

APARTMENT INVESTMENT & MANAGEMENT CO

Form 10-Q

August 02, 2017

Table of Contents

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 June 30, 2017

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)

Commission File Number 0-24497 (AIMCO Properties, L.P.)

Apartment Investment and Management Company

AIMCO Properties, L.P.

(Exact name of registrant as specified in its charter)

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

4582 South Ulster Street, Suite 1100

Denver, Colorado

(Address of principal executive offices)

(303) 757-8101

(Registrant's telephone number, including area code)

80237

(Zip Code)

Not Applicable

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

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

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

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

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

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

Apartment Investment and Management Company:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act.

AIMCO Properties, L.P.:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act.

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

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

The number of shares of Apartment Investment and Management Company

Class A Common Stock outstanding as of August 1, 2017: 157,022,720

The number of AIMCO Properties, L.P. Partnership Common Units outstanding as of August 1, 2017: 164,473,992

Table of Contents

EXPLANATORY NOTE

This filing combines the reports on Form 10-Q for the quarterly period ended June 30, 2017, of Apartment Investment and Management Company, or Aimco, and AIMCO Properties, L.P., or the Aimco Operating Partnership. Where it is important to distinguish between the two entities, we refer to them specifically. Otherwise, references to “we,” “us” or “our” mean, collectively, Aimco, the Aimco Operating Partnership and their consolidated entities.

Aimco, a Maryland corporation, is a self-administered and self-managed real estate investment trust, or REIT. Aimco, through wholly-owned subsidiaries, is the general and special limited partner of, and as of June 30, 2017, owned a 95.5% ownership interest in the common partnership units of, the Aimco Operating Partnership. The remaining 4.5% interest is owned by limited partners. As the sole general partner of the Aimco Operating Partnership, Aimco has exclusive control of the Aimco Operating Partnership’s day-to-day management.

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

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

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

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

We believe it is important to understand the few differences between Aimco and the Aimco Operating Partnership in the context of how Aimco and the Aimco Operating Partnership operate as a consolidated company. Aimco has no assets or liabilities other than its investment in the Aimco Operating Partnership. Also, Aimco is a corporation that issues publicly traded equity from time to time, whereas the Aimco Operating Partnership is a partnership that has no publicly traded equity. Except for the net proceeds from stock offerings by Aimco, which are contributed to the Aimco Operating Partnership in exchange for additional limited partnership interests (of a similar type and in an amount equal to the shares of stock sold in the offering), the Aimco Operating Partnership generates all remaining capital required by its business. These sources include the Aimco Operating Partnership’s working capital, net cash provided by operating activities, borrowings under its revolving credit facility, the issuance of debt and equity securities, including additional partnership units, and proceeds received from the sale of apartment communities. Equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Aimco and those of the Aimco Operating Partnership. Interests in the Aimco Operating Partnership held by entities other than Aimco, which we refer to as OP Units, are classified within partners’ capital in the Aimco Operating Partnership’s financial statements and as noncontrolling interests in Aimco’s financial statements. To help investors understand the differences between Aimco and the Aimco Operating Partnership, this report provides: separate consolidated financial statements for Aimco and the Aimco Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity’s stockholders’ equity or partners’ capital, as applicable; and a combined Management’s Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity, where appropriate.

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

Table of Contents

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

TABLE OF CONTENTS

FORM 10-Q

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements</u>	
<u>Apartment Investment and Management Company:</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>AIMCO Properties, L.P.:</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>10</u>
<u>Notes to the Condensed Consolidated Financial Statements of Apartment Investment and Management Company and AIMCO Properties, L.P. (Unaudited)</u>	<u>11</u>
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
ITEM 4. <u>Controls and Procedures</u>	<u>42</u>
<u>PART II. OTHER INFORMATION</u>	
ITEM 1A. <u>Risk Factors</u>	<u>43</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
ITEM 6. <u>Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>46</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Buildings and improvements	\$6,179,005	\$ 6,106,298
Land	1,824,672	1,824,819
Total real estate	8,003,677	7,931,117
Accumulated depreciation	(2,468,206)	(2,421,357)
Net real estate	5,535,471	5,509,760
Cash and cash equivalents	44,869	45,821
Restricted cash	39,331	36,405
Other assets	247,591	293,768
Assets of partnerships served by Asset Management business:		
Real estate, net	231,881	245,648
Cash and cash equivalents	18,893	15,423
Restricted cash	30,288	33,501
Other assets	50,878	52,492
Total assets	\$6,199,202	\$ 6,232,818
LIABILITIES AND EQUITY		
Non-recourse property debt secured by Real Estate communities, net	\$3,617,182	\$ 3,630,276
Term loan, net	249,040	—
Revolving credit facility borrowings	245,720	17,930
Total indebtedness associated with Real Estate portfolio	4,111,942	3,648,206
Accrued liabilities and other	203,997	218,937
Liabilities of partnerships served by Asset Management business:		
Non-recourse property debt, net	229,631	236,426
Accrued liabilities and other	58,641	62,630
Deferred income	15,355	18,452
Total liabilities	4,619,566	4,184,651
Preferred noncontrolling interests in Aimco Operating Partnership	101,537	103,201
Commitments and contingencies (Note 4)		
Equity:		
Perpetual Preferred Stock	125,000	125,000
Common Stock, \$0.01 par value, 500,787,260 shares authorized, 157,022,720 and 156,888,381 shares issued/outstanding at June 30, 2017 and December 31, 2016, respectively	1,570	1,569
Additional paid-in capital	3,897,621	4,051,722
Accumulated other comprehensive income	896	1,011
Distributions in excess of earnings	(2,530,585)	(2,385,399)
Total Aimco equity	1,494,502	1,793,903

