APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-K405
March 20, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 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.)

2000 South Colorado Boulevard, Tower Two, Suite 2-1000
Denver, CO
(Address of principal executive offices) **80222-7900**
(Zip Code)

Registrant s Telephone Number, Including Area Code: **(303) 757-8101**

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock	New York Stock Exchange
Class C Cumulative Preferred Stock	New York Stock Exchange
Class D Cumulative Preferred Stock	New York Stock Exchange
Class G Cumulative Preferred Stock	New York Stock Exchange
Class H Cumulative Preferred Stock	New York Stock Exchange
Class K Convertible Cumulative Preferred Stock	New York Stock Exchange
Class Q Cumulative Preferred Stock	New York Stock Exchange
Class R Cumulative Preferred Stock	New York Stock Exchange

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

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 [X] No [ ]

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

As of March 1, 2002, there were 75,415,081 shares of Class A Common Stock outstanding. The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, was approximately $3,432.9 million as of March 1, 2002.

Documents Incorporated by Reference

Portions of the proxy statement for the registrant s 2002 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY

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ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 31, 2001

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PART I

ITEM 1. *Business*

Apartment Investment and Management Company, a Maryland corporation, incorporated on January 10, 1994 (AIMCO and, together with its consolidated subsidiaries and other controlled entities, the Company), is a self-administered and self-managed real estate investment trust (REIT) engaged in the ownership, acquisition, redevelopment, expansion and management of multi-family apartment properties. As of December 31, 2001, AIMCO owned, held an equity interest in or managed 280,288 apartment units in 1,371 properties located in 45 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, the Company believes that, as of December 31, 2001, it was the largest owner and operator of multi-family apartment properties in the United States.

As of December 31, 2001, AIMCO:

owned or controlled (consolidated) and managed 157,256 units in 557 apartment properties;

held an equity interest in (unconsolidated) and managed 91,512 units in 569 apartment properties; and

managed for third party owners 31,520 units in 245 apartment properties, primarily pursuant to long term, non-cancelable agreements.

AIMCO conducts substantially all of its operations through its operating partnership, AIMCO Properties, L.P., (the AIMCO Operating Partnership). Through a wholly-owned subsidiary, AIMCO acts as the sole general partner of the AIMCO Operating Partnership, and as of December 31, 2001, owned an approximate 87% interest in the AIMCO Operating Partnership. AIMCO manages apartment properties for affiliates and third parties through consolidated subsidiaries that are referred to as the management companies. Interests in the AIMCO Operating Partnership that are held by limited partners other than the Company, are referred to as OP Units.

The Company s principal executive offices are located at 2000 South Colorado Blvd., Tower Two, Suite 2-1000, Denver, Colorado 80222-7900 and its telephone number is (303) 757-8101. The Company s Class A Common Stock is listed on the New York Stock Exchange under the symbol AIV.

Recent Developments

Casden Merger

On March 11, 2002, AIMCO completed the acquisition of Casden Properties Inc. (Casden) pursuant to an Agreement and Plan of Merger dated as of December 3, 2001, by and among AIMCO, Casden and XYZ Holding LLC. The acquisition of Casden included the merger (the Casden Merger) of Casden into AIMCO, and the merger of a subsidiary of AIMCO into another REIT affiliated with Casden. AIMCO paid $1.1 billion, which includes an earnout of $15 million as a result of property performance for the period ended December 31, 2001, for 16,002 stabilized conventional and affordable units and National Partnership Investments Corporation (Napico), a subsidiary of Casden, which as general partner controls more than 400 properties with more than 41,000 units. The Company issued 3.508 million shares of Class A Common Stock ($164.9 million), and 882,784 common OP Units ($41.5 million), based on $47 per share/unit, paid approximately $198 million in cash and assumed responsibility for existing mortgage indebtedness of approximately $673 million. In addition, the Company expects to incur transaction costs and initial capital expenditures aggregating approximately $24 million.

In addition, as part of the Casden Merger, AIMCO has committed to the following:

Purchase two properties currently under development that will have a total of 1,731 units, for minimum deferred consideration of $619 million, which is payable upon satisfactory completion and 60% occupancy. Contingent consideration of up to an additional $24 million may be paid, depending upon future property performance.

