 1.6%, respectively, resulting in a 6.5% increase in net operating income as compared to 2011, the highest rate of annual growth in six years;
- Average revenue per effective unit for our conventional portfolio increased by 7.9%, from $1,262 for the three months ended December 31, 2011, to $1,362 for the three months ended December 31, 2012, as a result of year-over-year revenue growth of 5.4%, the sale of conventional properties with average revenues per unit substantially lower than those of the retained portfolio, and the acquisition of three conventional properties with average revenues per unit of $1,405;
- Average daily occupancy for our Conventional Same Store properties was 95.5% for the year ended December 31, 2012, as compared to 95.7% for 2011; and
- Total Same Store revenues and expenses for 2012, increased by 4.6% and 1.9%, respectively, resulting in a 6.2% increase in net operating income as compared to 2011.

2012 compared to 2011

We reported net income attributable to Aimco of $132.5 million and net income attributable to Aimco common stockholders of $82.1 million for the year ended December 31, 2012, as compared to net loss attributable to Aimco of $57.1 million and net loss attributable to Aimco common stockholders of $103.2 million for the year ended December 31, 2011, increases in income of $189.5 million and $185.3 million, respectively.

We reported net income attributable to the Aimco Operating Partnership of $144.1 million and net income attributable to the Aimco Operating Partnership's common unitholders of $87.3 million for the year ended December 31, 2012, as compared to net loss attributable to the Aimco Operating Partnership of $56.6 million and net loss attributable to the Aimco Operating Partnership's common unitholders of $109.4 million for the year ended December 31, 2011, increases in income of $200.8 million and $196.7 million, respectively.

These increases in net income for Aimco and the Aimco Operating Partnership during the year ended December 31, 2012, as compared to the year ended December 31, 2011, were principally due to increases in gain on dispositions of real estate in 2012 compared to 2011, increases in the operating income of our properties included in continuing operations, reflecting improved operations, and decreases in interest expense, primarily due to prepayment penalties incurred in connection with a series of financing transactions completed in 2011 that extended maturities and reduced the effective interest rate on a number of non-recourse property loans.

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2011 compared to 2010

We reported net loss attributable to Aimco of $57.1 million and net loss attributable to Aimco common stockholders of $103.2 million for the year ended December 31, 2011, as compared to net loss attributable to Aimco of $71.7 million and net loss attributable to Aimco common stockholders of $125.3 million for the year ended December 31, 2010, decreases in losses of $14.6 million and $22.2 million, respectively.

We reported net loss attributable to the Aimco Operating Partnership of $56.6 million and net loss attributable to the Aimco Operating Partnership's common unitholders of $109.4 million for the year ended December 31, 2011, as compared to net loss attributable to the Aimco Operating Partnership of $75.5 million and net loss attributable to the Aimco Operating Partnership's common unitholders of $134.0 million for the year ended December 31, 2010, decreases in losses of $18.9 million and $24.7 million, respectively.

These decreases in losses for Aimco and the Aimco Operating Partnership during the year ended December 31, 2011, as compared to the year ended December 31, 2010, were principally due to an increase in the operating income of our properties included in continuing operations, reflecting improved operations, partially offset by an increase in interest expense, primarily due to prepayment penalties incurred in connection with a series of financing transactions completed in 2011.

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

Real Estate Operations

Our owned real estate portfolio consists primarily of conventional real estate properties. Our conventional property operations consist of market-rate apartments with rents paid by the resident and included 175 properties with 55,879 units in which we held an average ownership of 97% as of December 31, 2012. We also operate a portfolio of affordable properties. Our affordable property operations consist of apartments with rents that are generally paid, in whole or part, by a government agency and consisted of 90 properties with 12,098 units in which we held an average ownership of 76% as of December 31, 2012. Our conventional and affordable property operations comprise our reportable segments and generated 90% and 10%, respectively, of our proportionate property net operating income (defined below) during the year ended December 31, 2012.

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

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

The tables and discussions below reflect the proportionate results of our conventional and affordable segments and the consolidated results related to our real estate operations not allocated to segments for the years ended December 31, 2012, 2011 and 2010 (in thousands). The tables and discussions below exclude the results of operations for properties included in discontinued operations as of December 31, 2012. Refer to Note 20 in the consolidated financial statements in Item 8 for further discussion regarding our reporting segments, including a reconciliation of these proportionate amounts to consolidated rental and other property revenues and property operating expenses.

Total Same Store Portfolio

Our conventional and affordable segments each include properties we classify as same store. Same store properties are properties we manage, in which our ownership exceeds 10% and that have reached and maintained a stabilized level of occupancy (greater than 90%) during the current and prior year-to-date comparable periods. We consider total same store results as a meaningful measure of the performance of the results of operations of the properties we own and operate. For the year ended December 31, 2012, our total same store portfolio comprised 92% of our total proportionate property net operating income.

For the year ended December 31, 2012, as compared to 2011, our total same store portfolio's proportionate property revenues and expenses increased by 4.6% and 1.9%, respectively, resulting in a 6.2% increase in net operating income, and our total same store operating margin increased by approximately 100 basis points, from 63.6% during the year ended December 31, 2011, to 64.6% during the year ended December 31, 2012.

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For the year ended December 31, 2011, as compared to 2010, our total same store portfolio's proportionate property revenues increased by 3.0% and expenses decreased by 1.7%, resulting in a 5.9% increase in net operating income, and our total same store operating margin increased by approximately 180 basis points, from 61.8% during the year ended December 31, 2010, to 63.6% during the year ended December 31, 2011.

The results of operations of our conventional and affordable same store properties are discussed further in the discussion of segment results below.

Conventional Real Estate Operations

Our conventional segment consists of conventional properties we classify as same store, redevelopment and other conventional properties. Same store properties are defined above. Redevelopment properties are those in which a substantial number of available units have been vacated for major renovations or have not been stabilized in occupancy for at least one year as of the earliest period presented, or for which other significant non-unit renovations are underway or have been complete for less than one year. Other conventional properties may include conventional properties that have significant rent control restrictions, casualty properties and acquisition properties. We also include the results of operations of commercial space and fitness centers associated with our conventional properties in the other conventional portfolio when measuring performance.

As of December 31, 2012, our conventional same store portfolio and our other conventional portfolio consisted of 139 and 36 properties with 50,304 and 5,575 units, respectively. From December 31, 2011 to December 31, 2012, our conventional same store portfolio decreased by 20 properties with 5,333 units for properties that were sold through December 31, 2012 and for which the results have been reclassified into discontinued operations, partially offset by a net increase of two properties with 441 units that were reclassified from our other conventional portfolio to our conventional same store portfolio following stabilization after casualty losses incurred at the properties. Our conventional portfolio results for the years ended December 31, 2012 and 2011 presented below are based on the property populations as of December 31, 2012.

	Year Ended December 31,				
	2012	2011	$ Change	% Change	
Rental and other property revenues:					
Conventional same store	$726,496	$693,837	$32,659	4.7	%
Other Conventional	85,245	76,094	9,151	12.0	%
Total	811,741	769,931	41,810	5.4	%
Property operating expenses:					
Conventional same store	253,448	249,571	3,877	1.6	%
Other Conventional	41,267	35,078	6,189	17.6	%
Total	294,715	284,649	10,066	3.5	%
Property net operating income:					
Conventional same store	473,048	444,266	28,782	6.5	%
Other Conventional	43,978	41,016	2,962	7.2	%
Total	$517,026	$485,282	$31,744	6.5	%

For the year ended December 31, 2012, as compared to 2011, our conventional segment's proportionate property net operating income increased $31.7 million, or 6.5%.

For the year ended December 31, 2012, as compared to 2011, conventional same store proportionate property net operating income increased by $28.8 million, or 6.5%. This increase was primarily attributable to a $32.7 million, or 4.7%, increase in rental and other property revenues due to higher average revenues (approximately $61 per effective unit), comprised of increases in rental rates, fee income and utility reimbursements. Rental rates on new leases transacted during the year ended December 31, 2012, were 3.2% higher than expiring lease rates, and renewal rates were 5.5% higher than expiring lease rates. These increases in revenue were partially offset by a 20 basis point decrease in average daily occupancy. The increase in conventional same store rental and other property revenues was partially offset by a $3.9 million, or 1.6%, increase in property operating expenses, primarily due to increases in real estate taxes and insurance, partially offset by a decrease in personnel and related costs.

Our other conventional proportionate property net operating income increased by $3.0 million, or 7.2%, during the year ended December 31, 2012, as compared to 2011, primarily due to an increase in net operating income resulting from conventional properties we acquired in 2011 and 2012.

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As of December 31, 2011, our conventional same store portfolio and our other conventional portfolio consisted of 137 and 38 properties with 49,853 and 6,026 units, respectively. Our conventional portfolio results for the years ended December 31, 2011 and 2010, as presented below, are based on the property populations as of December 31, 2011.

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Rental and other property revenues:				
Conventional same store	$699,526	$680,311	$19,215	2.8 %
Other Conventional	70,405	70,812	(407)	(0.6)%
Total	769,931	751,123	18,808	2.5 %
Property operating expenses:				
Conventional same store	252,102	255,417	(3,315)	(1.3)%
Other Conventional	32,547	32,344	203	0.6 %
Total	284,649	287,761	(3,112)	(1.1)%
Property net operating income:				
Conventional same store	447,424	424,894	22,530	5.3 %
Other Conventional	37,858	38,468	(610)	(1.6)%
Total	$485,282	$463,362	$21,920	4.7 %

For the year ended December 31, 2011, as compared to 2010, our conventional segment's proportionate property net operating income increased $21.9 million, or 4.7%.

For the year ended December 31, 2011, as compared to 2010, conventional same store proportionate property net operating income increased by $22.5 million, or 5.3%. This increase was primarily attributable to a $19.2 million, or 2.8%, increase in rental and other property revenues due to higher average revenues (approximately $41 per effective unit), comprised of increases in rental rates, fee income and utility reimbursements, partially offset by a 50 basis point decrease in average daily occupancy. Rental rates on new leases transacted during the year ended December 31, 2011, were 3.8% higher than expiring lease rates, and renewal rates were 4.6% higher than expiring lease rates. The increase in conventional same store rental and other property revenues was in addition to a $3.3 million, or 1.3%, decrease in property operating expenses, primarily due to decreases in insurance, personnel and related costs and contract services, partially offset by increases in real estate taxes and administrative costs.

Our other conventional proportionate property net operating income decreased by $0.6 million, or 1.6%, during the year ended December 31, 2011, as compared to 2010, primarily due to a decrease in revenue from a larger number of vacant units resulting from the timing of casualties at certain of our properties in 2011 as compared to 2010.

Affordable Real Estate Operations

Our affordable segment consists of properties we classify as same store or other, which are defined in the preceding total same store and conventional discussions. At December 31, 2012, our affordable same store portfolio and other affordable portfolio consisted of 67 and 23 properties with 9,994 and 2,104 units, respectively. From December 31, 2011 to December 31, 2012, our affordable same store portfolio decreased on a net basis by 48 properties and 4,250 units. These changes consisted of:

- the removal of 50 properties with 4,968 units that were sold through December 31, 2012, and for which the results have been reclassified into discontinued operations; and
- the reclassification of five properties with 677 units from our affordable same store portfolio to our other affordable portfolio when they ceased meeting our same store definition, generally when we stopped managing the properties.

These decreases were partially offset by the reclassification of seven properties with 1,395 units into our affordable same store portfolio from our other affordable portfolio when they met the criteria to be classified as same store following redevelopment projects.

Our affordable same store results for the years ended December 31, 2012 and 2011 presented below are based on the property populations as of December 31, 2012. We did not have a significant economic ownership in any of the properties classified as other affordable properties and/or did not manage the properties for the comparative years ended December 31, 2012 and 2011. Accordingly, using our basis for assessing segment performance, this portfolio is excluded from the discussion of proportionate results for the periods shown below.

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	Year Ended December 31, 2012	2011	$ Change	% Change
Affordable same store:				
Rental and other property revenues	$101,524	$97,793	$3,731	3.8 %
Property operating expenses	39,968	38,453	1,515	3.9 %
Property net operating income	$61,556	$59,340	$2,216	3.7 %

For the year ended December 31, 2012, as compared to 2011, the proportionate property net operating income of our affordable same store properties increased $2.2 million, or 3.7%. This increase in net operating income consisted of a $3.7 million, or 3.8%, increase in revenue, partially offset by a $1.5 million, or 3.9%, increase in expense. Affordable same store revenue increased partially due to higher average revenues ($27 per effective unit) and higher average physical occupancy (100 basis points). Affordable same store expenses increased primarily due to an increase in insurance and real estate taxes partially offset by personnel and related costs.

At December 31, 2011, our affordable same store portfolio and other affordable portfolio consisted of 60 and 30 properties with 8,599 and 3,499 units, respectively.

	Year Ended December 31, 2011	2010	$ Change	% Change
Rental and other property revenues:				
Affordable same store	$83,282	$79,759	$3,523	4.4 %
Other Affordable	14,511	13,710	801	5.8 %
Total	97,793	93,469	4,324	4.6 %
Property operating expenses:				
Affordable same store	32,728	34,542	(1,814)	(5.3)%
Other Affordable	5,725	5,509	216	3.9 %
Total	38,453	40,051	(1,598)	(4.0)%
Property net operating income:				
Affordable same store	50,554	45,217	5,337	11.8 %
Other Affordable	8,786	8,201	585	7.1 %
Total	$59,340	$53,418	$5,922	11.1 %

For the year ended December 31, 2011, as compared to 2010, the proportionate property net operating income of our affordable properties increased $5.9 million, or 11.1%. This increase in net operating income consisted of a $4.3 million, or 4.6%, increase in revenue, in addition to a $1.6 million, or 4.0%, decrease in expense. Affordable same store property net operating income increased by $5.3 million, or 11.8%, primarily due to higher average revenues ($43 per effective unit) and higher average physical occupancy (20 basis points). Affordable same store expenses decreased primarily due to decreases in insurance, real estate taxes, and personnel and related costs.

Non-Segment Real Estate Operations

Real estate operations net operating income amounts not attributed to our conventional or affordable segments include property management revenues, offsite costs associated with property management, and casualty losses, reported in consolidated amounts, which we do not allocate to our conventional or affordable segments for purposes of evaluating segment performance (see Note 20 to the consolidated financial statements in Item 8).

For the years ended December 31, 2012, 2011 and 2010, property management expenses, which includes offsite costs associated with managing properties we own (both our share and the share that we allocate to the noncontrolling limited partners in our consolidated partnerships) and offsite costs associated with properties we manage for third parties, totaled $35.9 million, $41.4 million and $48.2 million, respectively. The decrease in property management expenses in 2012 as compared to 2011 was primarily due to a reduction in personnel and related costs based on the reduction in the number of properties we own and manage. The decrease in property management expenses in 2011 as compared to 2010 was primarily due to the termination in early 2011 of our role as asset manager and property manager for approximately 100 properties with approximately 11,400 units.

For the years ended December 31, 2012 and 2011, casualty losses decreased by $9.5 million, from $11.4 million to $1.9 million, and for the years ended December 31, 2011 and 2010, casualty losses increased by $4.5 million, from

$6.9 million to $11.4 million. The decrease in casualty losses during 2012 and the increase in casualty losses during 2011 were primarily due to losses in 2011

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from severe snow storms in the Northeast that damaged several properties along with a loss resulting from a severe wind storm in California during 2011 that damaged a property.

Tax Credit and Asset Management Revenues

We sponsor certain consolidated partnerships that acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. We recognize income associated with the delivery of tax credits associated with these partnerships to their partners. We also perform activities and services for certain of our other consolidated and unconsolidated real estate partnerships pursuant to legacy asset management and other agreements. These services include portfolio strategy, capital allocation and other transactional activities, and we typically recognized the fees upon completion of transactions that monetize these fees. The tax credit and other activities are conducted in part by our taxable subsidiaries, and the related net operating income may be subject to income taxes. In recent years, in an effort to simplify our business, we have reduced our role in transactional activities and accordingly the amount of earnings we generate from transactional activities has decreased. We expect the amounts of annual transactional fees to diminish in the future.

For the year ended December 31, 2012, as compared to the year ended December 31, 2011, tax credit and asset management revenues increased $3.1 million. This increase is primarily attributable to an increase of $5.3 million of disposition and other fees we earn in connection with transactional activities. This increase was partially offset by a $1.0 million decrease of income recognized in 2011 upon the syndication of a low-income housing tax credit partnership, with no comparable activity during 2012, and a $1.4 million decrease in asset management fees primarily resulting from the termination in early 2011 of our role as asset manager for approximately 100 properties. Pursuant to the termination, we agreed to receive a reduced payment on asset management and other fees owed to us, $1.3 million of which was not previously recognized based on concerns regarding collectability.

For the year ended December 31, 2011, as compared to the year ended December 31, 2010, tax credit and asset management revenues increased $3.0 million. This increase is primarily attributable to a $2.0 million increase in income related to the syndication of low-income housing tax credit partnerships and a $1.3 million increase in asset management fees. The increase in asset management fees primarily related to the recognition in 2011 of previously unrecognized fees owed to us, as further discussed above.

Investment Management Expenses

Investment management expenses consist primarily of the costs of personnel who perform tax credit and asset management activities. For the year ended December 31, 2012, compared to the year ended December 31, 2011, investment management expenses increased $1.5 million. This increase was primarily due to fees paid to third parties for providing asset management services and our write off during 2012 of previously deferred costs on tax credit projects we elected not to pursue, partially offset by a reduction in personnel and related costs.

For the year ended December 31, 2011, compared to the year ended December 31, 2010, investment management expenses decreased $4.0 million. This decrease is primarily due to a $1.6 million reduction in personnel and related costs and a $2.4 million decrease in expenses, primarily related to our write off during 2010 of previously deferred costs related to tax credit projects we abandoned.

