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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b 2 of the Exchange Act.

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

UDR, Inc.
United Dominion Realty, L.P.

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 October 26, 2018 was 268,390,557.

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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 September 30, 2018 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"), also a Delaware limited partnership of which UDR is the sole general partner. 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 "OP Units" and "DownREIT Units," respectively, 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 the Company and the Operating Partnership, which are reflected in our disclosures in this Report. UDR is a real estate investment trust ("REIT"), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiary ("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 September 30, 2018, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,137,816 OP Units, representing approximately 94.8% of the total outstanding OP Units in 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 UDR's role as 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 presented in this report for each of UDR and the Operating Partnership.

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UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 9,809,142	$ 9,584,716
Less: accumulated depreciation	(3,544,781)	(3,326,312)
Real estate held for investment, net	6,264,361	6,258,404
Real estate under development (net of accumulated depreciation of $3,674 and $3,854, respectively)	347,012	588,636
Real estate held for disposition (net of accumulated depreciation of $77,872 and $0, respectively)	89,964	—
Total real estate owned, net of accumulated depreciation	6,701,337	6,847,040
Cash and cash equivalents	1,084	2,038
Restricted cash	26,996	19,792
Notes receivable, net	41,009	19,469
Investment in and advances to unconsolidated joint ventures, net	767,376	720,830
Other assets	140,982	124,104
Total assets	$ 7,678,784	$ 7,733,273
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$ 798,241	$ 803,269
Unsecured debt, net	3,012,939	2,868,394
Real estate taxes payable	38,581	18,349
Accrued interest payable	27,750	33,432
Security deposits and prepaid rent	31,821	31,916
Distributions payable	95,372	91,455
Accounts payable, accrued expenses, and other liabilities	73,812	102,956
Total liabilities	4,078,516	3,949,771
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	992,805	948,138
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,780,994 shares issued and outstanding at September 30, 2018 and December 31, 2017	46,200	46,200
Series F; 15,804,393 and 15,852,721 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1	1

Common stock, $0.01 par value; 350,000,000 shares authorized: 268,390,557 and 267,822,069 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	2,684	2,678
Additional paid-in capital	4,619,570	4,651,205
Distributions in excess of net income	(2,075,402)	(1,871,603)
Accumulated other comprehensive income/(loss), net	202	(2,681)
Total stockholders' equity	2,593,255	2,825,800
Noncontrolling interests	14,208	9,564
Total equity	2,607,463	2,835,364
Total liabilities and equity	$ 7,678,784	$ 7,733,273

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES:				
Rental income	$ 263,256	$ 248,264	$ 770,373	$ 734,193
Joint venture management and other fees	2,888	2,827	8,819	8,718
Total revenues	266,144	251,091	779,192	742,911
OPERATING EXPENSES:				
Property operating and maintenance	44,090	42,362	126,129	122,574
Real estate taxes and insurance	34,352	31,181	99,541	90,792
Property management	7,240	6,827	21,185	20,190
Other operating expenses	3,314	1,950	8,148	6,010
Real estate depreciation and amortization	107,881	107,171	322,537	320,653
General and administrative	11,896	12,467	36,028	36,976
Casualty-related charges/(recoveries), net	678	2,056	2,364	3,749
Other depreciation and amortization	1,682	1,585	5,057	4,760
Total operating expenses	211,133	205,599	620,989	605,704
Operating income	55,011	45,492	158,203	137,207
Income/(loss) from unconsolidated entities	(1,382)	1,819	(5,091)	11,591
Interest expense	(34,401)	(30,095)	(95,942)	(94,500)
Interest income and other income/(expense), net	1,188	481	5,075	1,423
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	20,416	17,697	62,245	55,721
Tax (provision)/benefit, net	(158)	(127)	(618)	(825)
Income/(loss) from continuing operations	20,258	17,570	61,627	54,896
Gain/(loss) on sale of real estate owned, net of tax	—	—	70,300	2,132
Net income/(loss)	20,258	17,570	131,927	57,028
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,616)	(1,415)	(10,819)	(4,607)
Net (income)/loss attributable to noncontrolling interests	(32)	35	(141)	(107)
Net income/(loss) attributable to UDR, Inc.	18,610	16,190	120,967	52,314
Distributions to preferred stockholders — Series E (Convertible)	(971)	(926)	(2,897)	(2,784)
Net income/(loss) attributable to common stockholders	$ 17,639	$ 15,264	$ 118,070	$ 49,530
Common distributions declared per share	$ 0.3225	$ 0.3100	$ 0.9675	$ 0.9300

Income/(loss) per weighted average common share:

Basic	$ 0.07	$ 0.06	$ 0.44	$ 0.19
Diluted	$ 0.07	$ 0.06	$ 0.44	$ 0.18
Weighted average number of common shares outstanding:				
Basic	267,727	267,056	267,529	266,940
Diluted	268,861	269,062	269,020	268,851

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income/(loss)	$ 20,258	$ 17,570	$ 131,927	$ 57,028
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	2,320	131	4,312	256
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	(564)	119	(1,162)	1,328
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	1,756	250	3,150	1,584
Comprehensive income/(loss)	22,014	17,820	135,077	58,612
Comprehensive (income)/loss attributable to noncontrolling interests	(1,798)	(1,401)	(11,230)	(4,856)
Comprehensive income/(loss) attributable to UDR, Inc.	$ 20,216	$ 16,419	$ 123,847	$ 53,756

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands, except 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, 2017	$ 46,201	$ 2,678	$ 4,651,205	$ (1,871,603)	$ (2,681)	$ 9,564	$ 2,835,364
Net income/(loss) attributable to UDR, Inc.	—	—	—	120,967	—	—	120,967
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	107	107
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	108	108
Repurchase of common shares	—	(6)	(19,982)	—	—	—	(19,988)
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	4,429	4,429
Other comprehensive income/(loss)	—	—	—	—	2,883	—	2,883
Exercise of stock options, net	—	8	(23,061)	—	—	—	(23,053)
Issuance/(forfeiture) of common and restricted shares, net	—	(1)	(1,738)	—	—	—	(1,739)
Adjustment for conversion of noncontrolling interest of unitholders in the	—	5	13,146	—	—	—	13,151

Operating Partnership and DownREIT Partnership							
Common stock distributions declared ($0.9675 per share)	—	—	—	(259,214)	—	—	(259,214)
Preferred stock distributions declared-Series E ($1.0476 per share)	—	—	—	(2,897)	—	—	(2,897)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(62,655)	—	—	(62,655)
Balance at September 30, 2018	$ 46,201	$ 2,684	$ 4,619,570	$ (2,075,402)	$ 202	$ 14,208	$ 2,607,463

