APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-K
February 27, 2009

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

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
(Exact name of registrant as specified in its charter)

Maryland	**84-1259577**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4582 South Ulster Street Parkway, Suite 1100 Denver, Colorado	**80237**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

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

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 þ No o

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

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):

Large accelerated filer þ	Accelerated filer o	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 Act). Yes o No þ

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $2.8 billion as of June 30, 2008. As of February 25, 2009, there were 117,298,253 shares of Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be issued in conjunction with the registrant s annual meeting of stockholders to be held April 27, 2009, are incorporated by reference into Part III of this Annual Report.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

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For the Fiscal Year Ended December 31, 2008

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FORWARD-LOOKING STATEMENTS

*The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this Annual Report contains or may contain information that is forward-looking, including, without limitation, statements regarding the effect of acquisitions and redevelopments, our future financial performance, including our ability to maintain current or meet projected occupancy, rent levels and same store results, and the effect of government regulations. Actual results may differ materially from those described in these forward-looking statements and, in addition, will be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation: financing risks, including the availability and cost of financing and the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; earnings may not be sufficient to maintain compliance with debt covenants; national and local economic conditions; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; real estate risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for tenants in such markets; insurance risk; acquisition and development risks, including failure of such acquisitions to perform in accordance with projections; the timing of acquisitions and dispositions; natural disasters and severe weather such as hurricanes; 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 describ*ed *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, 2008, we owned or managed a real estate portfolio of 992 apartment properties containing 162,807 apartment units located in 44 states, the District of Columbia and Puerto Rico. We are one of the largest owners and operators 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 or cost methods. These properties represent our investment in unconsolidated real estate partnerships in our financial statements, which we refer to as unconsolidated properties. Additionally, we provide property management and asset management services to certain properties, and in certain cases, we may indirectly own generally less than one percent of the operations of such

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properties through a partnership syndication or other fund. Our equity holdings and managed properties are as follows as of December 31, 2008:

	Total Portfolio	
	Properties	Units
Consolidated properties	514	117,719
Unconsolidated properties	85	9,613
Property management	34	3,252
Asset management	359	32,223
Total	992	162,807

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, 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, 2008, we held an interest of approximately 91% 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, 2008, we had 101,176,232 shares of our Common Stock outstanding and the Aimco Operating Partnership had 9,484,191 common OP Units and equivalents outstanding for a combined total of 110,660,423 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, including purchases of properties and interests in entities that own or manage properties, expanding our portfolio of owned or managed properties from 132 properties with 29,343 apartment units to a peak of over 2,100 properties with 379,000 apartment units. As of December 31, 2008, our portfolio of owned and/or managed properties consists of 992 properties with 162,807 apartment units.

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

Available Information

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports that we file with the Securities and Exchange Commission are available free of charge as soon as reasonably practicable through our website at www.aimco.com. The information contained on our website is not incorporated into this Annual Report. Our Common Stock is listed on the New York Stock Exchange under the symbol AIV. In 2008, 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, operating and redeveloping apartments) and investment management (portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions, dispositions and other transaction activities). For further information on these segments, see Note 18 of the consolidated financial statements in Item 8, and Management s Discussion and Analysis in Item 7.

Business Overview

Our principal financial objective is to increase long-term stockholder value per share, as measured by Economic Income, which consists of cash dividends and changes in Net Asset Value, or NAV, which is the estimated fair value of our assets, net of debt.

We strive to meet our objectives through:

- property operations using scale and technology to increase the effectiveness and efficiency of attracting and retaining apartment residents;

- portfolio management allocating capital among geographic markets and apartment property types such as Class A, Class B and Class C with redevelopment potential;

- redevelopment of properties making substantial upgrades to the physical plant and, sometimes, to the services offered to residents;

- earning fee income from providing investment management services such as property management, financial management, accounting, investor reporting, property debt financings, tax credit syndication, redevelopment and construction management;

- managing our cost and risk of capital by using leverage that is largely long-term, laddered in maturity, non-recourse and property specific; and

- reducing our general and administrative and certain other costs consistent with the reduced size of our portfolio.

Our business is organized around three core activities: Property Operations, Redevelopment, and Investment Management. These three core activities, along with our financial strategy, are described in more detail below.

Property Operations

Our portfolio is comprised of two business components: conventional and affordable. Our conventional operations, which are market-rate apartments with rents paid by the resident, include 310 properties with 93,444 units. Our affordable operations consist of 289 properties with 33,888 units, with rents that are generally paid, in whole or part, by a government agency. Affordable properties tend to have relatively more stable rents and higher occupancy due to government rent payments and thus are much less affected by market fluctuations.

We operate a broad range of property types, from suburban garden-style to urban high-rise properties in 44 states, the District of Columbia and Puerto Rico at a broad range of average monthly rental rates, with most between $700 and $1,200 per month, and reaching as high as $10,000 per month at some of our premier properties. This diversification insulates us, to some degree, from inevitable downturns in any one market.

Our property operations currently are organized into five areas, which are further subdivided according to our target markets, which are the largest 20 U.S. markets as measured by total market capitalization, or the total market value of institutional-grade apartment properties in a particular market. To manage our nationwide portfolio more efficiently and to increase the benefits from our local management expertise, we have given direct responsibility for operations within each area to an Area Vice President, or AVP, with regular senior management reviews. To enable the AVPs to focus on sales and service, as well as to improve financial control and budgeting, we have dedicated an area financial officer to support each AVP, and with the exception of routine maintenance, our specialized Construction Services group manages all on-site improvements, thus reducing the need for AVPs to spend time on oversight of construction projects.

We seek to improve our corporate-level oversight of 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 focused on our residents. 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 operational performance.

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

Revenue Management. For our conventional properties, we are focusing on people, processes and technology to build a revenue management model that is competitive with the best in our industry. We seek to increase revenue by optimizing the balance between rental and 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. During 2008, we established a centralized revenue management team with leaders from the airline, hospitality and property management industries, and centralized our rental rate pricing function in partnership with our area portfolio management teams.

Controlling Expenses. Cost controls are accomplished by local focus at the area level and by taking advantage of economies of scale at the corporate level. As a result of the size of our portfolio and our area 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.

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.

Capital Replacements and Capital Improvements

We believe that the physical condition and amenities of our apartment properties are important factors in our ability to maintain and increase rental rates. In 2008, we spent $101.4 million (Aimco s share), or $799 per owned apartment unit, for Capital Replacements, which represent the share of expenditures that are deemed to replace the consumed portion of acquired capital assets. Additionally, we spent $124.9 million (Aimco s share), or $985 per owned apartment unit, for Capital Improvements, which are non-redevelopment capital expenditures that are made to enhance the value, profitability or useful life of an asset from its original purchase condition.

Redevelopment

In addition to maintenance and improvements of our properties, we focus on the redevelopment of certain properties each year. We believe redevelopment of certain properties in superior locations provides advantages over ground-up development, enabling us to generate rents comparable to new properties with lower financial risk, in less time and with reduced delays associated with governmental permits and authorizations. Redevelopment work also includes seeking entitlements from local governments, which enhance the value of our existing portfolio by increasing density, that is, the right to add residential units to a site. We have historically undertaken a range of redevelopment projects: from those in which a substantial number of all available units are vacated for significant renovations to the property, to those in which there is significant renovation, such as exteriors, common areas or unit improvements, typically done upon lease expirations without the need to vacate units on any wholesale or substantial basis. We have a specialized Redevelopment and Construction Services group, which includes developers, engineers, architects and construction managers, to oversee these projects.

Our share of 2008 redevelopment expenditures on active and completed projects totaled $226.3 million and $113.9 million in conventional and affordable redevelopment projects, respectively. During 2008, we completed redevelopment projects at 13 conventional properties and 21 affordable properties with 6,524 and 2,903 units, respectively. During 2008, we delivered 4,817 conventional and 1,780 affordable redeveloped units, respectively, some of which are part of redevelopment projects completed in 2008 and some of which are part of ongoing projects. As of December 31, 2008, we had 37 conventional and four affordable redevelopment projects at various stages of completion.

In 2009, we expect to decrease our redevelopment expenditures, with an investment between $50.0 and $75.0 million in conventional redevelopment projects and between $30.0 and $45.0 million in affordable redevelopment projects, predominantly funded by third-party tax credit equity.

Investment Management

Investment management includes activities related to our owned portfolio of properties as well as services provided to affiliated partnerships. Activities and services that fall within Investment Management include portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions, dispositions and other transaction activities. Within our owned portfolio, we refer to these activities as Portfolio Management and they include strategic portfolio and capital allocation decisions through transactions to buy, sell or modify our ownership interest in properties, including through the use of partnerships and joint ventures. The purpose of these transactions is to adjust Aimco s investments to reflect our decisions regarding target allocations to geographic markets and to investment types. When we provide these services with respect to our own investments, there is no separate compensation, and their benefit is seen in property operating results and in investment gains. For affiliated partnerships, we refer to these activities as Asset Management, and they include property management, financial management, accounting, investor reporting, property debt financings, tax credit syndication, redevelopment and construction management. When we provide these services to affiliated partnerships, we are separately compensated through fees paid by third party investors. Those fees may be recognized in a subsequent period upon the occurrence of a current transaction or a transaction expected to close within twelve months, or improvement in operations that generates sufficient cash to pay the fees. Although many teams at Aimco are involved in the delivery of these services, the negotiation of transactions for Aimco s account and the oversight of services provided to others is primarily the responsibility of our Investment Management team.

Conventional Portfolio Management

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

During 2007, we refined our geographic allocation strategy to focus on our target markets. We believe these markets to be deep, relatively liquid and to possess desirable long-term growth characteristics. They are primarily coastal markets, and also include a number of Sun Belt cities and Chicago, Illinois. We may also invest in other markets on an opportunistic basis. Following this strategy through dispositions, acquisitions and redevelopment spending, we have reduced our investment in markets outside our target markets and increased our investment in our target markets. We expect that increased geographic focus will also add to our investment knowledge and increase operating efficiencies based on local economies of scale.

Portfolio management also includes dispositions of properties located within markets we intend to exit, properties in less favored locations within our target markets and properties that do not meet our long-term investment criteria. Property sales proceeds are used to fund redevelopment spending, acquisitions, and other corporate purposes, such as debt reduction, preferred stock redemptions or purchases and special dividends. In 2008, we sold 130 conventional properties generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of $852.2 million. In 2008, we exited six markets, and as of December 31, 2008, our conventional portfolio included 310 properties with 93,444 units in 40 markets.

As of December 31, 2008, conventional properties in our target markets comprised 84.2% of our Net Asset Value (which is the estimated fair value of our assets, net of debt, or NAV) attributable to our conventional properties. Our top five markets by NOI contribution include the metropolitan areas of Washington, D.C.; Los Angeles, California; Other Florida (which is comprised of Ft. Lauderdale, Jacksonville, Orlando, Palm Beach County and Tampa); Chicago, Illinois and Boston, Massachusetts.

During 2008, we invested in our conventional portfolio primarily by funding redevelopment. In 2008, we invested $226.3 million in redevelopment of properties in our conventional portfolio. We also completed acquisitions of three conventional properties, containing approximately 470 residential units for an aggregate purchase price of approximately $111.5 million (excluding transaction costs). These properties are located in San Jose, California, Brighton, Massachusetts and Seattle, Washington.

Portfolio management can include the use of partnerships and joint ventures to allow us to attract and serve high quality investment partners, and to rebalance efficiently our geographic market allocation of capital while maintaining our local operating platform and its operational scale.

Affordable Portfolio Management

The portfolio management strategy for our affordable portfolio is similar to that for our conventional portfolio. During 2008, we invested $113.9 million in redevelopment of affordable properties, funded primarily by proceeds from the sale of tax credits to institutional partners. As with conventional properties, we also seek to dispose of properties that are inconsistent with our long-term investment and operating strategies. During 2008, we sold 25 properties from our affordable portfolio, including six unconsolidated properties, generating net cash proceeds to us, after repayment of existing debt, payment of transaction costs and distributions to limited partners, of $169.8 million. As of December 31, 2008, our affordable portfolio included 289 properties with 33,888 units.

Financial Strategy

We are focused on improving liquidity and balancing our sources and uses of cash. During 2008, using proceeds from asset dispositions, we repaid in full our $75.0 million term loan which was scheduled for payment in September 2009, repaid all of the outstanding amounts due on our revolving credit facility and repurchased approximately $27.0 million of outstanding variable rate preferred stock. Also during 2008, in connection with property dispositions, we repaid approximately $1.1 billion in non-recourse property debt. As of December 31, 2008, the amount available under our revolving credit facility, which matures in May 2010 (inclusive of a one-year extension option we expect to exercise), was $578.8 million (after giving effect to $56.2 million outstanding for undrawn letters of credit issued under the revolving credit facility). Additionally, we had $72.0 million of available capacity on our $200.0 million non-recourse secured credit facility which, inclusive of two one-year extension options, matures in October 2012. During 2009, we intend to use proceeds from asset dispositions to continue to reduce the remaining balance on our term loan, which matures in March 2011. That term loan has an outstanding balance of $350.0 million after we repaid $50.0 million in January 2009. Other than the term loan and any borrowings under the revolving credit facility, we have no recourse corporate debt.

Our revolving credit facility includes customary financial covenants, including the maintenance of specified ratios with respect to total indebtedness to gross asset value, total secured indebtedness to gross asset value, aggregate recourse indebtedness to gross asset value, variable rate debt to total indebtedness, debt service coverage and fixed charge coverage; the maintenance of a minimum adjusted tangible net worth; and limitations regarding the amount of cross-collateralized debt. The credit facility includes other customary covenants, including a restriction on distributions and other restricted payments, but permits distributions during any four consecutive fiscal quarters in an aggregate amount of up to 95% of our funds from operations for such period, subject to certain non-cash adjustments, or such amount as may be necessary to maintain our REIT status. These covenants are calculated on a quarterly basis and are monitored as various strategic decisions are considered. We were in compliance with all such covenants as of December 31, 2008.

We are also focused on minimizing our cost of capital on a risk-adjusted basis. We primarily use non-recourse property debt with laddered maturities and minimize reliance on corporate debt. The lower risk inherent in non-recourse property debt permits us to operate with higher debt leverage and a lower weighted average cost of capital. We use floating rate property and corporate debt to provide lower interest costs over time at a level that considers acceptable earnings volatility. During 2008, we closed property loans totaling $962.2 million at an average interest rate of 5.51%, which included the refinancing of property loans totaling $472.9 million with prior interest rates averaging 5.58%. In addition to the refinancing activity, the property loans included new financings on existing properties, redevelopment loans and the modification of terms on existing property debt. In 2009, 2010 and 2011, 38 property loans will mature and our share of these maturities totals $273.9 million, $279.9 million and $102.3 million, respectively. We expect to refinance a number of such loans in the first half of 2009.

Competition

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

Taxation

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to as the Code, commencing with our taxable year ended December 31, 1994, and intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Code, which relate to organizational structure, distribution levels, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to United States Federal corporate income tax on our taxable income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that generally results from an investment in a corporation.

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

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

Regulation

General

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

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Environmental

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

Insurance

Our primary lines of insurance coverage are property, general liability, and workers compensation. We believe that our insurance coverages adequately insure our properties against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood, terrorism and other perils, and adequately insure us against other risk. Our coverage includes deductibles, retentions and limits that are customary in the industry. We have established loss prevention, loss mitigation, claims handling, litigation management and loss reserving procedures to manage our exposure.

Employees

At December 31, 2008, we had approximately 4,500 employees, of which approximately 3,400 were at the property level, performing various on-site functions, with the balance managing corporate and area operations, including investment and debt transactions, legal, financial reporting, accounting, information systems, human resources and other support functions. Unions represent approximately 120 of our employees. We have never experienced a work stoppage and believe we maintain satisfactory relations with our employees.

As further described in Note 3 to the consolidated financial statements in Item 8, we initiated an organizational restructuring during 2008. As a result of the restructuring, we plan to eliminate approximately 300 jobs on or before March 1, 2009, with reductions in staffing within corporate, redevelopment and construction services, property management and investment management functions. Approximately half of the planned job eliminations had been completed at December 31, 2008.

Item 1A. ***Risk Factors***

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

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

We are subject to the risk that our cash flow from operations will be insufficient to make required payments of principal and interest, and the risk that existing indebtedness may not be refinanced or that the terms of any refinancing will not be as favorable as the terms of existing indebtedness. If we fail to make required payments of principal and interest on secured debt, our lenders could foreclose on the properties and other collateral securing such debt, which would result in loss of income and asset value to us. As of December 31, 2008, substantially all of the properties that we owned or controlled were encumbered by debt. Our organizational documents do not limit the amount of debt that we may incur, and we have significant amounts of debt outstanding. Payments of principal and interest may leave us with insufficient cash resources to operate our properties or pay distributions required to be paid in order to maintain our qualification as a REIT.

Our strategy is generally to incur debt to increase the return on our equity while maintaining acceptable coverage ratios. For the year ended December 31, 2008, we had a ratio of free cash flow (net operating income less spending for capital replacements) to combined interest expense and preferred stock dividends of 1.43:1. For the year ended December 31, 2008, as calculated based on the provisions in our credit agreement, which is further discussed in Note 7 to the consolidated financial statements in Item 8, we had a ratio of earnings before interest, taxes and depreciation and amortization to debt service of 1.63:1 and a ratio of earnings to fixed charges of 1.43:1.

At December 31, 2008, we had swap positions with two financial institutions totaling $422.1 million. The related swap agreements provide for collateral calls to maintain specified loan-to-value ratios. In the event the values of the real estate properties serving as collateral under these agreements decline, we may be required to provide additional collateral pursuant to the swap agreements, which would adversely affect our cash flows.

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

Our ability to obtain financing and the cost of such financing depends on the overall condition of the United States credit markets and the level of involvement of certain government sponsored entities, specifically, Federal Home Loan Mortgage Corporation, or Freddie Mac, and Federal National Mortgage Association, or Fannie Mae, in secondary credit markets. Recently the United States credit markets have experienced significant liquidity disruptions, which have caused the spreads on debt financings to widen considerably and have made obtaining financing, both non-recourse property debt and corporate borrowings, such as our term loan or revolving credit facility, more difficult.

Further or prolonged disruptions in the credit markets could result in Freddie Mac or Fannie Mae reducing their level of involvement in secondary credits markets which would adversely affect our ability to obtain non-recourse property debt financing. Additionally, further or prolonged disruptions in the credit markets could lead to the failure of additional financial companies, some of which may have financial commitments within our revolving credit facility. This may affect our access to liquidity through our credit facility s scheduled maturity in May 2010 (inclusive of a one-year extension option we expect to exercise). When the revolving credit facility matures, disruptions in the credit markets may also affect our ability to renew such credit facility with similar commitments.

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

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

As of December 31, 2008, we had approximately $1,309.5 million of variable-rate indebtedness outstanding and $73.0 million of variable rate preferred stock outstanding. Of the total debt subject to variable interest rates, floating rate tax-exempt bond financing was $563.4 million. Floating rate tax-exempt bond financing is benchmarked against the Securities Industry and Financial Markets Association Municipal Swap Index, or SIFMA, rate (previously the Bond Market Association index), which since 1989 has averaged 69% of the 30-day LIBOR rate. If this historical relationship continues, we estimate that an increase in 30-day LIBOR of 1.0% (0.69% in tax-exempt interest rates) with constant credit risk spreads would result in our income before minority interests being reduced by $11.6 million and our income attributable to common stockholders being reduced by $11.1 million on an annual basis. At December 31, 2008, we had approximately $717.2 million in cash and cash equivalents, restricted cash and notes receivable, the majority of which bear interest. We also had approximately $127.3 million of variable rate debt associated with our redevelopment activities, for which we capitalize a portion of the interest expense. The effect of our interest-bearing assets and of capitalizing interest on variable rate debt associated with our redevelopment activities would partially reduce the effect of an increase in variable interest rates. Considering these offsets, the same increase in 30-day LIBOR would result in our income before minority interests being reduced by $3.1 million and our income attributable to common stockholders being reduced by $4.3 million on an annual basis.