Depreciation and Amortization

During the years ended December 31, 2012, 2011 and 2010, depreciation and amortization totaled $345.1 million, $342.8 million and $363.3 million, respectively. The $20.4 million decrease from 2010 to 2011 was due to adjustments that reduced depreciation during 2011 and assets that became fully depreciated in 2010.

Provision for Real Estate Impairment Losses

Based on periodic tests of recoverability of long-lived assets, during the years ended December 31, 2012, 2011 and 2010, we recognized impairment losses totaling $8.3 million, $0.9 million and $0.1 million, respectively, primarily related to real estate properties classified as held for use. These impairment losses were recognized primarily due to reductions in the estimated period over which we expect to hold the properties, coupled with reductions in the estimated fair values of the assets as compared with their carrying amounts.

General and Administrative Expenses

In recent years, we have worked toward simplifying our business, including winding down the portion of our business that generates transaction-based activity fees and reducing the number of partnerships that own our conventional properties by acquiring the noncontrolling interests in these partnerships, which allows us to reduce overhead and other costs associated with these

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activities. These and other simplification activities, along with our scale reductions completed to date have allowed us to reduce our offsite costs, which consists of general and administrative expenses as well as property management and investment management expenses, by $17.5 million, or 15.3%, since 2010. Our general and administrative expense as a percentage of total revenues has decreased from 5.6% in 2010, to 5.2% in 2011 and 4.8% in 2012.

For the year ended December 31, 2012, compared to the year ended December 31, 2011, general and administrative expenses decreased $1.3 million, or 2.6%, primarily due to decreases in rent expense related to our corporate office space, consulting and professional costs and personnel and related costs, partially offset by increases in information technology and related outsourcing costs.

For the year ended December 31, 2011, compared to the year ended December 31, 2010, general and administrative expenses decreased $2.5 million, or 4.6%, primarily due to net reductions in personnel and related expenses.

Other Expenses, Net

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

For the year ended December 31, 2012, compared to the year ended December 31, 2011, other expenses, net decreased $2.0 million. The net decrease was primarily attributable to the reduction in 2012 of costs associated with certain of our consolidated tax credit partnerships and settlement of various litigation matters during 2011. This decrease was partially offset by the write off during 2012 of the residual receipts amounts held for certain of our affordable properties following a change in the U.S. Department of Housing and Urban Development's intended use of these amounts.

For the year ended December 31, 2011, compared to the year ended December 31, 2010, other expenses, net increased by $8.5 million. The net increase in other expense during 2011 as compared to 2010 was primarily attributable to the settlement of various litigation matters during 2010, which resulted in a net gain in our operations.

Interest Income

Interest income consists primarily of interest on notes receivable (including those from unconsolidated real estate partnerships, which are classified within other assets in our consolidated balance sheets), accretion of discounts on certain notes receivable, interest on cash and restricted cash accounts and interest on investments in debt securities in a securitization of certain of our property loans, which investments are classified within other assets in our consolidated balance sheets.

For the years ended December 31, 2012, 2011 and 2010, Aimco recognized interest income of $9.9 million, $9.7 million and $9.8 million, respectively. In addition to the interest income recognized by Aimco, the Aimco Operating Partnership recognized $1.3 million and $0.9 million of interest income during the years ended December 31, 2011 and 2010, respectively, related to notes receivable from Aimco, for which no interest income was recognized in 2012 following repayment of the notes in late 2011. These notes receivable and related interest income were eliminated in Aimco's consolidated financial statements prior to their repayment.

Recovery of (Provision for) Losses on Notes Receivable

During the years ended December 31, 2012 and 2011, we recognized net recoveries of previously recognized losses on notes receivable of $3.4 million and $0.5 million, respectively. During 2012, we recognized a $4.0 million net recovery of previously recognized losses ($2.4 million net of tax) related to our interest in Casden Properties LLC, an entity organized to acquire, re-entitle and develop land parcels in southern California. This recovery was partially offset by losses on other notes receivable recognized during 2012, primarily due to property sales during 2012 for which the net proceeds available for repayment of partnership loans were less than the amounts previously anticipated. The recovery recognized during 2011 was primarily related to property sales during 2011 for which the net proceeds available for repayment of partnership loans exceeded the amounts previously anticipated. During the year ended December 31, 2010, we recognized a net provision for losses on notes receivable of $0.9 million, primarily due to concerns regarding the collectability of the corresponding notes receivable.

Interest Expense

For the year ended December 31, 2012, compared to the year ended December 31, 2011, interest expense, which includes the amortization of deferred financing costs and prepayment penalties incurred on debt refinancings, decreased by $43.4 million, or 15.0%. This decrease was primarily attributable to our recognition during 2011 of

$20.7 million of prepayment penalties and the write off of $2.3 million of deferred loan costs in connection with the completion of a series of refinancing transactions completed in 2011 in which we reduced the weighted average interest rate and extended to ten years the maturity on over $600.0 million of property loans, which is discussed further in Note 3 to the consolidated financial statements in Item 8. The decrease was also due to $15.6 million of debt forgiveness gains recognized during 2012 upon the sale of partnership interests by certain of our consolidated partnerships. These gains were primarily allocated to noncontrolling interests and had no significant effect on the amounts of net income attributable to Aimco or the Aimco Operating Partnership during the year ended December 31, 2012.

For the year ended December 31, 2011, compared to the year ended December 31, 2010, interest expense increased by $13.6 million, or 4.9%. Property related interest expense increased by $15.3 million, primarily due to our recognition during 2011 of $20.7 million of prepayment penalties and the write off of $2.3 million of deferred loan costs discussed above, partially offset by a decrease in interest on our property debt primarily due to lower interest rates resulting from our refinancing activities. Corporate level interest expense decreased by $1.7 million primarily due to the repayment of our term loan during 2010.

Equity in Earnings or Losses of Unconsolidated Real Estate Partnerships

Equity in earnings or losses of unconsolidated real estate partnerships includes our share of the net earnings or losses of our unconsolidated real estate partnerships, which may include impairment losses, gains or losses on the disposition of real estate properties or depreciation expense, which generally exceeds the net operating income recognized by such unconsolidated partnerships.

During the periods presented, the majority of the investments in unconsolidated real estate partnerships included in our consolidated balance sheets were held by entities that we consolidated in our financial statements even though we held a nominal economic interest in these entities. Accordingly, the equity in earnings and losses recognized by these entities were allocated to noncontrolling interests and had no significant effect on the amounts of net income or loss attributable to Aimco.

Gain on Dispositions of Interests in Unconsolidated Real Estate and Other

Gain on dispositions of interests in unconsolidated real estate and other includes gains on disposition of interests in unconsolidated real estate partnerships, gains on dispositions of land and other non-depreciable assets and certain costs related to asset disposal activities, which vary from period to period.

During the years ended December 31, 2012, 2011 and 2010, we recognized $21.9 million, $2.4 million and $10.6 million, respectively, in net gains on disposition of interests in unconsolidated real estate and other. Approximately $15.7 million of the gains recognized during 2012 related to the sale of our interests in two unconsolidated real estate partnerships. The majority of the remaining gains recognized during 2012 and substantially all of the gains recognized during 2011 and 2010 related to sales of investments held by consolidated partnerships in which we generally held a nominal economic interest. Based on our nominal economic interest in the consolidated partnerships that sold these investments, substantially all of these gains were allocated to the noncontrolling interests in these partnerships and had no significant effect on the amounts of net loss attributable to Aimco or the Aimco Operating Partnership during the periods.

Income Tax Benefit

Certain of our operations or a portion thereof, including property management, asset management and risk management are conducted through taxable REIT subsidiaries, each of which we refer to as a TRS. A TRS is a C-corporation that has not elected REIT status and, as such, is subject to United States Federal corporate income tax. We use TRS entities to facilitate our ability to offer certain services and activities to our residents and investment partners that cannot be offered directly by a REIT. We also use TRS entities to hold investments in certain properties. Income taxes related to the results of continuing operations of our TRS entities are included in income tax benefit in our consolidated statements of operations.

For the year ended December 31, 2012, compared to the year ended December 31, 2011, income tax benefit decreased by $5.6 million from $6.5 million to $0.9 million, primarily due to decreases in the losses of our TRS entities, including the recovery during 2012 of previously recognized losses on our interest in Casden Properties, LLC.

For the year ended December 31, 2011, compared to the year ended December 31, 2010, income tax benefit decreased by $10.3 million, from $16.8 million to $6.5 million. This decrease was primarily due to decreases in the losses of our TRS entities.

Income from Discontinued Operations, Net

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

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For the years ended December 31, 2012 and 2011, income from discontinued operations totaled $210.3 million and $77.4 million, respectively. The $132.8 million increase in income from discontinued operations was principally due to a $122.9 million increase in gain on dispositions of real estate, net of income taxes, with the balance of the change resulting from an increase in operating income, net of interest expense, due to the timing and composition of sales.

For the years ended December 31, 2011 and 2010, income from discontinued operations totaled $77.4 million and $71.2 million, respectively. The $6.3 million increase in income from discontinued operations was principally due to a $14.7 million increase in gain on dispositions of real estate, net of income taxes, primarily attributable to more properties sold in 2011 as compared to 2010, partially offset primarily by decreases in operating income, net of interest expense, due to the timing of sales.

During the year ended December 31, 2012, we sold 75 consolidated properties for an aggregate sales price of $719.0 million, resulting in net proceeds of $289.9 million to us and a net gain of approximately $223.8 million (which is net of $10.7 million of related income taxes). During the year ended December 31, 2011, we sold 67 consolidated properties for an aggregate sales price of $473.5 million, resulting in net proceeds of $185.6 million to us and a net gain of approximately $100.9 million (which is net of $7.3 million of related income taxes). During the year ended December 31, 2010, we sold 51 consolidated properties for an aggregate sales price of $401.4 million, resulting in net proceeds of $118.4 million to us and a net gain of approximately $86.1 million (which is net of $8.8 million of related income taxes).

The weighted average net operating income capitalization rates for our conventional and affordable property sales, which are calculated using the trailing twelve month net operating income prior to sale, less a 3.0% management fee, divided by gross proceeds, were 6.2% and 8.3% for conventional and affordable property sales, respectively, during the year ended December 31, 2012, 7.0% and 9.0% for conventional and affordable property sales, respectively, during the year ended December 31, 2011, and 8.2% and 8.7% for conventional and affordable property sales, respectively, during the year ended December 31, 2010.

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 unaffiliated owners of interests in these partnerships (owners other than Aimco or the Aimco Operating Partnership). We adjust our total consolidated operating results in our consolidated financial statements to determine the portion of our consolidated operating results that corresponds to our ownership interest in all of our consolidated subsidiaries. The amounts of income or loss of our consolidated real estate partnerships that we allocate to the unaffiliated owners includes their share of property management fees, interest on notes and other amounts that we charge to these partnerships.

For the year ended December 31, 2012, we allocated net income of $51.2 million to noncontrolling interests in consolidated real estate partnerships, compared to $0.3 million of net losses allocated to these noncontrolling interests during the year ended December 31, 2011, or a variance of $51.5 million. This change was primarily due to a $44.7 million increase in the noncontrolling interest partners’ share of income from continuing operations primarily due to their share of decreases in interest expense (inclusive of debt forgiveness gains during 2012) and gains on dispositions of unconsolidated properties in consolidated real estate partnerships. These increases were also affected by ownership changes during the periods resulting from our acquisitions of noncontrolling interests in certain of our consolidated partnerships. This change was also due to a $6.8 million decrease in their share of income from discontinued operations.

For the years ended December 31, 2011 and 2010, we allocated net losses of $0.3 million and $13.3 million, respectively, to noncontrolling interests in consolidated real estate partnerships, a $13.0 million decrease in their share of net losses year over year. This decrease was primarily due to a $10.7 million increase in their share of income from discontinued operations, which is primarily due to an increase in gains on the disposition of real estate from 2010 to 2011, and a $2.3 million decrease in their share of losses from continuing operations.

Noncontrolling Interests in Aimco Operating Partnership

In Aimco’s consolidated financial statements, noncontrolling interests in Aimco Operating Partnership reflects the results of the Aimco Operating Partnership that are allocated to the holders of OP Units. Aimco allocates the Aimco Operating Partnership’s income or loss to the holders of common partnership units and equivalents based on the weighted average number of these units (including those held by Aimco) outstanding during the period. The amount of the Aimco Operating Partnership's income allocated to holders of the preferred OP Units is equal to the amount of distributions they receive.

For the year ended December 31, 2012, income allocated to noncontrolling interests in the Aimco Operating Partnership was $11.7 million, and for the years ended December 31, 2011 and 2010, losses allocated to the noncontrolling interests in the Aimco Operating Partnership were $0.8 million and $4.6 million, respectively.

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Critical Accounting Policies and Estimates

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

Impairment of Long-Lived Assets

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

From time to time, we have non-revenue producing properties that we hold for future redevelopment. We assess the recoverability of the carrying amount of these redevelopment properties by comparing our estimate of undiscounted future cash flows based on the expected service potential of the redevelopment property upon completion to the carrying amount. In certain instances, we use a probability-weighted approach to determine our estimate of undiscounted future cash flows when alternative courses of action are under consideration.

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

- the general economic climate;
- competition from other apartment communities and other housing options;
- local conditions, such as loss of jobs or an increase in the supply of apartments, that might adversely affect apartment occupancy or rental rates;
- changes in governmental regulations and the related cost of compliance;
- increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;
- changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing; and
- changes in interest rates and the availability of financing.

Any adverse changes in these and other factors could cause an impairment of our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. As we execute our portfolio strategy over the next few years, we are evaluating alternatives to sell or reduce our interest in a significant number of properties that do not align with our long-term investment strategy. While there is no assurance that we will sell or reduce our investment in these properties during the desired timeframe, the size of our portfolio is likely to change as we continue to execute our portfolio management strategy. For any properties that are sold or meet the criteria to be classified as held for sale during the next twelve months, the reduction in the estimated holding period for these properties may result in additional impairment losses.

Based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2012, 2011 and 2010, we recorded impairment losses of $8.3 million, $0.9 million and $0.1 million, respectively, primarily related to real estate properties classified as held for use. During the years ended December 31, 2012, 2011 and 2010, we recognized impairment losses of $15.3 million, $19.3 million and $13.0 million, respectively, related to real estate properties included in discontinued operations, primarily due to reductions in the estimated holding periods for properties sold during these periods.

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital additions activities, including redevelopment and construction projects, other tangible property improvements and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital additions activities at the property 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 redevelopment and construction projects 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 properties ready for their intended use are in progress. This includes when properties or units are undergoing physical construction, as well as when units are held vacant in advance of

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planned construction, provided that other activities such as permitting, planning and design are in progress. We cease the capitalization of costs when the assets are substantially complete and ready for their intended use, which is typically when construction has been completed and units are available for occupancy. We charge to expense as incurred costs that do not relate to capital additions activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses.

For the years ended December 31, 2012, 2011 and 2010, for continuing and discontinued operations, we capitalized $16.6 million, $14.0 million and $11.6 million, of interest costs, respectively, and $33.7 million, $29.0 million and $30.0 million of site payroll and indirect costs, respectively.

Funds From Operations

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

In addition to FFO, we compute Pro forma FFO and Adjusted FFO, or AFFO, which are also non-GAAP financial measures 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 (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. AFFO represents Pro forma FFO reduced by Capital Replacements (also adjusted for noncontrolling interests), which represents our estimation of the capital additions required to maintain the value of our portfolio during our ownership period. When we make capital additions at a property, we evaluate whether the additions enhance the value, profitability, or useful life of an asset as compared to its condition at the time we purchased the asset. We classify as Capital Improvements those capital additions that meet these criteria and we classify as Capital Replacements those that do not.

FFO, Pro forma FFO and AFFO should not be considered alternatives to net income (loss) or net cash flows from operating activities, as determined in accordance with GAAP, as indications of our performance or as measures of liquidity. Although we use these non-GAAP measures for comparability in assessing our performance against other REITs, not all REITs compute these same measures. Additionally, computation of AFFO is subject to definitions of capital spending, which are subjective. Accordingly, there can be no assurance that our basis for computing these non-GAAP measures is comparable with that of other REITs. For the years ended December 31, 2012, 2011 and 2010, Aimco's FFO, Pro forma FFO and AFFO are calculated as follows (in thousands):

	2012	2011	2010
Net income (loss) attributable to Aimco common stockholders (1)	$82,146	$(103,161)	$(125,318)
Adjustments:			
Depreciation and amortization	345,077	342,820	363,261
Depreciation and amortization related to non-real estate assets	(13,176)	(12,739)	(14,178)
Depreciation of rental property related to noncontrolling interests in consolidated real estate partnerships and unconsolidated entities	(18,402)	(23,130)	(32,668)
Gain on dispositions of unconsolidated real estate and other, net of noncontrolling interests in consolidated real estate partnerships	(15,399)	(2,509)	640
Provision for impairment losses related to depreciable real estate assets , net of noncontrolling interests in consolidated real estate partnerships	9,382	4,957	276
Discontinued operations:			
Gain on dispositions of real estate, net of income taxes and noncontrolling interests in consolidated real estate partnerships	(185,112)	(60,382)	(59,726)
Provision for impairment losses related to depreciable real estate assets, net of income taxes and noncontrolling interests in consolidated real estate partnerships	12,403	15,314	11,419
Depreciation of rental property, net of noncontrolling interests in consolidated real estate partnerships	19,169	42,068	56,746
Common noncontrolling interests in Aimco Operating Partnership's share of above adjustments (2)	(9,127)	(20,868)	(22,731)
Amounts allocable to participating securities	(503)	(556)	(738)
FFO attributable to Aimco common stockholders – diluted	$226,458	$181,814	$176,983
Preferred equity redemption related amounts	22,626	(3,904)	(254)
Common noncontrolling interests in Aimco Operating Partnership's share of above adjustments	(1,341)	266	18
Amounts allocable to participating securities	(87)	16	1
Pro Forma FFO attributable to Aimco common stockholders – diluted	$247,656	$178,192	$176,748
Capital Replacements, net of common noncontrolling interests in Aimco Operating Partnership and participating securities	(66,722)	(73,802)	(60,181)
AFFO attributable to Aimco common stockholders – diluted	$180,934	$104,390	$116,567
Weighed average common shares outstanding – diluted (earnings per share)	134,479	119,312	116,369
Dilutive common share equivalents	264	314	324
Weighed average common shares outstanding – diluted (3)	134,743	119,626	116,693

(1) Represents the numerator for calculating Aimco's earnings per common share in accordance with GAAP (see Note 16 to the consolidated financial statements in Item 8).

