

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-Q

October 31, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-13232

Apartment Investment and Management Company
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

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

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

80237
(Zip Code)

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

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

(Do not check if a smaller reporting company)

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

The number of shares of Class A Common Stock outstanding as of October 27, 2008: 88,650,980

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CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)****(Unaudited)**

	September 30, 2008	December 31, 2007
ASSETS		
Real estate:		
Buildings and improvements	\$ 8,752,890	\$ 8,302,059
Land	2,440,154	2,397,070
Total real estate	11,193,044	10,699,129
Less accumulated depreciation	(2,822,045)	(2,527,393)
Net real estate	8,370,999	8,171,736
Cash and cash equivalents	219,047	210,461
Restricted cash	306,999	314,890
Accounts receivable, net	91,703	71,463
Accounts receivable from affiliates, net	32,842	34,958
Deferred financing costs, net	61,782	68,548
Notes receivable from unconsolidated real estate partnerships, net	30,326	35,186
Notes receivable from non-affiliates, net	150,460	143,054
Investment in unconsolidated real estate partnerships	114,493	117,217
Other assets	202,029	207,857
Deferred income tax assets, net	12,706	14,426
Assets held for sale	303,829	1,216,736
Total assets	\$ 9,897,215	\$ 10,606,532
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	\$ 792,280	\$ 779,737
Property loans payable	5,511,840	5,271,044
Term loans	475,000	475,000
Credit facility	5,100	
Other borrowings	81,511	75,057
Total indebtedness	6,865,731	6,600,838
Accounts payable	36,477	56,792
Accrued liabilities and other	395,110	449,485
Deferred income	190,617	200,714
Security deposits	45,840	42,912
Liabilities related to assets held for sale	267,890	951,046
Total liabilities	7,801,665	8,301,787

Minority interest in consolidated real estate partnerships	401,351	441,778
Minority interest in Aimco Operating Partnership	109,533	113,263
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Perpetual Preferred Stock	696,500	723,500
Class A Common Stock, \$0.01 par value, 426,157,736 shares authorized, 90,230,957 and 102,571,335 shares issued and outstanding, at September 30, 2008 and December 31, 2007, respectively	902	961
Additional paid-in capital	2,850,649	3,049,417
Notes due on common stock purchases	(4,016)	(5,441)
Distributions in excess of earnings	(1,959,369)	(2,018,733)
Total stockholders' equity	1,584,666	1,749,704
Total liabilities and stockholders' equity	\$ 9,897,215	\$ 10,606,532

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
REVENUES:				
Rental and other property revenues	\$ 361,996	\$ 345,197	\$ 1,070,604	\$ 1,023,390
Property management revenues, primarily from affiliates	1,227	1,824	4,746	5,192
Asset management and tax credit revenues	32,755	12,747	83,782	39,554
Total revenues	395,978	359,768	1,159,132	1,068,136
OPERATING EXPENSES:				
Property operating expenses	172,705	162,829	506,546	473,446
Property management expenses	1,560	1,333	4,018	5,268
Investment management expenses	5,842	5,812	15,859	15,799
Depreciation and amortization	120,771	110,946	343,636	318,691
General and administrative expenses	27,332	20,663	75,820	66,763
Other (income) expenses, net	(3,944)	(4,953)	7,316	(5,776)
Total operating expenses	324,266	296,630	953,195	874,191
Operating income	71,712	63,138	205,937	193,945
Interest income	5,349	10,765	14,248	30,551
(Provision for) recoveries of losses on notes receivable, net	(2,093)	153	(3,786)	(2,124)
Interest expense	(94,611)	(92,699)	(285,723)	(271,461)
Deficit distributions to minority partners, net	(17,798)	(11,640)	(22,981)	(13,998)
Equity in (losses) earnings of unconsolidated real estate partnerships	(1,559)	348	(3,431)	(1,710)
Provision for real estate impairment losses	(2,319)		(2,319)	
Gain on dispositions of unconsolidated real estate and other	100,359	5,841	100,345	26,919
Income (loss) before minority interests and discontinued operations	59,040	(24,094)	2,290	(37,878)
Minority interests:				
Minority interest in consolidated real estate partnerships	11,355	381	15,563	(1,923)
Minority interest in Aimco Operating Partnership, preferred	(1,962)	(1,782)	(5,669)	(5,346)
Minority interest in Aimco Operating Partnership, common	(4,438)	4,080	2,376	8,996

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Total minority interests	4,955	2,679	12,270	1,727
Income (loss) from continuing operations	63,995	(21,415)	14,560	(36,151)
Income from discontinued operations, net	111,804	19,074	392,732	78,343
Net income (loss)	175,799	(2,341)	407,292	42,192
Net income attributable to preferred stockholders	12,224	19,020	40,102	51,715
Net income (loss) attributable to common stockholders	\$ 163,575	\$ (21,361)	\$ 367,190	\$ (9,523)
Earnings (loss) per common share basic:				
Income (loss) from continuing operations (net of preferred dividends)	\$ 0.58	\$ (0.38)	\$ (0.27)	\$ (0.82)
Income from discontinued operations	1.24	0.18	4.20	0.73
Net income (loss) attributable to common stockholders	\$ 1.82	\$ (0.20)	\$ 3.93	\$ (0.09)
Earnings (loss) per common share diluted:				
Income (loss) from continuing operations (net of preferred dividends)	\$ 0.57	\$ (0.38)	\$ (0.27)	\$ (0.82)
Income from discontinued operations	1.24	0.18	4.20	0.73
Net income (loss) attributable to common stockholders	\$ 1.81	\$ (0.20)	\$ 3.93	\$ (0.09)
Weighted average common shares outstanding	89,650	106,208	93,463	106,888
Weighted average common shares and equivalents outstanding	90,266	106,208	93,463	106,888
Dividends declared per common share	\$ 2.81	\$ 0.54	\$ 3.37	\$ 1.07

See notes to condensed consolidated financial statements.

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**APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 407,292	\$ 42,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	343,636	318,691
Gain on dispositions of unconsolidated real estate	(98,875)	(169)
Discontinued operations	(365,049)	(9,252)
Other adjustments	36,439	(37,705)
Net changes in operating assets and operating liabilities	11,784	3,677
Net cash provided by operating activities	335,227	317,434
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate	(75,907)	(198,998)
Capital expenditures	(476,030)	(456,377)
Proceeds from dispositions of real estate	1,419,909	356,943
Change in funds held in escrow from tax-free exchanges	(3,791)	25,957
Purchases of partnership interests and other assets	(22,940)	(41,819)
Originations of notes receivable from unconsolidated real estate partnerships	(5,887)	(9,774)
Proceeds from repayment of notes receivable	7,037	14,418
Distributions from investments in unconsolidated real estate partnerships	85,520	1,814
Other investing activities	8,749	18,694
Net cash provided by (used in) investing activities	936,660	(289,142)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from property loans	522,564	1,315,111
Principal repayments on property loans	(853,435)	(823,639)
Proceeds from tax exempt bond financing	21,988	82,350
Principal repayments on tax-exempt bond financing	(89,287)	(68,443)
Net borrowings on revolving credit facility	5,100	10,000
Repurchase of preferred stock	(24,840)	
Repurchases of Class A Common Stock	(452,297)	(185,708)
Proceeds from Class A Common Stock option exercises	706	53,717
Payment of Class A Common Stock dividends	(158,830)	(173,603)
Payment of preferred stock dividends	(41,609)	(49,109)

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Payment of distributions to minority interest	(201,492)	(72,468)
Other financing activities	8,131	(8,830)
Net cash (used in) provided by financing activities	(1,263,301)	79,378
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,586	107,670
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	210,461	229,824
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 219,047	\$ 337,494

See notes to condensed consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008
(Unaudited)

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 September 30, 2008, we owned or managed a real estate portfolio of 1,067 apartment properties containing 178,083 apartment units located in 46 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 September 30, 2008, we:

owned an equity interest in and consolidated 130,913 units in 573 properties (which we refer to as consolidated), of which 129,422 units were also managed by us;

owned an equity interest in and did not consolidate 10,172 units in 90 properties (which we refer to as unconsolidated), of which 5,009 units were also managed by us; and

provided services for or managed 36,998 units in 404 properties, primarily pursuant to long-term agreements (including 33,839 units in 370 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 September 30, 2008, we held an interest of approximately 90% 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. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At September 30, 2008, after elimination of certain shares of Common Stock held by consolidated subsidiaries, 90,230,957 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 9,489,334 common OP Units and equivalents outstanding for a combined total of 99,720,291 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 and July 2008, the Aimco Operating Partnership declared special distributions payable on January 30, 2008 and August 29, 2008, respectively, to holders of record of common OP Units and High Performance Units on December 31, 2007 and July 28, 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 distributions entirely in cash, in the amounts noted below.