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

Our ability to fund necessary capital expenditures on our properties depends on our ability to generate net operating income in excess of required debt payments. If we are unable to fund capital expenditures on our properties, we may not be able to preserve the competitiveness of our properties, which could adversely affect our net operating income.

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

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

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

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

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

Real estate investments are relatively illiquid and cannot always be sold quickly. Our freedom to sell properties is also restricted by REIT tax rules. Thus, we may not be able to change our portfolio promptly in response to changes in economic or other market conditions. We also intend to use proceeds from property sales to repay our corporate debt. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions, including the cost and availability of financing. This could have a material adverse effect on our financial condition or results of operations.

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

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

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

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

Redevelopment and construction risks could affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are self-insured for a portion of our consolidated properties exposure to casualty losses resulting from fire, earthquake, hurricane, tornado, flood and other perils. We recognize casualty losses or gains based on the net book value of the affected property and any related insurance proceeds. In many instances, the actual cost to repair or replace the property may exceed its net book value and any insurance proceeds. We also insure certain unconsolidated properties for a portion of their exposure to such losses. In addition, we are self-insured for a portion of our exposure to third-party claims related to our employee health insurance plans, workers compensation coverage and general liability exposure. With respect to our insurance obligations to unconsolidated properties and our exposure to claims of third parties, we establish reserves at levels that reflect our known and estimated losses. The ultimate cost of losses and the impact of unforeseen events may vary materially from recorded reserves, and variances may adversely affect our operating results and financial condition. We purchase insurance (or reinsurance where we insure unconsolidated properties) to reduce our exposure to losses and limit our financial losses on large individual risks. The availability and cost of insurance are determined by market conditions outside our control. No assurance can be made that we will be able to obtain and maintain insurance at the same levels and on the same terms as we do today. If we are not able to obtain or maintain insurance in amounts we consider appropriate for our business, or if the cost of obtaining such insurance increases materially, we may have to retain a larger portion of the potential loss associated with our exposures to risks. The extent of our losses in connection with catastrophic events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe (such as an earthquake) or destructive weather trend affecting a region may have a significant impact on our financial condition and results of operations. We cannot accurately predict catastrophes, or the number and type of catastrophic events that will affect us. As a result, our operating and financial results may vary significantly from one period to the next. While we anticipate and plan for losses, there can be no assurance that our financial results will not be adversely affected by our exposure to losses arising from catastrophic events in the future that exceed our previous experience and assumptions.

We depend on our senior management.

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

Government housing regulations may limit the opportunities at some of our properties and failure to comply with resident qualification requirements may result in financial penalties and/or loss of benefits, such as rental revenues paid by government agencies.

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

During 2008, 2007 and 2006, for continuing and discontinued operations, our rental revenues include $119.1 million, $123.8 million and $135.2 million, respectively, of subsidies from government agencies. Any loss of such benefits would adversely affect our liquidity and results of operations.

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

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

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

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

Moisture infiltration and resulting mold remediation may be costly.

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

We may fail to qualify as a REIT.

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

We believe that we operate, and have always operated, in a manner that enables us to meet the requirements for qualification as a REIT for Federal income tax purposes. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, investment, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for Federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. Accordingly, there can be no assurance that the Internal Revenue Service, or the IRS, will not contend that our interests in subsidiaries or other issuers constitutes a violation of the REIT requirements. Moreover, future economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT, or our Board of Directors may determine to revoke our REIT status.

REIT distribution requirements limit our available cash.

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

We have in the past chosen, and may in the future choose, to pay dividends in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive.

We have in the past distributed, and may in the future distribute, taxable dividends that are payable in cash and shares of our Common Stock. Stockholders subject to the payment of income tax receiving such dividends will be required to include the full amount of the dividend as taxable income to the extent of our current and accumulated earnings and profits for U.S. Federal income tax purposes. As a result, a U.S. stockholder may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our Common Stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our Common Stock.

Further, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

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

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

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rules of the Code) owning 50% or more of the value of all of our shares of capital stock. If anyone acquires shares in excess of the ownership limit or in violation of the ownership requirements of the Code for REITs:

- the transfer will be considered null and void;
- we will not reflect the transaction on our books;
- we may institute legal action to enjoin the transaction;
- we may demand repayment of any dividends received by the affected person on those shares;
- we may redeem the shares;
- the affected person will not have any voting rights for those shares; and
- the shares (and all voting and dividend rights of the shares) will be held in trust for the benefit of one or more charitable organizations designated by us.

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

- may lose control over the power to dispose of such shares;
- may not recognize profit from the sale of such shares if the market price of the shares increases;
- may be required to recognize a loss from the sale of such shares if the market price decreases; and
- may be required to repay to us any distributions received from us as a result of his or her ownership of the shares.

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

The 8.7% ownership limit discussed above may have the effect of precluding acquisition of control of us by a third party without the consent of our Board of Directors. Our charter authorizes our Board of Directors to issue up to 510,587,500 shares of capital stock. As of December 31, 2008, 426,157,736 shares were classified as Common Stock, of which 101,176,232 were outstanding, and 84,429,764 shares were classified as preferred stock, of which 24,950,146 were outstanding. Under our charter, our Board of Directors has the authority to classify and reclassify any of our unissued shares of capital stock into shares of capital stock with such preferences, rights, powers and restrictions as our Board of Directors may determine. The authorization and issuance of a new class of capital stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our stockholders best interests.

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

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

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adopting stockholders rights plans and has the sole power to fix the record date, time and place for special meetings of the stockholders. In addition, Maryland law provides that corporations that:

- have at least three directors who are not employees of the entity or related to an acquiring person; and
- are subject to the reporting requirements of the Securities Exchange Act of 1934,

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

- the corporation will have a staggered board of directors;
- any director may be removed only for cause and by the vote of two-thirds of the votes entitled to be cast in the election of directors generally, even if a lesser proportion is provided in the charter or bylaws;
- the number of directors may only be set by the board of directors, even if the procedure is contrary to the charter or bylaws;
- vacancies may only be filled by the remaining directors, even if the procedure is contrary to the charter or bylaws; and
- the secretary of the corporation may call a special meeting of stockholders at the request of stockholders only on the written request of the stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting, even if the procedure is contrary to the charter or bylaws.

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

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our properties are located in 44 states, the District of Columbia and Puerto Rico. Our geographic allocation strategy focuses on target markets which are grouped by region below. The following table sets forth information on all of our property operations as of December 31, 2008 and 2007:

	2008		**2007**	
	Number of Properties	**Number of Units**	**Number of Properties**	**Number of Units**
Conventional:				
Pacific	38	10,504	39	10,616
Northeast	66	20,169	70	23,490
Sunbelt	104	30,928	144	39,554
Chicago	19	5,555	22	6,344

Total target markets	227	67,156	275	80,004
Opportunistic and other markets	83	26,288	164	47,528
Total conventional owned and managed	310	93,444	439	127,532
Affordable owned and managed	289	33,888	312	37,104
Property management	34	3,252	36	3,228
Asset management	359	32,223	382	35,176
Total	992	162,807	1,169	203,040

At December 31, 2008, we owned an equity interest in and consolidated 514 properties containing 117,719 apartment units, which we refer to as consolidated properties. These consolidated properties contain, on average, 229 apartment units, with the largest property containing 2,113 apartment units. These properties offer residents a range of amenities, including swimming pools, clubhouses, spas, fitness centers and tennis courts. Many of the apartment units offer features such as vaulted ceilings, fireplaces, washer and dryer hook-ups, cable television, balconies and patios. Additional information on our consolidated properties is contained in Schedule III Real Estate and Accumulated Depreciation in this Annual Report on Form 10-K. At December 31, 2008, we held an equity interest in and did not consolidate 85 properties containing 9,613 apartment units, which we refer to as unconsolidated properties. In addition, we provided property management services for 34 properties containing 3,252 apartment units, and asset management services for 359 properties containing 32,223 apartment units. In certain cases, we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Substantially all of our consolidated properties are encumbered by mortgage indebtedness. At December 31, 2008, our consolidated properties classified as held for use in our consolidated balance sheet were encumbered by aggregate mortgage indebtedness totaling $6,281.1 million having an aggregate weighted average interest rate of 5.55%. Such mortgage indebtedness was secured by 497 properties with a combined net book value of $8,005.6 million. Included in the 497 properties, we had a total of 37 mortgage loans on 25 properties, with an aggregate principal balance outstanding of $483.7 million, that were each secured by property and cross-collateralized with certain (but not all) other mortgage loans within this group of mortgage loans (see Note 6 of the consolidated financial statements in Item 8 for additional information about our indebtedness).

Item 3. *Legal Proceedings*

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

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PART II

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

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

Quarter Ended	High(2)	Low(2)	Dividends Declared (per share)	Dividends Declared (per share, adjusted)(3)
2008				
December 31, 2008(1)	$ 43.67	$ 7.01	$ 3.88	$ 3.17
September 30, 2008(1)	42.28	29.25	3.00	2.13
June 30, 2008	41.24	33.33	0.60	0.43
March 31, 2008	41.11	29.91	0.00	0.00
2007				
December 31, 2007(1)	$ 49.15	$ 33.97	$ 3.11	$ 2.10
September 30, 2007	51.62	38.65	0.60	0.41
June 30, 2007	58.98	47.10	0.60	0.41
March 31, 2007	65.79	54.08	0.00	0.00

(1) During 2007 and 2008, our Board of Directors declared special dividends which were paid part in cash and part in shares of Common Stock as noted below. Our Board of Directors declared the dividends to address taxable gains from 2007 and 2008 property sales.

claration Date	Payment Date	Dividend Declared	Total Dividend	Portion Paid in Cash	Portion Paid in Stock	Shares Issued	Effectiv Increas in Shares on Record Date
cember 21, 2007	January 30, 2008	$ 2.51	$ 232.9 million	$ 55.0 million	$ 177.9 million	4,594,074	4.95
y 18, 2008	August 29, 2008	$ 3.00	$ 256.9 million	$ 51.4 million	$ 205.5 million	5,731,310	6.70
tober 16, 2008	December 1, 2008	$ 1.80	$ 159.6 million	$ 53.2 million	$ 106.4 million	12,572,267	14.18
cember 18, 2008	January 29, 2009	$ 2.08	$ 210.4 million	$ 60.6 million	$ 149.8 million	15,627,330	15.45

(2)

High and low sales prices of our Common Stock have not been retroactively adjusted for the effect of additional shares of Common Stock issued pursuant to the special dividends discussed in Note (1) above.

(3) Dividends declared per share have been retroactively adjusted for the effect of additional shares of Common Stock issued pursuant to the special dividends discussed in Note (1) above.

Our Board of Directors determines and declares our dividends. In making a dividend determination, the Board of Directors considers a variety of factors, including: REIT distribution requirements; current market conditions; liquidity needs and other uses of cash, such as for deleveraging and accretive investment activities, including the repurchase of our common and preferred shares. We have previously announced that we intend to adjust the regular annual per share dividend from $2.40 (or $0.60 per quarter) to $1.00 (or $0.25 per quarter). The Board of Directors may further adjust the dividend amount or the frequency with which the dividend is paid based on then prevailing facts and circumstances.

On February 25, 2009, the closing price of our Common Stock was $5.47 per share, as reported on the NYSE, and there were 117,298,253 shares of Common Stock outstanding, held by 3,018 stockholders of record. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

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As a REIT, we are required to distribute annually to holders of common stock at least 90% of our real estate investment trust taxable income, which, as defined by the Code and United States Department of Treasury regulations, is generally equivalent to net taxable ordinary income.

From time to time, we issue shares of Common Stock in exchange for common and preferred OP Units tendered to the Aimco Operating Partnership for redemption in accordance with the terms and provisions of the agreement of limited partnership of the Aimco Operating Partnership. Such shares are issued based on an exchange ratio of one share for each common OP Unit or the applicable conversion ratio for preferred OP Units. The shares are generally issued in exchange for OP Units in private transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. During the three and twelve months ended December 31, 2008, approximately 4,400 and 160,000 shares of Common Stock were issued in exchange for common OP Units, respectively. During the three and twelve months ended December 31, 2008, no shares of Common Stock were issued in exchange for preferred OP Units.

The following table summarizes repurchases of our equity securities in the quarter ended December 31, 2008(1):

Fiscal period(2)	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased (adjusted)**	**Average Price Paid per Share (adjusted)**	**Total Number Of Shares Purchased As Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs (3)**
October 1 October 31, 2008	2,018,471	$ 24.77	2,660,765	$ 18.81	2,018,471	19,324,299
November 1 November 30, 2008		N/A		N/A		19,324,299
December 1 December 31, 2008		N/A		N/A		19,324,299
Total	2,018,471	$ 24.77	2,660,765	$ 18.81	2,018,471	

(1) Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. As of December 31, 2008, we were authorized to repurchase approximately 19.3 million additional shares. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

(2) During the year ended December 31, 2008, we repurchased approximately 13.9 million shares of Common Stock for approximately $473.5 million, or $34.02 per share, or 19.3 million shares for $24.48 per share, as adjusted for the special dividends.

(3) The number of shares authorized for repurchase was not affected by the special dividends.

(4) Since we began repurchasing shares in the third quarter of 2006, we have repurchased approximately 23.7 million shares, or approximately 24.3% of the shares outstanding on July 31, 2006, at an average price of $38.84, or 33.7 million shares for $27.19 per share, as adjusted for the special dividends.

Dividend Payments

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

Performance Graph

The following graph compares cumulative total returns for our Common Stock, the Standard & Poor s 500 Total Return Index (the S&P 500), the NASDAQ Composite, the SNL REIT Residential Index and the MSCI US REIT Index. The SNL REIT Residential Index was prepared by SNL Securities, an independent research and publishing firm specializing in the collection and dissemination of data on the banking, thrift and financial services industries.

The MSCI US REIT Index is published by Morgan Stanley Capital International Inc., a provider of equity indices. The indices are weighted for all companies that fit the definitional criteria of the particular index and are calculated to exclude companies as they are acquired and add them to the index calculation as they become publicly traded companies. All companies of the definitional criteria in existence at the point in time presented are included in the index calculations. The graph assumes the investment of $100 in our Common Stock and in each index on December 31, 2003, and that all dividends paid have been reinvested. The historical information set forth below is not necessarily indicative of future performance.

Total Return Performance

	For the Years Ended December 31,					
Index	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Aimco	100.00	120.39	127.96	198.59	144.33	88.40
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL REIT Residential Index	100.00	132.64	150.68	210.79	158.12	117.89
MSCI US REIT	100.00	131.49	147.44	200.40	166.70	103.40
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53

Source: (other than with respect to S&P 500) SNL Financial LC, Charlottesville, VA ©2009.

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

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

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Item 6. *Selected Financial Data*

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

	For the Years Ended December 31,				
	2008	2007(1)	2006(1)	2005(1)	2004(1)
	(Dollar amounts in thousands, except per share data)				
OPERATING DATA:					
Total revenues	$ 1,457,918	$ 1,376,820	$ 1,274,163	$ 1,058,290	$ 950,894
Total operating expenses	(1,253,151)	(1,135,065)	(1,044,052)	(873,442)	(759,647)
Operating income	204,767	241,755	230,111	184,848	191,247
Income (loss) from continuing operations(2)	(129,298)	(53,184)	(50,104)	(31,957)	46,933
Income from discontinued operations, net(3)	544,761	83,095	226,891	102,939	220,521
Cumulative effect of change in accounting principle					(3,957)
Net income	415,463	29,911	176,787	70,982	263,497
Net income attributable to preferred stockholders	53,708	66,016	81,132	87,948	88,804
Net income (loss) attributable to common stockholders	361,755	(36,105)	95,655	(16,966)	174,693
Earnings (loss) per common share basic and diluted(4):					
Loss from continuing operations (net of income attributable to preferred stockholders)	$ (1.51)	$ (0.85)	$ (0.93)	$ (0.87)	$ (0.31)
Net income (loss) attributable to common stockholders	$ 2.98	$ (0.26)	$ 0.68	$ (0.12)	$ 1.28
BALANCE SHEET INFORMATION:					
Real estate, net of accumulated depreciation	$ 8,102,368	$ 7,887,042	$ 7,325,217	$ 6,546,302	$ 6,028,863
Total assets	9,403,157	10,606,532	10,289,775	10,019,160	10,074,316
Total indebtedness	6,777,121	6,402,972	5,612,045	4,874,966	4,249,107
Stockholders equity	1,418,434	1,749,704	2,339,892	2,716,103	3,008,160
OTHER INFORMATION:					
Dividends declared per common share(4)	$ 5.73	$ 2.92	$ 1.63	$ 2.03	$ 1.63
Total consolidated properties (end of period)	514	657	703	619	676
Total consolidated apartment units (end of period)	117,719	153,758	162,432	158,548	169,932

Total unconsolidated properties (end of period)	85	94	102	264	330
Total unconsolidated apartment units (end of period)	9,613	10,878	11,791	35,269	44,728
Units managed (end of period)(5)	35,475	38,404	42,190	46,667	49,074

(1) Certain reclassifications have been made to conform to the 2008 presentation. These reclassifications primarily represent presentation changes related to discontinued operations in accordance with Statement of Financial Accounting Standards No. 144.

(2) Loss from continuing operations for the year ended December 31, 2008, includes a $107.5 million pre-tax provision for impairment losses on real estate development assets, which is discussed further in *Management s Discussion and Analysis of Financial Condition and Results of Operations* in Item 7.

(3) Income from discontinued operations for the year ended December 31, 2008, includes $618.2 million in gains on disposition of real estate, net of minority partners interest, resulting from the sale of 151 properties, which is discussed further in *Management s Discussion and Analysis of Financial Condition and Results of Operations* in Item 7.

(4) Per share amounts for each of the periods presented have been retroactively adjusted for the effect of shares of Common Stock issued in connection with special dividends paid during 2008 and in January 2009 (see Note 1 to the consolidated financial statements in Item 8 for further discussion of the special dividends).

(5) The years ended 2008, 2007, 2006, 2005 and 2004 include 32,223, 35,176, 38,617, 41,421 and 41,233 units, respectively, for which we provide asset management services only, although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

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

Executive Overview

We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. Our property operations are characterized by diversification of product, location and price point. As of December 31, 2008, we owned or managed 992 apartment properties containing 162,807 units located in 44 states, the District of Columbia and Puerto Rico. Our primary sources of income and cash are rents associated with apartment leases.

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

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

As the financial and economic environment became more challenging during 2008, we focused on: serving and retaining residents; controlling costs and increasing efficiency through improved business processes and automation; controlling capital spending; minimizing our cost of capital, building cash and reducing leverage; and upgrading the quality of our portfolio through portfolio management. Additionally, in connection with 2008 property sales and expected reductions in redevelopment and transactional activities, we initiated an organizational restructuring during the fourth quarter of 2008. We expect 2009 to continue to be very difficult and will continue to evaluate our activities and organizational structure, and intend to adjust as necessary.