(2) During the years ended December 31, 2012, 2011 and 2010, the Aimco Operating Partnership had outstanding 8,134,774, 8,368,855 and 8,377,645 common OP Units and equivalents.

(3) Represents the denominator for Aimco's earnings per common share – diluted, calculated in accordance with GAAP, plus common share equivalents that are dilutive for FFO, Pro forma FFO and AFFO.

The Aimco Operating Partnership does not separately compute or report FFO, Pro forma FFO or AFFO. However, based on Aimco's method for allocation of amounts of FFO, Pro forma FFO and AFFO to noncontrolling interests in the Aimco Operating Partnership, as well as the limited differences between Aimco's and the Aimco Operating Partnership's net loss amounts during the periods presented, FFO, Pro forma FFO and AFFO amounts on a per unit basis for the Aimco Operating Partnership would be expected to be substantially the same as the corresponding per share amounts for Aimco.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations. Our primary source of liquidity is cash flow from our operations. Additional sources are proceeds from property sales, proceeds from refinancings of existing property loans, borrowings under new property loans and borrowings under our Credit Agreement.

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

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

As further discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk, we are subject to interest rate risk associated with certain variable rate liabilities and preferred stock. At December 31, 2012, we estimate that a 1.0% increase in 30-day LIBOR with constant credit risk spreads would reduce the amounts of net income (or increase the amounts of net loss) attributable to Aimco common stockholders and the Aimco Operating Partnership's common unitholders by approximately $1.4 million and $1.5 million, respectively, on an annual basis. This effect could be mitigated by increasing income earned on our variable rate assets.

We are subject to total rate of return swaps that require specified loan-to-value ratios that may require us to pay down the debt or provide additional collateral, which may adversely affect our cash flows. At December 31, 2012, we had provided $20.0 million of cash collateral pursuant to the swap agreements to satisfy the loan-to-value requirements. See Note 8 to the consolidated financial statements in Item 8 for additional information regarding these arrangements, including the maturity date of the swaps.

As of December 31, 2012, we had the capacity to borrow $454.6 million pursuant to our Credit Agreement, net of $45.4 million for undrawn letters of credit backed by the Credit Agreement.

At December 31, 2012, we had $84.4 million in cash and cash equivalents and $146.9 million of restricted cash, decreases of $6.7 million and $37.1 million, respectively from December 31, 2011. Restricted cash primarily consists of reserves and escrows held by lenders for bond sinking funds, capital additions, property taxes and insurance, and escrows related to tenant security deposits. In addition, cash, cash equivalents and restricted cash are held by partnerships that are not presented on a consolidated basis. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our consolidated statements of cash flows in Item 8.

Operating Activities

For the year ended December 31, 2012, our net cash provided by operating activities of $316.8 million was primarily related to operating income from our consolidated properties, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of properties, in excess payments of operating accounts payable and accrued liabilities. Cash provided by operating activities for the year ended December 31, 2012 increased by $58.0 million as compared to the year ended December 31, 2011, primarily due to an increase in the net operating income of our properties, resulting from improved operations, and a decrease in cash paid for interest payments, due to the $20.7 million of prepayment penalties incurred during 2011 in connection with a series of refinancing transactions, as well as lower average debt balances and lower interest rates from our refinancing activities.

Investing Activities

For the year ended December 31, 2012, our net cash provided by investing activities of $111.7 million consisted primarily of proceeds from disposition of real estate, partially offset by capital expenditures and purchases of real estate.

We sell properties when they do not meet our investment criteria or are located in areas that we believe do not justify our continued investment when compared to alternative uses for our capital. During the year ended December 31, 2012, we sold 75 consolidated properties for an aggregate sales price of $719.0 million, generating proceeds totaling $289.9 million after the amount of property debt repaid upon the sale or assumed by the buyers, and after the payment of transaction costs, debt prepayment penalties and distributions to limited partners. Net cash proceeds from property sales were used primarily to fund redevelopment spending on our conventional properties and property investments, including investments in other properties and acquisitions of the noncontrolling interests in certain of our consolidated properties.

Capital expenditures totaled $270.2 million, $200.4 million, and $178.9 million during the years ended December 31, 2012, 2011, and 2010, respectively. We generally fund capital additions with cash provided by operating activities, working capital and

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net proceeds from property sales. We categorize our capital spending broadly into four primary categories: Capital Replacements, Capital Improvements, redevelopment and casualty spending. We monitor our spending in these categories based on capital additions related to properties that we own and manage, and we do not include in these measures capital spending related to properties sold or classified as held for sale at the end of the period, properties that are not multi-family such as commercial properties or fitness facilities, or properties we own but do not manage. A summary of the capital spending for these categories, along with a reconciliation of the total for these categories to the capital expenditures reported in the accompanying consolidated statements of cash flow for the year ended December 31, 2012, 2011, and 2010, are presented below (dollars in thousands):

	2012	2011	2010
Capital Replacements	$64,076	$83,341	$74,650
Capital Improvements	83,980	72,709	45,392
Redevelopment additions	100,085	33,187	29,448
Casualty replacements	11,902	12,282	21,249
Total capital additions	260,043	201,519	170,739
Less: additions related to unconsolidated partnerships	(1,226)	(461)	(982)
Plus: additions related to sold or held for sale properties	12,142	5,673	4,715
Plus: additions related to consolidated properties not managed, commercial space, fitness facilities and other	1,144	533	858
Consolidated capital additions	272,103	207,264	175,330
Plus: net change in accrued capital spending	(1,893)	(6,892)	3,599
Capital expenditures per consolidated statements of cash flows	$270,210	$200,372	$178,929

Capital spending related to Redevelopment and Capital Improvements increased significantly during the year ended December 31, 2012, as compared to the year ended December 31, 2011, due to redevelopment projects we commenced in early 2012. Capital spending related to Capital Improvements increased significantly in the year ended December 31, 2011, as compared to the year ended December 31, 2010, due to large projects for property upgrades, primarily the installation of vinyl wood plank flooring at certain of our properties. We expect our conventional redevelopment spending to increase during 2013, to range of approximately $130.0 million to $160.0 million.

For the years ended December 31, 2012, 2011 and 2010, capital spending included $16.6 million, $14.0 million and $11.6 million of interest costs, respectively, and $33.7 million, $29.0 million and $30.0 million of site payroll and indirect costs, respectively.

Financing Activities

For the year ended December 31, 2012, our net cash used in financing activities of $435.1 million was primarily attributed to cash used to redeem preferred equity securities, debt principal payments, dividends and distributions paid to common and preferred security holders and distributions to and acquisitions of noncontrolling interests, partially offset by proceeds from our issuance of common equity securities, property loans and stock option exercises.

Property Debt

At December 31, 2012 and 2011, we had $4.7 billion and $5.2 billion, respectively, of consolidated property debt outstanding, which, at December 31, 2011, included $412.6 million of property debt classified within liabilities related to assets held for sale. We intend to continue to refinance property debt primarily as a means of extending current and near term maturities and to finance certain capital projects.

Credit Agreement

Our Credit Agreement consists of $500.0 million of revolving loan commitments. Borrowings under the Credit Agreement bear interest at a rate set forth on a pricing grid which rate varies based on our leverage (initially either LIBOR plus 2.75% or, at our option, a base rate). The Credit Agreement matures December 2014, and may be extended for two additional one-year periods, subject to certain conditions, including payment of a 25.0 basis point fee on the total revolving commitments.

As of December 31, 2012, we had no outstanding borrowings under the Credit Agreement, and we had the capacity to borrow $454.6 million, net of $45.4 million for undrawn letters of credit backed by the Credit Agreement. The proceeds of revolving loans are generally used to fund working capital and for other corporate purposes.

Our Credit Agreement requires us to satisfy, among other customary financial covenants, ratios of EBITDA to debt service and EBITDA to fixed charges of 1.50x and 1.30x, respectively. For the year ended December 31, 2012, as calculated based on

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the provisions in our Credit Agreement, we had a ratio of EBITDA to debt service of 1.65x and a ratio of EBITDA to fixed charges of 1.50x. We expect to remain in compliance with these covenants during 2013.

Equity and Partners' Capital Transactions

During the year ended December 31, 2012, Aimco completed two public offerings of its Common Stock, generating approximately $641.4 million in net proceeds (inclusive of proceeds received upon the exercise of near-term expiring stock options in connection with one of the offerings). Aimco used these proceeds and other available cash to redeem $600.9 million of preferred stock.

In connection with Aimco's Common Stock issuances, Aimco contributed the proceeds to the Aimco Operating Partnership in exchange for a number of common partnership units equal to the number of shares issued. In connection with Aimco's preferred stock redemptions, the Aimco Operating Partnership redeemed from Aimco Partnership Preferred Units corresponding to the preferred stock redeemed by Aimco.

Also during the year ended December 31, 2012, Aimco issued 405,090 shares of its 7.00% Class Z Cumulative Preferred Stock through its preferred stock at-the-market, or ATM, offering program, for net proceeds of $9.8 million. Aimco contributed the net proceeds from the sale of such shares of preferred stock to the Aimco Operating Partnership in exchange for an equal number of the Aimco Operating Partnership's Class Z Cumulative Preferred Partnership Units.

Pursuant to ATM offering programs active at December 31, 2012, Aimco has the capacity to issue up to 3.5 million additional shares of its Common Stock and an additional 3.5 million shares of its Class Z Cumulative Preferred Stock. In the event of any such issuances, Aimco would contribute the net proceeds to the Aimco Operating Partnership in exchange for a number of common partnership units or Class Z Partnership Preferred Units, as the case may be, equal to the number of shares issued and sold. Additionally, the Aimco Operating Partnership and Aimco have a shelf registration statement that provides for the issuance of debt securities by the Aimco Operating Partnership and equity securities by Aimco.

During the year ended December 31, 2012, Aimco paid cash dividends totaling $37.0 million and $104.0 million to preferred stockholders and common stockholders, respectively, and the Aimco Operating Partnership paid cash distributions of $12.6 million to holders of noncontrolling interests in the Aimco Operating Partnership.

During the year ended December 31, 2012, the Aimco Operating Partnership paid cash distributions totaling $43.5 million and $110.2 million to preferred unitholders and common unitholders, respectively, of which $37.0 million and $104.0 million, respectively, represented distributions to Aimco.

During the year ended December 31, 2012, we paid cash distributions of $45.2 million to holders of noncontrolling interests in consolidated real estate partnerships, primarily related to property sales during 2012 and late 2011.

During the year ended December 31, 2012, we acquired the remaining noncontrolling limited partnership interests in 11 consolidated real estate partnerships that own 17 properties and for which our affiliates serve as general partner, for a total cost of $50.7 million, and we redeemed approximately 416,000 common OP Units for cash of $10.8 million.

Contractual Obligations

This table summarizes information contained elsewhere in this Annual Report regarding payments due under contractual obligations and commitments as of December 31, 2012 (amounts in thousands):

	Total	Less than One Year	2-3 Years	4-5 Years	More than Five Years
Long-term debt (1)	$4,688,447	$268,599	$599,010	$1,045,720	$2,775,118
Interest related to long-term debt (2)	1,767,332	250,945	463,766	378,413	674,208
Leases for space	13,312	3,756	5,654	3,870	32
Other obligations (3)	234,518	169,720	64,798	—	—
Total	$6,703,609	$693,020	$1,133,228	$1,428,003	$3,449,358

(1) Includes scheduled principal amortization and maturity payments related to our long-term debt.

(2) Includes interest related to both fixed rate and variable rate debt. Interest related to variable rate debt is estimated based on the rate effective at December 31, 2012. Refer to Note 7 in the consolidated financial statements in Item 8 for a description of average interest rates associated with our debt.

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(3) Includes a commitment to fund $2.3 million in second mortgage loans on certain properties in West Harlem, New York City, and approximately $232.2 million of obligations pursuant to construction contracts related to our redevelopment and construction projects.

In addition to the amounts presented in the table above, at December 31, 2012, we were obligated to make dividend payments on $68.9 million (liquidation value) of perpetual preferred stock outstanding with a weighted average annual dividend yield of 4.1% and distribution payments on $79.2 million (liquidation value) of redeemable preferred OP Units of the Aimco Operating Partnership outstanding with annual distribution yields ranging from 1.8% to 8.8%, or equal to the dividends paid on Aimco's Common Stock.

As discussed in Note 6 to the consolidated financial statements in Item 8, we have notes receivable collateralized by second mortgages on certain properties in West Harlem in New York City. The obligor under these notes has the ability to put these properties to us upon the achievement of certain operating performance thresholds. Our acquisition of these properties pursuant to this put option would result in a cash payment by us of approximately $31.0 million at the lower performance threshold and $98.1 million at the higher performance threshold, and our assumption of approximately $118.2 million in property debt.

As discussed in Note 10 to the consolidated financial statements in Item 8, pursuant to financing arrangements on certain of our conventional redevelopment properties, we are contractually obligated to complete the planned projects. The majority of the capital spending will be funded from construction financing that will be converted to permanent non-recourse property loans upon completion of the projects. Based on the uncertainty regarding the timing and the final amounts of the expenditures, we have excluded them from the contractual obligations table above.

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

Future Capital Needs

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

Off-Balance Sheet Arrangements

We own general and limited partner interests in unconsolidated real estate partnerships, in which our ownership interests range from less than 5% to 67%. There are no lines of credit, side agreements, or any other derivative financial instruments related to or between our unconsolidated real estate partnerships and us and no material exposure to financial guarantees. Accordingly, our maximum risk of loss related to these unconsolidated real estate partnerships is limited to the aggregate carrying amount of our investment in the unconsolidated real estate partnerships and any outstanding notes or accounts receivable as reported in our consolidated financial statements (see Note 4 to the consolidated financial statements in Item 8 for further discussion of our involvement with variable interest entities and see Note 5 to the consolidated financial statements in Item 8 for additional information about our involvement with and investments in unconsolidated real estate partnerships).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is to the availability of property debt or other cash sources to refund maturing property debt and to changes in base interest rates and credit risk spreads. Our liabilities are not subject to any other material market rate or price risks. We use predominantly long-term, fixed-rate non-recourse property debt in order to avoid the refunding and repricing risks of short-term borrowings. We use short-term debt financing and working capital primarily to fund short-term uses and acquisitions and generally expect to refinance such borrowings with cash from operating activities, property sales proceeds, long-term debt or equity financings. We make limited use of other derivative financial instruments and we do not use them for trading or other speculative purposes.

As of December 31, 2012, on a consolidated basis, we had approximately $154.6 million of variable-rate indebtedness outstanding and $37.0 million of variable rate preferred stock outstanding. Of the total debt subject to variable interest rates, floating rate tax-exempt bond financing was approximately $130.6 million. Floating rate tax-exempt bond financing is benchmarked against the Securities Industry and Financial Markets Association Municipal Swap Index, or

SIFMA, rate, which since 1992 has averaged 75% of the 30-day LIBOR rate. If this historical relationship continues, we estimate that an increase in 30-day LIBOR of 100 basis points (75 basis points for tax-exempt interest rates) with constant credit risk spreads would result in Aimco's net income and net income attributable to Aimco common stockholders being reduced (or the amounts of net loss and net loss attributable to Aimco common stockholders being increased) by $1.2 million and $1.4 million, respectively, on an annual basis. We estimate

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this same increase in interest rates would result in the Aimco Operating Partnership's net income and net income attributable to the Aimco Operating Partnership's common unitholders being reduced (or the amounts of net loss and net loss attributable to the Aimco Operating Partnership's common unitholders being increased) by $1.2 million and $1.5 million, respectively, on an annual basis.

At December 31, 2012, we had approximately $334.2 million in cash and cash equivalents, restricted cash and notes receivable, a portion of which bear interest at variable rates indexed to LIBOR-based rates, and which may mitigate the effect of an increase in variable rates on our variable-rate indebtedness and preferred stock discussed above.

We estimate the fair value for our debt instruments as described in Note 9 to the consolidated financial statements in Item 8. The estimated aggregate fair value of our consolidated debt was approximately $5.1 billion at December 31, 2012 ($4.9 billion on a proportionate basis, including our share of the property debt of unconsolidated partnerships). The combined carrying value of our consolidated debt was approximately $4.7 billion at December 31, 2012 ($4.5 billion on a proportionate basis). If market rates for our fixed-rate debt were higher by 100 basis points with constant credit risk spreads, the estimated fair value of our debt discussed above would have decreased from $5.1 billion to $4.9 billion (from $4.9 billion to $4.7 billion on a proportionate basis). If market rates for our debt discussed above were lower by 100 basis points with constant credit risk spreads, the estimated fair value of our fixed-rate debt would have increased from $5.1 billion to $5.4 billion (from $4.9 billion to $5.1 billion on a proportionate basis).

Item 8. Financial Statements and Supplementary Data

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

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

None.

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Item 9A. Controls and Procedures

Aimco

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on their assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting is effective.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There has been no change in Aimco's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2012 that has materially affected, or is reasonably likely to materially affect, Aimco's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of
Apartment Investment and Management Company

We have audited Apartment Investment and Management Company's (the "Company") internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2012, and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 25, 2013

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The Aimco Operating Partnership

Disclosure Controls and Procedures

The Aimco Operating Partnership's management, with the participation of the chief executive officer and chief financial officer of Aimco, who are the equivalent of the Aimco Operating Partnership's chief executive officer and chief financial officer, respectively, has evaluated the effectiveness of the Aimco Operating Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the chief executive officer and chief financial officer of Aimco have concluded that, as of the end of such period, the Aimco Operating Partnership's disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on their assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting is effective.

