

UDR, Inc.
Form 10-Q
July 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

For the transition period from _____ to _____

Commission file number

1-10524 (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 No

United Dominion Realty, L.P. Yes No

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

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

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

UDR, Inc.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

United Dominion Realty,
L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

The number of shares of UDR, Inc.'s common stock, \$0.01 par value, outstanding as of July 25, 2016 was 267,057,652.

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UDR, INC.

UNITED DOMINION REALTY, L.P.

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2016 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. 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 United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), a Delaware limited partnership of which UDR is the sole general partner. The DownREIT Partnership was formed in conjunction with certain acquisitions from Home Properties, L.P., a New York limited partnership, by UDR in October 2015. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” 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 and the DownREIT Partnership are referred to as the “OP Units” and “DownREIT Units,” and the holders of the OP Units and DownREIT 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 taxable REIT subsidiaries (“TRS”). 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 debt of UDR.

As of June 30, 2016, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,116,596 units (approximately 95.1%) of the limited partnership interests of the Operating Partnership. 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)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$9,073,474	\$9,053,599
Less: accumulated depreciation	(2,842,273)	(2,646,044)
Real estate held for investment, net	6,231,201	6,407,555
Real estate under development (net of accumulated depreciation of \$0 and \$0, respectively)	238,938	124,072
Real estate held for disposition (net of accumulated depreciation of \$0 and \$830, respectively)	—	11,775
Total real estate owned, net of accumulated depreciation	6,470,139	6,543,402
Cash and cash equivalents	5,167	6,742
Restricted cash	20,524	20,798
Funds held in escrow from Internal Revenue Code Section 1031 exchanges	34,732	—
Notes receivable, net	19,694	16,694
Investment in and advances to unconsolidated joint ventures, net	933,403	938,906
Other assets	126,423	137,302
Total assets	\$7,610,082	\$7,663,844
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	\$1,256,119	\$1,376,945
Unsecured debt, net	2,209,058	2,193,850
Real estate taxes payable	23,168	18,786
Accrued interest payable	26,735	29,162
Security deposits and prepaid rent	37,916	36,330
Distributions payable	86,957	80,368
Accounts payable, accrued expenses, and other liabilities	91,275	81,356
Total liabilities	3,731,228	3,816,797
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	929,985	946,436
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,796,903 shares issued and outstanding at June 30, 2016 and December 31, 2015	46,457	46,457
Series F; 16,452,496 shares issued and outstanding at June 30, 2016 and December 31, 2015	1	1
Common stock, \$0.01 par value; 350,000,000 shares authorized:		
267,058,578 and 261,844,521 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	2,671	2,618
Additional paid-in capital	4,622,939	4,447,816

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Distributions in excess of net income	(1,712,418)	(1,584,459)
Accumulated other comprehensive income/(loss), net	(12,974)	(12,678)
Total stockholders' equity	2,946,676	2,899,755
Noncontrolling interests	2,193	856
Total equity	2,948,869	2,900,611
Total liabilities and equity	\$7,610,082	\$7,663,844

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
REVENUES:				
Rental income	\$236,168	\$212,764	\$468,125	\$419,811
Joint venture management and other fees	2,618	3,098	5,476	15,804
Total revenues	238,786	215,862	473,601	435,615
OPERATING EXPENSES:				
Property operating and maintenance	38,574	37,194	78,020	74,444
Real estate taxes and insurance	30,279	25,138	58,656	51,360
Property management	6,494	5,851	12,873	11,545
Other operating expenses	1,892	1,769	3,644	3,535
Real estate depreciation and amortization	105,937	90,344	211,276	179,121
General and administrative	10,835	13,721	24,679	25,873
Casualty-related charges/(recoveries), net	1,629	843	1,629	1,839
Other depreciation and amortization	1,486	1,700	3,039	3,323
Total operating expenses	197,126	176,560	393,816	351,040
Operating income	41,660	39,302	79,785	84,575
Income/(loss) from unconsolidated entities	325	(573)	1,004	58,586
Interest expense	(30,678)	(29,673)	(61,782)	(58,473)
Interest income and other income/(expense), net	540	382	971	742
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	11,847	9,438	19,978	85,430
Tax benefit/(provision), net	402	1,404	805	1,829
Income/(loss) from continuing operations	12,249	10,842	20,783	87,259
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net income/(loss)	19,564	89,884	31,168	166,301
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	17,946	86,855	28,339	160,677
Distributions to preferred stockholders — Series E (Convertible)	(929)	(931)	(1,858)	(1,862)
Net income/(loss) attributable to common stockholders	\$17,017	\$85,924	\$26,481	\$158,815
Common distributions declared per share	\$0.2950	\$0.2775	\$0.5900	\$0.5550
Income/(loss) per weighted average common share:				
Basic	\$0.06	\$0.33	\$0.10	\$0.62
Diluted	\$0.06	\$0.33	\$0.10	\$0.61
Weighted average number of common shares outstanding:				
Basic	266,268	257,849	264,362	257,344
Diluted	268,174	262,806	266,227	259,267
See accompanying notes to consolidated financial statements.				

UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income/(loss)	\$ 19,564	\$ 89,884	\$ 31,168	\$ 166,301
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(1,963)	6,186	(2,774)	(1,366)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	943	292	1,878	1,029
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	(1,020)	6,478	(896)	(337)
Comprehensive income/(loss)	18,544	96,362	30,272	165,964
Comprehensive (income)/loss attributable to noncontrolling interests	(1,537)	(3,253)	(2,229)	(5,623)
Comprehensive income/(loss) attributable to UDR, Inc.	\$ 17,007	\$ 93,109	\$ 28,043	\$ 160,341

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENT 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), net	Noncontrolling Interests	Total
Balance at December 31, 2015	\$46,458	\$2,618	\$4,447,816	\$(1,584,459)	\$(12,678)	\$856	\$2,900,611
Net income/(loss) attributable to UDR, Inc.	—	—	—	28,339	—	—	28,339
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	301	301
Disposition of noncontrolling interests in consolidated real estate	—	—	—	—	—	(1,155)	(1,155)
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	220	220
Long-Term Incentive Plan Unit grants	—	—	—	—	—	1,971	1,971
Other comprehensive income/(loss)	—	—	—	—	(296)	—	(296)
Issuance/(forfeiture) of common and restricted shares, net	—	3	1,809	—	—	—	1,812
Issuance of common shares through public offering	—	50	173,233	—	—	—	173,283
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	—	—	81	—	—	—	81
Common stock distributions declared (\$0.5900 per share)	—	—	—	(157,632)	—	—	(157,632)
Preferred stock distributions declared-Series E (\$0.6644 per share)	—	—	—	(1,858)	—	—	(1,858)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	3,192	—	—	3,192
Balance at June 30, 2016	\$46,458	\$2,671	\$4,622,939	\$(1,712,418)	\$(12,974)	\$2,193	\$2,948,869

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except for share data)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income/(loss)	\$31,168	\$166,301
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	214,315	182,444
(Gain)/loss on sale of real estate owned, net of tax	(10,385)	(79,042)
Tax (benefit)/provision, net	(805)	(1,829)
(Income)/loss from unconsolidated entities	(1,004)	(58,586)
Amortization of share-based compensation	7,075	9,060
Other	7,515	5,933
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(8,551)	7,431
Increase/(decrease) in operating liabilities	(12,858)	(14,709)
Net cash provided by/(used in) operating activities	226,470	217,003
Investing Activities		
Acquisition of real estate assets	(17,235)	—
Proceeds from sale of real estate investments, net	21,943	90,543
Development of real estate assets	(66,138)	(66,083)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(49,112)	(47,453)
Capital expenditures — non-real estate assets	(1,941)	(1,655)
Investment in unconsolidated joint ventures	(20,635)	(184,078)
Distributions received from unconsolidated joint ventures	13,663	46,075
(Issuance)/repayment of notes receivable	(3,000)	(1,125)
Net cash provided by/(used in) investing activities	(122,455)	(163,776)
Financing Activities		
Payments on secured debt	(145,499)	(4,549)
Proceeds from the issuance of secured debt	25,000	—
Payments on unsecured debt	(95,053)	(325,319)
Net proceeds/(repayment) of revolving bank debt	109,199	304,500
Proceeds from the issuance of common shares through public offering, net	173,283	108,739
Distributions paid to redeemable noncontrolling interests	(14,624)	(5,148)
Distributions paid to preferred stockholders	(1,858)	(1,862)
Distributions paid to common stockholders	(151,512)	(138,559)
Other	(4,526)	(3,263)
Net cash provided by/(used in) financing activities	(105,590)	(65,461)
Net increase/(decrease) in cash and cash equivalents	(1,575)	(12,234)
Cash and cash equivalents, beginning of period	6,742	15,224
Cash and cash equivalents, end of period	\$5,167	\$2,990

Six Months Ended
June 30,

	2016	2015
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	\$64,793	\$66,448
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	\$11,526	\$—
Acquisition of real estate	—	24,067
Fair value adjustment of debt acquired as part of acquisition of real estate	—	1,363
Development costs and capital expenditures incurred but not yet paid	42,940	23,523
Conversion of Operating Partnership noncontrolling interest to common stock (2,080 shares in 2016 and 102,784 shares in 2015)	81	3,498
See accompanying notes to consolidated financial statements.		

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (“UDR,” the “Company,” “we,” “our,” or “us”), is a self-administered real estate investment trust, or REIT, that owns, operates, 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” or the “OP”) and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”). As of June 30, 2016, there were 183,278,698 units in the Operating Partnership outstanding, of which 174,227,479 units, or 95.1%, were owned by UDR and 9,051,219 units, or 4.9%, were owned by limited partners. As of June 30, 2016, there were 32,367,380 units in the DownREIT Partnership (“DownREIT Units”) outstanding, of which 16,229,407, or 50.1%, were owned by UDR (of which, 13,470,651, or 41.6%, were held by the Operating Partnership) and 16,137,973, or 49.9%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT 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 June 30, 2016, and results of operations for the three and six months ended June 30, 2016 and 2015 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, 2015 appearing in UDR’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2016.

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.

The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the Company on January 1, 2020; early adoption is permitted on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU aims to simplify the accounting for share-based payments by amending the accounting for forfeitures, statutory tax withholding requirements, classification in the statements of cash flow and income taxes. The updated standard will be effective for the Company on January 1, 2017, with early adoption permitted. The update requires a prospective, retrospective or modified retrospective approach, depending on the type of amendment. The Company is

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Company on January 1, 2019, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model of consolidation. Under ASU 2015-02, companies will need to re-evaluate whether an entity meets the criteria to be considered a variable interest entity (“VIE”) or whether the consolidation of an entity should be assessed under the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard was effective for the Company beginning on January 1, 2016. The adoption of the new standard did not result in the consolidation of entities not previously consolidated or the deconsolidation of any entities previously consolidated. Upon adopting the new standard, the Operating Partnership and DownREIT Partnership became VIEs as the limited partners of these entities lack substantive kick-out rights and substantive participating rights. The Company is the primary beneficiary of, and continues to consolidate, the entities determined to be VIEs.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company on January 1, 2018; early adoption is permitted on January 1, 2017. The Company has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

Principles of Consolidation

The Company accounts for subsidiary partnerships, joint ventures and other similar entities in which it holds an ownership interest in accordance with the amended consolidation guidance. The Company first evaluates whether each entity is a VIE. Under the VIE model, the Company consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest.

Discontinued Operations

In accordance with GAAP, a discontinued operation represents (1) a component of an entity or group of components that has been disposed of or is classified as held for sale in a single transaction and represents a strategic shift that has

or will have a major effect on an entity's financial results, or (2) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of (1) a separate major line of business, (2) a separate major geographic area of operations, (3) a major equity method investment, or (4) other major parts of an entity.

We record sales of real estate that do not meet the definition of a discontinued operation in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations.

Revenue and Real Estate Sales Gain Recognition

Rental income related to leases is recognized on an accrual basis when due from residents and tenants 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

For sale transactions meeting the requirements for full accrual profit recognition, 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 of 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 for by us 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, net as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Interest rate at	Balance outstanding	
		June 30, 2016	June 30, December 31, 2015
Note due February 2020 (a)	10.00 %	\$ 12,994	\$ 12,994
Note due July 2017 (b)	8.00 %	2,500	2,500
Note due October 2020 (c)	8.00 %	1,200	1,200
Note due April 2021 (d)	10.00 %	3,000	—
Total notes receivable, net		\$ 19,694	\$ 16,694

(a) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$13.0 million. 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) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).

In March 2016, the terms of this secured note receivable were amended to extend the maturity from the fifth anniversary of the date of the note (February 2017) to the eighth anniversary of the date of the note (February 2020).

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$2.5 million. 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) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).

The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$2.0 million. Interest payments are due when the loan matures. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$10.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (October 2020).

(d) In April 2016, the Company entered into a secured note receivable with an unaffiliated third party with an aggregate commitment of \$15.0 million. During the six months ended June 30, 2016, the Company loaned \$3.0 million. 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 \$25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (April 2021).

The Company recognized \$0.5 million and \$0.3 million of interest income from notes receivable during the three months ended June 30, 2016 and 2015, respectively, and \$0.8 million and \$0.7 million during the six months ended June 30,

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2016 and 2015, respectively, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2016 and 2015, the Company's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion.

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 June 30, 2016, UDR's net deferred tax asset was \$8.4 million (net of a valuation allowance of \$0.1 million), which is included in Other assets on the Consolidated Balance Sheets.

GAAP 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. GAAP 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, UDR determines 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. Second, 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 June 30, 2016. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2011 through 2014 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 Tax benefit/(provision), net on the Consolidated Statements of Operations.

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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 sold or held for disposition properties. As of June 30, 2016, the Company owned and consolidated 132 communities in 10 states plus the District of Columbia totaling 40,728 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Land	\$1,794,615	\$1,833,156
Depreciable property — held and used:		
Land Improvements	178,355	173,821
Building, improvements, and furniture, fixtures and equipment	7,100,504	7,046,622
Under development:		
Land and land improvements	111,028	78,085
Building, improvements, and furniture, fixtures and equipment	127,910	45,987
Real estate held for disposition:		
Land	—	9,963
Building, improvements, and furniture, fixtures and equipment	—	2,642
Real estate owned	9,312,412	9,190,276
Accumulated depreciation	(2,842,273)	(2,646,874)
Real estate owned, net	\$6,470,139	\$6,543,402

In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately \$20.1 million, including closing costs. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 50% interest in the parcel of land as an unconsolidated joint venture (see Note 5, Joint Ventures and Partnerships). We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by \$31.1 million. Subsequent to the acquisition, the Company entered into a triple-net operating ground lease for the parcel of land at market terms with a third-party developer. The lessee plans to construct a multi-family community on the parcel of land. The ground lease provides the ground lessee with options to buy the fee interest in the parcel of land. The lease term is 49 years plus two 25-year extension options, does not transfer ownership to the lessee, and does not include a bargain purchase option.

During the six months ended June 30, 2016, the Company sold a retail center in Bellevue, Washington and its 95% ownership interest in two parcels of land in Santa Monica, California for total gross proceeds of \$69.4 million, resulting in total net proceeds of \$66.1 million and a total gain, net of tax, of \$10.4 million. A portion of the proceeds related to the sale of the retail center in Bellevue, Washington were designated for Internal Revenue Code ("IRC") Section 1031 exchanges. As of June 30, 2016, \$34.7 million of these proceeds were included in Funds held in escrow from Internal Revenue Code Section 1031 exchanges on the Consolidated Balance Sheet.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related

to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were \$2.7 million and \$1.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$4.7 million and \$3.8 million for the six months ended June 30, 2016 and 2015, respectively. Total interest capitalized was \$3.8 million and \$3.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$8.0 million and \$8.6 million for the six months ended June 30, 2016 and 2015, respectively. As each home in a capital project is completed and

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becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. VARIABLE INTEREST ENTITIES

As of January 1, 2016, the Company adopted ASU 2015-02. See discussion in Note 2, Significant Accounting Policies for further details. As a result of the adoption, the Operating Partnership and DownREIT Partnership were determined to be VIEs. As the Company was determined to be the primary beneficiary, we will continue to consolidate these entities.

The Company has determined that the Operating Partnership and DownREIT Partnership are VIEs as the limited partners lack substantive kick-out rights and substantive participating rights. The Company has concluded that it is the primary beneficiary of, and therefore continues to consolidate, the Operating Partnership and DownREIT Partnership based on its role as the manager of the communities and its direct ownership interests, including all general partner interests. The Company's role as community manager and its equity interests give us the power to direct the activities that most significantly impact the economic performance and the obligation to absorb potentially significant losses or the right to receive potentially significant benefits of the Operating Partnership and DownREIT Partnership.

See the consolidated financial statements of the Operating Partnership presented within this Report and Note 4, Unconsolidated Entities, to the Operating Partnership's consolidated financial statements for the results of operations of the Operating Partnership and DownREIT Partnership, respectively.

5. JOINT VENTURES AND PARTNERSHIPS

UDR has entered into joint ventures and partnerships with unrelated third parties to acquire real estate assets that are either consolidated and included in Real estate owned on the Consolidated Balance Sheets or are accounted for under the equity method of accounting, and are included in Investment in and advances to unconsolidated joint ventures, net on the Consolidated Balance Sheets. The Company consolidates the entities that we control as well as any variable interest entity where we are the primary beneficiary. In addition, the Company consolidates any joint venture or partnership 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 the ability to remove us as general partner or managing member without cause.

UDR's joint ventures and partnerships 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 ventures and partnerships.

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures and partnerships consisting of our proportionate share of the net earnings or losses of the joint ventures and partnerships. In addition, we may earn fees for providing management services to the unconsolidated joint ventures and partnerships.

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The following table summarizes the Company's investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of June 30, 2016 and December 31, 2015 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties June 30, 2016	Number of Apartment Homes June 30, 2016	Investment at		UDR's Ownership Interest			
				June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Operating and development:									
UDR/MetLife I	Various	1 development community (a); 3 land parcels	150	\$21,319	\$ 15,894	19.6 %	17.2 %		
UDR/MetLife II (b)	Various	21 operating communities	4,642	418,701	425,230	50.0 %	50.0 %		
Other UDR/MetLife Development Joint Ventures (c)	Various	1 operating community; 4 development communities (a)	1,437	164,870	171,659	50.6 %	50.6 %		
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities; 6 land parcels	1,130	71,984	73,469	50.0 %	50.0 %		
UDR/KFH	Washington, D.C.	3 operating communities	660	15,126	17,211	30.0 %	30.0 %		
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment and preferred equity investment				692,000	703,463				
				Investment at		Income from Investment			
				June 30, 2016	December 31, 2015	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Participating loan investment:									
Steele Creek	Denver, CO	6.5%	1.1	93,902	90,747	\$1,560	\$1,353	\$3,079	\$2,506
Preferred equity investment:									
West Coast Development Joint Venture	Various	6.5%	N/A	147,501	144,696	\$1,409	\$(548)	\$3,198	\$(548)
Total investment in and advances to unconsolidated joint ventures, net				\$933,403	\$ 938,906				

(a) The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes. As of June 30, 2016, 447 apartment homes had been completed in Other

UDR/MetLife Development Joint Ventures, and no apartment homes had been completed in UDR/MetLife I. In September 2015, the 717 Olympic community, which is owned by the UDR/MetLife II joint venture, experienced extensive water damage due to a ruptured water pipe. For the three and six months ended June 30, (b) 2016, the Company recorded losses of \$0 and \$1.1 million, respectively, its proportionate share of the total losses incurred.

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In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately \$20.1 million, including closing costs. As a result, the Company (c) consolidated the parcel of land and it is no longer accounted for as an unconsolidated joint venture (see Note 3, Real Estate Owned). The parcel of land was previously held in Other/UDR MetLife Development Joint Ventures.

As of June 30, 2016 and December 31, 2015, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of \$8.3 million and \$6.8 million, respectively, which will be recognized through income over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees for our management of the joint ventures and partnerships of \$2.6 million and \$2.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$5.4 million and \$5.2 million for the six months ended June 30, 2016 and 2015, respectively. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships 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 decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three and six months ended June 30, 2016 and 2015.