Our portfolio management strategy includes property dispositions and acquisitions aimed at concentrating our portfolio in our target markets. Over the next two years and subject to market conditions and various REIT requirements, we expect to sell approximately $2.0 billion of conventional and affordable assets located primarily outside these target markets.

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

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Results of Operations

Overview

2008 compared to 2007

We reported net income of $415.5 million and net income attributable to common stockholders of $361.8 million for the year ended December 31, 2008, compared to net income of $29.9 million and net loss attributable to common stockholders of $36.1 million for the year ended December 31, 2007, increases of $385.6 million and $397.9 million, respectively. These increases were principally due to the following items, all of which are discussed in further detail below:

- an increase in income from discontinued operations, primarily related to higher net gains on sales of real estate;
- an increase in gain on dispositions of unconsolidated real estate and other, primarily related to our disposition in 2008 of interests in two unconsolidated real estate partnerships; and
- an increase in net operating income associated with property operations, reflecting improved operations of our same store properties and other properties.

The effects of these items on our operating results were partially offset by:

- a provision for impairment losses on real estate development assets;
- an increase in depreciation and amortization expense, primarily related to completed redevelopments; and
- a restructuring provision recognized during the fourth quarter of 2008.

2007 compared to 2006

We reported net income of $29.9 million and net loss attributable to common stockholders of $36.1 million for the year ended December 31, 2007, compared to net income of $176.8 million and net income attributable to common stockholders of $95.7 million for the year ended December 31, 2006, decreases of $146.9 million and $131.8 million, respectively. These decreases were principally due to the following items, all of which are discussed in further detail below:

- a decrease in income from discontinued operations, primarily due to decreases in net gains on dispositions of real estate;
- an increase in interest expense, reflecting higher loan principal balances resulting from refinancings, share repurchases and acquisitions; and
- an increase in depreciation and amortization expense, primarily related to completed redevelopments and newly consolidated properties.

The effects of these items on our operating results were partially offset by:

- an increase in net operating income associated with property operations, reflecting improved operations of our same store properties and other properties; and the recognition in 2007 of deferred debt extinguishment gains in connection with the refinancing of certain mortgage loans that had been restructured in a 1997 bankruptcy settlement.

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

Business Segment Operating Results

We have two reportable segments: real estate (owning, operating and redeveloping apartments) and investment management (portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions, dispositions and other transaction activities). Several members of our executive management team comprise our chief operating decision maker, as defined in FASB Statement of Financial Accounting Standards No. 131, *Disclosures About*

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Segments of an Enterprise and Related Information, and use various generally accepted industry financial measures to assess the performance and financial condition of the business, including: NAV; FFO; AFFO; same store property operating results; net operating income; Free Cash Flow; Economic Income; financial coverage ratios; and leverage as shown on our balance sheet. The chief operating decision maker emphasizes net operating income as a key measurement of segment profit or loss. Segment net operating income is generally defined as segment revenues less direct segment operating expenses.

Real Estate Segment

Our real estate segment involves the ownership and operation of properties that generate rental and other property-related income through the leasing of apartment units. Our real estate segment s net operating income also includes income from property management services performed for unconsolidated partnerships and unrelated parties.

The following table summarizes our real estate segment s net operating income for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	Year Ended December 31, 2008	2007	2006
Real estate segment revenues:			
Rental and other property revenues	$ 1,350,950	$ 1,296,142	$ 1,212,958
Property management revenues, primarily from affiliates	6,345	6,923	12,312
	1,357,295	1,303,065	1,225,270
Real estate segment expenses:			
Property operating expenses	626,001	596,902	549,716
Property management expenses	5,385	6,678	6,289
	631,386	603,580	556,005
Real estate segment net operating income	$ 725,909	$ 699,485	$ 669,265

Consolidated Conventional Same Store Property Operating Results

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

	Year Ended December 31, 2008	2007	Change
Consolidated same store revenues.	$ 837,748	$ 821,287	2.0%
Consolidated same store expenses	325,514	329,122	(1.1)%

Same store net operating income	512,234	492,165	4.1%
Reconciling items(1)	213,675	207,320	3.1%
Real estate segment net operating income	$ 725,909	$ 699,485	3.8%
Same store operating statistics:			
Properties	219	219	
Apartment units	69,565	69,565	
Average physical occupancy	94.9%	94.7%	0.2%
Average rent/unit/month	$ 970	$ 954	1.7%

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, consolidated same store net operating income increased $20.1 million, or 4.1%. Revenues increased $16.5 million, or 2.0%, primarily due to higher average rent (up $16 per unit) and an increase in average physical occupancy. Expenses decreased by $3.6 million, or 1.1%, primarily due to decreases of $2.2 million in repair and maintenance expense, $1.4 million in turnover expense and $1.9 million in employee compensation and related expenses, offset by an increase of $2.0 million in utilities expense.

For the year ended December 31, 2008, compared to the year ended December 31, 2007, consolidated real estate segment net operating income related to consolidated properties other than same store properties increased by $6.4 million, or 3.1%. Increases in net operating income attributable to affordable, acquisition and redevelopment properties contributed to the increase, and were partially offset by increases in casualty losses of $6.5 million, including $2.7 million related to Tropical Storm Fay and Hurricane Ike during the year ended December 31, 2008.

	Year Ended December 31,		
	2007	2006	Change
Consolidated same store revenues	$ 821,287	$ 780,052	5.3%
Consolidated same store expenses	329,122	315,461	4.3%
Same store net operating income	492,165	464,591	5.9%
Reconciling items(1)	207,320	204,674	1.3%
Real estate segment net operating income	$ 699,485	$ 669,265	4.5%
Same store operating statistics:			
Properties	219	219	
Apartment units	69,565	69,565	
Average physical occupancy	94.7%	94.7%	
Average rent/unit/month	$ 954	$ 914	4.4%

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

For the year ended December 31, 2007, compared to the year ended December 31, 2006, consolidated same store net operating income increased $27.6 million, or 5.9%. Revenues increased $41.2 million, or 5.3%, primarily due to higher average rent (up $40 per unit) and a $6.4 million increase in utility reimbursements. Expenses increased by $13.7 million, or 4.3%, primarily due to increases of $5.1 million in employee compensation and related expenses, $2.5 million in contract services expense, $2.3 million in marketing expense, $2.1 million in taxes and $2.0 million in insurance expense.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, consolidated real estate segment net operating income related to consolidated properties other than same store properties increased by $2.6 million, or 1.3%. Increases in net operating income attributable to affordable, acquisition and redevelopment properties contributed to the increase, and were partially offset by an unfavorable change in casualty losses, resulting from casualty gains recognized in 2006.

Investment Management Segment

Our investment management segment includes activities and services related to our owned portfolio of properties as well as services provided to affiliated partnerships. Activities and services that fall within investment management include portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions, dispositions and other transaction activities. Within our owned portfolio, we refer to these activities as Portfolio

Management, and their benefit is seen in property operating results and in investment gains. For affiliated partnerships, we refer to these activities as Asset Management, for which we are separately compensated through fees paid by third party investors. The expenses of this segment consist primarily of the costs of departments that perform these activities. These activities are conducted in part by our taxable subsidiaries, and the related net operating income may be subject to income taxes.

Transactions occur on varying timetables; thus, the income varies from period to period. We have affiliated real estate partnerships for which we have identified a pipeline of transactional opportunities. As a result, we view asset management fees as a predictable part of our core business strategy. Asset management revenue includes certain fees that were earned in a prior period, but not recognized at that time because collectibility was not reasonably assured. Those fees may be recognized in a subsequent period upon occurrence of a transaction or a high level of the probability of occurrence of a transaction within twelve months, or improvement in operations that generates sufficient cash to pay the fees.

The following table summarizes the net operating income from our investment management segment for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Asset management and tax credit revenues	$ 100,623	$ 73,755	$ 48,893
Investment management expenses	21,389	20,514	14,742
Investment segment net operating income(1)	$ 79,234	$ 53,241	$ 34,151

(1) Excludes certain items of income and expense, which are included in our consolidated statements of income in: other expenses, net; interest expense; interest income; (loss) gain on dispositions of unconsolidated real estate and other; and minority interest in consolidated real estate partnerships.

For the year ended December 31, 2008, compared to the year ended December 31, 2007, net operating income from investment management increased $26.0 million, or 48.8%. This increase is attributable to a $30.7 million increase in promote income, which is income earned in connection with the disposition of properties owned by our consolidated joint ventures, and a $9.2 million increase in other general partner transactional fees, partially offset by a $7.4 million decrease in asset management fees, a $0.9 million increase in investment management expenses and a $5.0 million decrease in revenues associated with our affordable housing tax credit syndication business, including syndication fees and other revenue earned in connection with these arrangements.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, net operating income from investment management increased $19.1 million, or 55.9%. This increase is primarily attributable to a $9.6 million increase in promote income, an $8.6 million increase in asset management fees and an increase of $9.1 million in revenues associated with our affordable housing tax credit syndication business, including syndication fees and other revenue earned in connection with these arrangements. These increases were partially offset by an increase in expenses and a decrease in other general partner transactional fees.

Other Operating Expenses (Income)

Depreciation and Amortization

For the year ended December 31, 2008, compared to the year ended December 31, 2007, depreciation and amortization increased $54.8 million, or 13.6%. This increase reflects depreciation of $74.8 million for newly acquired properties, completed redevelopments and other capital projects recently placed in service. This increase was partially offset by a decrease of $25.7 million in depreciation adjustments necessary to reduce the carrying amount of buildings and improvements to their estimated disposition value, or zero in the case of a planned demolition (see *Impairment of Long-Lived Assets* in Note 2 to the consolidated financial statements in Item 8).

For the year ended December 31, 2007, compared to the year ended December 31, 2006, depreciation and amortization increased $35.0 million, or 9.5%. This increase reflects depreciation of $23.7 million for newly acquired properties, completed redevelopments and other capital projects recently placed in service. Depreciation

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also increased by approximately $8.6 million as a result of depreciation adjustments necessary to reduce the carrying amount of buildings and improvements to their estimated disposition value, or to zero in connection with a planned demolition (see *Impairment of Long-Lived Assets* in Note 2 to the consolidated financial statements in Item 8).

General and Administrative Expenses

For the year ended December 31, 2008, compared to the year ended December 31, 2007, general and administrative expenses increased $8.4 million, or 9.2%. This increase is primarily attributable to higher personnel and related expenses of $6.1 million and an increase of $1.5 million in information technology communications costs.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, general and administrative expenses decreased $0.9 million, or 1.0%. This decrease is primarily due to a reduction in variable compensation, partially offset by an increase in salaries and benefits (net of capitalization) related to additional redevelopment personnel and an increase in director compensation resulting from the addition of two new board members.

Other Expenses, Net

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, other expenses, net changed unfavorably by $3.4 million. The net unfavorable change includes a $5.4 million write-off of certain communications hardware and capitalized costs during 2008 (see *Capitalized Software Costs* in Note 2 to the consolidated financial statements in Item 8) and a $1.2 million write-off of redevelopment costs associated with a change in the planned use of a property during 2008. The net unfavorable change also reflects $3.6 million of income recognized in 2007 related to the transfer of certain property rights to an unrelated party. These unfavorable changes were partially offset by a $3.7 million reduction in expenses of our self insurance activities (net of $2.8 million of costs in 2008 related to Tropical Storm Fay and Hurricane Ike) and a net decrease of $2.0 million in costs related to certain litigation matters.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, other expenses, net changed unfavorably by $3.6 million. The net unfavorable change is primarily attributable to our self insurance activities, including a $7.9 million increase in claims on our consolidated properties in excess of reimbursements from third parties, and the settlement of certain litigation matters which resulted in a $2.5 million unfavorable change during the year ended December 31, 2007. These unfavorable changes were partially offset by favorable changes related to a $2.9 million charge recorded in 2006 related to the valuation of the High Performance Units (see Note 10 to the consolidated financial statements in Item 8) and a $1.7 million charge for one-time benefits to certain employees terminated in 2006 that did not recur in 2007. Other expenses, net for the year ended December 31, 2007, also includes $3.6 million of income related to the transfer of certain property rights to an unrelated party.

Restructuring Costs

In connection with 2008 property sales and an expected reduction in redevelopment and transactional activities, during the three months ended December 31, 2008, we initiated an organizational restructuring program that included reductions in workforce and related costs, reductions in leased corporate facilities and abandonment of certain redevelopment projects and business pursuits. As a result, we recognized a restructuring charge of $22.8 million ($20.5 million net of tax), which consists of: severance costs of $12.9 million; unrecoverable lease obligations and related costs of $6.4 million related to space that we will no longer use; and the write-off of deferred transaction costs totaling $3.5 million associated with certain acquisitions and redevelopment opportunities that we will no longer pursue. No comparable restructuring costs were incurred during the years ended December 31, 2007 or 2006.

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Interest Income

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, interest income decreased $23.8 million, or 58.1%. The decrease is primarily attributable to a decrease of $16.0 million due to lower interest rates on notes receivable, cash and restricted cash balances and lower average balances. The decrease also includes the effect of a $5.8 million net adjustment to accretion on certain discounted notes during the year ended December 31, 2008, resulting from a change in the estimated timing and amount of collection, and $1.5 million of accretion income recognized during the year ended December 31, 2007, related to the prepayment of principal on certain discounted loans collateralized by properties in West Harlem in New York City, which were funded in November 2006.

For the year ended December 31, 2007, as compared to the year ended December 31, 2006, interest income increased $8.7 million, or 27.1%. This increase is primarily due to $5.9 million of interest income earned during 2007 on loans collateralized by properties in West Harlem in New York City, which were funded in November 2006, and an increase in interest income earned on escrowed funds related to a tax exempt bond financing transaction and certain property sales during 2007.

Interest Expense

For the year ended December 31, 2008, compared to the year ended December 31, 2007, interest expense, which includes the amortization of deferred financing costs, increased $13.3 million, or 3.7%. Interest on property loans payable increased $19.1 million due to higher balances resulting primarily from refinancing activities, offset by lower average interest rates. Interest expense also increased by $4.6 million due to decreases in capitalized interest related to redevelopment activities. These increases were partially offset by a $10.4 million decrease in corporate interest expense primarily due to lower average interest rates.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, interest expense, which includes the amortization of deferred financing costs, increased $29.4 million, or 9.0%. Interest on property debt increased $32.5 million primarily due to higher balances resulting from refinancing activities and mortgage loans on newly acquired properties, offset by lower weighted average rates. Corporate interest increased by $3.1 million as a result of higher weighted average rates and a higher average balance during the year ended December 31, 2007. These increases were partially offset by a $6.2 million increase in capitalized interest related to increased levels of redevelopment and entitlement activities.

Deficit Distributions to Minority Partners

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, deficit distributions to minority partners increased $10.4 million. Deficit distributions to minority partners increased in 2008 partially due to $17.0 million in deficit distributions to minority interests in the Aimco Operating Partnership, resulting from higher cash distributions associated with Aimco Operating Partnership s special distributions discussed in Note 1 to the consolidated financial statements in Item 8. This increase was partially offset by lower levels of distributions to minority interests in consolidated real estate partnerships in 2008, including distributions in connection with debt refinancing transactions.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, deficit distributions to minority partners increased $17.1 million. This increase reflects higher levels of distributions to minority interests in consolidated real estate partnerships in 2007, including several large distributions in connection with debt refinancing transactions.

Provision for Operating Real Estate Impairment Losses

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, provision for operating real estate impairment losses increased by $4.0 million, from $1.6 million to $5.6 million. This increase is primarily attributed to a reduction in the estimated holding period for certain assets anticipated to sell within twelve months, but that did not otherwise meet the criteria to be classified as held for sale at December 31, 2008.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, provision for operating real estate impairment losses increased by $2.4 million, from a recovery of $0.8 million in 2006 to a provision of $1.6 million in 2007. This increase is attributable to impairment losses recognized during 2007 on four properties classified as held for use relative to recoveries on previously recorded impairment losses recognized in 2006.

Provision for Impairment Losses on Real Estate Development Assets

In connection with the preparation of our annual financial statements, we assessed the recoverability of our investment in our Lincoln Place property, located in Venice, California. Based upon the recent decline in land values in Southern California and the expected timing of our redevelopment efforts, we determined that the total carrying amount of the property was no longer probable of full recovery and, accordingly, during the three months ended December 31, 2008, recognized an impairment loss of $85.4 million ($55.6 million net of tax).

Similarly, we assessed the recoverability of our investment in Pacific Bay Vistas (formerly Treetops), a vacant property located in San Bruno, California, and determined that the carrying value for the property exceeded its estimated fair value. Accordingly, we recognized an impairment loss of $5.7 million for this property during the three months ended December 31, 2008.

As part of the March 2002 acquisition of Casden Properties, Inc., we invested $50.0 million for a 20% passive interest in Casden Properties LLC, an entity organized to buy, re-entitle and develop land parcels in Southern California. Based upon the profit allocation agreement, we account for this investment as a note receivable and have been amortizing the discounted value of the investment to the $50.0 million previously estimated to be collectible through January 2, 2009, the initial dissolution date of the entity. The managing member is seeking to extend the dissolution date. In connection with the preparation of our annual financial statements and as a result of the aforementioned decline in Southern California land values, we determined our recorded investment of $47.1 million is not fully recoverable, and accordingly recognized an impairment loss of $16.3 million ($10.0 million net of tax) during the three months ended December 31, 2008.

The impairments discussed above totaled $107.5 million and are included in provisions for impairment losses on real estate development assets in our consolidated statement of income for the year ended December 31, 2008 included in Item 8. We recognized no comparable impairments on real estate development assets during the years ended December 31, 2007 or 2006.

Gain on Dispositions of Unconsolidated Real Estate and Other

Gain on dispositions of unconsolidated real estate and other includes our share of gains related to dispositions of real estate by unconsolidated real estate partnerships, gains on disposition of interests in unconsolidated real estate partnerships, gains on dispositions of land and other non-depreciable assets and costs related to asset disposal activities. For the year ended December 31, 2007, gain on dispositions of unconsolidated real estate and other also includes a gain on extinguishment of debt. Changes in the level of gains recognized from period to period reflect the changing level of disposition activity from period to period. Additionally, gains on properties sold are determined on an individual property basis or in the aggregate for a group of properties that are sold in a single transaction, and are not comparable period to period.

For the year ended December 31, 2008, compared to the year ended December 31, 2007, gain on dispositions of unconsolidated real estate and other increased $67.5 million. This increase is primarily attributable to a $98.4 million net gain on the disposition of interests in two unconsolidated real estate partnerships and a $1.7 million gain on the sale of an undeveloped land parcel during the year ended December 31, 2008. During 2007, we recognized a $6.0 million non-refundable option and extension fee resulting from the termination of rights under an option agreement to sell the North and Central towers of our Flamingo South Beach property, approximately $6.7 million of net gains on dispositions of land parcels and our share of gains on dispositions of properties by unconsolidated real estate partnerships, and a $19.4 million gain on debt extinguishment related to seven properties in the VMS partnership (see Note 3 to the consolidated financial statements in Item 8).

For the year ended December 31, 2007, compared to the year ended December 31, 2006, gain on dispositions of unconsolidated real estate and other increased $4.3 million. This increase is primarily related to a $19.4 million gain on debt extinguishment related to seven properties in the VMS partnership (see Note 3 to the consolidated financial statements in Item 8), the recognition of a $6.0 million non-refundable option and extension fee resulting from the termination of rights under an option agreement to sell the North and Central towers of our Flamingo South Beach property, and approximately $6.7 million of net gains on dispositions of land parcels and our share of gains on dispositions of properties by unconsolidated real estate partnerships in 2007, as compared to net gains of $27.7 million during the year ended December 31, 2006, on the sale of parcels of land, interests in unconsolidated real estate properties and an interest in an unconsolidated joint venture that owned and operated several student housing properties.