The Aimco Operating Partnership's independent registered public accounting firm has issued an attestation report on our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There has been no change in the Aimco Operating Partnership's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Aimco Operating Partnership's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm
The Partners of
AIMCO Properties, L.P.

We have audited AIMCO Properties, L.P.'s (the "Partnership") internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Partnership's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Partnership as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), partners' capital, and cash flows for each of the three years in the period ended December 31, 2012, and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 25, 2013

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Each member of the board of directors of Aimco also is a director of the general partner of the Aimco Operating Partnership. The officers of Aimco are also the officers of the general partner of the Aimco Operating Partnership and hold the same titles. The information required by this item for both Aimco and the Aimco Operating Partnership is presented jointly under the captions “Board of Directors and Executive Officers,” “Corporate Governance Matters - Code of Ethics,” “Other Matters - Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance Matters - Nominating and Corporate Governance Committee,” “Corporate Governance Matters - Audit Committee” and “Corporate Governance Matters - Audit Committee Financial Expert” in the proxy statement for Aimco’s 2013 annual meeting of stockholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is presented under the captions “Compensation Discussion & Analysis,” “Compensation and Human Resources Committee Report to Stockholders,” “Summary Compensation Table,” “Grants of Plan-Based Awards in 2012,” “Outstanding Equity Awards at Fiscal Year End 2012,” “Option Exercises and Stock Vested in 2012,” “Potential Payments Upon Termination or Change in Control” and “Corporate Governance Matters - Director Compensation” in the proxy statement for Aimco’s 2013 annual meeting of stockholders and is incorporated herein by reference.

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

The information required by this item, for both Aimco and the Aimco Operating Partnership, is presented under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the proxy statement for Aimco’s 2013 annual meeting of stockholders and is incorporated herein by reference. In addition, as of February 22, 2013, Aimco, through its consolidated subsidiaries, held 94.8% of the Aimco Operating Partnership’s common partnership units outstanding.

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

The information required by this item is presented under the caption “Certain Relationships and Related Transactions” and “Corporate Governance Matters - Independence of Directors” in the proxy statement for Aimco’s 2013 annual meeting of stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is presented under the caption “Principal Accountant Fees and Services” in the proxy statement for Aimco’s 2013 annual meeting of stockholders and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

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

INDEX TO EXHIBITS (1) (2)

EXHIBIT NO.	DESCRIPTION
3.1	Charter (Exhibit 3.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012, is incorporated herein by this reference)
3.2	Amended and Restated Bylaws (Exhibit 3.2 to Aimco's Current Report on Form 8-K dated February 2, 2010, is incorporated herein by this reference)
10.1	Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of July 29, 1994, as amended and restated as of February 28, 2007 (Exhibit 10.1 to Aimco's Annual Report on Form 10-K for the year ended December 31, 2006, is incorporated herein by this reference)
10.2	First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of December 31, 2007 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 31, 2007, is incorporated herein by this reference)
10.3	Second Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of July 30, 2009 (Exhibit 10.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, is incorporated herein by this reference)
10.4	Third Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of September 2, 2010 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated September 3, 2010, is incorporated herein by this reference)
10.5	Fourth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of July 26, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated July 26, 2011, is incorporated herein by this reference)
10.6	Fifth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of August 24, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated August 24, 2011, is incorporated herein by this reference)
10.7	Sixth Amendment to the Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of December 31, 2011 (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 31, 2011, is incorporated herein by this reference)
10.8	Senior Secured Credit Agreement, dated as of December 13, 2011, among Apartment Investment and Management Company, AIMCO Properties, L.P., AIMCO/Bethesda Holdings, Inc., the lenders from time to time party thereto, KeyBank National Association, as administrative agent, swing line lender and a letter of credit issuer, Wells Fargo Bank, N.A., as syndication agent and Bank of America, N.A. and Regions Bank, as co-documentation agents (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 13, 2011, is incorporated herein by this reference)
10.9	Master Indemnification Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., XYZ Holdings LLC, and the other parties signatory thereto (Exhibit 2.3 to Aimco's Current Report on Form 8-K, dated December 6, 2001, is incorporated herein by this reference)

10.10	Tax Indemnification and Contest Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, National Partnership Investments, Corp., and XYZ Holdings LLC and the other parties signatory thereto (Exhibit 2.4 to Aimco's Current Report on Form 8-K, dated December 6, 2001, is incorporated herein by this reference)
10.11	Employment Contract executed on December 29, 2008, by and between AIMCO Properties, L.P. and Terry Considine (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated December 29, 2008, is incorporated herein by this reference)*
10.12	Apartment Investment and Management Company 1997 Stock Award and Incentive Plan (October 1999) (Exhibit 10.26 to Aimco's Annual Report on Form 10-K for the year ended December 31, 1999, is incorporated herein by this reference)*

10.13	Form of Restricted Stock Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.11 to Aimco’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, is incorporated herein by this reference)*
10.14	Form of Incentive Stock Option Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.42 to Aimco’s Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by this reference)*
10.15	2007 Stock Award and Incentive Plan (incorporated by reference to Appendix A to Aimco’s Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 20, 2007)*
10.16	Form of Restricted Stock Agreement (Exhibit 10.2 to Aimco’s Current Report on Form 8-K, dated April 30, 2007, is incorporated herein by this reference)*
10.17	Form of Non-Qualified Stock Option Agreement (Exhibit 10.3 to Aimco’s Current Report on Form 8-K, dated April 30, 2007, is incorporated herein by this reference)*
10.18	2007 Employee Stock Purchase Plan (incorporated by reference to Appendix B to Aimco’s Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 20, 2007)*
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm - Aimco
23.2	Consent of Independent Registered Public Accounting Firm - Aimco Operating Partnership
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Aimco
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Aimco
31.3	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Aimco Operating Partnership
31.4	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Aimco Operating Partnership
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Aimco
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Aimco
32.3	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Aimco Operating Partnership
32.4	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Aimco Operating Partnership
99.1	Agreement re: disclosure of long-term debt instruments - Aimco
99.2	Agreement re: disclosure of long-term debt instruments - Aimco Operating Partnership
101	XBRL (Extensible Business Reporting Language). The following materials from Aimco’s and the Aimco Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL: (i) consolidated balance sheets; (ii) consolidated statements of operations; (iii) consolidated statements of comprehensive loss; (iv) consolidated statements of equity and consolidated statements of partners’ capital; (v) consolidated statements of cash flows; (vi) notes to consolidated financial statements; and (vii) financial statement schedule (3).

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

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

(3) As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

* Management contract or compensatory plan or arrangement

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SIGNATURES

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

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

By:	/s/ TERRY CONSIDINE
	Terry Considine
	Chairman of the Board and
	Chief Executive Officer
Date:	February 25, 2013

AIMCO PROPERTIES, L.P.

By:	AIMCO-GP, Inc., its General Partner
By:	/s/ TERRY CONSIDINE
	Terry Considine
	Chairman of the Board and
	Chief Executive Officer
Date:	February 25, 2013

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

Signature	Title	Date
APARTMENT INVESTMENT AND MANAGEMENT COMPANY		
AIMCO PROPERTIES, L.P. By:AIMCO-GP, Inc., its General Partner		
/s/ TERRY CONSIDINE Terry Considine	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 25, 2013
/s/ ERNEST M. FREEDMAN Ernest M. Freedman	Executive Vice President and Chief Financial Officer (principal financial officer)	February 25, 2013
/s/ PAUL BELDIN Paul Beldin	Senior Vice President and Chief Accounting Officer (principal accounting officer)	February 25, 2013
/s/ JAMES N. BAILEY James N. Bailey	Director	February 25, 2013
/s/ THOMAS L. KELTNER Thomas L. Keltner	Director	February 25, 2013
/s/ J. LANDIS MARTIN J. Landis Martin	Director	February 25, 2013
/s/ ROBERT A. MILLER Robert A. Miller	Director	February 25, 2013
/s/ KATHLEEN M. NELSON Kathleen M. Nelson	Director	February 25, 2013
/s/ MICHAEL A. STEIN Michael A. Stein	Director	February 25, 2013

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

INDEX TO FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Apartment Investment and Management Company

We have audited the accompanying consolidated balance sheets of Apartment Investment and Management Company (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the accompanying Index to Financial Statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Denver, Colorado
February 25, 2013

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED BALANCE SHEETS
As of December 31, 2012 and 2011
(In thousands, except share data)

	2012	2011
ASSETS		
Buildings and improvements	$6,390,253	$6,223,885
Land	1,943,166	1,929,018
Total real estate	8,333,419	8,152,903
Less accumulated depreciation	(2,820,765)	(2,562,574)
Net real estate ($599,302 and $773,233 related to VIEs)	5,512,654	5,590,329
Cash and cash equivalents ($23,599 and $43,286 related to VIEs)	84,413	91,066
Restricted cash ($38,576 and $41,724 related to VIEs)	146,859	183,970
Accounts receivable, net ($1,961 and $8,434 related to VIEs)	34,020	41,796
Notes receivable	102,897	111,205
Other assets ($221,638 and $70,930 related to VIEs)	520,537	382,949
Assets held for sale	—	470,547
Total assets	$6,401,380	$6,871,862
LIABILITIES AND EQUITY		
Non-recourse property debt ($495,012 and $617,823 related to VIEs)	$4,688,447	$4,772,774
Accounts payable	30,747	32,607
Accrued liabilities and other ($162,765 and $79,573 related to VIEs)	318,669	282,451
Deferred income	128,577	138,808
Liabilities related to assets held for sale	—	417,164
Total liabilities	5,166,440	5,643,804
Preferred noncontrolling interests in Aimco Operating Partnership	80,046	83,384
Commitments and contingencies (Note 10)	—	—
Equity:		
Perpetual Preferred Stock (Note 12)	68,114	657,114
Common Stock, $0.01 par value, 505,787,260 and 480,887,260 shares authorized, 145,563,903 and 120,916,294 shares issued/outstanding at December 31, 2012 and 2011, respectively	1,456	1,209
Additional paid-in capital	3,712,684	3,098,333
Accumulated other comprehensive loss	(3,542)	(6,860)
Distributions in excess of earnings	(2,863,287)	(2,841,467)
Total Aimco equity	915,425	908,329
Noncontrolling interests in consolidated real estate partnerships	271,065	270,666
Common noncontrolling interests in Aimco Operating Partnership	(31,596)	(34,321)
Total equity	1,154,894	1,144,674
Total liabilities and equity	$6,401,380	$6,871,862

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands, except per share data)

	2012	2011	2010
REVENUES:			
Rental and other property revenues	$991,428	$943,258	$922,910
Tax credit and asset management revenues	41,769	38,661	35,630
Total revenues	1,033,197	981,919	958,540
OPERATING EXPENSES:			
Property operating expenses	402,225	405,866	415,513
Investment management expenses	12,008	10,459	14,477
Depreciation and amortization	345,077	342,820	363,261
Provision for real estate impairment losses	8,349	915	65
General and administrative expenses	49,602	50,906	53,374
Other expenses, net	15,776	17,796	9,267
Total operating expenses	833,037	828,762	855,957
Operating income	200,160	153,157	102,583
Interest income	9,913	9,681	9,769
Recovery of (provision for) losses on notes receivable, net	3,375	509	(949)
Interest expense	(246,761)	(290,168)	(276,538)
Equity in losses of unconsolidated real estate partnerships	(4,408)	(17,721)	(23,112)
Gain on dispositions of interests in unconsolidated real estate and other, net	21,886	2,398	10,631
Loss before income taxes and discontinued operations	(15,835)	(142,144)	(177,616)
Income tax benefit	929	6,541	16,839
Loss from continuing operations	(14,906)	(135,603)	(160,777)
Income from discontinued operations, net	210,267	77,439	71,153
Net income (loss)	195,361	(58,164)	(89,624)
Noncontrolling interests:			
Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships	(51,218)	257	13,301
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(6,496)	(6,683)	(4,964)
Net (income) loss attributable to common noncontrolling interests in Aimco Operating Partnership	(5,191)	7,503	9,559
Total noncontrolling interests	(62,905)	1,077	17,896
Net income (loss) attributable to Aimco	132,456	(57,087)	(71,728)
Net income attributable to Aimco preferred stockholders	(49,888)	(45,852)	(53,590)
Net income attributable to participating securities	(422)	(222)	—
Net income (loss) attributable to Aimco common stockholders	$82,146	$(103,161)	$(125,318)
Earnings (loss) attributable to Aimco per common share – basic and diluted:			
Loss from continuing operations attributable to Aimco common stockholders	$(0.59)	$(1.22)	$(1.48)
Income from discontinued operations attributable to Aimco common stockholders	1.20	0.36	0.40
Net income (loss) attributable to Aimco common stockholders	$0.61	$(0.86)	$(1.08)

Weighted average common shares outstanding – basic and diluted	134,479	119,312	116,369

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
Net income (loss)	$195,361	$(58,164)	$(89,624)
Other comprehensive income (loss):			
Unrealized losses on interest rate swaps	(2,581)	(5,885)	(2,747)
Losses on interest rate swaps reclassified into earnings from accumulated other comprehensive loss	1,673	1,667	1,642
Unrealized gains (losses) on debt securities classified as available-for-sale	4,341	(1,509)	—
Other comprehensive income (loss)	3,433	(5,727)	(1,105)
Comprehensive income (loss)	198,794	(63,891)	(90,729)
Comprehensive (income) loss attributable to noncontrolling interests	(63,020)	2,020	18,063
Comprehensive income (loss) attributable to Aimco	$135,774	$(61,871)	$(72,666)

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	Preferred Stock		Common Stock							
	Shares Issued	Amount	Shares Issued	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Earnings	Total Aimco Equity	Noncontrolling Interests	Total Eq
Balances at December 31, 2009	24,940	$660,500	116,480	$1,165	$3,071,273	$(1,138)	$(2,492,082)	$1,239,718	$294,985	$1,534,7
Issuance of Preferred Stock	4,000	98,101	—	—	(3,346)	—	—	94,755	—	94,755
Redemption of Preferred Stock	(4,040)	(101,000)	—	—	4,511	—	(1,511)	(98,000)	—	(98,000
Issuance of Common Stock	—	—	600	6	14,040	—	—	14,046	—	14,046
Aimco Operating Partnership units issued in exchange for noncontrolling interests in consolidated real estate partnerships	—	—	—	—	—	—	—	—	6,854	6,854
Redemption of Aimco Operating Partnership units	—	—	—	—	—	—	—	—	(3,571)	(3,571
Officer and employee stock awards and related amounts, net	—	—	555	5	2,748	—	—	2,753	—	2,753
Amortization of stock option and restricted stock compensation cost	—	—	—	—	8,182	—	—	8,182	—	8,182
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	7,422	7,422
	—	—	—	—	—	—	—	—	6,324	6,324

Adjustment to noncontrolling interests from consolidation of entities										
Adjustment to noncontrolling interests related to revision of investment balances	—	—	—	—	—	—	—	—	(38,718)	(38,718
Effect of changes in ownership for consolidated entities	—	—	—	—	(27,391)	—	—	(27,391)	5,533	(21,858
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	(27,724)	(27,724)	50,879	23,155
Change in accumulated other comprehensive loss	—	—	—	—	—	(938)	—	(938)	(167)	(1,105
Other, net	—	—	8	—	279	—	(751)	(472)	1,876	1,404
Net loss	—	—	—	—	—	—	(71,728)	(71,728)	(22,860)	(94,588
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(47,827)	(47,827
Common Stock dividends	—	—	—	—	—	—	(35,080)	(35,080)	—	(35,080
Preferred Stock dividends	—	—	—	—	—	—	(52,079)	(52,079)	—	(52,079
Balances at December 31, 2010	24,900	657,601	117,643	1,176	3,070,296	(2,076)	(2,680,955)	1,046,042	260,730	1,306,77
Issuance of Preferred Stock	869	21,075	—	—	(1,085)	—	—	19,990	—	19,990
Repurchase of Preferred Stock	(863)	(21,562)	—	—	1,292	—	3,904	(16,366)	—	(16,366
Issuance of Common Stock	—	—	2,914	29	71,913	—	—	71,942	—	71,942
Redemption of Aimco Operating Partnership units	—	—	—	—	—	—	—	—	(6,059)	(6,059
Officer and employee stock	—	—	317	3	2,094	—	10	2,107	—	2,107

awards and related amounts, net										
Amortization of stock option and restricted stock compensation cost	—	—	42	1	5,882	—	—	5,883	—	5,883
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	12,358	12,358
Effect of changes in ownership for consolidated entities	—	—	—	—	(52,059)	—	—	(52,059)	29,761	(22,298
Change in accumulated other comprehensive loss	—	—	—	—	—	(4,784)	—	(4,784)	(943)	(5,727
Other, net	—	—	—	—	—	—	—	—	(15)	(15
Net loss	—	—	—	—	—	—	(57,087)	(57,087)	(7,760)	(64,847
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(51,727)	(51,727
Common Stock dividends	—	—	—	—	—	—	(57,583)	(57,583)	—	(57,583
Preferred Stock dividends	—	—	—	—	—	—	(49,756)	(49,756)	—	(49,756
Balances at December 31, 2011	24,906	657,114	120,916	1,209	3,098,333	(6,860)	(2,841,467)	908,329	236,345	1,144,67