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	January 2008 Special Distribution	August 2008 Special Distribution
Aimco Operating Partnership Special Distributions		
Distribution per unit	\$ 2.51	\$ 3.00
Total distribution	\$ 257.2 million	\$ 285.5 million
Common OP Units and High Performance Units outstanding on record date	102,478,510	95,151,333
Common OP Units held by Aimco	92,795,891	85,619,144
Total distribution on Aimco common OP Units	\$ 232.9 million	\$ 256.9 million
Cash distribution to Aimco	\$ 55.0 million	\$ 51.4 million
Portion of distribution paid to Aimco through issuance of common OP Units	\$ 177.9 million	\$ 205.5 million
Common OP Units issued to Aimco pursuant to distribution	4,594,074	5,731,310
Cash distributed to holders of common OP Units and High Performance Units other than Aimco	\$ 24.3 million	\$ 28.6 million

Also in December 2007 and July 2008, our Board of Directors declared corresponding special dividends payable on January 30, 2008 and August 29, 2008, respectively, to holders of record of our Common Stock on December 31, 2007 and July 28, 2008, respectively. A portion of the special dividends in the amounts of \$0.60 per share represented payment of the regular dividend for the quarters ended December 31, 2007 and June 30, 2008, and the remaining amount per share represented additional dividends 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, determined based on the average closing price of our Common Stock as previously disclosed.

	January 2008 Special Dividend	August 2008 Special Dividend
Aimco Special Dividends		
Dividend per share	\$ 2.51	\$ 3.00
Outstanding shares of Common Stock on the record date	92,795,891	85,619,144
Total dividend	\$ 232.9 million	\$ 256.9 million
Portion of dividend paid in cash	\$ 55.0 million	\$ 51.4 million
Portion of dividend paid through issuance of shares	\$ 177.9 million	\$ 205.5 million
Shares issued pursuant to dividend	4,594,074	5,731,310
Effective increase in outstanding shares on record date	4.95%	6.70%
Average share price on determination date	\$ 38.71	35.84

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
Total dividend	\$ 231.9 million	\$ 255.5 million
Portion of dividend paid in cash	\$ 54.8 million	\$ 51.1 million
Portion of dividend paid through issuance of shares	\$ 177.1 million	\$ 204.4 million
Shares issued pursuant to dividend	4,573,735	5,703,265

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.

Note 2 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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The balance sheet at December 31, 2007, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in Aimco's Annual Report on Form 10-K for the year ended December 31, 2007. Certain 2007 financial statement amounts have been reclassified to conform to the 2008 presentation.

Principles of Consolidation

The accompanying condensed 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.

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.

We test for the recoverability of 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 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 of the property, excluding interest charges. 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. During the three and nine months ended September 30, 2008, based on the shortened anticipated holding period for certain properties classified as held for use, we recognized impairment losses of \$2.3 million. We recognized no such impairment losses during the three and nine months ended September 30, 2007.

If an impairment loss is not required to be recorded under the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or 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 \$2.8 million and \$10.3 million, and resulted in a decrease in basic and diluted earnings per share of \$0.03 and \$0.10, for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, these depreciation adjustments decreased net income by \$8.7 million and \$31.2 million, and resulted in a decrease in basic and diluted earnings per share of \$0.09 and \$0.29, respectively.

During the nine months ended September 30, 2007, we evaluated the recoverability of our \$6.3 million equity investment in a group purchasing organization and a related \$3.4 million note receivable. We initiated our evaluation as a result of information concerning its relationships with significant vendors. Based on our evaluation, we recorded impairments of \$2.5 million in equity in earnings (losses) of unconsolidated real estate partnerships and \$1.4 million in (provision for) recoveries of losses on notes receivable to adjust the carrying amounts of our equity investment and

note receivable, respectively, to their estimated fair values. We did not recognize any such impairments during the nine months ended September 30, 2008.

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During the nine months ended September 30, 2008, we reassessed our approach to communication technology needs at our properties, which resulted in the discontinuation of an infrastructure project and a \$4.8 million write-off of related hardware and capitalized internal and consulting costs included in other assets. The write-off, which is net of estimated sales proceeds totaling \$2.1 million, is included in other (income) expenses, net. During the nine months ended September 30, 2008, we additionally recorded a \$1.0 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 nine months ended September 30, 2007, we abandoned certain internal-use software development projects and recorded a \$1.8 million write-off of the capitalized costs of such projects in depreciation and amortization.

Income Taxes

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 government'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.

Adoption of SFAS 157

In September 2006, the Financial Accounting Standards Board, or 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. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which deferred the effective date of SFAS 157 for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008, including interim periods within those fiscal years. 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 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.

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Fair Value

Measurement

Notes receivable

Valuation Methodologies

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 utilize 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.

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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.

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 reported at fair value in our condensed consolidated balance sheet at September 30, 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	\$ (22,836)
Cumulative reduction of carrying amount of debt instruments subject to total rate of return swaps	\$ 22,836

Changes in Level 3 Fair Value Measurements

The table below presents the balance sheet amounts at December 31, 2007, and September 30, 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 September 30, 2008
Total rate of return swaps	\$ (9,420)	\$ (13,416)(3)	\$	\$ (22,836)
Changes in fair value of debt instruments subject to total rate of return swaps	9,420	13,416 (3)		22,836
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 three months ended September 30, 2008, we terminated total rate of return swaps with notional amounts totaling \$47.4 million in connection with the sale of two properties and repayment of the related hedged debt. The debt was repaid at the swap counterparty's purchased value and accordingly

we incurred no
termination
payment upon
termination of
the related
swaps.

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

Table of Contents**Adoption of SFAS 159**

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Asset 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.

Note 3 Real Estate Acquisitions and Dispositions**Real Estate Acquisitions**

During the nine months ended September 30, 2008, we acquired two conventional properties with a total of 328 units, located in San Jose, California and Brighton, Massachusetts. The aggregate purchase price of \$75.0 million, excluding transaction costs, was funded using \$35.0 million in proceeds from mortgage loans, \$27.9 million in tax-free exchange proceeds (provided by 2008 real estate dispositions) and the remainder in cash. During the nine months ended September 30, 2007, we acquired 15 conventional properties with 1,305 units for an aggregate purchase price of \$206.8 million, including transaction costs. Of the 15 properties acquired, nine are located in New York City; two in Daytona Beach, Florida; one in Park Forest, Illinois; one in Poughkeepsie, New York; one in Redwood City, California and one property in North San Diego, California. The purchase included the assumption of \$16.0 million of mortgage debt, and the remainder of the purchase price was funded using \$46.1 million in proceeds from mortgage loans, cash of \$57.5 million and tax free exchange proceeds of \$87.2 million.

Real Estate Dispositions (Discontinued Operations)

We are currently marketing for sale certain real estate properties that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such properties meet the criteria to be classified as held for sale, including whether such properties are expected to be sold within twelve months. Additionally, certain properties that do not meet all of the criteria to be classified as held for sale at the balance sheet date may nevertheless be sold and included in discontinued operations in the subsequent twelve months; thus the number of properties that may be sold during the subsequent twelve months could exceed the number classified as held for sale. At September 30, 2008, we had 25 properties, with an aggregate of 6,039 units, classified as held for sale. Amounts classified as held for sale in the accompanying condensed consolidated balance sheets were as follows (in thousands):

	September 30, 2008	December 31, 2007
Real estate, net	\$ 299,653	\$ 1,200,748
Other assets	4,176	15,988
Assets held for sale	\$ 303,829	\$ 1,216,736
Property debt	\$ 240,837	\$ 942,560
Other liabilities	27,053	8,486
Liabilities related to assets held for sale	\$ 267,890	\$ 951,046

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During the nine months ended September 30, 2008, we sold 88 properties with an aggregate of 23,551 units. During the year ended December 31, 2007, we sold 73 properties with an aggregate of 11,588 units. For the three and nine months ended September 30, 2008 and 2007, discontinued operations includes the results of operations for the periods prior to the date of sale for all properties sold or classified as held for sale as of September 30, 2008.

The following is a summary of the components of income from discontinued operations for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Rental and other property revenues	\$ 31,044	\$ 76,902	\$ 167,450	\$ 246,806
Property operating expenses	(13,882)	(41,210)	(81,695)	(124,201)
Depreciation and amortization	(7,238)	(18,773)	(39,397)	(59,936)
Other expenses, net	(4,967)	(1,771)	(6,502)	(4,099)
Operating income	4,957	15,148	39,856	58,570
Interest income	420	517	974	1,662
Interest expense	(6,194)	(15,038)	(31,453)	(49,467)
Gain on extinguishment of debt				22,852
Minority interest in consolidated real estate partnerships	298	2,126	855	(1,427)
Income (loss) before gain on dispositions of real estate, impairment losses, deficit distributions to minority partners, income tax and minority interest in Aimco Operating Partnership	(519)	2,753	10,232	32,190
Gain on dispositions of real estate, net of minority partners interest	128,301	17,406	443,795	57,296
Real estate impairment losses, net	(1,798)		(8,334)	(783)
Recovery of deficit distributions (deficit distributions) to minority partners	909	(282)	8,325	(726)
Income tax arising from dispositions	(4,027)	1,151	(21,091)	(1,610)
Minority interest in Aimco Operating Partnership	(11,062)	(1,954)	(40,195)	(8,024)
Income from discontinued operations, net	\$ 111,804	\$ 19,074	\$ 392,732	\$ 78,343

Gain on dispositions of real estate is reported net of incremental direct costs incurred in connection with the transaction, including any prepayment penalties incurred upon repayment of mortgage loans collateralized by the property being sold. Such prepayment penalties totaled \$20.8 million and \$45.9 million for the three and nine months ended September 30, 2008, respectively, and \$5.1 million and \$10.4 million for the three and nine months ended September 30, 2007, respectively. During the three and nine months ended September 30, 2008, we recorded impairment losses totaling \$1.8 million and \$8.3 million on assets held for sale to reduce the carrying amounts for those properties to their estimated fair value, less estimated costs to sell. During the nine months ended September 30, 2007, we recorded impairment losses totaling \$0.8 million. We classify interest expense related to property level debt within discontinued operations when the related real estate asset is sold or classified as held for sale.