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income/(loss)	$ 131,927	$ 57,028
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	327,594	325,413
(Gain)/loss on sale of real estate owned, net of tax	(70,300)	(2,132)
(Income)/loss from unconsolidated entities	5,091	(11,591)
Return on investment in unconsolidated joint ventures	2,848	3,609
Amortization of share-based compensation	10,694	10,072
Other	2,108	13,069
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(13,199)	(7,782)
Increase/(decrease) in operating liabilities	9,961	1,590
Net cash provided by/(used in) operating activities	406,724	389,276
Investing Activities		
Acquisition of real estate assets	—	(65,381)
Proceeds from sales of real estate investments, net	89,433	3,250
Development of real estate assets	(136,170)	(190,456)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(76,381)	(91,633)
Capital expenditures — non-real estate assets	(2,963)	(3,230)
Investment in unconsolidated joint ventures	(85,059)	(102,170)
Distributions received from unconsolidated joint ventures	30,574	65,053
Purchase deposits on pending acquisitions	(1,000)	—
Repayment/(issuance) of notes receivable, net	(21,540)	1,196
Net cash provided by/(used in) investing activities	(203,106)	(383,371)
Financing Activities		
Payments on secured debt	(82,472)	(325,212)
Proceeds from the issuance of secured debt	80,000	—
Net proceeds from the issuance of unsecured debt	115,000	584,292
Net proceeds/(repayment) of revolving bank debt	29,243	19,367
Repurchase of common shares	(19,988)	—
Distributions paid to redeemable noncontrolling interests	(24,297)	(23,269)
Distributions paid to preferred stockholders	(2,854)	(2,776)
Distributions paid to common stockholders	(255,683)	(244,788)

Other	(36,317)	(13,424)
Net cash provided by/(used in) financing activities	(197,368)	(5,810)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	6,250	95
Cash, cash equivalents, and restricted cash, beginning of year	21,830	22,106
Cash, cash equivalents, and restricted cash, end of period	$ 28,080	$ 22,201
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 104,136	$ 95,008
Cash paid/(refunds received) for income taxes	579	1,803
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	$ —	$ 32,260
Vesting of LTIP Units	4,397	2,317
Development costs and capital expenditures incurred but not yet paid	23,437	48,995
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (343,653 shares in 2018 and 202,218 shares in 2017)	13,151	7,437
Dividends declared but not yet paid	95,372	91,454
The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:		
Cash, cash equivalents, and restricted cash, beginning of year:		
Cash and cash equivalents	$ 2,038	$ 2,112
Restricted cash	19,792	19,994
Total cash, cash equivalents, and restricted cash as shown above	$ 21,830	$ 22,106
Cash, cash equivalents, and restricted cash, end of period:		
Cash and cash equivalents	$ 1,084	$ 1,788
Restricted cash	26,996	20,413
Total cash, cash equivalents, and restricted cash as shown above	$ 28,080	$ 22,201

See accompanying notes to consolidated financial statements.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries ("UDR," the "Company," "we," "our," or "us"), is a self-administere real estate investment trust, or REIT, that owns, 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 September 30, 2018, there were 183,636,543 units in the Operating Partnership ("OP Units") outstanding, of which 174,248,699 OP Units, or 94.9%, were owned by UDR and 9,387,844 OP Units, or 5.1%, were owned by outside limited partners. As of September 30, 2018, there were 32,367,380 units in the DownREIT Partnership ("DownREIT Units") outstanding, of which 17,199,085, or 53.1%, were owned by UDR (including 13,470,651 DownREIT Units, or 41.6%, that were held by the Operating Partnership) and 15,168,295, or 46.9%, 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 September 30, 2018, and results of operations for the three and nine months ended September 30, 2018 and 2017, 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, 2017 appearing in UDR's Annual Report on Form 10 K, filed with the Securities and Exchange Commission on February 20, 2018.

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 other than those noted in Note 6, Secured and Unsecured Debt, Net and Note 10, Derivatives and Hedging Activity.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities. The ASU aims to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The updated standard would have been effective for the Company on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU is permitted. The Company early adopted the guidance on January 1, 2018; however, the updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

In January 2017, the FASB issued ASU 2017 01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The ASU changes the definition of a business to assist entities with evaluating whether a set of transferred assets is a business. As a result, the accounting for acquisitions of real estate could be impacted. The updated standard was effective for the Company on January 1, 2018. The ASU will be applied prospectively to any transactions occurring

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

after adoption. The Company expects that the updated standard will result in fewer acquisitions of real estate meeting the definition of a business and fewer acquisition-related costs being expensed in the period incurred.

In November 2016, the FASB issued ASU 2016 18, Statement of Cash Flows (Topic 230), Restricted Cash. The ASU addresses the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard was effective for the Company on January 1, 2018, and was applied retrospectively to all periods presented. The updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

As a result of the adoption of ASU 2016-18, for the nine months ended September 30, 2017, the following line items in the following amounts were reclassified on the Consolidated Statements of Cash Flows (in thousands):

	Nine months ended September 30, 2017	
(Increase)/decrease in operating assets	$	407
Net cash provided by /(used in) operating activities	$	407
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	$	12
Net cash provided by /(used in) investing activities	$	12
Net increase/(decrease) in cash, cash equivalents, and restricted cash	$	419

In June 2016, the FASB issued 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; however, early adoption of the ASU 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 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. The standard will be effective for the Company on January 1, 2019; however, early adoption of the standard is permitted.

While the Company is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, we expect to adopt the guidance on its effective date. The Company intends to elect the following package of practical expedients provided by the standard which includes: (i) an entity need not reassess whether any expired or existing contract is a lease or contains a lease, (ii) an entity need not reassess the lease classification of any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases. The Company anticipates recognizing right-of-use assets and related lease liabilities on our consolidated balance sheets upon adoption equal to the present value of the remaining minimum lease payments related to ground leases for communities where we are the lessee. The Company plans to continue recognizing lease expense for these leases in a manner similar to current accounting upon adoption of the standard based on our election of the package of practical expedients. However, in the event we modify existing ground leases and/or enter into new ground leases subsequent to the adoption of the standard, such leases would likely be classified as finance leases under the standard and require expense recognition based on the effective interest method. Under the standard, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, we will be required to expense internal leasing costs as incurred.

In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, Leases. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the

consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Company intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The Company also intends to elect the transition option.

In January 2016, the FASB issued ASU No. 2016 01, Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The updated standard requires certain equity securities to be measured at fair value on the balance sheet, with changes in fair value recognized in net income. The standard was effective for the Company on January 1, 2018. The Company holds one investment in equity securities subject to the updated guidance. As the investment does not have a readily determinable fair value, the Company elected the measurement alternative under which the investment is measured at cost, less any impairment, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. During the three and nine months ended September 30, 2018, the Company recorded gains of zero and $2.1 million, respectively, in Interest income and other income/(expense), net on the Consolidated Statements of Operations as a result of measuring the investment using this measurement alternative. The Company does not view the impact, as a result of the adoption of the updated standard, to be material to the consolidated financial statements. Disclosures were updated pursuant to the requirements of the ASU.

In May 2014, the FASB issued ASU No. 2014 09, Revenue from Contracts with Customers. ASU No. 2014-09 amended the FASB Accounting Standards Codification ("ASC") by creating ASC Topic 606, 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 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, including industry-specific revenue guidance. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method. ASC Topic 606 was effective for the Company on January 1, 2018, at which time the Company adopted it using the modified retrospective approach. However, as the majority of the Company's revenue is from rental income related to leases, the ASU did not have a material impact on the consolidated financial statements. Related disclosures are provided and/or updated pursuant to the requirements of the ASU.

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 consolidation guidance. The Company first evaluates whether each entity is a variable interest entity ("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

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, utilizing the modified retrospective method, under which only contracts entered into after the effective date or not complete as of

the effective date are subject to the new standard and an adjustment to the opening balance of retained earnings is made to recognize any required adjustments. As a result of the adoption, the Company did not make an adjustment to retained earnings because no open contracts required different treatment under the new standard.

