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AIV - Apartment Investment and Management Co at Citi Global
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Terry Considine *Apartment Investment and Management Company - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Nicholas Gregory Joseph *Citigroup Inc, Research Division - Director & Senior Analyst*

PRESENTATION

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

3:40 p.m. session at Citi's 2019 Global Property CEO Conference. This session is for investing clients only. If media or other individuals are on the line, please disconnect now. Disclosures are available up here and on the webcast on the disclosures tab.

For those in the room or the webcast, you can sign on to liveqa.com and enter code Citi 2019 to submit any questions if you do not want to raise your hand.

I'm Nick Joseph with Citi Research. We're pleased to have with us Aimco and CEO, Terry Considine. Terry, I'll turn it over to you to introduce the management team and company, and provide the audience 3 reasons why someone should buy your stock today. And then we'll get into Q&A.

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

Nick, first, thanks to you and Mike, and the whole Citi team for putting together what really is the best conference of the year. And so, I thank you, it's -- you've done it for a couple of decades now. And it's something that both investors and management look forward to. And so I want to thank you for doing this again.

I am here with Paul Beldin, my Chief Financial Officer at Aimco; and Matt Foster, who works with him in Investor Relations. And if there are particularly difficult questions, I'll ask them to bail me out.

It's not a difficult question to recommend the purchase of Aimco today because I think it's highly predictable that over the next -- or during this calendar year, it will provide an economic return as we calculated of approximately 8-plus percent, but probably a stock return approaching double digits as we eliminate some of the discounts from -- between the share price and our net asset value. And I think the most important side of that is the predictability of our being able to do that, because we've -- what we'll do in 2019 is more of what we did in 2018, 2017, 2016, and so forth.

In operations, we're the best in the business. We have the highest measured customer satisfaction, the highest retention of customers. We therefore have attractive revenue growth because we're helped on renewal rents as opposed to new lease rents. We have the best cost control. We have a dozen years of our controllable site cost, compounding at essentially 0.

So we can talk about productivity. So you start with a very solid operating platform that in this environment will produce a growth at or in excess of the guidance we've given.

We have a redevelopment business that is growing, where in the last 5 years, we've invested \$1 billion and created \$400 million of value creation. So \$0.40 on every dollar we spend. And this year, we'll spend \$200 million or \$250 million in that line of work.

We have a transaction or capital allocation side of the business, where last year, we spent about \$1 billion, and redeployed that, adding about 400 basis points to the expected free cash flow internal rate of return. We have a balance sheet that's the safest in the sector with very limited recourse being primarily property debt, with good coverages, long-duration, fixed-rate, self-amortizing, and we have ended the year with \$700 million of



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liquidity and cash and committed credit. And a pool of unencumbered properties providing further access to capital of \$2.7 billion at year end, I mean, \$3 billion at the end of this year.

And we have a very cohesive team. It's easy to see that -- if you see a turtle on a fence post, he didn't get there by himself. And I'm here with a team that works collaboratively, that's very cohesive, that's very stable.

The top 2 dozen people have been with Aimco for an average of 16 years. And so it seems to me very likely that what we'll produce in 2019, will be similar to what we've done over the last many years and that'll produce a very satisfactory return.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Great. So we're starting these sessions off with the same question. What's the largest potential disruption to your business? And what are you doing to take advantage of it? Or mitigate the risk of that?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Nick, the single biggest disruption that I worry about would be political risk. And if you look at a number of states, New York being one, Oregon now being the second. The POP opportunity for state-wide rent control is a real risk. California, it was an issue in the last election, and we'll have some -- we defeated it then, but it can easily come again. Chicago, Illinois is discussing it. So we live at a time when activist government will, for its own reasons, interfere in free transactions. And that's probably the biggest disruption I would worry about.