Table of Contents***Dispositions of Unconsolidated Real Estate***

During the three months ended September 30, 2008, unconsolidated real estate partnerships disposed of two properties with 671 units. Our interest in the net gain on dispositions 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 three and nine months ended September 30, 2008.

Note 4 Other Significant Transactions***Common Stock Repurchases***

Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. During the nine months ended September 30, 2008 and 2007, we repurchased 12,654,526 and 3,830,740 shares of Common Stock for cash totaling \$423.5 million and \$175.4 million, respectively. We also paid cash totaling \$28.7 million and \$10.3 million in January 2008 and 2007, respectively, to settle repurchases of Common Stock in December 2007 and 2006. As of September 30, 2008, we were authorized to repurchase approximately 21.3 million additional shares.

Partial Repurchase of Series A Community Reinvestment Act Perpetual Preferred Stock

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 accordance with Emerging Issues Task Force Topic D-42, *The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock*, or EITF Topic D-42, the \$2.2 million excess of the carrying value over the redemption price, offset by \$0.7 million of issuance costs previously recorded as a reduction of additional paid-in capital, is reflected as a reduction of net income attributable to preferred stockholders for purposes of calculating earnings per share for the three and nine months ended September 30, 2008.

Redemption of Convertible Preferred Stock

On September 30, 2007, we redeemed all 1,904,762 outstanding shares of our privately held 8.1% Class W Cumulative Convertible Preferred Stock (the Class W). The redemption price per share was approximately \$54.61, (which includes a redemption price per share of \$53.55 (which is 102% of the \$52.50 per share liquidation preference) plus approximately \$1.06, (which is the per share amount of accumulated, accrued and unpaid dividends on the Class W through the redemption date), or an aggregate redemption price of approximately \$104.0 million. In accordance with EITF Topic D-42, the \$2.0 million excess of the redemption price over the carrying value (the 2% redemption premium) and \$0.6 million of issuance costs previously recorded as a reduction of additional paid-in capital are reflected as an increase of net income attributable to preferred stockholders for purposes of calculating earnings per share for the three and nine months ended September 30, 2007.

Casualty Loss Related to Tropical Storm Fay and Hurricane Ike

During the three months ended September 30, 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 \$29.6 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.

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.

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During 2007, VMS sold eight properties to third parties and we acquired its seven remaining properties. Approximately \$22.8 million of the \$42.2 million debt extinguishment gain relates to the mortgage loans that were secured by the eight properties sold to third parties and is reported in discontinued operations for the nine months ended September 30, 2007. The remaining \$19.4 million portion of the debt extinguishment gain relates to the mortgage loans that were secured by the seven VMS properties we purchased and is reported in our continuing operations as gain on dispositions of unconsolidated real estate and other. The eight properties sold to third parties were sold during the nine months ended September 30, 2007, at an aggregate gain of \$22.8 million. Although 78% of the equity interests in VMS were held by unrelated minority partners, no minority interest share of the gains on debt extinguishment and sale of the properties was recognized in our earnings. As required by GAAP, we had in prior years recognized the minority partners' share of VMS losses in excess of the minority partners' capital contributions. The amounts of those previously recognized losses exceeded the minority partners' share of the gains on debt extinguishment and sale of the properties; accordingly, the minority interest in such gains recognized in our earnings was limited to the minority interest in the Aimco Operating Partnership. For the nine months ended September 30, 2007, the aggregate effect of the gains on extinguishment of VMS debt and sale of VMS properties was to decrease loss from continuing operations by \$17.6 million (\$0.16 per diluted share) and increase net income by \$59.0 million (\$0.55 per diluted share).

Flamingo South Beach Property

The Flamingo South Beach property consists of three towers. In connection with sale of the South Tower in 2006, the buyer paid to us a \$5.0 million non-refundable fee for the option to purchase the 614-unit North Tower between September 1, 2006 and February 28, 2007 and the 513-unit Central Tower between December 1, 2007 and May 31, 2008. Pursuant to the purchase and sale agreement, the buyer paid to us an additional \$1.0 million non-refundable fee to extend the option period for the buyer's purchase of the North Tower from February 28, 2007 to October 31, 2007. In accordance with Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate*, we deferred the recognition of the non-refundable fees. In September 2007, the buyer terminated its rights under the option agreement and we recognized income of \$6.0 million, or \$5.5 million, net of tax, during the three months ended September 30, 2007, which is presented in gain on dispositions of unconsolidated real estate and other in the accompanying statements of income.

Note 5 Commitments and Contingencies***Commitments***

In connection with our redevelopment and capital improvement activities, we have commitments of approximately \$104.6 million related to construction projects, most of which we expect to incur within one year. Additionally, we enter into certain commitments for future purchases of goods and services in connection with the operations of our properties. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

We have committed to fund an additional \$5.5 million in second mortgage loans on certain properties in West Harlem, in New York City. In certain circumstances, we also could be required to acquire the properties for cash and/or assumption of first mortgage debt totaling approximately \$149.0 million to \$216.0 million, in addition to amounts funded and committed under the related loan agreement.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our historic and low-income housing tax credit syndication arrangements. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our consolidated balance sheet, until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 15 years. At September 30, 2008, we do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Legal Matters

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

Limited Partnerships

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

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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. 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.

We have determined that our legal obligations to remove or remediate hazardous substances may be conditional asset retirement obligations, as defined in FASB Interpretation No. 47, *Conditional Asset Retirement Obligations*. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or property casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of September 30, 2008, are immaterial to our consolidated financial condition, results of operations and cash flows.

Mold

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, results of operations or cash flows.

FLSA Litigation

As previously disclosed, the Aimco Operating Partnership and NHP Management Company (NHPMN), our subsidiary, were defendants in a lawsuit, filed as a collective action in August 2003 in the United States District Court for the District of Columbia, alleging that they willfully violated the Fair Labor Standards Act (FLSA) by failing to pay maintenance workers overtime for time worked in excess of 40 hours per week (overtime claims). The plaintiffs also contended that the Aimco Operating Partnership and NHPMN failed to compensate maintenance workers for time that they were required to be on-call (on-call claims). In March 2007, the court in the District of Columbia decertified the collective action. In July 2007, plaintiffs counsel filed individual cases in Federal court in 22 different jurisdictions. In the second quarter 2008, we settled the overtime cases involving 652 plaintiffs and established a framework for resolving the 88 remaining on-call claims and the attorneys fees claimed by plaintiffs counsel. As a result, the lawsuits asserted in the 22 Federal courts will be dismissed.

Table of Contents**Note 6 Earnings per Share**

We calculate earnings per share based on the weighted average number of shares of Common Stock, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2008 and 2007 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Income (loss) from continuing operations	\$ 63,995	\$ (21,415)	\$ 14,560	\$ (36,151)
Less net income attributable to preferred stockholders	(12,224)	(19,020)	(40,102)	(51,715)
Numerator for basic and diluted earnings per share				
Income (loss) from continuing operations (net of income attributable to preferred stockholders)	\$ 51,771	\$ (40,435)	\$ (25,542)	\$ (87,866)
Income from discontinued operations	\$ 111,804	\$ 19,074	\$ 392,732	\$ 78,343
Net income (loss)	\$ 175,799	\$ (2,341)	\$ 407,292	\$ 42,192
Less net income attributable to preferred stockholders	(12,224)	(19,020)	(40,102)	(51,715)
Numerator for basic and diluted earnings per share				
Net income (loss) attributable to common stockholders	\$ 163,575	\$ (21,361)	\$ 367,190	\$ (9,523)
Denominator:				
Denominator for basic earnings per share				
weighted average number of shares of Common Stock outstanding	89,650	106,208	93,463	106,888
Effect of dilutive securities:				
Dilutive potential common shares	616			
Denominator for diluted earnings per share	90,266	106,208	93,463	106,888
Earnings (loss) per common share:				
Basic earnings (loss) per common share:				
Income (loss) from continuing operations (net of income attributable to preferred stockholders)	\$ 0.58	\$ (0.38)	\$ (0.27)	\$ (0.82)
Income from discontinued operations	1.24	0.18	4.20	0.73
Net income (loss) attributable to common stockholders	\$ 1.82	\$ (0.20)	\$ 3.93	\$ (0.09)
Diluted earnings (loss) per common share:				

Income (loss) from continuing operations (net of income attributable to preferred stockholders)	\$	0.57	\$	(0.38)	\$	(0.27)	\$	(0.82)
Income from discontinued operations		1.24		0.18		4.20		0.73
Net income (loss) attributable to common stockholders	\$	1.81	\$	(0.20)	\$	3.93	\$	(0.09)

Weighted average shares of Common Stock outstanding, dilutive potential common shares and earnings (loss) per common share for each of the periods presented have been retroactively adjusted for the effect of the special dividends discussed in Note 1.

Prior to its redemption on September 30, 2007, our Class W Preferred Stock that was convertible into Common Stock was anti-dilutive on an if converted basis. Therefore, we deducted all of the dividends payable on the convertible preferred stock to arrive at the numerator and no additional shares were included in the denominator when calculating basic and diluted earnings per common share for the three and nine months ended September 30, 2007. As of September 30, 2008 and 2007, the common share equivalents that could potentially dilute basic earnings per share in future periods totaled 9.7 million and 10.1 million, respectively. These securities, including stock options, restricted stock awards and officer loan shares, have been excluded from the earnings per share computations for the three and nine months ended September 30, 2007, and for the nine months ended September 30, 2008, because their effect would have been anti-dilutive. For the three months ended September 30, 2008, dilutive potential common shares of 616 related to these securities have been included in earnings per share computations.

