UDR, Inc.
Form 10-Q
October 31, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)
UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)

Maryland (UDR, Inc.)	54-0857512
Delaware (United Dominion Realty, L.P.)	54-1776887
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129
(Address of principal executive offices) (zip code)
(720) 283-6120
(Registrant's telephone number, including area code)

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.

UDR, Inc.	Yes x No o
United Dominion Realty, L.P.	Yes x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

UDR, Inc.	Yes x No o
United Dominion Realty, L.P.	Yes x No o

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

UDR, Inc.	Yes o No x
United Dominion Realty, L.P.	Yes o No x

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of October 26, 2012 was 250,136,594.

Table of Contents

UDR, INC.
UNITED DOMINION REALTY, L.P.
INDEX

PART II — OTHER INFORMATION

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2012 of UDR, Inc. a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company”, “UDR” or "UDR, Inc." refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as “OP Units” and the holders of the OP Units are referred to as “unitholders”. This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

There are a number of differences between our company and our operating partnership, which are reflected in our disclosure in this report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its subsidiary RE^3, whose activities include development of land. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding securities of UDR.

As of September 30, 2012, UDR owned 110,883 units of the general partnership interests of the Operating Partnership and 174,767,502 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership (the “OP Units”). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

UDR, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$7,495,985	$7,269,347
Less: accumulated depreciation	(1,842,520)	(1,605,090)
Real estate held for investment, net	5,653,465	5,664,257
Real estate under development (net of accumulated depreciation of $0 and $570)	355,465	246,229
Real estate sold or held for sale (net of accumulated depreciation of $0 and $226,067)	—	332,258
Total real estate owned, net of accumulated depreciation	6,008,930	6,242,744
Cash and cash equivalents	82,377	12,503
Restricted cash	25,091	24,634
Deferred financing costs, net	26,810	30,068
Notes receivable, net	63,998	—
Investment in unconsolidated joint ventures	579,338	213,040
Other assets	124,358	198,365
Total assets	$6,910,902	$6,721,354
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	$1,439,762	$1,891,553
Unsecured debt	1,902,953	2,026,817
Real estate taxes payable	26,414	13,397
Accrued interest payable	29,498	23,208
Security deposits and prepaid rent	38,737	35,516
Distributions payable	57,916	51,019
Deferred fees and gains on the sale of depreciable property	29,458	29,100
Accounts payable, accrued expenses, and other liabilities	97,164	95,485
Total liabilities	3,621,902	4,166,095
Redeemable non-controlling interests in operating partnership	233,379	236,475
Equity		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2011)	46,571	46,571
0 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (3,264,362 shares at December 31, 2011)	—	81,609
Common stock, $0.01 par value; 350,000,000 shares authorized 250,136,597 shares issued and outstanding (219,650,225 shares at December 31, 2011)	2,501	2,197
Additional paid-in capital	4,098,089	3,340,470
Distributions in excess of net income	(1,082,458)	(1,142,895)
Accumulated other comprehensive loss, net	(13,073)	(13,902)
Total stockholders' equity	3,051,630	2,314,050
Non-controlling interest	3,991	4,734

Total equity	3,055,621	2,318,784
Total liabilities and equity	$6,910,902	$6,721,354

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES				
Rental income	$181,766	$163,859	$531,483	$452,308
Non-property income:				
Other income	4,555	5,229	11,461	12,618
Total revenues	186,321	169,088	542,944	464,926
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	22,633	19,949	65,079	55,113
Personnel	14,479	12,153	41,648	36,541
Utilities	9,641	8,898	27,682	24,495
Repair and maintenance	8,660	8,869	25,994	23,914
Administrative and marketing	4,059	2,958	11,511	9,515
Property management	4,998	4,507	14,615	12,439
Other operating expenses	1,467	1,495	4,284	4,473
Real estate depreciation and amortization	88,223	85,835	260,604	235,958
Interest:				
Expense incurred	31,837	39,616	108,409	111,656
Amortization of convertible debt discount	—	359	—	1,077
Other debt charges/(benefits), net	8	(7)	(277)	4,052
General and administrative	10,022	11,860	33,139	35,251
Other depreciation and amortization	1,078	983	3,013	3,012
Total expenses	197,105	197,475	595,701	557,496
Loss from operations	(10,784)	(28,387)	(52,757)	(92,570)
Loss from unconsolidated entities	(719)	(1,580)	(5,822)	(4,260)
Tax benefit/(expense) of taxable REIT subsidiary	2,960	(59)	28,654	(173)
Loss from continuing operations	(8,543)	(30,026)	(29,925)	(97,003)
(Loss)/income from discontinued operations, net of tax	(1,133)	16,240	263,183	69,470
Net (loss)/income	(9,676)	(13,786)	233,258	(27,533)
Net loss/(income) attributable to redeemable non-controlling interests in OP	687	581	(8,644)	1,192
Net income attributable to non-controlling interests	(42)	(46)	(137)	(134)
Net (loss)/income attributable to UDR, Inc.	(9,031)	(13,251)	224,477	(26,475)
Distributions to preferred stockholders — Series E (Convertible)	(931)	(931)	(2,793)	(2,793)
Distributions to preferred stockholders — Series G	—	(1,377)	(2,286)	(4,210)
Premium on preferred stock redemption or repurchases, net	—	—	(2,791)	(175)
Net (loss)/income attributable to common stockholders	$(9,962)	$(15,559)	$216,607	$(33,653)
Earnings per weighted average common share — basic and diluted:				
Loss from continuing operations attributable to common stockholders	$(0.04)	$(0.15)	$(0.20)	$(0.53)
Income from discontinued operations	$0.00	$0.08	$1.12	$0.35

