

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-K

March 08, 2006

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

(Mark  
**One**)

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

**For the fiscal year ended December 31, 2005**

**or**

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

**For the transition period from            to**

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

**Maryland**  
*(State or other jurisdiction of  
incorporation or organization)*

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

**4582 South Ulster Street Parkway, Suite 1100**  
**Denver, Colorado**  
*(Address of principal executive offices)*

**80237**  
*(Zip Code)*

**Registrant's telephone number, including Area Code: (303) 757-8101**  
**Securities Registered Pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>         | <b>Name of Each Exchange on Which Registered</b> |
|------------------------------------|--|
| Class A Common Stock               | New York Stock Exchange                          |
| Class G Cumulative Preferred Stock | New York Stock Exchange                          |
| Class Q Cumulative Preferred Stock | New York Stock Exchange                          |
| Class R Cumulative Preferred Stock | New York Stock Exchange                          |
| Class T Cumulative Preferred Stock | New York Stock Exchange                          |
| Class U Cumulative Preferred Stock | New York Stock Exchange                          |
| Class V Cumulative Preferred Stock | New York Stock Exchange                          |
| Class Y Cumulative Preferred Stock | New York Stock Exchange                          |

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, was approximately \$3.9 billion as of June 30, 2005. As of February 28, 2006, there were 96,566,698 shares of Class A Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be issued in conjunction with the registrant's annual meeting of stockholders to be held May 10, 2006 are incorporated by reference into Part III of this Annual Report.

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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 on Form 10-K ( Annual Report ) contains or may contain information that is forward-looking, including, without limitation, statements regarding the effect of acquisitions, our future financial performance and the effect of government regulations. Actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation: natural disasters such as hurricanes, national and local economic conditions; the general level of interest rates; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets; insurance risks; acquisition and development risks, including failure of such acquisitions and development projects to perform in accordance with projections; the timing of acquisitions and dispositions; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the section entitled Risk Factors described in Item 1A of this Annual Report and the other documents we file from time to time with the Securities and Exchange Commission.*

**PART I**

**Item 1. Business**

**The Company**

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of December 31, 2005, we owned or managed a real estate portfolio of 1,370 apartment properties containing 240,484 apartment units located in 47 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, as of December 31, 2005 we were the largest REIT owner and operator of apartment properties in the United States. Our portfolio includes garden style, mid-rise and high-rise properties.

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

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operations of such properties through a partnership syndication or other fund. Our equity holdings and managed properties are as follows as of December 31, 2005:

|                                       | <b>Total Portfolio</b> |                |
|---------------------------------------|------------------------|----------------|
|                                       | <b>Properties</b>      | <b>Units</b>   |
| Consolidated properties               | 619                    | 158,548        |
| Unconsolidated properties             | 264                    | 35,269         |
| Property management for third parties | 52                     | 5,246          |
| Asset management for third parties    | 435                    | 41,421         |
| <b>Total</b>                          | <b>1,370</b>           | <b>240,484</b> |

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP, Inc., we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of December 31, 2005, we held approximately a 90% interest in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. Generally after a holding period of twelve months, holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership's option, Aimco Class A Common Stock, which we refer to as Common Stock. At December 31, 2005, 95,732,200 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 10,339,262 common OP Units and equivalents outstanding for a combined total of 106,071,462 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

Since our initial public offering in July 1994, we have completed numerous transactions, expanding our portfolio of owned or managed properties from 132 properties with 29,343 apartment units to 1,370 properties with 240,484 apartment units as of December 31, 2005. These transactions have included purchases of properties and interests in entities that own or manage properties, as well as corporate mergers.

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

**Available Information**

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the Securities and Exchange Commission are available free of charge as soon as reasonably practicable through our website at [www.aimco.com](http://www.aimco.com). The information contained on our website is not incorporated into this Annual Report. Our Common Stock is listed on the New York Stock Exchange under the symbol AIV. In 2005, our chief executive officer submitted his annual corporate governance listing standards certification to the New York Stock Exchange, which certification was unqualified.

**Financial Information About Industry Segments**

We operate in two reportable segments: real estate (owning and operating apartments) and investment management business (providing property management and other services relating to the apartment business to third parties and affiliates). For further information on these segments, see Note 17 of the consolidated financial statements in Item 8, and Management's Discussion and Analysis in Item 7.

**Business Overview**

Our principal objective is to increase long-term stockholder value, which we believe results from increasing asset values, increasing operating cash flows and long-term, predictable Funds From Operations, or FFO (as

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defined by the National Association of Real Estate Investment Trusts), per share of Common Stock, less capital spending for replacements. For a description of the meaning of FFO and its use and limitations as an operating measure, see the discussion titled "Funds From Operations" in Item 7.

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

### ***Property Operations***

We divide property operations into two business components: conventional and affordable. Our conventional operations, which are market-rate apartments with rents paid by the resident, include 526 properties with 151,613 units and also include our university communities portfolio (15 properties with 4,443 units). Aimco Capital conducts our affordable operations of 357 properties with 42,204 units, which typically are apartments with rents frequently subsidized or paid by a government agency.

Our property operations are characterized by diversification of product, location and price point. We operate a broad range of property types, from suburban garden-style to urban high-rise properties in 47 states, the District of Columbia and Puerto Rico at a broad range of average monthly rental rates, with most between \$500 and \$1,100 per month, and reaching as high as \$6,400 per month at some of our premier properties. This geographic diversification insulates us, to some degree, from inevitable downturns in any one market.