I think technology is a second issue, but it's less of a disruption and more of a help. And I think we'll be largely invisible to users. But it'll just make things run more smoothly and more conveniently, too.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

So maybe let's start with the first one, political risk. How do you take that into account when you're deciding where to allocate capital?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

It's a risk factor. And so we think about what the consequences could be. And, of course, the primary way to address it is by diversification. And we're probably the most diversified of -- or at least one of the 2 most diversified of the large apartment REITs, and so geographic diversification is our friend.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Does it make you want to be more diversified either across markets or at price points?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

It makes us more across markets. Price points aren't necessarily protected, when you're dealing with local or state rent control. But across markets, and we're more likely to invest, for example, in this state, which is open for business and has very attractive demographics and economic prospects.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

And if you were to shift the allocation, where would like to lighten up to be able to add to...

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Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

I think, we'll lighten up in Illinois. I think, we'll increase our investment in South Florida.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Is that a this cycle activity? Or is that more of a medium or long term?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

It's more opportunistic. It's more ability to find the right uses and take advantage of them. Each of them are anomalous. Today, the market is so fully priced, there's so much money chasing multifamily that a transaction at market is not particularly attractive to me or to Aimco.

And so we're looking for exceptions, where there is something that the market has missed, whether there is a change in use, whether, if you think about, when we bought Eastpointe in Boulder, the land value was worth more than the income value of the property we bought. So we had a change in use. Others, when we bought Bent Tree in Fairfax County, we could see that it could be managed differently. And so we could make a 10% free cash flow IRR from a property that was trading in a 6.5% market. But you have to find those elements where you can change something or add value, and that's why, we're really in the anomaly business as much as we're in the apartment business.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

All right. So Terry, the first reason to buy your stock you mentioned was the operating platform, so why don't we start there? You put out an operating update this weekend, I guess, it sounds like things -- according to the presentation we're on track year-to-date. Occupancy is maybe running, probably as expected, but higher than last year, how you think about that trade-off in 2019 of occupancy versus pushing rent growth? And the impact on turnover as well?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

Nick, we -- first, I would say February was better than we'd expected. We gave guidance at the beginning of the month and the month turned out to work even better, and I'd say that March is off to a very good start. Secondly, we look at occupancy as capacity utilization. In a business that has a lot of investment in fixed assets, the more people -- the greater the utilization, it's a positive. And when we want to run the business in a way where there were not significant trade-offs between attracting that occupancy and discounting rents or not raising rents on renewals, and so it's a balance, like riding a bicycle. And we think that we've gotten better at that. We ran at 96% occupancy for 2017, 96.5% in 2018, and we'll run close to 97% this year. And so, we think we'll do that without a negative trade-off on rent, growth or increase in people moving out. In fact, we'll have higher retention than any other peer.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Do you think, I mean, that -- so it sounds like, there's been a trend towards higher and higher occupancy. I mean, could it go even higher next year? Is 97% about the optimal at this point?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

I think it can be higher still. Keith Kimmel, our partner that runs operations has very high aspirations, and we'll see if he gets them. But he's doing a very good job of satisfying customers. And the longer they stay with us, then there are fewer vacant units that have to be rented in any one year, and that's what permits you to achieve higher occupancy.

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Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

And maybe the ancillary benefit of that is probably lower expenses, few return costs, less cost there. How do you think about controllable expense? You've done a good job over the years of being able to control that, but at a certain point, I'd imagine you feel pressure from inflation or any other line item?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Nick. I agree at the most of what you said, but we haven't done a good job, we've done a great job, all right? The compounded annual growth rate of our site -- operating cost for the last 12 years is negative. And so, last year was an exception, it was 2%. And this year, it's 50 bps in the budget. And we'll see how it turns out. But the key to that is not being frugal. Although, frugal is a good quality. The key to that is innovation and figuring better -- and productivity. Figuring better ways to do things -- the best way, of course, is to not have to work at all.