We consider the Aimco Operating Partnership's High Performance Units for which the applicable measurement period has not ended to be potential share equivalents. As of September 30, 2008, the related performance benchmarks for the Class IX High Performance Units would not have been achieved if the related measurement period had ended on that date. As of September 30, 2007, the related performance benchmarks for the Class VIII and Class IX High Performance Units would not have been achieved if the related measurement period had ended on that date.

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Note 7 Recent Accounting Developments

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations – a replacement of FASB Statement No. 141*, or SFAS 141(R). SFAS 141(R) applies to all transactions or events in which an entity obtains control of one or more businesses, including those effected without the transfer of consideration, for example, by contract or through a lapse of minority veto rights. SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and early adoption is not permitted. We have not yet determined the effect that SFAS 141(R) will have on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, or SFAS 160. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity which should be reported as equity in the parent's consolidated financial statements. SFAS 160 requires a reconciliation of the beginning and ending balances of equity attributable to noncontrolling interests and disclosure, on the face of the consolidated income statements, of those amounts of consolidated net income attributable to the noncontrolling interests, eliminating the past practice of reporting these amounts as an adjustment in arriving at consolidated net income. SFAS 160 requires a parent to recognize a gain or loss in net income when a subsidiary is deconsolidated and requires the parent to attribute to noncontrolling interests their share of losses even if such attribution results in a deficit noncontrolling interests balance within the parent's equity accounts. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and requires retroactive application of the presentation and disclosure requirements for all periods presented. Early adoption is not permitted. We have not yet determined the effect that SFAS 160 will have on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, or SFAS 161. SFAS 161 expands the disclosure requirements of SFAS 133 to require qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about the fair value of gains and losses on derivative instruments and disclosures on credit-risk-related contingent features in derivative contracts. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption encouraged. At initial adoption, SFAS 161 also encourages, but does not require, comparative disclosures for earlier periods. We do not anticipate SFAS 161 will have a material effect on our financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, or the FSP. The FSP clarifies that unvested share-based payment awards that participate in dividends similar to shares of common stock or common partnership units should be treated as participating securities. The FSP may affect the computation of basic earnings per share for unvested restricted stock awards and shares purchased pursuant to officer stock loans, which serve as collateral for such loans, both of which entitle the holders to dividends. The FSP is effective for fiscal years beginning after December 15, 2008, and quarters within those years. We do not anticipate the FSP will have a material effect on our financial statements.

Table of Contents**Note 8 Business Segments**

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments' performance. Our chief operating decision maker is comprised of several members of our executive management team who use several generally accepted industry financial measures to assess the performance of the business, including net asset value, which is the estimated fair value of our assets, net of debt, or NAV; funds from operations, or FFO; adjusted funds from operations, which is FFO less spending for capital replacements; same store property operating results; net operating income; free cash flow, which is net operating income less spending for capital replacements; economic income, which represents changes in NAV plus cash dividends; 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. Net operating income is generally defined as segment revenues less direct segment operating expenses.

We have two reportable segments: real estate and investment management.

Real Estate Segment

Our real estate segment owns and operates properties that generate rental and other property-related income through the leasing of apartment units to a diverse base of residents. Our real estate segment's net operating income also includes income from property management services performed for unconsolidated partnerships and unrelated parties.

Investment Management Segment

Our investment management segment includes 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. Our investment management segment's operating results also include gains on dispositions of non-depreciable assets, accretion of loan discounts resulting from transactional activities and certain other income in arriving at income (loss) from continuing operations for the segment.

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our real estate and investment management segments for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Real Estate Segment	Investment Management Segment	Corporate (Not Allocated to Segments)	Total
Three Months Ended September 30, 2008:				
Rental and other property revenues	\$ 361,996	\$	\$	\$ 361,996
Property management revenues, primarily from affiliates	1,227			1,227
Asset management and tax credit revenues		32,755		32,755
Total revenues	363,223	32,755		395,978
Property operating expenses	172,705			172,705
Property management expenses	1,560			1,560
Investment management expenses		5,842		5,842
Depreciation and amortization (1)			120,771	120,771
General and administrative expenses			27,332	27,332

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Other income, net			(3,944)	(3,944)
Total operating expenses	174,265	5,842	144,159	324,266
Net operating income (loss)	188,958	26,913	(144,159)	71,712
Other items included in continuing operations (2)		4,418	(12,135)	(7,717)
Income (loss) from continuing operations	\$ 188,958	\$ 31,331	\$ (156,294)	\$ 63,995

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	Real Estate Segment	Investment Management Segment	Corporate (Not Allocated to Segments)	Total
Three Months Ended September 30, 2007:				
Rental and other property revenues	\$ 345,197	\$	\$	\$ 345,197
Property management revenues, primarily from affiliates	1,824			1,824
Asset management and tax credit revenues		12,747		12,747
Total revenues	347,021	12,747		359,768
Property operating expenses	162,829			162,829
Property management expenses	1,333			1,333
Investment management expenses		5,812		5,812
Depreciation and amortization (1)			110,946	110,946
General and administrative expenses			20,663	20,663
Other income, net			(4,953)	(4,953)
Total operating expenses	164,162	5,812	126,656	296,630
Net operating income (loss)	182,859	6,935	(126,656)	63,138
Other items included in continuing operations (2)		9,812	(94,365)	(84,553)
Income (loss) from continuing operations	\$ 182,859	\$ 16,747	\$ (221,021)	\$ (21,415)
	Real Estate Segment	Investment Management Segment	Corporate (Not Allocated to Segments)	Total
Nine Months Ended September 30, 2008:				
Rental and other property revenues	\$ 1,070,604	\$	\$	\$ 1,070,604
Property management revenues, primarily from affiliates	4,746			4,746
Asset management and tax credit revenues		83,782		83,782
Total revenues	1,075,350	83,782		1,159,132
Property operating expenses	506,546			506,546
Property management expenses	4,018			4,018
Investment management expenses		15,859		15,859
Depreciation and amortization (1)			343,636	343,636
General and administrative expenses			75,820	75,820
Other expenses, net			7,316	7,316

Total operating expenses	510,564	15,859	426,772	953,195
Net operating income (loss)	564,786	67,923	(426,772)	205,937
Other items included in continuing operations (2)		6,231	(197,608)	(191,377)
Income (loss) from continuing operations	\$ 564,786	\$ 74,154	\$ (624,380)	\$ 14,560

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	Real Estate Segment	Investment Management Segment	Corporate (Not Allocated to Segments)	Total
Nine Months Ended September 30, 2007:				
Rental and other property revenues	\$ 1,023,390	\$	\$	\$ 1,023,390
Property management revenues, primarily from affiliates	5,192			5,192
Asset management and tax credit revenues		39,554		39,554
Total revenues	1,028,582	39,554		1,068,136
Property operating expenses	473,446			473,446
Property management expenses	5,268			5,268
Investment management expenses		15,799		15,799
Depreciation and amortization (1)			318,691	318,691
General and administrative expenses			66,763	66,763
Other income, net			(5,776)	(5,776)
Total operating expenses	478,714	15,799	379,678	874,191
Net operating income (loss)	549,868	23,755	(379,678)	193,945
Other items included in continuing operations (2)		14,611	(244,707)	(230,096)
Income (loss) from continuing operations	\$ 549,868	\$ 38,366	\$ (624,385)	\$ (36,151)

(1) Our chief operating decision maker assesses the performance of real estate using, among other measures, net operating income, excluding depreciation and amortization. Accordingly, we do not allocate depreciation and amortization to the real estate segment.

- (2) Other items in continuing operations for the investment management segment include accretion income recognized on discounted notes receivable and other income items associated with transactional activities. Other items in continuing operations not allocated to segments include:
- (i) interest income and expense;
 - (ii) recoveries of, or provisions for, losses on notes receivable and impairment of real estate, net;
 - (iii) deficit distributions to minority partners;
 - (iv) equity in losses of unconsolidated real estate partnerships;
 - (v) gains on dispositions of unconsolidated real estate and other; and
 - (vi) minority interests.

Note 9 Subsequent Events

Between October 1, 2008 and October 30, 2008, we repurchased 2,018,471 shares of Common Stock for cash totaling \$50.0 million, or an average price of \$24.77 per share (including commissions).

On October 16, 2008, the Aimco Operating Partnership declared a special distribution of \$1.80 per unit payable on December 1, 2008, to holders of record of common OP Units and High Performance Units on October 27, 2008. The special distribution, totaling approximately \$176.7 million will be paid on 98,136,520 common OP Units and High Performance Units, including 88,650,980 common OP Units held by us. The Aimco Operating Partnership plans to distribute to us common OP Units equal to the number of shares we issue pursuant to our corresponding \$159.6 million special dividend (discussed below), in addition to approximately \$53.2 million in cash. Holders of common OP Units other than us and holders of High Performance Units will receive the distribution entirely in cash, which totals \$17.1 million.