Income Tax Benefit

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, income tax benefit increased by $33.5 million. This increase was primarily attributed to $36.1 million of income tax benefit recognized in 2008 related to the impairments of our Lincoln Place property and our investment in Casden Properties LLC, both of which are owned through TRS entities.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, income tax benefit increased by $8.7 million. This increase was primarily attributable to an increase in losses from continuing operations of our TRS entities, due largely to favorable results from our self-insurance activities, which reduced losses of our TRS entities during 2006.

Minority Interest in Consolidated Real Estate Partnerships

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

For the year ended December 31, 2008, compared to the year ended December 31, 2007, minority interest in consolidated real estate partnerships changed favorably by $20.9 million. The change includes a $9.1 million favorable change relating to the minority interest share of losses for real estate partnerships consolidated during the fourth quarter of 2007, and the remainder relates to increases in the minority partners share of losses of our other consolidated real estate partnerships.

For the year ended December 31, 2007, compared to the year ended December 31, 2006, minority interest in consolidated real estate partnerships changed favorably by $13.6 million. This change is primarily attributable to our revised accounting treatment for tax credit arrangements (see *Tax Credit Arrangements* in Note 2 to the consolidated financial statements in Item 8) which resulted in the reversal in 2006 of a previously recognized benefit of $9.0 million for losses of tax credit partnerships that were allocated to minority interests in prior years, but which are absorbed by us under our revised accounting treatment. This favorable change was in addition to an increase in the minority interest partners share of losses of other consolidated real estate partnerships.

Income from Discontinued Operations, Net

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

For the years ended December 31, 2008, 2007 and 2006, income from discontinued operations, net totaled $544.8 million, $83.1 million and $226.9 million, respectively. The $461.7 million increase in income from discontinued operations from 2007 to 2008 was principally due to a $515.3 million increase in gain on dispositions of real estate, net of minority partners interest and income taxes, a $31.2 million decrease in interest expense and a $36.3 million increase in recovery of deficit distributions to minority partners, partially offset by a $39.4 million decrease in operating income, a $19.1 million increase in real estate impairment losses, a $41.1 million increase in minority interest in Aimco Operating Partnership and a decrease of $22.8 million attributable to a 2007 gain on debt extinguishment related to eight properties in the VMS partnership. The $143.8 million decrease in income from discontinued operations from 2006 to 2007 was principally due to a $163.4 million decrease in gain on dispositions of real estate, net of minority partners interest and income taxes, a $16.6 million decrease in recovery of deficit distributions to minority partners, a $12.0 million decrease in operating income and a $5.3 million increase in real estate impairment losses, partially offset by a $21.7 decrease in interest expense, a $15.7 million decrease in minority interest in Aimco Operating Partnership and an increase of $22.8 million attributable to a 2007 gain on debt extinguishment related to eight properties in the VMS partnership.

During 2008, we sold 151 consolidated properties, resulting in a net gain on sale of approximately $578.2 million (which is net of $40.0 million of related income taxes). Additionally, we recognized $24.0 million in impairment losses on assets sold or classified as held for sale in 2008 and $30.1 million of net recoveries of deficit distributions to minority partners. During 2007, we sold 73 consolidated properties, resulting in a net gain on sale of approximately $62.9 million (which is net of $2.1 million of related income taxes). Additionally, we recognized $4.9 million in impairment losses on assets sold or classified as held for sale in 2007 and $6.2 million of deficit distributions to minority partners. During 2006, we sold 77 consolidated properties and the South Tower of the Flamingo South Beach property, resulting in a net gain on sale of approximately $226.3 million (which is net of $32.6 million of related income taxes). Additionally, we recognized $0.4 million in impairment recoveries on assets sold in 2006 and $10.4 million of net recoveries of deficit distributions to minority partners. For the years ended December 31, 2008, 2007 and 2006, income from discontinued operations includes the operating results of the properties sold or classified as held for sale as of December 31, 2008.

Changes in the level of gains recognized from period to period reflect the changing level of our disposition activity from period to period. Additionally, gains on properties sold are determined on an individual property basis or in the aggregate for a group of properties that are sold in a single transaction, and are not comparable period to period (see

Note 13 of the consolidated financial statements in Item 8 for additional information on discontinued operations).

Critical Accounting Policies and Estimates

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

Impairment of Long-Lived Assets

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

From time to time, we have non-revenue producing properties that we hold for future redevelopment. We assess the recoverability of the carrying amount of these redevelopment properties by comparing our estimate of undiscounted future cash flows based on the expected service potential of the redevelopment property upon completion to the carrying amount. In certain instances, we use a probability-weighted approach to determine our estimate of undiscounted future cash flows when alternative courses of action are under consideration. As discussed in *Provision for Impairment Losses on Real Estate Development Assets* within the preceding discussion of Results of Operations, during 2008 we recognized impairment losses on our Lincoln Place and Pacific Bay Vistas properties of $85.4 million ($55.6 million net of tax) and $5.7 million, respectively.

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

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

Any adverse changes in these and other factors could cause an impairment in our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. In addition to the impairments of Lincoln Place and Pacific Bay Vistas discussed above and our investment in Casden Properties LLC discussed below, based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2008 and 2007, we recorded net impairment losses of $5.6 million and $1.6 million, respectively, related to properties to be held and used. For the year ended December 31, 2006, we recorded net recoveries of previously recorded impairment losses of $0.8 million.

Notes Receivable and Interest Income Recognition

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

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

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

Allowance for Losses on Notes Receivable

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

During the years ended December 31, 2008, 2007 and 2006 we recorded net provisions for losses on notes receivable of $4.2 million, $4.0 million and $2.8 million, respectively. We will continue to evaluate the collectibility of these notes, and we will adjust related allowances in the future due to changes in market conditions and other factors.

Additionally, as discussed in *Provision for Impairment Losses on Real Estate Development Assets* within the preceding discussion of Results of Operations, during 2008 we recognized an impairment loss of $16.3 million ($10.0 million net of tax) on our investment in Casden Properties LLC, which we account for as a note receivable.

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital expenditure activities, including redevelopment and construction projects, other tangible property improvements and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital expenditure activities at the property level. We characterize as indirect costs an allocation of certain department costs, including payroll, at the area operations and corporate levels that clearly relate to capital expenditure activities. We capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects are in progress. We charge to expense as incurred costs that do not relate to capital expenditure activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses (see *Capital Expenditures and Related Depreciation* in Note 2 to the consolidated financial statements in Item 8).

For the years ended December 31, 2008, 2007 and 2006, for continuing and discontinued operations, we capitalized $25.7 million, $30.8 million and $24.7 million of interest costs, respectively, and $78.1 million, $78.1 million and $66.2 million of site payroll and indirect costs, respectively.

Funds From Operations

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

For the years ended December 31, 2008, 2007 and 2006, our FFO is calculated as follows (in thousands):

	2008	2007	2006
Net income (loss) attributable to common stockholders(1)	$ 361,755	$ (36,105)	$ 95,655
Adjustments:			
Depreciation and amortization(2)	458,595	403,786	368,783
Depreciation and amortization related to non-real estate assets	(18,012)	(20,815)	(22,898)
Depreciation of rental property related to minority partners and unconsolidated entities(3)(4)	(36,571)	(22,277)	1,973
Depreciation of rental property related to minority partners interest adjustment(5)			7,377
Gain on dispositions of unconsolidated real estate and other	(99,602)	(32,061)	(27,730)
Income tax arising from disposition of unconsolidated real estate and other	(433)	(17)	
Gain on dispositions of non-depreciable assets and debt extinguishment gain	1,670	26,702	11,526
Deficit distributions to minority partners(6)	43,013	32,599	15,519
Discontinued operations:			
Gain on dispositions of real estate, net of minority partners interest(3)	(618,168)	(65,076)	(258,970)
Depreciation of rental property, net of minority partners interest(3)(4)	50,786	65,334	107,545
Deficit distributions (recovery of deficit distributions) to minority partners, net(6)	(30,127)	6,161	(10,441)
Income tax arising from disposals	43,146	2,135	32,918
Minority interest in Aimco Operating Partnership s share of above adjustments(7)	18,574	(36,830)	(21,721)
Preferred stock dividends	55,190	63,381	74,284
Preferred stock redemption related (gains) costs	(1,482)	2,635	6,848

Funds From Operations	$ 228,334	$ 389,552	$ 380,668
Preferred stock dividends	(55,190)	(63,381)	(74,284)
Preferred stock redemption related gains (costs)	1,482	(2,635)	(6,848)
Dividends/distributions on dilutive preferred securities	4,850	1,875	202
Funds From Operations attributable to common stockholders diluted	$ 179,476	$ 325,411	$ 299,738
Weighted average number of common shares, common share equivalents and dilutive preferred securities outstanding(8):			
Common shares and equivalents(9)	121,672	143,307	144,774
Dilutive preferred securities	2,314	856	105
Total	123,986	144,163	144,879

Notes:

(1) Represents the numerator for earnings per common share, calculated in accordance with GAAP.

(2) Includes amortization of management contracts where we are the general partner. Such management contracts were established in certain instances where we acquired a general partner interest in either a consolidated or an unconsolidated partnership. Because the recoverability of these management contracts depends primarily on the operations of the real estate owned by the limited partnerships, we believe it is consistent with the White

Paper to add back such amortization, as the White Paper directs the add-back of amortization of assets uniquely significant to the real estate industry.

(3) Minority partners interest, means minority interest in our consolidated real estate partnerships.

(4) Adjustments related to minority partners share of depreciation of rental property for the year ended December 31, 2007, include the subtraction of $15.1 million and $17.8 million for continuing operations and discontinued operations, respectively, related to the VMS debt extinguishment gains (see Note 3 to the consolidated financial statements in Item 8). These subtractions are required because we added back the minority partners share of depreciation related to rental property in determining FFO in prior periods. Accordingly, the net effect of the VMS debt extinguishment gains on our FFO for the year ended December 31, 2007, was an increase of $9.3 million ($8.4 million after Minority Interest in Aimco Operating Partnership).

(5) Represents prior period depreciation of certain tax credit redevelopment properties that Aimco included in an adjustment to minority interest in real estate partnerships for the year ended December 31, 2006 (see *Tax Credit Arrangements* in Note 2 to the consolidated financial statements in Item 8). This prior period depreciation is added back to determine FFO in accordance with the NAREIT White Paper.

(6) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our income statement when cash is distributed to a non-controlling partner in a consolidated partnership in excess of the positive balance in such partner s capital account, which is classified as minority interest on our balance sheet. We record these charges for GAAP purposes even though there is no economic effect or cost. Deficit distributions to minority partners occur when the fair value of the underlying real estate exceeds its depreciated net book value because the underlying real estate has appreciated or maintained its value. As a result, the recognition of expense for deficit distributions to minority partners represents, in substance, either (a) our recognition of depreciation previously allocated to the non-controlling partner or (b) a payment related to the non-controlling partner s share of real estate appreciation. Based on White Paper guidance that requires real estate depreciation and gains to be excluded from FFO, we add back deficit distributions and subtract related recoveries in our reconciliation of net income to FFO.

(7) During the years ended December 31, 2008, 2007 and 2006, the Aimco Operating Partnership had 7,191,199, 7,367,440 and 7,853,174 common OP Units outstanding and 2,367,629, 2,379,084 and 2,379,084 High Performance Units outstanding.

(8) Weighted average common shares, common share equivalents and dilutive preferred securities amounts for the periods presented have been retroactively adjusted for the effect of shares of Common Stock issued in connection with the special dividends paid during 2008 and in January 2009, which are further discussed in Note 1 to the consolidated financial statements in Item 8.

(9) Represents the denominator for earnings per common share diluted, calculated in accordance with GAAP, plus additional common share equivalents that are dilutive for FFO.

Liquidity and Capital Resources

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

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

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The current state of credit markets and related effect on the overall economy may have an adverse affect on our liquidity, both through increases in interest rates and credit risk spreads, and access to financing. As further discussed in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, we are subject to interest rate risk associated with certain variable rate liabilities, preferred stock and assets. Based on our net variable rate liabilities, preferred stock and assets outstanding at December 31, 2008, we estimate that a 1.0% increase in 30-day LIBOR with constant credit risk spreads would reduce our income attributable to common stockholders by approximately $4.3 million on an annual basis. From January 1, 2008 to December 31, 2008, both the SIFMA (previously the Bond Market Association index) and 30-day LIBOR rates, the predominant interest rates to which our variable rate debt obligations are indexed, decreased, with the SIFMA rate decreasing from 3.06% to 1.25% and the 30-day LIBOR rate decreasing from 4.57% to 0.45%. Although base interest rates have decreased, the tightening of credit markets has affected the credit risk spreads charged over base interest rates on, and the availability of, mortgage loan financing. For future refinancing activities, our liquidity and cost of funds may be affected by increases in base interest rates or higher credit risk spreads. If timely property financing options are not available for maturing debt, we may consider alternative sources of liquidity, such as reductions in certain capital spending or proceeds from asset dispositions.

From time to time, we enter into total rate of return swaps on various fixed rate secured tax-exempt bonds payable and fixed rate notes payable to convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower our cost of borrowing. In exchange for our receipt of a fixed rate generally equal to the underlying borrowing s interest rate, the total rate of return swaps require that we pay a variable rate, equivalent to the SIFMA rate for tax-exempt bonds payable and the 30-day LIBOR rate for notes payable, plus a credit risk spread. These swaps generally have a second or third lien on the property collateralized by the related borrowings and the obligations under certain of these swaps are cross-collateralized with certain of the other swaps with a particular counterparty. The total rate of return swaps require specified loan-to-value ratios. In the event the values of the real estate properties serving as collateral under these agreements decline, we may be required to provide additional collateral pursuant to the swap agreements, which would adversely affect our cash flows. The underlying borrowings are generally callable at our option, with no prepayment penalty, with 30 days advance notice, and the swaps generally have a term of less than five years. At December 31, 2008, we had total rate of return swap positions with two financial institutions totaling $422.1 million and had provided $3.2 million in cash collateral pursuant to the swap agreements to satisfy the loan-to-value ratio requirements.

The total rate of return swaps have a contractually defined termination value generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings (which is typically par value or contract value), which may require payment by us if the fair value is less than the purchased value, or to us if the fair value exceeds the purchased value. In the event we are unable to extend the arrangements at their maturities, the counterparty, who is also the creditor on the related borrowings, may desire to sell the borrowings. If the counterparty s purchased value of the underlying borrowings exceeds the fair value of the underlying borrowings at the date of the swap maturities, we may elect to purchase the borrowings at counterparty s purchased value to avoid incurring a termination payment under the swap arrangements. In such event, we would be required to refinance the borrowings or find other sources of liquidity to repay the borrowings.

We periodically evaluate counterparty credit risk associated with these arrangements. At the current time, we have concluded we do not have material exposure. In the event a counterparty were to default under these arrangements, loss of the net interest benefit we generally receive under these arrangements, which is equal to the difference between the fixed rate we receive and the variable rate we pay, may adversely affect our operating cash flows. See *Derivative Financial Instruments* in Note 2 to the consolidated financial statements in Item 8 for additional discussion of these arrangements, including the current swap maturity dates.

As of December 31, 2008, the amount available under our revolving credit facility was $578.8 million. For the years ending December 31, 2009 and 2010, we have non-recourse property debt maturities of $288.0 million and

$284.7 million, respectively, at an average estimated loan-to-value of approximately 52% and 51%, respectively. Our total outstanding unsecured term debt of $400.0 million at December 31, 2008, matures in March 2011. In January 2009, we prepaid $50.0 million of the balance outstanding on the unsecured term debt. Additionally, we have limited obligations to fund redevelopment commitments during the year ending December 31, 2009, and no development commitments.

At December 31, 2008, we had $299.7 million in cash and cash equivalents, an increase of $89.2 million from December 31, 2007. At December 31, 2008, we had $258.3 million of restricted cash, primarily consisting of reserves and escrows held by lenders for bond sinking funds, capital expenditures, property taxes and insurance. In addition, cash, cash equivalents and restricted cash are held by partnerships that are not presented on a consolidated basis. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our consolidated statements of cash flows in Item 8.

Operating Activities

For the year ended December 31, 2008, our net cash provided by operating activities of $421.5 million was primarily from operating income from our consolidated properties, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of properties. Cash provided by operating activities decreased $44.1 million compared with the year ended December 31, 2007, driven primarily by a $48.3 million decrease in operating income of our consolidated properties, including those classified in discontinued operations, which was attributable to property sales in 2008 and 2007.

Investing Activities

For the year ended December 31, 2008, our net cash provided by investing activities of $1.3 billion consisted primarily of proceeds from disposition of real estate and interests in unconsolidated real estate partnerships, partially offset by capital expenditures and purchases of real estate.

Although we hold all of our properties for investment, we sell properties when they do not meet our investment criteria or are located in areas that we believe do not justify our continued investment when compared to alternative uses for our capital. During the year ended December 31, 2008, we sold 151 consolidated properties. These properties were sold for an aggregate sales price of $2.4 billion and generated proceeds totaling $2.3 billion, after the payment of transaction costs and debt prepayment penalties. The $2.3 billion in proceeds is inclusive of promote income which is generated by the disposition of properties owned by our consolidated joint ventures, debt assumed by buyers and sales proceeds placed into escrows for tax-free exchanges and other purposes, all of which are excluded from proceeds from disposition of real estate in the consolidated statement of cash flows. Sales proceeds were used to repay property debt, repay borrowings under our revolving credit facility, repurchase shares of our Common Stock and preferred stock and for other corporate purposes.

Our portfolio management strategy includes property acquisitions and dispositions to concentrate our portfolio in our target markets. We are currently marketing for sale certain properties that are inconsistent with this long-term investment strategy. Additionally, from time to time, we may market certain properties that are consistent with this strategy but offer attractive returns. We plan to use our share of the net proceeds from such dispositions to reduce debt, fund capital expenditures on existing assets, fund acquisitions, and for other operating needs and corporate purposes.

Capital Expenditures

We classify all capital spending as Capital Replacements (which we refer to as CR), Capital Improvements (which we refer to as CI), casualties, redevelopment or entitlement. Expenditures other than casualty, redevelopment and entitlement capital expenditures are apportioned between CR and CI based on the useful life of the capital item under consideration and the period we have owned the property.

CR represents the share of capital expenditures that are deemed to replace the portion of acquired capital assets that was consumed during the period we have owned the asset. CI represents the share of expenditures that are made to enhance the value, profitability or useful life of an asset as compared to its original purchase condition. CR and CI exclude capital expenditures for casualties, redevelopment and entitlements. Casualty expenditures represent capitalized costs incurred in connection with casualty losses and are associated with the restoration of the asset. A portion of the restoration costs may be reimbursed by insurance carriers subject to deductibles associated with each loss. Redevelopment expenditures represent expenditures that substantially upgrade the property. Entitlement expenditures represent costs incurred in connection with obtaining local governmental approvals to increase density and add residential units to a site. For the year ended December 31, 2008, we spent a total of $101.4 million,

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$124.9 million, $22.8 million, $340.3 million and $24.2 million on CR, CI, casualties, redevelopment and entitlement, respectively.