#### ***Conventional***

Our conventional operations at the beginning of 2006 were organized into four divisions, each of which is supervised by a Division Vice President, or DVP, and were further sub-divided into 17 regional operating centers, or ROCs. As changes in our portfolio occur, we reevaluate this structure. A Regional Vice President, or RVP, supervises each ROC. The ROCs are generally smaller business units with specialized operational, financial and human resource leadership. We seek to improve the operating results from our property operations by, among other methods, combining centralized financial control and uniform operating procedures with localized property management decision-making and market knowledge. To manage our nationwide portfolio more efficiently and to increase the benefits from our local management expertise, we have given direct responsibility for operations to the RVP with oversight from extensive regular reviews with senior management. To enable the RVPs to focus on sales and service, as well as improve financial control and budgeting, we have dedicated a regional financial officer to support each RVP. In addition, our construction services group handles all work on site beyond routine maintenance, thus reducing the need for RVPs to spend time on oversight of construction projects. We continue to improve our corporate-level oversight of conventional property operations by developing better systems, standardizing business goals, operational measurements and internal reporting, and enhancing financial controls over field operations. Our objectives are to focus on the areas discussed below:

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

***Resident Selection and Retention.*** In apartment properties, neighbors are a part of the product, together with the location of the property and the physical quality of the apartment units. Part of our conventional operations strategy is to focus on resident acquisition and retention – attracting and retaining credit-worthy residents who are good neighbors. We have structured goals and coaching for all of our sales personnel, a tracking system for inquiries and a standardized renewal communication program. We have standardized residential financial stability requirements and have policies and monitoring practices to maintain our resident quality. We believe that the costs exceed the benefits when higher occupancy results from lowering of financial stability standards.





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*Revenue Increases.* We increase rents where feasible and seek to improve occupancy rates. We are also focused on the automation of on-site operations, as we believe that timely and accurate collection of property performance and resident profile data will enable us to maximize revenue through better property management and leasing decisions. We have standardized policies for new and renewal pricing with timely data and analyses by floor-plan, thereby enabling us to maximize our ability to modify pricing, even in challenging sub-markets.

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

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

*Aimco Capital*

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

Aimco Capital also generates activity fees from transactions related to affordable holdings (including tax credit redevelopments, syndications, dispositions and refinancings), and asset management income from the financial management of our owned and operated affordable portfolio as well as two other large portfolios for which we provide asset management services only. We believe that Aimco Capital is well positioned as it has the national structure, knowledge and pipeline to grow as a more autonomous operation with dedicated capital.

***Portfolio Management***

*Conventional*

We view our conventional property portfolio in terms of core and non-core properties. Core properties are those properties that are located in markets where population and employment growth are expected to exceed national trends and where we believe there is potential for long-term growth at higher rates of return. During 2005, we made a decision to concentrate our core portfolio in markets located predominantly in coastal states as well as the Rocky Mountain region and Chicago. This reduced the number of markets in which we intend to remain from 38 to 27. We plan to exit certain Texas and Midwest markets where the average four-year growth rate is projected below average of the remainder of the core portfolio. At December 31, 2005, we had 272 conventional core properties, which generally we intend to hold and improve over the long-term. Within our core portfolio, the largest single market (Washington, D.C.) contributed approximately 10%, and the five largest markets (Washington, D.C., greater Los Angeles, New England, Philadelphia and Miami-Fort Lauderdale) together contributed approximately 38%, to income before depreciation and interest expense, or net operating income. At December 31, 2005, we had 254 conventional non-core properties, which we generally intend to hold for investment for the intermediate term. Non-core properties are those properties located within the 32 markets we intend to exit or in less favored locations within the 27 markets that comprise our core portfolio. We exited nine markets in 2005. During 2006, we expect to exit an additional five markets and over the next several years we expect to exit the remaining markets in which we hold our non-core properties.



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Portfolio management includes expanding our core portfolio through acquisitions of properties located in markets where our core portfolio is concentrated. We specifically seek investments in a variety of asset qualities and types at a purchase price below replacement cost. Currently, we acquire properties and property interests primarily in three ways:

the direct acquisition of a property or portfolio of properties;

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

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

In 2005, we completed direct acquisitions of six conventional core properties, containing approximately 1,006 residential units and six retail spaces for an aggregate purchase price of approximately \$284 million (including transaction costs) and acquired additional interests in 84 partnerships for approximately \$56 million (including transaction costs). These properties were located in New York City, New Jersey and Los Angeles.

Portfolio management also includes dispositions of properties located within markets we intend to exit, properties in less favored locations within the 27 markets that comprise our core portfolio or properties that do not meet our long-term investment criteria. Additionally, from time to time, we may dispose of certain core properties that are consistent with our long-term investment strategy but offer attractive returns, such as in sales to buyers who intend to convert the properties to condominiums. The sales of core and non-core properties partially fund our acquisitions and capital improvements on our existing properties. In 2005, we sold 71 non-core properties generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of \$262 million.

*Aimco Capital*

The portfolio management strategy for Aimco Capital is similar to that of our Conventional portfolio. Aimco Capital seeks to dispose of properties that are inconsistent with our long-term investment strategy and Aimco Capital's operations. During 2005, we sold 47 non-core properties from within the Aimco Capital portfolio, generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of \$70 million. At December 31, 2005 within the Aimco Capital portfolio, we had 357 properties, a majority of which are non-core properties that we generally intend to hold for investment for the intermediate term. During 2006, we intend to sell approximately the same number of Aimco Capital properties as we sold in 2005.

***Entitlements***

We have the opportunity to improve land values by seeking new entitlements for many properties. Entitle