Revenue is measured based on consideration specified in contracts with customers. The Company recognizes revenue when it satisfies a performance obligation by providing the services specified in a contract to the customer.

The following is a description of the principal streams from which the Company generates its revenue:

Lease Revenue

Lease revenue related to leases is recognized on an accrual basis when due from residents or tenants in accordance with ASC 840, Leases. Rental payments are generally due on a monthly basis and recognized on a straight-line basis over the reasonably assured lease term. In addition, in circumstances where a lease incentive is provided to tenants, the incentive is recognized as a reduction of lease revenue on a straight-line basis over the reasonably assured lease term.

Reimbursements Revenue

Reimbursements revenue includes all pass-through revenue from retail and residential leases and common area maintenance reimbursements from retail leases. Reimbursements revenue is recognized on a gross basis as earned as the Company has determined it is the principal provider of the services.

Other Revenue

Other revenue is generated by services provided by the Company to its retail and residential tenants and other unrelated third parties. These fees are generally recognized as earned.

Joint venture management and other fees

The Joint venture management and other fees revenue consists of management fees charged to our equity method joint ventures per the terms of contractual agreements and other fees. Joint venture fee revenue is recognized monthly as the management services are provided and the fees are earned or upon a transaction whereby the Company earns a fee.

Real Estate Sales Gain Recognition

For sale transactions resulting in a transfer of a controlling financial interest of a property, the Company generally derecognizes the related assets and liabilities from its Consolidated Balance Sheets and records the gain or loss in the period in which the transfer of control occurs. If control of the property has not transferred to the counterparty, the criteria for derecognition are not met and the Company will continue to recognize the related assets and liabilities on its Consolidated Balance Sheets.

Sale transactions to entities in which the Company sells a controlling financial interest in a property but retains a noncontrolling interest are accounted for as partial sales. Partial sales resulting in a change in control are accounted for at fair value and a full gain or loss is recognized. Therefore, the Company will record a gain or loss on the partial interest sold, and the initial measurement of our retained interest will be accounted for at fair value.

Sales of real estate to joint ventures or other noncontrolled investees are also accounted for at fair value and the Company will record a full gain or loss in the period the property is contributed.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

Disaggregation of Revenue

Rental income, as disclosed on the Consolidated Statements of Operations, is disaggregated by principal revenue stream and by reportable segment in the following tables (dollars in thousands). Joint venture management and other fees are not included in the tables as they are not allocable to a specific reportable segment or segments.

	Three Months Ended September 30, (a)		Nine Months Ended September 30, (b)	
	2018	2017	2018	2017
Lease Revenue (c)				
Same-Store Communities				
West Region	$ 95,447	$ 91,399	$ 277,317	$ 265,595
Mid-Atlantic Region	51,291	49,772	152,866	148,916
Northeast Region	37,201	36,726	110,541	109,495
Southeast Region	27,773	26,221	81,555	77,697
Southwest Region	11,647	11,446	29,561	29,126
Non-Mature Communities/Other	19,940	13,836	58,570	46,879
Total segment and consolidated lease revenue	$ 243,299	$ 229,400	$ 710,410	$ 677,708
Reimbursements Revenue				
Same-Store Communities				
West Region	$ 4,415	$ 4,111	$ 12,908	$ 12,295
Mid-Atlantic Region	2,247	2,121	6,850	6,629
Northeast Region	672	691	1,952	2,131
Southeast Region	1,730	1,634	5,124	4,872
Southwest Region	651	624	1,649	1,572
Non-Mature Communities/Other	1,981	1,737	6,521	5,776
Total segment and consolidated reimbursements revenue	$ 11,696	$ 10,918	$ 35,004	$ 33,275
Other Revenue				
Same-Store Communities				
West Region	$ 2,753	$ 2,754	$ 8,231	$ 8,150
Mid-Atlantic Region	1,785	1,646	5,095	4,854
Northeast Region	949	745	2,481	2,188
Southeast Region	1,481	1,442	4,793	4,534
Southwest Region	604	550	1,486	1,483
Non-Mature Communities/Other	689	809	2,873	2,001
Total segment and consolidated other revenue	$ 8,261	$ 7,946	$ 24,959	$ 23,210

Total Revenue				
Same-Store Communities				
West Region	$ 102,615	$ 98,264	$ 298,456	$ 286,040
Mid-Atlantic Region	55,323	53,539	164,811	160,399
Northeast Region	38,822	38,162	114,974	113,814
Southeast Region	30,984	29,297	91,472	87,103
Southwest Region	12,902	12,620	32,696	32,181
Non-Mature Communities/Other	22,610	16,382	67,964	54,656
Total segment and consolidated total revenue	$ 263,256	$ 248,264	$ 770,373	$ 734,193

(a) Same-Store Community population consisted of 38,307 apartment homes.
(b) Same-Store Community population consisted of 37,673 apartment homes.
(c) Lease Revenue is subject to recognition under ASC 840, Leases.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

Notes Receivable

The following table summarizes our Notes receivable, net as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	Interest rate at September 30, 2018		Balance Outstanding September 30, 2018	December 31, 2017
Note due March 2019 (a)	12.00	%	$ 20,000	$ —
Note due February 2020 (b)	10.00	%	14,209	13,669
Note due October 2020 (c)	8.00	%	2,000	2,000
Note due August 2022 (d)	10.00	%	4,800	3,800
Total notes receivable, net			$ 41,009	$ 19,469

(a) In March 2018, the Company entered into a secured note receivable with an unaffiliated third party with an aggregate commitment of $20.0 million, of which $20.0 million has been funded. Interest payments are due when the loan matures. The note matures in March 2019 and is secured by a parcel of land.

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $16.4 million, of which $14.2 million has been funded, including $0.5 million during the nine months ended September 30, 2018. 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).

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.0 million, of which $2.0 million has been funded. 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) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $10.0 million, of which $4.8 million has been funded, including $1.0 million during the nine months ended September 30, 2018. 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) August 2022.

The Company recognized $1.2 million and $0.4 million of interest income from notes receivable during the three months ended September 30, 2018 and 2017, respectively, and $2.9 million and $1.4 million during the nine months ended September 30, 2018 and 2017, respectively, none of which was related party interest income and all of which 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 nine months ended September 30, 2018 and 2017, the Company's other comprehensive income/(loss) consisted of the gain/(loss) 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. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the three months ended September 30, 2018 and 2017 was $0.2 million and less than $0.1 million, respectively, and during the nine months ended September 30, 2018 and 2017, was $0.3 million and $0.1 million, respectively.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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”).

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of September 30, 2018 and December 31, 2017, UDR’s net deferred tax asset was $0.1 million and $0.1 million, respectively.

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 September 30, 2018. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2014 through 2017 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 (provision)/benefit, net on the Consolidated Statements of Operations.