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	Preferred Stock		Common Stock							
	Shares Issued	Amount	Shares Issued	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Distributions in Excess of Earnings	Total Aimco Equity	Noncontrolling Interests	Total Equit
Issuance of Preferred Stock	405	10,039	—	—	(221)	—	—	9,818	—	9,818
Redemption of Preferred Stock	(24,037)	(599,039)	—	—	20,727	—	(22,626)	(600,938)	—	(600,938
Issuance of Common Stock	—	—	22,144	221	594,158	—	—	594,379	—	594,379
Redemption of Aimco Operating Partnership units	—	—	—	—	—	—	—	—	(11,079)	(11,079
Amortization of stock option and restricted stock compensation cost	—	—	36	—	5,223	—	—	5,223	—	5,223
Exercises of stock options	—	—	2,253	24	48,883	—	—	48,907	—	48,907
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	2,928	2,928
Effect of changes in ownership for consolidated entities	—	—	—	—	(54,799)	—	—	(54,799)	1,559	(53,240

Change in accumulated other comprehensive loss	—	—	—	—	—	3,318	—	3,318	115	3,433
Other, net	—	—	214	2	380	—	(380)	2	4,545	4,547
Net income	—	—	—	—	—	—	132,456	132,456	56,409	188,865
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(51,353)	(51,353
Common Stock dividends	—	—	—	—	—	—	(104,006)	(104,006)	—	(104,006
Preferred Stock dividends	—	—	—	—	—	—	(27,264)	(27,264)	—	(27,264
Balances at December 31, 2012	1,274	$68,114	145,564	$1,456	$3,712,684	$(3,542)	$(2,863,287)	$915,425	$239,469	$1,154,894

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$195,361	$(58,164)	$(89,624)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	345,077	342,820	363,261
Provision for real estate impairment losses	8,349	915	65
Equity in losses of unconsolidated real estate partnerships	4,408	17,721	23,112
Gain on dispositions of interests in unconsolidated real estate and other	(21,886)	(2,398)	(10,631)
Income tax benefit	(929)	(6,541)	(16,839)
Stock-based compensation expense	4,871	5,381	7,331
Amortization of deferred loan costs and other	5,615	7,148	8,398
Discontinued operations:			
Depreciation and amortization	21,674	52,513	73,572
Gain on disposition of real estate	(234,533)	(108,209)	(94,945)
Other adjustments to income from discontinued operations	25,242	25,321	20,247
Changes in operating assets and operating liabilities:			
Accounts receivable	8,968	388	25,561
Other assets	21,748	7,927	17,798
Accounts payable, accrued liabilities and other	(67,138)	(26,003)	(69,806)
Total adjustments	121,466	316,983	347,124
Net cash provided by operating activities	316,827	258,819	257,500
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of real estate and investments in unconsolidated real estate partnerships	(89,716)	(64,976)	—
Capital expenditures	(270,210)	(200,372)	(178,929)
Proceeds from dispositions of real estate	484,904	326,853	218,571
Purchases of interests in unconsolidated real estate and corporate assets	(7,818)	(15,123)	(9,399)
Purchase of investment in debt securities	—	(51,534)	—
Proceeds from sales of and distributions from unconsolidated real estate partnerships	31,192	17,095	19,707
Net increase in cash from consolidation and deconsolidation of entities	—	—	13,128
Other investing activities	(36,685)	28,551	23,297
Net cash provided by investing activities	111,667	40,494	86,375
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from non-recourse property debt	243,253	927,093	449,384
Principal repayments on non-recourse property debt	(447,792)	(1,083,690)	(493,128)

Payments on term loans	—	—	(90,000)
Proceeds from issuance of Preferred Stock	9,818	19,990	96,110
Proceeds from issuance of Common Stock	594,379	71,942	14,046
Redemptions and repurchases of Preferred Stock	(600,938)	(36,367)	(108,000)
Proceeds from Common Stock option exercises	48,907	1,806	1,806
Payment of dividends to holders of Preferred Stock	(37,019)	(49,756)	(53,435)
Payment of dividends to holders of Common Stock	(104,006)	(57,583)	(46,729)
Payment of distributions to noncontrolling interests	(57,849)	(58,413)	(54,557)
Purchases of noncontrolling interests in consolidated real estate partnerships	(71,145)	(20,909)	(17,238)
Other financing activities	(12,755)	(33,685)	(12,069)
Net cash used in financing activities	(435,147)	(319,572)	(313,810)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,653)	(20,259)	30,065
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	91,066	111,325	81,260
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$84,413	$91,066	$111,325

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest Paid	$294,423	$336,565	$311,432
Cash paid for income taxes	1,056	1,233	1,899
Non-cash transactions associated with the acquisition or disposition of real estate:			
Secured debt assumed in connection with our acquisition of real estate	38,779	—	—
Secured debt assumed by buyer in connection with our disposition of real estate	208,134	127,494	157,629
Issuance of notes receivable in connection with the disposition of real estate	—	—	4,544
Non-cash transactions associated with consolidation and deconsolidation of real estate partnerships:			
Real estate, net	—	—	80,629
Investments in and notes receivable primarily from affiliated entities	—	—	41,903
Restricted cash and other assets	—	—	3,290
Non-recourse debt	—	—	61,211
Noncontrolling interests in consolidated real estate partnerships	—	—	57,099
Accounts payable, accrued and other liabilities	—	—	20,640
Other non-cash transactions:			
Issuance of common OP Units for acquisition of noncontrolling interests in consolidated real estate partnerships	4,553	168	6,854

See notes to consolidated financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Partners of
AIMCO Properties, L.P.

We have audited the accompanying consolidated balance sheets of AIMCO Properties, L.P. (the "Partnership") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), partners' capital and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the accompanying Index to Financial Statements. These financial statements and schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Denver, Colorado
February 25, 2013

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AIMCO PROPERTIES, L.P.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2012 and 2011
(In thousands)

	2012	2011
ASSETS		
Buildings and improvements	$6,390,253	$6,223,885
Land	1,943,166	1,929,018
Total real estate	8,333,419	8,152,903
Less accumulated depreciation	(2,820,765)	(2,562,574)
Net real estate ($599,302 and $773,233 related to VIEs)	5,512,654	5,590,329
Cash and cash equivalents ($23,599 and $43,286 related to VIEs)	84,413	91,066
Restricted cash ($38,576 and $41,724 related to VIEs)	146,859	183,970
Accounts receivable, net ($1,961 and $8,434 related to VIEs)	34,020	41,796
Notes receivable	102,897	111,205
Other assets ($221,638 and $70,930 related to VIEs)	520,537	382,949
Assets held for sale	—	470,547
Total assets	$6,401,380	$6,871,862
LIABILITIES AND PARTNERS' CAPITAL		
Non-recourse property debt ($495,012 and $617,823 related to VIEs)	$4,688,447	$4,772,774
Accounts payable	30,747	32,607
Accrued liabilities and other ($162,765 and $79,573 related to VIEs)	318,669	282,451
Deferred income	128,577	138,808
Liabilities related to assets held for sale	—	417,164
Total liabilities	5,166,440	5,643,804
Redeemable preferred units	80,046	83,384
Commitments and contingencies (Note 10)	—	—
Partners' Capital:		
Preferred units	68,114	657,114
General Partner and Special Limited Partner	847,311	251,215
Limited Partners	(31,596)	(34,321)
Partners' capital attributable to the Aimco Operating Partnership	883,829	874,008
Noncontrolling interests in consolidated real estate partnerships	271,065	270,666
Total partners' capital	1,154,894	1,144,674
Total liabilities and partners' capital	$6,401,380	$6,871,862

See notes to consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
As of December 31, 2012, 2011 and 2010
(In thousands, except per unit data)

	2012	2011	2010
REVENUES:			
Rental and other property revenues	$991,428	$943,258	$922,910
Tax credit and asset management revenues	41,769	38,661	35,630
Total revenues	1,033,197	981,919	958,540
OPERATING EXPENSES:			
Property operating expenses	402,225	405,866	415,513
Investment management expenses	12,008	10,459	14,477
Depreciation and amortization	345,077	342,820	363,261
Provision for real estate impairment losses	8,349	915	65
General and administrative expenses	49,602	50,906	53,374
Other expenses, net	15,776	17,796	9,267
Total operating expenses	833,037	828,762	855,957
Operating income	200,160	153,157	102,583
Interest income	9,913	10,980	10,628
Recovery of losses on notes receivable, net	3,375	509	(949)
Interest expense	(246,761)	(290,168)	(276,538)
Equity in losses of unconsolidated real estate partnerships	(4,408)	(17,721)	(23,112)
Gain on dispositions of interests in unconsolidated real estate and other, net	21,886	2,398	10,631
Loss before income taxes and discontinued operations	(15,835)	(140,845)	(176,757)
Income tax benefit	929	6,541	16,839
Loss from continuing operations	(14,906)	(134,304)	(159,918)
Income from discontinued operations, net	210,267	77,439	71,153
Net income (loss)	195,361	(56,865)	(88,765)
Net (income) loss attributable to noncontrolling interests in consolidated real estate partnerships	(51,218)	257	13,301
Net income (loss) attributable to the Aimco Operating Partnership	144,143	(56,608)	(75,464)
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(56,384)	(52,535)	(58,554)
Net income attributable to participating securities	(422)	(222)	—
Net income (loss) attributable to the Aimco Operating Partnership's common unitholders	$87,337	$(109,365)	$(134,018)
Earnings (loss) attributable to the Aimco Operating Partnership per common unit – basic and diluted:			
Loss from continuing operations attributable to the Aimco Operating Partnership's common unitholders	$(0.59)	$(1.21)	$(1.47)
Income from discontinued operations attributable to the Aimco Operating Partnership's common unitholders	1.20	0.35	0.40
Net income (loss) attributable to the Aimco Operating Partnership's common unitholders	$0.61	$(0.86)	$(1.07)
Weighted average common units outstanding – basic and diluted	142,614	127,681	124,747

See notes to consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
Net income (loss)	$195,361	$(56,865)	$(88,765)
Other comprehensive income (loss):			
Unrealized losses on interest rate swaps	(2,581)	(5,885)	(2,747)
Losses on interest rate swaps reclassified into earnings from accumulated other comprehensive loss	1,673	1,667	1,642
Unrealized gains (losses) on debt securities classified as available-for-sale	4,341	(1,509)	—
Other comprehensive income (loss)	3,433	(5,727)	(1,105)
Comprehensive income (loss)	198,794	(62,592)	(89,870)
Comprehensive (income) loss attributable to noncontrolling interests	(51,134)	697	13,468
Comprehensive income (loss) attributable to the Aimco Operating Partnership	$147,660	$(61,895)	$(76,402)

See notes to consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	Preferred Units	General Partner and Special Limited Partner	Limited Partners	Partners' Capital Attributable to the Partnership	Non - controlling Interests	Total Partners' Capital
Balances at December 31, 2009	$660,500	$596,497	$(22,100)	$1,234,897	$316,177	$1,551,074
Issuance of preferred units to Aimco	98,101	(3,346)	—	94,755	—	94,755
Redemption of preferred units held by Aimco	(101,000)	3,000	—	(98,000)	—	(98,000)
Issuance of common partnership units to Aimco	—	14,046	—	14,046	—	14,046
Common units issued in exchange for noncontrolling interests in consolidated real estate partnerships	—	—	6,854	6,854	—	6,854
Redemption of partnership units held by non-Aimco partners	—	—	(3,571)	(3,571)	—	(3,571)
Contribution from Aimco related to employee stock purchases and related amounts, net	—	2,753	—	2,753	—	2,753
Amortization of Aimco stock-based compensation	—	8,182	—	8,182	—	8,182
Contributions from noncontrolling interests	—	—	—	—	7,422	7,422
Adjustment to noncontrolling interests from consolidation of entities	—	—	—	—	6,324	6,324
Adjustment to noncontrolling interests related to revision of investment balances	—	—	—	—	(38,718)	(38,718)
Effect of changes in ownership for consolidated entities	—	(27,391)	—	(27,391)	5,533	(21,858)
Cumulative effect of a change in accounting principle	—	(27,724)	104	(27,620)	50,775	23,155
Change in accumulated other comprehensive loss	—	(938)	—	(938)	(167)	(1,105)
Other, net	—	(472)	—	(472)	1,876	1,404
Net loss	—	(71,428)	(9,000)	(80,428)	(13,301)	(93,729)
Distributions to noncontrolling interests	—	—	—	—	(44,463)	(44,463)
Distributions to common unitholders	—	(35,080)	(3,364)	(38,444)	—	(38,444)
Distributions to preferred unitholders	—	(52,079)	—	(52,079)	—	(52,079)
Balances at December 31, 2010	657,601	406,020	(31,077)	1,032,544	291,458	1,324,002
Issuance of preferred units to Aimco	21,075	(1,085)	—	19,990	—	19,990
Redemption of preferred units held by Aimco	(21,562)	5,196	—	(16,366)	—	(16,366)
	—	71,942	—	71,942	—	71,942

Issuance of common partnership units to Aimco						
Redemption of partnership units held by non-Aimco partners	—	—	(6,059)	(6,059)	—	(6,059)
Contribution from Aimco related to employee stock purchases, net	—	2,107	—	2,107	—	2,107
Amortization of Aimco stock-based compensation	—	5,883	—	5,883	—	5,883
Contributions from noncontrolling interests	—	—	—	—	12,358	12,358
Effect of changes in ownership for consolidated entities	—	(52,059)	15,799	(36,260)	13,962	(22,298)
Change in accumulated other comprehensive loss	—	(4,784)	(503)	(5,287)	(440)	(5,727)
Other, net	—	—	(63)	(63)	48	(15)
Net loss	—	(56,137)	(7,154)	(63,291)	(257)	(63,548)
Distributions to noncontrolling interests	—	—	—	—	(46,463)	(46,463)
Distributions to common unitholders	—	(76,112)	(5,264)	(81,376)	—	(81,376)
Distributions to preferred unitholders	—	(49,756)	—	(49,756)	—	(49,756)
Balances at December 31, 2011	657,114	251,215	(34,321)	874,008	270,666	1,144,674

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	Preferred Units	General Partner and Special Limited Partner	Limited Partners	Partners' Capital Attributable to the Partnership	Non - controlling Interests	Total Partners' Capital
Issuance of preferred units to Aimco	10,039	(221)	—	9,818	—	9,818
Redemption of preferred units held by Aimco	(599,039)	(1,899)	—	(600,938)	—	(600,938)
Issuance of common partnership units to Aimco	—	594,379	—	594,379	—	594,379
Redemption of partnership units held by non-Aimco partners	—	—	(11,079)	(11,079)	—	(11,079)
Amortization of Aimco stock-based compensation	—	5,223	—	5,223	—	5,223
Issuance of common partnership units to Aimco in connection with exercise of Aimco stock options	—	48,907	—	48,907	—	48,907
Contributions from noncontrolling interests	—	—	—	—	2,928	2,928
Effect of changes in ownership for consolidated entities	—	(54,799)	10,022	(44,777)	(8,463)	(53,240)
Change in accumulated other comprehensive loss	—	3,318	199	3,517	(84)	3,433
Other, net	—	2	4,545	4,547	—	4,547
Net income	—	132,456	5,191	137,647	51,218	188,865
Distributions to noncontrolling interests	—	—	—	—	(45,200)	(45,200)
Distributions to common unitholders	—	(104,006)	(6,153)	(110,159)	—	(110,159)
Distributions to preferred unitholders	—	(27,264)	—	(27,264)	—	(27,264)
Balances at December 31, 2012	$68,114	$847,311	$(31,596)	$ 883,829	$ 271,065	$1,154,894

See notes to consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$195,361	$(56,865)	$(88,765)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	345,077	342,820	363,261
Provision for real estate impairment losses	8,349	915	65
Equity in losses of unconsolidated real estate partnerships	4,408	17,721	23,112
Gain on dispositions of interests in unconsolidated real estate and other	(21,886)	(2,398)	(10,631)
Income tax benefit	(929)	(6,541)	(16,839)
Stock-based compensation expense	4,871	5,381	7,331
Amortization of deferred loan costs and other	5,615	7,148	8,398
Discontinued operations:			
Depreciation and amortization	21,674	52,513	73,572
Gain on disposition of real estate	(234,533)	(108,209)	(94,945)
Other adjustments to income from discontinued operations	25,242	25,321	20,247
Changes in operating assets and operating liabilities:			
Accounts receivable	8,968	388	25,561
Other assets	21,748	6,628	16,939
Accounts payable, accrued liabilities and other	(67,138)	(26,003)	(69,806)
Total adjustments	121,466	315,684	346,265
Net cash provided by operating activities	316,827	258,819	257,500
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of real estate and investments in unconsolidated real estate partnerships	(89,716)	(64,976)	—
Capital expenditures	(270,210)	(200,372)	(178,929)
Proceeds from dispositions of real estate	484,904	326,853	218,571
Purchases of interests in unconsolidated real estate and corporate assets	(7,818)	(15,123)	(9,399)
Purchase of investment in debt securities	—	(51,534)	—
Proceeds from sale of interests in and distributions from real estate partnerships	31,192	17,095	19,707
Net increase in cash from consolidation and deconsolidation of entities	—	—	13,128
Dividends received from Aimco	—	269	224
Repayment of notes receivable from Aimco	—	18,529	—
Other investing activities	(36,685)	28,551	23,297
Net cash provided by investing activities	111,667	59,292	86,599
CASH FLOWS FROM FINANCING ACTIVITIES:			

Proceeds from non-recourse property debt	243,253	927,093	449,384
Principal repayments on non-recourse property debt	(447,792)	(1,083,690)	(493,128)
Payments on term loans	—	—	(90,000)
Proceeds from issuance of preferred units to Aimco	9,818	19,990	96,110
Proceeds from issuance of common partnership units to Aimco	594,379	71,942	14,046
Redemption and repurchase of preferred units from Aimco	(600,938)	(36,367)	(108,000)
Proceeds from Aimco Common Stock option exercises	48,907	1,806	1,806
Payment of distributions to preferred units	(43,515)	(56,439)	(60,165)
Payment of distributions to General Partner and Special Limited Partner	(104,006)	(76,381)	(46,953)
Payment of distributions to Limited Partners	(4,375)	(3,786)	(2,428)
Payment of distributions to High Performance Units	(1,778)	(1,478)	(936)
Payment of distributions to noncontrolling interests	(45,200)	(46,466)	(44,463)
Purchases of noncontrolling interests in consolidated real estate partnerships	(71,145)	(20,909)	(17,238)
Other financing activities	(12,755)	(33,685)	(12,069)
Net cash used in financing activities	(435,147)	(338,370)	(314,034)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,653)	(20,259)	30,065
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	91,066	111,325	81,260
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$84,413	$91,066	$111,325

See notes to consolidated financial statements.