Provide a stand-by facility of $70 million in debt financing associated with these properties under development.

Invest up to $50 million for a 20% interest in Casden Properties, LLC, which will develop the two properties AIMCO has committed to purchase, as well as pursue new development opportunities in

Southern California and other markets. AIMCO will have an option, but not an obligation, to purchase, at completion, all multi-family rental projects of Casden Properties, LLC.

In connection with the Casden Merger, the Company borrowed $287 million from Lehman Commercial Paper Inc. and several other lenders, pursuant to a term loan (the Casden Loan), to pay the cash portion of the Casden Merger consideration price and transaction costs. The primary borrowers under the Casden Loan are the Company and the AIMCO Operating Partnership, and all obligations thereunder are guaranteed by certain of AIMCO s subsidiaries and a second priority pledge of certain non-real estate assets of the Company. The annual interest rate under the Casden Loan is based either on LIBOR or a base rate which is the higher of Lehman Commercial Paper Inc. s reference rate or 0.5% over the federal funds rate, plus, in either case, an applicable margin. The margin is 3.0% in the case of LIBOR-based loans and 2.0% in the case of base rate loans, but the margin may increase to 3.25% in the case of LIBOR-based loans and 2.25% in the case of base rate loans if the rating of the Company s or the AIMCO Operating Partnership s senior unsecured debt is downgraded, the Company s or the AIMCO Operating Partnership s corporate credit rating is downgraded or the rating, if any, of the Casden Loan is downgraded. The Casden Loan matures in March 2004 and can be extended once at AIMCO s option, for a term of one year. The financial covenants contained in the Casden Loan require the Company to maintain a ratio of debt to gross asset value of no more than 0.55 to 1.0, and an interest coverage ratio of 2.25 to 1.0, and a fixed charge coverage ratio of at least 1.70 to 1.0. In addition, the Casden Loan limits AIMCO from distributing more than 80% of its Funds From Operations (as defined in the Casden Loan documentation) (or such amounts as may be necessary for AIMCO to maintain its status as a REIT). The Casden Loan imposes minimum net worth requirements and provides other financial covenants related to certain of AIMCO s assets and obligations. These borrowings are expected to be repaid with internal operating cash flow and the proceeds from property sales.

Oxford Tax Exempt Fund Merger

On March 26, 2001, the Company completed a merger pursuant to an agreement entered into on November 29, 2000 between AIMCO and Oxford Tax Exempt Fund II Limited Partnership (OTEF), for a total purchase price of $270 million, comprised of $100 million in Class P Convertible Cumulative Preferred Stock (the Class P Preferred Stock), $106 million in Class A Common Stock issued at $48.46 per share (2.185 million shares of Class A Common Stock), $17 million in cash, and $47 million in assumed liabilities. OTEF merged with a subsidiary of the AIMCO Operating Partnership. In connection with the Company s acquisition of interests in properties (the Oxford properties) from affiliates of Oxford Realty Financial Group, Inc., on September 20, 2000, the Company had acquired interests in OTEF s managing general partner and OTEF s associate general partner. OTEF was a publicly traded master limited partnership that invested primarily in tax-exempt bonds issued to finance properties owned by affiliates of OTEF, including the Oxford properties. Subsequent to the merger, the Company sold certain of the tax-exempt bond receivables, with a carrying value of $246.8 million, to an unrelated third party at a discount to their face amount and retained a residual interest in those bonds. The fair value of the Company s retained residual interests is based on the future cash flows from the bonds. The Company received net proceeds of approximately $253.3 million and recognized gains of $26.1 million on the sale of these tax-exempt bonds, which included $19.6 million of retained residual interests (see Note 26 in the accompanying consolidated financial statements). Approximately $23 million of tax-exempt bonds were not sold by the Company, of such amount; (i) $14 million were eliminated in consolidation and (ii) $9.0 million remain held by the Company and are classified with other assets.

Individual Property Acquisitions

The Company directly acquired interests in 5 apartment properties in separate transactions during 2001. The aggregate consideration paid by the Company of $120.1 million consisted of $21.7 million in cash, $31.5 million in preferred OP Units, $5.2 million in common OP Units and the assumption of $61.7 million of secured long-term indebtedness. As part of these acquisitions, the Company has also determined to undertake $3.6 million of initial capital expenditures related to these properties.

