APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

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

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

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

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

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

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

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

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

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

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

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

Apartment Investment and Management Company:

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

AIMCO Properties, L.P.:

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

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

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

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The number of shares of Apartment Investment and Management Company
Class A Common Stock outstanding as of November 3, 2015: 156,423,545
The number of Partnership Common Units outstanding as of November 3, 2015: 163,972,576

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EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended September 30, 2015, of Apartment Investment and Management Company, or Aimco, and AIMCO Properties, L.P., or the Aimco Operating Partnership. Where it is important to distinguish between the two entities, we refer to them specifically. Otherwise, references to "we," "us" or "our" mean, collectively, Aimco, the Aimco Operating Partnership and their consolidated entities.

Aimco, a Maryland corporation, is a self-administered and self-managed real estate investment trust, or REIT. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of and, as of September 30, 2015, owned a 95.4% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 4.6% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership's day-to-day management.

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

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

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2015	December 31, 2014
ASSETS		
Buildings and improvements	$6,421,572	$6,259,318
Land	1,878,350	1,885,640
Total real estate	8,299,922	8,144,958
Accumulated depreciation	(2,719,651)	(2,672,179)
Net real estate ($342,568 and $360,160 related to VIEs)	5,580,271	5,472,779
Cash and cash equivalents ($19,944 and $17,108 related to VIEs)	45,241	28,971
Restricted cash ($34,930 and $36,196 related to VIEs)	93,230	91,445
Other assets ($170,046 and $182,108 related to VIEs)	478,961	476,727
Assets held for sale	19,959	27,106
Total assets	$6,217,662	$6,097,028
LIABILITIES AND EQUITY		
Non-recourse property debt ($327,403 and $336,471 related to VIEs)	$3,807,699	$4,022,809
Revolving credit facility borrowings	128,200	112,330
Total indebtedness	3,935,899	4,135,139
Accounts payable	37,311	41,919
Accrued liabilities and other ($172,290 and $135,644 related to VIEs)	324,746	279,077
Deferred income	65,694	81,882
Liabilities related to assets held for sale	17,311	28,969
Total liabilities	4,380,961	4,566,986
Preferred noncontrolling interests in Aimco Operating Partnership	87,937	87,937
Commitments and contingencies (Note 6)		
Equity:		
Perpetual Preferred Stock	159,126	186,126
Common Stock, $0.01 par value, 500,787,260 shares authorized, 156,421,276 and 146,403,274 shares issued/outstanding at September 30, 2015 and December 31, 2014, respectively	1,564	1,464
Additional paid-in capital	4,064,729	3,696,143
Accumulated other comprehensive loss	(6,810)	(6,456)
Distributions in excess of earnings	(2,616,919)	(2,649,542)
Total Aimco equity	1,601,690	1,227,735
Noncontrolling interests in consolidated real estate partnerships	164,439	233,296
Common noncontrolling interests in Aimco Operating Partnership	(17,365)	(18,926)
Total equity	1,748,764	1,442,105
Total liabilities and equity	$6,217,662	$6,097,028

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
REVENUES				
Rental and other property revenues	$240,382	$239,873	$717,308	$719,501
Tax credit and asset management revenues	6,005	6,970	18,127	22,684
Total revenues	246,387	246,843	735,435	742,185
OPERATING EXPENSES				
Property operating expenses	88,621	95,240	272,043	289,008
Investment management expenses	1,905	1,279	4,594	3,552
Depreciation and amortization	77,237	69,437	226,819	211,143
Provision for real estate impairment losses	—	1,413	—	1,413
General and administrative expenses	11,013	10,658	33,727	31,304
Other expenses, net	3,590	1,349	7,521	7,223
Total operating expenses	182,366	179,376	544,704	543,643
Operating income	64,021	67,467	190,731	198,542
Interest income	1,737	1,787	5,167	5,187
Interest expense	(48,285)	(57,806)	(151,410)	(168,613)
Other, net	(1,983)	1,733	631	(57)
Income before income taxes and gain on dispositions	15,490	13,181	45,119	35,059
Income tax benefit	8,279	5,005	21,014	13,110
Income from continuing operations	23,769	18,186	66,133	48,169
Gain on dispositions of real estate, net of tax	—	126,329	130,474	262,483
Net income	23,769	144,515	196,607	310,652
Noncontrolling interests:				
Net loss (income) attributable to noncontrolling interests in consolidated real estate partnerships	785	(8,337)	(4,082)	(21,952)
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,736)	(1,601)	(5,208)	(4,808)
Net income attributable to common noncontrolling interests in Aimco Operating Partnership	(893)	(6,549)	(8,263)	(13,895)
Net income attributable to noncontrolling interests	(1,844)	(16,487)	(17,553)	(40,655)
Net income attributable to Aimco	21,925	128,028	179,054	269,997
Net income attributable to Aimco preferred stockholders	(2,757)	(2,875)	(9,037)	(5,087)
Net loss (income) attributable to participating securities	11	(447)	(690)	(962)
Net income attributable to Aimco common stockholders	$19,179	$124,706	$169,327	$263,948
Earnings attributable to Aimco per common share – basic (Note 7):				
Income from continuing operations	$0.12	$0.86	$1.09	$1.81
Net income	$0.12	$0.86	$1.09	$1.81
Earnings attributable to Aimco per common share – diluted (Note 7):				
Income from continuing operations	$0.12	$0.85	$1.09	$1.81
Net income	$0.12	$0.85	$1.09	$1.81