Net (loss)/income attributable to common stockholders	$(0.04)	$(0.07)	$0.92	$(0.17)
Common distributions declared per share	$0.220	$0.200	$0.660	$0.585
Weighted average number of common shares outstanding — basic and diluted	249,825	213,816	235,173	195,723

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss)/income	$(9,676)	$(13,786)	$233,258	$(27,533)
Other comprehensive income/(loss):				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding loss	(1,355)	(7,845)	(4,847)	(15,748)
Loss reclassified into earnings from other comprehensive income	1,925	2,503	5,677	6,853
Other comprehensive income - marketable securities:				
Gain reclassified into earnings from other comprehensive income	—	—	—	(3,492)
Other comprehensive income/(loss)	570	(5,342)	830	(12,387)
Comprehensive (loss)/income	(9,106)	(19,128)	234,088	(39,920)
Comprehensive (loss)/income attributable to non-controlling interests	(606)	(735)	8,782	(1,487)
Comprehensive (loss)/income attributable to UDR, Inc.	$(8,500)	$(18,393)	$225,306	$(38,433)

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share and per share data)
(Unaudited)

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2011	6,068,174	$128,180	219,650,225	$2,197	$3,340,470	$(1,142,895)	$(13,902)	$4,734	$2,318,78
Net income	—	—	—	—	—	224,477	—	—	224,477
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	137	137
Other comprehensive loss							829		829
Issuance/(forfeiture) of common and restricted shares, net	—	—	(23,037)	—	(1,583)	—	—	—	(1,583
Issuance of common shares through public offering	—	—	30,490,969	305	755,931	—	—	—	756,236
Redemption of 3,264,362 shares of 6.75% Series G Cumulative Redeemable Shares	(3,264,362)	(81,609)	—	—	2,791	(2,791)	—	—	(81,609
Adjustment for conversion of non-controlling interest of unitholders in Operating Partnership	—	—	18,440	(1)	480	—	—	—	479
Acquisition of non-controlling interest	—	—	—	—	—	—	—	(880)	(880
Common stock distributions declared ($0.66 per share)	—	—	—	—	—	(160,625)	—	—	(160,625
Preferred stock distributions declared-Series E ($0.9966 per share)	—	—	—	—	—	(2,793)	—	—	(2,793

Preferred stock distributions declared-Series G ($0.5671875 per share)	—	—	—	—	—	(2,286)	—	—	(2,286
Adjustment to reflect redemption value of redeemable non-controlling interests	—	—	—	—	—	4,455	—	—	4,455
Balance at September 30, 2012	2,803,812	$46,571	250,136,597	$2,501	$4,098,089	$(1,082,458)	$(13,073)	$3,991	$3,055,62

See accompanying notes to consolidated financial statements.

7

UDR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except for share data)

	Nine Months Ended September 30, 2012	2011
Operating Activities		
Net income/(loss)	$233,258	$(27,533)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	269,957	276,008
Net gain on sale of marketable securities	—	(3,123)
Net gain on sale of cost investments	—	(2,550)
Net gain on the sale of depreciable property	(251,398)	(56,063)
Tax (benefit)/expense of taxable REIT subsidiary	(28,654)	173
(Gain)/loss on debt extinguishment	(277)	4,052
Loss from unconsolidated entities	5,822	4,260
Amortization of deferred financing costs and other	6,877	6,401
Amortization of deferred compensation	7,881	7,650
Amortization of convertible debt discount	—	1,077
Changes in operating assets and liabilities:		
Increase in operating assets	1,294	(27,235)
Decrease in operating liabilities	656	(196)
Net cash provided by operating activities	245,416	182,921
Investing Activities		
Proceeds from sales of real estate investments, net	593,367	77,130
Proceeds from sale of marketable securities	—	4,541
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(15,297)	(943,045)
Cash paid in nonmonetary asset exchange	—	(28,124)
Development of real estate assets	(170,182)	(70,574)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(107,643)	(68,125)
Capital expenditures — non-real estate assets	(3,784)	(12,260)
Investment in unconsolidated joint ventures	(320,509)	(47,509)
Distributions received from unconsolidated joint venture	28,787	4,592
Issuance and purchase of note receivable	(63,998)	—
Purchase deposits on pending real estate acquisitions	—	(3,410)
Net cash used in investing activities	(59,259)	(1,086,784)
Financing Activities		
Payments on secured debt	(487,133)	(222,767)
Proceeds from the issuance of secured debt	250	30,542
Proceeds from the issuance of unsecured debt	396,400	296,964
Payments on unsecured debt	(100,000)	(264,829)
Net (repayment)/borrowings of revolving bank debt	(421,000)	330,250
Payment of financing costs	(4,356)	(4,192)
(Forfeitures)/issuance of common and restricted stock, net	(9,842)	3,832
Proceeds from the issuance of common shares through public offering, net	756,236	864,310