Tender Offers

During 2001, the Company acquired limited partnership interests in various partnerships in which affiliates of the Company served as general partner. The Company paid approximately $178 million in cash and OP Units to acquire these limited partnership interests.

Property Dispositions

In 2001, the Company sold 73 apartment properties, three commercial properties and one land parcel for an aggregate sales price of approximately $420 million. The Company s share of the sales price was $160 million, of which approximately $78 million was used to pay existing mortgage debt and closing costs, and the net proceeds of $82 million were used to repay a portion of the Company s outstanding short-term indebtedness and for other corporate purposes. The Company recognized a net gain under generally accepted accounting principles of approximately $17.4 million. The results of operations of 48 apartment properties and three commercial properties had been accounted for by the Company under the equity method.

Debt Assumptions and Financings

On March 11, 2002, the Company amended and restated its revolving credit facility. The commitment remains $400 million, and the number of lender participants in the facility s syndicate is ten. The obligations under the amended and restated credit facility are secured by a first priority pledge of certain non-real estate assets of the Company and a second priority pledge of the equity ownership of the Company and certain subsidiaries of AIMCO. Borrowings under the amended and restated credit facility are available for general corporate purposes. The amended and restated credit facility matures in July 2004 and can be extended once at AIMCO s option, for a term of one year. The annual interest rate under the credit facility is based either on LIBOR or a base rate which is the higher of Bank of America, N.A. s reference rate of 0.5% over the federal funds rate, plus, in either case, an applicable margin. From March 11, 2002 through the later of July 31, 2002 or the date on which the Casden Loan is paid in full, the margin ranges between 2.05% and 2.55%, in the case of LIBOR-based loans, and between 0.55% and 1.05%, in the case of base rate loans, based upon a fixed charge coverage ratio. Commencing on the later of August 1, 2002 or the day after the date on which the Casden Loan is paid in full through maturity, the margin will range between 1.60% and 2.35%, in the case of LIBOR-based loans, and between 0.20% and 0.95%, in the case of base rate loans, based upon a fixed charge coverage ratio. The weighted average interest rate at March 15, 2002 was 4.42%, and the balance outstanding was $244 million. The amount available under the amended and restated credit facility at March 15, 2002 was $156 million.

In order to pay the cash portion of the purchase price and transaction costs related to the acquisition of interests in the Oxford properties, the Company borrowed $302 million from Bank of America, N.A., Lehman Commercial Paper Inc. and several other lenders, pursuant to a term loan on September 20, 2000. In March 2001, the Company paid off the remaining balance of the term loan and charged to operations approximately $2.2 million for the complete amortization of deferred financing and loan origination costs related to the term loan.

During the year ended December 31, 2001, the Company issued $906 million of primarily long-term, fixed rate, fully amortizing non-recourse mortgage notes payable with a weighted average interest rate of 6.1%. Each of the notes is individually secured by one of 91 properties with no cross-collateralization. The Company s share of proceeds was $620 million, which was used to pay existing mortgage debt and transaction costs of $454 million, with the net proceeds of $166 million used to repay a portion of the Company s outstanding short-term indebtedness and for other corporate purposes. In 2001, the Company incurred $6.6 million in prepayment costs associated with debt refinancing, which was charged to expense. During the year ended December 31, 2001, the Company also assumed $61.7 million of primarily long-term, fixed-rate, fully amortizing notes payable with a weighted average interest rate of 7.2% in connection with the acquisition of properties. Each of the notes is individually secured by one of five properties with no cross-collateralization.