Dividends declared per common share	$0.30	$0.26	$0.88	$0.78

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$23,769	$144,515	$196,607	$310,652
Other comprehensive (loss) income:				
Unrealized losses on interest rate swaps	(892)	(61)	(1,517)	(1,488)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	418	421	1,260	1,265
Unrealized gains (losses) on debt securities classified as available-for-sale	1,111	(566)	(51)	(618)
Other comprehensive income (loss)	637	(206)	(308)	(841)
Comprehensive income	24,406	144,309	196,299	309,811
Comprehensive income attributable to noncontrolling interests	(1,888)	(16,555)	(17,597)	(40,728)
Comprehensive income attributable to Aimco	$22,518	$127,754	$178,702	$269,083

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$196,607	$310,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	226,819	211,143
Gain on dispositions of real estate, net of tax	(130,474)	(262,483)
Other adjustments	(17,137)	204
Net changes in operating assets and operating liabilities	(17,371)	(26,127)
Net cash provided by operating activities	258,444	233,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(142,207)	(132,463)
Capital expenditures	(277,575)	(277,214)
Proceeds from dispositions of real estate	227,911	564,687
Purchases of corporate assets	(4,625)	(6,405)
Change in restricted cash	2,900	(33,784)
Other investing activities	(22,123)	854
Net cash (used in) provided by investing activities	(215,719)	115,675
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	232,994	83,130
Principal repayments on non-recourse property debt	(418,744)	(376,713)
Net borrowings (repayments) on revolving credit facility	15,870	(35,950)
Proceeds from issuance of Preferred Stock	—	123,620
Proceeds from issuance of Common Stock	366,580	—
Redemption and repurchase of Preferred Stock	(27,000)	(9,516)
Payment of dividends to holders of Preferred Stock	(8,342)	(3,481)
Payment of dividends to holders of Common Stock	(137,268)	(113,988)
Payment of distributions to noncontrolling interests	(46,026)	(42,969)
Other financing activities	(4,519)	238
Net cash used in financing activities	(26,455)	(375,629)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,270	(26,565)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,971	55,751
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$45,241	$29,186

See notes to condensed consolidated financial statements.

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

	September 30, 2015	December 31, 2014
ASSETS		
Buildings and improvements	$6,421,572	$6,259,318
Land	1,878,350	1,885,640
Total real estate	8,299,922	8,144,958
Accumulated depreciation	(2,719,651)	(2,672,179)
Net real estate ($342,568 and $360,160 related to VIEs)	5,580,271	5,472,779
Cash and cash equivalents ($19,944 and $17,108 related to VIEs)	45,241	28,971
Restricted cash ($34,930 and $36,196 related to VIEs)	93,230	91,445
Other assets ($170,046 and $182,108 related to VIEs)	478,961	476,727
Assets held for sale	19,959	27,106
Total assets	$6,217,662	$6,097,028
LIABILITIES AND EQUITY		
Non-recourse property debt ($327,403 and $336,471 related to VIEs)	$3,807,699	$4,022,809
Revolving credit facility borrowings	128,200	112,330
Total indebtedness	3,935,899	4,135,139
Accounts payable	37,311	41,919
Accrued liabilities and other ($172,290 and $135,644 related to VIEs)	324,746	279,077
Deferred income	65,694	81,882
Liabilities related to assets held for sale	17,311	28,969
Total liabilities	4,380,961	4,566,986
Redeemable preferred units	87,937	87,937
Commitments and contingencies (Note 6)		
Partners' Capital:		
Preferred units	159,126	186,126
General Partner and Special Limited Partner	1,442,564	1,041,609
Limited Partners	(17,365)	(18,926)
Partners' capital attributable to the Aimco Operating Partnership	1,584,325	1,208,809
Noncontrolling interests in consolidated real estate partnerships	164,439	233,296
Total partners' capital	1,748,764	1,442,105
Total liabilities and partners' capital	$6,217,662	$6,097,028

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Rental and other property revenues	$240,382	$239,873	$717,308	$719,501
Tax credit and asset management revenues	6,005	6,970	18,127	22,684
Total revenues	246,387	246,843	735,435	742,185
OPERATING EXPENSES				
Property operating expenses	88,621	95,240	272,043	289,008
Investment management expenses	1,905	1,279	4,594	3,552
Depreciation and amortization	77,237	69,437	226,819	211,143
Provision for real estate impairment losses	—	1,413	—	1,413
General and administrative expenses	11,013	10,658	33,727	31,304
Other expenses, net	3,590	1,349	7,521	7,223
Total operating expenses	182,366	179,376	544,704	543,643
Operating income	64,021	67,467	190,731	198,542
Interest income	1,737	1,787	5,167	5,187
Interest expense	(48,285)	(57,806)	(151,410)	(168,613)
Other, net	(1,983)	1,733	631	(57)
Income before income taxes and gain on dispositions	15,490	13,181	45,119	35,059
Income tax benefit	8,279	5,005	21,014	13,110
Income from continuing operations	23,769	18,186	66,133	48,169
Gain on dispositions of real estate, net of tax	—	126,329	130,474	262,483
Net income	23,769	144,515	196,607	310,652
Net loss (income) attributable to noncontrolling interests in consolidated real estate partnerships	785	(8,337)	(4,082)	(21,952)
Net income attributable to the Aimco Operating Partnership	24,554	136,178	192,525	288,700
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(4,493)	(4,476)	(14,245)	(9,895)
Net loss (income) attributable to participating securities	11	(447)	(690)	(962)
Net income attributable to the Aimco Operating Partnership's common unitholders	$20,072	$131,255	$177,590	$277,843
Earnings attributable to the Aimco Operating Partnership per common unit – basic (Note 7):				
Income from continuing operations	$0.12	$0.86	$1.09	$1.81
Net income	$0.12	$0.86	$1.09	$1.81
Earnings attributable to the Aimco Operating Partnership per common unit – diluted (Note 7):				
Income from continuing operations	$0.12	$0.85	$1.09	$1.81
Net income	$0.12	$0.85	$1.09	$1.81
Distributions declared per common unit	$0.30	$0.26	$0.88	$0.78