Payments for the repurchase of Series G preferred stock, net	(81,609)	(3,597)
Distributions paid to non-controlling interests	(6,768)	(8,717)
Distributions paid to preferred stockholders	(6,023)	(7,003)
Distributions paid to common stockholders	(152,438)	(106,934)
Net cash (used in)/provided by financing activities	(116,283)	907,859
Net increase in cash and cash equivalents	69,874	3,996
Cash and cash equivalents, beginning of period	12,503	9,486
Cash and cash equivalents, end of period	$82,377	$13,482
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$120,777	$128,021
Non-cash transactions:		
Secured debt assumed in the acquisitions of properties, including asset exchange	34,412	247,805
Fair market value adjustment of secured debt assumed in acquisitions of properties, including asset exchange	2,617	26,880
Conversion of operating partnership non-controlling interests to common stock (18,440 shares in 2012 and 4,453 shares in 2011)	479	109
Real estate acquired in asset exchange	—	268,853
Real estate disposed in asset exchange	—	192,576
Contingent consideration accrued in business combination	—	3,000
OP Units issued in partial consideration for property acquisition	—	111,034
Secured debt transferred in asset exchange	—	55,356
Fair market value of land contributed by non-controlling interest	—	4,078
Non-cash consideration to acquire non-real estate asset	—	6,864
Issuance of restricted stock awards	—	6

See accompanying notes to consolidated financial statements.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries ("UDR", the "Company", "we", "our", or "us") is a self-administere real estate investment trust, or REIT, that owns, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership"). As of September 30, 2012, there were 184,281,253 units in the Operating Partnership outstanding, of which 174,878,385 units or 94.9% were owned by UDR and 9,402,868 units or 5.1% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2012, and results of operations for the three and nine months ended September 30, 2012 and 2011 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2011 appearing in UDR's Report on Form 8-K, filed with the Securities and Exchange Commission on May 2, 2012.

The accompanying interim unaudited consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP"). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the interim unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

The Company evaluated subsequent events through the date its financial statements were issued. Except as discussed in Note 15, Subsequent Event, no other recognized or non-recognized subsequent events were noted.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Revenue and real estate sales gain recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with GAAP. Rental payments are generally due on a monthly basis and recognized when earned. The Company recognizes interest income, management and other fees and incentives when earned, and the amounts are fixed and determinable.

The Company accounts for sales of real estate in accordance with GAAP. For sale transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property, we remove the related assets and liabilities from our Consolidated Balance Sheets and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting. Unless certain limited criteria are met, non-monetary transactions, including property exchanges, are accounted for at fair value.

Sales to entities in which we retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer and defer the gain on the interest we retain. The Company recognizes any deferred gain when the property is sold to a third party. In transactions accounted by us

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

Notes Receivable

The following table summarizes our notes receivable as of September 30, 2012 (in thousands):

	Balance outstanding	Interest rate	
Note due October 2014 - related party	$ 24,481	2.97	%
Note due February 2017	13,200	10.00	%
Note due June 2022 (net of discount of $283)	26,217	7.00	%
Other	100	8.00	%
Total notes receivable, net	$ 63,998		

The Company has a $24.5 million unsecured note receivable with one of its unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year. (See Note 5, Joint Ventures.)

The Company has a $13.2 million secured note receivable with an unaffiliated third party, which bears an interest rate of 10.00% per annum. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) declaration of acceleration; or (d) the fifth anniversary of the date of the note (February 2017).

On June 21, 2012, the Company purchased mezzanine debt securing a mortgage on a newly constructed, class A community in West Los Angeles. The $26.5 million loan was purchased at a discount of 6.99% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022.

During the three and nine months ended September 30, 2012, the Company recognized $931,000 and $1.7 million, respectively, of interest income, net of accretion, from these notes receivable, of which $95,000 was related party interest income. Interest income is included in "Other income" on the Consolidated Statements of Operations.

Marketable Securities

During the nine months ended September 30, 2011, the Company sold marketable securities for $3.5 million, resulting in a realized gain of $3.1 million, which is included in “Other Income” on the Consolidated Statements of Operations. The cost of securities sold was based on the specific identification method. Unrealized gains of $3.5 million were reclassified out of accumulated other comprehensive income/(loss) into earnings during the nine months ended September 30, 2011. The marketable securities, which represented common stock in a publicly held company, were classified as “available-for-sale,” and were carried at fair value with unrealized gains and losses reported as a component of other comprehensive income/(loss).

Preferred Share Redemption and Repurchases

During the nine months ended September 30, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million.

When redeeming or repurchasing preferred stock, the Company recognizes share issuance costs as a charge to the preferred stock on a pro rata basis to the total costs incurred for the preferred stock as well as any premium or discount on the redemption or repurchase. In connection with the redemption of the Series G Preferred Stock, the Company recognized a decrease in net income/(loss) attributable to common stockholders of $2.8 million for the nine months ended September 30, 2012 and $175,000 for the nine months ended September 30, 2011, which is reported in "Premium on preferred stock redemption and repurchases, net" in the Consolidated Statement of Operations.

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

Income Taxes
Due to the structure of the Company as a REIT and the nature of the operations for the operating properties, no provision for federal income taxes has been provided for at UDR. Historically, the Company has generally incurred only state and local excise and franchise taxes. UDR has elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries (“TRS”), primarily those engaged in development activities.
Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of September 30, 2012, UDR recorded a net liability of $6.0 million and a deferred tax asset of $24.8 million (net of a valuation allowance of $1.2 million).