As of December 31, 2017, management of the Company had completed its review of the effects of the Tax Cuts and Jobs Act, under which it recognized a one-time tax benefit of $1.1 million related to the recording of previously reserved receivables for REIT AMT credits that became refundable.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and held for disposition properties. As of September 30, 2018, the Company owned and consolidated 127 communities in 11 states plus the District of Columbia totaling 40,420 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Land	$ 1,824,847	$ 1,780,229
Depreciable property — held and used:		
Land improvements	195,051	189,919
Building, improvements, and furniture, fixtures and equipment	7,789,244	7,614,568
Under development:		
Land and land improvements	42,138	109,468
Building, improvements, and furniture, fixtures and equipment	308,548	483,022
Real estate held for disposition:		
Land and land improvements	28,889	—
Building, improvements, and furniture, fixtures and equipment	138,947	—
Real estate owned	10,327,664	10,177,206
Accumulated depreciation	(3,626,327)	(3,330,166)
Real estate owned, net	$ 6,701,337	$ 6,847,040

Acquisitions

The Company did not have any acquisitions during the nine months ended September 30, 2018.

Dispositions

During the nine months ended September 30, 2018, the Company sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of $90.5 million, resulting in a gain of $70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

In September 2018, the Company entered into an agreement to sell an operating community in Fairfax, Virginia with a total of 604 apartment homes for a sales price of approximately $160.0 million. The operating community was classified as held for disposition as of September 30, 2018 and the sale is expected to close in the fourth quarter of 2018.

Developments

During the nine months ended September 30, 2018, the Company completed the development of a 516 apartment home community in Huntington Beach, California.

Other Activity

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

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

direct costs of development and redevelopment and capitalized interest, for the three months ended September 30, 2018 and 2017, were $1.6 million and $2.2 million, respectively, and $6.6 million and $6.6 million for the nine months ended September 30, 2018 and 2017, respectively. Total interest capitalized was $1.6 million and $4.6 million for the three months ended September 30, 2018 and 2017, respectively, and $9.8 million and $14.0 million for the nine months ended September 30, 2018 and 2017, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion of the costs and depreciation commences over the estimated useful life.

In connection with the acquisition of certain properties, the Company agreed to pay certain of the tax liabilities of certain contributors if the Company sells one or more of the properties contributed in a taxable transaction prior to the expiration of specified periods of time following the acquisition. The Company may, however, sell, without being required to pay any tax liabilities, any of such properties in a non-taxable transaction, including, but not limited to, a tax-deferred Section 1031 exchange.

Further, the Company has agreed to maintain certain debt that may be guaranteed by certain contributors for specified periods of time following the acquisition. The Company, however, has the ability to refinance or repay guaranteed debt or to substitute new debt if the debt and the guaranty continue to satisfy certain conditions.

4. VARIABLE INTEREST 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 consolidates, the Operating Partnership and DownREIT Partnership based on its role as the sole general partner of the Operating Partnership and DownREIT Partnership. 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 DownREIT Partnership.

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. 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.

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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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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 September 30, 2018 and December 31, 2017 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties September 30, 2018		Number of Apartment Homes September 30, 2018	Investment at September 30, 2018	Investment at December 31, 2017	UDR’s Ownership Interest September 30, 2018	UDR’s Ownership Interest December 31, 2017
Operating and development:								
UDR/MetLife I	Los Angeles, CA	1	development community (a)	150	$ 34,869	$ 34,653	50.0%	50.0%
UDR/MetLife II	Various	18	operating communities	4,059	299,953	303,702	50.0%	50.0%
Other UDR/MetLife Joint Ventures	Various	5	operating communities	1,437	119,893	135,563	50.6%	50.6%
UDR/MetLife Vitruvian Park®	Addison, TX	3	operating communities;	1,513	71,225	78,404	50.0%	50.0%
		1	development community (a);					
		5	land parcels					
UDR/KFH	Washington, D.C.	3	operating communities	660	6,453	8,958	30.0%	30.0%
West Coast Development Joint Ventures (c)	Los Angeles, CA	1	operating community	293	36,645	37,916	47.0%	47.0%
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment, preferred equity investments and other investments					$ 569,038	$ 599,196		

	Investment at	Income/(loss) from investments Three Months Ended	Nine Month

Developer Capital Program (b)	Location	Rate	Years To Maturity	UDR Commitment	September 30, 2018	December 31, 2017	September 30, 2018	2017	September 3 2018	2
Preferred equity investments:										
West Coast Development Joint Ventures (c)	Various	6.5 %	N/A	$ —	$ 65,476	$ 64,226	$ 25	$ 3,266	$ 974	$
1532 Harrison (d)	San Francisco, CA	11.0 %	3.8	24,645	21,373	11,346	721	226	1,492	
1200 Broadway (e)	Nashville, TN	8.0 %	4.0	55,558	48,805	18,011	859	65	1,870	
Junction (f)	Santa Monica, CA	12.0 %	4.0	8,800	8,938	—	141	—	141	
1300 Fairmount (g)	Philadelphia, PA	9.0 %	5.0	51,393	2,670	—	27	—	27	
Essex (h)	Orlando, FL	12.5 %	5.0	12,886	6,326	—	46	—	46	
Other investments:										
The Portals (i)	Washington, D.C.	11.0 %	2.7	38,559	41,996	26,535	1,015	330	2,523	
Other investment ventures	N/A	N/A	N/A	$ 15,000	2,754	1,516	$ (77)	$ —	$ (262)	$
Total Developer Capital Program					198,338	121,634				
Total investment in and advances to unconsolidated joint ventures, net					$ 767,376	$ 720,830				

(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 upon completion of development. As of September 30, 2018, 383 apartment homes had been completed in UDR/MetLife Vitruvian Park® and 150 apartment homes had been completed at Vision on Wilshire, which is owned by UDR/MetLife I.

(b) The Developer Capital Program is the program through which the Company makes investments, including preferred equity investments, mezzanine loans or other structured investments that may receive a fixed yield on the investment and may include provisions pursuant to which the Company participates in the increase in value of the property upon monetization of the applicable property and/or holds fixed price purchase options.

(c) In May 2015, the Company entered into a joint venture agreement with an unaffiliated joint venture partner and agreed to pay $136.3 million for a 48% ownership interest in a portfolio of five communities that were under construction. The communities are located in three of the Company's core, coastal markets: Seattle, Washington, Los Angeles, California and Orange County, California. UDR earns a 6.5% preferred return on its investment through each individual community's date of stabilization, defined as when a community reaches 80% occupancy for 90 consecutive days, while the joint venture partner is allocated all operating income and expense during the pre-stabilization period. Upon stabilization, income and expense are shared based on each partner's ownership percentage and the Company no longer receives a 6.5% preferred return on its investment in the

stabilized community. The Company serves as property manager and earns a management fee during the lease-up phase and subsequent operation of each of the communities. The unaffiliated joint venture partner is the general partner of the joint venture and the developer of the communities.

At inception of the agreement, the Company had a fixed-price option to acquire the remaining interest in each community commencing one year after completion. In the event the Company does not exercise its options to purchase at least two communities, the unaffiliated joint venture partner will be entitled to earn a contingent disposition fee equal to a 6.5% return on its implied equity in the communities not acquired. The unaffiliated joint venture partner is providing certain guaranties.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

In January 2017, the Company exercised its fixed-price option to purchase the joint venture partner's ownership interest in one of the five communities, a 244 home operating community in Seattle, Washington, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately $66.0 million. As a result, the Company consolidated the operating community and it is no longer accounted for as a preferred equity investment in an unconsolidated joint venture.