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Noncontrolling interests in consolidated real estate partnerships	(2,609)	151,121	
Common noncontrolling interests in Aimco Operating Partnership	(13,794)	(58)
Total equity	1,478,099		1,944,966	
Total liabilities and equity	\$6,199,202		\$ 6,232,818	

See notes to condensed consolidated financial statements.

3

Table of ContentsAPARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
REVENUES				
Rental and other property revenues attributable to Real Estate	\$227,703	\$223,741	\$452,931	\$446,332
Rental and other property revenues of partnerships served by Asset Management business	18,533	19,130	37,095	38,020
Tax credit and transaction revenues	2,856	8,347	5,547	13,105
Total revenues	249,092	251,218	495,573	497,457
OPERATING EXPENSES				
Property operating expenses attributable to Real Estate	79,014	79,708	158,640	159,180
Property operating expenses of partnerships served by Asset Management business	8,382	9,252	17,579	18,789
Depreciation and amortization	89,155	80,680	176,323	160,508
General and administrative expenses	10,108	11,616	21,071	23,914
Other expenses, net	2,727	5,526	4,465	7,096
Total operating expenses	189,386	186,782	378,078	369,487
Operating income	59,706	64,436	117,495	127,970
Interest income	2,012	1,843	4,204	3,678
Interest expense	(46,858)	(48,894)	(94,740)	(96,528)
Other, net	200	4,906	665	4,983
Income before income taxes and gain on dispositions	15,060	22,291	27,624	40,103
Income tax benefit	5,023	7,121	10,008	13,007
Income before gain on dispositions	20,083	29,412	37,632	53,110
Gain on dispositions of real estate, net of tax	1,508	216,541	1,114	222,728
Net income	21,591	245,953	38,746	275,838
Noncontrolling interests:				
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(813)	(8,677)	(1,764)	(9,607)
Net income attributable to preferred noncontrolling interests in Aimco Operating Partnership	(1,939)	(1,708)	(3,888)	(3,434)
Net income attributable to common noncontrolling interests in Aimco Operating Partnership	(787)	(11,135)	(1,344)	(12,307)
Net income attributable to noncontrolling interests	(3,539)	(21,520)	(6,996)	(25,348)
Net income attributable to Aimco	18,052	224,433	31,750	250,490
Net income attributable to Aimco preferred stockholders	(2,149)	(2,758)	(4,297)	(5,515)
Net income attributable to participating securities	(60)	(293)	(119)	(370)
Net income attributable to Aimco common stockholders	\$15,843	\$221,382	\$27,334	\$244,605
Net income attributable to Aimco per common share – basic	\$0.10	\$1.42	\$0.17	\$1.57
Net income attributable to Aimco per common share – diluted	\$0.10	\$1.41	\$0.17	\$1.57
Dividends declared per common share	\$0.36	\$0.33	\$0.72	\$0.66

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Weighted average common shares outstanding – basic	156,305	156,375	156,282	155,876
Weighted average common shares outstanding – diluted	156,715	156,793	156,735	156,248

See notes to condensed consolidated financial statements.

4

Table of ContentsAPARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$21,591	\$245,953	\$38,746	\$275,838
Other comprehensive income (loss):				
Unrealized losses on interest rate swaps	(345)	(411)	(355)	(1,085)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	369	398	755	818
Unrealized gains (losses) on investments in debt securities classified as available-for-sale	1,080	(232)	(421)	5,951
Other comprehensive income (loss)	1,104	(245)	(21)	5,684
Comprehensive income	22,695	245,708	38,725	281,522
Comprehensive income attributable to noncontrolling interests	(3,630)	(21,554)	(7,090)	(25,702)
Comprehensive income attributable to Aimco	\$19,065	\$224,154	\$31,635	\$255,820

See notes to condensed consolidated financial statements.

Table of ContentsAPARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$38,746	\$275,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	176,323	160,508
Gain on dispositions of real estate, net of tax	(1,114)	(222,728)
Other adjustments	(5,302)	(10,380)
Net changes in operating assets and operating liabilities	(32,640)	(26,473)
Net cash provided by operating activities	176,013	176,765
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of real estate	(8,189)	(6,119)
Capital expenditures	(176,388)	(166,030)
Proceeds from dispositions of real estate	10,915	298,691
Purchases of corporate assets	(6,005)	(4,425)
Change in restricted cash	1,780	(286,841)
Other investing activities	733	10,013
Net cash used in investing activities	(177,154)	(154,711)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-recourse property debt	68,535	38,261
Principal repayments on non-recourse property debt	(91,420)	(59,267)
Proceeds from term loan	250,000	—
Net borrowings on revolving credit facility	227,790	133,540
Payment of dividends to holders of Preferred Stock	(4,297)	(5,515)
Payment of dividends to holders of Common Stock	(112,661)	(103,050)
Payment of distributions to noncontrolling interests	(11,176)	(11,898)
Purchases and redemptions of noncontrolling interests	(323,165)	(3,980)
Other financing activities	53	(5,709)
Net cash provided by (used in) financing activities	3,659	(17,618)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,518	4,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	61,244	50,789
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$63,762	\$55,225

See notes to condensed consolidated financial statements.