Prior to 2012, the TRS had a history of losses and, as a result, has historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the three months ended March 31, 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating loss carry forward, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings from the sale of depreciable property, forecasts of future earnings and its cumulative earnings for the last twelve quarters. The reversal of the valuation allowance resulted in an income tax benefit of $22.9 million during the nine months ended September 30, 2012, which is reflected in continuing operations, and classified as "Tax benefit of taxable REIT subsidiary" in the Consolidated Statements of Operations.
FASB ASC 740, Income Taxes (“Topic 740”) defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.
The Company recognizes its tax positions and evaluates them using a two-step process. First, we determine whether a tax position is more likely than not (greater than 50 percent probability) to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.
UDR had no material unrecognized tax benefit, accrued interest or penalties at September 30, 2012. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state jurisdictions. The tax years 2008 - 2011 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and held for sale properties. As of September 30, 2012, the Company owned and consolidated 145 communities in 10 states plus the District of Columbia totaling 41,827 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2012 and December 31, 2011 (dollar amounts in thousands):

	September 30, 2012	December 31, 2011
Land	$1,845,105	$1,821,762
Depreciable property — held and used:		
Building and improvements	5,398,921	5,203,484
Furniture, fixtures and equipment	251,959	244,101
Under development:		
Land	117,112	115,198
Construction in progress	238,353	131,601
Sold or held for sale:		
Land	—	98,340
Building and improvements	—	410,123
Furniture, fixtures and equipment	—	49,862
Real estate owned	7,851,450	8,074,471
Accumulated depreciation	(1,842,520)	(1,831,727)
Real estate owned, net	$6,008,930	$6,242,744

On April 27, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for $11.7 million from an unaffiliated member of one of our joint ventures. (See Note 5, Joint Ventures.)

Total acquisition value of these communities at the acquisition date was recorded $10.1 million to land; $35.9 million to buildings and improvements; $1.5 million to furniture, fixtures, and equipment; $1.5 million to intangible assets; and $38.1 million to assumed debt and liabilities.

The Company records the fair value of the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. When recording the acquisition of a community, the Company first assigns fair value to the estimated intangible value of the existing lease agreements and then to the estimated value of the land, building and fixtures assuming the community is vacant. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. The Company estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheets as “Real estate under development.” The costs of development projects which include interest, real estate taxes, insurance and allocated development overhead related to support costs for personnel working directly on the development are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the three and nine months ended September 30, 2012 and 2011 were $2.5 million and $7.2 million and $1.2 million and $7.1 million, respectively. During the three and nine months ended September 30, 2012 and 2011, total capitalized interest was $7.6 million and $17.6 million, and $3.4 million and $9.5 million, respectively.

4. DISCONTINUED OPERATIONS

Discontinued operations represent properties that UDR has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property's operations and cash flows have been or will be divested to a third party by the Company whereby UDR will not have any continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Company. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria of held for sale, the Company will recapture any unrecorded depreciation for the property. The assets and liabilities of properties classified as held for sale are presented separately on the Consolidated Balance Sheets at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

There were no sales during the three months ended September 30, 2012. During the nine months ended September 30, 2012, the Company sold 21 communities with 6,507 apartment homes. During three and nine months ended September 30, 2011, the Company sold nine communities with 2,157 apartment homes, which included six communities (1,418 homes) sold in conjunction with an asset exchange. The Company had no communities that met the criteria to be classified as held for sale and included in discontinued operations at September 30, 2012. During the three and nine months ended September 30, 2012, UDR recognized (loss)/gains (before tax) on the sale of communities for financial reporting purposes of $(1.1) million and $260.2 million, respectively, and $11.4 million and $56.1 million during the three and nine months ended September 30, 2011, respectively, which are included in discontinued operations. The results of operations for sold properties are classified on the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations." Discontinued operations for the three and nine months ended September 30, 2011 also includes operating activities related to nine communities (2,331 homes) sold during the last quarter of 2011.

The following is a summary of (loss)/income from discontinued operations for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental income	$—	$26,588	$30,316	$85,859
Rental expenses	—	10,107	10,566	32,209
Property management fee	—	731	834	2,361
Real estate depreciation	—	10,719	6,340	35,872
Interest	—	111	—	1,855
Other expense	—	44	791	155
	—	21,712	18,531	72,452
Income before net gain on the sale of depreciable property	—	4,876	11,785	13,407
Net (loss)/gain on the sale of depreciable property	(1,133)	11,364	260,248	56,063
Income tax expense	—	—	(8,850)	—
(Loss)/income from discontinued operations	$(1,133)	$16,240	$263,183	$69,470

5. JOINT VENTURES

UDR has entered into joint ventures with unrelated third parties to acquire real estate assets that are either consolidated and included in real estate owned on our Consolidated Balance Sheets or are accounted for under the equity method of accounting, and are included in investment in unconsolidated joint ventures on our Consolidated Balance Sheets. The Company consolidates an entity in which we own less than 100% but control the joint venture as well as any variable interest entity where we are the primary beneficiary. In addition, the Company would consolidate any joint venture in which we are the general partner or managing member and the third party does not have the ability to substantively participate in the decision-making process nor do they have the ability to remove us as general partner or managing member without cause.

UDR's joint ventures are funded with a combination of debt and equity. Our losses are limited to our investment and except as noted below, the Company does not guarantee any debt, capital payout or other obligations associated with our joint venture portfolio.

Consolidated Joint Ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop an existing commercial property into a 173 apartment home community in Orange County, California. At closing, the Company contributed $9.0 million, UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria was met on or before 730 days after the site plan application was deemed complete by the city, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation.