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AIMCO PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012, 2011 and 2010
(In thousands)

	2012	2011	2010
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest Paid	294,423	336,565	311,432
Cash paid for income taxes	1,056	1,233	1,899
Non-cash transactions associated with the acquisition or disposition of real estate:			
Secured debt assumed in connection with our acquisition of real estate	38,779	—	—
Secured debt assumed by buyer in connection with our disposition of real estate	208,134	127,494	157,629
Issuance of notes receivable in connection with the disposition of real estate	—	—	4,544
Non-cash transactions associated with consolidation and deconsolidation of real estate partnerships:			
Real estate, net	—	—	80,629
Investments in and notes receivable primarily from affiliated entities	—	—	41,903
Restricted cash and other assets	—	—	3,290
Non-recourse debt	—	—	61,211
Noncontrolling interests in consolidated real estate partnerships	—	—	57,099
Accounts payable, accrued and other liabilities	—	—	20,640
Other non-cash transactions:			
Issuance of common OP Units for acquisition of noncontrolling interests in consolidated real estate partnerships	4,553	168	6,854

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 — Organization

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

Aimco, through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as “OP Units.” OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common partnership unit equivalents. At December 31, 2012, after eliminations for units held by consolidated subsidiaries, the Aimco Operating Partnership had 153,569,090 common partnership units and equivalents outstanding. At December 31, 2012, Aimco owned 145,563,903 of the common partnership units (94.8% of the common partnership units and equivalents of the Aimco Operating Partnership) and Aimco had outstanding an equal number of shares of its Class A Common Stock, which we refer to as Common Stock.

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

As of December 31, 2012, we owned an equity interest in 175 conventional real estate properties with 55,879 units and 90 affordable real estate properties with 12,098 units. Of these properties, we consolidated 171 conventional properties with 55,737 units and 72 affordable properties with 10,370 units. These conventional and affordable properties generated 90% and 10%, respectively, of our proportionate property net operating income (as defined in Note 19) during the year ended December 31, 2012.

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

Principles of Consolidation

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

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

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

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

Variable Interest Entities

We consolidate all variable interest entities for which we are the primary beneficiary. Generally, a variable interest entity, or VIE, is a legal entity in which the equity investors do not have the characteristics of a controlling financial interest or the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In

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determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current and future fair values and performance of real estate held by these VIEs and general market conditions. Refer to Note 4 for further information regarding our involvement with VIEs.

Acquisition of Real Estate Assets and Related Depreciation and Amortization

We recognize at fair value the acquisition of properties or interests in partnerships that own properties if the transaction results in consolidation and we expense as incurred most related transaction costs. We allocate the cost of acquired properties to tangible assets and identified intangible assets based on their fair values. We determine the fair value of tangible assets, such as land, building, furniture, fixtures and equipment, generally using internal valuation techniques that consider comparable market transactions, discounted cash flow techniques, replacement costs and other available information. We determine the fair value of identified intangible assets (or liabilities), which typically relate to in-place leases, using internal valuation techniques that consider the terms of the in-place leases, current market data for comparable leases, and our experience in leasing similar properties. The intangible assets or liabilities related to in-place leases are comprised of:

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

The values of the above- and below-market leases are amortized to rental revenue over the expected remaining terms of the associated leases, which include reasonably assured renewal periods. Other intangible assets related to in-place leases are amortized to depreciation and amortization over the expected remaining terms of the associated leases. We prospectively adjust the amortization period to reflect significant variances between actual lease termination activity as compared to those used to determine the historical amortization periods.

Depreciation for all tangible real estate assets is calculated using the straight-line method over their estimated useful lives. Acquired buildings and improvements are depreciated over a useful life based on the age, condition and other physical characteristics of the property. At December 31, 2012, the weighted average depreciable life of our acquired buildings and improvements was approximately 30 years. As discussed under Impairment of Long Lived Assets below, we may adjust depreciation of properties that are expected to be disposed of or demolished prior to the end of their useful lives. Furniture, fixtures and equipment associated with acquired properties are depreciated over five years.

At December 31, 2012 and 2011, deferred income in our consolidated balance sheets includes below-market lease amounts totaling $19.8 million and $23.6 million, respectively, which are net of accumulated amortization of $32.5 million and $29.2 million, respectively. During the years ended December 31, 2012, 2011 and 2010, we included amortization of below-market leases of $3.3 million, $4.3 million and $3.9 million, respectively, in rental and other property revenues in our consolidated statements of operations. At December 31, 2012, our below-market leases had a weighted average amortization period of 6.8 years and estimated aggregate amortization for each of the five succeeding years as follows (in thousands):

	2013	2014	2015	2016	2017
Estimated amortization	$2,553	$2,312	$2,059	$1,795	$1,586

Capital Additions and Related Depreciation

We capitalize costs, including certain indirect costs, incurred in connection with our capital additions activities, including redevelopment and construction projects, other tangible property improvements, and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital additions activities at the property 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 capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects are in progress. We charge to property operating expense as incurred costs that do not relate to capital expenditure activities, including ordinary repairs, maintenance and resident turnover costs.

We depreciate capitalized costs using the straight-line method over the estimated useful life of the related component or improvement, which is generally 5, 15 or 30 years. All capitalized site payroll and indirect costs are allocated proportionately, based on direct costs, among capital projects and depreciated over the estimated useful lives of such projects.

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

For the years ended December 31, 2012, 2011 and 2010, for continuing and discontinued operations, we capitalized to buildings and improvements $16.6 million, $14.0 million and $11.6 million of interest costs, respectively, and $33.7 million, $29.0 million and $30.0 million of site payroll and indirect costs, respectively.

Impairment of Long-Lived Assets

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

Based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2012, 2011 and 2010, we recorded provisions for real estate impairment losses of $8.3 million, $0.9 million and $0.1 million, respectively, related to properties classified as held for use.

Our tests of recoverability address real estate assets that do not currently meet all conditions to be classified as held for sale, but are expected to be disposed of prior to the end of their estimated useful lives. If an impairment loss is not required to be recorded, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We also may adjust depreciation prospectively to reduce to zero the carrying amount of buildings that we plan to demolish in connection with a redevelopment project. We recognized no significant amounts of such adjustments during the periods presented.

Discontinued Operations

We classify certain properties and related assets and liabilities as held for sale when they meet certain criteria, as defined in GAAP. The operating results of such properties as well as those properties sold during the periods presented are included in discontinued operations in both current periods and all comparable periods presented. Depreciation is not recorded on properties once they have been classified as held for sale; however, depreciation expense recorded prior to classification as held for sale is included in discontinued operations. The net gain on sale and any impairment losses are presented in discontinued operations when recognized. See Note 15 for additional information regarding discontinued operations.

Cash Equivalents

We classify highly liquid investments with an original maturity of three months or less as cash equivalents.

Restricted Cash

Restricted cash includes capital replacement reserves, completion repair reserves, bond sinking fund amounts, tax and insurance escrow accounts held by lenders and tenant security deposits.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally comprised of amounts receivable from residents and other miscellaneous receivables from non-affiliated entities. We evaluate collectability of accounts receivable from residents and establish an allowance, after the application of security deposits and other anticipated recoveries, for accounts greater than 30 days past due for current residents and all receivables due from former residents. Accounts receivable from residents are stated net of allowances for doubtful accounts of approximately $1.2 million and $3.3 million as of December 31, 2012 and 2011, respectively.

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We evaluate collectability of accounts receivable from non-affiliated entities and establish an allowance for amounts that are considered to be uncollectible. Accounts receivable relating to non-affiliated entities are stated net of allowances for doubtful accounts of approximately $2.7 million and $2.1 million as of December 31, 2012 and 2011, respectively.

Accounts Receivable and Allowance for Doubtful Accounts from Affiliates

Accounts receivable from affiliates are generally comprised of receivables related to property management and other services provided to unconsolidated real estate partnerships in which we have an ownership interest. We evaluate collectability of accounts receivable balances from affiliates on a periodic basis, and establish an allowance for the amounts deemed to be uncollectible. Accounts receivable from affiliates, which are classified within other assets in our consolidated balance sheets, totaled $4.4 million and $4.6 million, and were net of allowances for doubtful accounts of approximately $0.8 million and $0.5 million as of December 31, 2012 and 2011, respectively.

Deferred Costs

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

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

Notes Receivable and Related Interest Income and Provision for Losses

Our notes receivable generally have stated maturity dates and may require current payments of principal and interest. Repayment of these notes is subject to a number of variables, including the performance and value of the underlying real estate properties and the claims of unaffiliated mortgage lenders, which are generally senior to our claims. Our notes receivable consist of two classes: loans extended by us that we carry at the face amount plus accrued interest, which we refer to as “par value notes,” and loans extended by us that were discounted at origination, which we refer to as “discounted notes.”

We recognize interest income on par value notes as earned in accordance with the terms of the related loan agreements. We recognize interest income on discounted notes that we originated using the effective interest method. We assess the collectability of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of the projected cash flow of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We update our projections of the cash flow of such borrowers annually, and more frequently for certain loans depending on facts and circumstances. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. Factors that affect this assessment include the fair value of the partnership’s real estate, pending transactions to refinance the partnership’s senior obligations or sell the partnership’s real estate, and market conditions (current and forecasted) related to a particular asset. In certain instances where other sources of cash flow are available to repay the loan, the impairment is measured by discounting the estimated cash flows at the loan’s original effective interest rate. See Note 6 for further information regarding our notes receivable.

In addition to the notes discussed above, we have notes receivable from our unconsolidated real estate partnerships, which we classify within other assets in our consolidated balance sheets. These notes are due from partnerships in which we are one of the general partners but do not consolidate the partnership. These loans are typically due on demand, have no stated maturity date and may not require current payments of principal or interest. Notes receivable from unconsolidated real estate partnerships totaled $5.0 million and $6.7 million at December 31, 2012 and 2011, respectively, and were net of allowances for loan losses of $0.4 million and $0.4 million, respectively.

Investments in Unconsolidated Real Estate Partnerships

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

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

Investments in Available For Sale Securities

As discussed in Note 3, during 2011, we purchased an investment in the first loss and mezzanine positions in a securitization trust which holds certain of our property loans. We designated these investments as available for sale securities and they are included in other assets in our consolidated balance sheets at December 31, 2012 and 2011. These investments were initially recognized at their purchase price and the discount to the face value is being accreted into interest income over the expected term of the securities. Based on their classification as available for sale securities, we measure these investments at fair value with changes in their fair value, other than the changes attributed to the accretion described above, recognized as an adjustment of accumulated other comprehensive income or loss within equity and partners' capital.

Intangible Assets

At December 31, 2012 and 2011, other assets included goodwill associated with our reportable segments of $54.5 million, and at December 31, 2011 assets held for sale included $7.5 million of goodwill allocated to properties sold during 2012. We perform an annual impairment test of goodwill that compares the fair value of reporting units with their carrying amounts, including goodwill. We determined that our goodwill was not impaired in 2012, 2011 or 2010. During the years ended December 31, 2012, 2011 and 2010, we allocated $7.5 million, $5.1 million and $4.7 million, respectively, of goodwill related to our reportable segments (conventional and affordable real estate operations) to the carrying amounts of the properties sold or classified as held for sale. The amounts of goodwill allocated to these properties were based on the relative fair values of the properties sold or classified as held for sale and the retained portions of the reporting units to which the goodwill as allocated.

Other assets also includes intangible assets for in-place leases as discussed under Acquisition of Real Estate Assets and Related Depreciation and Amortization.

Capitalized Software Costs

Purchased software and other costs related to software developed for internal use are capitalized during the application development stage and are amortized using the straight-line method over the estimated useful life of the software, generally five years. For the years ended December 31, 2012, 2011 and 2010, we capitalized software purchase and development costs totaling $5.8 million, $12.6 million and $8.7 million, respectively. At December 31, 2012 and 2011, other assets included $27.5 million and $31.9 million of net capitalized software, respectively. During the years ended December 31, 2012, 2011 and 2010, we recognized amortization of capitalized software of $10.0 million, $8.7 million and $10.2 million, respectively, which is included in depreciation and amortization in our consolidated statements of operations.

Noncontrolling Interests in Consolidated Real Estate Partnerships

We report the unaffiliated partners' interests in the net assets of our consolidated real estate partnerships as noncontrolling interests in consolidated real estate partnerships within consolidated equity. Noncontrolling interests in consolidated real estate partnerships consist primarily of equity interests held by limited partners in consolidated real estate partnerships that have finite lives. We generally attribute to noncontrolling interests their share of income or loss of consolidated partnerships based on their proportionate interest in the results of operations of the partnerships, including their share of losses even if such attribution results in a deficit noncontrolling interest balance within our equity accounts.

The terms of the related partnership agreements generally require the partnership to be liquidated following the sale of the partnership's real estate. As the general partner in these partnerships, we ordinarily control the execution of real estate sales and other events that could lead to the liquidation, redemption or other settlement of noncontrolling interests. However, as discussed in Note 3, we consolidate certain properties associated with our legacy asset management business for which we do not control the execution of sales and other events leading to the liquidation of these partnerships. The aggregate carrying amount of noncontrolling interests in consolidated real estate partnerships is approximately $271.1 million at December 31, 2012. The aggregate fair value of these interests varies based on the fair value of the real estate owned by the partnerships. Based on the number of classes of finite-life noncontrolling interests, the number of properties in which there is direct or indirect noncontrolling ownership, complexities in determining the allocation of liquidation proceeds among partners and other factors, we believe it is impracticable to determine the total required payments to the noncontrolling interests in an assumed liquidation at December 31, 2012. As a result of real estate depreciation that is recognized in our financial statements and appreciation in the fair value of real estate that is not recognized in our financial statements, we believe that the aggregate fair value of our noncontrolling interests exceeds their aggregate carrying amount. As a result of our ability to control real estate sales and other events that require payment of noncontrolling interests and our expectation that proceeds from real estate sales will be sufficient to liquidate related noncontrolling interests, we anticipate that the eventual liquidation of these noncontrolling interests will not have an adverse impact on our financial condition.

Changes in our ownership interest in consolidated real estate partnerships generally consist of our purchase of an additional interest in or the sale of our entire interest in a consolidated real estate partnership. The effect on our equity of our purchase of additional interests in consolidated real estate partnerships during the years ended December 31, 2012, 2011 and 2010 is shown in our consolidated statements of equity and further discussed in Note 3. The effect on our equity of sales of our entire interest in consolidated real estate partnerships is reflected in our consolidated financial statements as sales of real estate and accordingly the effect on our equity is reflected as gains on disposition of real estate. In accordance with FASB Accounting Standards Codification, or ASC, Topic 810, upon our deconsolidation of a real estate partnership following the sale of our partnership interests or liquidation of the partnership following sale of the related real estate property, we write off the remaining amounts of noncontrolling interest in our consolidated balance sheet related to such partnerships through noncontrolling interests within consolidated net income (loss) attributable to Aimco and net income (loss) attributable to the Aimco Operating Partnership.

Noncontrolling Interests in Aimco Operating Partnership

Noncontrolling interests in Aimco Operating Partnership consist of common OP Units, HPUs and preferred OP Units. Within Aimco's consolidated financial statements, the Aimco Operating Partnership's income or loss is allocated to the holders of common partnership units and equivalents based on the weighted average number of common partnership units (including those held by Aimco) and equivalents outstanding during the period. During the years ended December 31, 2012, 2011 and 2010, the holders of common OP Units and equivalents had a weighted average ownership interest in the Aimco Operating Partnership of 5.7%, 6.6% and 6.7%, respectively. Holders of the preferred OP Units participate in the Aimco Operating Partnership's income or loss only to the extent of their preferred distributions. See Note 13 for further information regarding the items comprising noncontrolling interests in the Aimco Operating Partnership.

Revenue Recognition

Our properties have operating leases with apartment residents with terms averaging 12 months. We recognize rental revenue related to these leases, net of any concessions, on a straight-line basis over the term of the lease. We recognize revenues from property management, asset management, syndication and other services when the related fees are earned and are realized or realizable.

Advertising Costs

We generally expense all advertising costs as incurred to property operating expense. For the years ended December 31, 2012, 2011 and 2010, for both continuing and discontinued operations, total advertising expense was $11.8 million, $11.7 million and $14.2 million, respectively.

Insurance

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

Share-Based Compensation

We recognize all share-based employee compensation, including grants of employee stock options, in the consolidated financial statements based on the grant date fair value and recognize compensation cost, which is net of estimates for expected forfeitures, ratably over the awards' requisite service period. See Note 14 for further discussion of our share-based compensation.

Tax Credit Arrangements

We sponsor certain partnerships that acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. The tax credits are generally realized ratably over the first ten years of the tax credit arrangement and are subject to the partnership's compliance with applicable laws and regulations for a period of 15 years. Typically, we are the general partner with a legal ownership interest of one percent or less and unaffiliated institutional investors (which we refer to as tax credit investors or investors) acquire the limited partnership interests (at least 99%). At inception, each investor agrees to fund capital contributions to the partnerships and we receive a syndication fee from the investors upon their admission to the partnership.