And so if we have a customer stay with us, we eliminate a whole chapter of work of cleaning, and vacancy costs and marketing costs that you've just mentioned. But there's other work that, in effect, if we make longer-lasting physical solutions that would be an example of work avoided or if it's customer performed, that'd be another example of work avoided. And so it's just taking each item that comes up and thinking through what is the best way to do this or at lowest cost that still attracts the target customer.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

How do you think about the ability to drive ancillary revenue growth? Either from -- we've heard a lot of your peers on smart home technology, parking, space utilization, what's the opportunity left for Aimco?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

I'm more cautious, perhaps, I think we do all of those things. And I think that they're good goals, and they fit into things that we're -- they're consistent with what we're trying to do. But I think, they're the tail and not the dog, that we're not a good source of services for things that aren't residential in character. And I think back to this year's, this Dean Witter merger that some of you will remember, people don't want to buy their stocks, where they buy their socks. And so apartment like -- but you'll remember that. Apartment landlords are not going to be the best at selling designer clothes or fresh produce. Parking, storage, I agree, smart appliances whether they are embedded in the rent or bought separately, fine. But if they're not priced separately, then you really don't know what the amount is the customer is paying for. In most cases, smart technology is being in -- is a fixed cost to the customer. So it makes the question of allocation when it's not customer-driven, and therefore somewhat suspect.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

You mentioned, February, and I guess, early March being ahead of expectations. So are there any markets driving that? And then maybe on the flip side, any markets that have underperformed what you think so far this year?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

No market is behind. I would say, Philadelphia, Los Angeles, San Francisco, are all a little bit ahead. And those are big important markets to us.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

What are you seeing in LA? That's a market you're expecting to be one of your top markets. Obviously, there's a lot of supply downtown...



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Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

For people who don't live there, we all think of Los Angeles. But I don't know if people appreciate how big Los Angeles is. Los Angeles -- first, we know California is big. California has an economy that would be the fifth largest in the world. Think of that. Okay. Los Angeles, inside California, has an economy that is bigger than San Francisco, San Jose and San Diego added together. Los Angeles County has more people than 40 states. It's a very big market. And so people say, well, the downtown is over built. Downtown is almost a different country, for people who live in Mid-Wilshire or in the valley so forth. And so our properties there are primarily concentrated in the Mid-Wilshire area, which is the most desirable place to live in Los Angeles except, maybe, just beyond this in Beverly Hills. And in Venice, or next to south of Santa Monica and Malibu. So those are highly desirable areas with high single-family alternatives, and they're just doing great. And new supply there is quite constrained. The government is doing everything they can to increase new supply. And some of that will happen but the unmet demand of Los Angeles is enormous.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Maybe on the transaction market. You're planning on selling some assets this year. What are you seeing in terms of cap rates? Have you seen any movements, and maybe an update on your disposition plans?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

Sure. Last year, we sold about \$1 billion. And I think if you look at the past 10 years, that's about the average amount of selling that we've done. So we're very involved in transaction markets. And this year, we've given guidance that we'll sell about \$800 million, and that's assuming no transactions. So it's more likely than not that we'll be close to that \$1 billion again, or more. And what I would say is that broadly markets -- the demand is quite similar. Cap rates are quite similar. There's fluctuations depending on individual properties. But the demand for apartments is quite high. And so the part of our business that is dependent upon sales, enjoys that. The part of it that's involved in acquisitions has to compete with that. And that's why, I say, on the acquisitions side, we're in the anomaly business, looking for exceptions.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

And where are those exceptions typically found? You mentioned, the one in Virginia last year, and obviously, the larger portfolio deal in Philadelphia?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

I would say, there are ones where there's something that's not priced in a cap rate. So an OP unit transaction in Philadelphia is a form of estate planning. And that's something we've done a lot in the past, and that's something we're looking at in a number of circumstances this year. But those are very long cycles. They're important decisions to the seller. And they're just a little unpredictable. But when they're done, they can be quite advantageous to Aimco. I would say a second category that we like is where we think the land value is obscured by the current improvement. And being able to look through and to see what we could do with that land is sometimes where we can buy something at advantage. The smaller property that we bought in northern Virginia in December, was one where it had been a failed condominium, and I think will be a dandy rental property.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

And then the Amazon moved next door?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

That was kind of them and that will help. And it's always better to be lucky than smart. We had no idea that, that would happen.