In September 2012, the Company paid the unaffiliated third party with which the Company invested in the joint venture a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint ventures. In addition, we may earn fees for providing management services to the unconsolidated joint ventures. As of September 30, 2012, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

In 2010, the Company acquired The Hanover Company's ("Hanover") partnership interests in the Hanover/MetLife Master Limited Partnership ("UDR/MetLife I") at a cost of $100.8 million. UDR/MetLife I currently owns a portfolio of 19 operating communities containing 3,930 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of UDR/MetLife I, UDR acts as the general partner with significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions.

UDR has a weighted average ownership interest of 12.6% in the operating communities and 4.0% in the land parcels. Our initial investment of $100.8 million consisted of $71.8 million in cash, which included associated transaction costs, and a $30 million payable (includes present value discount of $1 million) to Hanover. UDR agreed to pay the $30 million balance to Hanover in two interest free installments in the amounts of $20 million (paid in 2011) and $10 million on the first and second anniversaries of the closing, respectively. The $30 million payable was recorded at its present value of $29 million using an effective interest rate of 2.67%. At September 30, 2012 and December 31, 2011, the net carrying value of the payable was $9.9 million and $9.8 million, respectively. Interest expense of $66,000 and $198,000 and $197,000 and $588,000 was recorded during the three and nine months ended September 30, 2012 and 2011, respectively. At September 30, 2012 and December 31, 2011, the Company's investment was $100.8 million and $133.8 million, respectively.

UDR's inital cost of its equity investment of $100.8 million differed from the proportionate share in the underlying net assets of UDR/MetLife I of $111.4 million. The difference of $10.6 million was attributable to certain assets and adjustments that were allocated to UDR's proportionate share in UDR/MetLife I's buildings of $8.4 million, land of $3.9 million, and $(1.6) million of lease intangible assets. With the exception of land, the difference related to buildings is accreted and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets was amortized and recorded as a component of loss from unconsolidated entities over 11 months with the offset to the Company's carrying value of its equity investment. During the three and nine months ended September 30, 2012, the Company recorded $25,000 and $113,000 of net accretion, respectively. During the three and nine months ended September 30, 2011, the Company recorded $396,000 and $1.2 million net of amortization, respectively.

On January 12, 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest in a $1.3 billion portfolio of 12 operating communities containing 2,528 apartment homes. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was $327.1 million, which consisted of $293.5 million of cash paid and $33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the

$293.5 million of cash paid for its investment, the Company paid $80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.) Our investment at September 30, 2012 was $301.2 million.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in San Francisco, California. At September 30, 2012, UDR owned a non-controlling interest of 92.5% in the joint venture. Our initial investment was $37.3 million, and our investment at September 30, 2012 was $40.1 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Boston, Massachusetts. At closing and at September 30, 2012, UDR owned a non-controlling interest of 98.0% in the joint venture. Our initial investment was $26.0 million, and our investment at September 30, 2012 was $28.4 million.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Santa Monica, California. At September 30, 2012, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was $10.3 million and our investment at September 30, 2012 was $10.3 million.

The Company is a partner in a joint venture with an unaffiliated third party which owns and operates a 240-home community in Stoughton, Massachusetts. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was $10.0 million. Our investment at September 30, 2012 and December 31, 2011 was $16.2 million and $17.2 million, respectively. During the three months ended September 30, 2012, the Company loaned the joint venture $24.5 million to repay a secured loan with an unaffiliated third party. The loan with the Company has terms similar to the original loan. (See Note 2, Significant Accounting Policies for further discussion on terms of the related party note.)

The Company is a partner in a joint venture with an unaffiliated third party to develop a 264-home community in San Diego, California. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was $9.9 million. Our investment at September 30, 2012 and December 31, 2011 was $27.3 million and $12.1 million, respectively.

The Company is a partner in a joint venture with an unaffiliated third party to develop a 256-home community in College Park, Maryland. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was $7.1 million. Our investment at September 30, 2012 and December 31, 2011 was $19.9 million and $8.6 million, respectively.

UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to $450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180 million of which the Company's maximum equity will be 30% or $54 million when fully invested. The joint venture owns and operates three communities (660 homes) in Metropolitan Washington D.C. At September 30, 2012 and December 31, 2011, the Company owned a 30% interest in the joint venture. Our investment at September 30, 2012 and December 31, 2011 was $31.0 million and $34.1 million, respectively.

UDR is a partner with an unaffiliated third party which owns and operates apartment communities located in Texas. UDR initially contributed cash and a property equal to 20% of the fair value of ten properties (3,992 homes). The unaffiliated member contributed cash equal to 80% of the fair value of the properties, which amount was then used to purchase the nine operating properties from UDR. During three months ended June 30, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for $11.7 million from its Texas joint venture partner. Our initial investment was $20.4 million. Our investment at September 30, 2012 and December 31, 2011 was $4.0 million and $7.1 million, respectively.

We evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decrease in the value of its other investments in unconsolidated joint ventures during the three and nine months ended September 30, 2012 and 2011.