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We have determined that the partnerships in these arrangements are variable interest entities and, where we are general partner, we are generally the primary beneficiary that is required to consolidate the partnerships. When the contractual arrangements obligate us to deliver tax benefits to the investors, and entitle us through fee arrangements to receive substantially all available cash flow from the partnerships, we account for these partnerships as wholly owned subsidiaries, recognizing the income or loss generated by the underlying real estate based on our economic interest in the partnerships. Capital contributions received by the partnerships from tax credit investors represent, in substance, consideration that we receive in exchange for our obligation to deliver tax credits and other tax benefits to the investors, and the receipts are recognized as revenue in our consolidated financial statements when our obligation to the investors is relieved upon delivery of the expected tax benefits.

Income Taxes

We have elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 1994, and intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Code, which are related to organizational structure, distribution levels, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to United States Federal corporate income tax on our taxable income that is currently distributed to stockholders. This treatment substantially eliminates the “double taxation” (at the corporate and stockholder levels) that generally results from an investment in a corporation. Even if we qualify as a REIT, we may be subject to United States Federal income and excise taxes in various situations, such as on our undistributed income. We also will be required to pay a 100% tax on any net income on non-arm’s length transactions between us and a TRS (described below) and on any net income from sales of property that was property held for sale to customers in the ordinary course. In addition, we could also be subject to the alternative minimum tax, or AMT, on our items of tax preference. The state and local tax laws may not conform to the United States Federal income tax treatment, and we and our stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or our stockholders reside. Any taxes imposed on us reduce our operating cash flow and net income.

Certain of our operations or a portion thereof, including property management, asset management and risk management, are conducted through taxable REIT subsidiaries, which are subsidiaries of the Aimco Operating Partnership, and each of which we refer to as a TRS. A TRS is a C-corporation that has not elected REIT status and as such is subject to United States Federal corporate income tax. We use TRS entities to facilitate our ability to offer certain services and activities to our residents and investment partners that cannot be offered directly by a REIT. We also use TRS entities to hold investments in certain properties.

For our TRS entities, deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for Federal income tax purposes, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. We reduce deferred tax assets by recording a valuation allowance when we determine based on available evidence that it is more likely than not that the assets will not be realized. We recognize the tax consequences associated with intercompany transfers between the REIT and TRS entities when the related assets are sold to third parties, impaired or otherwise disposed of for financial reporting purposes.

Comprehensive Income or Loss

As discussed in the preceding Investments in Available for Sale Securities section, we have investments that are measured at fair value with unrealized gains or losses recognized as an adjustment of accumulated other comprehensive loss within equity. Additionally, as discussed in Note 8, we recognize changes in the fair value of our cash flow hedges as changes in accumulated other comprehensive loss within equity and partners’ capital. The amounts of consolidated comprehensive income or loss for the years ended December 31, 2012, 2011 and 2010, along with the corresponding amounts of such comprehensive income or loss attributable to Aimco, the Aimco Operating Partnership and to noncontrolling interests, is presented within the accompanying consolidated statements of comprehensive income or loss.

Earnings per Share and Unit

Aimco calculates earnings (loss) per share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period. The Aimco Operating Partnership calculates earnings (loss) per unit based on the weighted average number of common partnership units and equivalents, participating securities and dilutive convertible securities outstanding during the period. See Note 16 for further information regarding earnings per share and unit computations.

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Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes thereto. Actual results could differ from those estimates.

Reclassifications and Adjustments

Certain items included in the 2011 and 2010 financial statements have been reclassified to conform to the current presentation, including adjustments for discontinued operations.

NOTE 3 — Investments in Real Estate and Other Significant Transactions

Asset Management Business Disposition

On December 19, 2012, we closed the sale of the Napico portfolio, our legacy asset management business. The transaction was primarily seller-financed, and the associated notes are scheduled to be repaid over the next six years. The notes will be repaid from the operation and liquidation of the Napico portfolio and are collateralized by the buyer's interests in the portfolio.

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

At December 31, 2012, the Napico portfolio consisted of 20 partnerships that held investments in 16 apartment properties that were consolidated and 102 apartment properties that were accounted for under the equity or cost method of accounting. The portfolio's assets and liabilities are included in other assets and liabilities, and are summarized below (dollars in thousands):

	December 31, 2012
Real estate, net	$127,025
Cash and cash equivalents and restricted cash	31,560
Investment in unconsolidated real estate partnerships	15,997
Other assets	4,163
Total assets	$178,745
Total indebtedness	$110,737
Accrued and other liabilities	29,435
Total liabilities	$140,172

Based on our limited historical economic ownership in this portfolio, the majority of the assets and liabilities shown above are attributed to noncontrolling interests and do not have a significant effect on consolidated equity attributable to Aimco and partners' capital attributable to the Aimco Operating Partnership. At December 31, 2012, noncontrolling interests in consolidated real estate partnerships within our consolidated balance sheet includes $57.2 million related to the Napico portfolio. Income or loss attributable to these noncontrolling interests will continue to be recognized commensurate with the recognition of the results of operations of the portfolio. If full payment is received on the notes and we meet the requirements to recognize the sale for accounting purposes, we expect to recognize a gain attributable to Aimco and the Aimco Operating Partnership.

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Investments in Real Estate Properties
During the year ended December 31, 2012, we acquired conventional properties as set forth in the table below (dollars in thousands):

	Year Ended December 31, 2012		
Property location	San Diego, CA	Manhattan, NY	Phoenix, AZ
Number of residential units	84	42	488
Fair value of real estate acquired	$19,814	$38,423	$72,310
Non-recourse property debt assumed (outstanding principal balance)	$9,695	$—	$29,124
Non-recourse property debt assumed (fair value)	$10,684	$—	$33,254

During the year ended December 31, 2011, we acquired a vacant, 126-unit property located in Marin County, north of San Francisco, California. We are in the process of redeveloping this property with a total expected investment in this property of $85.0 million upon completion, which is expected in late 2013. During the year ended December 31, 2011, we also acquired noncontrolling interests (approximately 50%) in entities that own four contiguous properties with 142 units located in La Jolla, California.
Acquisitions of Noncontrolling Interests in Consolidated Real Estate Partnerships
As set forth in the table below (dollars in thousands), during the years ended December 31, 2012, 2011 and 2010, we acquired the remaining noncontrolling limited partner interests in consolidated real estate partnerships in which our affiliates serve as the general partner.

	Year Ended December 31,		
	2012	2011	2010
Consolidated partnerships in which remaining limited partnership interests were acquired	11	12	3
Number of properties owned by partnerships	17	15	3
Cost of limited partnership interests acquired	$50,654	$22,305	$21,732
Excess of consideration paid over the carrying amount of noncontrolling interests acquired	$44,774	$32,272	$27,391

In connection with these acquisitions, the Aimco Operating Partnership recognized the excess of the consideration paid over the carrying amounts of the noncontrolling interests acquired as an adjustment of additional paid-in capital within partners' capital (which is included in effects of changes in ownership for consolidated entities in the Aimco Operating Partnership's consolidated statements of partners' capital). This amount is allocated between Aimco and noncontrolling interests in the Aimco Operating Partnership within Aimco's consolidated statements of equity.
Disposition of Interests in Unconsolidated Real Estate
During the years ended December 31, 2012, 2011 and 2010, we recognized $21.9 million, $2.4 million and $10.6 million, respectively, in net gains on disposition of interests in unconsolidated real estate. The majority of the gains recognized in 2012 primarily related to our sale of interests in unconsolidated real estate partnerships. The remainder of the gains recognized in 2012, and substantially all of the gains recognized in 2011 and 2010 related to sales of investments held by consolidated partnerships in which we generally held a nominal general partner or equivalent interest. Accordingly, substantially all of these gains were allocated to the noncontrolling interests in the consolidated partnerships that held the investments in these unconsolidated partnerships.
Property Loan Securitization Transactions
During the years ended December 31, 2011 and 2010, we completed a series of related financing transactions that repaid non-recourse property loans that were scheduled to mature between the years 2012 and 2016 with proceeds from new long-term, fixed-rate, non-recourse property loans, or the New Loans. The New Loans, which total $673.8 million, consisted of $218.6 million that closed during the year ended December 31, 2010 and $455.2 million that closed during the year ended December 31, 2011. At origination, all of the New Loans had terms of 10 years, with principal scheduled to amortize over 30 years. Subsequent to origination, the New Loans were sold to Federal Home Loan Mortgage Corp, or Freddie Mac, which then securitized the New Loans. The securitization trust holds only the

New Loans referenced above and the trust securities trade under the label FREMF

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2011K-AIV. In connection with the refinancings, during the year ended December 31, 2011, we recognized a loss on debt extinguishment of $23.0 million in interest expense, consisting of $20.7 million in prepayment penalties and a $2.3 million write-off of previously deferred loan costs.

During the year ended December 31, 2011, as part of the securitization transaction, we purchased the first loss and mezzanine positions in the securitization trust. These investments were initially recognized at their purchase price and the discount to the face value will be accreted into interest income over the expected term of the securities. Refer to Note 9 for further information regarding the fair and amortized cost values of these investments.

NOTE 4 — Variable Interest Entities

As of December 31, 2012, we were the primary beneficiary of, and therefore consolidated, 70 VIEs, which owned 56 apartment properties with 9,792 units. Real estate with a carrying value of $599.3 million collateralized $495.0 million of debt of those VIEs. Any significant amounts of assets and liabilities related to our consolidated VIEs are identified parenthetically on our accompanying consolidated balance sheets. The creditors of the consolidated VIEs do not have recourse to our general credit.

As of December 31, 2012, we also held variable interests in 40 VIEs for which we were not the primary beneficiary. Those VIEs consist primarily of partnerships that are engaged, directly or indirectly, in the ownership and management of 93 apartment properties with 2,943 units. We are involved with those VIEs as an equity holder or lender. Our maximum risk of loss related to our investment in these VIEs is limited to our $4.2 million recorded investment in such entities, which is included in other assets within our consolidated balance sheets.

In addition to our investments in unconsolidated VIEs discussed above, at December 31, 2012, we had in aggregate $97.4 million of receivables from these unconsolidated VIEs (primarily notes receivable collateralized by second mortgages on real estate properties as further discussed in Note 6) and we had a contractual obligation to advance funds to certain unconsolidated VIEs totaling $2.3 million. Our maximum risk of loss associated with our lending activities related to these unconsolidated VIEs is limited to these amounts. We may be subject to additional losses to the extent of any receivables relating to future provision of services to these entities or financial support that we voluntarily provide.

In addition to the consolidated and unconsolidated VIEs discussed above, at December 31, 2012, our consolidated financial statements included certain consolidated and unconsolidated VIEs that were sold in connection with the sale of our legacy asset management business.

NOTE 5 — Investments in Unconsolidated Real Estate Partnerships

We owned general and limited partner interests in unconsolidated real estate partnerships that owned approximately 22, 123 and 173 properties at December 31, 2012, 2011 and 2010, respectively. We acquired these interests through various transactions, including large portfolio acquisitions and offers to individual limited partners. At December 31, 2012, our ownership interests in these unconsolidated real estate partnerships ranged from 5% to 67%.

The following table provides selected combined financial information for the unconsolidated real estate partnerships in which we had investments accounted for under the equity method as of and for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Real estate, net of accumulated depreciation	$107,419	$429,780	$624,913
Total assets	114,658	472,904	676,373
Non-recourse property debt and other notes payable	122,019	321,236	494,967
Total liabilities	132,767	455,591	726,480
Partners' (deficit) capital	(18,109)	17,313	(50,107)
Rental and other property revenues	72,636	114,974	145,598
Property operating expenses	(49,331)	(75,934)	(93,521)
Depreciation expense	(18,388)	(26,323)	(36,650)
Interest expense	(21,354)	(27,108)	(40,433)
(Impairment losses)/Gain on sale, net	(4,140)	22,598	(29,316)
Net (loss) income	(21,108)	6,773	(58,274)

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The decrease in the number of unconsolidated properties from 2011 to 2012 is primarily attributed to the sale in December 2012 of our legacy asset management business, as further discussed in Note 3. Based on the timing of the sale, the results of operations of the unconsolidated properties in this portfolio are included in the table above. The decrease in the number of unconsolidated properties from 2010 to 2011 and the related effect on the selected combined financial information presented is primarily attributed to the sale of our interests in the partnerships owning these properties or the partnerships' sale of the underlying properties followed by partnership liquidations during these periods. The decrease from 2010 to 2011 was partially offset by our investment during 2011 in unconsolidated entities that own properties in La Jolla, California. A significant portion of the selected combined financial information as of December 31, 2011 and 2010 and for the years ended December 31, 2012, 2011 and 2010 related to investments in other unconsolidated real estate partnerships in which we generally held a nominal general partnership interest. Accordingly, substantially all of the assets and liabilities and results of operations related to these investment partnerships were attributed to the noncontrolling interests in such entities.

At the time we acquired certain of our investments in unconsolidated real estate partnerships, the cost of our investment generally exceeded the historical carrying amounts of the partnerships' net assets. Additionally, our unconsolidated investment balances at 2011 included various investment partnerships (along with their investments in unconsolidated real estate partnerships) we consolidated at fair values that exceeded the historical carrying amounts of the underlying unconsolidated real estate partnerships' net assets. At December 31, 2012 and 2011, our aggregate recorded investment in unconsolidated partnerships of \$18.7 million and \$47.8 million, respectively, exceeded our share of the underlying historical partners' deficit of the partnerships by approximately \$6.9 million and \$46.5 million, respectively.

NOTE 6 — Notes Receivable

The following table summarizes our notes receivable as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Par value notes	$5,439	$15,695
Discounted notes	97,458	95,510
Total notes receivable	$102,897	$111,205
Face value of discounted notes	$104,013	$103,471

Notes receivable have various annual interest rates ranging between 2.2% and 8.8% and averaging 4.0%. Included in the notes receivable at December 31, 2012 and 2011 are \$101.3 million and \$99.3 million, respectively, in notes that were secured by interests in real estate or interests in real estate partnerships.

All of our discounted notes have stated maturity dates and none are past due. All of the notes receivable shown above are estimated to be collectible and have not been impaired for the periods presented.

Discounted notes at December 31, 2012 and 2011, include \$93.1 million and \$91.2 million, respectively, from certain entities (the "borrowers") that are wholly owned by a single individual. We originated these notes in November 2006 pursuant to a loan agreement that provides for total funding of approximately \$110.0 million, including \$16.4 million for property improvements and an interest reserve, of which \$2.3 million had not been funded as of December 31, 2012. The notes mature in November 2016, bear interest at LIBOR plus 2.0%, are partially guaranteed by the owner of the borrowers, and are collateralized by second mortgages on 84 buildings containing 1,596 residential units and 43 commercial spaces in West Harlem, New York City. In conjunction with the loan agreement, we entered into a purchase option and put agreement with the borrowers under which we may purchase some or all of the buildings and, subject to achieving specified increases in rental income, the borrowers may require us to purchase the buildings (see Note 10). We determined that the stated interest rate on the notes on the date the loan was originated was a below-market interest rate and recorded a \$17.4 million discount to reflect the estimated fair value of the notes based on an estimated market interest rate of LIBOR plus 4.0%. The discount was determined to be attributable to our real estate purchase option, which we recorded separately in other assets. Accretion of this discount, which is included in interest income in our consolidated statements of operations, totaled \$1.1 million, \$1.0 million and \$0.9 million during the years ended December 31, 2012, 2011 and 2010, respectively. The value of the purchase option asset will be included in the cost of properties acquired pursuant to the option or otherwise be charged to expense. We determined that the borrowers are VIEs and, based on qualitative and quantitative analysis, determined that the individual who owns the borrowers and partially guarantees the notes is the primary beneficiary.

We recognized interest income, including accretion, of $4.3 million, $4.8 million and $4.5 million for the years ended December 31, 2012, 2011 and 2010, respectively, related to these notes receivable.

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NOTE 7 — Non-Recourse Property Debt and Credit Agreement

Non-Recourse Property Debt

We finance our properties primarily using long-dated, fixed-rate borrowings, each of which is collateralized by a single real estate property and is non-recourse to us. The following table summarizes our property loans payable related to properties classified as held for use at December 31, 2012 and 2011 (dollars in thousands):

	Weighted Average Interest Rate	Principal Outstanding	
	2012	2012	2011
Fixed rate property loans payable	5.58%	$4,434,363	$4,472,385
Variable rate property loans payable	2.93%	24,038	28,730
Total		$4,458,401	$4,501,115

Fixed rate property loans payable mature at various dates through January 2055. Variable rate property loans payable mature at various dates through January 2019. Principal and interest are generally payable monthly or in monthly interest-only payments with balloon payments due at maturity. At December 31, 2012, our property loans payable related to properties classified as held for use were each secured by one of 221 properties that had an aggregate gross book value of $7,701.5 million.

The following table summarizes our property tax-exempt bond financings related to properties classified as held for use at December 31, 2012 and 2011 (dollars in thousands):

	Weighted Average Interest Rate	Principal Outstanding	
	2012	2012	2011
Fixed rate property tax-exempt bonds payable	4.92%	$99,447	$132,033
Variable rate property tax-exempt bonds payable	1.51%	130,599	139,626
Total		$230,046	$271,659

Fixed rate property tax-exempt bonds payable mature at various dates through February 2061. Variable rate property tax-exempt bonds payable mature at various dates through July 2033. Principal and interest on these bonds are generally payable in semi-annual installments with balloon payments due at maturity. Certain of our property tax-exempt bonds at December 31, 2012, are remarketed periodically by a remarketing agent to maintain a variable yield. If the remarketing agent is unable to remarket the bonds, then the remarketing agent can put the bonds to us. We believe that the likelihood of this occurring is remote. At December 31, 2012, our property tax-exempt bond financings related to properties classified as held for use were each secured by one of 21 properties that had an aggregate gross book value of $511.3 million.

At December 31, 2012, property tax-exempt bonds payable with a weighted average fixed rate of 5.9% have been converted to a weighted average variable rate of 2.1% using total rate of return swaps that mature during May 2014. These property tax-exempt bonds payable are presented above as variable rate debt at their carrying amounts, or fair value, of $71.4 million. See Note 8 for further discussion of our total rate of return swap arrangements.