During 2017, the joint venture sold two of the four remaining communities, a 211 home operating community in Seattle, Washington for a sales price of approximately $101.3 million and a 399 home operating community in Anaheim, California for a sales price of approximately $148.0 million.

During the nine months ended September 30, 2018, the fixed-price option to acquire one of the two remaining communities held by the West Coast Development Joint Ventures (as defined below) expired. The community achieved stabilization during 2017, at which time the Company and its joint venture partner began receiving income and expenses based on their ownership percentages. The Company and its joint venture partner plan to continue operating the community.

As of September 30, 2018, construction was complete on the remaining community subject to the fixed-price acquisition option. The Company continues to receive a 6.5% preferred return on its investment in that community until it reaches stabilization. The Company anticipates acquiring this remaining community from the joint venture for a contractual purchase price at 100% of approximately $130.1 million. As the Company currently holds a 49% ownership interest in the community, it expects to pay approximately $66.4 million for the remaining 51% ownership. As such, the Company has disclosed a contractual purchase price commitment (see Note 12, Commitments and Contingencies). The acquisition is expected to occur in the next twelve months.

In March 2017 and May 2017, the Company entered into two additional joint venture agreements with the unaffiliated joint venture partner and agreed to pay $15.5 million for a 49% ownership interest in a 155 home community in Seattle, Washington, for which construction was complete as of September 30, 2018, and $16.1 million for a 49% ownership interest in a 276 home community that is currently under construction in Hillsboro, Oregon (together with the May 2015 joint venture described above, the "West Coast Development Joint Ventures"). UDR earns a 6.5% preferred return on its investments through the communities' date of stabilization, as defined above, while our joint venture partner is allocated all operating income and expense during the pre-stabilization period. Upon stabilization of the communities, income and expense will be shared based on each partner's ownership percentage and the Company will no longer receive a 6.5% preferred return on its investment. The Company will serve as property manager and will earn a management fee during the lease-up phase and subsequent operation of the stabilized communities. The unaffiliated joint venture partner is the general partner and the developer of the communities. The Company has concluded it does not control the joint ventures and accounts for them under the equity method of accounting.

The Company has a fixed-price option to acquire the remaining interest in the communities beginning one year after completion for a total price of $61.3 million and $72.3 million, respectively. The unaffiliated joint venture partner is providing certain guaranties and there are construction loans on the communities.

The Company's recorded equity investment in the West Coast Development Joint Ventures at September 30, 2018 and December 31, 2017, of $102.1 million and $102.1 million, respectively, is inclusive of outside basis costs and our

accrued but unpaid preferred return.

(d) In June 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 136 apartment home community in San Francisco, California. The Company's preferred equity investment of up to $24.6 million earns a preferred return of 11.0% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. As of September 30, 2018, the Company had contributed approximately $21.4 million to the joint venture, and recorded the remaining contractual commitment (for a total equity investment of $24.6 million) in Restricted cash on the Consolidated Balance Sheets in accordance with the terms of the joint venture agreement. These amounts will be contributed to the joint venture when the developer submits qualifying draw requests to fund the construction. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

(e) In September 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 313 apartment home community in Nashville, Tennessee. The Company's preferred equity investment of up to $55.6 million earns a preferred return of 8.0% per annum and receives a variable percentage of

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

the value created from the project upon a capital or liquidating event. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

(f) In August 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 66 apartment home community in Santa Monica, CA. The Company's preferred equity investment of $8.8 million earns a preferred return of 12.0% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

(g) In August 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 471 apartment home community in Philadelphia, PA. The Company's preferred equity investment of up to $51.4 million earns a preferred return of 9.0% per annum and receives a variable percentage of the value created from the project upon a capital or liquidating event. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

(h) In September 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 330 apartment home community in Orlando, FL. The Company's preferred equity investment of up to $12.9 million earns a preferred return of 12.5% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

(i) In May 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner. The joint venture has made a mezzanine loan to a third party developer of a 373 apartment home community in Washington, D.C. The unaffiliated joint venture partner is the managing member of the joint venture. The mezzanine loan is for up to $71.0 million at an interest rate of 13.5% per annum and carries a term of four years with one 12-month extension option. The Company's commitment to the joint venture is approximately $38.6 million and earns a weighted average return of approximately 11.0% per annum. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.

As of September 30, 2018 and December 31, 2017, the Company had deferred fees of $11.1 million and $10.9 million, respectively, which will be recognized through earnings 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 of $2.9 million and $2.8 million during the three months ended September 30, 2018 and 2017, respectively, and $8.7 million and $8.7 million for the nine months ended September 30, 2018 and 2017, respectively, for management of the communities held by the joint ventures and partnerships. 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 impairments in the value of its investments in unconsolidated joint ventures or partnerships during the three and nine months ended September 30, 2018 and 2017.

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September 30, 2018

Combined summary balance sheets relating to the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Total real estate, net	$ 3,267,944	$ 3,236,180
Cash and cash equivalents	53,141	36,411
Other assets	91,246	50,158
Total assets	$ 3,412,331	$ 3,322,749
Third party debt, net	$ 2,108,790	$ 2,005,566
Accounts payable and accrued liabilities	63,220	85,643
Total liabilities	$ 2,172,010	$ 2,091,209
Total equity	$ 1,240,321	$ 1,231,540

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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total revenues	$ 76,203	$ 71,200	$ 215,140	$ 205,475
Property operating expenses	30,096	28,157	85,435	79,622
Real estate depreciation and amortization	29,545	28,264	85,063	82,344
Operating income/(loss)	16,562	14,779	44,642	43,509
Interest expense	(22,919)	(21,849)	(63,990)	(64,083)
Gain/(loss) on sale of property	—	30,153	—	30,153
Other income/(loss)	40	(515)	141	(435)
Net income/(loss)	$ (6,317)	$ 22,568	$ (19,207)	$ 9,144

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at September 30, 2018 and December 31, 2017 (dollars in thousands):

	Principal Outstanding		As of September 30, 2018			
	September 30, 2018	December 31, 2017	Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	$ 419,482	$ 395,611	3.82	%	6.1	7
Fannie Mae credit facilities (b)	285,836	285,836	4.86	%	1.3	8
Deferred financing costs	(1,636)	(1,670)				
Total fixed rate secured debt, net	703,682	679,777	4.25	%	4.1	15
Variable Rate Debt						
Tax-exempt secured notes payable (c)	94,700	94,700	2.16	%	4.4	2
Fannie Mae credit facilities (b)	—	29,034	—	%	—	—
Deferred financing costs	(141)	(242)				
Total variable rate secured debt, net	94,559	123,492	2.16	%	4.4	2
Total Secured Debt, net	798,241	803,269	4.00	%	4.2	17
Unsecured Debt:						
Variable Rate Debt						
Borrowings outstanding under unsecured credit facility due January 2023 (d) (h)	—	—	—	%	4.3	
Borrowings outstanding under unsecured commercial paper program due October 2018 (e) (h)	415,000	300,000	2.43	%	0.1	
Borrowings outstanding under unsecured working capital credit facility due January 2021 (f)	51,010	21,767	3.09	%	2.3	
Term Loan due September 2023 (d) (h)	35,000	35,000	3.04	%	5.0	
Fixed Rate Debt						
3.70% Medium-Term Notes due October 2020 (net of discounts of $16 and $22, respectively) (h)	299,984	299,978	3.70	%	2.0	
	315,000	315,000	1.93	%	5.0	