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Equity Transactions

Preferred Stock

In 2001, the Company issued $186.8 million of preferred stock in two underwritten public offerings yielding $179.7 million of net proceeds. In addition, the Company issued $100 million of preferred stock in connection with the OTEF merger. These transactions are summarized below:

Transaction	Type	Date	Number of Shares	Total Proceeds in Millions	Dividend or Distribution Rate
Class P Convertible Cumulative Preferred Stock of AIMCO	Merger	March 2001	4,000,000	$ 100.0	(1)
Class Q Cumulative Preferred Stock of AIMCO	Public	March 2001	2,530,000	63.3	(2)
Class R Cumulative Preferred Stock of AIMCO	Public	July/August 2001	4,940,000	123.5	(3)
GROSS PROCEEDS				$ 286.8	

(1) Dividends on the Class P Convertible Cumulative Preferred Stock (the Class P Preferred Stock) are paid in an amount per share equal to the greater of (i) $2.25 per year (equivalent to 9% of the $25.00 liquidation preference), or (ii) the cash dividends payable on the number of shares of Class A Common Stock (or a portion thereof) into which a share of Class P Preferred Stock is convertible. Dividends are paid on the Class P Preferred Stock quarterly, beginning on April 15, 2001 (the initial dividend paid on the Class P Preferred Stock was $0.125 per share). The 4.0 million shares of Class P Preferred Stock outstanding are convertible into approximately 1.8 million shares of Class A Common Stock.

(2) Dividends on the Class Q Cumulative Preferred Stock (the Class Q Preferred Stock) are paid in an amount per share equal to $2.525 per year (equivalent to 10.10% per annum of the $25.00 liquidation preference). Dividends are paid on the Class Q Preferred Stock quarterly, beginning on June 15, 2001 (the initial dividend paid on the Class Q Preferred Stock was $0.603194 per share for those shares issued on March 19, 2001 and $0.533056 per share for those shares issued on March 29, 2001).

(3) Dividends on the Class R Cumulative Preferred Stock (the Class R Preferred Stock) are paid in an amount per share equal to $2.50 per year (equivalent to 10% per annum of the $25.00 liquidation preference). Dividends are paid on the Class R Preferred Stock quarterly, beginning on September 15, 2001 (the initial dividend paid on the Class R Preferred Stock was $0.382 per share).

Common Stock

The following table summarizes the Company s significant recent issues of Class A Common Stock:

Transaction	Date	Number of Shares	Total Value in Millions	Net Issue Price per Share
OTEF Merger	March 2001	2,185,000	$ 106	$ 48.46
Casden Merger	March 2002	3,508,000	164	47.00
GROSS VALUE			$ 271	$ 47.60

In addition, the Company issued approximately 882,000 common OP Units ($41.5 million) in connection with the Casden Merger, and 2.3 million of OP units ($79.9 million) in connection with limited partnership and other acquisitions.

Pending Acquisitions and Dispositions

In the ordinary course of business, the Company engages in discussions and negotiations regarding the acquisition of apartment properties, including interests in entities that own apartment properties. The Company frequently enters into contracts and non-binding letters of intent with respect to the purchase of properties. These contracts are typically subject to certain conditions and permit the Company to terminate the contract in its sole and absolute discretion if it is not satisfied with the results of its due diligence investigation of the properties. The Company believes that such contracts essentially result in the creation of an option on the subject properties and give the Company greater flexibility in seeking to acquire properties.

The Company is currently marketing for sale certain real estate properties that are inconsistent with the Company s long-term investment strategies (as determined by management from time to time). The Company does not expect to incur any material losses with respect to the sales of the properties.

Financial Information About Industry Segments

The Company operates in two industry segments, which include the ownership, operation and management of a diversified portfolio of apartment properties, and the management of apartment properties for third parties and affiliates. See the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K for financial information relating to the Company. See Note 24 to the consolidated financial statements and Management s Discussion and Analysis for discussion of sources of revenues from the various components of the Company s operations.

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Operating and Financial Strategies

The Company strives to meet its objective of providing long-term, predictable Funds From Operations (FFO) per share of Class A Common Stock, less an allowance for capital replacement spending, by implementing its operating and financing strategies which include the following:

Acquisition of Properties at Less Than Replacement Cost. AIMCO attempts to acquire properties at a significant discount to their replacement cost.

Geographic Diversification. AIMCO operates in 45 states, the District of Columbia and Puerto Rico. This geographic diversification insulates the Company, to some degree, from inevitable downturns in any one market. AIMCO s net income before depreciation and interest expense is earned in more than 161 local markets. In 2001, the largest single market (Washington D.C. Metro area) contributed 9.7% to net income before depreciation and interest expense, and the five largest markets contributed 27.6%.