Combined summary balance sheets relating to the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total real estate, net	\$3,169,088	\$ 3,135,757
Cash and cash equivalents	27,961	36,480
Amount due from UDR	1,069	—
Other assets	20,634	29,891
Total assets	\$3,218,752	\$ 3,202,128
Amount due to UDR	\$—	\$ 7,266
Third party debt	1,707,406	1,614,463
Accounts payable and accrued liabilities	74,563	95,523
Total liabilities	1,781,969	1,717,252
Total equity	1,436,783	1,484,876
Total liabilities and equity	\$3,218,752	\$ 3,202,128
Investment in and advances to unconsolidated joint ventures, net	\$933,403	\$ 938,906

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Combined summary financial information relating to the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Total revenues	\$58,153	\$55,450	\$113,190	\$109,996
Property operating expenses	(22,981)	(21,557)	(46,394)	(41,724)
Real estate depreciation and amortization	(21,770)	(19,402)	(40,713)	(38,754)
Operating income/(loss)	13,402	14,491	26,083	29,518
Interest expense	(17,005)	(16,169)	(33,184)	(32,230)
Other income/(expense)	(2)	(7)	(4)	(7)
Income/(loss) from discontinued operations	—	—	—	182,488
Net income/(loss)	\$(3,605)	\$(1,685)	\$(7,105)	\$179,769
UDR income/(loss) from unconsolidated entities	\$325	\$(573)	\$1,004	\$58,586

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6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at June 30, 2016 and December 31, 2015 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2016		Number of Communities Encumbered
	June 30, 2016	December 31, 2015	Weighted Average Interest Rate	Weighted Average Years to Maturity	
Secured Debt:					
Fixed Rate Debt					
Mortgage notes payable (a)	\$322,689	\$442,617	4.30%	6.3	5
Fannie Mae credit facilities (b)	512,584	514,462	5.23%	2.6	18
Deferred financing costs	(3,482)	(4,278)			
Total fixed rate secured debt, net	831,791	952,801	4.87%	4.0	23
Variable Rate Debt					
Mortgage notes payable (c)	31,337	31,337	2.25%	0.6	1
Tax-exempt secured notes payable (d)	94,700	94,700	1.18%	6.7	2
Fannie Mae credit facilities (b)	299,378	299,378	1.92%	3.6	8
Deferred financing costs	(1,087)	(1,271)			
Total variable rate secured debt, net	424,328	424,144	1.78%	4.0	11
Total Secured Debt, net	1,256,119	1,376,945	3.82%	4.0	34
Unsecured Debt:					
Variable Rate Debt					
Borrowings outstanding under an unsecured credit facility due January 2020 (e) (i)	255,000	150,000	1.36%	3.6	
Borrowings outstanding under an unsecured working capital credit facility due January 2019 (f)	4,199	—	1.37%	2.5	
1.40% Term Loan Facility due January 2021 (e) (i)	35,000	35,000	1.40%	4.6	
Fixed Rate Debt					
5.25% Medium-Term Notes due January 2016 (g)	—	83,260	—	%	—
6.21% Term Notes due July 2016 (g)	—	12,091	—	%	—
4.25% Medium-Term Notes due June 2018 (net of discounts of \$822 and \$1,037, respectively) (i)	299,178	298,963	4.25%	1.9	
3.70% Medium-Term Notes due October 2020 (net of discounts of \$34 and \$38, respectively) (i)	299,966	299,962	3.70%	4.3	
2.23% Term Loan Facility due January 2021 (e) (i)	315,000	315,000	2.23%	4.6	
4.63% Medium-Term Notes due January 2022 (net of discounts of \$1,985 and \$2,164, respectively) (i)	398,015	397,836	4.63%	5.5	
3.75% Medium-Term Notes due July 2024 (net of discounts of \$834 and \$886, respectively) (i)	299,166	299,114	3.75%	8.0	
8.50% Debentures due September 2024	15,644	15,644	8.50%	8.2	
	299,363	299,329	4.00%	9.3	

4.00% Medium-Term Notes due October 2025 (net of discounts of \$637 and \$671, respectively) (h) (i)

Other	23	24	N/A	N/A
Deferred financing costs	(11,496)	(12,373)	N/A	N/A
Total Unsecured Debt, net	2,209,058	2,193,850	3.58%	5.4
Total Debt, net	\$3,465,177	\$3,570,795	3.76%	4.9

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For purposes of classification of the above 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.

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. As of June 30, 2016, secured debt encumbered \$2.1 billion or 22.5% of UDR's total real estate owned based upon gross book value (\$7.2 billion or 77.5% of UDR's real estate owned based on gross book value is unencumbered).

(a) At June 30, 2016, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from February 2017 through June 2026 and carry interest rates ranging from 3.35% to 5.86%.

On June 1, 2016, the Company entered into a \$25.0 million fixed rate mortgage note due June 5, 2026 with an interest rate of 3.35%. Interest is payable monthly beginning on July 5, 2016.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Company had a reduction to interest expense based on the amortization of the fair market adjustment of debt assumed in the acquisition of properties of \$0.7 million and \$1.3 million during the three months ended June 30, 2016 and 2015, respectively, and \$1.5 million and \$2.4 million during the six months ended June 30, 2016 and 2015, respectively. The unamortized fair market adjustment was a net premium of \$8.4 million and \$10.0 million at June 30, 2016 and December 31, 2015, respectively.

(b) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of \$812.0 million at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, \$512.6 million of the outstanding balance was fixed and had a weighted average interest rate of 5.23% and the remaining balance of \$299.4 million had a weighted average variable interest rate of 1.92%.

Further information related to these credit facilities is as follows (dollars in thousands):

	June 30, 2016	December 31, 2015		
Borrowings outstanding	\$811,962	\$ 813,840		
Weighted average borrowings during the period ended	812,752	822,521		
Maximum daily borrowings during the period ended	813,544	834,003		
Weighted average interest rate during the period ended	4.0	% 4.0	%	
Weighted average interest rate at the end of the period	4.0	% 3.9	%	

(c) In July 2016, the Company paid off the \$31.3 million variable rate mortgage note payable with borrowings under its \$1.1 billion unsecured revolving credit facility.

(d) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have an interest rate of 1.18% as of June 30, 2016.

(e) As of June 30, 2016, the Company has a \$1.1 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") and a \$350.0 million senior unsecured term loan facility (the "Term Loan Facility"). The credit agreement for these facilities (the "Credit Agreement") allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The

Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021.

Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points and a facility fee of 15 basis points, and the Term Loan Facility has an interest rate equal to LIBOR

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plus a margin of 95 basis points. Depending on the Company's credit rating, the margin under the Revolving Credit Facility ranges from 85 to 155 basis points, the facility fee ranges from 12.5 to 30 basis points, and the margin under the Term Loan Facility ranges from 90 to 175 basis points.

The Credit Agreement contains customary representations and warranties and financial and other affirmative and negative covenants. The Credit Agreement also includes customary events of default, in certain cases subject to customary periods to cure. The occurrence of an event of default, following the applicable cure period, would permit the lenders to, among other things, declare the unpaid principal, accrued and unpaid interest and all other amounts payable under the Credit Agreement to be immediately due and payable.

The following is a summary of short-term bank borrowings under the Revolving Credit Facility at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015		
Total revolving credit facility	\$1,100,000	\$1,100,000		
Borrowings outstanding at end of period (1)	255,000	150,000		
Weighted average daily borrowings during the period ended	155,780	353,647		
Maximum daily borrowings during the period ended	260,000	541,500		
Weighted average interest rate during the period ended	1.3	% 1.1	%	%
Interest rate at end of the period	1.4	% 1.2	%	%

(1) Excludes \$2.8 million and \$2.3 million of letters of credit at June 30, 2016 and December 31, 2015, respectively.

(f) As of June 30, 2016, the Company has a working capital credit facility, which provides for a \$30 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 1, 2019. Based on the Company's current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin ranges from 85 to 155 basis points.

In July 2016, the Company amended the working capital credit facility to increase the maximum borrowing capacity from \$30 million to \$75 million. The scheduled maturity date and interest rate were unchanged by the amendment.

The following is a summary of short-term bank borrowings under UDR's working capital credit facility at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015		
Total revolving working capital credit facility	\$30,000	\$ 30,000		
Borrowings outstanding at end of period	4,199	—		
Weighted average daily borrowings during the period ended	12,601	—		
Maximum daily borrowings during the period ended	29,361	—		
Weighted average interest rate during the period ended	1.3	% —	%	%
Interest rate at end of the period	1.4	% —	%	%

(g) Paid off at maturity with borrowings under the Company's \$1.1 billion unsecured revolving credit facility.

(h) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on \$200 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.55%.

(i) The Operating Partnership is a guarantor of this debt.

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The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next ten calendar years subsequent to June 30, 2016 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2016	\$3,559	\$—	\$3,559	\$—	\$3,559
2017	179,189	96,337	275,526	—	275,526
2018	73,096	137,969	211,065	300,000	511,065
2019	247,796	67,700	315,496	4,199	319,695
2020	170,664	—	170,664	555,000	725,664
2021	—	—	—	350,000	350,000
2022	—	—	—	400,000	400,000
2023	—	96,409	96,409	—	96,409
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
Thereafter	25,000	27,000	52,000	—	52,000
Subtotal	826,904	425,415	1,252,319	2,224,843	3,477,162
Non-cash (a)	4,887	(1,087)	3,800	(15,785)	(11,985)
Total	\$831,791	\$424,328	\$1,256,119	\$2,209,058	\$3,465,177

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended June 30, 2016 and 2015, the Company amortized \$1.2 million and \$1.5 million, respectively, of deferred financing costs into Interest expense. For the six months ended June 30, 2016 and 2015, the Company amortized \$2.4 million and \$3.0 million, respectively, of deferred financing costs into Interest expense

We were in compliance with the covenants of our debt instruments at June 30, 2016.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

7. INCOME/(LOSS) PER SHARE

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Numerator for income/(loss) per share:				
Income/(loss) from continuing operations	\$ 12,249	\$ 10,842	\$ 20,783	\$ 87,259
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	17,946	86,855	28,339	160,677
Distributions to preferred stockholders — Series E (Convertible)	(929)	(931)	(1,858)	(1,862)
Income/(loss) attributable to common stockholders - basic	\$ 17,017	\$ 85,924	\$ 26,481	\$ 158,815
Dilutive distributions to preferred stockholders - Series E (Convertible)	—	931	—	—
Income/(loss) attributable to common stockholders - diluted	\$ 17,017	\$ 86,855	\$ 26,481	\$ 158,815
Denominator for income/(loss) per share:				
Weighted average common shares outstanding	267,113	259,028	265,234	258,567
Non-vested restricted stock awards	(845)	(1,179)	(872)	(1,223)
Denominator for basic income/(loss) per share	266,268	257,849	264,362	257,344
Incremental shares issuable from assumed conversion of stock options, unvested LTIP Units, and unvested restricted stock	1,906	4,957	1,865	1,923
Denominator for diluted income/(loss) per share	268,174	262,806	266,227	259,267
Income/(loss) per weighted average common share:				
Basic	\$ 0.06	\$ 0.33	\$ 0.10	\$ 0.62
Diluted	\$ 0.06	\$ 0.33	\$ 0.10	\$ 0.61

Basic income/(loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income/(loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of the OP Units and DownREIT Units, convertible preferred stock, stock options, unvested long-term incentive plan units ("LTIP Units") and unvested restricted stock. Only those instruments having a dilutive impact on our basic income/(loss) per share are included in diluted income/(loss) per share during the periods. For the three and six months ended June 30, 2016 and the six months ended June 30, 2015, the Company's Series E preferred stock was anti-dilutive. For the three months ended June 30, 2015, the Company's Series E preferred stock was dilutive for purposes of calculating earnings per share.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

The following table sets forth the additional shares of common stock outstanding by equity instrument if converted to common stock for each of the three and six months ended June 30, 2016 and 2015 (shares in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
OP/DownREIT Units	25,190	9,125	25,191	9,145
Preferred stock	3,028	3,036	3,028	3,036
Stock options, unvested LTIP Units and unvested restricted stock	1,906	1,921	1,865	1,923

8. NONCONTROLLING INTERESTS**Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership**

Interests in the Operating Partnership and the DownREIT Partnership held by limited partners are represented by OP Units and DownREIT Units, respectively. The income is allocated to holders of OP Units/DownREIT Units based upon net income attributable to common stockholders and the weighted average number of OP Units/DownREIT Units outstanding to total common shares plus OP Units/DownREIT Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to noncontrolling interests in accordance with the terms of the partnership agreements of the Operating Partnership and the DownREIT Partnership.

Limited partners of the Operating Partnership and the DownREIT Partnership have the right to require such partnership to redeem all or a portion of the OP Units/DownREIT Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in the partnership agreement of the Operating Partnership or the DownREIT Partnership, as applicable), provided that such OP Units/DownREIT Units have been outstanding for at least one year, subject to certain exceptions. UDR, as the general partner of the Operating Partnership and the DownREIT Partnership may, in its sole discretion, purchase the OP Units/DownREIT 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/DownREIT Unit), as defined in the partnership agreement of the Operating Partnership or the DownREIT Partnership, as applicable. Accordingly, the Company records the OP Units and DownREIT Units outside of permanent equity and reports the OP Units and DownREIT Units at their redemption value using the Company's stock price at each balance sheet date.

The following table sets forth redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership for the following period (dollars in thousands):

Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, December 31, 2015	\$946,436
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(3,192)
Conversion of OP Units to Common Stock	(81)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	2,515
Distributions to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(15,093)
Allocation of other comprehensive income/(loss)	(600)
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, June 30, 2016	\$929,985

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

The following sets forth net income/(loss) attributable to common stockholders and transfers from redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership for the following periods (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income/(loss) attributable to common stockholders	\$17,017	\$85,924	\$26,481	\$158,815
Conversion of OP Units and DownREIT Units to UDR Common stock	81	3,479	81	3,498
Change in equity from net income/(loss) attributable to common stockholders and conversion of OP Units and DownREIT Units to UDR Common Stock	\$17,098	\$89,403	\$26,562	\$162,313

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners and unvested LTIP Units in certain consolidated affiliates. Net (income)/loss attributable to noncontrolling interests was less than \$(0.1) million and zero during the three months ended June 30, 2016 and 2015, respectively, and \$(0.3) million and less than \$(0.1) million during the six months ended June 30, 2016 and 2015, respectively.

The Company grants LTIP Units to certain employees and non-employee directors. The LTIP Units represent an ownership interest in the Operating Partnership and have vesting terms of between one and three years, specific to the individual grants.

Noncontrolling interests related to long-term incentive plan units represent the unvested LTIP Units of these employees and non-employee directors in the Operating Partnership. The net income/(loss) allocated to the LTIP Units is included in Net (income)/loss attributable to noncontrolling interests on the Consolidated Statements of Operations.

9. 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 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of June 30, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

Description:	Total Carrying Amount in Statement of Financial Position at June 30, 2016	Fair Value Estimate at June 30, 2016	Fair Value at June 30, 2016, Using	
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2) Significant Unobservable Inputs (Level 3)
Notes receivable (a)	\$ 19,694	\$ 19,501	\$ -	\$ 19,501
Derivatives - Interest rate contracts (b)	3	3	—	—
Total assets	\$ 19,697	\$ 19,504	\$ -	\$ 19,501
Derivatives - Interest rate contracts (b)	\$ 3,554	\$ 3,554	\$ -	\$ —
Secured debt instruments - fixed rate: (c)				
Mortgage notes payable	322,689	340,060	—	340,060
Fannie Mae credit facilities	512,584	542,250	—	542,250
Secured debt instruments - variable rate: (c)				
Mortgage notes payable	31,337	31,337	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	94,700
Fannie Mae credit facilities	299,378	299,378	—	299,378
Unsecured debt instruments: (c)				
Commercial bank	259,199	259,199	—	259,199
Senior unsecured notes	1,961,355	2,096,376	—	2,096,376
Total liabilities	\$ 3,484,796	\$ 3,666,854	\$ -	\$ 3,663,300
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	\$ 929,985	\$ 929,985	\$ -	\$ —

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2015	Fair Value Estimate at December 31, 2015	Fair Value at December 31, 2015, Using	
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2) Significant Unobservable Inputs (Level 3)
Notes receivable (a)	\$16,694	\$16,938	\$—	\$ 16,938
Derivatives - Interest rate contracts (b)	13	13	—	—
Total assets	\$16,707	\$16,951	\$—	\$ 16,938
Derivatives- Interest rate contracts (b)	\$2,112	\$2,112	\$—	\$—
Secured debt instruments - fixed rate: (c)				
Mortgage notes payable	442,617	448,019	—	448,019
Fannie Mae credit facilities	514,462	539,050	—	539,050
Secured debt instruments - variable rate: (c)				
Mortgage notes payable	31,337	31,337	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	94,700
Fannie Mae credit facilities	299,378	299,378	—	299,378
Unsecured debt instruments: (c)				
Commercial bank	150,000	150,000	—	150,000
Senior unsecured notes	2,056,223	2,108,687	—	2,108,687
Total liabilities	\$3,590,829	\$3,673,283	\$—	\$ 3,671,171
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	\$946,436	\$946,436	\$—	\$—

(a)See Note 2, Significant Accounting Policies.

(b)See Note 10, Derivatives and Hedging Activity.

(c)See Note 6, Secured and Unsecured Debt, Net.

(d)See Note 8, Noncontrolling Interests.

There were no transfers into or out of each of the levels of the fair value hierarchy.

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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

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 of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2016 and December 31, 2015, 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 noncontrolling interests in the Operating Partnership and DownREIT 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 noncontrolling interests in the Operating Partnership and DownREIT Partnership are classified as Level 2.

Financial Instruments Not Carried at Fair Value

At June 30, 2016 and December 31, 2015, 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 investment in and advances to unconsolidated joint ventures, net 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 six months ended June 30, 2016 and 2015.

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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

10. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks 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), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2016 and 2015, 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 six months ended June 30, 2016 and 2015, the Company recorded no ineffectiveness to earnings.

Amounts reported in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets related to derivatives that will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through June 30, 2017, the Company estimates that an additional \$3.6 million will be reclassified as an increase to interest expense.

As of June 30, 2016, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps (a)	3	\$315,000
Interest rate caps	2	\$203,166

(a) The three interest rate swaps noted in the table above mature in January and April 2017. During the second quarter of 2016, the Company entered into four forward starting interest rate swaps, with an aggregate notional amount of \$315.0 million, which are effective in January and April 2017 and mature in January 2020.

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 GAAP.

Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in an adjustment to earnings of less than \$0.1 million for the three and six months ended June 30, 2016 and

2015.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

As of June 30, 2016, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	3	\$133,107

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

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Asset Derivatives (included in Other assets)		Liability Derivatives (included in Other liabilities)	
	Fair Value at: June 30, 2016	December 31, 2015	Fair Value at: June 30, 2016	December 31, 2015

Derivatives designated as hedging instruments:

Interest rate products	\$ 2	\$ 9	\$3,554	\$ 2,112
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Derivatives not designated as hedging instruments:

Interest rate products	\$ 1	\$ 4	\$—	\$ —
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Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Unrealized holding gain/(loss) in OCI (Effective Portion)	Gain/(Loss) Recognized Accumulated OCI into Interest expense (Effective Portion)	Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
			2016	2015
Derivatives in Cash Flow Hedging Relationships	2016	2015	2016	2015
Three Months Ended June 30,				
Interest rate products	\$(1,963)	\$6,186	\$(943)	\$(292)
Six Months Ended June 30,				
Interest rate products	\$(2,774)	\$(1,366)	\$(1,878)	\$(1,029)

	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
Derivatives Not Designated as Hedging Instruments	2016	2015

Three Months Ended June 30,	
Interest rate products	\$ (3) \$ (22)
Six Months Ended June 30,	
Interest rate products	\$ (3) \$ (24)

Credit-risk-related Contingent Features

The Company has agreements with some of its derivative counterparties that contain a provision where (1) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations; or (2) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

Certain of the Company's agreements with its derivative counterparties contain provisions where, if there is a change in the Company's financial condition that materially changes the Company's creditworthiness in an adverse manner, the Company may be required to fully collateralize its obligations under the derivative instrument.

The Company also has an agreement with a derivative counterparty that incorporates the loan and financial covenant provisions of the Company's indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with these covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

The Company has certain agreements with some of its derivative counterparties that contain a provision where, in the event of default by the Company or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative agreement, the failure to comply with or perform under the derivative agreement, bankruptcy, a merger without assumption of the derivative agreement, or in a merger, a surviving entity's creditworthiness is materially weaker than the original party to the derivative agreement.

As of June 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.8 million. As of June 30, 2016, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at June 30, 2016, it may have been required to settle its obligations under the agreements at their termination value of \$3.8 million.

Tabular Disclosure of Offsetting Derivatives

Company has elected not to offset derivative positions in the consolidated financial statements. The tables below present the effect on its financial position had the Company made the election to offset its derivative positions as of June 30, 2016 and December 31, 2015 (dollars in thousands):

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2016	\$ 3	\$	—\$ 3	\$ —	\$		—\$ 3
December 31, 2015	\$ 13	\$	—\$ 13	\$ —	\$		—\$ 13

(a) Amounts reconcile to the aggregate fair value of derivative assets in the "Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet" located in this footnote.