Also on October 16, 2008, our Board of Directors declared a corresponding special dividend of \$1.80 per share payable on December 1, 2008, to holders of record of our Common Stock on October 27, 2008. A portion of the special dividend in the amount of \$0.60 per share represents payment of the regular dividend for the quarter ended September 30, 2008, and a portion in the amount of \$1.20 per share represents an additional dividend associated with taxable gains from property dispositions in 2008. Stockholders may elect to receive payment of the special dividend in cash or shares, except that the aggregate amount of cash payable to all stockholders in the special dividend is limited to approximately \$53.2 million plus cash paid in lieu of fractional shares. The special dividend, totaling approximately \$159.6 million, will be paid on 88,650,980 shares issued and outstanding on the record date, which included 464,524 shares held by certain of our consolidated subsidiaries. We expect to pay approximately \$106.4 million of the special dividend through the issuance of shares of Common Stock, which will be determined based on the average closing price of our Common Stock on November 20 and 21, 2008. Share and per share amounts disclosed in the accompanying condensed consolidated financial statements and notes thereto have not been retroactively adjusted for the effect of shares to be issued pursuant to this special dividend as the number of shares is not presently determinable. Such retroactive adjustments will be reflected in consolidated financial statements prepared subsequent to the payment date.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
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 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 the forward-looking statements and, in addition, will be affected by a variety of risks and factors that are beyond our control including, without limitation: natural disasters and severe weather such as hurricanes; national and local economic conditions; the general level of interest rates; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for residents in such markets; insurance risks; acquisition and development risks, including failure of such acquisitions to perform in accordance with projections; the timing of acquisitions and dispositions; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the section entitled "Risk Factors" described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, and the other documents we file from time to time with the Securities and Exchange Commission. As used herein and except as the context otherwise requires, we, our, us and the Company refer to Aimco, AIMCO Properties, L.P. (which we refer to as the Aimco Operating Partnership) and Aimco's consolidated corporate subsidiaries and consolidated real estate partnerships, collectively.

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 September 30, 2008, we owned or managed 1,067 apartment properties containing 178,083 apartment units located in 46 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: Net Asset Value, which is the estimated fair value of our assets, net of debt, or NAV; Funds From Operations, or FFO; FFO less spending for Capital Replacements, or AFFO; same store property operating results; net operating income; net operating income less spending for Capital Replacements, or Free Cash Flow; Economic Income, which represents changes in NAV plus cash dividends, 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 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.

For the remainder of 2008, we recognize that the environment has become more challenging. Accordingly, we are 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.

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Our portfolio management strategy includes property acquisitions and dispositions to concentrate our portfolio in the 20 largest U.S. markets as measured by total market capitalization. Over time and subject to market conditions, we expect to sell properties representing approximately 20% of our current asset value, which properties are primarily located outside the 20 largest U.S. markets.

The following discussion and analysis of the results of our operations and financial condition should be read in conjunction with the accompanying condensed consolidated financial statements in Item 1.

Results of Operations

Overview

Three months ended September 30, 2008 compared to three months ended September 30, 2007

We reported net income of \$175.8 million and net income attributable to common stockholders of \$163.6 million for the three months ended September 30, 2008, compared to net loss of \$2.3 million and net loss attributable to common stockholders of \$21.4 million for the three months ended September 30, 2007, which were increases of \$178.1 million and \$184.9 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 higher net gains on disposition of real estate by our unconsolidated real estate partnerships; and

an increase in asset management and tax credit revenues, including increases in promote income resulting from asset disposition activities.

The effects of these items on our operating results were partially offset by an increase in depreciation and amortization expense, primarily related to completed redevelopments.

Nine months ended September 30, 2008 compared to nine months ended September 30, 2007

We reported net income of \$407.3 million and net income attributable to common stockholders of \$367.2 million for the nine months ended September 30, 2008, compared to net income of \$42.2 million and net loss attributable to common stockholders of \$9.5 million for the nine months ended September 30, 2007, which were increases of \$365.1 million and \$376.7 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 higher net gains on disposition of real estate by our unconsolidated real estate partnerships; and

an increase in asset management and tax credit revenues, which is primarily attributed to increases in promote income resulting from asset disposition activities.

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

an increase in interest expense, reflecting higher loan principal balances resulting from refinancings;

a decrease in interest income, primarily related to an adjustment of accretion of discounted notes receivable, and lower cash balances and interest rates;

an increase in depreciation and amortization expense, primarily related to completed redevelopments; 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.

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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). Our chief operating decision maker is comprised of several members of our executive management team who use several generally accepted industry financial measures to assess the performance of the business, including NAV, Economic Income, Free Cash Flow, net operating income, FFO, and AFFO. 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 three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Real estate segment revenues:				
Rental and other property revenues	\$ 361,996	\$ 345,197	\$ 1,070,604	\$ 1,023,390
Property management revenues, primarily from affiliates	1,227	1,824	4,746	5,192
	363,223	347,021	1,075,350	1,028,582
Real estate segment expenses:				
Property operating expenses	172,705	162,829	506,546	473,446
Property management expenses	1,560	1,333	4,018	5,268
	174,265	164,162	510,564	478,714
Real estate segment net operating income	\$ 188,958	\$ 182,859	\$ 564,786	\$ 549,868

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:

	Three Months Ended September 30,			
	2008	2007		Change
Consolidated same store revenues	\$ 228,582	\$ 223,137		2.4%
Consolidated same store expenses	90,861	93,730		-3.1%
Same store net operating income	137,721	129,407		6.4%

Reconciling items (1)	51,237	53,452	-4.1%
Real estate segment net operating income	\$ 188,958	\$ 182,859	3.3%
Same store operating statistics:			
Properties	254	254	
Apartment units	78,142	78,142	
Average physical occupancy	95.1%	94.7%	0.4%
Average rent/unit/month	\$ 939	\$ 926	1.4%

(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.

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For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, consolidated same store net operating income increased by \$8.3 million, or 6.4%. Revenues increased by \$5.4 million, or 2.4%, primarily due to higher average rent (up \$13 per unit). Property operating expenses decreased by \$2.9 million, or 3.1%, primarily due to decreases in personnel, repairs and maintenance, marketing, and administrative expenses.

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, consolidated real estate segment net operating income related to consolidated properties other than same store properties decreased by \$2.2 million, or 4.1%. Increases in casualty losses, including \$3.9 million related to Tropical Storm Fay and Hurricane Ike during the three months ended September 30, 2008, contributed to the decrease, and were partially offset by increases in net operating income attributable to affordable and redevelopment properties.

	Nine Months Ended September 30,			
	2008	2007		Change
Consolidated same store revenues	\$ 672,179	\$ 656,005		2.5%
Consolidated same store expenses	268,001	268,725		-0.3%
Same store net operating income	404,178	387,280		4.4%
Reconciling items (1)	160,608	162,588		-1.2%
Real estate segment net operating income	\$ 564,786	\$ 549,868		2.7%
Same store operating statistics:				
Properties	250	250		
Apartment units	77,153	77,153		
Average physical occupancy	94.9%	94.7%		0.2%
Average rent/unit/month	\$ 935	\$ 916		2.1%

(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 nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, consolidated same store net operating income increased by \$16.9 million, or 4.4%. Revenues increased by \$16.2 million, or 2.5%,

primarily due to higher average rent (up \$19 per unit). Property operating expenses decreased by \$0.7 million, or 0.3%, primarily due to decreases in personnel and repairs and maintenance expenses, offset by increases in utility and property tax expenses.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, consolidated real estate segment net operating income related to consolidated properties other than same store properties decreased by \$2.0 million, or 1.2%. Increases in casualty losses of \$9.4 million, including \$3.9 million related to Tropical Storm Fay and Hurricane Ike during the three months ended September 30, 2008, contributed to the decrease, and were partially offset by increases in net operating income attributable to affordable, acquisition and redevelopment properties.

Investment Management Segment

Our investment management segment includes 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.

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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 three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Asset management and tax credit revenues	\$ 32,755	\$ 12,747	\$ 83,782	\$ 39,554
Investment management expenses	5,842	5,812	15,859	15,799
Investment segment net operating income (1)	\$ 26,913	\$ 6,935	\$ 67,923	\$ 23,755

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

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, net operating income from investment management increased by \$20.0 million. This increase is primarily attributable to increases in promote income of \$11.1 million, which is related to increases in joint venture asset dispositions, other general partner transactional fees of \$6.2 million, and income from tax credit arrangements of \$2.1 million.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, net operating income from investment management increased by \$44.2 million. This increase is attributable to increases in promote income of \$38.6 million, which is related to increases in joint venture asset dispositions, other general partner transactional fees of \$5.1 million, and income from tax credit arrangements of \$1.6 million, offset by a decrease of \$1.1 million in asset management fees.

Other Operating Expenses (Income)***Depreciation and Amortization***

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, depreciation and amortization increased \$9.8 million, or 8.9%. This increase reflects depreciation of \$17.3 million for newly acquired properties, completed redevelopments, and other capital projects recently placed in service. This increase was partially offset by a decrease of \$8.4 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 *Use of Estimates* in Note 2 to the condensed consolidated financial statements in Item 1).

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, depreciation and amortization increased \$24.9 million, or 7.8%. This increase reflects depreciation of \$51.5 million for newly acquired properties, completed redevelopments, and other capital projects recently placed in service. This increase was offset by a decrease of \$24.2 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 *Use of Estimates* in Note 2 to the condensed consolidated financial statements in Item 1) as well as a \$2.4 million decrease in depreciation related to corporate assets, primarily related to internal use software becoming fully depreciated in 2007.

General and Administrative Expenses

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, general and administrative expenses increased \$6.7 million. This increase is primarily attributable to higher personnel and related expenses.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, general and administrative expenses increased \$9.1 million. This increase is primarily attributable to higher personnel and related expenses and increases in information technology communications costs.