Market Growth. The Company seeks to operate in markets where population and employment growth are expected to exceed the national average and where it believes it can become a regionally significant owner or manager of properties.

Price Point Diversification. The Company s portfolio of apartment properties covers a broadly diverse range of average monthly rents, primarily from $500 to greater than $1,000.

Product Diversification. The Company s portfolio of apartment properties spans a wide range of apartment community types, both within and among markets, including garden and high-rise apartments.

Capital Replacement. AIMCO believes that the physical condition and amenities of its apartment communities are important factors in its ability to maintain and increase rental rates. The Company spent approximately $367 per owned apartment unit for capital replacements in 2001.

Debt Financing. AIMCO s strategy is generally to incur debt to increase its return on equity while maintaining acceptable interest coverage ratios. AIMCO seeks to maintain a ratio of free cash flow to combined interest expense and preferred stock dividends of between 2:1 and 3:1 and to match debt maturities to the character of the assets financed. For the year ended December 31, 2001, the Company had a ratio of free cash flow to combined interest expense and preferred stock dividends of 1.97:1. The Company intends to increase the coverage ratio to 2.2:1 through debt amortization, debt repayment, conversions of convertible preferred equity and improved operating performance. The Company uses predominantly long-term, fixed-rate and self-amortizing non-recourse debt in order to avoid the refunding or repricing risks of short-term borrowings. The Company uses short-term debt financing to fund acquisitions and generally expects to refinance such borrowings with retained earnings, property sales proceeds or long-term debt financings. As of December 31, 2001, approximately 4% of AIMCO s outstanding debt was short-term debt and 96% was long-term debt.

Dispositions. While the Company holds all its properties for investment, the Company sells properties when they do not meet its return on investment criteria or are located in areas where AIMCO does not believe that the long-term values justify the continued investment in the properties.

Dividend Policy. AIMCO pays dividends to its stockholders. The Company distributed 60.7%, 59.9% and 61.3% of FFO to holders of Class A Common Stock for the years ended December 31, 2001, 2000 and 1999, respectively. It is the present policy of the Board of Directors to increase the dividend annually in an amount equal to one-half of the projected increase in FFO, adjusted for capital replacements, subject to minimum distribution requirements to maintain its REIT status.

Growth Strategies

The Company seeks growth through three primary sources property operations, redevelopment of properties and acquisitions.

Property Operations

The Company pursues operational growth primarily through the following strategies:

Revenue Increases. The Company increases rents where feasible and seeks to improve occupancy rates. In addition, the Company continues to expand its utility reimbursement programs. These programs promote conservation through individual utility metering, while offsetting utility expense through resident reimbursements for usage. Water sub-metering has been the primary focus of the programs, with electricity, gas, and trash also contributing on a regional basis.

Controlling Expenses. Cost reductions are accomplished by local focus on the regional operating center level and by exploiting economies of scale at the corporate level. As a result of the size of its portfolio and its creation of regional concentrations of properties, the Company has the ability to spread fixed costs for general and administrative expenditures and certain operating functions, such as purchasing, insurance, information technology and training, over a large property base.

Ancillary Services. The Company believes that its ownership and management of properties provides it with unique access to a customer base that allows it to provide additional services and thereby increase occupancy, increase rents and generate incremental revenue. The Company currently provides cable television, telephone services, appliance rental, and carport, garage and storage space rental at certain properties.

Redevelopment of Properties

The Company believes redevelopment of selected properties in superior locations provides advantages over development of new properties. AIMCO believes that redevelopment can allow the Company to achieve rents comparable to new properties and, compared to development of new properties, can be accomplished with relatively lower financial risk, in less time and with reduced delays due to governmental regulation. AIMCO s current policy is to limit redevelopments to approximately 10% of total common and preferred equity market capitalization.

Acquisitions

The Company believes its acquisition strategies may increase profitability and predictability of earnings by increasing its geographic diversification, economies of scale and opportunities to provide ancillary services to tenants at its properties. Since AIMCO s initial public offering in July 1994, the Company has completed numerous acquisition transactions, expanding its portfolio of owned or managed properties from 132 apartment properties with 29,343 units to 1,371 apartment properties with 280,288 units as of December 31, 2001. The Company acquires additional properties primarily in three ways:

Direct Acquisitions. AIMCO may directly, including through mergers and other business combinations, acquire individual properties or portfolios of properties and controlling interests in entities that own or control such properties or portfolios. To date, a significant portion of AIMCO s growth has resulted from the acquisition of other companies that owned or controlled properties.