The table below details our share of actual spending, on both consolidated and unconsolidated real estate partnerships, for CR, CI, casualties, redevelopment and entitlements for the year ended December 31, 2008, on a per unit and total dollar basis. Per unit numbers for CR and CI are based on approximately 126,834 average units for the year, including 109,956 conventional units and 16,879 affordable units. Average units are weighted for the portion of the period that we owned an interest in the property, represent ownership-adjusted effective units, and exclude non-managed units. Total capital expenditures are reconciled to our consolidated statement of cash flows for the same period (in thousands, except per unit amounts).

	Aimco s Share of Expenditures		Per Effective Unit	
Capital Replacements Detail:				
Building and grounds	$	40,516	$	319
Turnover related		45,724		361
Capitalized site payroll and indirect costs		15,128		119
Our share of Capital Replacements	$	101,368	$	799
Capital Replacements:				
Conventional	$	94,574	$	860
Affordable		6,794	$	403
Our share of Capital Replacements		101,368	$	799
Capital Improvements:				
Conventional		113,870	$	1,036
Affordable		11,016	$	653
Our share of Capital Improvements		124,886	$	985
Casualties(1):				
Conventional		21,228		
Affordable		1,615		
Our share of casualties		22,843		
Redevelopment:				
Conventional projects		226,307		
Tax credit projects		113,945		
Our share of redevelopment		340,252		
Entitlement		24,156		

Our share of capital expenditures		613,505
Plus minority partners share of consolidated spending		52,504
Less our share of unconsolidated spending		(776)
Total capital expenditures per consolidated statement of cash flows	$	665,233

(1) Casualties for the year ended December 31, 2008, reflect the portion of the anticipated spending related to Tropical Storm Fay and Hurricane Ike incurred as of December 31, 2008.

Included in the above spending for CI, casualties, redevelopment and entitlement, was approximately $63.1 million of our share of capitalized site payroll and indirect costs related to these activities for the year ended December 31, 2008.

We funded all of the above capital expenditures with cash provided by operating activities, working capital and property sales as discussed below.

Financing Activities

For the year ended December 31, 2008, net cash used in financing activities of $1.7 billion was primarily attributed to debt principal payments, distributions to minority interests, payment of common and preferred dividends and repurchases of Common Stock and preferred stock. Proceeds from property loans and tax-exempt bond financing partially offset the cash outflows.

Mortgage Debt

At December 31, 2008 and 2007, we had $6.3 billion and $7.0 billion, respectively, in consolidated mortgage debt outstanding, which included $52.0 million and $1.1 billion, respectively, of mortgage debt classified within liabilities related to assets held for sale. During the year ended December 31, 2008, we refinanced or closed mortgage loans on 71 properties (including one unconsolidated property) generating $962.2 million of proceeds from borrowings with a weighted average interest rate of 5.51%. Our share of the net proceeds after repayment of existing debt, payment of transaction costs and distributions to limited partners, was $430.9 million. We used these total net proceeds for capital expenditures and other corporate purposes. We intend to continue to refinance mortgage debt primarily as a means of extending current and near term maturities.

Term Loans and Credit Facility

We have an Amended and Restated Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement. In September 2008, we entered into a fifth amendment to the Credit Facility that modifies certain provisions related to letters of credit.

During the year ended December 31, 2008, we repaid in full our $75.0 million term loan which was due for payment in September 2009. Following this repayment, the aggregate amount of commitments and loans under the Credit Agreement is $1.035 billion, comprised of a $400.0 million term loan and $635.0 million of revolving loan commitments. The $635.0 million of revolving loan commitments is after the elimination of a $15.0 million commitment held by Lehman Commercial Paper Inc. The $400.0 million term loan bears interest at LIBOR plus 1.5%, or at our option, a base rate equal to the prime rate, and matures March 2011. Our revolving credit facility matures May 2009, and may be extended for an additional year, subject to a 20.0 basis point fee on the total commitments. Borrowings under the revolver bear interest based on a pricing grid determined by leverage (currently at LIBOR plus 1.125%).

At December 31, 2008, the term loan had an outstanding principal balance of $400.0 million and a weighted average interest rate of 2.94%. In January 2009, we prepaid $50.0 million of the outstanding balance on the term debt. The amount available under the revolving credit facility at December 31, 2008, was $578.8 million (after giving effect to $56.2 million outstanding for undrawn letters of credit issued under the revolving credit facility). The proceeds of revolving loans are generally permitted to be used to fund working capital and for other corporate purposes.

Fair Value Measurements

We enter into total rate of return swaps on various fixed rate secured tax-exempt bonds payable and fixed rate notes payable to convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower our cost of borrowing. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133, we designate total rate of return swaps as hedges of the risk of overall changes in the fair value of the underlying borrowings. At each reporting period, we estimate the fair value of these borrowings and the total rate of return swaps and recognize any changes therein as an adjustment of interest expense.

Our method used to calculate the fair value of the total rate of return swaps generally results in changes in fair value that are equal to the changes in fair value of the related borrowings, which is consistent with our hedging strategy. We believe that these financial instruments are highly effective in offsetting the changes in fair value of the

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related borrowings during the hedging period, and accordingly, changes in the fair value of these instruments have no material impact on our liquidity, results of operations or capital resources.

During the year ended December 31, 2008, changes in the fair values of these financial instruments resulted in decreases of $20.1 million in the carrying amount of the hedged borrowings and equal increases in accrued liabilities and other for total rate of return swaps. At December 31, 2008, the cumulative recognized changes in the fair value of these financial instruments resulted in a $29.5 million reduction in the carrying amount of the hedged borrowings offset by an equal increase in accrued liabilities and other for total rate of return swaps. The current and cumulative decreases in the fair values of the hedged borrowings and related swaps reflect the recent uncertainty in the credit markets which has decreased demand and increased pricing for similar debt instruments.

During the year ended December 31, 2008, we received net cash receipts of $16.7 million under the total return swaps, which positively impacted our liquidity. To the extent interest rates increase above the fixed rates on the underlying borrowings, our obligations under the total return swaps will negatively affect our liquidity. During the year ended December 31, 2008, we provided $3.2 million of cash collateral to satisfy certain loan-to-value requirements under the total rate of return swap agreements, which negatively affected our liquidity. In the event the values of the real estate properties serving as collateral under these agreements decline, we may be required to provide additional collateral pursuant to the swap agreements, which would adversely affect our liquidity.

See Note 2 to the consolidated financial statements in Item 8 for more information on our total rate of return swaps and related borrowings.

Equity Transactions

During the year ended December 31, 2008, we paid cash dividends totaling $55.2 million and $212.3 million to preferred and common stockholders, respectively. Additionally, pursuant to the special dividends discussed in Note 1 to the consolidated financial statements in Item 8, during the year ended December 31, 2008, we paid dividends totaling $489.8 million to common stockholders through the issuance of approximately 22.9 million shares.

During September 2008, we repurchased 54 shares, or $27.0 million in liquidation preference, of our Series A Community Reinvestment Act Perpetual Preferred Stock, $0.01 par value per share, for cash totaling $24.8 million.

In April 2008, we and the Aimco Operating Partnership filed a new shelf registration statement to replace the existing shelf (which was due to expire later in 2008) that provides for the issuance of debt and equity securities by Aimco and debt securities by the Aimco Operating Partnership.

Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. During the year ended December 31, 2008, we repurchased approximately 13.9 million shares of Common Stock (19.3 million shares after the effect of the special dividend) for approximately $473.5 million. As of December 31, 2008, we were authorized to repurchase approximately 19.3 million additional shares of our Common Stock under an authorization that has no expiration date. Future repurchases may be made from time to time in the open market or in privately negotiated transactions.

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Contractual Obligations

This table summarizes information contained elsewhere in this Annual Report regarding payments due under contractual obligations and commitments as of December 31, 2008 (amounts in thousands):

	Total	Less than One Year	1-3 Years	3-5 Years	More than 5 Years
Scheduled long-term debt maturities	$ 6,377,121	$ 407,893	$ 718,724	$ 1,094,021	$ 4,156,483
Term loan(1)	400,000		400,000		
Redevelopment and other construction commitments	70,279	68,752	1,527		
Leases for space occupied(2)	31,935	7,904	12,316	7,622	4,093
Other obligations(3)	5,595	5,595			
Total	$ 6,884,930	$ 490,144	$ 1,132,567	$ 1,101,643	$ 4,160,576

(1) After payment of $50.0 million in January 2009, the term loan had an outstanding balance of $350.0 million.

(2) Inclusive of leased space that has been abandoned as part of our organizational restructuring in 2008 (see *Restructuring Costs* in Note 3 to the consolidated financial statements in Item 8).

(3) Represents a commitment to fund $5.6 million in second mortgage loans on certain properties in West Harlem, New York City.

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

Future Capital Needs

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

In 2009, inclusive of the redevelopment commitments discussed in Contractual Obligations above, we expect to invest between $50.0 and $75.0 million in conventional redevelopment projects and between $30.0 and $45.0 million in affordable redevelopment projects, predominantly funded by third-party tax credit equity.

Off-Balance Sheet Arrangements

We own general and limited partner interests in unconsolidated real estate partnerships, in which our total ownership interests range typically from less than 1% up to 50%. However, based on the provisions of the relevant partnership agreements, we are not deemed to be the primary beneficiary or to have control of these partnerships sufficient to require or permit consolidation for accounting purposes (see Note 2 of the consolidated financial statements in Item 8). There are no lines of credit, side agreements, or any other derivative financial instruments related to or between our unconsolidated real estate partnerships and us and no material exposure to financial guarantees. Accordingly, our maximum risk of loss related to these unconsolidated real estate partnerships is limited to the aggregate carrying amount of our investment in the unconsolidated real estate partnerships and any outstanding notes receivable as reported in our consolidated financial statements (see Note 4 of the consolidated financial statements in Item 8 for additional information about our investments in unconsolidated real estate partnerships).

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

Our primary market risk exposure relates to changes in base interest rates, mortgage spreads and availability of credit. We are not subject to any foreign currency exchange rate risk or commodity price risk, or any other material market rate or price risks. We use predominantly long-term, fixed-rate non-recourse mortgage debt in order to avoid the refunding and repricing risks of short-term borrowings. We use short-term debt financing and working capital primarily to fund short-term uses and acquisitions and generally expect to refinance such borrowings with cash from operating activities, property sales proceeds, long-term debt or equity financings. We use total rate-of-return swaps to obtain the benefit of variable rates on certain of our fixed rate debt instruments. We make limited use of other derivative financial instruments and we do not use them for trading or other speculative purposes.

We had $1,309.5 million of floating rate debt and $73.0 million of floating rate preferred stock outstanding at December 31, 2008. Of the total floating rate debt, the major components were floating rate tax-exempt bond financing ($563.4 million), floating rate secured notes ($335.6 million) and a term loan ($400.0 million). At December 31, 2008, we had approximately $717.2 million in cash and cash equivalents, restricted cash and notes receivable, the majority of which bear interest. We also had approximately $127.3 million of variable rate debt associated with our redevelopment activities, for which we capitalize a portion of the interest expense. The effect of our interest bearing assets and of capitalizing interest on variable rate debt associated with our redevelopment activities would partially reduce the effect of an increase in variable interest rates. Historically, changes in tax-exempt interest rates have been at a ratio of less than 1:1 with changes in taxable interest rates. Floating rate tax-exempt bond financing is benchmarked against the SIFMA rate (previously the Bond Market Association index), which since 1989 has averaged 69% of the 30-day LIBOR rate. If this historical relationship continues, on an annual basis, we estimate that an increase in 30-day LIBOR of 1.0% (0.69% in tax-exempt interest rates) with constant credit risk spreads would result in our income before minority interests being reduced by $3.1 million and our income attributable to common stockholders being reduced by $4.3 million.

We estimate the fair value for our debt instruments using present value techniques that include income and market valuation approaches with market rates for debt with the same or similar terms. Present value calculations vary depending on the assumptions used, including the discount rate and estimates of future cash flows. In many cases, the fair value estimates may not be realizable in immediate settlement of the instruments. The estimated aggregate fair value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $6.7 billion and $7.6 billion at December 31, 2008 and 2007, respectively. The combined carrying value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $6.8 billion and $7.5 billion at December 31, 2008 and 2007, respectively. See Note 6 and Note 7 to the consolidated financial statements in Item 8 for further details on our consolidated debt. Refer to *Derivative Financial Instruments* in Note 2 to the consolidated financial statements in Item 8 for further discussion regarding certain of our fixed rate debt that is subject to total rate of return swap instruments. If market rates for our fixed-rate debt were higher by 1.0% with constant credit risk spreads, the estimated fair value of our debt discussed above would have decreased from $6.7 billion to $6.4 billion. If market rates for our debt discussed above were lower by 1.0% with constant credit risk spreads, the estimated fair value of our fixed-rate debt would have increased from $6.7 billion to $6.9 billion.

At December 31, 2008, we had swap positions with two financial institutions totaling $422.1 million. The related swap agreements provide for collateral calls to maintain specified loan-to-value ratios, pursuant to which we had provided $3.2 million of collateral as of December 31, 2008. In the event the values of the real estate properties serving as collateral under these agreements decline, we may be required to provide additional collateral pursuant to the swap agreements, which would adversely affect our cash flows.

Item 8. ***Financial Statements and Supplementary Data***

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

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

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

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

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on their assessment, management concluded that, as of December 31, 2008, our internal control over financial reporting is effective.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors Apartment Investment and Management Company

We have audited Apartment Investment and Management Company s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008, and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2009

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Item 9B. ***Other Information***

None.

PART III

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

The information required by this item is presented under the captions Board of Directors and Executive Officers, Corporate Governance Matters Code of Ethics, Other Matters Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Matters Nominating and Corporate Governance Committee, Corporate Governance Matters Audit Committee and Corporate Governance Matters Audit Committee Financial Expert in the proxy statement for our 2009 annual meeting of stockholders and is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by this item is presented under the captions Compensation Discussion & Analysis, Compensation and Human Resources Committee Report to Stockholders, Summary Compensation Table, Grants of Plan-Based Awards in 2008, Outstanding Equity Awards at Fiscal Year End 2008, Option Exercises and Stock Vested in 2008, Potential Payments Upon Termination or Change in Control and Corporate Governance Matters Director Compensation in the proxy statement for our 2009 annual meeting of stockholders and is incorporated herein by reference.

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

The information required by this item is presented under the captions Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance Under Equity Compensation Plans in the proxy statement for our 2009 annual meeting of stockholders and is incorporated herein by reference.

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

The information required by this item is presented under the caption Certain Relationships and Related Transactions and Corporate Governance Matters Independence of Directors in the proxy statement for our 2009 annual meeting of stockholders and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is presented under the caption Principal Accountant Fees and Services in the proxy statement for our 2009 annual meeting of stockholders and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

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

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

INDEX TO EXHIBITS (1)(2)

Exhibit No.	Description
3.1	Charter
3.2	Bylaws (Exhibit 3.2 to Aimco s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007, is incorporated herein by this reference)
10.1	Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of July 29, 1994, as amended and restated as of February 28, 2007 (Exhibit 10.1 to Aimco s Annual Report on Form 10-K for the year ended December 31, 2006, is incorporated herein by this reference)
10.2	First Amendment to Fourth Amended and Restated Agreement of Limited Partnership of AIMCO Properties, L.P., dated as of December 31, 2007 (Exhibit 10.1 to Aimco s Current Report on Form 8-K, dated December 31, 2007, is incorporated herein by this reference)
10.3	Amended and Restated Secured Credit Agreement, dated as of November 2, 2004, by and among Aimco, AIMCO Properties, L.P., AIMCO/Bethesda Holdings, Inc., and NHP Management Company as the borrowers and Bank of America, N.A., Keybank National Association, and the Lenders listed therein (Exhibit 4.1 to Aimco s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, is incorporated herein by this reference)
10.4	First Amendment to Amended and Restated Secured Credit Agreement, dated as of June 16, 2005, by and among Aimco, AIMCO Properties, L.P., AIMCO/Bethesda Holdings, Inc., and NHP Management Company as the borrowers and Bank of America, N.A., Keybank National Association, and the Lenders listed therein (Exhibit 10.1 to Aimco s Current Report on Form 8-K, dated June 16, 2005, is incorporated herein by this reference)
10.5	Second Amendment to Amended and Restated Senior Secured Credit Agreement, dated as of March 22, 2006, by and among Aimco, AIMCO Properties, L.P., and AIMCO/Bethesda Holdings, Inc., as the borrowers, and Bank of America, N.A., Keybank National Association, and the lenders listed therein (Exhibit 10.1 to Aimco s Current Report on Form 10-K, dated March 22, 2006, is incorporated herein by this reference)
10.6	Third Amendment to Senior Secured Credit Agreement, dated as of August 31, 2007, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., and AIMCO/Bethesda Holdings, Inc., as the Borrowers, the pledgors and guarantors named therein, Bank of America, N.A., as administrative agent and Bank of America, N.A., Keybank National Association and the other lenders listed therein (Exhibit 10.1 to Aimco s Current Report on Form 8-K, dated August 31, 2007, is incorporated herein by this reference)

10.7	Fourth Amendment to Senior Secured Credit Agreement, dated as of September 14, 2007, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., and AIMCO/Bethesda Holdings, Inc., as the Borrowers, the pledgors and guarantors named therein, Bank of America, N.A., as administrative agent and Bank of America, N.A., Keybank National Association and the other lenders listed therein (Exhibit 10.1 to Aimco s Current Report on Form 8-K, dated September 14, 2007, is incorporated herein by this reference)

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Exhibit No.	Description
10.8	Fifth Amendment to Senior Secured Credit Agreement, dated as of September 9, 2008, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., and AIMCO/Bethesda Holdings, Inc., as the Borrowers, the pledgors and guarantors named therein, Bank of America, N.A., as administrative agent and Bank of America, N.A., Keybank National Association and the other lenders listed therein (Exhibit 10.1 to Aimco s Current Report on Form 8-K, dated September 11, 2008, is incorporated herein by this reference)
10.9	Master Indemnification Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, AIMCO Properties, L.P., XYZ Holdings LLC, and the other parties signatory thereto (Exhibit 2.3 to Aimco s Current Report on Form 8-K, filed December 6, 2001, is incorporated herein by this reference)
10.10	Tax Indemnification and Contest Agreement, dated December 3, 2001, by and among Apartment Investment and Management Company, National Partnership Investments, Corp., and XYZ Holdings LLC and the other parties signatory thereto (Exhibit 2.4 to Aimco s Current Report on Form 8-K, filed December 6, 2001, is incorporated herein by this reference)
10.11	Limited Liability Company Agreement of AIMCO JV Portfolio #1, LLC dated as of December 30, 2003 by and among AIMCO BRE I, LLC, AIMCO BRE II, LLC and SRV-AJVP#1, LLC (Exhibit 10.54 to Aimco s Annual Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference)
10.12	Employment Contract executed on December 29, 2008, by and between AIMCO Properties, L.P. and Terry Considine (Exhibit 10.1 to Aimco s Current Report on Form 8-K, filed December 29, 2008, is incorporated herein by this reference)*
10.13	Apartment Investment and Management Company 1997 Stock Award and Incentive Plan (October 1999) (Exhibit 10.26 to Aimco s Annual Report on Form 10-K for the year ended December 31, 1999, is incorporated herein by this reference)*
10.14	Form of Restricted Stock Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.11 to Aimco s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997, is incorporated herein by this reference)*
10.15	Form of Incentive Stock Option Agreement (1997 Stock Award and Incentive Plan) (Exhibit 10.42 to Aimco s Annual Report on Form 10-K for the year ended December 31, 1998, is incorporated herein by this reference)*
10.16	2007 Stock Award and Incentive Plan (incorporated by reference to Appendix A to Aimco s Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 20, 2007)*
10.17	Form of Restricted Stock Agreement (Exhibit 10.2 to Aimco s Current Report on Form 8-K, dated April 30, 2007, is incorporated herein by this reference)*
10.18	Form of Non-Qualified Stock Option Agreement (Exhibit 10.3 to Aimco s Current Report on Form 8-K, dated April 30, 2007, is incorporated herein by this reference)*
10.19	2007 Employee Stock Purchase Plan (incorporated by reference to Appendix B to Aimco s Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 20, 2007)*
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit No.	Description
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Agreement re: disclosure of long-term debt instruments