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Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

So there is a pipeline right now, how would you compare it to last year at this time just in terms of discussions with those one-off or unique opportunities?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

We have more discussions this year than we did last year.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Maybe turning to redevelopment. You mentioned it as the number 2 reason to buy the stock. What's the pipeline look like today? It sounds like spend -- both redevelopment and some development has increased in 2019, why is that the best use of capital for Aimco?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Well, it's a very good use of capital, because it is double-digit free cash flow internal rates of return, that's the financial metric. It also is relatively safe because it's a short-cycle activity. An important part of it is what we -- is in our, what we call the inventory management business, which I would describe by giving an example in Miami. Bay Parc, which is a 32- or 4-story (sic) [34-story] building with 475 apartments, all the common areas are -- have been modernized and updated. And we're renovating the individual units, a floor at a time. And there's 16 units to a floor, and when 12 units have been pre-leased at acceptable rates then we'll go ahead and do the work. So it's a question. There's very little risk in that. That -- completing that tower will take 3 to 5 years. But it's a question of when not if. And so there's a built-in book of business of deferred income coming for our deferred value creation, coming from that side of it. Beyond that, there's a deep pipeline in California, and in Colorado, and in Chicago, and in Massachusetts -- in Boston and down here in Miami of properties that are going through different parts of the planning cycle and that sometimes, we might take 5 or 10 or 20 years to get ready for something. We're building right now, as you know, on the Upper East Side, a -- we'll have a start sometime this year. We've announced that we're working on it. 88th and 2nd Street, where some of the old walk-ups we bought were 100 years old and had a current cash return, but were really held for land value that is now such that we'll build a very successful building in the next couple of years.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

What sort of return are you targeting for the Upper East Side?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Double-digit free cash flow [IRS], to take on that risk.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

You mentioned Miami, what are the plans for Yacht Club?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Yacht Club is uncertain right now. We wanted to wait and see. For those who don't know, Yacht Club is located in Brickell. Brickell is an amazing location. It is the second densest neighborhood in the United States after Manhattan. Just think of that. There -- it is -- our property is on the water,



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immediately across the street from a property called Panorama, which is an 84-story building with, among other things 820 rental apartments. And so that's very impactful in 1 location of 820 apartments delivered, they're about 75% occupied. So we've had to deal with that in the last year or 2. And as that settles down and we see their success, there's a 110-story building being planned 3 lots away. What we can see is that the use of our property could be denser and more intense than our current use for a 30-story building. And we'll see. But it's apparent that the land value is greater than that of the capitalized income of the property. I would say in our own NAV analysis, which we've published semi-annually, and you can see, we don't give any credit for those kinds of land development opportunities. But if they're increasingly important, as we have held properties for so long with land as something that we wanted to value. And in many cases, now we have properties with land values in excess of the capitalized income.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Do you see different cost pressures on redevelopment versus your development projects?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Not especially, I would say that the -- if you think about the markets generally in real estate development, whether it's new construction or redevelopment, it's roughly half labor and half materials. And materials are subject to disruption by trade and so forth, but are broadly commodities or lower cost today in real terms than in the past. And labor is very variable. And the first round of business with a contractor is competitively priced. It's the second round, when he is looking at over time, and he is not quite as hungry, that's quite expensive. And so if you're -- if you can arrange your affairs, so that you're operating inside the ordinary course then labor is more expensive but not punitively. So...

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

You had a few ground-up developments over the past few years, and how does development fit into the strategy going forward, especially, being later in the cycle?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

It's -- the trouble is develop -- first of all, you're right. We've done that. We have done it very successfully. The risk of development it's actually easier to build, but it's a longer cycle. And so we undertake it in the 5 years, perhaps, but I think, at One Canal in Boston. That was probably 5 years between first tying up the land and thinking about it, and delivering a stabilized property. Where we're doing that in Boulder, where we have Parc Mosaic under construction today that was, again, a property we bought and had income during that time because it was an operating property. And we worked our way through the arduous entitlement process in Boulder. But now we're under construction and we'll lease-up this summer. But that's, again, that's going to be 5 years. And so you're making a bet today in what it's going to be like 5 years from now. And that's inherently riskier than the inventory management I described at Bay Parc, where once we have 12 units on the floor pre-leased, we'll do the whole 16. And so that's a short-cycle activity. So that's the difference in risk in my mind.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