Increasing its Interest in Partnerships. For properties where AIMCO owns a general partnership interest in the property-owning partnership, the Company may seek to acquire, subject to its fiduciary duties, the interests in the partnership held by third parties for cash or, in some cases, in exchange for OP Units. Since 1996, the Company has completed over 2,200 tender offers with respect to various partnerships resulting in over 150,000 transactions totaling $795 million in cash and OP Units spent to purchase these additional interests in such partnerships.

Acquisition of Managed Properties. AIMCO s property management operations have contributed to its acquisition activities. Since AIMCO s initial public offering, the Company has acquired from its managed portfolio 16 properties comprising 5,697 units for total consideration of $189.9 million. In addition, the Company acquired interests in 167 Oxford properties comprising 36,949 units for a total purchase price of $1,189 million.

Property Management Strategies

AIMCO seeks to improve the operating results from its property management operations by, among other methods, combining centralized financial control and uniform operating procedures with localized property management decision-making and market knowledge. Currently, AIMCO s management operations are organized

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into 18 regional operating centers. Each of the regional operating centers is supervised by a Regional Vice-President.

Taxation of the Company

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 1994, and the Company intends to continue to operate in such a manner. The Company s current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership.

If the Company qualifies for taxation as a REIT, it will generally not be subject to U.S. federal corporate income tax on its net income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that generally results from investment in a corporation. If the Company fails to qualify as a REIT in any taxable year, its taxable income will be subject to U.S. federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if the Company qualifies as a REIT, it may be subject to certain state and local income taxes and to U.S. federal income and excise taxes on its undistributed income.

If in any taxable year the Company fails to qualify as a REIT and incurs additional tax liability, the Company may need to borrow funds or liquidate certain investments in order to pay the applicable tax and the Company would not be compelled to make distributions under the Internal Revenue Code. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Although the Company currently intends to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause the Company to fail to qualify as a REIT or may cause the Board of Directors to revoke the REIT election.

The Company and its stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its stockholders may not conform to the U.S. federal income tax treatment.

Competition

There are numerous housing alternatives that compete with the Company s properties in attracting residents. The Company s properties compete directly with other multi-family rental apartments and single family homes that are available for rent or purchase in the markets in which the Company s properties are located. The Company s properties also compete for residents with new and existing condominiums. The number of competitive properties in a particular area has a material effect on the Company s ability to lease apartment units at its properties and on the rents charged. The Company competes with numerous real estate companies in acquiring, developing and managing multi-family apartment properties and seeking tenants to occupy its properties. In addition, the Company competes with numerous property management companies in the markets where the properties managed by the Company are located.

Regulation

General

Multi-family apartment properties are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, activity centers and other common areas. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect the Company s cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multi-family housing may reduce rental revenue or increase operating costs in particular markets.

Laws Benefiting Disabled Persons

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional federal, state and local laws may also require modifications to the Company s

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properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. For example, the Fair Housing Amendments Act of 1988 requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although the Company believes that its properties are substantially in compliance with present requirements, it may incur unanticipated expenses to comply with these laws.

Regulation of Affordable Housing

As of December 31, 2001, the Company owned or controlled (consolidated) 28 properties that benefit from governmental programs intended to provide housing to people with low or moderate incomes. AIMCO also held an equity interest in (unconsolidated) 353 properties with an average ownership percentage of 25% and managed for third parties 112 properties that benefit similar persons. These programs, which are usually administered by the United States Department of Housing and Urban Development (HUD) or state housing finance agencies, typically provide mortgage insurance and favorable financing terms to the property owners and/or rental assistance payments to the residents. As a condition to the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts. The Company must obtain the approval of HUD in order to manage, or acquire a significant interest in, a HUD-assisted or HUD-insured property. As of December 31, 2001 the Company s affordable properties contributed 5% of the Company s Free Cash Flow.