Table of Contents***Other (Income) Expenses, Net***

Other (income) expenses, net includes income tax provision/benefit, franchise taxes, risk management activities, partnership administration expenses and certain non-recurring items.

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, other (income) expenses, net changed unfavorably by \$1.0 million. The net unfavorable change includes a \$1.1 million decrease in income tax benefit during 2008 due to improved results of our taxable subsidiaries and a \$0.8 million increase in expenses of our self insurance activities (including \$2.2 million of costs in 2008 related to Tropical Storm Fay and Hurricane Ike). The net unfavorable change also reflects \$1.3 million of income recognized in the three months ended September 30, 2007, related to the transfer of certain property rights to an unrelated party. These unfavorable changes were partially offset by a favorable change of \$2.4 million related to the settlement of certain litigation matters.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, other (income) expenses, net changed unfavorably by \$13.1 million. The net unfavorable change includes a \$4.8 million write-off of certain communications hardware and capitalized costs during 2008 (see *Use of Estimates* in Note 2 to the condensed consolidated financial statements in Item 1) 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 and a \$7.9 million decrease in income tax benefit during 2008 due to improved results of our taxable subsidiaries. These unfavorable changes were partially offset by a \$2.0 million reduction in expenses of our self insurance activities (net of \$2.2 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.

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 three months ended September 30, 2008, compared to the three months ended September 30, 2007, interest income decreased \$5.4 million. The decrease is primarily attributable to a decrease of \$4.6 million due to lower interest rates on notes receivable and cash and restricted cash balances and lower average balances, and a \$0.7 decrease in accretion on discounted notes receivable.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, interest income decreased \$16.3 million. The decrease is primarily attributable to a decrease of \$9.9 million due to lower interest rates on notes receivable and cash and restricted cash balances and lower average balances. The decrease also includes the effect of a \$4.4 million net adjustment to accretion on certain discounted notes during the nine months ended September 30, 2008, resulting from a change in the estimated timing and amount of collection, and \$1.5 million of accretion income recognized during the nine months ended September 30, 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.

Interest Expense

For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, interest expense, which includes the amortization of deferred financing costs, increased \$1.9 million, or 2.1%. Interest on property loans payable increased \$3.1 million due to higher balances resulting primarily from refinancing activities offset by lower average interest rates. Interest expense also increased by \$2.7 million due to decreases in capitalized interest related to redevelopment activities. These increases were partially offset by a \$3.9 million decrease in corporate interest expense primarily due to lower average interest rates.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, interest expense, which includes the amortization of deferred financing costs, increased \$14.3 million, or 5.3%. Interest on property loans payable increased \$17.4 million due to higher balances resulting primarily from refinancing activities, offset by lower average interest rates. Interest expense also increased by \$2.5 million due to decreases in capitalized

interest related to redevelopment activities. These increases were partially offset by a \$5.7 million decrease in corporate interest expense primarily due to lower average interest rates.

Table of Contents***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 three months ended September 30, 2008, compared to the three months ended September 30, 2007, deficit distributions to minority partners increased \$6.2 million. This increase reflects higher levels of distributions to minority interests during the three months ended September 30, 2008, including distributions in connection with debt refinancing transactions.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, deficit distributions to minority partners increased \$9.0 million. This increase reflects higher levels of distributions to minority interests during the nine months ended September 30, 2008, including distributions in connection with debt refinancing transactions.

Provision for Real Estate Impairment Losses

At times we may anticipate selling a property within twelve months or less, but for various reasons the property may not currently meet the criteria to be classified as held for sale. 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.

During the three and nine months ended September 30, 2008, based on the shortened anticipated holding period for certain properties, we recognized impairment losses of \$2.3 million. We recognized no such impairment losses during the three and nine months ended September 30, 2007, related to properties included in continuing operations.

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 dispositions of land and other non-depreciable assets and costs related to asset disposal activities. For the nine months ended September 30, 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 three months ended September 30, 2008, compared to the three months ended September 30, 2007, gain on dispositions of unconsolidated real estate and other increased \$94.5 million. This increase is attributable to a \$98.4 million gain on the disposition of two properties by unconsolidated real estate partnerships and a \$1.7 million gain on the sale of an undeveloped land parcel during the three months ended September 30, 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.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, gain on dispositions of unconsolidated real estate and other increased \$73.4 million. This increase is attributable to a \$98.4 million gain on the disposition of two properties by unconsolidated real estate partnerships and a \$1.7 million gain on the sale of an undeveloped land parcel during the nine months ended September 30, 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, and a \$19.4 million gain on debt extinguishment related to seven properties in the VMS partnership (see Note 4 to the condensed consolidated financial statements in Item 1).

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.

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For the three months ended September 30, 2008, compared to the three months ended September 30, 2007, minority interest in consolidated real estate partnerships changed favorably by \$11.0 million. The change includes a \$1.9 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 nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, minority interest in consolidated real estate partnerships changed favorably by \$17.5 million. The change includes a \$10.5 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.

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 on the eventual disposal of properties held for sale are reported in discontinued operations.

For the three months ended September 30, 2008 and 2007, income from discontinued operations, net totaled \$111.8 million and \$19.1 million, respectively. The increase of \$92.7 million was principally due to a \$105.7 million increase in gain on dispositions of real estate, net of minority partners' interest and income taxes and an \$8.8 million decrease in interest expense, partially offset by a \$10.2 million decrease in operating income and a \$9.1 million increase in minority interest in Aimco Operating Partnership.

For the nine months ended September 30, 2008 and 2007, income from discontinued operations, net totaled \$392.7 million and \$78.3 million, respectively. The increase of \$314.4 million was principally due to a \$367.0 million increase in gain on dispositions of real estate, net of minority partners' interest and income taxes, an \$18.0 million decrease in interest expense and a \$9.1 million increase in recovery of deficit distributions to minority partners, partially offset by a \$18.7 million decrease in operating income, a \$7.6 million increase in real estate impairment losses, a \$32.2 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.

During the three months ended September 30, 2008, we sold 43 consolidated properties, resulting in a net gain on sale of approximately \$124.3 million (which includes \$4.0 million of related income taxes). During the three months ended September 30, 2007, we sold 15 properties, resulting in a net gain on sale of approximately \$18.6 million (including \$1.2 million of related income tax benefit). Additionally, in 2008, we recognized \$1.8 million of impairment losses on assets sold or held for sale and \$0.9 million of recoveries of deficit distributions to minority partners.

During the nine months ended September 30, 2008, we sold 88 consolidated properties, resulting in a net gain on sale of approximately \$422.7 million (which includes \$21.1 million of related income taxes). During the nine months ended September 30, 2007, we sold 55 properties resulting in a net gain on sale of approximately \$55.7 million (which includes \$1.6 million of related income taxes). Additionally, in 2008, we recognized \$8.3 million of impairment losses on assets sold or held for sale and \$8.3 million of recoveries of deficit distributions to minority partners.

For the three and nine months ended September 30, 2008 and 2007, income from discontinued operations included the operating results of the properties sold or classified as held for sale as of September 30, 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 3 to the condensed consolidated financial statements in Item 1 for more information on discontinued operations.

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Critical Accounting Policies and Estimates

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

Impairment of Long-Lived Assets

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

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

At September 30, 2008, we evaluated our Lincoln Place property in Venice, California and determined that the carrying amount of \$201.0 million was recoverable based on an assessment of undiscounted cash flows. Plans to develop Lincoln Place have been the subject of controversy and litigation, which reduces its market value. In the current market environment and in consideration of ongoing litigation related to Lincoln Place, the current fair value of the property is likely less than the carrying amount. However, as the impairment analysis for assets classified as held for use requires the use of undiscounted cash flows over the assumed holding period for the asset, an impairment may not be recognized even if the fair value is less than the carrying amount.

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. Based on periodic tests of recoverability of long-lived assets, we recorded a \$2.3 million impairment loss during the three and nine months ended September 30, 2008, related to certain properties we anticipate selling within 12 months but that do not otherwise meet the criteria to

be classified as held for sale. We did not record any impairment losses related to properties classified as held and used during the three and nine months ended September 30, 2007.

Table of Contents***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 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. 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 amount 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.

We recorded net provisions for losses on notes receivable of \$2.1 million and \$3.8 million for the three and nine months ended September 30, 2008, respectively. We recorded a net recovery of impairment losses on notes receivable of \$0.2 million for the three months ended September 30, 2007, and a net provision for losses on notes receivable of \$2.1 million for the nine months ended September 30, 2007. 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.

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 regional operating center 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.

For the three months ended September 30, 2008 and 2007, for continuing and discontinued operations, we capitalized \$5.9 million and \$8.8 million of interest costs, respectively, and \$18.8 million and \$21.0 million of site payroll and

indirect costs, respectively. For the nine months ended September 30, 2008 and 2007, for continuing and discontinued operations, we capitalized \$19.9 million and \$22.7 million of interest costs, respectively, and \$57.5 million and \$58.0 million of site payroll and indirect costs, respectively.