1.93% Term Loan due September 2023 (d) (h)					
4.63% Medium-Term Notes due January 2022 (net of discounts of $1,177 and $1,446, respectively) (h)	398,823	398,554	4.63	%	3.3
3.75% Medium-Term Notes due July 2024 (net of discounts of $599 and $678, respectively) (h)	299,401	299,322	3.75	%	5.8
8.50% Debentures due September 2024	15,644	15,644	8.50	%	6.0
4.00% Medium-Term Notes due October 2025 (net of discounts of $482 and $534, respectively) (g) (h)	299,518	299,466	4.00	%	7.0
2.95% Medium-Term Notes due September 2026 (h)	300,000	300,000	2.95	%	7.9
3.50% Medium-Term Notes due July 2027 (net of discounts of $617 and $670, respectively) (h)	299,383	299,330	3.50	%	8.8
3.50% Medium-Term Notes due January 2028 (net of discounts of $1,102 and $1,191, respectively) (h)	298,898	298,809	3.50	%	9.3
Other	17	19			
Deferred financing costs	(14,739)	(14,495)			
Total Unsecured Debt, net	3,012,939	2,868,394	3.44	%	5.1
Total Debt, net	$ 3,811,180	$ 3,671,663	3.63	%	4.9

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 September 30, 2018, secured debt encumbered $1.6 billion or 16.0% of UDR's total real estate owned based upon gross book value ($8.7 billion or 84.0% of UDR's real estate owned based on gross book value is unencumbered).

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

(a) Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from August 2020 through September 2028 and carry interest rates ranging from 3.15% to 4.35%. 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 value to interest expense over the life of the underlying debt instrument.

During the three months ended September 30, 2018 and 2017, the Company had $0.9 million and $0.7 million, respectively, and during the nine months ended September 30, 2018 and 2017, the Company had $2.4 million and $2.2 million, respectively, of amortization of the fair market adjustment of debt assumed in the acquisition of properties, which was included in Interest expense on the Consolidated Statements of Operations. The unamortized fair market adjustment was a net premium of $5.5 million and $8.2 million at September 30, 2018 and December 31, 2017, respectively.

(b) UDR had two secured credit facilities with Fannie Mae with an aggregate commitment of $285.8 million at September 30, 2018. The Fannie Mae credit facilities mature at various dates from October 2019 through July 2020 and bear interest at fixed rates. At September 30, 2018, the weighted average interest rate was 4.86%. During the nine months ended September 30, 2018, the Company prepaid $29.0 million of its variable rate secured credit facilities with proceeds from the refinance of a mortgage note payable.

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

	September 30, 2018	December 31, 2017
Borrowings outstanding	$ 285,836	$ 314,870
Weighted average borrowings during the period ended	308,417	416,653
Maximum daily borrowings during the period ended	314,869	636,782
Weighted average interest rate during the period ended	4.8 %	4.3 %
Weighted average interest rate at the end of the period	4.9 %	4.7 %

(c) 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 interest rates ranging from 2.15% to 2.20% as of September 30, 2018.

(d) In September 2018, the Company entered into a $1.1 billion unsecured revolving credit facility (the “Revolving Credit Facility”) and a $350.0 million unsecured term loan (the “Term Loan”). 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 to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company's prior credit agreement, which provided for: (i) a $1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a $350.0 million term loan scheduled to mature in January 2020. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions.

Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points and a facility fee of 15 basis points, and the Term Loan has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin under the Revolving Credit Facility ranges from 75 to 145 basis points, the facility fee ranges from 10 to 30 basis points, and the margin under the Term Loan ranges from 80 to 165 basis points.

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UDR, INC.

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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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018		December 31, 2017	
Total revolving credit facility	$ 1,100,000		$ 1,100,000	
Borrowings outstanding at end of period (1)	—		—	
Weighted average daily borrowings during the period ended	—		2,274	
Maximum daily borrowings during the period ended	—		120,000	
Weighted average interest rate during the period ended	—	%	1.6	%
Interest rate at end of the period	—	%	—	%

(1) Excludes $3.3 million and $3.3 million of letters of credit at September 30, 2018 and December 31, 2017, respectively.

(e) The Company has an unsecured commercial paper program. Under the terms of the program, the Company may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500.0 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of the Company’s other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership.

The following is a summary of short-term bank borrowings under the unsecured commercial paper program at September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018		December 31, 2017	
Total unsecured commercial paper program	$ 500,000		$ 500,000	
Borrowings outstanding at end of period	415,000		300,000	
Weighted average daily borrowings during the period ended	350,907		238,810	
Maximum daily borrowings during the period ended	440,000		390,000	
Weighted average interest rate during the period ended	2.3	%	1.4	%
Interest rate at end of the period	2.4	%	2.0	%

(f) The Company has a working capital credit facility, which provides for a $75.0 million unsecured revolving credit facility (the “Working Capital Credit Facility”) with a scheduled maturity date of January 15, 2021. 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 February 2018, the Company amended the Working Capital Credit Facility to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. The maximum borrowing capacity and interest rate were unchanged by the amendment.

UDR, INC.

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September 30, 2018

The following is a summary of short-term bank borrowings under the Working Capital Credit Facility at September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Total working capital credit facility	$ 75,000	$ 75,000
Borrowings outstanding at end of period	51,010	21,767
Weighted average daily borrowings during the period ended	29,398	26,993
Maximum daily borrowings during the period ended	64,633	68,207
Weighted average interest rate during the period ended	2.8 %	2.0 %
Interest rate at end of the period	3.1 %	2.5 %

(g) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on $200.0 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.55%.
(h) The Operating Partnership is a guarantor of this debt.
The aggregate maturities, including amortizing principal payments on secured and unsecured debt, of total debt for the next ten calendar years subsequent to September 30, 2018 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2018	$ 935	$ —	$ 935	$ 415,000	$ 415,935
2019	199,659	67,700	267,359	—	267,359
2020	198,076	—	198,076	300,000	498,076
2021	1,117	—	1,117	51,010	52,127
2022	1,157	—	1,157	400,000	401,157
2023	41,245	—	41,245	350,000	391,245
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
2026	50,000	—	50,000	300,000	350,000
2027	—	—	—	300,000	300,000
Thereafter	80,000	27,000	107,000	300,000	407,000
Subtotal	699,789	94,700	794,489	3,031,654	3,826,143
Non-cash (a)	3,893	(141)	3,752	(18,715)	(14,963)
Total	$ 703,682	$ 94,559	$ 798,241	$ 3,012,939	$ 3,811,180

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts and deferred financing costs. The Company amortized $1.1 million and $1.1 million, respectively, during the three months ended September 30, 2018 and 2017 and $3.2 million and $3.2 million, respectively, during the nine months ended

September 30, 2018 and 2017 of deferred financing costs into Interest expense.
We were in compliance with the covenants of our debt instruments at September 30, 2018.

On October 26, 2018, the Company issued $300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029. Interest is payable semi-annually in arrears on January 26 and July 26 of each year, beginning on January 26, 2019. The notes were priced at 99.998% of the principal amount at issuance. The Company will use the net proceeds for the repayment of debt, including $195.8 million of the outstanding balance under the Fannie Mae credit facilities, and for general corporate purposes. The Operating Partnership is a guarantor of this debt.