Our consolidated property debt instruments contain covenants common to the type of borrowing. At December 31, 2012, we were in compliance with all covenants pertaining to our consolidated debt instruments.

As of December 31, 2012, the scheduled principal amortization and maturity payments for our property tax-exempt bonds and property loans payable related to properties in continuing operations are as follows (in thousands):

	Amortization	Maturities	Total
2013	$86,570	$182,029	$268,599
2014	89,438	235,975	325,413
2015	90,486	183,111	273,597
2016	87,698	429,593	517,291
2017	81,529	446,900	528,429
Thereafter			2,775,118
			$4,688,447

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Credit Agreement

We have a Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement. The Credit Agreement consists of $500.0 million of revolving loan commitments. Borrowings under the Credit Agreement bear interest at a rate set forth on a pricing grid which rate varies based on our leverage (initially either LIBOR plus 2.75% or, at our option, a base rate). The Credit Agreement matures December 2014, and may be extended for two additional one-year periods, subject to certain conditions, including payment of a 25.0 basis point fee on the total revolving commitments.

As of December 31, 2012 and 2011, we had no outstanding borrowings under the Credit Agreement. As of December 31, 2012, we had the capacity to borrow $454.6 million, net of the outstanding borrowings and $45.4 million for undrawn letters of credit backed by the Credit Agreement. The proceeds of revolving loans are generally used to fund working capital and for other corporate purposes.

NOTE 8 — Derivative Financial Instruments

We have limited exposure to derivative financial instruments. For our variable rate debt, we are sometimes required by our lenders to limit our exposure to interest rate fluctuations by entering into interest rate swap agreements, which moderate our exposure to interest rate risk by effectively converting the interest on variable rate debt to a fixed rate. The fair values of the interest rate swaps are reflected as assets or liabilities in the balance sheet, and periodic changes in fair value are included in interest expense or equity and partners' capital, as appropriate.

As of December 31, 2012 and 2011, we had interest rate swaps with aggregate notional amounts of $51.0 million and $51.4 million, respectively, and recorded fair values of $8.0 million and $7.0 million, respectively, reflected in accrued liabilities and other in our consolidated balance sheets. At December 31, 2012, these interest rate swaps had a weighted average term of 8.1 years. We have designated these interest rate swaps as cash flow hedges and recognize any changes in their fair value as an adjustment of accumulated other comprehensive loss within equity to the extent of their effectiveness. Changes in the fair value of these instruments and the related amounts of such changes that were reflected as an adjustment of accumulated other comprehensive loss within equity and as an adjustment of earnings (ineffectiveness) are discussed in Note 9.

If the forward rates at December 31, 2012 remain constant, we estimate that during the next 12 months, we would reclassify into earnings approximately $1.7 million of the unrealized losses in accumulated other comprehensive loss. If market interest rates increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from net cash payments due to us from our counterparty to the interest rate swaps.

At December 31, 2012 and 2011, we had borrowings payable subject to total rate of return swaps with aggregate outstanding principal balances of $74.0 million and $75.0 million, respectively, that were collateralized by four properties. We use total rate of return swaps to convert fixed-rate property debt obligations to a variable rate to lower our cost of borrowing. In exchange for our receipt of a fixed rate equal to the underlying borrowing's interest rate, the total rate of return swaps require that we pay a variable rate plus a risk spread. The underlying borrowings are callable at our option, with no prepayment penalty. We have designated the total rate of return swaps as hedges of the risk of overall changes in the fair value of the underlying borrowings. At each reporting period, we estimate the fair value of these borrowings and the total rate of return swaps and recognize any changes therein as an adjustment of interest expense. During the periods presented, we determined these hedges were fully effective and accordingly we made no adjustments to interest expense for ineffectiveness.

At December 31, 2012, the weighted average fixed receive rate under the total return swaps was 5.9% and the weighted average variable pay rate was 2.1%, based on the applicable index rate effective as of that date. The debt subject to these total rate of return swaps matures in 2036 whereas the corresponding swaps mature in May 2014. The total rate of return swaps require specified loan-to-value ratios which may require us to pay down the debt or provide additional collateral. At December 31, 2012 and 2011, we had provided $20.0 million of cash collateral pursuant to the swap agreements, which is included in restricted cash in our consolidated balance sheets.

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NOTE 9 — Fair Value Measurements

In accordance with GAAP, we are required to measure certain assets and liabilities in our consolidated financial statements at fair value. Certain assets, such as our investment in the first loss and mezzanine positions in a securitization trust that holds certain of our property debt, our interest rate swaps (IR swaps), total rate of return swaps (TRR swaps), and the debt subject to TRR swaps (TRR debt) are required to be measured at fair value on a quarterly basis. Other assets, such as real estate, are required to be measured at fair value when we determine that the carrying amount of an asset held for use is no longer recoverable, or are required to be measured at fair value less estimated costs to sell when we determine that the carrying amount of an asset classified as held for sale is no longer recoverable.

We are required to classify these fair value measurements into one of three categories, based on the nature of the inputs used in the fair value measurement. Level 1 of the hierarchy includes fair value measurements based on unadjusted quoted prices in active markets for identical assets or liabilities we can access at the measurement date. Level 2 includes fair value measurements based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 includes fair value measurements based on unobservable inputs. The classification of fair value measurements is subjective and GAAP requires us to disclose more detailed information regarding those fair value measurements classified within the lower levels of the hierarchy.

Recurring Fair Value Measurements

The table below presents information regarding significant items measured in our consolidated financial statements at fair value on a recurring basis, consisting of investments in the securitization trust discussed above, which we classify as available for sale (AFS), IR swaps, TRR swaps and TRR debt (in thousands):

	Level 2		Level 3		
	AFS (1)	IR swaps (2)	TRR swaps (3)	TRR debt (4)	Total
Fair value at December 31, 2010	$—	$(2,746)	$(19,542)	$19,542	$(2,746)
Purchases	51,534	—	—	—	51,534
Investment accretion	1,668	—	—	—	1,668
Unrealized (losses) gains included in earnings (5)	—	(48)	13,701	(13,701)	(48)
Realized gains (losses) included in earnings	—	—	—	—	—
Unrealized gains (losses) included in equity and partners’ capital	(1,509)	(4,218)	—	—	(5,727)
Fair value at December 31, 2011	$51,693	$(7,012)	$(5,841)	$5,841	$44,681
Investment accretion	3,111	—	—	—	3,111
Unrealized (losses) gains included in earnings (5)	—	(48)	3,260	(3,260)	(48)
Realized gains (losses) included in earnings	—	—	—	—	—
Unrealized gains (losses) included in equity and partners’ capital	4,341	(908)	—	—	3,433
Fair value at December 31, 2012	$59,145	$(7,968)	$(2,581)	$2,581	$51,177

(1) Our investments classified as AFS are presented within other assets in the accompanying consolidated balance sheets. We estimate the fair value of these investments using an income and market approach with primarily observable inputs, including yields and other information regarding similar types of investments, and adjusted for certain unobservable inputs specific to these investments. We are accreting the discount to the $100.9 million face value of the investments into interest income using the effective interest method over the remaining expected term of the investments, which, as of December 31, 2012, was approximately 8.5 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was $56.3 million and $53.2 million at December 31, 2012 and 2011, respectively.

(2) The fair value of IR swaps is estimated using an income approach with primarily observable inputs including information regarding the hedged variable cash flows and forward yield curves relating to the variable interest rates on which the hedged cash flows are based.

(3) TRR swaps have contractually-defined termination values generally equal to the difference between the fair value and the counterparty's purchased value of the underlying borrowings. We calculate the termination value, which we believe is representative of the fair value, of total rate of return swaps using a market approach by reference to estimates of the fair value of the underlying borrowings, which are discussed below, and an evaluation of potential changes in the credit quality of the counterparties to these arrangements.

(4) This represents changes in fair value of debt subject to TRR swaps. We estimate the fair value of debt instruments using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such

as market interest rate risk spreads, contractual interest rates, remaining periods to maturity, collateral quality and loan-to-value ratios on similarly encumbered assets within our portfolio. We handle a large volume of financing transactions annually and use pricing information obtained during the financing process to evaluate market pricing information for reasonableness.

(5) Unrealized gains (losses) for the TRR swaps and TRR debt relate to periodic revaluations of fair value and have not resulted from the settlement of a swap position as we have not historically incurred any termination payments upon settlement. These unrealized gains (losses) are included in interest expense in the accompanying consolidated statements of operations.

Due to their subjectivity, GAAP requires us to disclose additional quantitative and qualitative information about the unobservable inputs significant to our Level 3 fair value measurements. The unobservable inputs significant to our estimation of the fair value of TRR debt classified within Level 3 includes information about the property debt, such as the payment schedule, contractual interest rate and loan-to-value ratio. Based on the impracticality of providing payment schedules for our nonrecourse property debt measured at fair value, we believe the disclosure of the weighted average maturity date is meaningful in the context of the related valuation input. Information regarding the weighted average unobservable inputs for TRR debt measured at fair value during the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012		2011		2010	
Number of properties encumbered by nonrecourse property debt measured at fair value during period	4		4		12	
Weighted average interest rate	5.9	%	5.8	%	6.8	%
Weighted average maturity in years	23.9 years		24.9 years		20.4 years	
Weighted average loan-to-value ratio	77.7	%	81.3	%	61.3	%

Of these unobservable inputs significant to the TRR debt fair value measurement, the loan-to-value ratio is the only input to which the fair value measurement is sensitive to changes, as the property debt interest rates and maturities are not subject to adjustment. Holding constant the other observable inputs which may also be significant to the fair value measurement, such as market interest rates for similar types of debt, we believe any increase in the loan-to-value ratios for the TRR debt would result in a decrease in the fair value of the TRR debt and any decrease in the loan-to-value ratios would result in an increase in the fair value of the TRR debt. Based on the relationship of the fair value of the TRR debt to that of the TRR swaps, we believe any increase or decrease in the fair value of the TRR debt would have an equal and offsetting decrease or increase in the fair value of the TRR swaps, and therefore would have no effect on our financial position, results of operations or liquidity.

Nonrecurring Fair Value Measurements

During the year ended December 31, 2012, we reduced the aggregate carrying amounts of nine assets classified as held for use or held for sale from $81.8 million to their estimated fair values of $65.8 million, resulting in an impairment loss of $16.0 million. During the year ended December 31, 2011, we reduced the aggregate carrying amounts of 19 assets classified as held for sale from $108.2 million to their estimated fair values of $92.3 million, resulting in an impairment loss of $15.9 million. During the year ended December 31, 2010, we reduced the aggregate carrying amounts of 12 assets classified as held for sale from $74.2 million to their estimated fair values of $62.1 million, resulting in an impairment loss of $12.1 million.

The fair values for the properties we impaired during these periods were based primarily on contract prices for pending sales or expected sales values of the properties. The contract prices were based in part on unobservable inputs classified within Level 3 of the fair value hierarchy, but were also based on observable inputs that can be validated to observable external sources, such as pricing information about widely marketed real estate properties for sale.

The unobservable inputs significant to our estimation of the fair value of real estate impaired during the periods include, among other things, information such as the properties' net operating income, or NOI, free cash flow, or FCF, which represents the property's NOI less capital spending required to maintain the condition of the property, and assumptions about NOI and FCF growth rates and exit values. A FCF internal rate of return, which represents the rate of return generated by the FCF from the property and the proceeds from its eventual sale, is a common benchmark used in the real estate industry for relative comparison of real estate valuations. The projected cash flows, including the expected sales prices, on which the impairment losses were based translated to weighted average implied FCF internal rates of return of 7.39%, 7.87% and 8.64% for the properties impaired during the years ended December 31, 2012, 2011 and 2010, respectively.

Fair Value Disclosures

We believe that the aggregate fair value of our cash and cash equivalents, receivables and payables approximates their aggregate carrying amounts at December 31, 2012 and 2011, due to their relatively short-term nature and high probability of realization. The estimated aggregate fair value of our notes receivable (including notes receivable from unconsolidated real estate partnerships, which we classify within other assets in our consolidated balance sheets) was approximately $100.0 million and $107.9 million at December 31, 2012 and 2011, respectively, as compared to their carrying amounts of $107.9 million and $117.9 million, respectively. The estimated aggregate fair value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $5.1 billion and $5.4 billion at December 31, 2012 and 2011, respectively, as compared to aggregate carrying amounts of $4.7 billion and $5.2 billion, respectively. We classify within Level 3 of the valuation hierarchy the fair values of our notes receivable and consolidated debt disclosed above, based on the significance of certain of the unobservable inputs used to estimate their fair values. The fair value of our notes receivable and consolidated debt is estimated using a methodology consistent with that described above for the property debt we measure at fair value on a recurring and nonrecurring basis.

NOTE 10 — Commitments and Contingencies

Commitments

In connection with our redevelopment and capital improvement activities, we have commitments of approximately $232.2 million related to construction projects, most of which we expect to incur during the next 24 months. Pursuant to financing arrangements on our Lincoln Place, Pacific Bay Vistas, The Preserve at Marin and Elm Creek conventional redevelopment properties, we are contractually obligated to complete the planned projects. Additionally, we enter into certain commitments for future purchases of goods and services in connection with the operations of our properties. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

As discussed in Note 4 and Note 6, we have committed to fund an additional $2.3 million to increase loans secured by certain properties in West Harlem in New York City. The obligor under these notes has the ability to put these properties to us upon the achievement of certain operating performance thresholds. Our acquisition of these properties pursuant to this put option would result in a cash payment by us of approximately $31.0 million at the lower performance threshold and approximately $98.1 million at the higher performance threshold, and our assumption of approximately $118.2 million in property debt.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 13 years. We do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Legal Matters

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

Limited Partnerships

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

During 2011, we mediated a dispute with respect to mergers completed early in 2011 in which we acquired the remaining noncontrolling interests in six consolidated real estate partnerships. As a result of the mediation we agreed to pay the limited partners additional consideration of $7.5 million for their partnership units, which we included in the total consideration paid for the noncontrolling interests we acquired. Final approvals of the settlement were granted and we paid the additional consideration resulting from the settlement during the year ended December 31, 2012.

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Environmental

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

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or property casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of December 31, 2012, are immaterial to our consolidated financial condition, results of operations and cash flows.

Operating Leases

We are obligated under non-cancelable operating leases for office space and equipment. Approximate minimum annual rentals under operating leases are as follows (in thousands):

	Operating Lease Obligations
2013	$3,756
2014	3,100
2015	2,554
2016	2,391
2017	1,479
Thereafter	32
Total	$13,312

Substantially all of the office space subject to the operating leases in the table above is for the use of our corporate offices and area operations. Rent expense recognized totaled $4.6 million, $5.4 million and $6.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Sublease receipts that offset rent expense totaled approximately $0.6 million, $0.8 million and $1.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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NOTE 11 — Income Taxes

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities of the taxable REIT subsidiaries for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax liabilities and assets are as follows (in thousands):

	2012	2011
Deferred tax liabilities:		
Partnership differences	$29,745	$38,385
Deferred revenue	23,139	17,326
Capitalized interest	16,157	—
Total deferred tax liabilities	$69,041	$55,711
Deferred tax assets:		
Net operating, capital and other loss carryforwards	$66,145	$56,032
Provision for impairments on real estate assets	33,321	33,321
Depreciation	—	1,073
Receivables	1,183	3,724
Accrued liabilities	8,500	8,163
Intangibles - management contracts	561	1,126
Tax credit carryforwards	7,724	7,610
Equity compensation	898	947
Other	68	179
Total deferred tax assets	118,400	112,175
Valuation allowance	(4,531)	(4,531)
Net deferred income tax assets	$44,828	$51,933

A reconciliation of the beginning and ending balance of our unrecognized tax benefits is presented below (in thousands):

	2012	2011	2010
Balance at January 1	$3,917	$4,071	$3,079
Reductions as a result of a lapse of the applicable statutes	(684)	—	—
Additions (reductions) based on tax positions related to prior years	303	(154)	992
Balance at December 31	$3,536	$3,917	$4,071

Because the statute of limitations has not yet elapsed, our Federal income tax returns for the year ended December 31, 2008, and subsequent years and certain of our State income tax returns for the year ended December 31, 2006, and subsequent years are currently subject to examination by the Internal Revenue Service or other taxing authorities. Approximately $3.0 million of unrecognized benefit, if recognized, would affect the effective rate.

On October 25, 2012, the Internal Revenue Service issued Final Partnership Administrative Adjustments with respect to the Aimco Operating Partnership 2006 and 2007 tax years. On January 18, 2012, AIMCO-GP, Inc., in its capacity as tax matters partner of the Aimco Operating Partnership, filed a petition challenging those adjustments in the United States Tax Court in Washington, D.C. We do not expect the litigation regarding the 2006 or 2007 proposed adjustments to have any material effect on our unrecognized tax benefits, financial condition or results of operations.

Our policy is to include any interest and penalties related to income taxes within the income tax line item in our consolidated statements of operations.

In accordance with the accounting requirements for stock-based compensation, we may recognize tax benefits in connection with the exercise of stock options by employees of our taxable subsidiaries and the vesting of restricted stock awards. During the years ended December 31, 2012 and 2011, we had cumulatively $0.5 million and less than $0.1 million, respectively, in excess tax benefits from employee stock option exercises and vested restricted stock awards. None of the excess tax benefits have yet been realized.

Significant components of the benefit for income taxes are as follows and are classified within income tax benefit in continuing operations and income from discontinued operations, net in our statements of operations for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Current:			
Federal	$—	$(109)	$—
State	1,047	604	1,395
Total current	1,047	495	1,395
Deferred:			
Federal	7,116	(143)	(10,912)
State	812	(903)	(1,380)
Total deferred	7,928	(1,046)	(12,292)
Total expense (benefit)	$8,975	$(551)	$(10,897)
Classification:			
Continuing operations	$(929)	$(6,541)	$(16,839