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Posted	Net Amount
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June 30, 2016 \$ 3,554 \$ —\$ 3,554 \$ — \$ —\$ 3,554

December 31, 2015 \$ 2,112 \$ —\$ 2,112 \$ — \$ —\$ 2,112

(a) Amounts reconcile to the aggregate fair value of derivative liabilities in the “Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet” located in this footnote.

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Table of Contents**11. STOCK BASED COMPENSATION**

The Company recognized stock based compensation expense, inclusive of awards granted to our independent directors, net of capitalization, of \$3.2 million and \$4.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$7.1 million and \$9.1 million during the six months ended June 30, 2016 and 2015, respectively.

12. COMMITMENTS AND CONTINGENCIES**Commitments****Real Estate Under Development**

The following summarizes the Company's real estate commitments at June 30, 2016 (dollars in thousands):

	Number of Properties	Costs Incurred to Date (a)	Expected Costs to Complete	Average Ownership Stake	
Wholly-owned — under development		\$238,938	(b)\$469,562	100	%
Wholly-owned — redevelopment	4	20,752	(b)24,648	100	%
Joint ventures:					
Unconsolidated joint ventures	5	614,300	88,086	(c)50	%
Participating loan investments	1	93,902	(d)—	0	%
Preferred equity investments	2	57,874	(e)—	48	%
		\$1,025,766	\$582,296		

(a) Represents 100% of project costs incurred as of June 30, 2016.

(b) Costs incurred to date include \$28.4 million and \$5.1 million of accrued fixed assets for development and redevelopment, respectively.

(c) Represents UDR's proportionate share of expected remaining costs to complete.

(d) Represents the participating loan balance funded as of June 30, 2016.

(e) Represents UDR's upfront investment contributed to the West Coast Development Joint Venture for the properties under development as of June 30, 2016.

Contingencies**Litigation and Legal Matters**

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. The Company believes that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on our financial condition, results of operations or cash flow.

13. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments. UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. UDR's chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

UDR's two reportable segments are Same-Store Communities and Non-Mature Communities/Other:

Same-Store Communities represent those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped properties, and the non-apartment components of mixed use properties.

Management evaluates the performance of each of our apartment communities on a Same-Store Community and Non-Mature Community/Other basis, as well as individually and geographically. This is consistent with the aggregation criteria under GAAP as each of our apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Company's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the three and six months ended June 30, 2016 and 2015.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

The following table details rental income and NOI for UDR's reportable segments for the three and six months ended June 30, 2016 and 2015, and reconciles NOI to Net Income/(Loss) Attributable to UDR, Inc. in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended June 30, (a)		Six Months Ended June 30, (b)	
	2016	2015	2016	2015
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	\$75,060	\$69,510	\$147,423	\$135,777
Mid-Atlantic Region	41,706	41,041	82,910	81,418
Northeast Region	32,490	30,935	64,560	61,230
Southeast Region	27,702	25,844	54,839	51,126
Southwest Region	13,285	12,697	26,428	25,171
Non-Mature Communities/Other	45,925	32,737	91,965	65,089
Total consolidated rental income	\$236,168	\$212,764	\$468,125	\$419,811
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	\$55,265	\$51,781	\$109,541	\$100,718
Mid-Atlantic Region	29,301	28,456	57,357	55,989
Northeast Region	23,677	22,408	46,609	43,941
Southeast Region	19,081	17,426	37,877	34,312
Southwest Region	8,187	8,078	16,415	15,702
Non-Mature Communities/Other	31,804	22,283	63,650	43,345
Total consolidated NOI	167,315	150,432	331,449	294,007
Reconciling items:				
Joint venture management and other fees	2,618	3,098	5,476	15,804
Property management	(6,494)	(5,851)	(12,873)	(11,545)
Other operating expenses	(1,892)	(1,769)	(3,644)	(3,535)
Real estate depreciation and amortization	(105,937)	(90,344)	(211,276)	(179,121)
General and administrative	(10,835)	(13,721)	(24,679)	(25,873)
Casualty-related recoveries/(charges), net	(1,629)	(843)	(1,629)	(1,839)
Other depreciation and amortization	(1,486)	(1,700)	(3,039)	(3,323)
Income/(loss) from unconsolidated entities	325	(573)	1,004	58,586
Interest expense	(30,678)	(29,673)	(61,782)	(58,473)
Interest income and other income/(expense), net	540	382	971	742
Tax benefit/(provision), net	402	1,404	805	1,829
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	\$17,946	\$86,855	\$28,339	\$160,677

(a) Same-Store Community population consisted of 34,179 apartment homes.

(b) Same-Store Community population consisted of 34,017 apartment homes.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

JUNE 30, 2016

The following table details the assets of UDR's reportable segments as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	\$2,778,642	\$ 2,766,939
Mid-Atlantic Region	1,532,799	1,522,868
Northeast Region	1,629,365	1,621,555
Southeast Region	737,292	730,060
Southwest Region	387,874	384,487
Non-Mature Communities/Other	2,246,440	2,164,367
Total segment assets	9,312,412	9,190,276
Accumulated depreciation	(2,842,273)	(2,646,874)
Total segment assets — net book value	6,470,139	6,543,402
Reconciling items:		
Cash and cash equivalents	5,167	6,742
Restricted cash	20,524	20,798
Funds held in escrow from Internal Revenue Code Section 1031 exchanges	34,732	—
Notes receivable, net	19,694	16,694
Investment in and advances to unconsolidated joint ventures, net	933,403	938,906
Other assets	126,423	137,302
Total consolidated assets	\$7,610,082	\$ 7,663,844

Capital expenditures related to our Same-Store Communities totaled \$24.3 million and \$18.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$37.5 million and \$30.6 million for the six months ended June 30, 2016 and 2015, respectively. Capital expenditures related to our Non-Mature Communities/Other totaled \$1.7 million and \$3.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$4.1 million and \$7.1 million for the six months ended June 30, 2016 and 2015, respectively.

Markets included in the above geographic segments are as follows:

- i. West Region — Orange County, San Francisco, Seattle, Los Angeles, Monterey Peninsula, Other Southern California, and Portland
- ii. Mid-Atlantic Region — Metropolitan D.C., Baltimore, and Richmond
- iii. Northeast Region — New York and Boston
- iv. Southeast Region — Orlando, Tampa, Nashville, and Other Florida
- v. Southwest Region — Dallas and Austin

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UNITED DOMINION REALTY, L.P.
CONSOLIDATED BALANCE SHEETS
(In thousands, except for unit data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$3,664,728	\$3,630,905
Less: accumulated depreciation	(1,353,616)	(1,281,258)
Total real estate owned, net of accumulated depreciation	2,311,112	2,349,647
Cash and cash equivalents	1,535	3,103
Restricted cash	11,659	11,344
Investment in unconsolidated entities	134,823	166,186
Other assets	23,864	24,528
Total assets	\$2,482,993	\$2,554,808
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	\$446,009	\$475,964
Notes payable due to General Partner	273,334	273,334
Real estate taxes payable	5,232	2,775
Accrued interest payable	1,371	1,550
Security deposits and prepaid rent	16,616	15,929
Distributions payable	54,196	50,962
Accounts payable, accrued expenses, and other liabilities	16,639	12,964
Total liabilities	813,397	833,478
Commitments and contingencies (Note 10)		
Capital:		
Partners' capital:		
General partner:		
110,883 OP Units outstanding at June 30, 2016 and December 31, 2015	1,054	1,110
Limited partners:		
183,167,815 OP Units outstanding at June 30, 2016 and December 31, 2015	1,619,927	1,712,415
Accumulated other comprehensive income/(loss), net	(113)	(113)
Total partners' capital	1,620,868	1,713,412
Advances (to)/from General Partner	26,875	(11,270)
Noncontrolling interests	21,853	19,188
Total capital	1,669,596	1,721,330
Total liabilities and capital	\$2,482,993	\$2,554,808
See accompanying notes to the consolidated financial statements.		

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per unit data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Rental income	\$ 100,892	\$ 113,158	\$ 199,678	\$ 223,253
OPERATING EXPENSES:				
Property operating and maintenance	15,838	19,065	31,898	38,179
Real estate taxes and insurance	10,396	11,810	20,570	24,676
Property management	2,775	3,112	5,492	6,139
Other operating expenses	1,519	1,496	3,019	2,986
Real estate depreciation and amortization	37,053	44,100	73,844	88,578
General and administrative	3,844	7,032	9,265	12,671
Casualty-related (recoveries)/charges, net	465	280	465	873
Total operating expenses	71,890	86,895	144,553	174,102
Operating income	29,002	26,263	55,125	49,151
Income/(loss) from unconsolidated entities	(10,030)	—	(23,417)	—
Interest expense	(4,525)	(9,757)	(9,077)	(19,377)
Interest expense on note payable due to General Partner	(3,053)	(1,151)	(6,106)	(2,302)
Income/(loss) from continuing operations	11,394	15,355	16,525	27,472
Gain/(loss) on sale of real estate owned	—	32,375	—	56,998
Net income/(loss)	11,394	47,730	16,525	84,470
Net (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Net income/(loss) attributable to OP unitholders	\$ 11,044	\$ 47,383	\$ 15,831	\$ 83,729
Income/(loss) per weighted average OP Unit - basic and diluted	\$ 0.06	\$ 0.26	\$ 0.09	\$ 0.46
Weighted average OP Units outstanding - basic and diluted	183,279	183,279	183,279	183,279
See accompanying notes to the consolidated financial statements.				

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income/(loss)	\$ 11,394	\$ 47,730	\$ 16,525	\$ 84,470
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(1)	(26)	(3)	(77)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	2	267	3	553
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	1	241	—	476
Comprehensive income/(loss)	11,395	47,971	16,525	84,946
Comprehensive (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Comprehensive income/(loss) attributable to OP unitholders	\$ 11,045	\$ 47,624	\$ 15,831	\$ 84,205

See accompanying notes to consolidated financial statements.

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL
(In thousands)
(Unaudited)

	Class A Limited Partners	Limited Partners	UDR, Inc. Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss) net	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
Balance at December 31, 2015	\$64,409	\$268,481	\$1,379,525	\$1,110	\$(113)	\$1,713,412	\$(11,270)	\$19,188	\$1,721,330
Net income/(loss)	151	631	15,039	10	—	15,831	—	694	16,525
Distributions OP Unit	(1,164)	(4,408)	(102,737)	(66)	—	(108,375)	—	—	(108,375)
Redemptions for common shares of UDR	—	(81)	81	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	1,276	4,875	(6,151)	—	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	—	—	—	—	—	—	1,971	1,971
Net change in advances (to)/from General Partner	—	—	—	—	—	—	38,145	—	38,145
Balance at June 30, 2016	\$64,672	\$269,498	\$1,285,757	\$1,054	\$(113)	\$1,620,868	\$26,875	\$21,853	\$1,669,596

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except for unit data)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income/(loss)	\$ 16,525	\$ 84,470
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	73,844	88,578
(Gain)/loss on sale of real estate owned	—	(56,998)
(Income)/loss from unconsolidated entities	23,417	—
Other	1,176	524
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(1,521)	(341)
Increase/(decrease) in operating liabilities	2,509	(976)
Net cash provided by/(used in) operating activities	115,950	115,257
Investing Activities		
Proceeds from sale of real estate investments, net	—	27,718
Development of real estate assets	—	(7,740)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(30,117)	(25,487)
Distributions received from unconsolidated entities	7,946	—
Net cash provided by/(used in) investing activities	(22,171)	(5,509)
Financing Activities		
Advances from/(to) General Partner, net	(59,922)	(102,378)
Payments on secured debt	(30,322)	(2,588)
Distributions paid to partnership unitholders	(5,103)	(5,120)
Net cash provided by/(used in) financing activities	(95,347)	(110,086)
Net increase/(decrease) in cash and cash equivalents	(1,568)	(338)
Cash and cash equivalents, beginning of period	3,103	502
Cash and cash equivalents, end of period	\$ 1,535	\$ 164
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	\$ 11,296	\$ 23,296
Non-cash transactions:		
Development costs and capital expenditures incurred but not yet paid	\$ 7,020	\$ 5,200
LTIP Unit grants	\$ 1,971	\$ —
See accompanying notes to the consolidated financial statements.		

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

1. CONSOLIDATION AND BASIS OF PRESENTATION

Basis of Presentation

United Dominion Realty, L.P. (“UDR, L.P.,” the “Operating Partnership,” “we” or “our”) is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. (“UDR” or the “General Partner”), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three months ended June 30, 2016 and 2015, rental revenues of the Operating Partnership represented 43% and 53%, respectively, and for the six months ended June 30, 2016 and 2015, 43% and 53%, respectively, of the General Partner’s consolidated rental revenues. As of June 30, 2016, the Operating Partnership’s apartment portfolio consisted of 56 communities located in 14 markets consisting of 16,974 apartment homes.

Interests in UDR, L.P. are represented by operating partnership units (“OP Units”). The Operating Partnership’s net income is allocated to the partners, which is initially based on their respective distributions made during the year and secondly, their percentage interests. Distributions are made in accordance with the terms of the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. (the “Operating Partnership Agreement”), on a per unit basis that is generally equal to the dividend per share on UDR’s common stock, which is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “UDR.”

As of June 30, 2016, there were 183,278,698 OP Units outstanding, of which 174,227,479 or 95.1% were owned by UDR and affiliated entities and 9,051,219 or 4.9% were owned by non-affiliated limited partners. See Note 9, Capital Structure.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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 June 30, 2016, and results of operations for the three and six months ended June 30, 2016 and 2015 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, 2015 included in the Annual Report on Form 10-K filed by UDR and the Operating Partnership with the SEC on February 23, 2016.

The accompanying interim unaudited consolidated 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 intercompany accounts and transactions have been eliminated in consolidation.

The Operating Partnership evaluated subsequent events through the date its financial statements were issued. No recognized or non-recognized subsequent events were noted.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the Operating Partnership on January 1, 2020; early adoption is permitted on January 1, 2019. The Operating Partnership is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU aims to simplify the accounting for share-based payments by amending the accounting for forfeitures, statutory tax withholding requirements, classification in the statements of cash flow and income taxes. The updated standard will be effective for the Operating Partnership on January 1, 2017, with early adoption permitted. The update requires a prospective, retrospective or modified retrospective approach, depending on the type of amendment. The Operating Partnership is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Operating Partnership on January 1, 2019, with early adoption permitted. The Operating Partnership is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model of consolidation. Under ASU 2015-02, companies will need to re-evaluate whether an entity meets the criteria to be considered a variable interest entity ("VIE") or whether the consolidation of an entity should be assessed under the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard was effective for the Operating Partnership beginning on January 1, 2016. The adoption of the new standard did not result in the consolidation of entities not previously consolidated or the deconsolidation of any entities previously consolidated. Upon adopting the new standard, UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership") became a VIE as the limited partners lack substantive kick-out rights and substantive participating rights. The Operating Partnership is not the primary beneficiary of the DownREIT Partnership and will continue to account for its interest as an equity method investment.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically

excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Operating Partnership on January 1, 2018; early adoption is permitted on January 1, 2017. The Operating Partnership has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

Principles of Consolidation

The Operating Partnership accounts for subsidiary partnerships, joint ventures and other similar entities in which it holds an ownership interest in accordance with the amended consolidation guidance. The Operating Partnership first evaluates whether each entity is a VIE. Under the VIE model, the Operating Partnership consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Operating Partnership consolidates an entity when it controls the entity through ownership of a majority voting interest.

Discontinued Operations

In accordance with GAAP, a discontinued operation represents (1) a component of an entity or group of components that has been disposed of or is classified as held for sale in a single transaction and represents a strategic shift that has or will have a major effect on an entity's financial results, or (2) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of (1) a separate major line of business, (2) a separate major geographic area of operations, (3) a major equity method investment, or (4) other major parts of an entity.

We record sales of real estate that do not meet the definition of a discontinued operation in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations.

Income/(Loss) Per Operating Partnership Unit

Basic income/(loss) per OP Unit is computed by dividing net income/(loss) attributable to the general and limited partner unitholders by the weighted average number of general and limited partner units outstanding during the year. Diluted income/(loss) per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units or resulted in the issuance of OP Units and then shared in the income/(loss) of the Operating Partnership.

Revenue and Real Estate Sales Gain Recognition

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

For sale transactions meeting the requirements for full accrual profit recognition, 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 or our General Partner 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 or our General Partner retain. The Operating Partnership recognizes any deferred gain when the property is sold to a third party. In transactions accounted for 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.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to unitholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2016 and 2015, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 8, Derivatives and Hedging Activity, for further discussion.

Income Taxes

The taxable income or loss of the Operating Partnership is reported on the tax returns of the partners. Accordingly, no provision has been made in the accompanying financial statements for federal or state income taxes on income that is passed through to the partners. However, any state or local revenue, excise or franchise taxes that result from the operating activities of the Operating Partnership are recorded at the entity level. The Operating Partnership's tax returns are subject to examination by federal and state taxing authorities. Net income for financial reporting purposes differs from the net income for income tax reporting purposes primarily due to temporary differences, principally real estate depreciation and the tax deferral of certain gains on property sales. The differences in depreciation result from differences in the book and tax basis of certain real estate assets and the differences in the methods of depreciation and lives of the real estate assets.

The Operating Partnership evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Operating Partnership's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Management of the Operating Partnership is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. The Operating Partnership has no examinations in progress and none are expected at this time.

Management of the Operating Partnership has reviewed all open tax years (2011 through 2014) of tax jurisdictions and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2016, the Operating Partnership owned and consolidated 56 communities in eight states plus the District of Columbia totaling 16,974 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Land	\$835,686	\$ 833,300
Depreciable property — held and used:		
Buildings, improvements, and furniture, fixture and equipment	2,829,042	2,797,605
Real estate owned	3,664,728	3,630,905
Accumulated depreciation	(1,353,616)	(1,281,258)
Real estate owned, net	\$2,311,112	\$ 2,349,647

The Operating Partnership did not have any acquisitions or sales of real estate during the six months ended June 30, 2016.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Operating Partnership capitalizes

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were \$0.3 million and \$0.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.6 million and \$0.3 million for the six months ended June 30, 2016 and 2015, respectively. Total interest capitalized was less than \$0.1 million for the three months ended June 30, 2016 and 2015, and \$0.2 million and less than \$0.1 million for the six months ended June 30, 2016 and 2015, respectively. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. UNCONSOLIDATED ENTITIES

The Operating Partnership's investment in the DownREIT Partnership is accounted for under the equity method of accounting and is included in Investment in unconsolidated entities on the Consolidated Balance Sheets. The Operating Partnership recognizes earnings or losses from its investments in unconsolidated entities consisting of our share of the net earnings or losses of the partnership in accordance with the partnership agreement.

Upon adopting ASU 2015-02, the DownREIT Partnership became a VIE as the limited partners lack substantive kick-out rights and substantive participating rights. The Operating Partnership is not the primary beneficiary of the DownREIT Partnership as it lacks the power to direct the activities that most significantly impact its economic performance and will continue to account for its interest as an equity method investment. See Note 2, Significant Accounting Policies.

As of June 30, 2016, the DownREIT Partnership operated 13 communities with 6,261 apartment homes. The Operating Partnership's investment in the DownREIT Partnership was \$134.8 million and \$166.2 million as of June 30, 2016 and December 31, 2015, respectively.

Combined summary balance sheets relating to all of the DownREIT Partnership (not just our proportionate share) are presented below as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total real estate, net	\$ 1,432,291	\$ 1,457,244
Cash and cash equivalents	—	89
Other assets	15,334	37,228
Note receivable from affiliate	126,500	126,500
Amount due from UDR	—	35,293
Total assets	\$ 1,574,125	\$ 1,656,354
Secured debt, net	443,639	524,052
Amount due to UDR	45,348	—
Accounts payable and accrued liabilities	26,315	25,487
Total liabilities	515,302	549,539
Total equity	1,058,823	1,106,815

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Total liabilities and equity	\$1,574,125	\$ 1,656,354
OP's investment in the DownREIT Partnership	\$ 134,823	\$ 166,186

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Combined summary financial information relating to all of the DownREIT Partnership (not just our proportionate share) is presented below for the three and six months ended June 30, 2016 (dollars in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Rental income	\$32,646	\$64,263
Property operating and maintenance	(11,084)	(22,441)
Real estate depreciation and amortization	(30,308)	(60,361)
Operating income/(loss)	(8,746)	(18,539)
Interest expense	(3,524)	(7,265)
Other income/(expense)	(1,358)	(3,090)
Net income/(loss)	\$(13,628)	\$(28,894)
OP's income/(loss) from unconsolidated entities	\$(10,030)	\$(23,417)

There is no financial information presented for the three and six months ended June 30, 2015 as the DownREIT Partnership was formed in the fourth quarter of 2015.