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UDR, INC.

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September 30, 2018

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator for income/(loss) per share:				
Income/(loss) from continuing operations	$ 20,258	$ 17,570	$ 61,627	$ 54,896
Gain/(loss) on sale of real estate owned, net of tax	—	—	70,300	2,132
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,616)	(1,415)	(10,819)	(4,607)
Net (income)/loss attributable to noncontrolling interests	(32)	35	(141)	(107)
Net income/(loss) attributable to UDR, Inc.	18,610	16,190	120,967	52,314
Distributions to preferred stockholders — Series E (Convertible)	(971)	(926)	(2,897)	(2,784)
Income/(loss) attributable to common stockholders - basic and diluted	$ 17,639	$ 15,264	$ 118,070	$ 49,530
Denominator for income/(loss) per share:				
Weighted average common shares outstanding	268,034	267,577	267,873	267,492
Non-vested restricted stock awards	(307)	(521)	(344)	(552)
Denominator for basic income/(loss) per share	267,727	267,056	267,529	266,940
Incremental shares issuable from assumed conversion of stock options, unvested LTIP Units and unvested restricted stock	1,134	2,006	1,491	1,911
Denominator for diluted income/(loss) per share	268,861	269,062	269,020	268,851
Income/(loss) per weighted average common share:				
Basic	$ 0.07	$ 0.06	$ 0.44	$ 0.19
Diluted	$ 0.07	$ 0.06	$ 0.44	$ 0.18

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"), unvested restricted stock and continuous equity program forward sales agreements. 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 nine months ended September 30, 2018 and 2017, the effect of the conversion of the OP Units,

DownREIT Units, LTIP Units and the Company’s Series E preferred stock was not dilutive and therefore not included in the above calculation.

For the three and nine months ended September 30, 2018 and 2017, the Company did not enter into any forward purchase agreements under its continuous equity program.

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 nine months ended September 30, 2018 and 2017 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
OP/DownREIT Units	24,558	24,822	24,546	24,882
Convertible preferred stock	3,011	3,016	3,011	3,024
Stock options, unvested LTIP Units and unvested restricted stock	1,134	2,006	1,491	1,911

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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/DownREIT Units outside of permanent equity and reports the OP Units/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, 2017	$ 948,138
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	62,655
Conversion of OP Units/DownREIT Units to Common Stock	(13,151)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	10,819
Distributions to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(24,643)
OP Units Issued	4,320
Vesting of Long-Term Incentive Plan Units	4,397
Allocation of other comprehensive income/(loss)	270
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, September 30, 2018	$ 992,805

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners and unvested LTIP Units in certain consolidated affiliates, and are presented as part of equity on the Consolidated Balance Sheets since these interests are not redeemable. Net (income)/loss attributable to noncontrolling interests was less than $(0.1) million and less than $0.1 million during the three months ended September 30, 2018 and 2017, respectively, and $(0.1) million during each of the nine months ended September 30, 2018 and 2017.

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 unvested

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September 30, 2018

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.

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2018 and December 31, 2017, are summarized as follows (dollars in thousands):

			Fair Value at September 30, 2018, Using		
	Total Carrying Amount in Statement of Financial Position at September 30, 2018	Fair Value Estimate at September 30, 2018	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$ 41,009	$ 43,072	$ —	$ —	$ 43,072
Derivatives - Interest rate contracts (b)	8,047	8,047	—	8,047	—
Total assets	$ 49,056	$ 51,119	$ —	$ 8,047	$ 43,072
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	$ 419,482	$ 415,100	$ —	$ —	$ 415,100
Fannie Mae credit facilities	285,836	288,323	—	—	288,323
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700

Unsecured debt instruments: (c)					
Working capital credit facility	51,010	51,010	—	—	51,010
Commercial paper program	415,000	415,000	—	—	415,000
Unsecured notes	2,561,668	2,509,842	—	—	2,509,842
Total liabilities	$ 3,827,696	$ 3,773,975	$ —	$ —	$ 3,773,975
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	$ 992,805	$ 992,805	$ —	$ 992,805	$ —

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2017	Fair Value Estimate at December 31, 2017	Fair Value at December 31, 2017, 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)	$ 19,469	$ 19,567	$ —	$ —	$ 19,567
Derivatives - Interest rate contracts (b)	5,743	5,743	—	5,743	—
Total assets	$ 25,212	$ 25,310	$ —	$ 5,743	$ 19,567
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	$ 395,611	$ 397,386	$ —	$ —	$ 397,386
Fannie Mae credit facilities	285,836	292,227	—	—	292,227
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	29,034	29,034	—	—	29,034
Unsecured debt instruments: (c)					
Working capital credit facility	21,767	21,767	—	—	21,767
Commercial paper program	300,000	300,000	—	—	300,000
Unsecured notes	2,561,122	2,611,458	—	—	2,611,458
Total liabilities	$ 3,688,070	$ 3,746,572	$ —	$ —	$ 3,746,572
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	$ 948,138	$ 948,138	$ —	$ 948,138	$ —

(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 any of the levels of the fair value hierarchy during the nine months ended September 30, 2018.

Financial Instruments Carried at Fair Value

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However,

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

as of September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, 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, which includes notes receivable and debt instruments, are classified in Level 3 of the fair value hieracrchy due to the significant unobservable inputs that are utilized in their respective valuations.

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 impairments in the value of its investments in unconsolidated joint ventures during the three and nine months ended September 30, 2018 and 2017.

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.

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

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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 changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income/(loss), net on the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2018 and 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

During the three and nine months ended September 30, 2017, the Company recognized zero and a loss of $0.1 million, respectively, reclassified from Accumulated other comprehensive income/(loss), net to Interest expense due to the de-designation of a cash flow hedge. No amounts were de-designated during the three and nine months ended September 30, 2018.

Amounts reported in Accumulated other comprehensive income/(loss), net on 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 September 30, 2019, the Company estimates that an additional $4.0 million will be reclassified as a decrease to Interest expense.

As of September 30, 2018, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate swaps (a)	4	$ 315,000
Interest rate caps	1	$ 65,197

(a) In addition to the interest rate swaps summarized above, the Company entered into two additional interest rate swaps during the nine months ended September 30, 2018 with a notional value totaling $150.0 million that were subsequently terminated and settled in conjunction with the October 2018 issuance of $300.0 million of senior unsecured medium-term notes as disclosed in Note 6, Secured and Unsecured Debt, Net.

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 no gain or loss for both the three and nine months ended September 30, 2018 and a loss of less than $0.1 million for both the three and nine months ended September 30, 2017.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

As of September 30, 2018, 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	2	$ 174,667

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	Asset Derivatives (included in Other assets) Fair Value at:		Liability Derivatives (included in Other liabilities) Fair Value at:	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:				
Interest rate products	$ 8,047	$ 5,743	$ —	$ —

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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Unrealized holding gain/(loss) Recognized in OCI		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense		Gain/(Loss) Recognized in Interest expense (Amount Excluded from Effectiveness Testing)	
Derivatives in Cash Flow Hedging Relationships	2018	2017	2018	2017	2018	2017
Three Months Ended September 30,						
Interest rate products	$ 2,320	$ 131	$ 564	$ (119)	$ —	$ —

Nine Months Ended September 30,

Interest rate products	$ 4,312	$ 256	$ 1,162	$ (1,192)	$ —	$ (136)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total amount of Interest expense presented on the Consolidated Statements of Operations	$ 34,401	$ 30,095	$ 95,942	$ 94,500

	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
Derivatives Not Designated as Hedging Instruments	2018	2017
Three Months Ended September 30,		
Interest rate products	$ —	$ —
Nine Months Ended September 30,		
Interest rate products	$ —	$ (1)

Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where 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.