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$23,769	$144,515	$196,607	$310,652
Other comprehensive (loss) income:				
Unrealized losses on interest rate swaps	(892)	(61)	(1,517)	(1,488)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	418	421	1,260	1,265
Unrealized gains (losses) on debt securities classified as available-for-sale	1,111	(566)	(51)	(618)
Other comprehensive income (loss)	637	(206)	(308)	(841)
Comprehensive income	24,406	144,309	196,299	309,811
Comprehensive loss (income) attributable to noncontrolling interests	770	(8,419)	(4,143)	(22,073)
Comprehensive income attributable to the Aimco Operating Partnership	$25,176	$135,890	$192,156	$287,738

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$196,607	$310,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	226,819	211,143
Gain on dispositions of real estate, net of tax	(130,474)	(262,483)
Other adjustments	(17,137)	204
Net changes in operating assets and operating liabilities	(17,371)	(26,127)
Net cash provided by operating activities	258,444	233,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(142,207)	(132,463)
Capital expenditures	(277,575)	(277,214)
Proceeds from dispositions of real estate	227,911	564,687
Purchases of corporate assets	(4,625)	(6,405)
Change in restricted cash	2,900	(33,784)
Other investing activities	(22,123)	854
Net cash (used in) provided by investing activities	(215,719)	115,675
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	232,994	83,130
Principal repayments on non-recourse property debt	(418,744)	(376,713)
Net borrowings (repayments) on revolving credit facility	15,870	(35,950)
Proceeds from issuance of Preferred Units to Aimco	—	123,620
Proceeds from issuance of common partnership units to Aimco	366,580	—
Redemption and repurchase of Preferred Units from Aimco	(27,000)	(9,516)
Payment of distributions to holders of Preferred Units	(13,550)	(8,289)
Payment of distributions to General Partner and Special Limited Partner	(137,268)	(113,988)
Payment of distributions to Limited Partners	(6,701)	(6,020)
Payment of distributions to noncontrolling interests	(34,117)	(32,141)
Other financing activities	(4,519)	238
Net cash used in financing activities	(26,455)	(375,629)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,270	(26,565)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,971	55,751
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$45,241	$29,186

See notes to condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

Note 1 — Organization

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

Aimco, and through its wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, owns a majority of the ownership interests in the Aimco Operating Partnership. Aimco conducts all of its business and owns all of its assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as “OP Units.” OP Units include common partnership units, high performance partnership units and partnership preferred units, which we refer to as common OP Units, HPUs and preferred OP Units, respectively. We also refer to HPUs as common OP Unit equivalents. At September 30, 2015, after eliminations for units held by consolidated entities, the Aimco Operating Partnership had 164,005,054 common partnership units and equivalents outstanding. At September 30, 2015, Aimco owned 156,421,276 of the common partnership units (95.4% 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 September 30, 2015, we owned an equity interest in 143 conventional apartment communities with 41,429 apartment homes and 56 affordable apartment communities with 8,685 apartment homes. Of these, we consolidated 139 conventional apartment communities with 41,287 apartment homes and 49 affordable apartment communities with 7,998 apartment homes. Conventional and affordable apartment communities generated 90% and 10%, respectively, of the proportionate property net operating income (as defined in Note 8 and excluding amounts related to apartment communities sold or classified as held for sale) during the nine months ended September 30, 2015.

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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

Principles of Consolidation

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

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

As of September 30, 2015, we were the primary beneficiary of, and therefore consolidated, 61 VIEs, which owned 47 apartment communities with 7,459 apartment homes. Substantially all these VIEs are partnerships that are involved in the ownership or operation of qualifying affordable housing apartment communities and which are structured to provide for the pass-through of low-income housing tax credits and deductions to their partners. Real estate with a carrying value of $342.6 million collateralized $327.4 million of debt of those VIEs. Any significant amounts of assets and liabilities related to our consolidated VIEs are identified parenthetically on our accompanying condensed consolidated balance sheets. The creditors of the consolidated VIEs do not have recourse to our general credit.

In addition to the consolidated VIEs discussed above, at September 30, 2015, our consolidated financial statements included certain consolidated and unconsolidated VIEs that are part of the legacy asset management business we sold during 2012, which is discussed in Note 4. The assets and liabilities related to these consolidated and unconsolidated VIEs are each condensed into single line items within other assets and accrued liabilities and other, respectively, in our condensed consolidated balance sheets.