Table of Contents**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 related preferred stock issuance costs and dividends on preferred stock and adding back dividends/distributions on dilutive 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 three and nine months ended September 30, 2008 and 2007, our FFO is calculated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss) attributable to common stockholders (1)	\$ 163,575	\$ (21,361)	\$ 367,190	\$ (9,523)
Adjustments:				
Depreciation and amortization	120,771	110,946	343,636	318,691
Depreciation and amortization related to non-real estate assets	(4,189)	(3,491)	(13,041)	(14,782)
Depreciation of rental property related to minority partners interest and unconsolidated entities (2) (3)	(15,005)	(6,230)	(27,334)	(17,353)
Gain on dispositions of unconsolidated real estate and other	(100,359)	(5,841)	(100,345)	(26,919)
Gain on dispositions of non-depreciable assets and debt extinguishment gain	1,669	6,000	1,669	25,373
Deficit distributions to minority partners, net (4)	17,798	11,640	22,981	13,998
Discontinued operations:				
Gain on dispositions of real estate, net of minority partners interest (2)	(128,301)	(17,406)	(443,795)	(57,296)
Depreciation of rental property, net of minority partners interest (2) (3)	6,229	17,089	34,592	32,595
Deficit distributions (recovery of deficit distributions) to minority partners (4)	(909)	282	(8,325)	726
Income tax arising from disposals	4,027	(1,151)	21,091	1,610
Minority interest in Aimco Operating Partnership's share of above adjustments	8,848	(10,358)	15,705	(25,615)
Preferred stock dividends	13,706	16,385	41,584	49,080
Preferred stock redemption related (gains) costs (5)	(1,482)	2,635	(1,482)	2,635
Funds From Operations	\$ 86,378	\$ 99,139	\$ 254,126	\$ 293,220
Preferred stock dividends	(13,706)	(16,385)	(41,584)	(49,080)

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Preferred stock redemption related gains (costs) (5)	1,482	(2,635)	1,482	(2,635)
Dividends/distributions on dilutive preferred securities	1,758	58	4,850	116

Funds From Operations attributable to common stockholders diluted	\$ 75,912	\$ 80,177	\$ 218,874	\$ 241,621
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Weighted average number of common shares, common share equivalents and dilutive preferred securities outstanding (6) (7):

Common shares and equivalents	90,266	107,533	93,948	109,973
Dilutive preferred securities	2,506	96	2,341	60
Total	92,772	107,629	96,289	110,033

Notes:

- (1) Represents the numerator for earnings per common share, calculated in accordance with GAAP (see Note 6 to the condensed consolidated financial statements in Item 1).
- (2) Minority partners interest means minority interest in our consolidated real estate partnerships.
- (3) Adjustments related to minority partners share of depreciation of rental property for the nine months ended September 30, 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
4 to the
condensed
consolidated
financial
statements in
Item 1). 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 nine
months ended
September 30,
2007, was an
increase of
\$9.3 million
(\$8.4 million
after minority
interest in
Aimco
Operating
Partnership).

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- (4) 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 real estate 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.

- (5) Preferred stock redemption related costs and gains include a redemption discount, net of issuance costs, of \$1.5 million for the three and nine months ended September 30,

2008, and a redemption premium and issuance costs of \$2.6 million for the three and nine months ended September 30, 2007.

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

(7) 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 pursuant to the special dividends discussed in Note 1 to the condensed consolidated financial statements in

Item 1.

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 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.

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 3, 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 September 30, 2008, a 1.0 % increase in 30-day LIBOR would reduce our income attributable to common stockholders by approximately \$6.2 million on an annual basis. From June 30, 2008 to September 30, 2008, both the Securities Industry and Financial Markets Association Municipal Swap Index, or 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, increased, with the SIFMA rate increasing from 1.55% to 7.96% and the 30-day LIBOR rate increasing from 2.46% to 3.93%. In addition to increases in base interest rates, the tightening of credit markets has also 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 higher 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.

At September 30, 2008, we had swap positions with two financial institutions for a total swap exposure of \$464.7 million. The swap positions with one counterparty are comprised of \$452.4 million of fixed rate debt effectively converted to variable rates using total rate of return swaps, including \$380.4 million of tax-exempt bonds indexed to SIFMA and \$72.0 million of taxable second mortgage notes indexed to LIBOR. 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 operating cash flows.

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As of September 30, 2008, the amount available under the revolving credit facility was \$589.0 million (after giving effect to \$55.9 million outstanding for undrawn letters of credit issued under the revolving credit facility). For the three months ending December 31, 2008, and the year ending December 31, 2009, we have non-recourse property debt maturities of \$93.1 million and \$401.9 million, respectively, at an average estimated loan-to-value of approximately 36% and 50%, respectively. Of our total outstanding term debt of \$475.0 million at September 30, 2008, \$75.0 matures in September 2009. Additionally, we have limited obligations to fund redevelopment commitments during the three months ending December 31, 2008 and the year ending December 31, 2009, and no development commitments.

At September 30, 2008, we had \$219.0 million in cash and cash equivalents, an increase of \$8.6 million from December 31, 2007. At September 30, 2008, we had \$307.0 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 condensed consolidated statements of cash flows in Item 1.

Operating Activities

For the nine months ended September 30, 2008, our net cash provided by operating activities of \$335.2 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 increased \$17.8 million compared with the nine months ended September 30, 2007. The increase in operating cash flow is largely the result of changes in operating assets and liabilities during 2008 relative to 2007.

Investing Activities

For the nine months ended September 30, 2008, net cash provided by investing activities of \$936.7 million consisted primarily of proceeds from disposition of real estate and distributions received from investments 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 nine months ended September 30, 2008, we sold 88 consolidated properties. These properties were sold for an aggregate sales price of \$1,590.6 million and generated proceeds totaling \$1,515.0 million, after the payment of transaction costs and debt prepayment penalties. The \$1,515.0 million in proceeds is inclusive of promote income which is generated by the disposition of consolidated joint ventures, debt assumed by buyers and sales proceeds placed into escrows for 1031 tax-free exchanges and other purposes. These items are excluded from proceeds from disposition of real estate in the condensed consolidated statement of cash flows. Sales proceeds were used to repay property level debt, repay borrowings under our revolving credit facility, repurchase shares of our Common Stock and for other corporate purposes.

Our portfolio management strategy includes property acquisitions and dispositions to concentrate our portfolio in the 20 largest U.S. markets as measured by total market capitalization. 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, repurchase shares of our Common Stock, 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.

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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.

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 nine months ended September 30, 2008, on a per unit and total dollar basis. Per unit numbers for CR and CI are based on approximately 128,508 average units during the period, including 111,623 conventional and 16,885 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 condensed 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	\$ 25,323	\$ 197
Turnover related	36,356	283
Capitalized site payroll and indirect costs	10,820	84
Our share of Capital Replacements	\$ 72,499	\$ 564
Capital Replacements:		
Conventional	\$ 68,060	\$ 610
Affordable	4,439	\$ 263
Our share of Capital Replacements	72,499	\$ 564
Capital Improvements:		
Conventional	76,875	\$ 689
Affordable	8,210	\$ 486
Our share of Capital Improvements	85,085	\$ 662
Casualties (1):		
Conventional	7,818	
Affordable	1,453	
Our share of casualties	9,271	

Redevelopment:

Conventional projects	182,185
Tax credit projects	73,832

Our share of redevelopment 256,017

Entitlement

18,226

Our share of capital expenditures	441,098
Plus minority partners share of consolidated spending	35,498
Less our share of unconsolidated spending	(566)

Total capital expenditures per condensed consolidated statement of cash flows \$ 476,030

(1) Casualties for the nine months ended September 30, 2008, reflects only the portion of the anticipated spending related to Tropical Storm Fay and Hurricane Ike incurred as of September 30, 2008.

Included in the above spending for CI, casualties, redevelopment and entitlement, was approximately \$48.6 million of our share of capitalized site payroll and indirect costs related to these activities for the nine months ended September 30, 2008.

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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 nine months ended September 30, 2008, net cash used in financing activities of \$1,263.3 million was primarily attributable to debt principal payments, repurchases of Common Stock and preferred stock, payments of dividends on Common Stock and preferred stock and distributions to minority interests. These cash outflows were partially offset by proceeds from property loans and tax-exempt bond financing.

Mortgage Debt

At September 30, 2008, we had \$6.5 billion in consolidated mortgage debt outstanding, including mortgage debt classified within liabilities related to assets held for sale, as compared to \$7.0 billion outstanding at December 31, 2007. During the nine months ended September 30, 2008, we refinanced or closed mortgage loans on 53 consolidated properties, generating \$509.1 million of proceeds from borrowings with a weighted average interest rate of 5.45%. Our share of the net proceeds after repayment of existing debt, payment of transaction costs and distributions to limited partners, was \$279.4 million. We used these total net proceeds for capital expenditures and other corporate purposes. We intend to continue to refinance mortgage debt to generate proceeds in amounts exceeding our scheduled amortizations and maturities, generally not to increase loan-to-value, but as a means to monetize asset appreciation. During the nine months ended September 30, 2008, we acquired two properties for which a portion of the purchase price was funded using \$35.0 million in mortgage loan proceeds.

Fair Value Measurements

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. The counterparty to these swap arrangements purchases the debt in the open market and contemporaneously enters into the total rate of return swap with us on the purchased debt. In exchange for our receipt of a fixed rate generally equal to the underlying borrowings' interest rate, the total rate of return swaps require that we pay a variable rate, equivalent to the SIFMA rate for bonds payable and a LIBOR rate for second mortgage notes payable, plus a credit risk spread. These swaps generally have a second or third lien on the properties 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 swaps generally have a remaining term from three to four years, which may be extended. 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 to the counterparty if the fair value is less than the purchased value, or to us from the counterparty if the fair value is greater than the purchased value. The underlying borrowings are generally callable at our option, with no prepayment penalty, with 30 days advance notice.