You're active on share repurchases in the fourth quarter. Have you acquired any shares thus far in the first quarter?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Well. We are not making an announcement on that today. But we stand ready to. We stand ready to. And the answer is, no. We haven't bought any so far this year. Because the price is relatively high. But we look at share repurchase the way we look at any use of capital. We look at it based on a



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free cash flow, internal rate of return, unlevered and at a price that's not too far below where it is today. We'd buy some, and if it got lower than that, we'd buy with both hands.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

How do you think about shrinking the enterprise? And the impact on efficiencies, either G&A or...

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

I think that those are always tricky issues. But what you know from having watched it, Nick, we're very comfortable rightsizing the business to the opportunities at hand. We've reduced the size of Aimco measured by apartments owned from 250,000 to 40,000. So we've certainly gone through that. And in the course of that, we've have many wonderful people who've left us for other opportunities, and we provided talent to the REIT sector throughout the country. So we're comfortable that we need to size the business to what's right for shareholders.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Another thing you've done over the past few years is improve the income stream. We've seen, I guess, lower tax revenues which somewhat weighs on the per-share FFO growth this year. I mean, I think you're down to \$8 million this year, what's the plan for that going for? Is that going to continue to be a headwind?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Well, it won't be much of a headwind from transaction revenues going away because there are almost none left. And what I would point to, and it's in our materials today, is the core income is compounded of about 16% over the last 5 years, where the total including transaction has been about 7%. So what will happen is that headwind is gone ways as we've sold high-yielding or sometimes single-occurring transaction -- nonrecurring revenue is that there will -- that core growth rate will be more material for our bottom line. What I would also say, though, is that's good income. And if we go back and we develop another property with historic certification, and if the government is kind enough to give us tax credits for doing so, we'll take them happily. But in NAV analysis, which is how we look at the business, we see that, that's entitled to a multiple of 1. And that our core assets are entitled to the multiple that would be implicated, I think, on average of 5% NOI cap rate or a multiple of 20. And so all of that is adjusted for in our NAV calculation.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

A handful of your peers do preferred equity on lending or mess loans, I mean, is that something of interest to you?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

It's -- under the right circumstances, it's a good tool to have in the toolkit. What -- I know about -- that's its own form of nonrecurring revenue. Because those will have a duration, and they have to be replaced or that earning asset will go away. And I've always been a little concerned that lenders aren't compensated appropriately for the risk, if you have one of those go bad or 2 of those go bad, and they can be quite hurtful with your portfolio outcomes. But done correctly, that's a good way to do it.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

But no plans to enter that, that business anytime soon?



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Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

No.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

You had an ongoing lawsuit and litigation with Airbnb that was settled, can you just walk us through the ultimate outcome, the benefit, I guess, to Aimco? And why settle?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

Well, we settled because they gave us everything we asked for. So at that point there's nothing left to dispute. What we cared most about was the right to pick your neighbor, if you're an Aimco customer. That we think that a residential community is something different than a financial transaction. And that -- what we want our -- is the right to pick your neighbor. To pick people that make you feel at home. Make you feel safe. Share your values, and make it stickier, and therefore, harder to leave and therefore, lower turnover, lower cost and so forth. And some of that is a fulfilling way to provide homes for others, and some of it's financially a good idea. Airbnb operated on a different principle. And they encouraged our customers to list their homes, which was prohibited under the lease, to people that would arrive and not know where to park, whether it's a non-smoking property, how late to stay at the pool and so forth. And were not well-known to the neighbors. So that became a very large problem, because we had very attractive properties, they're ones that were very appealing to their customer base. And both in Los Angeles and in South Florida, where there were tens of thousands of guest nights booked at our properties. And so that just was not acceptable, and after discussions and conversations, we finally sue them and asked them to stop. And last December, they agreed. So that's why we settled.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

And so what's your relationship with Airbnb now, are there no Aimco units available on the platform?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

We are totally in control of who is on our property, and we have their contract that there will be no such listings.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

We have a handful of questions through live QA. Terry, could you discuss succession planning? And do you think your eventual replacement will be an internal or external candidate? And they say, note that we are not trying to push you to retire.