Table of Contents

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

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Total indebtedness associated with Real Estate portfolio	4,111,942	3,648,206
Accrued liabilities and other	203,997	218,937
Liabilities of partnerships served by Asset Management business:		
Non-recourse property debt, net	229,631	236,426
Accrued liabilities and other	58,641	62,630
Deferred income	15,355	18,452
Total liabilities	4,619,566	4,184,651
Redeemable preferred units	101,537	103,201
Commitments and contingencies (Note 4)		
Partners' capital:		
Preferred units	125,000	125,000
General Partner and Special Limited Partner	1,369,502	1,668,903
Limited Partners	(13,794)	(58)
Partners' capital attributable to the Aimco Operating Partnership	1,480,708	1,793,845
Noncontrolling interests in consolidated real estate partnerships	(2,609)	151,121
Total partners' capital	1,478,099	1,944,966
Total liabilities and partners' capital	\$6,199,202	\$ 6,232,818

See notes to condensed consolidated financial statements.

Table of Contents

AIMCO PROPERTIES, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
REVENUES				
Rental and other property revenues attributable to Real Estate	\$227,703	\$223,741	\$452,931	\$446,332
Rental and other property revenues of partnerships served by Asset Management business	18,533	19,130	37,095	38,020
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Total revenues	249,092	251,218	495,573	497,457
OPERATING EXPENSES				
Property operating expenses attributable to Real Estate	79,014	79,708	158,640	159,180
Property operating expenses of partnerships served by Asset Management business	8,382	9,252	17,579	18,789
Depreciation and amortization	89,155	80,680	176,323	160,508
General and administrative expenses	10,108	11,616	21,071	23,914
Other expenses, net	2,727	5,526	4,465	7,096
Total operating expenses	189,386	186,782	378,078	369,487
Operating income	59,706	64,436	117,495	127,970
Interest income	2,012	1,843	4,204	3,678
Interest expense	(46,858)	(48,894)	(94,740)	(96,528)
Other, net	200	4,906	665	4,983
Income before income taxes and gain on dispositions	15,060	22,291	27,624	40,103
Income tax benefit	5,023	7,121	10,008	13,007
Income before gain on dispositions	20,083	29,412	37,632	53,110
Gain on dispositions of real estate, net of tax	1,508	216,541	1,114	222,728
Net income	21,591	245,953	38,746	275,838
Net income attributable to noncontrolling interests in consolidated real estate partnerships	(813)	(8,677)	(1,764)	(9,607)
Net income attributable to the Aimco Operating Partnership	20,778	237,276	36,982	266,231
Net income attributable to the Aimco Operating Partnership's preferred unitholders	(4,088)	(4,466)	(8,185)	(8,949)
Net income attributable to participating securities	(63)	(293)	(123)	(370)
Net income attributable to the Aimco Operating Partnership's common unitholders	\$16,627	\$232,517	\$28,674	\$256,912
Net income attributable to the Aimco Operating Partnership per common unit – basic	\$0.10	\$1.42	\$0.18	\$1.57
Net income attributable to the Aimco Operating Partnership per common unit – diluted	\$0.10	\$1.41	\$0.17	\$1.57
Distributions declared per common unit	\$0.36	\$0.33	\$0.72	\$0.66
Weighted average common units outstanding – basic	163,740	164,188	163,777	163,707
Weighted average common units outstanding – diluted	164,150	164,606	164,230	164,079

See notes to condensed consolidated financial statements.

8

Table of Contents

AIMCO PROPERTIES, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$21,591	\$245,953	\$38,746	\$275,838
Other comprehensive income (loss):				
Unrealized losses on interest rate swaps	(345)	(411)	(355)	(1,085)
Losses on interest rate swaps reclassified into interest expense from accumulated other comprehensive loss	369	398	755	818
Unrealized gains (losses) on investments in debt securities classified as available-for-sale	1,080	(232)	(421)	5,951
Other comprehensive income (loss)	1,104	(245)	(21)	5,684
Comprehensive income	22,695	245,708	38,725	281,522
Comprehensive income attributable to noncontrolling interests	(856)	(8,725)	(1,865)	(9,694)
Comprehensive income attributable to the Aimco Operating Partnership	\$21,839	\$236,983	\$36,860	\$271,828

See notes to condensed consolidated financial statements.

Table of Contents

AIMCO PROPERTIES, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$38,746	\$275,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	176,323	160,508
Gain on dispositions of real estate, net of tax	(1,114)	