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.

Effective in the first quarter of 2008, we estimate fair values for these instruments in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS 157. As the swap instruments are nontransferable, there is no alternate or secondary market for these instruments. Accordingly, our assumptions about 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 related underlying borrowings, and an evaluation of potential changes in the credit quality of the counterparties to these arrangements. While these fair value measurements include observable components that can be validated to observable external sources, the primary inputs we use in estimating fair value are unobservable inputs. We classify the inputs to these fair value measurements within Level 3 of the SFAS 157 valuation hierarchy based upon the significance of these

unobservable factors to the overall fair value measurements. We compare our estimates of fair value of the swaps and related borrowings to valuations provided by the counterparties on a quarterly basis.

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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 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 three and nine months ended September 30, 2008, changes in the fair values of these financial instruments resulted in decreases of \$6.9 million and \$13.4 million in the carrying amount of the hedged borrowings and equal increases in accrued liabilities and other for total rate of return swaps. At September 30, 2008, the cumulative recognized changes in the fair value of these financial instruments resulted in a \$22.8 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 three and nine months ended September 30, 2008, we received net cash receipts of \$4.3 million and \$12.1 million, respectively, 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 impact our liquidity.

See Note 2 to the condensed consolidated financial statements in Item 1 for more information on our total rate of return swaps and related borrowings.

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.

The aggregate amount of commitments and loans under the Credit Agreement is \$1.125 billion, comprised of \$475.0 million in term loans and \$650.0 million of revolving loan commitments. The \$75.0 million term loan bears interest at LIBOR plus 1.375%, or, at our option, a base rate (currently at Prime) plus 0.25%, and matures September 2009. The \$400.0 million term loan bears interest at LIBOR plus 1.5%, or, at our option, a base rate (currently at Prime) plus 0.25%, and matures March 2011. Our revolving loan 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 1.375%). We are permitted to increase the aggregate commitments under the credit agreement (which may be revolving or term loan commitments) by an amount not to exceed \$175.0 million, subject to receipt of commitments from lenders and other customary conditions.

At September 30, 2008, the term loans had an outstanding principal balance of \$475.0 million and a weighted average interest rate of 4.01%. At September 30, 2008, the revolving loans had an outstanding principal balance of \$5.1 million and an interest rate of 5.0%. The amount available under the revolving credit facility at September 30, 2008, was \$589.0 million (after giving effect to \$55.9 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.

Equity Transactions

In December 2007 and July 2008, the Aimco Operating Partnership declared special cash distributions payable on January 30, 2008 and August 29, 2008, respectively, to holders of record of common OP Units and High Performance Units on December 31, 2007 and July 28, 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 distributions entirely in cash, in the amounts noted below.

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	January 2008 Special Distribution	August 2008 Special Distribution
Aimco Operating Partnership Special Distributions		
Distribution per unit	\$ 2.51	\$ 3.00
Total distribution	\$ 257.2 million	\$ 285.5 million
Common OP Units and High Performance Units outstanding on record date	102,478,510	95,151,333
Common OP Units held by Aimco	92,795,891	85,619,144
Total distribution on Aimco common OP Units	\$ 232.9 million	\$ 256.9 million
Cash distribution to Aimco	\$ 55.0 million	\$ 51.4 million
Portion of distribution paid to Aimco through issuance of common OP Units	\$ 177.9 million	\$ 205.5 million
Common OP Units issued to Aimco pursuant to distribution	4,594,074	5,731,310
Cash distributed to holders of common OP Units and High Performance Units other than Aimco	\$ 24.3 million	\$ 28.6 million

Also in December 2007 and July 2008, our Board of Directors declared corresponding special dividends payable on January 30, 2008 and August 29, 2008, respectively, to holders of record of our Common Stock on December 31, 2007 and July 28, 2008, respectively. A portion of the special dividends in the amounts of \$0.60 per share represented payment of the regular dividend for the quarters ended December 31, 2007 and June 30, 2008, and the remaining amount per share represented additional dividends 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, determined based on the average closing price of our Common Stock as previously disclosed.

	January 2008 Special Dividend	August 2008 Special Dividend
Aimco Special Dividends		
Dividend per share	\$ 2.51	\$ 3.00
Outstanding shares of Common Stock on the record date	92,795,891	85,619,144
Total dividend	\$ 232.9 million	\$ 256.9 million
Portion of dividend paid in cash	\$ 55.0 million	\$ 51.4 million
Portion of dividend paid through issuance of shares	\$ 177.9 million	\$ 205.5 million
Shares issued pursuant to dividend	4,594,074	5,731,310
Effective increase in outstanding shares on record date	4.95%	6.70%
Average share price on determination date	\$ 38.71	35.84

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
Total dividend	\$ 231.9 million	\$ 255.5 million
Portion of dividend paid in cash	\$ 54.8 million	\$ 51.1 million
Portion of dividend paid through issuance of shares	\$ 177.1 million	\$ 204.4 million
Shares issued pursuant to dividend	4,573,735	5,703,265

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.

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 nine months ended September 30, 2008, we repurchased 12,654,526 shares of Common Stock for cash totaling \$423.5 million. As of September 30, 2008, we were authorized to repurchase approximately 21.3 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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Future Capital Needs

We expect to fund any future acquisitions, additional redevelopment projects and capital improvements 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.

ITEM 3. 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 \$1,489.5 million of floating rate debt and \$73.0 million of floating rate preferred stock outstanding at September 30, 2008. Of the total floating rate debt, the major components were floating rate tax-exempt bond financing (\$609.0 million), floating rate secured notes (\$391.9 million), and term loans (\$475.0 million). At September 30, 2008, we had approximately \$706.8 million in cash and cash equivalents, restricted cash and notes receivable, the majority of which bear interest. We also had approximately \$149.0 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, which since 1989 has averaged 69% of the 30-day LIBOR rate. During 2008, the SIFMA rate has averaged 83% of the 30-day LIBOR rate. If the historical relationship continues, on an annual basis, an increase in 30-day LIBOR of 1.0% (0.69% in tax-exempt interest rates) would result in our income before minority interests being reduced by \$4.6 million and our income attributable to common stockholders being reduced by \$6.2 million.

We believe that the fair values of our floating rate secured tax-exempt bond debt and floating rate secured long-term debt as of September 30, 2008, approximate their carrying values. The fair value for our fixed-rate debt agreements was estimated based on the market rate for debt with the same or similar terms. The combined carrying amount of our fixed-rate secured tax-exempt bonds and fixed-rate secured notes payable at September 30, 2008, was \$5.3 billion compared to the estimated fair value of \$5.2 billion. If market rates for our fixed-rate debt were higher by 1.0%, the estimated fair value of our fixed-rate debt would have decreased from \$5.2 billion to \$4.9 billion. If market rates for our fixed-rate debt were lower by 1%, the estimated fair value of our fixed-rate debt would have increased from \$5.2 billion to \$5.5 billion.

ITEM 4. 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.

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 third quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1A. Risk Factors**

As of the date of this report, there have been no material changes from the risk factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) *Unregistered Sales of Equity Securities.* From time to time during the three months ended September 30, 2008, we issued 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. During the three months ended September 30, 2008, approximately 2,400 shares of Common Stock were issued in exchange for OP Units in these transactions. All of the foregoing issuances were made in private placement transactions exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

(c) *Repurchases of Equity Securities.* The following table summarizes repurchases of our equity securities for the three months ended September 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid	Total Number of Shares Purchased (adjusted)	Average Price Paid (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 (2)(3)
July 1 - July 31, 2008	2,902,900	\$ 34.45	3,053,931	\$ 32.74	2,902,900	21,342,770
August 1 - August 31, 2008		N/A		N/A		21,342,770
September 1 - September 30, 2008		N/A		N/A		21,342,770
Total	2,902,900	\$ 34.45	3,053,931	\$ 32.74	2,902,900	

(1) Adjusted for the effect of shares of Common Stock issued in connection with the special dividend paid in August 2008. Refer to Note 1 to the consolidated

financial
statements in
Item 1 for
further
discussion of
the special
dividend.

- (2) Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. As of September 30, 2008, we were authorized to repurchase approximately 21.3 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.
- (3) The number of shares authorized for repurchase was not affected by the special dividends discussed in Note 1 to the consolidated financial statements in Item 1.

Dividend Payments. Our Credit Agreement includes customary covenants, including a restriction on dividends and other restricted payments, but permits dividends during any 12-month period in an aggregate amount of up to 95% of our Funds From Operations for such period or such amount as may be necessary to maintain our REIT status.

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ITEM 6. Exhibits

The following exhibits are filed with this report:

EXHIBIT NO.

- 3.1 Charter (Exhibit 3.1 to Aimco's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, is incorporated herein by reference)
- 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 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. and the other lenders party thereto (Exhibit 10.1 to Aimco's Current Report on Form 8-K, dated September 9, 2008, is incorporated herein by this reference)
- 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
- 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 Regarding Disclosure of Long-Term Debt Instruments

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**APARTMENT INVESTMENT AND MANAGEMENT COMPANY
SIGNATURES**

Pursuant to the requirements 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

By: /s/ THOMAS M. HERZOG
Thomas M. Herzog
*Executive Vice President and Chief Financial Officer
(duly authorized officer and principal financial officer)*

By: /s/ PAUL BELDIN
Paul Beldin
Senior Vice President and Chief Accounting Officer

Date: October 31, 2008

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Exhibit Index

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