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

We have a deep management bench. And it is highly likely that my successor will come from that bench. We have a great policy and value of promoting from within. And I think there's a lot of good reasons for that. There's -- we know them better, they know us better. And that will be the way we approach that. I note for the record, will probably not participate in that decision. Because I like what I'm doing. And I expect to keep doing it.



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Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Last thing you mentioned was the secured balance sheet. So maybe, we can talk about -- you do have an unsecured rating, pricing of secured debt versus unsecured debt today?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Generally, secured debt prices cheaper than unsecured debt. And so in our last issuance, we were probably 100 -- I'm looking at my Chief Financial Officer.

Paul L. Beldin - Apartment Investment and Management Company - Executive VP & CFO

When we refinanced our debt in the fourth quarter of 2018, our average spread for the 10-year was about 108 basis points.

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

And so that's generally tighter than certainly -- and people with equivalent credit ratings would issue corporate debt for -- at a comparable maturities. And so it's cheaper, it's safer, it's flexible. It's hard to think why not to do it.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

What would be the equivalent unsecured for the credit rating, you said 180 over...

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

Typically, it'd be 130 to 150 at that time. If you look back at the issuances of pure REITs, and at least in one case you want to adjust for hedges in terms of the reported rate. But that's a different factor. But just in terms of the gross issuance, in both cases, they would be probably 30 or 40 bps more.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

Terry, what would the impact be, do you think for the assets that you own if the GSEs actually do have some level of reform in that? Let's just say, they went away, what would be the impact?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

I don't think it will be consequential. I think it's hard to say that, that would be nonexistent. But just remember how liquid and protean capital markets are. And how much of lending is done outside of banks today. And you just know that if the GSEs were not present, there would be a flood of capital to fill their place and some adjustment. Today, we don't borrow from them very often, because we have more competitive pricing from insurance companies and pension funds. But for higher LTV loans, which sometimes are what our customers -- people buying properties from us would go to the GSEs for financing, there might be an impact there. I mean, it wouldn't be a nonexistent -- it wouldn't be no impact, but it would be no consequential impact.

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

You've been doing this for a while, I mean, do you think there actually will be reform at this point?



MARCH 05, 2019 / 8:40PM, AIV - Apartment Investment and Management Co at Citi Global Property CEO Conference

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

I'm hope -- I'm hopeful. I wouldn't guarantee it. Government agencies are very hard to change. They're just probably an example of eternal life. But they -- there is change over time. And if we had a will then it could get done.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

We have...

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

We're going to have such severe financial constraints on public spending because of unfunded entitlements that people are going to have to make -- governments are going to have to make hard decisions. And just to simplify it, it's either going to do less of something they're now doing or to raise taxes more than they want to do. And that battle, I'm sure, there'll be some of both. But over time, the government will have to do less of some things it's now doing in order to fund higher priorities such as Medicare and Medicaid and Social Security. And that's the reason why we exited the affordable Low-Income Housing Tax Credit business is it seems to me that the government had made commitments for Section 8 housing that in the end are unsupportable. And so I don't predict any immediate issue. But I just predict over the next 20 years that you'll see that and other such programs cut back. And I think GSEs will fit inside that, and there will be some reshaping of government spending towards defense and these entitlement programs.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

More or fewer apartment companies -- public apartment companies a year from now?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

More.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Same-store NOI growth for the apartment sector next year -- 2.9% this year?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

2.9% this year, it'll be higher next year.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

10-year treasury, 1 year from today?

Terry Considine - *Apartment Investment and Management Company - Chairman & CEO*

3 or below.

MARCH 05, 2019 / 8:40PM, AIV - Apartment Investment and Management Co at Citi Global Property CEO Conference

Nicholas Gregory Joseph - Citigroup Inc, Research Division - Director & Senior Analyst

And what year will the U.S. enter a recession?

Terry Considine - Apartment Investment and Management Company - Chairman & CEO

I have no idea. I have no idea.

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