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

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

* Management contract or compensatory plan or arrangement

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SIGNATURES

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

Apartment Investment and
Management Company

/s/ Terry Considine

Terry Considine
Chairman of the Board and
Chief Executive Officer

Date: February 27, 2009

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

Signature	Title	Date
/s/ Terry Considine Terry Considine	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 27, 2009
/s/ Thomas M. Herzog Thomas M. Herzog	Executive Vice President and Chief Financial Officer (principal financial officer)	February 27, 2009
/s/ Paul Beldin Paul Beldin	Senior Vice President and Chief Accounting Officer (principal accounting officer)	February 27, 2009
/s/ James N. Bailey James N. Bailey	Director	February 27, 2009
/s/ Richard S. Ellwood Richard S. Ellwood	Director	February 27, 2009
/s/ Thomas L. Keltner Thomas L. Keltner	Director	February 27, 2009
/s/ J. Landis Martin J. Landis Martin	Director	February 27, 2009

/s/ Robert A. Miller	Director	February 27, 2009
Robert A. Miller		
/s/ Thomas L. Rhodes	Director	February 27, 2009
Thomas L. Rhodes		
/s/ Michael A. Stein	Director	February 27, 2009
Michael A. Stein		

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

INDEX TO FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors Apartment Investment and Management Company

We have audited the accompanying consolidated balance sheets of Apartment Investment and Management Company (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the accompanying Index to Financial Statements. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
February 26, 2009

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

CONSOLIDATED BALANCE SHEETS
As of December 31, 2008 and 2007
(In thousands, except share data)

	2008	2007
ASSETS		
Real estate:		
Buildings and improvements	$ 8,552,635	$ 7,893,171
Land	2,332,457	2,355,103
Total real estate	10,885,092	10,248,274
Less accumulated depreciation	(2,782,724)	(2,361,232)
Net real estate	8,102,368	7,887,042
Cash and cash equivalents	299,676	210,461
Restricted cash	258,303	313,694
Accounts receivable, net	89,132	71,463
Accounts receivable from affiliates, net	33,536	34,958
Deferred financing costs, net	59,473	65,888
Notes receivable from unconsolidated real estate partnerships, net	22,567	35,186
Notes receivable from non-affiliates, net	136,633	143,054
Investment in unconsolidated real estate partnerships	109,312	117,217
Other assets	196,671	207,857
Deferred income tax assets, net	28,326	14,426
Assets held for sale	67,160	1,505,286
Total assets	$ 9,403,157	$ 10,606,532
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	$ 721,971	$ 756,442
Property loans payable	5,559,169	5,096,473
Term loans	400,000	475,000
Other borrowings	95,981	75,057
Total indebtedness	6,777,121	6,402,972
Accounts payable	64,241	65,235
Accrued liabilities and other	411,114	441,042
Deferred income	195,997	200,199
Security deposits	43,277	41,141
Liabilities related to assets held for sale	56,341	1,151,198
Total liabilities	7,548,091	8,301,787

Minority interest in consolidated real estate partnerships	348,484	441,778
Minority interest in Aimco Operating Partnership	88,148	113,263
Commitments and contingencies (Note 8)		
Stockholders equity:		
Perpetual Preferred Stock	696,500	723,500
Class A Common Stock, $.01 par value, 426,157,736 shares authorized, 116,180,877 and 135,210,365 shares issued and outstanding, at December 31, 2008 and 2007, respectively	1,162	1,352
Additional paid-in capital	3,056,550	3,508,342
Notes due on common stock purchases	(3,607)	(5,441)
Distributions in excess of earnings	(2,332,171)	(2,478,049)
Total stockholders equity	1,418,434	1,749,704
Total liabilities and stockholders equity	$ 9,403,157	$ 10,606,532

See notes to consolidated financial statements.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2008, 2007 and 2006
(In thousands, except per share data)

	2008	2007	2006
REVENUES:			
Rental and other property revenues	$ 1,350,950	$ 1,296,142	$ 1,212,958
Property management revenues, primarily from affiliates	6,345	6,923	12,312
Asset management and tax credit revenues	100,623	73,755	48,893
Total revenues	1,457,918	1,376,820	1,274,163
OPERATING EXPENSES:			
Property operating expenses	626,001	596,902	549,716
Property management expenses	5,385	6,678	6,289
Investment management expenses	21,389	20,514	14,742
Depreciation and amortization	458,595	403,786	368,783
General and administrative expenses	99,040	90,667	91,571
Other expenses, net	19,939	16,518	12,951
Restructuring costs	22,802		
Total operating expenses	1,253,151	1,135,065	1,044,052
Operating income	204,767	241,755	230,111
Interest income	17,130	40,887	32,173
Provision for losses on notes receivable, net	(4,179)	(3,951)	(2,785)
Interest expense	(368,709)	(355,440)	(326,060)
Deficit distributions to minority partners	(43,013)	(32,599)	(15,519)
Equity in losses of unconsolidated real estate partnerships	(4,601)	(277)	(2,070)
(Provision for) recoveries of operating real estate impairment losses	(5,617)	(1,637)	813
Provision for impairment losses on real estate development assets	(107,459)		
Gain on dispositions of unconsolidated real estate and other	99,602	32,061	27,730
Loss before income taxes, minority interests and discontinued operations	(212,079)	(79,201)	(55,607)
Income tax benefit	53,371	19,840	11,095
Minority interests:			
Minority interest in consolidated real estate partnerships	22,052	1,123	(12,464)
Minority interest in Aimco Operating Partnership, preferred	(7,646)	(7,128)	(7,153)
Minority interest in Aimco Operating Partnership, common	15,004	12,182	14,025
Total minority interests	29,410	6,177	(5,592)
Loss from continuing operations	(129,298)	(53,184)	(50,104)
Income from discontinued operations, net	544,761	83,095	226,891

Net income		415,463		29,911		176,787
Net income attributable to preferred stockholders		53,708		66,016		81,132
Net income (loss) attributable to common stockholders	$	361,755	$	(36,105)	$	95,655
Earnings (loss) per common share basic and diluted:						
Loss from continuing operations (net of preferred dividends)	$	(1.51)	$	(0.85)	$	(0.93)
Income from discontinued operations		4.49		0.59		1.61
Net income (loss) attributable to common stockholders	$	2.98	$	(0.26)	$	0.68
Weighted average common shares outstanding basic and diluted		121,213		140,137		141,053
Dividends declared per common share	$	5.73	$	2.92	$	1.63

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the Years Ended December 31, 2008, 2007 and 2006
(In thousands)

	Preferred Stock		Class A Common Stock			Notes Due on Common Stock Purchases		
	Shares Issued	Amount	Shares Issued	Amount	Additional Paid-in Capital	Notes Due on Common Stock Purchases	Distributions in Excess of Earnings	Total
Balances at December 31, 2005 (before special dividends)	38,325	$ 1,010,250	100,473	$ 1,004	$ 3,258,773	$ (25,911)	$ (1,528,013)	$ 2,716,103
Common Stock issued pursuant to special dividends (Note 1)			40,845	408	458,908		(459,316)	
Balances at December 31, 2005	38,325	1,010,250	141,318	1,412	3,717,681	(25,911)	(1,987,329)	2,716,103
Cumulative effect of change in accounting principle adoption of EITF 04-5							(75,012)	(75,012)
Issuance of 200 shares of CRA Preferred Stock		100,000			(2,509)			97,491
Redemption of Preferred Stock	(11,470)	(286,750)			6,848		(6,848)	(286,750)
Redemption of Aimco Operating Partnership units for Common			146	1	4,560			4,561

Stock Repurchases of Common Stock			(3,397)	(34)	(120,225)			(120,259)
Repayment of notes receivable from officers						21,844		21,844
Officer and employee stock awards and purchases, net			674	7	676	(647)		36
Stock options exercised			4,172	42	107,562			107,604
Excess income tax benefits related to stock-based compensation and other					454			454
Common Stock issued as consideration for acquisition of interest in real estate			11		479			479
Amortization of stock option and restricted stock compensation cost					15,874			15,874
Net income							176,787	176,787
Cash dividends declared on Common Stock							(232,185)	(232,185)
Preferred Stock dividends							(87,135)	(87,135)
Balances at December 31, 2006	26,855	823,500	142,924	1,428	3,731,400	(4,714)	(2,211,722)	2,339,892
Redemption of Preferred Stock	(1,905)	(100,000)			635		(2,635)	(102,000)
Cumulative effect of change in							(764)	(764)

accounting principle adoption of FIN 48								
Redemption of Aimco Operating Partnership units for Common Stock			695	7	27,846			27,853
Repayment of notes receivable from officers						1,659		1,659
Officer and employee stock awards and purchases, net			466	5	2,553	(2,386)		172
Stock options exercised			2,070	21	53,698			53,719
Repurchases of Common Stock			(10,945)	(109)	(325,713)			(325,822)
Amortization of stock option and restricted stock compensation cost					19,224			19,224
Reversal of excess income tax benefits related to stock-based compensation and other					(1,301)			(1,301)
Net income							29,911	29,911
Cash dividends declared on Common Stock							(228,022)	(228,022)
Preferred Stock dividends							(64,817)	(64,817)
Balances at December 31, 2007	24,950	723,500	135,210	1,352	3,508,342	(5,441)	(2,478,049)	1,749,704
		(27,000)			678		1,482	(24,840)

Repurchase of Preferred Stock								
Redemption of Aimco Operating Partnership units for Common Stock			160	2	4,180			4,182
Repayment of notes receivable from officers						1,458		1,458
Officer and employee stock awards and purchases, net			348	3	824	(613)		214
Stock options exercised			19		481			481
Forfeitures of officer and employee stock awards			(207)	(2)	(1,027)	989		(40)
Repurchases of Common Stock			(19,349)	(193)	(473,319)			(473,512)
Amortization of stock option and restricted stock compensation cost					17,603			17,603
Other					(1,212)			(1,212)
Net income							415,463	415,463
Cash dividends declared on Common Stock							(215,853)	(215,853)
Preferred Stock dividends							(55,214)	(55,214)
Balances at December 31, 2008	24,950	$ 696,500	116,181	$ 1,162	$ 3,056,550	$ (3,607)	$ (2,332,171)	$ 1,418,434

See notes to consolidated financial statements.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008, 2007 and 2006
(In thousands)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 415,463	$ 29,911	$ 176,787
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	458,595	403,786	368,783
Deficit distributions to minority partners	43,013	32,599	15,519
Equity in losses of unconsolidated real estate partnerships	4,601	277	2,070
Provision for impairment losses on real estate development assets	107,459		
Real estate impairment losses (recoveries), net	5,617	1,637	(813)
Gain on dispositions of unconsolidated real estate and other	(99,602)	(32,061)	(27,730)
Deferred income tax benefit	(53,371)	(19,840)	(11,095)
Minority interest in consolidated real estate partnerships	(22,052)	(1,123)	12,464
Minority interest in Aimco Operating Partnership	(7,358)	(5,054)	(6,872)
Stock-based compensation expense	13,833	14,921	12,314
Amortization of deferred loan costs and other	10,694	9,827	14,893
Distributions of earnings from unconsolidated entities	14,619	4,239	3,578
Distributions of earnings to minority interest in consolidated real estate partnerships	(18,887)	(17,406)	(13,369)
Discontinued operations:			
Depreciation and amortization	57,288	96,554	129,994
Gain on disposition of real estate, net of minority partners interest	(618,168)	(65,076)	(258,970)
Other adjustments to income from discontinued operations	82,911	1,047	42,844
Changes in operating assets and operating liabilities:			
Accounts receivable	4,848	7,453	(3,178)
Other assets	53,699	(9,751)	45,332
Accounts payable, accrued liabilities and other	(31,721)	13,596	16,359
Total adjustments	6,018	435,625	342,123
Net cash provided by operating activities	421,481	465,536	518,910
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of real estate	(112,655)	(201,434)	(153,426)
Capital expenditures	(665,233)	(689,719)	(512,564)
Proceeds from dispositions of real estate	2,060,344	431,863	958,604
Change in funds held in escrow from tax-free exchanges	345	25,863	(19,021)
Cash from newly consolidated properties	241	7,549	23,269

Proceeds from sale of interests and distributions from real estate partnerships	94,277	198,998	45,662
Purchases of partnership interests and other assets	(28,121)	(86,204)	(37,570)
Originations of notes receivable	(6,911)	(10,812)	(94,640)
Proceeds from repayment of notes receivable	8,929	14,370	9,604
Other investing activities	(6,347)	37,927	13,122
Net cash provided by (used in) investing activities	1,344,869	(271,599)	233,040
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from property loans	949,549	1,552,048	1,185,670
Principal repayments on property loans	(1,291,543)	(850,484)	(1,004,142)
Proceeds from tax-exempt bond financing	50,100	82,350	75,568
Principal repayments on tax-exempt bond financing	(217,361)	(70,029)	(229,287)
(Payments on) borrowings under term loans	(75,000)	75,000	
Net repayments on revolving credit facility		(140,000)	(77,000)
Proceeds from (payments on) other borrowings	21,367	(8,468)	(22,838)
Proceeds from issuance of preferred stock, net			97,491
Repurchases and redemptions of preferred stock	(24,840)	(102,000)	(286,750)
Repurchase of Class A Common Stock	(502,296)	(307,382)	(109,937)
Proceeds from Class A Common Stock option exercises	481	53,719	107,603
Principal repayments received on notes due on Class A Common Stock purchases	1,458	1,659	21,844
Payment of Class A Common Stock dividends	(212,286)	(230,806)	(231,697)
Payment of preferred stock dividends	(55,215)	(67,100)	(74,700)
Payment of distributions to minority interest	(311,695)	(180,684)	(117,216)
Other financing activities	(9,854)	(21,123)	(18,465)
Net cash used in financing activities	(1,677,135)	(213,300)	(683,856)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89,215	(19,363)	68,094
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	210,461	229,824	161,730
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 299,676	$ 210,461	$ 229,824

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008, 2007 and 2006
(In thousands)

	2008	2007	2006
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 434,645	$ 452,324	$ 423,456
Cash paid for income taxes	13,780	2,994	9,807
Non-cash transactions associated with the acquisition of real estate and interests in unconsolidated real estate partnerships:			
Secured debt assumed in connection with purchase of real estate		16,000	47,112
Issuance of OP Units for interests in unconsolidated real estate partnerships and acquisitions of real estate		2,998	13
Non-cash transactions associated with the disposition of real estate:			
Secured debt assumed in connection with the disposition of real estate	157,394	27,929	
Issuance of notes receivable connection with the disposition of real estate	10,372		
Non-cash transactions associated with consolidation of real estate partnerships:			
Real estate, net	25,830	56,877	675,621
Investments in and notes receivable primarily from affiliated entities	4,497	84,545	(219,691)
Restricted cash and other assets	5,483	8,545	94,380
Secured debt	22,036	41,296	503,342
Accounts payable, accrued and other liabilities	14,020	48,602	41,580
Other non-cash transactions:			
Redemption of common OP Units for Class A Common Stock	4,182	27,810	4,362
Conversion of preferred OP Units for Class A Common Stock		43	199
Origination of notes receivable from officers for Class A Common Stock purchases, net of cancellations	(385)	2,386	647

See notes to consolidated financial statements.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 Organization

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of December 31, 2008, we owned or managed a real estate portfolio of 992 apartment properties containing 162,807 apartment units located in 44 states, the District of Columbia and Puerto Rico. We are one of the largest owners and operators of apartment properties in the United States.

As of December 31, 2008, we:

owned an equity interest in and consolidated 117,719 units in 514 properties (which we refer to as consolidated properties), of which 114,966 units were also managed by us;

owned an equity interest in and did not consolidate 9,613 units in 85 properties (which we refer to as unconsolidated properties), of which 4,546 units were also managed by us; and

provided services for or managed 35,475 units in 393 properties, primarily pursuant to long-term agreements (including 32,223 units in 359 properties for which we provide asset management services only, and not also property management services). In certain cases, we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP Trust, 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, 2008, we held an interest of approximately 91% in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. The Aimco Operating Partnership s income is allocated to holders of common OP Units based on the weighted average number of common OP Units outstanding during the period. The Aimco Operating Partnership records the issuance of common OP Units and the assets acquired in purchase transactions based on the market price of Aimco Class A Common Stock (which we refer to as Common Stock) at the date of closing of the transaction. The holders of the common OP Units and Class I High Performance Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid to holders of Common Stock. Holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership s option, Common Stock. During 2008, 2007 and 2006, the weighted average ownership interest in the Aimco Operating Partnership held by the common OP Unit holders was approximately 8%, 9% and 10%, respectively. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At December 31, 2008, 101,176,232 shares of our Common Stock were outstanding (before the effect of the January 29, 2009, special dividend discussed below) and the Aimco Operating Partnership had 9,484,191 common OP Units and equivalents outstanding for a combined total of 110,660,423 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

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

In December 2007, July 2008, October 2008, and December 2008, the Aimco Operating Partnership declared special distributions payable on January 30, 2008, August 29, 2008, December 1, 2008, and January 29, 2009, respectively, to holders of record of common OP Units and High Performance Units on December 31, 2007, July 28, 2008, October 27, 2008, and December 29, 2008, respectively. The special distributions were paid on common OP Units and High Performance Units in the amounts listed below. The Aimco Operating Partnership distributed to us common OP Units equal to the number of shares we issued pursuant to our corresponding special dividends (discussed below) in addition to approximately $0.60 per unit in cash. Holders of common OP Units other than us and holders of High Performance Units received the distribution entirely in cash, in the amounts noted below.

Aimco Operating Partnership Special Distributions	January 2008 Special Distribution	August 2008 Special Distribution	December 2008 Special Distribution	January 2009 Special Distribution
Distribution per unit	$ 2.51	$ 3.00	$ 1.80	$ 2.08
Total distribution	$ 257.2 million	$ 285.5 million	$ 176.6 million	$ 230.1 million
Common OP Units and High Performance Units outstanding on record date	102,478,510	95,151,333	98,136,520	110,654,142
Common OP Units held by Aimco	92,795,891	85,619,144	88,650,980	101,169,951
Total distribution on Aimco common OP Units	$ 232.9 million	$ 256.9 million	$ 159.6 million	$ 210.4 million
Cash distribution to Aimco	$ 55.0 million	$ 51.4 million	$ 53.2 million	$ 60.6 million
Portion of distribution paid to Aimco through issuance of common OP Units	$ 177.9 million	$ 205.5 million	$ 106.4 million	$ 149.8 million
Common OP Units issued to Aimco pursuant to distributions	4,594,074	5,731,310	12,572,267	15,627,330
Cash distributed to common OP Units and High Performance Units other than Aimco	$ 24.3 million	$ 28.6 million	$ 17.0 million	$ 19.7 million

Also in December 2007, July 2008, October 2008, and December 2008, our Board of Directors declared corresponding special dividends payable on January 30, 2008, August 29, 2008, December 1, 2008, and January 29, 2009, respectively, to holders of record of our Common Stock on December 31, 2007, July 28, 2008, October 27, 2008, and December 29, 2008, respectively. A portion of the special dividends in the amount of $0.60 per share represents payment of the regular dividend for the quarters ended December 31, 2007, June 30, 2008, September 30, 2008, and December 31, 2008, and the remaining amount per share represents an additional dividend associated with taxable gains from property dispositions. The special dividends were paid in the amounts listed in the table below. Portions of the special dividends were paid through the issuance of shares of Common Stock.