5. DEBT, NET

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 in 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 Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2016		Number of Communities Encumbered
	June 30, 2016	December 31, 2015	Weighted Average Interest Rate	Weighted Average Years to Maturity	
Fixed Rate Debt					
Mortgage notes payable	\$—	\$ 30,132	N/A	—	—
Fannie Mae credit facilities	250,638	250,828	5.08%	3.2	8
Deferred financing costs	(1,296)	(1,627)			
Total fixed rate secured debt, net	249,342	279,333	5.08%	3.2	8
Variable Rate Debt					
Tax-exempt secured note payable	27,000	27,000	1.18%	15.7	1
Fannie Mae credit facilities	170,203	170,203	2.12%	4.2	6
Deferred financing costs	(536)	(572)			
Total variable rate secured debt, net	196,667	196,631	1.99%	5.8	7
Total Secured Debt, net	\$446,009	\$ 475,964	3.86%	4.3	15

As of June 30, 2016, an aggregate commitment of \$420.8 million of the General Partner's secured credit facilities with Fannie Mae was allocated to the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, \$250.6 million of the

outstanding balance was fixed

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and had a weighted average interest rate of 5.08% and the remaining balance of \$170.2 million on these facilities had a weighted average variable interest rate of 2.12%.

The following information relates to the credit facilities allocated to the Operating Partnership (dollars in thousands):

	June 30, 2016	December 31, 2015		
Borrowings outstanding	\$420,841	\$ 421,031		
Weighted average borrowings during the period ended	421,251	425,522		
Maximum daily borrowings during the period	421,661	431,462		
Weighted average interest rate during the period ended	3.8	% 3.8	%	%
Interest rate at the end of the period	3.9	% 3.8	%	%

The Operating Partnership may 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 Operating Partnership did not have any unamortized fair value adjustments associated with the fixed rate debt instruments on the Operating Partnership's properties.

Fixed Rate Debt

Secured credit facilities. At June 30, 2016, the General Partner had borrowings against its fixed rate facilities of \$512.6 million, of which \$250.6 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2016, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 5.08%.

Variable Rate Debt

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures March 2032. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 1.18% as of June 30, 2016.

Secured credit facilities. At June 30, 2016, the General Partner had borrowings against its variable rate facilities of \$299.4 million, of which \$170.2 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2016, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 2.12%.

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The aggregate maturities of the Operating Partnership's secured debt due during each of the next ten calendar years subsequent to June 30, 2016 are as follows (dollars in thousands):

Year	Fixed	Variable	Secured Credit Facilities	Total
	Secured Credit Facilities	Tax-Exempt Secured Notes Payable		
2016	\$ 195	\$—	\$—	\$ 195
2017	15,640	—	6,566	22,206
2018	48,872	—	96,327	145,199
2019	123,095	—	—	123,095
2020	62,836	—	—	62,836
2021	—	—	—	—
2022	—	—	—	—
2023	—	—	67,310	67,310
2024	—	—	—	—
2025	—	—	—	—
Thereafter	—	27,000	—	27,000
Subtotal	250,638	27,000	170,203	447,841
Non-cash (a)	(1,296)	(89)	(447)	(1,832)
Total	\$249,342	\$26,911	\$169,756	\$446,009

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended June 30, 2016 and 2015, the Operating Partnership amortized \$0.1 million and \$0.4 million, respectively, and \$0.3 million and \$0.7 million for the six months ended June 30, 2016 and 2015, respectively, of deferred financing costs into Interest expense.

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of \$1.1 billion, \$300 million of medium-term notes due June 2018, \$300 million of medium-term notes due October 2020, a \$350 million term loan facility due January 2021, \$400 million of medium-term notes due January 2022, \$300 million of medium-term notes due July 2024 and \$300 million of medium-term notes due October 2025. As of June 30, 2016 and December 31, 2015, the outstanding balance under the unsecured revolving credit facility was \$255.0 million and \$150.0 million, respectively.

6. RELATED PARTY TRANSACTIONS**Advances (To)/From the General Partner**

The Operating Partnership participates in the General Partner's central cash management program, wherein all the Operating Partnership's cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net Advances (to)/from General Partner of \$26.9 million and \$(11.3) million at June 30, 2016 and December 31, 2015, respectively, which are reflected as decreases of capital on the Consolidated Balance Sheets.

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Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR's total apartment homes. The general and administrative expenses allocated to the Operating Partnership by UDR were \$2.9 million and \$5.7 million during the three months ended June 30, 2016 and 2015, respectively, and \$7.5 million and \$9.9 million during the six months ended June 30, 2016 and 2015, respectively, and are included in General and administrative on the Consolidated Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the three months ended June 30, 2016 and 2015, the Operating Partnership incurred \$3.7 million and \$4.3 million, respectively, and during the six months ended June 30, 2016 and 2015, the Operating Partnership incurred \$7.3 million and \$8.6 million, respectively, of related party management fees related to a management agreement entered into in 2011 with wholly-owned subsidiaries of UDR's taxable REIT subsidiaries ("TRS") (See further discussion in paragraph below). These related party management fees are initially recorded in General and administrative on the Consolidated Statements of Operations, and a portion related to management fees charged by UDR's TRS is reclassified to Property management on the Consolidated Statements of Operations. (See further discussion below.)

Management Fee

In 2011, the Operating Partnership entered into a management agreement with wholly owned subsidiaries of UDR's TRSs. Under the management agreement, the Operating Partnership is charged a management fee equal to 2.75% of gross rental revenues, which is classified in Property management on the Consolidated Statements of Operations.

Notes Payable to General Partner

As of June 30, 2016 and December 31, 2015, the Operating Partnership had \$273.3 million of unsecured notes payable to the General Partner at annual interest rates between 4.12% and 5.34%. Certain limited partners of the Operating Partnership have provided guarantees related to these notes payable. The guarantees were provided by the limited partners in conjunction with their contribution of properties to the Operating Partnership. The notes mature on August 31, 2021, December 31, 2023 and April 1, 2026, and interest payments are made monthly. The Operating Partnership recognized interest expense on the notes payable of \$3.1 million and \$1.2 million during the three months ended June 30, 2016 and 2015, respectively, and \$6.1 million and \$2.3 million during the six months ended June 30, 2016 and 2015, respectively.

7. 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 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.

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JUNE 30, 2016

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of June 30, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

Description:	Total Carrying Amount in Statement of Financial Position at June 30, 2016	Fair Value Estimate at June 30, 2016	Fair Value at June 30, 2016, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)		
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Derivatives - Interest rate contracts (a)	\$ 2	\$ 2	\$—	2	\$ —
Total assets	\$ 2	\$ 2	\$—	2	\$ —
Secured debt instruments - fixed rate: (b)					
Fannie Mae credit facilities	\$ 250,638	\$ 267,526	\$—	—	\$ 267,526
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	170,203	170,203	—	—	170,203
Total liabilities	\$ 447,841	\$ 464,729	\$—	—	\$ 464,729
Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2015	Fair Value Estimate at December 31, 2015	Fair Value at December 31, 2015, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)		
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Derivatives - Interest rate contracts (a)	\$ 8	\$ 8	\$—	8	\$ —
Total assets	\$ 8	\$ 8	\$—	8	\$ —

Secured debt instruments - fixed rate: (b)					
Mortgage notes payable	\$ 30,132	\$ 30,308	\$- \$	—	\$ 30,308
Fannie Mae credit facilities	250,828	263,070	—		263,070
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	—		27,000
Fannie Mae credit facilities	170,203	170,203	—		170,203
Total liabilities	\$ 478,163	\$ 490,581	\$- \$	—	\$ 490,581

(a) See Note 8, Derivatives and Hedging Activity.

(b) See Note 5, Debt, Net.

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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 General Partner, on behalf of the Operating Partnership, 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 Operating Partnership has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the General Partner, on behalf of the Operating Partnership, 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 of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2016 and December 31, 2015, the Operating Partnership 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 Operating Partnership 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 Operating Partnership 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.

Financial Instruments Not Carried at Fair Value

As of June 30, 2016, 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 Operating Partnership 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 Operating Partnership 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.

Fair value of our debt instruments is estimated 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 (Level 3).

The Operating Partnership records 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. Cash flow estimates are based upon historical results adjusted to reflect management's 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. The General Partner's estimates of fair value represent management's estimates based upon Level 3 inputs such as industry trends and reference to market rates and transactions.

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8. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

The Operating Partnership is exposed to certain risks arising from both its business operations and economic conditions. The General Partner principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The General Partner 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 General Partner enters 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 General Partner's and the Operating Partnership's derivative financial instruments are used to manage differences in the amount, timing, and duration of the General Partner's known or expected cash payments principally related to the General Partner's borrowings.

Cash Flow Hedges of Interest Rate Risk

The General Partner'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 General Partner 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 General Partner 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.

A portion of the General Partner's interest rate derivatives have been allocated to the Operating Partnership based on the General Partner's underlying debt instruments allocated to the Operating Partnership. (See Note 5, Debt, Net.) 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), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2016 and 2015, 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. The Operating Partnership recorded no gain or loss from ineffectiveness during the three and six months ended June 30, 2016 and 2015.

Amounts reported in Accumulated other comprehensive income/(loss), net related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner's variable-rate debt that is allocated to the Operating Partnership. Through June 30, 2017, we estimate that less than \$0.1 million will be reclassified as an increase to interest expense.

As of June 30, 2016, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate caps	1	\$96,327

Derivatives not designated as hedges are not speculative and are used to manage the Operating Partnership's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in an adjustment to earnings of less than \$0.1 million for the three and six months ended June 30, 2016 and 2015.

Three Months Ended June 30,	
Interest rate products	\$ (3) \$ (22)
Six Months Ended June 30,	
Interest rate products	\$ (3) \$ (23)

Credit-risk-related Contingent Features

The General Partner has agreements with some of its derivative counterparties that contain a provision where (1) if the General Partner defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the General Partner could also be declared in default on its derivative obligations; or (2) the

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General Partner could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the General Partner's default on the indebtedness.

Certain of the General Partner's agreements with its derivative counterparties contain provisions where if there is a change in the General Partner's financial condition that materially changes the General Partner's creditworthiness in an adverse manner, the General Partner may be required to fully collateralize its obligations under the derivative instrument. At June 30, 2016 and December 31, 2015, no cash collateral was posted or required to be posted by the General Partner or by a counterparty.

The General Partner also has an agreement with a derivative counterparty that incorporates the loan and financial covenant provisions of the General Partner's indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with these covenant provisions would result in the General Partner being in default on any derivative instrument obligations covered by the agreement.

The General Partner has certain agreements with some of its derivative counterparties that contain a provision where in the event of default by the General Partner or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative agreement, the failure to comply with or perform under the derivative agreement, bankruptcy, a merger without assumption of the derivative agreement, or in a merger, a surviving entity's creditworthiness is materially weaker than the original party to the derivative agreement.

As of June 30, 2016, the fair value of derivatives in a net liability position that were allocated to the Operating Partnership, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was zero.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

The General Partner has elected not to offset derivative positions in the consolidated financial statements. The table below presents the effect on the Operating Partnership's financial position had the General Partner made the election to offset its derivative positions as of June 30, 2016 and December 31, 2015:

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2016	\$ 2	\$	—\$ 2	\$ —	\$	—\$ 2
December 31, 2015	\$ 8	\$	—\$ 8	\$ —	\$	—\$ 8

(a) Amounts reconcile to the aggregate fair value of derivative assets in the “Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet” located in this footnote.

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (b)	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments	Cash Collateral Posted	Net Amount
June 30, 2016	\$	—\$	—\$	—\$	\$	—\$ —
December 31, 2015	\$	—\$	—\$	—\$	\$	—\$ —

(b) Amounts reconcile to the aggregate fair value of derivative liabilities in the “Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet” located in this footnote.

9. CAPITAL STRUCTURE

General Partnership Units

The General Partner has complete discretion to manage and control the operations and business of the Operating Partnership, which includes but is not limited to the acquisition and disposition of real property, construction of buildings and making capital improvements, and the borrowing of funds from outside lenders or UDR and its subsidiaries to finance such activities. The General Partner can generally authorize, issue, sell, redeem or purchase any OP Unit or securities of the Operating Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of OP Units, the class or one or more series of classes, with designations, preferences, participating, optional or other special rights, powers and duties including rights, powers and duties senior to limited partnership interests without approval of any limited partners except holders of Class A Limited Partnership Units. There were 110,883 General Partnership units outstanding at June 30, 2016 and December 31, 2015, all of which were held by UDR.

Limited Partnership Units

As of June 30, 2016 and December 31, 2015, there were 183,167,815 limited partnership units outstanding, of which 1,873,332 were Class A Limited Partnership Units. UDR owned 174,116,596, or 95.1%, of OP Units outstanding at June 30, 2016 and December 31, 2015, of which 121,661 were Class A Limited Partnership Units. The remaining 9,051,219, or 4.9%, of OP Units outstanding were held by non-affiliated partners at June 30, 2016 and December 31, 2015, of which 1,751,671 were Class A Limited Partnership Units.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

Subject to the terms of the Operating Partnership Agreement, the 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 Operating Partnership Agreement), provided that such OP Units have been outstanding for at least one year. UDR, as 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 UDR for each OP Unit), as defined in the Operating Partnership Agreement.

The non-affiliated limited partners' capital is adjusted to redemption value at the end of each reporting period with the corresponding offset against UDR's limited partner capital account based on the redemption rights noted above. The aggregate value upon redemption of the then-outstanding OP Units held by limited partners was \$334.2 million and \$340.1 million as of June 30, 2016 and December 31, 2015, respectively, based on the value of UDR's common stock at each period end. A limited partner has no right to receive any distributions from the Operating Partnership on or after the date of redemption of its OP Units.

Class A Limited Partnership Units

Class A Limited Partnership Units have a cumulative, annual, non-compounded preferred return, which is equal to 8% based on a value of \$16.61 per Class A Limited Partnership Unit.

Holders of the Class A Limited Partnership Units exclusively possess certain voting rights. The Operating Partnership may not do the following without approval of the holders of the Class A Limited Partnership Units: (i) increase the authorized or issued amount of Class A Limited Partnership Units, (ii) reclassify any other partnership interest into Class A Limited Partnership Units, (iii) create, authorize or issue any obligations or security convertible into or the right to purchase any Class A Limited Partnership units, (iv) enter into a merger or acquisition, or (v) amend or modify the Operating Partnership Agreement in a manner that adversely affects the relative rights, preferences or privileges of the Class A Limited Partnership Units.

LTIP Units

UDR grants long-term incentive plan units ("LTIP Units") to certain employees and non-employee directors. The LTIP Units represent an ownership interest in the Operating Partnership and have voting and distribution rights consistent with OP Units. The LTIP Units are subject to the terms of UDR's long-term incentive plan.

Two classes of LTIP Units are granted, Class 1 LTIP Units and Class 2 LTIP Units. Class 1 LTIP Units are granted to non-employee directors and vest after one year. Class 2 LTIP Units are granted to certain employees and vest over a period from one to three years subject to certain performance and market conditions being achieved. Vested LTIP Units may be converted into OP Units provided that such LTIP Units have been outstanding for at least two years from the date of grant.

Allocation of Profits and Losses

Profit of the Operating Partnership is allocated in the following order: (i) to the General Partner and the Limited Partners in proportion to and up to the amount of cash distributions made during the year, and (ii) to the General Partner and Limited Partners in accordance with their percentage interests. Losses and depreciation and amortization expenses, non-recourse liabilities are allocated to the General Partner and Limited Partners in accordance with their percentage interests. Losses allocated to the Limited Partners are capped to the extent that such an allocation would not cause a deficit in the Limited Partners' capital account. Such losses are, therefore, allocated to the General Partner. If any Partner's capital balance were to fall into a deficit, any income and gains are allocated to each Partner sufficient to eliminate its negative capital balance.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

10. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Operating Partnership's real estate commitments at June 30, 2016 (dollars in thousands):

	Costs Incurred to Date (a)	Expected Costs to Complete (unaudited)
Real estate communities — redevelopment	\$ 14,351	\$ 18,649

(a) Costs incurred to date include \$3.3 million of accrued fixed assets for redevelopment.

Contingencies

Litigation and Legal Matters

The Operating Partnership is subject to various legal proceedings and claims arising in the ordinary course of business. The Operating Partnership cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. The General Partner believes that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on the Operating Partnership's financial condition, results of operations or cash flow.

11. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

The Operating Partnership owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants.

The primary financial measures of the Operating Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the chief operating decision maker's assessment of the Operating Partnership's performance on a consolidated basis. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.

The Operating Partnership's two reportable segments are Same-Store Communities and Non-Mature Communities/Other:

Same-Store Communities represent those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for the year-to-date comparison and held as of June 30, 2016. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped properties, and the non-apartment components of mixed use properties.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

Management of the General Partner evaluates the performance of each of the Operating Partnership's apartment communities on a Same-Store Community and Non-Mature Community/Other basis, as well as individually and geographically. This is consistent with the aggregation criteria under GAAP as each of the apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Operating Partnership's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the Operating Partnership's total revenues during the three and six months ended June 30, 2016 and 2015.

The following table details rental income and NOI for the Operating Partnership's reportable segments for the three and six months ended June 30, 2016 and 2015, and reconciles NOI to Net income/(loss) attributable to OP unitholders in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, (a)		June 30, (b)	
	2016	2015	2016	2015
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	\$45,493	\$41,715	\$90,095	\$82,451
Mid-Atlantic Region	10,805	10,554	21,455	20,882
Northeast Region	13,203	12,784	26,209	25,173
Southeast Region	11,918	11,175	23,615	22,172
Non-Mature Communities/Other	19,473	36,930	38,304	72,575
Total consolidated rental income	\$100,892	\$113,158	\$199,678	\$223,253
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	\$34,203	\$31,481	\$67,830	\$61,598
Mid-Atlantic Region	7,479	7,294	14,704	14,310
Northeast Region	10,406	9,972	20,463	19,657
Southeast Region	8,165	7,488	16,208	14,755
Non-Mature Communities/Other	14,405	26,048	28,005	50,078
Total consolidated NOI	74,658	82,283	147,210	160,398
Reconciling items:				
Property management	(2,775)	(3,112)	(5,492)	(6,139)
Other operating expenses	(1,519)	(1,496)	(3,019)	(2,986)
Real estate depreciation and amortization	(37,053)	(44,100)	(73,844)	(88,578)
General and administrative	(3,844)	(7,032)	(9,265)	(12,671)
Casualty-related recoveries/(charges), net	(465)	(280)	(465)	(873)
Income/(loss) from unconsolidated entities	(10,030)	—	(23,417)	—
Interest expense	(7,578)	(10,908)	(15,183)	(21,679)
Gain/(loss) on sale of real estate owned	—	32,375	—	56,998
Net (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Net income/(loss) attributable to OP unitholders	\$11,044	\$47,383	\$15,831	\$83,729

(a)Same-Store Community population consisted of 14,277 apartment homes.

(b)Same-Store Community population consisted of 14,277 apartment homes.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

JUNE 30, 2016

The following table details the assets of the Operating Partnership's reportable segments as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Reportable apartment home segment assets		
Same-Store Communities		
West Region	\$1,506,255	\$1,497,867
Mid-Atlantic Region	413,093	410,710
Northeast Region	672,588	669,082
Southeast Region	324,514	321,787
Non-Mature Communities/Other	748,278	731,459
Total assets	3,664,728	3,630,905
Accumulated depreciation	(1,353,616)	(1,281,258)
Total assets - net book value	2,311,112	2,349,647
Reconciling items:		
Cash and cash equivalents	1,535	3,103
Restricted cash	11,659	11,344
Investment in unconsolidated entities	134,823	166,186
Other assets	23,864	24,528
Total consolidated assets	\$2,482,993	\$2,554,808

Capital expenditures related to the Operating Partnership's Same-Store Communities totaled \$11.6 million and \$9.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$16.7 million and \$14.4 million for the six months ended June 30, 2016 and 2015, respectively. Capital expenditures related to the Operating Partnership's Non-Mature Communities/Other totaled \$0.5 million and \$4.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.9 million and \$7.1 million for the six months ended June 30, 2016 and 2015, respectively. Markets included in the above geographic segments are as follows:

- i. West Region — Orange County, San Francisco, Seattle, Los Angeles, Monterey Peninsula, Other Southern California, and Portland
- ii. Mid-Atlantic Region — Metropolitan D.C. and Baltimore
- iii. Northeast Region — New York and Boston
- iv. Southeast Region — Tampa, Nashville, and Other Florida

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Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as “expects,” “anticipates,” “intends,” “plans,” “likely,” “will,” “believes,” “seeks,” “estimates,” and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unfavorable changes in the apartment market, changing economic conditions, the impact of inflation/deflation on rental rates and property operating expenses, expectations concerning availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- general economic conditions;
- unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates;
- the failure of acquisitions to achieve anticipated results;
- possible difficulty in selling apartment communities;
- competitive factors that may limit our ability to lease apartment homes or increase or maintain rents;
- insufficient cash flow that could affect our debt financing and create refinancing risk;
- failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders;
- development and construction risks that may impact our profitability;
- potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us;
- risks from extraordinary losses for which we may not have insurance or adequate reserves;
- uninsured losses due to insurance deductibles, self-insurance retention, uninsured claims or casualties, or losses in excess of applicable coverage;

•delays in completing developments and lease-ups on schedule;

•our failure to succeed in new markets;

•changing interest rates, which could increase interest costs and affect the market price of our securities;

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- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;
- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and
- changes in real estate laws, tax laws and other laws affecting our business.