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

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

Temporary Equity and Partners' Capital

The following table presents a reconciliation of the Aimco Operating Partnership's Preferred OP Units from December 31, 2014 to September 30, 2015 (in thousands). These amounts are presented within temporary equity in Aimco's condensed consolidated balance sheets as preferred noncontrolling interests in the Aimco Operating Partnership, and within temporary capital in the Aimco Operating Partnership's condensed consolidated balance sheets as redeemable preferred units.

Balance, December 31, 2014	$87,937
Distributions to preferred unitholders	(5,208)
Net income	5,208
Balance, September 30, 2015	$87,937

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Aimco Equity (including Noncontrolling Interests)

The following table presents a reconciliation of Aimco's consolidated permanent equity accounts from December 31, 2014 to September 30, 2015 (in thousands):

	Aimco Equity	Noncontrolling interests in consolidated real estate partnerships	Common noncontrolling interests in Aimco Operating Partnership	Total Equity
Balance, December 31, 2014	$1,227,735	$233,296	$(18,926)	$1,442,105
Issuance of Common Stock	366,580	—	—	366,580
Repurchase of preferred stock	(27,000)	—	—	(27,000)
Preferred stock dividends	(8,342)	—	—	(8,342)
Common dividends and distributions	(137,493)	(72,873)	(6,701)	(217,067)
Redemptions of common OP Units	—	—	(2,612)	(2,612)
Amortization of stock-based compensation cost	5,572	—	—	5,572
Effect of changes in ownership for consolidated entities	(4,328)	—	2,628	(1,700)
Change in accumulated other comprehensive loss	(352)	61	(17)	(308)
Other	264	(127)	—	137
Net income	179,054	4,082	8,263	191,399
Balance, September 30, 2015	$1,601,690	$164,439	$(17,365)	$1,748,764

Partners' Capital attributable to the Aimco Operating Partnership

The following table presents a reconciliation of the consolidated partners' capital balances in permanent capital that are attributable to the Aimco Operating Partnership from December 31, 2014 to September 30, 2015 (in thousands):

	Partners' capital attributable to the Partnership
Balance, December 31, 2014	$1,208,809
Issuance of common partnership units to Aimco	366,580
Repurchase of Preferred Units from Aimco	(27,000)
Distributions to preferred units held by Aimco	(8,342)
Distributions to common units held by Aimco	(137,493)
Distributions to common units held by Limited Partners	(6,701)
Redemption of common OP Units	(2,612)
Amortization of Aimco stock-based compensation cost	5,572
Effect of changes in ownership for consolidated entities	(1,700)
Change in accumulated other comprehensive loss	(369)
Other	264
Net income	187,317
Balance, September 30, 2015	$1,584,325

A separate reconciliation of noncontrolling interests in consolidated real estate partnerships and total partners' capital for the Aimco Operating Partnership is not presented as these amounts are identical to the corresponding noncontrolling interests in consolidated real estate partnerships and total equity for Aimco, which are presented above.

Use of Estimates

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

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Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update 2015-02, which significantly changes the consolidation analysis required under GAAP for VIEs. Under this revised guidance, it is less likely that certain fees, such as asset management fees, would be considered variable interests and therefore fewer entities may be considered VIEs. Additionally, limited partnerships may no longer be viewed as VIEs if the limited partners hold certain rights over the general partner. Alternatively, limited partnerships not previously viewed as VIEs may now be considered VIEs in the absence of such rights. For public companies, the guidance in ASU 2015-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. We have not yet determined the effect ASU 2015-02 will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 to revise the presentation of debt issuance costs. Under ASU 2015-03, entities generally will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred costs will continue to be included in interest expense. In August 2015, the FASB issued ASU 2015-15 to clarify the SEC staff's position regarding the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements due to the lack of guidance on this topic in the recently issued ASU 2015-03. The SEC staff recently announced that it would not object to an entity deferring and presenting debt issuance costs associated with line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings under the arrangement.

For public companies, the guidance in ASUs 2015-03 and 2015-15, which is to be applied retrospectively to all prior periods, is effective for fiscal years beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. We do not expect ASUs 2015-03 and 2015-15 to have a significant effect on our consolidated financial statements.

Note 3 — Disposals and Assets Held for Sale

During the three months ended September 30, 2015, we did not sell any consolidated apartment communities, and during the nine months ended September 30, 2015, we sold eight consolidated apartment communities with an aggregate of 2,891 apartment homes and during the year ended December 31, 2014, we sold 30 consolidated apartment communities with an aggregate of 9,067 apartment homes.

In addition to the apartment communities we sold, we are currently marketing for sale certain apartment communities that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such apartment communities meet the criteria to be classified as held for sale. As of September 30, 2015, we had two apartment communities with 476 apartment homes classified as held for sale.

The results of operations for the apartment communities sold or classified as held for sale are reflected within income from continuing operations in our condensed consolidated statements of operations. The apartment communities sold or classified as held for sale during 2015 generated $1.1 million and $6.6 million of net income (before gains on dispositions) during the three and nine months ended September 30, 2015, respectively. The apartment communities sold or classified as held for sale during 2015 and 2014, generated $6.7 million and $29.0 million of net income (before gains on dispositions) during the three and nine months ended September 30, 2014, respectively.