Table of Contents

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

Combined summary financial information relating to all of the unconsolidated joint ventures operations (not just our proportionate share), is presented below for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	2012	2011
For the Three Months Ended September 30,		
Revenues	$67,822	$51,290
Real estate depreciation and amortization	24,263	17,327
Net loss	(3,691)	(4,507)
UDR recorded loss from unconsolidated entities	(719)	(1,580)
For the Nine Months Ended September 30,		
Revenues	$205,572	$146,295
Real estate depreciation and amortization	76,637	50,665
Net loss	(8,768)	(13,238)
UDR recorded loss from unconsolidated entities	(5,822)	(4,260)

Combined summary balance sheets relating to all of the unconsolidated joint ventures (not just our proportionate share) are presented below as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Real estate, net	$3,556,353	$2,908,623
Total assets	3,680,438	2,998,866
Amount due to UDR	29,136	6,251
Third party debt	1,792,243	1,499,419
Total liabilities	1,869,372	1,561,396
Total equity, inclusive of non-controlling interest	1,811,066	1,437,470
Equity held by non-controlling interest	14,739	14,641
UDR's investment in unconsolidated joint ventures	579,338	213,040

As of September 30, 2012, the Company had deferred fees and deferred profit from the sale of properties to a joint venture of $29.5 million, the majority of which the Company will not recognize until the underlying property is sold to a third party. The Company recognized $3.3 million and $9.0 million and $2.5 million and $6.4 million of management fees during the three and nine months ended September 30, 2012 and 2011, respectively, for our management of the joint ventures. The management fees are classified in “Other Income” in the Consolidated Statements of Operations.

The Company may, in the future, make additional capital contributions to certain of our joint ventures should additional capital contributions be necessary to fund acquisitions and operating shortfalls.

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

6. SECURED DEBT
Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt, including debt related to real estate held for sale, which encumbers $2.3 billion or 29.7% of UDR's total real estate owned based upon gross book value ($5.5 billion or 70.3% of UDR's real estate owned based on gross book value is unencumbered) consists of the following as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	Principal Outstanding		For the Nine Months Ended September 30,			
	September 30, 2012	December 31, 2011	Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt						
Mortgage notes payable	$464,395	$590,208	5.32	%	3.6	9
Fannie Mae credit facilities	631,843	744,509	5.12	%	6.1	23
Total fixed rate secured debt	1,096,238	1,334,717	5.20	%	5.0	32
Variable Rate Debt						
Mortgage notes payable	37,415	151,685	1.06	%	0.8	2
Tax-exempt secured notes payable	94,700	94,700	0.95	%	9.9	2
Fannie Mae credit facilities	211,409	310,451	2.08	%	5.8	7
Total variable rate secured debt	343,524	556,836	1.66	%	6.4	11
Total secured debt	$1,439,762	$1,891,553	4.36	%	5.3	43

UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $932.1 million at September 30, 2012. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. We have $631.8 million of the outstanding balance fixed at a weighted average interest rate of 5.12% and the remaining balance on these facilities is currently at a weighted average variable interest rate of 2.08%. Further information related to these credit facilities is as follows: (dollars amounts in thousands):

	September 30, 2012		December 31, 2011	
Borrowings outstanding	$843,252		$1,054,960	
Weighted average borrowings during the period ended	924,175		1,139,588	
Maximum daily borrowings during the period ended	1,054,735		1,157,557	
Weighted average interest rate during the period ended	4.3	%	4.4	%
Weighted average interest rate at the end of the period	4.4	%	4.1	%

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair market adjustment was a net premium of $18.2 million and $24.1 million at September 30, 2012 and December 31, 2011, respectively.
Fixed Rate Debt
Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from October 2012 through May 2019 years and carry interest rates ranging from 3.43% to 6.55%.
Secured credit facilities. At September 30, 2012, the Company had $631.8 million outstanding of fixed rate secured credit facilities with Fannie Mae with a weighted average fixed interest rate of 5.12%.

17

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at July 2013. The mortgage notes payable are based on LIBOR plus some basis points, which translate into an interest rate of 1.06% at September 30, 2012.

Tax-exempt secured notes payable. The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature on August 2019 and March 2030. Interest on these notes is payable in monthly installments. The variable mortgage notes have interest rates of 0.90% and 1.07% as of September 30, 2012.

Secured credit facilities. At September 30, 2012, the Company had $211.4 million outstanding of variable rate secured credit facilities with Fannie Mae with a weighted average floating interest rate of 2.08%.

The aggregate maturities, including amortizing principal payments, of our secured debt due during each of the next five calendar years subsequent to September 30, 2012 are as follows (dollars in thousands):

Year	Fixed Mortgage Notes	Credit Facilities	Variable Mortgage Notes	Tax-Exempt Notes Payable	Credit Facilities	Total Secured
2012	$8,893	$765	$—	$—	$—	$9,658
2013	9,787	3,145	37,415	—	—	50,347
2014	44,363	3,328	—	—	—	47,691
2015	193,899	3,522	—	—	—	197,421
2016	132,653	3,702	—	—	—	136,355
Thereafter	74,800	617,381	—	94,700	211,409	998,290
Total	$464,395	$631,843	$37,415	$94,700	$211,409	$1,439,762

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

7. UNSECURED DEBT
A summary of unsecured debt as of September 30, 2012 and December 31, 2011 is as follows (dollars in thousands):

	September 30, 2012	December 31, 2011
Commercial Bank		
Borrowings outstanding under an unsecured credit facility due October 2015 (a), (d)	$—	$421,000
Senior Unsecured Notes		
4.63% Medium-Term Notes due January 2022 (net of discount of $3,331) (b), (d)	396,669	—
1.67% Term Notes due January 2016 (c), (d)	35,000	100,000
2.68% Term Notes due January 2016 (c), (d)	65,000	—
6.05% Medium-Term Notes due June 2013	122,500	122,500
5.13% Medium-Term Notes due January 2014	184,000	184,000
5.50% Medium-Term Notes due April 2014 (net of discount of $106 and $157)	128,394	128,343
5.25% Medium-Term Notes due January 2015 (includes discount of $294 and $390)	324,881	324,785
5.25% Medium-Term Notes due January 2016	83,260	83,260
2.90% Term Notes due January 2016 (d)	250,000	250,000
8.50% Debentures due September 2024	15,644	15,644
4.25% Medium-Term Notes due June 2018 (net of discount of $2,429 and $2,751) (d)	297,571	297,249
5.00% Medium-Term Notes due January 2012	—	100,000
Other	34	36
	1,902,953	1,605,817
	$1,902,953	$2,026,817

(a) The Company has a $900 million unsecured revolving credit facility. The unsecured credit facility has an initial term of four years and includes a one-year extension option. It contains an accordion feature that allows the Company to increase the facility to $1.35 billion. The credit facility carries an interest rate equal to LIBOR plus a spread of 122.5 basis points and a facility fee of 22.5 basis points.