A discussion of these and other factors affecting our business and prospects is set forth in Part II, Item 1A. Risk Factors. We encourage investors to review these risk factors.

Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such statements included in this Report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

UDR, Inc.:

Business Overview

UDR, Inc. is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include the Operating Partnership and the DownREIT Partnership. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” “the Company,” or “UDR” refer collectively to UDR, Inc., its subsidiaries and its consolidated joint ventures.

At June 30, 2016, our consolidated real estate portfolio included 132 communities in 10 states plus the District of Columbia totaling 40,728 apartment homes. In addition, we had an ownership interest in 29 communities with 7,143 apartment homes through unconsolidated operating communities. The Same-Store Community apartment home population for the three and six months ended June 30, 2016 was 34,179 and 34,017, respectively.

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The following table summarizes our market information by major geographic markets as of and for the three and six months ended June 30, 2016.

	June 30, 2016				Three Months Ended	Six Months Ended
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	June 30, 2016 Monthly Average Physical Occupancy (a)	June 30, 2016 Monthly Average Income per Occupied Home (a)
Same-Store Communities						
West Region						
Orange County, CA	10	3,194	8.8 %	\$818,395	95.8 %	2,227
San Francisco, CA	9	2,230	6.8 %	631,782	96.1 %	3,318
Seattle, WA	10	2,014	5.9 %	546,615	96.6 %	1,995
Los Angeles, CA	4	1,225	4.8 %	444,008	94.4 %	2,614
Monterey Peninsula, CA	7	1,565	1.8 %	166,579	97.4 %	1,487
Other Southern California	3	756	1.3 %	124,075	95.4 %	1,723
Portland, OR	2	476	0.5 %	47,188	97.7 %	1,462
Mid-Atlantic Region						
Metropolitan D.C.	15	4,824	11.8 %	1,100,945	96.9 %	1,958
Baltimore, MD	10	2,122	3.1 %	289,745	97.0 %	1,500
Richmond, VA	4	1,358	1.5 %	142,109	96.8 %	1,265
Northeast Region						
New York, NY	4	1,945	13.9 %	1,297,216	96.9 %	4,253
Boston, MA	4	1,179	3.6 %	332,149	96.7 %	2,469
Southeast Region						
Orlando, FL	9	2,500	2.3 %	213,983	96.5 %	1,182
Tampa, FL	7	2,287	2.6 %	242,484	96.6 %	1,284
Nashville, TN	8	2,260	2.1 %	198,071	97.7 %	1,194
Other Florida	1	636	0.9 %	82,754	96.0 %	1,490
Southwest Region						
Dallas, TX	8	2,725	3.2 %	299,932	96.4 %	1,248
Austin, TX	3	883	1.0 %	87,942	96.5 %	1,349
Total/Average Same-Store Communities	118	34,179	75.9 %	7,065,972	96.6 %	\$ 1,921
Non-Mature, Commercial Properties & Other	14	6,549	21.5 %	2,007,502		
Total Real Estate Held for Investment	132	40,728	97.4 %	9,073,474		
Real Estate Under Development (b)	—	—	2.6 %	238,938		
Total Real Estate Owned	132	40,728	100.0 %	9,312,412		
Total Accumulated Depreciation				(2,842,273)		
Total Real Estate Owned, Net of Accumulated Depreciation				\$6,470,139		

(a) Monthly Income per Occupied Home represents total monthly revenues divided by the product of occupancy and the number of mature apartment homes.

(b)

The Company is currently developing two wholly-owned communities with 1,101 apartment homes, of which none have been completed as of June 30, 2016.

We report in two segments: Same-Store Communities and Non-Mature Communities/Other.

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Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our Non-Mature Communities/Other segment represents those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped properties, and the non-apartment components of mixed use properties.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, sales of properties, borrowings under our credit agreements, and/or the issuance of debt and/or equity securities. Our primary source of liquidity is our cash flow from operations related to our portfolio of apartment homes and borrowings under our credit agreements. We routinely use our unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by property operations and borrowings under our credit agreements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, the repayment of financing on development activities, and potential property acquisitions, through secured and unsecured borrowings, the issuance of debt or equity securities, and/or the disposition of properties. We believe that our net cash provided by property operations and borrowings under our credit agreements will continue to be adequate to meet both operating requirements and the payment of dividends by the Company in accordance with REIT requirements. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations, borrowings under credit agreements, the issuance of debt or equity securities, and dispositions of properties.

We have a shelf registration statement filed with the Securities and Exchange Commission, or the SEC, which provides for the issuance of an indeterminate amount of common stock, preferred stock, guarantees of debt securities, warrants, subscription rights, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

On March 4, 2016, the Company sold 5,000,000 shares of its common stock for aggregate gross proceeds of approximately \$173.7 million at a price per share of \$34.73. Aggregate net proceeds from the sale, after deducting the underwriting discount and offering-related expenses, were approximately \$173.3 million, which were used for working capital and general corporate purposes.

In April 2012, the Company entered into a new equity distribution agreement, which was amended in July 2014, under which the Company may offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the three months ended June 30, 2016, the Company did not sell any shares of common stock through this program. As of June 30, 2016, we had 13.1 million shares of common stock available for future issuance under the April 2012 program.

On June 1, 2016, the Company entered into a \$25.0 million fixed rate mortgage note due June 5, 2026 with an interest rate of 3.35%. Interest is payable monthly beginning on July 5, 2016.

Future Capital Needs

Future development and redevelopment expenditures may be funded through borrowings under unsecured or secured credit facilities, proceeds from the issuance of equity or debt securities, sales of properties, and, to a lesser extent, from cash flow provided by property operations. Acquisition activity in strategic markets may be funded through joint ventures, by the reinvestment of proceeds from the sale of properties, through the issuance of equity or debt securities, the issuance of operating partnership units and the assumption or placement of secured and/or unsecured debt.

As of June 30, 2016, we had approximately \$3.6 million of secured debt maturing, inclusive of principal amortization, and no unsecured debt maturing, during the remainder of 2016.

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We anticipate repaying that debt with cash flow from our operations, proceeds from debt or equity offerings, proceeds from dispositions of properties, or from borrowings under our credit agreements.

Critical Accounting Policies and Estimates and New Accounting Pronouncements

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our critical accounting policies are described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in UDR's Annual Report on Form 10-K, filed with the SEC on February 23, 2016. There have been no significant changes in our critical accounting policies from those reported in our Form 10-K filed with the SEC on February 23, 2016. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows

The following discussion explains the changes in Net cash provided by/(used in) operating activities, Net cash provided by/(used in) investing activities, and Net cash provided by/(used in) financing activities that are presented in our Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015.

Operating Activities

For the six months ended June 30, 2016, our Net cash provided by/(used in) operating activities was \$226.5 million compared to \$217.0 million for the comparable period in 2015. The increase in cash flow from operating activities was primarily due to improved net operating income, primarily driven by revenue growth at communities, partially offset by changes in operating assets and liabilities.

Investing Activities

For the six months ended June 30, 2016, Net cash provided by/(used in) investing activities was \$(122.5) million compared to \$(163.8) million for the comparable period in 2015. The decrease in cash used in investing activities was primarily due to a decrease in proceeds from the sale of real estate assets and decreased cash used for investments in unconsolidated joint ventures, partially offset by the acquisition of real estate assets and decreased distributions from unconsolidated joint ventures.

Acquisitions

In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately \$20.1 million, including closing costs. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 50% interest in the parcel of land as an unconsolidated joint venture. We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by \$31.1 million. Subsequent to the acquisition, the Company entered into a triple-net operating ground lease for the parcel of land at market terms with a third-party developer. The lessee plans to construct a multi-family community on the parcel of land. The ground lease provides the ground lessee with options to buy the fee interest in the parcel of land. The lease term is 49 years plus two 25-year extension options, does not transfer ownership to the lessee, and does not include a bargain purchase option.

Dispositions

During the six months ended June 30, 2016, the Company sold a retail center in Bellevue, Washington and its 95% ownership interest in two parcels of land in Santa Monica, California for total gross proceeds of \$69.4 million, resulting in total net proceeds of \$66.1 million and a total gain, net of tax, of \$10.4 million. A portion of the proceeds related to the sale of the retail center in Bellevue, Washington were designated for Internal Revenue Code ("IRC") Section 1031 exchanges. As of June 30, 2016, \$34.7 million of these proceeds were included in Funds held in escrow from Internal Revenue Code Section 1031 exchanges on the Consolidated Balance Sheet.

Capital Expenditures

We capitalize those expenditures that materially enhance the value of an existing asset or substantially extend the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

Total capital expenditures, which in aggregate include recurring capital expenditures and major renovations, of \$48.4 million or \$1,189 per stabilized home were spent on all of our communities, excluding real estate under development, non-stabilized communities, and commercial properties for the six months ended June 30, 2016 as compared to \$48.8 million or \$1,245 per stabilized home for the comparable period in 2015.

The decrease in total capital expenditures was primarily due to:

- a decrease of 34.1% or \$4.8 million in major renovations, primarily due to lower redevelopment spend.

This decrease was partially offset by:

- an increase of 22.0% or \$3.8 million in revenue-enhancing capital expenditures, such as kitchen and bath remodels and upgrades to common areas, and

- an increase of 3.8% or \$0.7 million in recurring capital expenditures such as asset preservation and turnover capital expenditures.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, non-stabilized communities, and commercial properties, for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,			Per Home		
	(dollars in thousands)			Six Months Ended June 30,		
	2016	2015	% Change	2016	2015	% Change
Turnover capital expenditures	\$5,533	\$5,082	8.9 %	\$136	\$130	4.6 %
Asset preservation expenditures	12,480	12,272	1.7 %	306	313	(2.2) %
Total recurring capital expenditures	18,013	17,354	3.8 %	442	443	(0.2) %
Revenue enhancing improvements	21,109	17,307	22.0 %	518	442	17.2 %
Major renovations	9,301	14,113	(34.1) %	229	360	(36.4) %
Total capital expenditures	\$48,423	\$48,774	(0.7) %	\$1,189	\$1,245	(4.5) %
Repair and maintenance expense	\$16,239	\$14,918	8.9 %	\$399	\$381	4.7 %
Average number of homes (a)	40,728	39,163	4.0 %			

(a) Average number of homes is calculated based on the number of stabilized homes outstanding at the end of each month.

This table reports amounts capitalized during the year. Actual capital spending is impacted by the net change in capital expenditure accruals.

We intend to continue to selectively add revenue enhancing improvements which we believe will provide a return on investment in excess of our cost of capital. Our objective in redeveloping a community is twofold: we aim to meaningfully grow rental rates while also achieving cap rate compression through asset quality improvement.

Recurring capital expenditures during 2016 are projected to be approximately \$1,150 per home.

Consolidated Real Estate Under Development and Redevelopment

As of June 30, 2016, our development pipeline for two wholly-owned communities totaled 1,101 homes, of which none have been completed, with a budget of \$708.5 million, in which we have a carrying value of \$238.9 million. The communities are estimated to be completed during the first quarter of 2018 and first quarter of 2019.

As of June 30, 2016, the Company was redeveloping four communities, located in San Francisco, California, Newport Beach, California, Bellevue, Washington, and Austin, Texas, all of which are expected to be completed in the first quarter of 2017.

The redevelopment includes the renovation of building exteriors, corridors, and common area amenities as well as individual apartment homes.

Unconsolidated Joint Ventures and Partnerships

The Company recognizes income or losses from our investments in unconsolidated joint ventures and partnerships consisting of our proportionate share of the net income or losses of the joint ventures and partnerships. In addition, we may earn fees for providing management services to the unconsolidated joint ventures and partnerships.

The Company's investment in and advances to unconsolidated joint ventures and partnerships, net, are accounted for under the equity method of accounting. For the six months ended June 30, 2016, our proportionate share of the net income/(loss) of the joint ventures and partnerships was \$1.0 million, our investment in unconsolidated joint ventures increased by \$20.6 million primarily due to making capital contributions, and we received distributions of \$15.7 million, of which \$2.0 million were operating cash flows and \$13.7 million were investing cash flows.

The Company may, in the future, make additional capital contributions to certain of our joint ventures and partnerships should additional capital contributions be necessary to fund acquisitions, development or operations. We evaluate our investments in unconsolidated joint ventures and partnerships 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 decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three and six months ended June 30, 2016 and 2015.

Financing Activities

For the six months ended June 30, 2016, our Net cash provided by/(used in) financing activities was \$(105.6) million compared to \$(65.5) million for the comparable period of 2015.

The following significant financing activities occurred during the six months ended June 30, 2016:

repaid \$83.3 million of 5.25% unsecured medium-term notes due January 2016;

repaid \$141.4 million of secured debt and \$11.6 million unsecured debt;

issued \$25.0 million of secured debt;

sold 5,000,000 shares of common stock for aggregate gross proceeds of approximately \$173.7 million at a price per share of \$34.73;

net paydowns of \$109.2 million under the Company's unsecured revolving credit facilities; and

paid distributions of \$151.5 million to our common stockholders.

Credit Facilities

As of June 30, 2016, the Company had three secured credit facilities with Fannie Mae with an aggregate commitment of \$812.0 million at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, \$512.6 million of the outstanding balance was fixed and had a weighted average interest rate of 5.23% and the remaining balance of \$299.4 million had a weighted average variable interest rate of 1.92%.

As of June 30, 2016, the Company has a \$1.1 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") and a \$350.0 million senior unsecured term loan facility (the "Term Loan Facility"). The credit agreement for these facilities includes an accordion feature that allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021. Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points and a facility fee of 15 basis points, and the Term Loan Facility has an interest rate equal to LIBOR plus a margin of 95 basis points. As of June 30, 2016, we had \$255.0 million of outstanding borrowings under the Revolving Credit Facility, leaving \$0.8 billion of unused capacity (excluding \$2.8 million of letters of credit at June 30, 2016), and \$315 million of outstanding borrowings under the Term Loan Facility.

As of June 30, 2016, the Company has a working capital credit facility, which provides for a \$30 million unsecured revolving credit facility (the “Working Capital Credit Facility”) with a scheduled maturity date of January 1, 2019. Based on the Company’s current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company’s credit rating, the margin ranges from 85 to 155 basis points. As of June 30, 2016, we had \$4.2 million of outstanding borrowings under the Working Capital Credit Facility, leaving \$25.8 million of unused capacity.

In July 2016, the Company amended the working capital credit facility to increase the maximum borrowing capacity from \$30 million to \$75 million. The scheduled maturity date and interest rate were unchanged by the amendment. The Fannie Mae credit facilities and the bank unsecured revolving credit facilities are subject to customary financial covenants and limitations, all of which we were in compliance with at June 30, 2016.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$719.6 million in variable rate debt that is not subject to interest rate swap contracts as of June 30, 2016. If market interest rates for variable rate debt increased by 100 basis points, our interest expense for the six months ended June 30, 2016 would have increased by \$3.4 million based on the average balance outstanding during the period. These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost. This analysis does not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

The Company also utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 10, Derivatives and Hedging Activities, in the Notes to the UDR Consolidated Financial Statements included in this Report for additional discussion of derivative instruments.

A presentation of cash flow metrics based on GAAP is as follows (dollars in thousands):

	Six Months Ended	
	June 30,	
	2016	2015
Net cash provided by/(used in) operating activities	\$226,470	\$217,003
Net cash provided by/(used in) investing activities	\$(122,455)	\$(163,776)
Net cash provided by/(used in) financing activities	\$(105,590)	\$(65,461)

Results of Operations

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015.

Net Income/(Loss) Attributable to Common Stockholders

Net income/(loss) attributable to common stockholders was \$17.0 million (\$0.06 per diluted share) for the three months ended June 30, 2016 as compared to \$85.9 million (\$0.33 per diluted share) for the comparable period in the prior year. The decrease resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- gains, net of tax, of \$7.3 million on the sale of a retail center in Bellevue, Washington, during the three months ended June 30, 2016, compared to gains, net of tax, of \$79.0 million from the sale of three communities during the three months ended June 30, 2015; and

an increase in depreciation expense of \$15.6 million due to homes delivered from our development and redevelopment communities and communities acquired in 2015, partially offset by a decrease from sold communities and fully depreciated assets.

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This was partially offset by:

an increase in total property NOI of \$16.9 million primarily due to higher revenue per occupied home and NOI from the homes placed in service related to development and redevelopment projects completed in 2016 and 2015 and communities acquired in 2015, partially offset by a decrease from sold communities.

Net income/(loss) attributable to common stockholders was \$26.5 million (\$0.10 per diluted share) for the six months ended June 30, 2016 as compared to \$158.8 million (\$0.61 per diluted share) for the comparable period in the prior year. The decrease resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

gains, net of tax, of \$10.4 million on the sale of a retail center in Bellevue, Washington and two parcels of land in Santa Monica, California, during the six months ended June 30, 2016, compared to gains, net of tax, of \$79.0 million from the sale of three communities during the six months ended June 30, 2015;

a decrease in income from unconsolidated entities of \$57.6 million due to the sale of the eight communities held by the Texas Joint Venture, which resulted in a gain of \$59.1 million, during the six months end June 30, 2015;

a decrease in joint venture management fees attributable to the promote and fee income of \$9.6 million recognized in connection with the sale of the Texas Joint Venture in 2015; and

an increase in depreciation expense of \$32.2 million due to homes delivered from our development and redevelopment communities and communities acquired in 2015, partially offset by a decrease from sold communities and fully depreciated assets.

This was partially offset by:

an increase in total property NOI of \$37.4 million primarily due to higher revenue per occupied home and NOI from the homes placed in service related to development and redevelopment projects completed in 2016 and 2015 and communities acquired in 2015, partially offset by a decrease from sold communities.

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Apartment Community Operations

Our net income results are primarily from NOI generated from the operation of our apartment communities.

The following table summarizes the operating performance of our total property NOI for each of the periods presented (dollars in thousands):

	Three Months Ended			Six Months Ended				
	June 30, (a)			June 30, (b)				
	2016	2015	% Change	2016	2015	% Change		
Same-Store Communities:								
Same-store rental income	\$190,243	\$180,027	5.7 %	\$376,160	\$354,722	6.0 %		
Same-store operating expense (c)	(54,732)	(51,878)	5.5 %	(108,361)	(104,060)	4.1 %		
Same-store NOI	135,511	128,149	5.7 %	267,799	250,662	6.8 %		
Non-Mature Communities/Other NOI:								
Acquired communities NOI	12,388	—	N/A	25,059	1,176	2,030.9 %		
Sold or held for disposition communities NOI	49	6,591	(99.3)%	282	13,450	(97.9)%		
Developed communities NOI	5,323	1,030	416.8 %	10,636	1,289	725.1 %		
Redeveloped communities NOI	10,728	10,942	(2.0)%	21,577	21,474	0.5 %		
Commercial NOI and other	3,316	3,720	(10.9)%	6,096	5,956	2.4 %		
Total non-mature communities/other NOI	31,804	22,283	42.7 %	63,650	43,345	46.8 %		
Total Property NOI	\$167,315	\$150,432	11.2 %	\$331,449	\$294,007	12.7 %		

(a)Same-Store Community population consisted of 34,179 apartment homes.

(b)Same-Store Community population consisted of 34,017 apartment homes.

(c)Excludes depreciation, amortization, and property management expenses.

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The following table is our reconciliation of total property NOI to Net income/(loss) attributable to UDR, Inc. for each of the periods presented (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Total property NOI	\$167,315	\$150,432	\$331,449	\$294,007
Joint venture management and other fees	2,618	3,098	5,476	15,804
Property management	(6,494)	(5,851)	(12,873)	(11,545)
Other operating expenses	(1,892)	(1,769)	(3,644)	(3,535)
Real estate depreciation and amortization	(105,937)	(90,344)	(211,276)	(179,121)
General and administrative	(10,835)	(13,721)	(24,679)	(25,873)
Casualty-related recoveries/(charges), net	(1,629)	(843)	(1,629)	(1,839)
Other depreciation and amortization	(1,486)	(1,700)	(3,039)	(3,323)
Income/(loss) from unconsolidated entities	325	(573)	1,004	58,586
Interest expense	(30,678)	(29,673)	(61,782)	(58,473)
Interest income and other income/(expense), net	540	382	971	742
Tax benefit/(provision), net	402	1,404	805	1,829
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	\$17,946	\$86,855	\$28,339	\$160,677

Same-Store Communities

Our Same-Store Community properties (those acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016) consisted of 34,179 and 34,017 apartment homes, respectively, and provided 81.0% and 80.8% of our total NOI for the three and six months ended June 30, 2016, respectively.

Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

NOI for our Same-Store Community properties increased 5.7% or \$7.4 million for the three months ended June 30, 2016 compared to the same period in 2015. The increase in property NOI was attributable to a 5.7% or \$10.2 million increase in property rental income, which was partially offset by a 5.5% or \$2.9 million increase in operating expenses. The increase in property income was primarily driven by a 6.0% or \$10.1 million increase in rental rates and an 8.0% or \$1.2 million increase in reimbursement and fee income. Physical occupancy decreased 0.3% to 96.6% and total monthly income per occupied home increased 6.0% to \$1,921.

The increase in operating expenses was primarily driven by a 13.1% or \$2.4 million increase in real estate taxes, and a 17.6% or \$0.4 million increase in insurance expense.

The operating margin (property net operating income divided by property rental income) was 71.2% and 71.2% for the three months ended June 30, 2016 and 2015, respectively.

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Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015

NOI for our Same-Store Community properties increased 6.8% or \$17.1 million for the six months ended June 30, 2016 compared to the same period in 2015. The increase in property NOI was attributable to a 6.0% or \$21.4 million increase in property rental income, which was partially offset by a 4.1% or \$4.3 million increase in operating expenses. The increase in property income was primarily driven by a 6.1% or \$20.6 million increase in rental rates and an 6.7% or \$1.9 million increase in reimbursement and fee income. Physical occupancy decreased 0.2% to 96.6% and total monthly income per occupied home increased 6.3% to \$1,909.

The increase in operating expenses was primarily driven by a 8.7% or \$3.3 million increase in real estate taxes, and a 15.1% or \$0.6 million increase in insurance expense.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 71.2% for the six months ended June 30, 2016 as compared to 70.7% for the comparable period in 2015.

Non-Mature Communities/Other

UDR's Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped properties, and the non-apartment components of mixed use properties.

Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

The remaining 19.0% or \$31.8 million of our total NOI during the three months ended June 30, 2016 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 42.7% or \$9.5 million for the three months ended June 30, 2016 as compared to the same period in 2015. The increase was primarily driven by an increase in NOI of \$12.4 million from acquired communities and an increase of \$4.1 million from developed and redeveloped communities completed in 2015 and 2016, which was partially offset by a decrease in NOI of \$6.5 million from communities sold in 2015 and 2016.

Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015

The remaining 19.2% or \$63.7 million of our total NOI during the six months ended June 30, 2016 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 46.8% or \$20.3 million for the six months ended June 30, 2016 as compared to the same period in 2015. The increase was primarily driven by an increase in NOI of \$23.9 million from acquired communities and increases of \$9.3 million and \$0.1 million from developed and redeveloped communities, respectively, completed in 2015 and 2016, which was partially offset by a decrease in NOI of \$13.2 million from communities sold in 2015 and 2016.

Joint Venture Management and Other Fees

For the six months ended ended June 30, 2016 and 2015, we recognized income from joint venture management and other fees of \$5.5 million and \$15.8 million, respectively. The decrease in income in 2016 as compared to 2015 was attributable to the promote and fee income of \$9.6 million recognized in connection with the sale of the Texas Joint Venture in 2015 and the decrease in the number of properties managed in the Company's joint ventures.

Real Estate Depreciation and Amortization

During the three months ended June 30, 2016, real estate depreciation and amortization increased 17.3% or \$15.6 million as compared to the comparable period in 2015. The increase in depreciation and amortization for the three months ended June 30, 2016 was primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2015, partially offset by a decrease from sold communities and fully depreciated assets.

During the six months ended June 30, 2016, real estate depreciation and amortization increased 18.0% or \$32.2 million as compared to the comparable period in 2015. The increase in depreciation and amortization for the six months ended June 30, 2016 was primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2015, partially offset by a decrease from sold communities and fully depreciated assets.

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General and Administrative

For the three months ended June 30, 2016, general and administrative expense decreased 21.0% or \$2.9 million as compared to the comparable period in 2015. The decrease in general and administrative expense for the three months ended June 30, 2016 was principally due to a decrease in bonus expense and stock-based compensation expense for awards under the long-term incentive plan primarily due to the departure of our Chief Financial Officer.

For the six months ended June 30, 2016, general and administrative expense decreased 4.6% or \$1.2 million as compared to the comparable period in 2015. The decrease in general and administrative expense for the six months ended June 30, 2016 was principally due to a decrease in bonus expense and stock-based compensation expense for awards under the long-term incentive plan primarily due to the departure of our Chief Financial Officer, which was partially offset by an increase in healthcare costs and salary and benefit increases.

Income/(Loss) from Unconsolidated Entities

For the six months ended June 30, 2016 and 2015, we recognized income from unconsolidated entities of \$1.0 million and \$58.6 million, respectively. This income relates to our investments in unconsolidated joint ventures and partnerships. The decrease in income for the six months ended 2016 as compared to 2015 was primarily due to the sale of eight communities held by the Texas Joint Venture in 2015, which generated gains of \$59.1 million.

Interest Expense

For the six months ended June 30, 2016, interest expense increased by 5.7% or \$3.3 million as compared to the comparable period in 2015. The increase in interest expense was principally due to an overall higher weighted average interest rate on total debt, which was primarily a result of lower weighted average daily borrowings under the unsecured credit facility.

Gain/(Loss) on Sale of Real Estate Owned, Net of Tax

During the three months ended June 30, 2016, the Company recognized gains, net of tax, of \$7.3 million on the sale of a retail center in Bellevue, Washington. During the three months ended June 30, 2015, the Company recognized gains, net of tax, of \$79.0 million on the sale of three communities, located in Clearwater, Florida, Orlando, Florida and Beaverton, Oregon, with 812 apartment homes.

During the six months ended June 30, 2016, the Company recognized a gain, net of tax, of \$10.4 million on the sale of a retail center in Bellevue, Washington and two parcels of land in Santa Monica, California. During the six months ended June 30, 2015, the Company recognized gains, net of tax, of \$79.0 million on the sale of three communities, located in Clearwater, Florida, Orlando, Florida and Beaverton, Oregon, with 812 apartment homes.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, the majority of our leases are for a term of fourteen months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the three and six months ended June 30, 2016.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

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Funds from Operations, Funds from Operations as Adjusted, and Adjusted Funds from Operations

Funds from Operations

Funds from operations (“FFO”) is defined as net income attributable to common stockholders (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains or losses from sales of real estate owned, plus real estate depreciation and amortization, and after adjustments for noncontrolling interests, unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust’s (“NAREIT”) definition issued in April 2002. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of a REIT’s operating performance. In the computation of FFO, diluted, if OP Units, DownREIT Units, unvested restricted stock, unvested LTIP Units, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; they are included in the diluted share count.

Activities of our taxable REIT subsidiaries (“TRS”) include development and land entitlement. From time to time, we develop and subsequently sell a TRS property which results in a short-term use of funds that produces a profit that differs from the traditional long-term investment in real estate for REITs. We believe that the inclusion of these TRS gains in FFO is consistent with the standards established by NAREIT as the short-term investment is incidental to our main business. TRS gains on sales, net of taxes, are defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation.

We consider FFO a useful metric for investors as we use FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with GAAP. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of funds available to fund our cash needs.

Funds from Operations as Adjusted

FFO as Adjusted (“FFO as Adjusted”) is defined as FFO excluding the impact of acquisition-related costs and other non-comparable items including, but not limited to, prepayment costs/benefits associated with early debt retirement, gains on sales of marketable securities and TRS property, deferred tax valuation allowance increases and decreases, storm-related expenses and recoveries, severance costs and legal costs. Management believes that FFO as Adjusted is useful supplemental information regarding our operating performance as it provides a consistent comparison of our operating performance across time periods and allows investors to more easily compare our operating results with other REITs.

FFO as Adjusted is not intended to represent cash flow or liquidity for the period, and is only intended to provide an additional measure of our operating performance. We believe that Net income/(loss) attributable to common stockholders is the most directly comparable GAAP financial measure to FFO as Adjusted. However, other REITs may use different methodologies for calculating FFO as Adjusted or similar FFO measures and, accordingly, our FFO as Adjusted may not always be comparable to FFO as Adjusted or similar FFO measures calculated by other REITs. FFO as Adjusted should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity.

Adjusted Funds from Operations

Adjusted FFO (“AFFO”) is a non-GAAP financial measure that management uses as a supplemental measure of our performance. AFFO is defined as FFO as Adjusted less recurring capital expenditures that are necessary to help preserve the value of and maintain functionality at our communities. Therefore, management considers AFFO a useful supplemental performance metric for investors as it is more indicative of the Company’s operational performance than FFO or FFO as Adjusted.

AFFO is not intended to represent cash flow or liquidity for the period, and is only intended to provide an additional measure of our operating performance. We believe that Net income/(loss) attributable to common stockholders is the most directly comparable GAAP financial measure to AFFO. Management believes that AFFO is a widely recognized measure of the

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operations of REITs, and presenting AFFO will enable investors to assess our performance in comparison to other REITs. However, other REITs may use different methodologies for calculating AFFO and, accordingly, our AFFO may not always be comparable to AFFO calculated by other REITs. AFFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

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The following table outlines our reconciliation of Net income/(loss) attributable to common stockholders to FFO, FFO as Adjusted, and AFFO for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income/(loss) attributable to common stockholders	\$17,017	\$85,924	\$26,481	\$158,815
Real estate depreciation and amortization	105,937	90,344	211,276	179,121
Noncontrolling interests	1,618	3,029	2,829	5,624
Real estate depreciation and amortization on unconsolidated joint ventures	12,299	10,017	22,649	19,867
Net gain on the sale of unconsolidated depreciable property	—	—	—	(59,073)
Net gain on the sale of depreciable real estate owned	(7,315)	(79,042)	(8,700)	(79,042)
Funds from operations (“FFO”) attributable to common stockholders and unitholders, basic	\$129,556	\$110,272	\$254,535	\$225,312
Distribution to preferred stockholders — Series E (Convertible)	929	931	1,858	1,862
FFO attributable to common stockholders and unitholders, diluted	\$130,485	\$111,203	\$256,393	\$227,174
Income/(loss) per weighted average common share - diluted	\$0.06	\$0.33	\$0.10	\$0.61
FFO per common share and unit, basic	\$0.44	\$0.41	\$0.88	\$0.85
FFO per common share and unit, diluted	\$0.44	\$0.41	\$0.87	\$0.84
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	291,458	266,974	289,553	266,489
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,392	271,931	294,446	271,448
Impact of adjustments to FFO:				
Acquisition-related costs/(fees), including joint ventures	\$—	\$1,544	\$—	\$1,743
Texas Joint Venture promote and disposition fee income	—	—	—	(9,633)
Long-term incentive plan transition costs	28	1,008	351	1,862
Net gain on the sale of non-depreciable real estate owned	—	—	(1,685)	—
Casualty-related (recoveries)/charges, including joint ventures, net	1,629	843	2,755	1,839
	\$1,657	\$3,395	\$1,421	\$(4,189)
FFO as Adjusted attributable to common stockholders and unitholders, diluted	\$132,142	\$114,598	\$257,814	\$222,985
FFO as Adjusted per common share and unit, diluted	\$0.45	\$0.42	\$0.88	\$0.82
Recurring capital expenditures	(11,052)	(10,111)	(18,013)	(17,354)
AFFO attributable to common stockholders and unitholders	\$121,090	\$104,487	\$239,801	\$205,631
AFFO per common share and unit, diluted	\$0.41	\$0.38	\$0.81	\$0.76

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The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the UDR Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (shares in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	291,458	266,974	289,553	266,489
Weighted average number of OP/DownREIT Units outstanding	(25,190)	(9,125)	(25,191)	(9,145)
Weighted average number of common shares outstanding — basic per the Consolidated Statements of Operations	266,268	257,849	264,362	257,344
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,392	271,931	294,446	271,448
Weighted average number of OP/DownREIT Units outstanding	(25,190)	(9,125)	(25,191)	(9,145)
Weighted average number of Series E preferred shares outstanding	(3,028)	—	(3,028)	(3,036)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	268,174	262,806	266,227	259,267

United Dominion Realty, L.P.:

Business Overview

United Dominion Realty, L.P. (the “Operating Partnership” or “UDR, L.P.”) is a Delaware limited partnership formed in February 2004 and organized pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations on November 4, 1995. Our sole general partner is UDR, Inc., a Maryland corporation (“UDR” or the “General Partner”), which conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership. At June 30, 2016, the Operating Partnership’s real estate portfolio included 56 communities located in eight states and the District of Columbia with a total of 16,974 apartment homes.

As of June 30, 2016, UDR owned 110,883 units of our general partnership interests and 174,116,596 units of our limited partnership interests (the “OP Units”), or approximately 95.1% of our outstanding OP Units. By virtue of its ownership of our OP Units and being our sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this section to the Operating Partnership or “we,” “us” or “our” refer to UDR, L.P. together with its consolidated subsidiaries. In this section, we refer to the General Partner together with its consolidated subsidiaries (including us) and the General Partner’s consolidated joint ventures as “UDR” or the “General Partner.”

UDR is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in June 2003. At June 30, 2016, the General Partner’s consolidated real estate portfolio included 132 communities located in 10 states and the District of Columbia with a total of 40,728 apartment homes. In addition, the General Partner had an ownership interest in 29 communities with 7,143 completed apartment homes through unconsolidated operating communities.

The Operating Partnership’s same-store community apartment home population for the three and six months ended June 30, 2016 was 14,277.

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The following table summarizes our market information by major geographic markets as of June 30, 2016:

Same-Store Communities	June 30, 2016				Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home
					(a)	(a)
West Region						
Orange County, CA	6	2,052	13.3 %	\$ 488,044	95.7 %	\$ 2,156
San Francisco, CA	7	1,688	10.5 %	386,469	96.1 %	2,875
Seattle, WA	5	932	5.9 %	217,065	96.7 %	1,803
Los Angeles, CA	2	344	3.0 %	109,243	95.5 %	2,435
Monterey Peninsula, CA	7	1,565	4.5 %	166,579	97.4 %	1,488
Other Southern California	2	516	2.5 %	91,667	94.9 %	1,830
Portland, OR	2	476	1.3 %	47,188	97.7 %	1,462
Mid-Atlantic Region						
Metropolitan D.C.	4	1,315	7.8 %	284,130	96.9 %	1,927
Baltimore, MD	4	816	3.5 %	128,963	96.6 %	1,455
Northeast Region						
New York, NY	2	996	16.5 %	603,309	97.0 %	3,831
Boston, MA	1	387	1.9 %	69,279	96.8 %	1,874
Southeast Region						
Tampa, FL	2	942	2.8 %	102,869	96.6 %	1,349
Nashville, TN	6	1,612	3.8 %	138,891	97.6 %	1,167
Other Florida	1	636	2.3 %	82,754	96.0 %	1,490
Total/Average Same-Store Communities	51	14,277	79.6 %	2,916,450	96.6 %	\$ 1,968
Non-Mature, Commercial Properties & Other	5	2,697	20.4 %	748,278		
Total Real Estate Owned	56	16,974	100.0 %	3,664,728		
Total Accumulated Depreciation				(1,353,616)		
Total Real Estate Owned, Net of Accumulated Depreciation				\$ 2,311,112		

(a) Monthly Income per Occupied Home represents total monthly revenues divided by the product of occupancy and the number of mature apartment homes.

We report in two segments: Same-Store Communities and Non-Mature Communities/Other.

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the communities are not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our Non-Mature Communities/Other segment represents those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped

properties, and the non-apartment components of mixed use properties.

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Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale of properties, and the issuance of debt. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. The Operating Partnership's primary source of liquidity is cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings allocated to us under the General Partner's credit agreements. The General Partner will routinely use its unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings allocated to us under the General Partner's credit agreements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities and potential property acquisitions through borrowings and the disposition of properties. We believe that our net cash provided by operations and borrowings will continue to be adequate to meet both operating requirements and the payment of distributions. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations, and borrowings allocated to us under the General Partner's credit agreements.

Future Capital Needs

Future capital expenditures are expected to be funded with proceeds from the issuance of secured debt or unsecured debt, sales of properties, borrowings allocated to us under our General Partner's credit agreements, and to a lesser extent, from cash flows provided by operating activities.

As of June 30, 2016, the Operating Partnership had approximately \$0.2 million of principal payments on secured debt maturing during the remainder of 2016. We anticipate that we will repay that debt with operating cash flows or proceeds from borrowings allocated to us under our General Partner's credit agreements. The repayment of debt will be recorded as an offset to the Advances (to)/from General Partner.

Critical Accounting Policies and Estimates and New Accounting Pronouncements

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our critical accounting policies are described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Operating Partnership's current Report on Form 10-K, filed with the SEC on February 23, 2016. There have been no significant changes in our critical accounting policies from those reported. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows

The following discussion explains the changes in Net cash provided by/(used in) operating activities, Net cash provided by/(used in) investing activities, and Net cash provided by/(used in) financing activities that are presented in our Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015.

Operating Activities

For the six months ended June 30, 2016, Net cash provided by/(used in) operating activities was \$116.0 million compared to \$115.3 million for the comparable period in 2015. The increase in cash flow from operating activities was primarily due to improved operating income, primarily driven by revenue growth at communities.

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Investing Activities

For the six months ended June 30, 2016, Net cash provided by/(used in) investing activities was \$(22.2) million compared to \$(5.5) million for the comparable period in 2015. The increase in cash used in investing activities was primarily due to a decrease in proceeds from dispositions, partially offset by increased distributions received from unconsolidated entities.

Real Estate Under Development and Redevelopment

At June 30, 2016, the Operating Partnership was redeveloping two communities, located in San Francisco, California and Newport Beach, California, both of which are expected to be completed in the first quarter of 2017. The redevelopments include the renovation of building exteriors, corridors, and common area amenities as well as individual apartment homes.

Financing Activities

For the six months ended June 30, 2016, our Net cash provided by/(used in) financing activities was \$(95.3) million compared to \$(110.1) million for the comparable period of 2015. The decrease in cash used in financing activities was primarily due to an decrease in advances to the General Partner, partially offset by the payoff of maturing debt.

Credit Facilities

As of June 30, 2016, an aggregate commitment of \$420.8 million of the General Partner's secured credit facilities with Fannie Mae was allocated to the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, \$250.6 million of the outstanding balance was fixed at a weighted average interest rate of 5.08% and the remaining balance of \$170.2 million on these facilities had a weighted average variable interest rate of 2.12%.

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of \$1.1 billion, \$300 million of medium-term notes due June 2018, \$300 million of medium-term notes due October 2020, a \$350 million term loan facility due January 2021, \$400 million of medium-term notes due January 2022, \$300 million of medium-term notes due July 2024 and \$300 million of medium-term notes due October 2025. As of June 30, 2016 and December 31, 2015, the outstanding balance under the unsecured revolving credit facility was \$255.0 million and \$150.0 million, respectively.

The credit facilities are subject to customary financial covenants and limitations.

Derivative Instruments

As part of our General Partner's overall interest rate risk management strategy, our General Partner uses derivatives as a means to fix the interest rates of variable rate debt obligations or to hedge anticipated financing transactions. Our General Partner's derivative transactions used for interest rate risk management include interest rate swaps with indexes that relate to the pricing of specific debt instruments of our General Partner that are allocated to the Operating Partnership. The General Partner believes that we have appropriately controlled our interest rate risk through the use of derivative instruments (allocated to the Operating Partnership based on the General Partner's underlying debt instruments allocated to the Operating Partnership) to minimize any unintended effect on consolidated earnings.

Derivative contracts did not have a material impact on the results of operations during the three and six months ended June 30, 2016 (see Note 8, Derivatives and Hedging Activity, in the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report).

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$197.2 million in variable rate debt that is not subject to interest rate swap contracts as of June 30, 2016. If market interest rates for variable rate debt increased by 100 basis points, our interest expense for the six months ended June 30, 2016 would increase by \$1.0 million based on the average balance outstanding during the period.

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These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost. These analyses do not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

The General Partner also utilizes derivative financial instruments allocated to the Operating Partnership to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 8, Derivatives and Hedging Activities, in the Notes to the Operating Partnership's Consolidated Financial Statements for additional discussion of derivative instruments.

Results of Operations

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015.