The sale of these apartment communities resulted in gains on disposition of real estate of $130.5 million for the nine months ended September 30, 2015. For the three and nine months ended September 30, 2014, the sale of apartment communities resulted in gains on disposition of real estate of $126.3 million and $262.5 million, respectively, which are net of $21.1 million and $29.8 million of related income taxes. We report gains on disposition net of incremental direct costs incurred in connection with the transactions, including any prepayment penalties incurred upon repayment of property debt collateralized by the apartment communities being sold. Such prepayment penalties totaled $19.8 million for consolidated dispositions during the nine months ended September 30, 2015 ($13.2 million of which represented the mark-to-market adjustment), and $13.6 million and $22.1 million for consolidated dispositions during the three and nine months ended September 30, 2014, respectively ($9.4 million and $15.1 million of which represented the mark-to-market adjustments). In connection with sales of apartment communities during the nine months ended September 30, 2015, the purchasers assumed $6.1 million of non-recourse property debt. In connection with sales of apartment communities during the nine months ended September 30, 2014, the purchasers assumed $56.9 million of non-recourse property debt.

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Note 4 — Other Significant Transactions

Investments in Apartment Communities

In March 2015, we acquired for $38.3 million a 94-apartment home community located in Atlanta, Georgia.

In April 2015, we acquired for $63.0 million a 115-apartment home community located in Cambridge, Massachusetts at the completion of its construction. At September 30, 2015, 77% of the apartment homes were occupied.

In June 2015, we purchased a 91-apartment home community under construction at the time of acquisition. This community is also located in Cambridge, Massachusetts, and is two blocks from the apartment community described in the prior paragraph. At closing, we paid $27.9 million and agreed to fund the remaining construction costs. We expect a total investment of $45.0 million in this community, of which $38.8 million has been invested through September 30, 2015. Construction of the apartment homes was completed during the third quarter, and we began lease-up in October. Construction of the community's amenities is expected to be complete by year end.

Asset Management Business Disposition

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

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

At September 30, 2015, the Napico portfolio consisted of 14 partnerships that held investments in 12 apartment communities that were consolidated and 47 apartment communities that were accounted for under the equity or cost methods of accounting. The portfolio’s assets and liabilities included in our condensed consolidated balance sheets are summarized below (in thousands):

	September 30, 2015	December 31, 2014
Real estate, net	$107,407	$117,851
Cash and cash equivalents	33,715	23,133
Investment in unconsolidated real estate partnerships	766	8,392
Other assets	16,419	11,759
Total assets	$158,307	$161,135
Total indebtedness	$143,987	$113,641
Accrued and other liabilities	9,299	4,417
Total liabilities	$153,286	$118,058
Noncontrolling interests in consolidated real estate partnerships	697	44,106
Equity attributable to Aimco and the Aimco Operating Partnership	4,324	(1,029)
Total liabilities and equity	$158,307	$161,135

During the nine months ended September 30, 2015, Napico sold a property, resulting in a reduction of real estate, and Napico refinanced a property, resulting in an increase in indebtedness and a reduction in noncontrolling interests in consolidated real estate partnerships, following distribution of the proceeds.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$6,120	$9,884	$19,054	$21,234
Expenses	(5,399)	(5,114)	(15,876)	(15,992)
Equity in loss of unconsolidated entities, gains or losses on dispositions and other, net	(2,614)	(3,246)	(2,420)	(5,198)
Net (loss) income related to legacy asset management business	(1,893)	1,524	758	44
Income tax benefit (expense) associated with legacy asset management business	108	101	(1,916)	411
Loss (income) allocated to noncontrolling interests in consolidated real estate partnerships	2,161	(1,768)	4,672	(1,580)
Net income (losses) of legacy asset management business attributable to Aimco and the Aimco Operating Partnership	$376	$(143)	$3,514	$(1,125)

Revenues decreased during the three and nine months ended September 30, 2015, as compared to the three and nine months ended September 30, 2014, due to an adjustment in 2014 to increase rent subsidies to reflect current market rates for one of the apartment communities in this portfolio.

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

Equity and Partners' Capital Transactions

During the nine months ended September 30, 2015, Aimco issued 9,430,000 shares of its Common Stock, par value $0.01 per share, in an underwritten public offering, for net proceeds per share of $38.90. The offering generated net proceeds to Aimco of $366.6 million, net of issuance costs. Aimco contributed the net proceeds from the sale of Common Stock to the Aimco Operating Partnership in exchange for a number of common partnership units equal to the number of shares of Common Stock issued.

Using the proceeds from this offering, during the nine months ended September 30, 2015, we repaid the then outstanding balance on our Credit Agreement, expanded our unencumbered asset pool, funded redevelopment and property upgrades investments that would otherwise have been funded with property debt on a leverage-neutral basis, and Aimco redeemed the remaining outstanding shares of its Series A Community Reinvestment Act Preferred Stock at its par value of $27.0 million. In connection with Aimco's redemption of preferred stock, the Aimco Operating Partnership redeemed from Aimco an equal number of the corresponding class of partnership preferred units.