Environmental

Various federal, state and local laws subject property owners or operators to liability for 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 presence or release of the hazardous substances. The presence of, or the failure to properly remediate, hazardous substances may adversely affect occupancy at affected apartment communities and our ability to sell or finance affected properties. In addition to the costs associated with investigation and remediation actions brought by governmental agencies, the presence of hazardous wastes 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 or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous or toxic 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 our properties, the Company could potentially be liable for environmental liabilities or costs associated with its properties or properties it acquires or manages in the future.

Insurance

Management believes that the Company's insurance coverages insure its properties adequately against the risk of loss attributable to fire, earthquake, hurricane, tornado, flood and other perils. AIMCO Assurance Ltd., a Bermuda domiciled insurer wholly-owned by the Company, reinsures 100% of the risk of the first $1 million loss from any casualty. For the policy year ending February 28, 2002, the Company was insured for any casualty loss in excess of $1 million, up to $200 million, by a combination of several insurance carriers, all of which were at least A-rated. Commencing March 1, 2002, the Company maintained the insurance coverage with AIMCO Assurance Ltd. for the first $1 million of coverage per loss, and retained the risk of aggregated property losses in excess of $1 million up to $5 million. The Company has fully funded its $4 million aggregate retained exposure. The additional excess coverage, up to $200 million in the aggregate, has been placed with a combination of several insurance carriers, all of which are at least A-rated. Because the Company has a highly diversified and geographically dispersed portfolio of residential properties, and because of the Company's inability to obtain such specialized coverage at rates that correspond to the perceived level of risk, the Company elected not to purchase insurance for losses caused by acts of terrorism at the current time. The Company continues to evaluate the availability and cost of terrorism coverage from the insurance market.

There have been recent reports of lawsuits against owners and managers of multifamily properties asserting claims of personal injury and property damage caused by the presence of mold in residential units. Some of these lawsuits have resulted in substantial monetary judgments or settlements. Although the Company has been named as a defendant in suits that have alleged the presence of mold, the Company believes that no such lawsuit creates the risk of an outcome that will have a material impact upon the Company's financial condition taken as a whole. The Company has heretofore been insured against claims arising from the presence of mold due to water intrusion, but expects that in the future insurance carriers may exclude claims arising from the presence of mold in future policies. The Company has implemented protocols and procedures to prevent and/or eliminate mold from its properties and believes that its measures will eliminate, or at least minimize, the effects that mold could have on its residents. As a result, the Company does not believe that claims asserting the presence of mold will have a material impact upon the Company's financial condition taken as a whole.

Employees

The Company has a staff of employees performing various acquisition, redevelopment and management functions. The Company, through the AIMCO Operating Partnership and the management companies, has approximately 7,800 employees, most of whom are employed at the property level. Certain of its employees are represented by unions. The Company has never experienced a work stoppage. The Company believes it maintains satisfactory relations with its employees.

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ITEM 2. ***Properties***

The Company s properties are located in 45 states, Puerto Rico and the District of Columbia. The properties are managed by seven Division Vice-Presidents overseeing 18 regional operating centers. The following table sets forth information for the regional operating centers as of December 31, 2001:

Regional Operating Center	Conventional Division	Number of Properties	Number of Units
Conventional:			
Chicago, IL	Midwest	48	12,643
Indianapolis, IN	Midwest	53	15,416
		101	28,059
Philadelphia, PA	Northeast	23	10,900
Rockville, MD	Northeast	44	15,374
		67	26,274
Los Angeles, CA	Pacific	53	10,407
Atlanta, GA	Southeast	83	20,716
Boca Raton, FL	Southeast	66	17,966
Columbia, SC	Southeast	88	20,806
Lansing, MI	Southeast	59	17,889
Tampa, FL	Southeast	45	12,711
		341	90,088
Dallas, TX	Texas	49	11,647
Houston, TX	Texas	85	19,908
		134	31,555
Denver, CO	West	32	7,750
Phoenix, AZ	West	57	14,759
		89	22,509
Affordable:	**Affordable Division**		
Greenville, SC	East	93	10,966
Yardley, PA	Northeast	126	17,701
Orlando, FL	Southeast	90	8,911
Kansas City, MO	West	182	21,358
		491	58,936
Properties not currently managed by AIMCO		95	12,460
Total		1,371	280,288