Net Income/(Loss) Attributable to OP Unitholders

Net income attributable to OP unitholders was \$11.0 million (\$0.06 per diluted OP Unit) for the three months ended June 30, 2016 as compared to net income of \$47.4 million (\$0.26 per diluted OP Unit) for the comparable period in the prior year. The decrease in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- no sales of real estate owned during the the three months ended June 30, 2016, as compared to a gain on the sale of real estate owned of \$32.4 million during the three months ended June 30, 2015;

- losses from unconsolidated entities of \$10.0 million for the three months ended June 30, 2016 as a result of the formation of the DownREIT Partnership in the fourth quarter of 2015; and

- a decrease of \$7.6 million in total property NOI primarily due to fewer consolidated apartment homes as a result of the deconsolidation of communities contributed to the DownREIT Partnership during 2015.

This was partially offset by:

- a decrease in real estate depreciation and amortization expense of \$7.0 million due to the deconsolidation of communities contributed to the DownREIT Partnership; and

- a decrease in interest expense of \$3.3 million due to the deconsolidation of debt balances related to communities contributed to the DownREIT Partnership.

Net income attributable to OP unitholders was \$15.8 million (\$0.09 per diluted OP Unit) for the six months ended June 30, 2016 as compared to net income of \$83.7 million (\$0.46 per diluted OP Unit) for the comparable period in the prior year. The decrease in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- no sales of real estate owned during the the three months ended June 30, 2016, as compared to a gain on the sale of real estate owned of \$57.0 million during the six months ended June 30, 2015;

- losses from unconsolidated entities of \$23.4 million for the six months ended June 30, 2016 as a result of the formation of the DownREIT Partnership in the fourth quarter of 2015; and

- a decrease of \$13.2 million in total property NOI primarily due to fewer consolidated apartment homes as a result of the deconsolidation of communities contributed to the DownREIT Partnership during 2015.

This was partially offset by:

- a decrease in real estate depreciation and amortization expense of \$14.7 million due to the deconsolidation of communities contributed to the DownREIT Partnership; and

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a decrease in interest expense of \$6.5 million due to the deconsolidation of debt balances related to communities contributed to the DownREIT Partnership.

Apartment Community Operations

Our net income results primarily from NOI generated from the operation of our apartment communities. The Operating Partnership defines NOI, which is a non-GAAP financial measure, as rental income less direct property rental expenses. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover regional supervision and accounting costs related to consolidated property operations, and land rent. The following table summarizes the operating performance of our total portfolio for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended			Six Months Ended		
	June 30, (a)			June 30, (b)		
	2016	2015	% Change	2016	2015	% Change
Same-Store Communities:						
Same-store rental income	\$81,419	\$76,228	6.8 %	\$161,374	\$150,678	7.1 %
Same-store operating expense (c)	(21,166)	(19,993)	5.9 %	(42,169)	(40,358)	4.5 %
Same-store NOI	60,253	56,235	7.1 %	119,205	110,320	8.1 %
Non-Mature Communities/Other NOI:						
Acquired Communities NOI	1,830	—	N/A	3,618	—	N/A
Sold and held for sale communities NOI	—	14,106	(100.0)%	—	27,603	(100.0)%
Developed communities NOI	1,395	803	(73.7)%	2,551	1,143	123.2 %
Redeveloped communities NOI	9,627	9,534	1.0 %	19,250	18,712	2.9 %
Commercial NOI and other	1,553	1,605	(3.2)%	2,586	2,620	(1.3)%
Total non-mature communities/other NOI	14,405	26,048	(44.7)%	28,005	50,078	(44.1)%
Total Property NOI	\$74,658	\$82,283	(9.3)%	\$147,210	\$160,398	(8.2)%

(a) Same-Store Community population consisted of 14,277 apartment homes.

(b) Same-Store Community population consisted of 14,277 apartment homes.

(c) Excludes depreciation, amortization, and property management expenses.

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The following table is our reconciliation of total property NOI to Net income/(loss) attributable to OP unitholders for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Total property NOI	\$74,658	\$82,283	\$147,210	\$160,398
Property management	(2,775)	(3,112)	(5,492)	(6,139)
Other operating expenses	(1,519)	(1,496)	(3,019)	(2,986)
Real estate depreciation and amortization	(37,053)	(44,100)	(73,844)	(88,578)
General and administrative	(3,844)	(7,032)	(9,265)	(12,671)
Casualty-related recoveries/(charges), net	(465)	(280)	(465)	(873)
Income/(loss) from unconsolidated entities	(10,030)	—	(23,417)	—
Interest expense	(7,578)	(10,908)	(15,183)	(21,679)
Gain/(loss) on sale of real estate owned	—	32,375	—	56,998
Net (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Net income/(loss) attributable to OP unitholders	\$11,044	\$47,383	\$15,831	\$83,729

Same-Store Communities

Our Same-Store Community properties (those acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016) consisted of 14,277 apartment homes for both periods and provided 80.7% and 81.0% of our total NOI for the three and six months ended June 30, 2016, respectively.

Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

NOI for our Same-Store Community properties increased 7.1% or \$4.0 million for the three months ended June 30, 2016 compared to the same period in 2015. The increase in property NOI was primarily attributable to a 6.8% or \$5.2 million increase in property rental income, which was partially offset by a 5.9% or \$1.2 million increase in operating expenses. The increase in revenues was primarily driven by a 7.4% or \$5.3 million increase in rental rates. Physical occupancy decreased 0.3% to 96.6% and total income per occupied home increased 7.1% to \$1,968 for the three months ended June 30, 2016 compared to the same period in 2015.

The increase in property operating expenses was primarily driven by a 12.9% or \$0.8 million increase in real estate taxes and a 20.6% or \$0.3 million increase in general and administrative expense compared to the same period in 2015.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 74.0% for the three months ended June 30, 2016 as compared to 73.8% for the comparable period in 2015.

Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015

NOI for our Same-Store Community properties increased 8.1% or \$8.9 million for the six months ended June 30, 2016 compared to the same period in 2015. The increase in property NOI was primarily attributable to a 7.1% or \$10.7 million increase in property rental income, which was partially offset by a 4.5% or \$1.8 million increase in operating expenses. The increase in revenues was primarily driven by a 7.6% or \$10.8 million increase in rental rates. Physical occupancy decreased 0.4% to 96.5% and total income per occupied home increased 7.5% to \$1,952 for the three months ended June 30, 2016 compared to the same period in 2015.

The increase in property operating expenses was primarily driven by a 7.6% or \$1.0 million increase in real estate taxes, a 5.0% or \$0.3 million increase in utilities expense and a 10.0% or \$0.2 million increase general and administrative expense compared to the same period in 2015.

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As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 73.9% for the six months ended June 30, 2016 as compared to 73.2% for the comparable period in 2015.

Non-Mature Communities/Other

The Operating Partnership's Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

The remaining 19.3% or \$14.4 million of our total NOI during the three months ended June 30, 2016 was generated from our Non-Mature Communities. NOI from Non-Mature Communities decreased 44.7% or \$11.6 million for the three months ended June 30, 2016 compared to the same period in 2015. The decrease was primarily driven by a decrease in NOI of \$14.1 million from sold and held for sale communities, which was partially offset by an increase in NOI from acquired communities of \$1.8 million and an increase in NOI from developed properties of \$0.6 million.

Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015

The remaining 19.0% or \$28.0 million of our total NOI during the six months ended June 30, 2016 was generated from our Non-Mature Communities. NOI from Non-Mature Communities decreased 44.1% or \$22.1 million for the six months ended June 30, 2016 compared to the same period in 2015. The decrease was primarily driven by a decrease in NOI of \$27.6 million from sold and held for sale communities, which was partially offset by an increase in NOI from acquired communities of \$3.6 million and an increase in NOI from developed properties of \$1.4 million.

Real Estate Depreciation and Amortization

For the three and six months ended June 30, 2016, real estate depreciation and amortization decreased by 16.0% or \$7.0 million and 16.6% or \$14.7 million, respectively, as compared to the comparable periods in 2015, primarily due to the deconsolidation of communities contributed to the DownREIT Partnership during 2015, partially offset by homes delivered from our development and redevelopment properties.

General and Administrative

For the three and six months ended June 30, 2016, general and administrative expense decreased by 45.3% or \$3.2 million and 26.9% or \$3.4 million, respectively, as compared to the comparable periods in 2015, primarily due to the deconsolidation of communities contributed to the DownREIT Partnership during 2015.

Income/(Loss) in Unconsolidated Entities

For the three and six months ended June 30, 2016, income/(loss) from unconsolidated entities of \$(10.0) million and \$(23.4) million, respectively, was attributable to the Operating Partnership's ownership interest in the DownREIT Partnership, which was formed in the fourth quarter of 2015. The Operating Partnership did not hold any ownership interests in unconsolidated entities for the three and six months ended June 30, 2015.

Interest Expense

For the three and six months ended June 30, 2016, interest expense decreased by 30.5% or \$3.3 million and 30.0% or \$6.5 million, respectively, as compared to the comparable periods in 2015. The decrease in interest expense for the three and six months ended June 30, 2016 was primarily due to lower loan balances as a result of seven communities, and their related debt, being deconsolidated in 2015 in connection with the formation of the DownREIT Partnership.

Gain/(Loss) on Sale of Real Estate Owned

During the six months ended June 30, 2016, the Operating Partnership did not have any sales of consolidated real estate owned. During the six months ended June 30, 2015, the Operating Partnership recognized a gain of \$32.4 million on the sale of one community in Beaverton, Oregon and recognized a gain of \$24.6 million, which was previously deferred, in connection with the sale of the communities held by the Texas Joint Venture.

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Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the three and six months ended June 30, 2016.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company and the Operating Partnership are exposed to interest rate changes associated with our unsecured credit facility and other variable rate debt as well as refinancing risk on our fixed rate debt. The Company's and the Operating Partnership's involvement with derivative financial instruments is limited and we do not expect to use them for trading or other speculative purposes. The Company and the Operating Partnership use derivative instruments solely to manage their exposure to interest rates.

See our Annual Report on Form 10-K for the year ended December 31, 2015 under the heading "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a more complete discussion of our interest rate sensitive assets and liabilities. As of June 30, 2016, our market risk has not changed materially from the amounts reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. CONTROLS AND PROCEDURES

The disclosure controls and procedures of the Company and the Operating Partnership are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. As a result, our disclosure controls and procedures are designed to provide reasonable assurance that such disclosure controls and procedures will meet their objectives.

As of June 30, 2016, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Principal Financial Officer of the Company, of the effectiveness of the design and operation of the disclosure controls and procedures of the Company and the Operating Partnership. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer of the Company concluded that the disclosure controls and procedures of the Company and the Operating Partnership are effective at the reasonable assurance level described above.

There have not been any changes in either the Company's or the Operating Partnership's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of either the Company or the Operating Partnership.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is a party to various claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims and litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

Item 1A. RISK FACTORS

There are many factors that affect the business and the results of operations of the Company and the Operating Partnership, some of which are beyond the control of the Company and the Operating Partnership. The following is a description of important factors that may cause the actual results of operations of the Company and the Operating Partnership in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this Report relating to our financial results, operations and business prospects. Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

Risks Related to Our Real Estate Investments and Our Operations

Unfavorable Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels, Rental Revenues and the Value of Our Real Estate Assets. Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions generally may significantly affect our occupancy levels, our rental rates and collections, the value of the properties and our ability to strategically acquire or dispose of apartment communities on economically favorable terms. Our ability to lease our properties at favorable rates is adversely affected by the increase in supply in the multifamily and other rental markets and is dependent upon the overall level in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, a downturn in the housing market, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments, generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to pay our indebtedness and to distribute to UDR's stockholders, which could adversely affect our financial condition and the market value of our securities. Factors that may affect our occupancy levels, our rental revenues, and/or the value of our properties include the following, among others:

- downturns in the national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates, making alternative housing more affordable;
- government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing options more attractive;
- local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- changes in market rental rates;
- our ability to renew leases or re-lease space on favorable terms;
 - the timing and costs associated with property improvements, repairs or renovations;
- declines in household formation; and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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We May Be Unable to Renew Leases or Relet Apartment Units as Leases Expire. When our residents decide to leave our apartments, whether because they decide not to renew their leases or they leave prior to their lease expiration date, we may not be able to relet their apartment units. Even if the residents do renew or we can relet the apartment units, the terms of renewal or reletting may be less favorable than current lease terms. If we are unable to promptly renew the leases or relet the apartment units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition may be adversely affected. If residents do not experience increases in their income, we may be unable to increase rent and/or delinquencies may increase.

Substantial International, National and Local Government Spending and Increasing Deficits May Adversely Impact Our Business, Financial Condition and Results of Operations. The values of, and the cash flows from, the properties we own are affected by developments in global, national and local economies. As a result of the most recent recession and the significant government interventions, federal, state and local governments have incurred record deficits and assumed or guaranteed liabilities of private financial institutions or other private entities. These increased budget deficits and the weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. The general risk of inflation is that interest on our debt and general and administrative expenses increase at a rate faster than increases in our rental rates, which could adversely affect our results of operations, cash flow and ability to make distributions to UDR's stockholders. The predominant effects of deflation include high unemployment and credit contraction. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties.

We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our securities. We are subject to the following risks in connection with sales of our apartment communities:

- a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended, or the "Code," so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales; and

- federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

Competition Could Limit Our Ability to Lease Apartment Homes or Increase or Maintain Rents. Our apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities, condominiums and single-family rental homes, as well as owner occupied single- and multi-family homes. Competitive housing in a particular area could adversely affect our ability to lease apartment homes and increase or maintain rents, which could materially adversely affect our results of operations and financial condition.

We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies. We have selectively acquired in the past, and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

- we may be unable to obtain financing for acquisitions on favorable terms or at all;

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even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the debt used to finance the acquisition;

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even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;

we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;

when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability;

the expected occupancy rates and rental rates may differ from actual results; and

we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

Competition Could Adversely Affect Our Ability to Acquire Properties. In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other public and private apartment REITs, have competed with us to acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect our ability to grow or acquire properties profitably or with attractive returns.

Development and Construction Risks Could Impact Our Profitability. In the past we have selectively pursued the development and construction of apartment communities, and we intend to do so in the future as appropriate opportunities arise. Development activities have been, and in the future may be, conducted through wholly-owned affiliated companies or through joint ventures with unaffiliated parties. Our development and construction activities are subject to the following risks:

we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all, which could cause us to delay or even abandon potential developments;

we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;

yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than expected;

if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;

we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities;

we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;

occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; and

when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

In some cases in the past, the costs of upgrading acquired communities exceeded our original estimates. We may experience similar cost increases in the future. Our inability to charge rents that will be sufficient to offset the effects of any increases in these costs may impair our profitability.

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Bankruptcy or Defaults of Our Counterparties Could Adversely Affect Our Performance. We have relationships with and, from time to time, we execute transactions with or receive services from many counterparties, such as general contractors engaged in connection with our development activities. As a result, bankruptcies or defaults by these counterparties could result in services not being provided, projects not being completed on time, or on budget, or at all, or volatility in the financial markets and economic weakness could affect the counterparties' ability to complete transactions with us as intended, both of which could result in disruptions to our operations that may adversely affect our business and results of operations.

Property Ownership Through Partnerships and Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and/or acquire properties in partnerships and joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. We currently have 16 active joint ventures and partnerships, including our participating loan investment and preferred equity investment, with a total equity investment of \$933.4 million. We could become engaged in a dispute with one or more of our partners which might affect our ability to operate a jointly-owned property. Moreover, partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our partners may have competing interests in our markets that could create conflicts of interest. Also, our partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. In general, we and our partners may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of our interest in the partnership or joint venture (if we are the seller) or of the other partner's interest in the partnership or joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process.

We are also subject to risk in cases where an institutional owner is our partner, including (i) a deadlock if we and our partner are unable to agree upon certain major and other decisions, (ii) the limitation of our ability to liquidate our position in the partnership or joint venture without the consent of the other partner, and (iii) the requirement to provide guarantees in favor of lenders with respect to the indebtedness of the joint venture.

We may not be permitted to dispose of certain properties or pay down the indebtedness associated with those properties when we might otherwise desire to do so without incurring additional costs. In connection with certain property acquisitions, we have agreed with the sellers that we will not dispose of the acquired properties or reduce the mortgage indebtedness on such properties for significant periods of time unless we pay certain of the resulting tax costs of the sellers, and we may enter into similar agreements in connection with future property acquisitions. These agreements could result in us retaining properties that we would otherwise sell or not paying down or refinancing indebtedness that we would otherwise pay down or refinance. However, subject to certain conditions, we retain the right to substitute other property or debt to meet these obligations to the sellers.

We Could Incur Significant Insurance Costs and Some Potential Losses May Not Be Adequately Covered by Insurance. We have a comprehensive insurance program covering our property and operating activities with limits of liability customary within the multifamily industry. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are, however, certain types of extraordinary losses which may not be adequately covered under our insurance program. In addition, we will sustain losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

If an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. If one or more of our significant properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions. As a result of our substantial real estate holdings, the cost of insuring our apartment communities is a significant component of expense. Insurance premiums are subject to significant increases and fluctuations, which are generally

outside of our control. We insure our properties with insurance companies that we believe have a good rating at the time our policies are put into effect. The financial condition of one or more of our insurance companies that we hold policies with may be negatively impacted, which could result in their inability to pay on future insurance claims. Their inability to pay future claims may have a negative impact on our financial results. In addition, the failure of one or more insurance companies may increase the costs to renew our insurance policies or increase the cost of insuring additional properties and recently developed or redeveloped properties.

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Failure to Succeed in New Markets May Limit Our Growth. We have acquired in the past, and we may acquire in the future if appropriate opportunities arise, apartment communities that are outside of our existing markets. Entering into new markets may expose us to a variety of risks, and we may not be able to operate successfully in new markets.

These risks include, among others:

- inability to accurately evaluate local apartment market conditions and local economies;
- inability to hire and retain key personnel;
- lack of familiarity with local governmental and permitting procedures; and
- inability to achieve budgeted financial results.

Potential Liability for Environmental Contamination Could Result in Substantial Costs. Under various federal, state and local environmental laws, as a current or former owner or operator of real estate, we could be required to investigate and remediate the effects of contamination of currently or formerly owned real estate by hazardous or toxic substances, often regardless of our knowledge of or responsibility for the contamination and solely by virtue of our current or former ownership or operation of the real estate. In addition, we could be held liable to a governmental authority or to third parties for property damage and for investigation and clean-up costs incurred in connection with the contamination. These costs could be substantial, and in many cases environmental laws create liens in favor of governmental authorities to secure their payment. The presence of such substances or a failure to properly remediate any resulting contamination could materially and adversely affect our ability to borrow against, sell or rent an affected property.

In addition, our properties are subject to various federal, state and local environmental, health and safety laws, including laws governing the management of wastes and underground and aboveground storage tanks.

Noncompliance with these environmental, health and safety laws could subject us to liability. Changes in laws could increase the potential costs of compliance with environmental laws, health and safety laws or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material, or ACM. Environmental, health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements.

These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations.

Our Properties May Contain or Develop Harmful Mold or Suffer from Other Indoor Air Quality Issues, Which Could Lead to Liability for Adverse Health Effects or Property Damage or Cost for Remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation, which could adversely affect our results of operations and cash flow. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

Compliance or Failure to Comply with the Americans with Disabilities Act of 1990 or Other Safety Regulations and Requirements Could Result in Substantial Costs. The Americans with Disabilities Act generally requires that public buildings, including our properties, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the

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federal government or the award of damages to private litigants. From time to time, claims may be asserted against us with respect to some of our properties under the Americans with Disabilities Act. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Compliance with or Changes in Real Estate Tax and Other Laws Could Adversely Affect Our Funds from Operations and Our Ability to Make Distributions to Stockholders. Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect our funds from operations and the ability to make distributions to stockholders.

Risk of Damage from Catastrophic Weather and Natural Events and Potential Climate Change. Certain of our communities are located in areas that may experience catastrophic weather and other natural events from time to time, including mudslides, fires, hurricanes, tornadoes, snow or ice storms, or other severe inclement weather. These adverse weather and natural events could cause damage or losses that may be greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business, financial condition and results of operations.

To the extent that we experience any significant changes in the climate in areas where our communities are located, we may experience extreme weather conditions and prolonged changes in precipitation and temperature, all of which could result in physical damage to, and/or a decrease in demand for, our communities located in these areas. Should the impact of such climate change be material in nature, or occur for lengthy periods of time, our financial condition and results of operations may be adversely affected.

Risk of Earthquake Damage. Some of our communities are located in the general vicinity of active earthquake faults. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business, financial condition and results of operations. Insurance coverage for earthquakes can be costly due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in management's view, economically impractical.

Risk of Accidental Death Due to Fire, Natural Disasters or Other Hazards. The accidental death of persons living in our communities due to fire, natural disasters or other hazards could have a material adverse effect on our business and results of operations. Our insurance coverage may not cover all losses associated with such events, and we may experience difficulty marketing communities where such any such events have occurred, which could have a material adverse effect on our business and results of operations.