Aimco Special Dividends	January 2008 Special Dividend	August 2008 Special Dividend	December 2008 Special Dividend	January 2009 Special Dividend
Dividend per share	$ 2.51	$ 3.00	$ 1.80	$ 2.08
Outstanding shares of Common Stock on the record date	92,795,891	85,619,144	88,650,980	101,169,951
Total dividend	$ 232.9 million	$ 256.9 million	$ 159.6 million	$ 210.4 million
Portion of dividend paid in cash	$ 55.0 million	$ 51.4 million	$ 53.2 million	$ 60.6 million
Portion of dividend paid through issuance of shares	$ 177.9 million	$ 205.5 million	$ 106.4 million	$ 149.8 million
Shares issued pursuant to dividend	4,594,074	5,731,310	12,572,267	15,627,330
Effective increase in outstanding shares on record date	4.95%	6.70%	14.18%	15.45%
Average share price on determination date	$ 38.71	$ 35.84	$ 8.46	$ 9.58

Amounts after elimination of the effects of shares of Common Stock held by consolidated subsidiaries:				
Outstanding shares of Common Stock on the record date	92,379,751	85,182,665	88,186,456	100,642,817
Total dividend	$ 231.9 million	$ 255.5 million	$ 158.7 million	$ 209.3 million
Portion of dividend paid in cash	$ 54.8 million	$ 51.1 million	$ 52.9 million	$ 60.3 million
Portion of dividend paid through issuance of shares	$ 177.1 million	$ 204.4 million	$ 105.8 million	$ 149.0 million
Shares issued pursuant to dividend	4,573,735	5,703,265	12,509,657	15,548,996

The effect of the issuance of additional shares of Common Stock pursuant to the special dividends has been retroactively reflected in each of the historical periods presented as if those shares were issued and outstanding at the beginning of the earliest period presented; accordingly, all activity prior to the ex-dividend date of the special dividends, including share issuances, repurchases and forfeitures, have been adjusted to reflect the effective increases in the number of shares, except in limited instances where noted otherwise.

The following table reconciles our shares issued and outstanding at December 31, 2008, to our shares outstanding at December 31, 2008, per the consolidated financial statements:

Common shares issued and outstanding	101,176,232
Shares issued January 29, 2009, pursuant to the special dividend	15,627,330
Elimination of shares owned by consolidated subsidiaries (prior to January 2009 special dividend)	(527,134)
Elimination of shares issued to consolidated subsidiaries pursuant to the January 2009 special dividend	(78,334)
Forfeitures and other activity not yet processed by transfer agent	(17,217)
Common shares outstanding at December 31, 2008, per consolidated financial statements	116,180,877

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated entities. We consolidate all variable interest entities for which we are the primary beneficiary. Generally, we consolidate real estate partnerships and other entities that are not variable interest entities when we own, directly or indirectly, a majority voting interest in the entity or are otherwise able to control the entity. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

Variable Interest Entities

FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46, addresses the consolidation by business enterprises of variable interest entities. We consolidate all variable interest entities for which we are the primary beneficiary. Generally, a variable interest entity, or VIE, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about an entity s activities through voting or similar rights,

(ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests and substantially all of the entity s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. FIN 46 requires a VIE to be consolidated in the financial statements of the entity that is determined to be the primary beneficiary of the VIE. The primary beneficiary generally is the entity that will receive a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current and future fair values and performance of real estate held by these VIEs and general market conditions.

As of December 31, 2008, we were the primary beneficiary of, and therefore consolidated, 93 VIEs, which owned 70 apartment properties with 10,096 units. Real estate with a carrying value of $796.7 million collateralized $472.0 million of debt of those VIEs. The creditors of the consolidated VIEs do not have recourse to our general credit. As of December 31, 2008, we also held variable interests in 130 VIEs for which we were not the primary beneficiary. Those VIEs consist primarily of partnerships that are engaged, directly or indirectly, in the ownership and management of 181 apartment properties with 11,181 units. We are involved with those VIEs as an equity holder, lender, management agent, or through other contractual relationships. At December 31, 2008, our maximum exposure to loss as a result of our involvement with unconsolidated VIEs is limited to our recorded investments in and receivables from those VIEs totaling $117.2 million and our contractual obligation to advance funds to certain VIEs totaling $5.6 million. We may be subject to additional losses to the extent of any financial support that we voluntarily provide in the future. Additionally, the provision of financial support in the future may require us to consolidate a VIE.

Adoption of EITF 04-5

In June 2005, the Financial Accounting Standards Board, or FASB, ratified Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, or EITF 04-5. EITF 04-5 provides an accounting model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of substantive kick-out rights and substantive participating rights held by the limited partners, and provides additional guidance on what constitutes those rights. EITF 04-5 was effective after June 29, 2005, for general partners of (a) all newly formed limited partnerships and (b) existing limited partnerships for which the partnership agreements have been modified. We consolidated four partnerships in the fourth quarter of 2005 based on EITF 04-5 requirements. The consolidation of those partnerships had an immaterial effect on our consolidated financial statements. EITF 04-5 was effective on January 1, 2006, for general partners of all limited partnerships and similar entities. We applied EITF 04-5 as of January 1, 2006, using a transition method that does not involve retrospective application to our financial statements for prior periods.

We consolidated 156 previously unconsolidated partnerships as a result of the application of EITF 04-5 in 2006. Those partnerships own, or control other entities that own, 149 apartment properties. Our direct and indirect interests in the profits and losses of those partnerships range from less than one percent to 50 percent, and average approximately 22 percent.

In prior periods, we used the equity method to account for our investments in the partnerships that we consolidated in 2006 in accordance with EITF 04-5. Under the equity method, we recognized partnership income or losses based generally on our percentage interest in the partnership. Consolidation of a partnership does not ordinarily result in a change to the net amount of partnership income or loss that is recognized using the equity method. However, when a partnership has a deficit in equity, accounting principles generally accepted in the United States of America, or GAAP, may require the controlling partner that consolidates the partnership to recognize any losses that would otherwise be allocated to noncontrolling partners, in addition to the controlling partner s share of losses. Certain of the partnerships that we consolidated in accordance with EITF 04-5 had deficits in equity that resulted from losses or deficit distributions during prior periods when we accounted for our investment using the equity method. We would have been required to recognize the noncontrolling partners share of those losses had we applied EITF 04-5 in those prior periods. In accordance with our transition method for the adoption of EITF 04-5, we recorded a $75.0 million charge to retained earnings as of January 1, 2006, for the cumulative amount of additional losses that we would have recognized had we applied EITF 04-5 in prior periods. Substantially all of those losses were attributable to real estate depreciation expense. As a result of applying EITF 04-5 for the year ended December 31, 2006, our income from continuing operations includes partnership losses in addition to losses that would have resulted from continued application of the equity method of $24.4 million.

Adoption of SFAS 157

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS 157. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates and requires disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity s own data, and to nonrecurring fair value measurements of non-financial assets and non-financial liabilities for fiscal years beginning after November 15, 2008. The provisions of SFAS 157 are applicable to recurring and nonrecurring fair value measurements of financial assets and liabilities for fiscal years beginning after November 15, 2007, including interim periods within those fiscal years. We adopted the provisions of SFAS 157 that apply to recurring and nonrecurring fair value measurements of financial assets and liabilities effective January 1, 2008, and at that time determined no transition adjustment was required.

Basis of Fair Value Measurement (Valuation Hierarchy)

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1	Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument
Level 3	Unobservable inputs that are significant to the fair value measurement

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for our significant financial instruments measured at fair value on a recurring or nonrecurring basis. Although some of the valuation methodologies use observable market inputs in limited instances, the majority of inputs we use are unobservable and are therefore classified within Level 3 of the valuation hierarchy.

Fair Value Measurement	Valuation Methodologies
Notes receivable	We assess the collectibility of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the real estate, the collateral for the loan, which represents the primary source of loan repayment. The fair value of the collateral, such as real estate or interests in real estate partnerships, is estimated through income and market valuation approaches using information such as broker estimates, purchase prices for recent transactions on comparable assets and net operating income capitalization analyses using observable and unobservable inputs such as capitalization rates, asset quality grading, geographic location analysis, and local supply and demand observations.
Total rate of return swaps	Our total rate of return swaps have contractually-defined termination values generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings. Upon termination, we are required to pay the counterparty the difference if the fair value is less than the purchased value, and the counterparty is required to pay us the difference if the fair value is greater than the purchased value. The underlying borrowings are generally callable, at our option, at face value prior to maturity and with no prepayment penalty. Due to our control of the call features in the underlying borrowings, we believe the inherent value of any differential between the fixed and variable cash payments due under the swaps would be significantly discounted by a market participant willing to purchase or assume any rights and obligations under these contracts. The swaps are generally cross-collateralized with other swap contracts with the same counterparty and do not allow transfer or assignment, thus there is no alternate or secondary market for these instruments. Accordingly, our assumptions of the fair value that a willing market participant would assign in valuing these instruments are based on a hypothetical market in which the highest and best use of these contracts is in-use in combination with the related borrowings, similar to how we use the contracts. Based on these assumptions, we believe the termination value, or exit value, of the swaps approximates the fair value that would be assigned by a willing market participant. We calculate the termination value using a market approach by reference to estimates of the fair value of the underlying borrowings, which are discussed below, and an evaluation of potential changes in the credit quality of the counterparties to these arrangements. We compare our estimates of fair value of the swaps and related borrowings to valuations

	provided by the counterparties on a quarterly basis. Our method for calculating fair value of the swaps generally results in changes in fair value equal to the changes in fair value of the related borrowings. We believe these instruments are highly effective in offsetting the changes in fair value of the borrowings during the hedging period.
Changes in fair value of borrowings subject to total rate of return swaps	We recognize changes in the fair value of certain borrowings subject to total rate of return swaps, which we have designated as fair value hedges in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* or SFAS 133.

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Fair Value Measurement	Valuation Methodologies
	We estimate the fair value of debt instruments using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, collateral quality and loan-to-value ratios on similarly encumbered assets within our portfolio. These borrowings are collateralized and non-recourse to us; therefore, we believe changes in our credit rating will not materially affect a market participant s estimate of the borrowings fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Amounts subject to SFAS 157 reported at fair value in our consolidated balance sheet at December 31, 2008, all of which are based on significant unobservable inputs classified within Level 3 of the fair value hierarchy, are summarized below (in thousands):

	Assets (Liabilities)
Total rate of return swaps	$ (29,495)
Cumulative reduction of carrying amount of debt instruments subject to total rate of return swaps	$ 29,495

Changes in Level 3 Fair Value Measurements

The table below presents the balance sheet amounts at December 31, 2007 and 2008 (and the changes in fair value between such dates) for fair value measurements classified within Level 3 of the valuation hierarchy (in thousands). When a determination is made to classify a fair value measurement within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 fair value measurements typically include, in addition to the unobservable or Level 3 components, observable components that can be validated to observable external sources; accordingly, the changes in fair value in the table below are due in part to observable factors that are part of the valuation methodology.

	Fair value at December 31, 2007	Unrealized Gains (Losses) included in earnings(1)	Realized gains (losses) included in earnings(2)	Fair value at December 31, 2008
Total rate of return swaps	$ (9,420)	$ (20,075)(3)	$	$ (29,495)
Changes in fair value of debt instruments subject to total rate of return swaps	9,420	20,075(3)		29,495

Total	$	$	$	$

(1) Unrealized gains (losses) relate to periodic revaluations of fair value and have not resulted from the settlement of a swap position.

(2) For total rate of return swaps, realized gains (losses) occur upon the settlement, resulting from the repayment of the underlying borrowings or the early termination of the swap, and include any net amounts paid or received upon such settlement. During the year ended December 31, 2008, we terminated total rate of return swaps with notional amounts totaling $90.3 million in connection with the sale of four properties and repayment of the related hedged debt. We repaid the debt at the swap counterparty s purchased value, and accordingly we incurred no termination payments upon termination of the related swaps.

(3) Included in interest expense in the accompanying consolidated statements of income.

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Fair Value of Financial Instruments

We believe that the aggregate fair value of our cash and cash equivalents, receivables, payables and short-term secured debt approximates their aggregate carrying value at December 31, 2008, due to their relatively short-term nature and high probability of realization. We estimate fair value for our notes receivable and debt instruments using present value techniques that include income and market valuation approaches with market rates for debt with the same or similar terms. Present value calculations vary depending on the assumptions used, including the discount rate and estimates of future cash flows. In many cases, the fair value estimates may not be realizable in immediate settlement of the instruments. The estimated aggregate fair value of our notes receivable was approximately $161.6 million and $191.5 million at December 31, 2008 and 2007, respectively. See Note 5 for further information on notes receivable. The estimated aggregate fair value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $6.7 billion and $7.6 billion at December 31, 2008 and 2007, respectively. The combined carrying value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) and our outstanding term loans was approximately $6.8 billion and $7.5 billion at December 31, 2008 and 2007, respectively. See Note 6 and Note 7 for further details on our consolidated debt. Refer to *Derivative Financial Instruments* for further discussion regarding certain of our fixed rate debt that is subject to total rate of return swap instruments.

Adoption of SFAS 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS 159. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We implemented SFAS 159 on January 1, 2008, and at that time did not elect the fair value option for any of our financial instruments or other items within the scope of SFAS 159.

Tax Credit Arrangements

We sponsor certain partnerships that own and operate apartment properties that qualify for tax credits under Section 42 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and for the U.S. Department of Housing and Urban Development, or HUD, subsidized rents under HUD s Section 8 program. These partnerships acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. The tax credits are generally realized ratably over the first ten years of the tax credit arrangement and are subject to the partnership s compliance with applicable laws and regulations for a period of 15 years. Typically, we are the general partner with a legal ownership interest of one percent or less. We market limited partner interests of at least 99 percent to unaffiliated institutional investors (which we refer to as tax credit investors or investors) and receive a syndication fee from each investor upon such investor s admission to the partnership. At inception, each investor agrees to fund capital contributions to the partnerships. We agree to perform various services to the partnerships in exchange for fees over the expected duration of the tax credit service period. The related partnership agreements generally require adjustment of each tax credit investor s required capital contributions if actual tax benefits to such investor differ from projected amounts.

We have determined that the partnerships in these arrangements are variable interest entities and, where we are general partner, we are the primary beneficiary that is required to consolidate the partnerships. Based on the contractual arrangements that obligate us to deliver tax benefits to the investors, and that entitle us through fee arrangements to receive substantially all available cash flow from the partnerships, we determined that these partnerships are most appropriately accounted for by us as wholly owned subsidiaries. We also determined that capital contributions received by the partnerships from tax credit investors represent, in substance, consideration that we receive in exchange for our obligation to deliver tax credits and other tax benefits to the investors, and these receipts are appropriately recognized as revenue in our consolidated financial statements when our obligation to the investors is relieved upon delivery of the expected tax benefits.

In summary, our accounting treatment recognizes the income or loss generated by the underlying real estate based on our economic interest in the partnerships. Proceeds received in exchange for the transfer of the tax credits are recognized as revenue proportionately as the tax benefits are delivered to the tax credit investors and our obligation is relieved. Syndication fees and related costs are recognized in income upon completion of the syndication effort. We recognize syndication fees in amounts determined based on a market rate analysis of fees for comparable services, which generally fell within a range of 10% to 15% of investor contributions during the periods presented. Other direct and incremental costs incurred in structuring these arrangements are deferred and amortized over the expected duration of the arrangement in proportion to the recognition of related income. Investor contributions in excess of recognized revenue are reported as deferred income in our consolidated balance sheets.

During the years ended December 31, 2008, 2007 and 2006, we recognized syndication fee income of $3.4 million, $13.8 million and $12.7 million, respectively, and revenue associated with the delivery of tax benefits of $29.4 million, $24.0 million and $16.0 million, respectively. At December 31, 2008 and 2007, $159.6 million and $149.2 million, respectively, of investor contributions in excess of the recognized revenue were included in deferred income in our consolidated balance sheets.

Acquisition of Real Estate Assets and Related Depreciation and Amortization

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

1. The value of the above- and below-market leases in-place. An asset or liability is recognized based on the difference between (a) the contractual amounts to be paid pursuant to the in-place leases and (b) our estimate of fair market lease rates for the corresponding in-place leases, measured over the period, including estimated lease renewals for below-market leases, that the leases are expected to remain in effect.

2. The estimated unamortized portion of avoided leasing commissions and other costs that ordinarily would be incurred to acquire the in-place leases.

3. The value associated with vacant units during the absorption period (estimates of lost rental revenue during the expected lease-up periods based on current market demand and stabilized occupancy levels).

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

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

At December 31, 2008 and 2007, deferred income in our consolidated balance sheets includes below-market lease values totaling $36.2 million and $45.0 million, respectively which are net of accumulated amortization of

$16.6 million and $12.2 million, respectively. Additions to below-market leases resulting from acquisitions during the year ended December 31, 2007 totaled $18.9 million, and there were no such additions during the years ended December 31, 2008 or 2006. During the years ended December 31, 2008, 2007 and 2006, we included amortization of below-market leases of $4.4 million, $4.6 million and $2.8 million, respectively, in rental and other property revenues in our consolidated statements of income. During the year ended December 31, 2008, we revised the estimated fair value of assets acquired and liabilities assumed in acquisitions completed in 2007, resulting in a $4.4 million reduction of below-market lease values and a corresponding reduction in buildings and improvements. At December 31, 2008, our below-market leases had a weighted average amortization period of 7.3 years and estimated aggregate amortization expense for each of the five succeeding years as follows:

2009	$ 4.4
2010	3.9
2011	3.6
2012	3.2
2013	2.8

Capital Expenditures and Related Depreciation

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

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

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

For the years ended December 31, 2008, 2007 and 2006, for continuing and discontinued operations, we capitalized $25.7 million, $30.8 million and $24.7 million, respectively, of interest costs, and $78.1 million, $78.1 million and $66.2 million, respectively, of site payroll and indirect costs, respectively.

Impairment of Long-Lived Assets

We apply the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* or SFAS 144, to determine whether our real estate and other long-lived assets are impaired. Such assets to be held and used are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows, excluding interest charges, of the property. If the carrying amount exceeds the aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. Based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2008 and 2007, we recorded operating real estate impairment losses of $5.6 million and $1.6 million, respectively, related to properties to be held and used. For the year ended December 31, 2006, we recorded net recoveries of previously recorded operating real estate impairment losses of $0.8 million.

In connection with the preparation of our annual financial statements, we assessed the recoverability of our investment in our Lincoln Place property, located in Venice, California. Based upon the recent decline in land values in Southern California and the expected timing of our redevelopment efforts, we determined that the total carrying amount of the property was no longer probable of full recovery and, accordingly, during the three months ended December 31, 2008, recognized an impairment loss of $85.4 million ($55.6 million net of tax).