(b) On January 10, 2012, the Company issued $400 million aggregate principal amount of 4.625% Medium Term Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.

(c) During the quarter ended June 30, 2012, the Company entered into an interest rate swap agreement for a portion of the $100 million term notes, which carries a fixed interest rate of 2.68% at September 30, 2012.

(d) The Operating Partnership is a guarantor at September 30, 2012 and December 31, 2011.

19

The following is a summary of short-term bank borrowings under UDR's bank credit facility at September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Total revolving credit facility	$900,000	$900,000
Borrowings outstanding at end of period (1)	—	421,000
Weighted average daily borrowings during the period ended	212,504	227,498
Maximum daily borrowings during the period ended	788,000	450,000
Weighted average interest rate during the period ended	1.5 %	1.0 %
Interest rate at end of the period	N/A	1.5 %

(1) Excludes $4.1 million of letters of credit at September 30, 2012.

The aggregate maturities of unsecured debt for the next five calendar years subsequent to September 30, 2012 are as follows (dollars in thousands):

Year	Commercial Bank Line	Senior Unsecured Notes	Total Unsecured
2012	$—	$—	$—
2013	—	122,500	122,500
2014	—	311,575	311,575
2015	—	324,388	324,388
2016	—	432,484	432,484
Thereafter	—	712,006	712,006
Total	$—	$1,902,953	$1,902,953

We were in compliance with the covenants of our debt instruments at September 30, 2012.

8. EARNINGS/(LOSS) PER SHARE

Basic and diluted (loss)/income per common share are computed based upon the weighted average number of common shares outstanding during the periods as the effect of adding stock options and other common stock equivalents such as the non-vested restricted stock awards is anti-dilutive.

The following table sets forth the computation of basic and diluted (loss)/earnings per share for the periods presented (amounts in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator for earnings per share — basic and diluted:				
Net (loss)/income attributable to common stockholders	$(9,962)	$(15,559)	$216,607	$(33,653)
Denominator for earnings per share — basic and diluted:				
Weighted average common shares outstanding	250,162	215,066	235,904	197,010
Non-vested restricted stock awards	(337)	(1,250)	(731)	(1,287)
Denominator for basic and diluted earnings per share	249,825	213,816	235,173	195,723
Net (loss)/income attributable to common stockholders - basic and diluted	$(0.04)	$(0.07)	$0.92	$(0.17)

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

The effect of the conversion of the OP Units, convertible preferred stock, convertible debt, stock options and restricted stock is not dilutive and is therefore not included in the above calculations as the Company reported a loss from continuing operations attributable to common stockholders.

If the OP Units were converted to common stock, the additional weighted average common shares outstanding for the three and nine months ended September 30, 2012 and 2011 would be 9,405,888 and 9,414,644 and 8,235,068 and 6,987,415, respectively.

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding for the three and nine months ended September 30, 2012 and 2011 would be 3,035,548 weighted average common shares.

If the stock options and unvested restricted stock were converted to common stock, the additional weighted average common shares outstanding using the treasury stock method would be a 1,363,930 and 1,359,951 and 2,156,175 and 2,107,783 weighted average common shares for the three and nine months ended September 30, 2012 and 2011, respectively.

9. NONCONTROLLING INTERESTS

Redeemable non-controlling interests in operating partnership

Interests in the Operating Partnership held by limited partners are represented by operating partnership units ("OP Units"). The income is allocated to holders of OP Units based upon net income attributable to common stockholders and the weighted average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to non-controlling interests in accordance with the terms of the individual partnership agreements.

Limited partners have the right to require the Operating Partnership to redeem all or a portion of the OP Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount as defined in the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the "Operating Partnership Agreement"), provided that such OP Units have been outstanding for at least one year. UDR, as the general partner of the Operating Partnership may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Share Amount (generally one share of common stock of the Company for each OP Unit), as defined in the Operating Partnership Agreement. Accordingly, the Company records the OP Units outside of permanent equity and reports the OP Units at their redemption value using the Company's stock price at each balance sheet date.

The following table sets forth redeemable non-controlling interests in the Operating Partnership for the following period (dollars in thousands):

Redeemable non-controlling interests in the Operating Partnership, December 31, 2011	$236,475	
Mark to market adjustment to redeemable non-controlling interests in the Operating Partnership	(4,455	)
Conversion of OP Units to Common Stock	(479	)
Net income attributable to redeemable non-controlling interests in the Operating Partnership	8,644	
Distributions to redeemable non-controlling interests in the Operating Partnership	(6,807	)
Allocation of other comprehensive income	1	
Redeemable non-controlling interests in the Operating Partnership, September 30, 2012	$233,379	

Non-controlling interests

Non-controlling interests represent interests of unrelated partners in certain consolidated affiliates, and is presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. During the three and nine months ended September 30, 2012 and 2011, net income attributable to non-controlling interests was $42,000 and $137,000 and $46,000 and $134,000, respectively.

10. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Fair value is based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level valuation hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad

21

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

levels, which are described below:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2012 and December 31, 2011 are summarized as follows (dollars in thousands):

		Fair Value at September 30, 2012 Using		
	September 30, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:				
Notes receivable	$70,861	$—	$—	$70,861
Derivatives- Interest rate contracts (c)	6	—	6	—
Total assets	$70,867	$—	$6	$70,861
Derivatives- Interest rate contracts (c)	$12,867	$—	$12,867	$—
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	507,516	—	—	507,516
Fannie Mae credit facilities	693,040	—	—	693,040
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	37,415	—	—	37,415
Tax-exempt secured notes payable	94,700	—	—	94,700
Fannie Mae credit facilities	211,409	—	—	211,409
Unsecured debt instruments: (b)				
Commercial bank	—	—	—	—
Senior unsecured notes	2,040,905	—	—	2,040,905
Total liabilities	$3,597,852	$—	$12,867	$3,584,985
Redeemable non-controlling interests (e)	$233,379	$—	$233,379	$—

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

		Fair Value at December 31, 2011 Using		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:				
Derivatives- Interest rate contracts (c)	$89	$—	$89	$—
Total assets	$89	$—	$89	$—
Derivatives- Interest rate contracts (c)	$13,660	$—	$13,660	$—
Contingent purchase consideration (d)	3,000	—	—	3,000
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	635,531	—	—	635,531
Fannie Mae credit facilities	799,584	—	—	799,584
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	151,685	—	—	151,685
Tax-exempt secured notes payable	94,700	—	—	94,700
Fannie Mae credit facilities	310,451	—	—	310,451
Unsecured debt instruments: (b)				
Commercial bank	421,000	—	—	421,000
Senior unsecured notes	1,675,189	—	—	1,675,189
Total liabilities	$4,104,800	$—	$13,660	$4,091,140
Redeemable non-controlling interests (e)	$236,475	$—	$236,475	$—

(a) See Note 6, “Secured Debt”
(b) See Note 7, “Unsecured Debt”
(c) See Note 11, “Derivatives and Hedging Activity”
(d) The fair value of the contingent purchase consideration was related to our acquisition of a development property in a consolidated joint venture in 2011. (See Note 5, “Joint Ventures.”)
(e) See Note 9, "Noncontrolling Interests"

Financial Instruments Carried at Fair Value

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates

23

of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2012 and December 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Redeemable non-controlling interests in the Operating Partnership have a redemption feature and are marked to their redemption value. The redemption value is based on the fair value of the Company’s common stock at the redemption date, and therefore, is calculated based on the fair value of the Company’s common stock at the balance sheet date. Since the valuation is based on observable inputs such as quoted prices for similar instruments in active markets, redeemable non-controlling interests in the Operating Partnership are classified as Level 2.

Financial Instruments Not Carried at Fair Value

At September 30, 2012, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

We estimate the fair value of our notes receivable and debt instruments by discounting the remaining cash flows of the debt instrument at a discount rate equal to the replacement market credit spread plus the corresponding treasury yields. Factors considered in determining a replacement market credit spread include general market conditions, borrower specific credit spreads, time remaining to maturity, loan-to-value ratios and collateral quality, where applicable (Level 3).

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by the future operation and disposition of those assets are less than the net book value of those assets. Our cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair value. Our estimates of fair value represent our best estimate based upon Level 3 inputs such as industry trends and reference to market rates and transactions.

We consider various factors to determine if a decrease in the value of our investments in an unconsolidated joint venture is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three and nine months ended September 30, 2012 and 2011.

After determining an other-than-temporary decrease in the value of an equity method investment has occurred, we estimate the fair value of our investment by estimating the proceeds we would receive upon a hypothetical liquidation of the investment at the date of measurement. Inputs reflect management’s best estimate of what market participants would use in pricing the investment giving consideration to the terms of the joint venture agreement and the estimated discounted future cash flows to be generated from the underlying joint venture assets. The inputs and assumptions utilized to estimate the future cash flows of the underlying assets are based upon the Company's evaluation of the economy, market trends, operating results, and other factors, including judgments regarding costs to complete any construction activities, lease up and occupancy rates, rental rates, inflation rates, capitalization rates utilized to estimate the projected cash flows at the disposition, and discount rates.

Table of Contents
UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2012

11. DERIVATIVES AND HEDGING ACTIVITY
Risk Management Objective of Using Derivatives
The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.
Cash Flow Hedges of Interest Rate Risk
The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.
The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated Other Comprehensive Income/(Loss)" and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2012 and 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2012 and 2011, the Company recorded less than a $1,000 loss from ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item, and the fair value of interest rate swaps that were not zero at inception of the hedging relationship.
Amounts reported in "Accumulated Other Comprehensive Income/(Loss)" related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through September 30, 2013, the Company estimates that an additional $7.1 million will be reclassified as an increase to interest expense.
As of September 30, 2012, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	13	$509,787
Interest rate caps	5	274,291

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a gain/(loss) of $(1,000) and $290,000 and $(52,000) and $(16,000) for the three and nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Number of Instruments	Notional

Interest rate caps	3	$172,697

25

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (amounts in thousands):

	Asset Derivatives		Liability Derivatives	
		Fair Value at:		Fair Value at:
	Balance			