Actual or Threatened Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. Actual or threatened terrorist attacks and other acts of violence or war could have a material adverse effect on our business and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our

ability to achieve our expected results. Further, our insurance coverage may not cover all losses caused by a terrorist attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations.

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Mezzanine Loan Assets Involve Greater Risks of Loss than Senior Loans Secured by Income-producing Properties. We may acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Mezzanine loans may involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some of or all our initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Materially and Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR's Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under generally accepted accounting principles as in effect in the United States ("GAAP"), if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we are required to recognize asset impairment charges in the future, these charges could materially and adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR's common stock. Any Material Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on UDR's Stock Price. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on UDR's stock price.

Our Business and Operations Would Suffer in the Event of System Failures or Breaches in Data Security. Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and keeping of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Although we take steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information, such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

Our Success Depends on Our Senior Management. Our success depends upon the retention of our senior management, whose continued service is not guaranteed. We may not be able to find qualified replacements for the individuals who

make up our senior management if their services should no longer be available to us. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations.

We May be Adversely Affected by New Federal Laws and Regulations. The United States Administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate change, executive compensation and others. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us.

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Federal rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the most recent economic recession. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area culminated in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and continue to require rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

Changing laws, regulations and standards relating to corporate governance and public disclosure in particular, including certain provisions of the Dodd-Frank Act and the rules and regulations promulgated thereunder, have created uncertainty for public companies like ours and could significantly increase the costs and risks associated with accessing the U.S. public markets. Because we are committed to maintaining high standards of internal control over financial reporting, corporate governance and public disclosure, our management team will need to devote significant time and financial resources to comply with these evolving standards for public companies. We intend to continue to invest appropriate resources to comply with both existing and evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

We May be Adversely Affected by New State and Local Laws and Regulations. We are subject to state and local laws, regulations and ordinances at locations where we operate and to the rules and regulations of various local authorities regarding a wide variety of matters that could affect, directly or indirectly, our operations. We cannot predict what matters might be considered in the future by these state and local authorities, nor can we judge what impact, if any, the implementation of new legislation might have on our business.

Changes in U.S. Accounting Standards May Materially and Adversely Affect Our Reported Results of Operations. Accounting for public companies in the United States is in accordance with GAAP, which is established by the Financial Accounting Standards Board (the “FASB”), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. Uncertainties posed by various initiatives of accounting standard-setting by the FASB and the SEC, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements.

Risks Related to Our Indebtedness and Financings

Insufficient Cash Flow Could Affect Our Debt Financing and Create Refinancing Risk. We are subject to the risks normally associated with debt financing, including the risk that our operating income and cash flow will be insufficient to make required payments of principal and interest, or could restrict our borrowing capacity under our line of credit due to debt covenant restraints. Sufficient cash flow may not be available to make all required principal payments and still satisfy UDR’s distribution requirements to maintain its status as a REIT for federal income tax purposes. In addition, the full limits of our line of credit may not be available to us if our operating performance falls outside the constraints of our debt covenants. We are also likely to need to refinance substantially all of our outstanding debt as it matures. We may not be able to refinance existing debt, or the terms of any refinancing may not be as favorable as the terms of the existing debt, which could create pressures to sell assets or to issue additional equity when we would otherwise not choose to do so. In addition, our failure to comply with our debt covenants could result in a requirement to repay our indebtedness prior to its maturity, which could have an adverse effect on our cash flow, increase our financing costs and impact our ability to make distributions to UDR’s stockholders.

Failure to Generate Sufficient Revenue Could Impair Debt Service Payments and Distributions to Stockholders. If our apartment communities do not generate sufficient net rental income to meet rental expenses, our ability to make required payments of interest and principal on our debt securities and to pay distributions to UDR's stockholders will be adversely affected. The following factors, among others, may affect the net rental income generated by our apartment communities:

the national and local economies;

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• local real estate market conditions, such as an oversupply of apartment homes;
• tenants' perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;
• our ability to provide adequate management, maintenance and insurance;
• rental expenses, including real estate taxes and utilities;
• competition from other apartment communities;
• changes in interest rates and the availability of financing;
• changes in governmental regulations and the related costs of compliance; and
• changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing.

Expenses associated with our investment in an apartment community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from that community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments, we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

Our Debt Level May Be Increased. Our current debt policy does not contain any limitations on the level of debt that we may incur, although our ability to incur debt is limited by covenants in our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

Financing May Not Be Available and Could Be Dilutive. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. We and other companies in the real estate industry have experienced limited availability of financing from time to time. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

Failure To Maintain Our Current Credit Ratings Could Adversely Affect Our Cost of Funds, Related Margins, Liquidity, and Access to Capital Markets. Moody's and Standard & Poor's, the major debt rating agencies, routinely evaluate our debt and have given us ratings on our senior unsecured debt and preferred stock. These ratings are based on a number of factors, which included their assessment of our financial strength, liquidity, capital structure, asset quality, and sustainability of cash flow and earnings. Due to changes in these factors and market conditions, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity, and access to capital markets.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR's Stock. Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the global financial crisis and the economic recession that followed it, the United States stock and credit markets experienced significant price volatility, dislocations and liquidity disruptions, which caused market prices of many stocks to fluctuate substantially and the spreads on debt financings to widen considerably. Those circumstances materially impacted liquidity in the financial markets at times, making terms for certain financings less attractive, and in some cases resulted in the unavailability of financing. Any future disruptions or uncertainty in the stock and credit markets may negatively impact our ability to refinance existing indebtedness and access additional financing for acquisitions, development of our properties and other purposes at reasonable terms or at all, which may negatively affect our business and the market price of UDR's common stock. If we are not successful in refinancing our existing indebtedness when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of UDR's common or

preferred stock.

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A Change in U.S. Government Policy Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. Fannie Mae and Freddie Mac are a major source of financing for secured multifamily rental real estate. We and other multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guaranteeing apartment loans. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. The Administration and lawmakers have proposed potential options for the future of mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, it would significantly reduce our access to debt capital and adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. Uncertainty in the future activity and involvement of Fannie Mae and Freddie Mac as a source of financing could negatively impact our ability to make acquisitions and make it more difficult or not possible for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

The Soundness of Financial Institutions Could Adversely Affect Us. We have relationships with many financial institutions, including lenders under our credit facilities, and, from time to time, we execute transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to complete transactions as intended, which could adversely affect our business and results of operations.

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of June 30, 2016, UDR had approximately \$719.6 million of variable rate indebtedness outstanding, which constitutes approximately 20.7% of total outstanding indebtedness as of such date. As of June 30, 2016, the Operating Partnership had approximately \$197.2 million of variable rate indebtedness outstanding, which constitutes approximately 44.0% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of UDR's common and preferred stock and debt securities.

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Termination of these hedging agreements typically involves costs, such as transaction fees or breakage costs.

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Risks Related to Tax Laws

We Would Incur Adverse Tax Consequences if UDR Failed to Qualify as a REIT. UDR has elected to be taxed as a REIT under the Code. Our qualification as a REIT requires us to satisfy numerous requirements, some on an annual and quarterly basis, established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. We intend that our current organization and method of operation enable us to continue to qualify as a REIT, but we may not so qualify or we may not be able to remain so qualified in the future. In addition, U.S. federal income tax laws governing REITs and other corporations and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. Future legislation, new regulations, administrative interpretations or court decisions could adversely affect our ability to qualify as a REIT or adversely affect UDR's stockholders.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to UDR's stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until the fifth calendar year after the year in which we first failed to qualify as a REIT. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to UDR's stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to UDR's stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

Certain of our subsidiaries have also elected to be taxed as REITs under the Code, and are therefore subject to the same risks in the event that any such subsidiary fails to qualify as a REIT in any taxable year.

Dividends Paid By REITs Generally Do Not Qualify for Reduced Tax Rates. In general, the maximum U.S. federal income tax rate for dividends paid to individual U.S. stockholders is 20%. Unlike dividends received from a corporation that is not a REIT, our distributions to individual stockholders generally are not eligible for the reduced rates.

UDR May Conduct a Portion of Our Business Through Taxable REIT Subsidiaries, Which are Subject to Certain Tax Risks. We have established several taxable REIT subsidiaries. Despite UDR's qualification as a REIT, its taxable REIT subsidiaries must pay income tax on their taxable income. In addition, we must comply with various tests to continue to qualify as a REIT for federal income tax purposes, and our income from and investments in our taxable REIT subsidiaries generally do not constitute permissible income and investments for these tests. While we will attempt to ensure that our dealings with our taxable REIT subsidiaries will not adversely affect our REIT qualification, we cannot provide assurance that we will successfully achieve that result. Furthermore, we may be subject to a 100% penalty tax, we may jeopardize our ability to retain future gains on real property sales, or our taxable REIT subsidiaries may be denied deductions, to the extent our dealings with our taxable REIT subsidiaries are not deemed to be arm's length in nature or are otherwise not respected.

REIT Distribution Requirements Limit Our Available Cash. As a REIT, UDR is subject to annual distribution requirements, which limit the amount of cash we retain for other business purposes, including amounts to fund our growth. We generally must distribute annually at least 90% of our net REIT taxable income, excluding any net capital gain, in order for our distributed earnings not to be subject to corporate income tax. We intend to make distributions to UDR's stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction. From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to

customers in the ordinary course of business would be treated as income from a prohibited transaction and subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property

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sales. In addition, income from a prohibited transaction might adversely affect UDR's ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

We Could Face Possible State and Local Tax Audits and Adverse Changes in State and Local Tax Laws. As discussed in the risk factors above, because UDR is organized and qualifies as a REIT, it is generally not subject to federal income taxes, but it is subject to certain state and local taxes. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and municipalities in which we own apartment communities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional state and local taxes. These increased tax costs could adversely affect our financial condition and the amount of cash available for the payment of distributions to UDR's stockholders. In the normal course of business, entities through which we own real estate may also become subject to tax audits. If such entities become subject to state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition.

The Operating Partnership and the DownREIT Partnership Intend to Qualify as Partnerships, But Cannot Guarantee That They Will Qualify. The Operating Partnership and the DownREIT Partnership intend to qualify as partnerships for federal income tax purposes, and intend to take that position for all income tax reporting purposes. If classified as partnerships, the Operating Partnership and the DownREIT Partnership generally will not be taxable entities and will not incur federal income tax liability. However, the Operating Partnership and the DownREIT Partnership would be treated as corporations for federal income tax purposes if they were "publicly traded partnerships," unless at least 90% of their income was qualifying income as defined in the Code. A "publicly traded partnership" is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although neither the Operating Partnership's nor the DownREIT Partnership's partnership units are traded on an established securities market, because of the redemption rights of their limited partners, the Operating Partnership's and DownREIT Partnership's units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and the Operating Partnership and the DownREIT Partnership may not qualify for one of the "safe harbors" under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. The Operating Partnership and the DownREIT Partnership may not meet this qualifying income test. If the Operating Partnership or the DownREIT Partnership were to be taxed as a corporation, they would incur substantial tax liabilities, and UDR would then fail to qualify as a REIT for tax purposes, unless it qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

Qualifying as a REIT Involves Highly Technical and Complex Provisions of the Code. Our qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the REIT income and asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination and for which we will not obtain independent appraisals, and upon our ability to successfully manage the composition of our income and assets on an ongoing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Risks Related to Our Organization and Ownership of UDR's Stock

Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of UDR's Common Stock. The stock markets, including the New York Stock Exchange ("NYSE"), on which we list UDR's common stock, have experienced significant price and volume fluctuations. As a result, the market price of UDR's common stock could be similarly volatile, and investors in UDR's common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In addition to the risks listed in this "Risk Factors" section, a number of factors could negatively affect the price per share of UDR's common stock, including:

• general market and economic conditions;

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actual or anticipated variations in UDR's quarterly operating results or dividends or UDR's payment of dividends in shares of UDR's stock;

changes in our funds from operations or earnings estimates;

difficulties or inability to access capital or extend or refinance existing debt;

decreasing (or uncertainty in) real estate valuations;

changes in market valuations of similar companies;

publication of research reports about us or the real estate industry;

the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate companies);

general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of UDR's stock to demand a higher annual yield from future dividends;

a change in analyst ratings;

additions or departures of key management personnel;

adverse market reaction to any additional debt we incur in the future;

speculation in the press or investment community;

terrorist activity which may adversely affect the markets in which UDR's securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;

failure to qualify as a REIT;

strategic decisions by us or by our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;

failure to satisfy listing requirements of the NYSE;

governmental regulatory action and changes in tax laws; and

the issuance of additional shares of UDR's common stock, or the perception that such sales might occur, including under UDR's at-the-market equity distribution program.

Many of the factors listed above are beyond our control. These factors may cause the market price of shares of UDR's common stock to decline, regardless of our financial condition, results of operations, business or our prospects.

We May Change the Dividend Policy for UDR's Common Stock in the Future. The decision to declare and pay dividends on UDR's common stock, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of our board of directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of directors considers relevant. Any change in our dividend policy could have a material adverse effect on the market price of UDR's common stock.

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR's Stockholders' Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR's stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR's stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders

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representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

Limitations on Share Ownership and Limitations on the Ability of UDR's Stockholders to Effect a Change in Control of Our Company Restricts the Transferability of UDR's Stock and May Prevent Takeovers That are Beneficial to UDR's Stockholders. One of the requirements for maintenance of our qualification as a REIT for U.S. federal income tax purposes is that no more than 50% in value of our outstanding capital stock may be owned by five or fewer individuals, including entities specified in the Code, during the last half of any taxable year. Our charter contains ownership and transfer restrictions relating to UDR's stock primarily to assist us in complying with this and other REIT ownership requirements; however, the restrictions may have the effect of preventing a change of control, which does not threaten REIT status. These restrictions include a provision that generally limits ownership by any person of more than 9.9% of the value of our outstanding equity stock, unless our board of directors exempts the person from such ownership limitation, provided that any such exemption shall not allow the person to exceed 13% of the value of our outstanding equity stock. Absent such an exemption from our board of directors, the transfer of UDR's stock to any person in excess of the applicable ownership limit, or any transfer of shares of such stock in violation of the ownership requirements of the Code for REITs, will be considered null and void, and the intended transferee of such stock will acquire no rights in such shares. These provisions of our charter may have the effect of delaying, deferring or preventing someone from taking control of us, even though a change of control might involve a premium price for UDR's stockholders or might otherwise be in UDR's stockholders' best interests.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

From time to time the Company issues shares of the Company's common stock in exchange for operating partnership units ("OP Units") tendered to the Operating Partnership for redemption in accordance with the provisions of the Operating Partnership's limited partnership agreement. The holders of OP Units have the right to require the Operating Partnership to redeem all or a portion of their OP Units in exchange for a cash payment based on the market value of our common stock at the time of redemption. However, the Operating Partnership's obligation to pay the cash amount is subject to the prior right of the Company to acquire such OP Units in exchange for either the cash amount or the number of shares of the Company's common stock equal to the number of OP Units being redeemed.

During the three months ended June 30, 2016, we issued 2,080 shares of our common stock upon redemption of OP Units.

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Repurchase of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended June 30, 2016.

Period	Total Number of Shares Purchased	Weighted Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
Beginning Balance	9,967,490	\$ 22.00	9,967,490	15,032,510
April 1, 2016 through April 30, 2016	—	—	—	15,032,510
May 1, 2016 through May 31, 2016	—	—	—	15,032,510
June 1, 2016 through June 30, 2016	—	—	—	15,032,510
Balance as of June 30, 2016	9,967,490	\$ 22.00	9,967,490	15,032,510

(a) This number reflects the amount of shares that were available for purchase under our 10,000,000 share repurchase program authorized in February 2006 and our 15,000,000 share repurchase program authorized in January 2008.

During the three months ended June 30, 2016, certain of our employees surrendered shares of common stock owned by them to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted shares of common stock issued under our 1999 Long-Term Incentive Plan (the "LTIP"). The following table summarizes all of these repurchases during the three months ended June 30, 2016.

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 through April 30, 2016	—	\$ —	N/A	N/A
May 1, 2016 through May 31, 2016	244	35.30	N/A	N/A
June 1, 2016 through June 30, 2016	13,252	34.20	N/A	N/A
Total	13,496	\$ 34.22		

(a) The price paid per share is based on the closing price of our common stock as of the date of the determination of the statutory minimum for federal and state tax obligations.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

The exhibits filed or furnished with this Report are set forth in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the registrants has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UDR, Inc.

Date: July 27, 2016 /s/ Shawn G. Johnston

Shawn G. Johnston
Chief Accounting Officer and Vice
President (Principal Accounting
Officer and Interim Principal
Financial Officer)

United Dominion Realty, L.P.

By: UDR, Inc., its general partner

Date: July 27, 2016 /s/ Shawn G. Johnston

Shawn G. Johnston
Chief Accounting Officer and Vice
President (Principal Accounting
Officer and Interim Principal
Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Restatement of UDR, Inc. (incorporated by reference to Exhibit 3.09 to UDR, Inc.'s Current Report on Form 8-K dated July 27, 2005 and filed with the SEC on August 1, 2005).
3.2	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007 (incorporated by reference to Exhibit 3.2 to UDR, Inc.'s Current Report on Form 8-K dated March 14, 2007 and filed with the SEC on March 15, 2007).
3.3	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated August 30, 2011 and filed with the State Department of Assessments and Taxation of the State of Maryland on August 31, 2011 (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated August 29, 2011 and filed with the SEC on September 1, 2011).
3.4	Certificate of Limited Partnership of United Dominion Realty, L.P. dated February 19, 2004 (incorporated by reference to Exhibit 3.4 to United Dominion Realty, L.P.'s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 dated and filed with the SEC on October 15, 2010).
3.5	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004 (incorporated by reference to Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003).
3.6	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated June 24, 2005 (incorporated by reference to Exhibit 10.06 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
3.7	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 23, 2006 (incorporated by reference to Exhibit 10.6 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
3.8	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 2, 2007 (incorporated by reference to Exhibit 99.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.9	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated December 27, 2007 (incorporated by reference to Exhibit 10.25 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007).
3.10	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated March 7, 2008 (incorporated by reference to Exhibit 10.53 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008).
3.11	Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated December 9, 2008 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated December 9, 2008 and filed with the Commission on December 10, 2008).
3.12	

Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of March 13, 2009 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated March 18, 2009 and filed with the SEC on March 19, 2009).

3.13 Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of November 17, 2010 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated November 18, 2010 and filed with the SEC on November 18, 2010).

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Exhibit No.	Description
3.14	Ninth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of December 4, 2015 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated December 4, 2015 and filed with the SEC on December 10, 2015).
3.15	Amended and Restated Bylaws of UDR, Inc. (as amended through May 12, 2016) (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated May 12, 2016 and filed with the SEC on May 18, 2016).
10.1*	Letter Agreement between UDR, Inc. and Thomas M. Herzog, dated May 12, 2016 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated May 12, 2016 and filed with the SEC on May 18, 2016).
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends of UDR, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges of United Dominion Realty, L.P.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR, Inc.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer of UDR, Inc.
31.3	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR Inc., general partner of United Dominion Realty, L.P.
31.4	Rule 13a-14(a) Certification of the Principal Financial Officer of UDR Inc., general partner of United Dominion Realty, L.P.
32.1	Section 1350 Certification of the Chief Executive Officer of UDR, Inc.
32.2	Section 1350 Certification of the Principal Financial Officer of UDR, Inc.
32.3	Section 1350 Certification of the Chief Executive Officer of UDR Inc., general partner of United Dominion Realty, L.P.
32.4	Section 1350 Certification of the Principal Financial Officer of UDR Inc., general partner of United Dominion Realty, L.P.
101	XBRL (Extensible Business Reporting Language). The following materials from this Quarterly Report on Form 10-Q for the periods ended June 30, 2016, formatted in XBRL: (i) consolidated balance sheets of UDR, Inc., (ii) consolidated statements of operations of UDR, Inc., (iii) consolidated statements of comprehensive income/(loss) of UDR, Inc., (iv) consolidated statements of changes in equity of UDR, Inc., (v) consolidated statements of cash flows of UDR, Inc., (vi) notes to consolidated financial statements of UDR, Inc., (vii) consolidated balance sheets of United Dominion Realty, L.P., (viii) consolidated statements of operations of United Dominion Realty, L.P., (ix) consolidated statements of comprehensive income/(loss) of United Dominion Realty, L.P., (x) consolidated statements of changes in capital of United Dominion Realty, L.P., (xi) consolidated statements of cash flows of United Dominion Realty, L.P., and (xii) notes to consolidated financial statements of United Dominion Realty, L.P.

* Management Contract or Compensatory Plan or Arrangement

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