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Note 5 — Fair Value Measurements

Recurring Fair Value Measurements

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

	AFS Investments	Interest Rate Swaps	Total
Fair value at December 31, 2013	$58,408	$(4,604)	$53,804
Investment accretion included in interest income	2,833	—	2,833
Unrealized losses included in interest expense	—	(36)	(36)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	—	1,265	1,265
Unrealized losses included in equity and partners' capital	(618)	(1,488)	(2,106)
Fair value at September 30, 2014	$60,623	$(4,863)	$55,760
Fair value at December 31, 2014	$61,043	$(5,273)	$55,770
Investment accretion included in interest income	3,142	—	3,142
Unrealized losses included in interest expense	—	(36)	(36)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	—	1,260	1,260
Unrealized losses included in equity and partners' capital	(51)	(1,517)	(1,568)
Fair value at September 30, 2015	$64,134	$(5,566)	$58,568

Our investments classified as AFS are presented within other assets in the accompanying consolidated balance sheets. We hold several positions in the securitization which pay interest currently, and we also hold the first loss position in the securitization which accrues interest over the term of the investment. We are accreting the discount to the $100.9 million face value of the investments into interest income using the effective interest method over the remaining expected term of the investments, which, as of September 30, 2015, was approximately 5.7 years. Our amortized cost basis for these investments, which represents the original cost adjusted for interest accretion less interest payments received, was $66.7 million and $63.6 million at September 30, 2015 and December 31, 2014, respectively.

We estimate the fair value of these investments in accordance with GAAP using an income and market approach with primarily observable inputs, including yields and other information regarding similar types of investments, and adjusted for certain unobservable inputs specific to these investments. The fair value of the positions that pay interest currently, which typically moves in an inverse relationship with movements in interest rates, exceeded the amortized cost of these investments at the balance sheet dates. The fair value of the first loss position, which is less correlated to movements in interest rates, was less than the amortized cost at the balance sheet dates. We currently expect to hold each of the investments to their maturity dates and we believe we will fully recover our basis in the investments. Accordingly, we believe the current impairment in the fair value, as compared to the amortized cost basis, of the most subordinate tranche of these investments is temporary and we have not recognized any of the decline in value in earnings.

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

As of September 30, 2015 and December 31, 2014, we had interest rate swaps with aggregate notional amounts of $50.0 million and $50.3 million, respectively. As of September 30, 2015, these swaps had a weighted average remaining term of 5.2 years. We have designated these interest rate swaps as cash flow hedges. The fair value of these swaps is presented within accrued liabilities and other in our condensed consolidated balance sheets, and we recognize any changes in the fair value as an adjustment of accumulated other comprehensive loss within equity and partners' capital to the extent of their effectiveness.

If the forward rates at September 30, 2015, 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

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increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from net cash payments due to us from our counterparty to the interest rate swaps.

Fair Value Disclosures

We believe that the aggregate fair value of our cash and cash equivalents, receivables and payables approximates their aggregate carrying amounts at September 30, 2015 and December 31, 2014, due to their relatively short-term nature and high probability of realization. The estimated aggregate fair value of our consolidated total indebtedness was approximately $4.1 billion and $4.4 billion at September 30, 2015 and December 31, 2014, respectively, as compared to aggregate carrying amounts of $3.9 billion and $4.1 billion, respectively. Substantially all of the difference between the fair value and the carrying value of our consolidated indebtedness relates to loans secured by apartment communities we wholly own. We estimate the fair value of our consolidated debt using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, contractual interest rates, remaining periods to maturity, collateral quality and loan to value ratios on similarly encumbered assets within our portfolio. We classify the fair value of our consolidated debt within Level 3 of the GAAP valuation hierarchy based on the significance of certain of the unobservable inputs used to estimate their fair values.

Note 6 — Commitments and Contingencies

Commitments

In connection with our development, redevelopment and capital improvement activities, we have entered into various construction-related contracts and we have made commitments to complete certain projects, pursuant to financing or other arrangements. As of September 30, 2015, our commitments related to these capital activities totaled approximately $114.8 million, most of which we expect to incur during the next 12 months. Our commitments related to our One Canal Street development project will be funded in part by a $114.0 million non-recourse property loan, of which $48.5 million was available to draw at September 30, 2015.

During the three months ended September 30, 2015, we also entered into a contract to acquire an apartment community currently under construction in Northern California for $320.0 million. Closing of the acquisition is expected to occur upon completion of construction in the summer of 2016. Consistent with our paired-trade discipline, we intend to fund the acquisition on a leverage neutral basis through a ten-year property loan with the balance funded primarily by proceeds from sales of lower-rated apartment communities.

We also enter into certain commitments for future purchases of goods and services in connection with the operations of our apartment communities. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our condensed consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 11 years. We do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Income Taxes

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

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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.

Environmental

Various Federal, state and local laws subject apartment community owners or operators to liability for management, and the costs of removal or remediation, of certain potentially hazardous materials that may be present in the land or buildings of an apartment community. Potentially hazardous materials may include polychlorinated biphenyls, petroleum-based fuels, lead-based paint, or asbestos. Such laws often impose liability without regard to fault or whether the owner or operator knew of, or was responsible for, the presence of such materials. The presence of, or the failure to manage or remediate properly, these materials may adversely affect occupancy at such apartment communities as well as the ability to sell or finance such apartment communities. In addition, governmental agencies may bring claims for costs associated with investigation and remediation actions, damages to natural resources and for potential fines or penalties in connection with such damage or with respect to the improper management of hazardous materials. Moreover, private plaintiffs may potentially make claims for personal injury, disease, disability or other infirmities related to the alleged presence of hazardous materials at an apartment community. In addition to potential environmental liabilities or costs associated with our current apartment communities, we may also be responsible for such liabilities or costs associated with communities we acquire or manage in the future, or apartment communities we no longer own or operate.