Similarly, we assessed the recoverability of our investment in Pacific Bay Vistas (formerly Treetops), a vacant property located in San Bruno, California, and determined that the carrying value for the property exceeded its estimated fair value. Accordingly, we recognized an impairment loss of $5.7 million for this property during the three months ended December 31, 2008.

The impairment losses related to Lincoln Place, Pacific Bay Vistas and our investment in Casden Properties LLC (see Note 5), are included in provision for impairment losses on real estate development assets in our consolidated statement of income for the year ended December 31, 2008.

The amounts reported in continuing operations for real estate impairment (losses) recoveries, net include impairment losses related to consolidated properties to be held and used, as well as our share of all impairment losses or recoveries related to unconsolidated properties. We report impairment losses or recoveries related to properties sold or classified as held for sale in discontinued operations.

Our tests of recoverability address real estate assets that do not currently meet all conditions to be classified as held for sale, but are expected to be disposed of prior to the end of their estimated useful lives. If an impairment loss is not required to be recorded in accordance with SFAS 144, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We also may adjust depreciation prospectively to reduce to zero the carrying amount of buildings that we plan to demolish in connection with a redevelopment project. These depreciation adjustments, after adjustments for minority interest in the Aimco Operating Partnership, decreased net income by $10.7 million, $33.8 million and $31.2 million, and resulted in decreases in basic and diluted earnings per share of $0.09, $0.24 and $0.22, for the years ended December 31, 2008, 2007 and 2006, respectively.

Cash Equivalents

In accordance with GAAP, highly liquid investments with an original maturity of three months or less are classified as cash equivalents.

Restricted Cash

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are generally comprised of amounts receivable from residents, amounts receivable from non-affiliated real estate partnerships for which we provide property management and other services and other miscellaneous receivables from non-affiliated entities. We evaluate collectibility of accounts receivable from residents and establish an allowance, after the application of security deposits and other anticipated recoveries, for accounts greater than 30 days past due for current residents and all receivables due from former residents. Accounts receivable from residents are stated net of allowances for doubtful accounts of approximately $3.3 million and $3.1 million as of December 31, 2008 and 2007, respectively.

We evaluate collectibility of accounts receivable from non-affiliated entities and establish an allowance for amounts that are considered to be uncollectible. Accounts receivable relating to non-affiliated entities are stated net of allowances for doubtful accounts of approximately $5.0 million and $4.6 million as of December 31, 2008 and 2007, respectively.

Accounts Receivable and Allowance for Doubtful Accounts from Affiliates

Accounts receivable from affiliates are generally comprised of receivables related to property management and other services provided to unconsolidated real estate partnerships in which we have an ownership interest. We evaluate collectibility of accounts receivable balances from affiliates on a periodic basis, and establish an allowance for the amounts deemed to be uncollectible. Accounts receivable from affiliates are stated net of allowances for doubtful accounts of approximately $5.6 million and $5.3 million as of December 31, 2008 and 2007, respectively.

Deferred Costs

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

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

Advertising Costs

We generally expense all advertising costs as incurred to property operating expense. For the years ended December 31, 2008, 2007 and 2006, for both continuing and discontinued operations, total advertising expense was $36.0 million, $38.0 million and $34.7 million, respectively.

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

Notes receivable from unconsolidated real estate partnerships consist primarily of notes receivable from partnerships in which we are the general partner but do not consolidate the partnership under FIN 46 or EITF 04-5. The ultimate repayment of these notes and those from non-affiliates is subject to a number of variables, including the performance and value of the underlying real estate property and the claims of unaffiliated mortgage lenders. Our notes receivable include loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes, and loans extended by predecessors whose positions we generally acquired at a discount, which we refer to as discounted notes.

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

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

We assess the collectibility of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership s real estate that represents the primary source of loan repayment. In certain instances where other sources of cash flow are available to repay the loan, the impairment is measured by discounting the estimated cash flows at the loan s original effective interest rate. See Note 5 for further discussion of Notes Receivable.

Investments in Unconsolidated Real Estate Partnerships

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

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

Intangible Assets

At December 31, 2008 and 2007, other assets included goodwill associated with our real estate segment of $81.9 million. We account for goodwill and other intangible assets in accordance with the requirements of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, or SFAS 142. SFAS 142 does not permit amortization of goodwill and other intangible assets with indefinite lives, but requires an annual impairment test of such assets. The impairment test compares the fair value of reporting units with their carrying amounts, including goodwill. Based on the application of the goodwill impairment test set forth in SFAS 142, we determined that our goodwill was not impaired in 2008, 2007 or 2006.

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

Capitalized Software Costs

Purchased software and other costs related to software developed for internal use are capitalized during the application development stage and are amortized using the straight-line method over the estimated useful life of the software, generally five years. We write off the costs of software development projects when it is no longer probable that the software will be completed and placed in service. For the years ended December 31, 2008, 2007 and 2006, we capitalized software development costs totaling $20.9 million, $11.9 million and $6.5 million, respectively. At December 31, 2008 and 2007, other assets included $35.7 million and $29.0 million of net capitalized software, respectively. During the years ended December 31, 2008, 2007 and 2006, we recognized amortization of capitalized software of $10.0 million, $10.8 million and $14.5 million, respectively, which is included in depreciation and amortization in our consolidated statements of income.

During the year ended December 31, 2008, we reassessed our approach to communication technology needs at our properties, which resulted in the discontinuation of an infrastructure project and a $5.4 million write-off of related hardware and capitalized internal and consulting costs included in other assets. The write-off, which is net of sales proceeds, is included in other (income) expenses, net. During the year ended December 31, 2008, we additionally recorded a $1.6 million write-off of certain software and hardware assets that are no longer consistent with our information technology strategy. This write-off is included in depreciation and amortization. During the year ended December 31, 2007, we abandoned certain internal-use software development projects and recorded a $4.2 million write-off of the capitalized costs of such projects in depreciation and amortization. There were no similar write-offs during the year ended December 31, 2006.

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Minority Interest in Consolidated Real Estate Partnerships

We report unaffiliated partners interests in consolidated real estate partnerships as minority interest in consolidated real estate partnerships. Minority interest in consolidated real estate partnerships represents the minority partners share of the underlying net assets of our consolidated real estate partnerships. When these consolidated real estate partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we generally record a charge equal to the amount of such excess distribution, even though there is no economic effect or cost. We report this charge in the consolidated statements of income as deficit distributions to minority partners. We allocate the minority partners share of partnership losses to minority partners to the extent of the carrying amount of the minority interest. We generally record a charge when the minority partners share of partnership losses exceed the carrying amount of the minority interest, even though there is no economic effect or cost. We report this charge in the consolidated statements of income within minority interest in consolidated real estate partnerships. We do not record charges for distributions or losses in certain limited instances where the minority partner has a legal obligation and financial capacity to contribute additional capital to the partnership. For the years ended December 31, 2008, 2007 and 2006, we recorded charges for partnership losses resulting from depreciation of approximately $9.0 million, $12.2 million and $31.8 million respectively, that were not allocated to minority partners because the losses exceeded the carrying amount of the minority interest.

Minority interest in consolidated real estate partnerships consists primarily of equity interests held by limited partners in consolidated real estate partnerships that have finite lives. The terms of the related partnership agreements generally require the partnership to be liquidated following the sale of the partnership s real estate. As the general partner in these partnerships, we ordinarily control the execution of real estate sales and other events that could lead to the liquidation, redemption or other settlement of minority interests. The aggregate carrying value of minority interests in consolidated real estate partnerships is approximately $348.5 million at December 31, 2008. The aggregate fair value of these interests varies based on the fair value of the real estate owned by the partnerships. Based on the number of classes of finite-life minority interests, the number of properties in which there is direct or indirect minority ownership, complexities in determining the allocation of liquidation proceeds among partners and other factors, we believe it is impracticable to determine the total required payments to the minority interests in an assumed liquidation at December 31, 2008. As a result of real estate depreciation that is recognized in our financial statements and appreciation in the fair value of real estate that is not recognized in our financial statements, we believe that the aggregate fair value of our minority interests exceeds their aggregate carrying value. As a result of our ability to control real estate sales and other events that require payment of minority interests and our expectation that proceeds from real estate sales will be sufficient to liquidate related minority interests, we anticipate that the eventual liquidation of these minority interests will not have an adverse impact on our financial condition.

Revenue Recognition

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

Stock-Based Compensation

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

Discontinued Operations

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

Derivative Financial Instruments

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

From time to time, we enter into total rate of return swaps on various fixed rate secured tax-exempt bonds payable and fixed rate notes payable to convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower our cost of borrowing. In exchange for our receipt of a fixed rate generally equal to the underlying borrowing s interest rate, the total rate of return swaps require that we pay a variable rate, equivalent to the Securities Industry and Financial Markets Association Municipal Swap Index, or SIFMA, rate (previously the Bond Market Association index) for tax-exempt bonds payable and the 30-day LIBOR rate for notes payable, plus a risk spread. These swaps generally have a second or third lien on the property collateralized by the related borrowings and the obligations under certain of these swaps are cross-collateralized with certain of the other swaps with a particular counterparty. The underlying borrowings are generally callable at our option, with no prepayment penalty, with 30 days advance notice, and the swaps generally have a term of less than five years. The total rate of return swaps have a contractually defined termination value generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings, which may require payment by us or to us for such difference. Accordingly, we believe fluctuations in the fair value of the borrowings from the inception of the hedging relationship generally will be offset by a corresponding fluctuation in the fair value of the total rate of return swaps.

In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133, we designate total rate of return swaps as hedges of the risk of overall changes in the fair value of the underlying borrowings. At each reporting period, we estimate the fair value of these borrowings and the total rate of return swaps and recognize any changes therein as an adjustment of interest expense. We evaluate the effectiveness of these fair value hedges at the end of each reporting period and recognize an adjustment of interest expense as a result of any ineffectiveness.

Borrowings payable subject to total rate of return swaps with aggregate outstanding principal balances of $421.7 million and $487.2 million at December 31, 2008 and 2007, respectively, are reflected as variable rate borrowings in Note 6. During the years ended December 31, 2008 and 2007, due to changes in the estimated fair values of certain of these debt instruments and corresponding total rate of return swaps, we reduced property loans payable by $20.1 million and $9.4 million respectively, and increased accrued liabilities and other by the same amount, with no net impact on net income. During 2006 there were no material adjustments for changes in fair value for the hedged debt or total rate of return swaps. See *Adoption of SFAS 157* in Note 2 for further discussion of fair value measurements related to these arrangements. During 2008, 2007 and 2006, we determined these hedges were fully effective and accordingly we made no adjustments to interest expense for ineffectiveness.

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At December 31, 2008, the weighted average fixed receive rate under the total return swaps was 6.8% and the weighted average variable pay rate was 1.8%, based on the applicable SIFMA and 30-day LIBOR rates effective as of that date. Further information related to our total return swaps as of December 31, 2008 is as follows:

Debt Principal (millions)	Year of Debt Maturity	Weighted Average Debt Interest Rate	Swap Notional Amount (millions)	Swap Maturity Date	Weighted Average Swap Variable Pay Rate at December 31, 2008
$ 26.1	2009	9.0%	$ 26.3	2009	2.1%
60.0	2012	7.5%	60.0	2012	2.7%
24.0	2015	6.9%	24.0	2011	1.7%
14.2	2018	7.3%	14.2	2011	1.7%
12.3	2021	6.2%	12.3	2012	1.7%
12.0	2024	6.3%	12.0	2011	1.7%
54.6	2025	5.5%	54.4	2011	1.3%
47.9	2026	7.4%	47.9	2011	1.7%
45.0	2031	7.4%	45.0	2011	1.7%
100.6	2036	6.2%	101.0	2010-2012	1.7%
12.5	2038	6.5%	12.5	2011	1.9%
12.5	2048	5.5%	12.5	2011	1.9%
$ 421.7			$ 422.1		

Insurance

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

Income Taxes

We have elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 1994, and intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Code, which are related to organizational structure, distribution levels, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to United States Federal corporate income tax on our taxable income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that generally results from an investment in a corporation.

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

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

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

In March 2008, we were notified by the Internal Revenue Service that it intended to examine the 2006 Federal tax return for the Aimco Operating Partnership. During June 2008, the IRS issued AIMCO-GP, Inc., the general and tax matters partner of the Aimco Operating Partnership, a summary report including the IRS s proposed adjustments to the Aimco Operating Partnership s 2006 Federal tax return. We do not expect the proposed adjustments to have any material effect on our unrecognized tax benefits, financial condition or results of operations.

Earnings per Share

We calculate earnings per share based on the weighted average number of shares of Common Stock, common stock equivalents, and other potentially dilutive securities outstanding during the period (see Note 14). As discussed in Note 1, weighted average shares of Common Stock, common stock equivalents and other potentially dilutive securities outstanding have been retroactively adjusted for the effect of shares of Common Stock issued January 30, 2008, August 29, 2008, December 1, 2008, and January 29, 2009, pursuant to the special dividends. Earnings per share amounts for each period presented reflect the retroactively adjusted weighted average share and equivalent counts.

Concentration of Credit Risk

Financial instruments that potentially could subject us to significant concentrations of credit risk consist principally of notes receivable and total rate of return swaps. As discussed in Note 5, a significant portion of our notes receivable at December 31, 2008, are collateralized by properties in the West Harlem area of New York City. There are no other significant concentrations of credit risk with respect to our notes receivable due to the large number of partnerships that are borrowers under the notes and the geographic diversity of the properties that collateralize the notes.

At December 31, 2008, we had total rate of return swap positions with two financial institutions totaling $422.1 million. The swap positions with one counterparty are comprised of $409.8 million of fixed rate debt effectively converted to variable rates using total rate of return swaps, including $349.8 million of tax-exempt bonds indexed to SIFMA and $60.0 million of taxable second mortgage notes indexed to LIBOR. Additionally, the swap agreements with this counterparty provide for collateral calls to maintain specified loan-to-value ratios. As of December 31, 2008, we had provided this counterparty $3.2 million in cash collateral, which is included in other assets in our consolidated balance sheet. We have one swap position with another counterparty that is comprised of $12.3 million of fixed rate tax-exempt bonds indexed to SIFMA. We periodically evaluate counterparty credit risk associated with these arrangements. At the current time, we have concluded we do not have material exposure. In the event either counterparty were to default under these arrangements, loss of the net interest benefit we generally receive under these arrangements, which is equal to the difference between the fixed rate we receive and the variable rate we pay, may adversely impact our results of operations and operating cash flows. In the event the values of the real estate properties serving as collateral under these agreements decline, we may be required to provide additional collateral pursuant to the swap agreements, which would adversely affect our cash flows.

Use of Estimates

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

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Reclassifications

Certain items included in the 2007 and 2006 financial statements amounts have been reclassified to conform to the 2008 presentation.

NOTE 3 Real Estate and Partnership Acquisitions and Other Significant Transactions

Real Estate Acquisitions

During the year ended December 31, 2008, we acquired three conventional properties with a total of 470 units, located in San Jose, California, Brighton, Massachusetts and Seattle, Washington. The aggregate purchase price of $111.5 million, excluding transaction costs, was funded using $39.0 million in proceeds from mortgage loans, $41.9 million in tax-free exchange proceeds (provided by 2008 real estate dispositions) and the remainder in cash.

During the year ended December 31, 2007, we completed the acquisition of 16 conventional properties with approximately 1,300 units for an aggregate purchase price of approximately $217.0 million, excluding transaction costs. Of the 16 properties acquired, ten are located in New York City, New York, two in Daytona Beach, Florida, one in Park Forest, Illinois, one in Poughkeepsie, New York, one in Redwood City, California, and one in North San Diego, California. The purchases were funded with cash, tax-free exchange proceeds, new debt and the assumption of existing debt.

During the year ended December 31, 2006, we completed acquisitions of nine properties (including one property acquired by an unconsolidated joint venture), containing approximately 1,700 residential units for an aggregate purchase price of approximately $177.0 million, excluding transaction costs. Of the nine properties acquired, three are located in Pacifica, California, one in Chico, California, three in metro Jacksonville, Florida, one in Tampa, Florida, and one in Greenville, North Carolina. The purchases were funded with cash, new debt and the assumption of existing debt.

Acquisitions of Partnership Interests

During the years ended December 31, 2008 and 2007, we acquired limited partnership interests in 22 and 50 partnerships respectively, in which our affiliates served as general partner. In connection with such acquisitions, we paid cash of approximately $2.0 million and $47.4 million, including transaction costs. The cost of the acquisitions was approximately $2.4 million and $43.6 million in excess of the carrying amount of minority interest in such limited partnerships, which excess we generally assigned to real estate.

Disposition of Unconsolidated Real Estate

During the year ended December 31, 2008, we disposed of our interest in unconsolidated real estate partnerships that owned two properties with 671 units. Our net gain on the disposition of these interests totaled $98.4 million and is included in gain on dispositions of unconsolidated real estate and other in the accompanying statements of income for the year ended December 31, 2008.

Casualty Loss Related to Tropical Storm Fay and Hurricane Ike

During 2008, Tropical Storm Fay and Hurricane Ike caused severe damage to certain of our properties located primarily in Florida and Texas, respectively. We estimated total losses of approximately $33.9 million, including property damage replacement cost and clean-up cost. After consideration of estimated third party insurance proceeds and the minority interest partners share of losses for consolidated real estate partnerships, the net effect of these casualties on net income, after the effect of minority interest in Aimco Operating Partnership, was a loss of approximately $5.0 million.

Restructuring Costs

In connection with 2008 property sales and an expected reduction in redevelopment and transactional activities, during the three months ended December 31, 2008, we initiated an organizational restructuring program that included reductions in workforce and related costs, reductions in leased corporate facilities and abandonment of certain redevelopment projects and business pursuits. As a result, during the three months ended December 31, 2008, we recognized a restructuring charge of $22.8 million, which consists primarily of: severance costs of $12.9 million; unrecoverable lease obligations of $6.4 million related to space that we will no longer use; and the write-off of deferred transaction costs totaling $3.5 million associated with certain acquisitions and redevelopment opportunities that we will no longer pursue. Of the amounts included in the restructuring charge, approximately $2.9 million of the severance costs and the $3.5 million of transaction costs had been paid as of December 31, 2008. We anticipate eliminating the remaining jobs associated with the severance amounts discussed above by March 1, 2009. The amounts related to this restructuring have not been allocated to our reportable segments based on the methods used to evaluate segment performance.

Transactions Involving VMS National Properties Joint Venture

In January 2007, VMS National Properties Joint Venture, or VMS, a consolidated real estate partnership in which we held a 22% equity interest, refinanced mortgage loans secured by its 15 apartment properties. The existing loans had an aggregate carrying amount of $110.0 million and an aggregate face amount of $152.2 million. The $42.2 million difference between the face amount and carrying amount resulted from a 1997 bankruptcy settlement in which the lender agreed to reduce the principal amount of the loans subject to VMS s compliance with the terms of the restructured loans. Because the reduction in the loan amount was contingent on future compliance, recognition of the inherent debt extinguishment gain was deferred. Upon refinancing of the loans in January 2007, the existing lender accepted the reduced principal amount in full satisfaction of the loans, and VMS recognized the $42.2 million debt extinguishment gain in earnings.

During the six months ended June 30, 2007, VMS sold eight properties to third parties for an aggregate gain of $22.7 million. Additionally, VMS contributed its seven remaining properties to wholly-owned subsidiaries of Aimco in exchange for consideration totaling $230.1 million, consisting primarily of cash of $21.3 million, common OP Units with a fair