We are engaged in discussions with the Environmental Protection Agency, or EPA, regarding contaminated groundwater in a residential area in the vicinity of an Indiana apartment community that has not been owned by us since 2008. The EPA alleges that we are liable for addressing the contamination in the residential area because a dry cleaner that operated on our former property, prior to our ownership, discharged hazardous materials into the sanitary sewers and the environment. We have undertaken a voluntary remediation of the dry cleaner contamination at our former property under the oversight of the Indiana Department of Environmental Management, or IDEM. However, IDEM has formally terminated us from the voluntary remediation, and we are presently appealing that termination. Based on our review of the scientific data, we believe that the presence of hazardous materials in the separate residential area under review by the EPA is attributable to neighboring property owners (including an auto parts manufacturer), and not the dry cleaner. The EPA is now proposing to list the area on the National Priorities List (i.e., as a Superfund site), which would make the site eligible for additional Federal funding. Were the site to be listed, the EPA could use the funding to further investigate and clean-up the residential area and could then seek to recoup its costs from responsible parties. Although the outcome of this process is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We also have been contacted by regulators and the current owner of a property in Lake Tahoe regarding environmental issues allegedly stemming from the historic operation of a dry cleaner on the site. An entity owned by us was the former general partner of a now-dissolved company that previously owned the dry cleaner site. The Lahontan Regional Water Quality Control Board, or Board, recently tested domestic wells in the area and found two wells with contaminants linked to dry cleaning. We entered into an agreement with the Board and the current owner to pay for an alternative water connection at an insignificant cost. During the three months ended September 30, 2015, the Board sent us and the current owner a proposed cleanup and abatement order that, if entered, would require us and the current owner to perform additional groundwater investigation and corrective actions. We are currently assessing potential legal and technical grounds for challenging and/or narrowing the scope of the proposed order. Although the outcome of this process is uncertain, we do not expect the resolution to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or apartment community casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of September 30, 2015, are immaterial to our consolidated financial condition, results of operations and cash flows.

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Note 7 — Earnings per Share/Unit

Aimco

Aimco calculates earnings per share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates Aimco's calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations	$23,769	$18,186	$66,133	$48,169
Gain on dispositions of real estate, net of tax	—	126,329	130,474	262,483
Income from continuing operations and gain on dispositions attributable to noncontrolling interests	(1,844)	(16,487)	(17,553)	(40,655)
Income attributable to preferred stockholders	(2,757)	(2,875)	(9,037)	(5,087)
Loss (income) attributable to participating securities	11	(447)	(690)	(962)
Income from continuing operations attributable to Aimco common stockholders	$19,179	$124,706	$169,327	$263,948
Net income	$23,769	$144,515	$196,607	$310,652
Net income attributable to noncontrolling interests	(1,844)	(16,487)	(17,553)	(40,655)
Net income attributable to preferred stockholders	(2,757)	(2,875)	(9,037)	(5,087)
Net loss (income) attributable to participating securities	11	(447)	(690)	(962)
Net income attributable to Aimco common stockholders	$19,179	$124,706	$169,327	$263,948
Denominator:				
Weighted average common shares outstanding – basic	155,639	145,672	154,994	145,601
Dilutive potential common shares	369	432	418	323
Weighted average common shares outstanding – diluted	156,008	146,104	155,412	145,924
Earnings attributable to Aimco per common share – basic:				
Income from continuing operations	$0.12	$0.86	$1.09	$1.81
Net income	$0.12	$0.86	$1.09	$1.81
Earnings attributable to Aimco per common share – diluted:				
Income from continuing operations	$0.12	$0.85	$1.09	$1.81
Net income	$0.12	$0.85	$1.09	$1.81

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The Aimco Operating Partnership

The Aimco Operating Partnership calculates earnings per unit based on the weighted average number of common partnership units and equivalents, participating securities and dilutive convertible securities outstanding during the period. The Aimco Operating Partnership considers both common OP Units and HPUs, which have identical rights to distributions and undistributed earnings, to be common units for purposes of the earnings per unit data presented below. The following table illustrates the Aimco Operating Partnership's calculation of basic and diluted earnings per unit for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations	$23,769	$18,186	$66,133	$48,169
Gain on dispositions of real estate, net of tax	—	126,329	130,474	262,483
Loss (income) from continuing operations and gain on dispositions attributable to noncontrolling interests	785	(8,337)	(4,082)	(21,952)
Income attributable to the Aimco Operating Partnership's preferred unitholders	(4,493)	(4,476)	(14,245)	(9,895)
Loss (income) attributable to participating securities	11	(447)	(690)	(962)
Income from continuing operations attributable to the Aimco Operating Partnership's common unitholders	$20,072	$131,255	$177,590	$277,843
Net income	$23,769	$144,515	$196,607	$310,652
Net loss (income) attributable to noncontrolling interests	785	(8,337)	(4,082)	(21,952)
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(4,493)	(4,476)	(14,245)	(9,895)
Net loss (income) attributable to participating securities	11	(447)	(690)	(962)
Net income attributable to the Aimco Operating Partnership's common unitholders	$20,072	$131,255	$177,590	$277,843
Denominator:				
Weighted average common units outstanding – basic	163,241	153,337	162,616	153,326
Dilutive potential common units	369	432	418	323
Weighted average common units outstanding – diluted	163,610	153,769	163,034	153,649
Earnings attributable to the Aimco Operating Partnership per common unit – basic:				
Income from continuing operations	$0.12	$0.86	$1.09	$1.81
Net income	$0.12	$0.86	$1.09	$1.81
Earnings attributable to the Aimco Operating Partnership per common unit – diluted:				
Income from continuing operations	$0.12	$0.85	$1.09	$1.81
Net income	$0.12	$0.85	$1.09	$1.81

Aimco and the Aimco Operating Partnership

As of September 30, 2015, the common share equivalents or common partnership unit equivalents that could potentially dilute basic earnings per share or unit in future periods totaled 1.4 million. These securities represent options to purchase shares of Common Stock, which, if exercised, would result in Aimco's issuance of additional shares and the Aimco Operating Partnership's issuance to Aimco of additional common partnership units equal to the number of shares purchased under the options. The effect of these securities was dilutive for the three and nine months ended September 30, 2015 and 2014, and accordingly has been included in the denominator for calculating diluted earnings per share and unit during these periods. Participating securities, consisting of unvested restricted shares of Common Stock, receive dividends similar to shares of Common Stock and common partnership units and totaled 0.7 million shares and 0.5 million shares at September 30, 2015 and 2014, respectively. The effect

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of participating securities is included in basic and diluted earnings per share and unit computations for the periods presented above using the two-class method of allocating distributed and undistributed earnings.

Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership's option, Common Stock, and are paid distributions varying from 1.9% to 8.8% per annum per unit. As of September 30, 2015, a total of 3.3 million preferred OP Units were outstanding with an aggregate redemption value of $87.9 million and were potentially redeemable for approximately 2.4 million shares of Common Stock (based on the period end market price), or cash at the Aimco Operating Partnership's option. The Aimco Operating Partnership has a redemption policy that requires cash settlement of redemption requests for the preferred OP Units, subject to limited exceptions. Accordingly, we have excluded these securities from earnings per share and unit computations for the periods presented above, and we expect to exclude them in future periods.

Note 8 — Business Segments

We have two reportable segments: conventional real estate operations and affordable real estate operations. Our conventional real estate operations consist of market-rate apartment communities with rents paid by the residents and included 143 apartment communities with 41,429 apartment homes at September 30, 2015. Our affordable real estate operations consisted of 56 apartment communities with 8,685 apartment homes at September 30, 2015, with rents that are generally paid, in whole or part, by a government agency.

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

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our conventional and affordable real estate operations segments on a proportionate basis (excluding amounts related to apartment communities sold or classified as held for sale) for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended September 30, 2015:					
Rental and other property revenues	$204,246	$24,388	$10,219	$1,529	$240,382
Tax credit and asset management revenues	—	—	—	6,005	6,005
Total revenues	204,246	24,388	10,219	7,534	246,387
Property operating expenses	68,456	9,631	3,434	7,100	88,621
Investment management expenses	—	—	—	1,905	1,905
Depreciation and amortization	—	—	—	77,237	77,237
General and administrative expenses	—	—	—	11,013	11,013
Other expenses, net	—	—	—	3,590	3,590
Total operating expenses	68,456	9,631	3,434	100,845	182,366
Net operating income (loss)	135,790	14,757	6,785	(93,311)	64,021
Other items included in continuing operations	—	—	—	(40,252)	(40,252)
Income (loss) from continuing operations	$135,790	$14,757	$6,785	$(133,563)	$23,769

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	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Three Months Ended September 30, 2014:					
Rental and other property revenues	$ 187,063	$ 23,724	$ 7,337	$ 21,749	$ 239,873
Tax credit and asset management revenues	—	—	—	6,970	6,970
Total revenues	187,063	23,724	7,337	28,719	246,843
Property operating expenses	63,869	9,274	2,422	19,675	95,240
Investment management expenses	—	—	—	1,279	1,279
Depreciation and amortization	—	—	—	69,437	69,437
Provision for real estate impairment losses	—	—	—	1,413	1,413
General and administrative expenses	—	—	—	10,658	10,658
Other expenses, net	—	—	—	1,349	1,349
Total operating expenses	63,869	9,274	2,422	103,811	179,376
Net operating income (loss)	123,194	14,450	4,915	(75,092)	67,467
Other items included in continuing operations	—	—	—	(49,281)	(49,281)
Income (loss) from continuing operations	$ 123,194	$ 14,450	$ 4,915	$ (124,373)	$ 18,186

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments (2)	Consolidated
Nine Months Ended September 30, 2015:					
Rental and other property revenues	$ 599,977	$ 72,779	$ 28,269	$ 16,283	$ 717,308
Asset management and tax credit revenues	—	—	—	18,127	18,127
Total revenues	599,977	72,779	28,269	34,410	735,435
Property operating expenses	200,660				