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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 September 30, 2018, the fair value of derivatives was in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, of $8.3 million.

Tabular Disclosure of Offsetting Derivatives

The Company has elected not to offset derivative positions on 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
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)	Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2018	$ 8,047	$ —	$ 8,047	$ —	$ —	$ 8,047
December 31, 2017	$ 5,743	$ —	$ 5,743	$ —	$ —	$ 5,743

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

11. STOCK BASED COMPENSATION

The Company recognized stock based compensation expense, inclusive of awards granted to our non-employee directors, net of capitalization, of $3.6 million and $3.3 million during the three months ended September 30, 2018 and 2017, respectively, and $10.7 million and $10.1 million during the nine months ended September 30, 2018 and 2017, respectively.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

12. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Company's real estate commitments at September 30, 2018 (dollars in thousands):

	Number Properties	Costs Incurred to Date (a)		Expected Costs to Complete		Average Ownership Stake	
Wholly-owned — under development	2	$ 701,113	(b)	$ 14,387		100	%
Joint ventures:							
Unconsolidated joint ventures	2	184,209		2,668	(c)	50	%
Preferred equity investments	8	146,246	(d)	65,170	(e)	49	% (f)
Other investments	1	44,750		8,809	(g)	—	%
Total		$ 1,076,318		$ 91,034			

(a) Represents 100% of project costs incurred as of September 30, 2018 other than for preferred equity investments.
(b) Costs incurred as of September 30, 2018 include $12.9 million of accrued fixed assets for development.
(c) Represents UDR's proportionate share of expected remaining costs to complete the developments.
(d) Represents UDR's investment in the West Coast Development Joint Ventures, 1532 Harrison, 1200 Broadway, Junction, 1300 Fairmount and Essex for the properties under development as of September 30, 2018.
(e) Represents UDR's remaining commitment for 1532 Harrison, 1200 Broadway, Junction, 1300 Fairmount and Essex.
(f) Represents UDR's average ownership stake in the West Coast Development Joint Ventures only and does not include UDR's preferred equity interest in 1532 Harrison, 1200 Broadway, Junction, 1300 Fairmount and Essex.
(g) Represents UDR's remaining commitment for The Portals and other investment ventures.

Purchase Commitments

As described in Note 5, Joint Ventures and Partnerships, the Company anticipates acquiring one of the communities held by the West Coast Development Joint Ventures in 2019 for a contractual purchase price at 100% of approximately $130.1 million. As the Company currently holds a 49% ownership interest in the community, it expects to pay approximately $66.4 million for the remaining 51% ownership. The community will be consolidated upon closing of the acquisition.

During the nine months ended September 30, 2018, the Company entered into a contract to purchase a $13.2 million development land parcel located in Denver, Colorado. The Company made a $1.0 million deposit on the purchase which, as of September 30, 2018, is generally non-refundable other than due to a failure of closing conditions pursuant to the terms of the agreement. The acquisition is expected to close in the fourth quarter of 2018, subject to customary closing conditions.

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 flows.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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. 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 July 1, 2017 (for quarter-to-date comparison) or January 1, 2017 (for year-to-date comparison) and held as of September 30, 2018. 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 communities, 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 nine months ended September 30, 2018 and 2017.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

The following table details rental income and NOI for UDR's reportable segments for the three and nine months ended September 30, 2018 and 2017, and reconciles NOI to Net income/(loss) attributable to UDR, Inc. on the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended September 30, (a)		Nine Months Ended September 30, (b)	
	2018	2017	2018	2017
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$ 102,615	$ 98,264	$ 298,456	$ 286,040
Mid-Atlantic Region	55,323	53,539	164,811	160,399
Northeast Region	38,822	38,162	114,974	113,814
Southeast Region	30,984	29,297	91,472	87,103
Southwest Region	12,902	12,620	32,696	32,181
Non-Mature Communities/Other	22,610	16,382	67,964	54,656
Total segment and consolidated rental income	$ 263,256	$ 248,264	$ 770,373	$ 734,193
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$ 77,321	$ 72,962	$ 225,240	$ 213,375
Mid-Atlantic Region	38,220	37,107	114,465	112,232
Northeast Region	25,941	26,100	79,123	80,151
Southeast Region	21,597	20,712	63,806	60,432
Southwest Region	7,640	7,416	19,636	19,722
Non-Mature Communities/Other	14,095	10,424	42,433	34,915
Total segment and consolidated NOI	184,814	174,721	544,703	520,827
Reconciling items:				
Joint venture management and other fees	2,888	2,827	8,819	8,718
Property management	(7,240)	(6,827)	(21,185)	(20,190)
Other operating expenses	(3,314)	(1,950)	(8,148)	(6,010)
Real estate depreciation and amortization	(107,881)	(107,171)	(322,537)	(320,653)
General and administrative	(11,896)	(12,467)	(36,028)	(36,976)
Casualty-related (charges)/recoveries, net	(678)	(2,056)	(2,364)	(3,749)
Other depreciation and amortization	(1,682)	(1,585)	(5,057)	(4,760)
Income/(loss) from unconsolidated entities	(1,382)	1,819	(5,091)	11,591
Interest expense	(34,401)	(30,095)	(95,942)	(94,500)
Interest income and other income/(expense), net	1,188	481	5,075	1,423
Tax (provision)/benefit, net	(158)	(127)	(618)	(825)
Gain/(loss) on sale of real estate owned, net of tax	—	—	70,300	2,132
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,616)	(1,415)	(10,819)	(4,607)

Net (income)/loss attributable to noncontrolling interests	(32)	35	(141)	(107)
Net income/(loss) attributable to UDR, Inc.	$ 18,610	$ 16,190	$ 120,967	$ 52,314

(a) Same-Store Community population consisted of 38,307 apartment homes.
(b) Same-Store Community population consisted of 37,673 apartment homes.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

The following table details the assets of UDR's reportable segments as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	$ 3,752,322	$ 3,727,230
Mid-Atlantic Region	2,308,495	2,290,241
Northeast Region	1,871,387	1,865,762
Southeast Region	774,090	762,102
Southwest Region	368,729	364,607
Non-Mature Communities/Other	1,252,641	1,167,264
Total segment assets	10,327,664	10,177,206
Accumulated depreciation	(3,626,327)	(3,330,166)
Total segment assets — net book value	6,701,337	6,847,040
Reconciling items:		
Cash and cash equivalents	1,084	2,038
Restricted cash	26,996	19,792
Notes receivable, net	41,009	19,469
Investment in and advances to unconsolidated joint ventures, net	767,376	720,830
Other assets	140,982	124,104
Total consolidated assets	$ 7,678,784	$ 7,733,273

Capital expenditures related to our Same-Store Communities totaled $24.2 million and $24.6 million for the three months ended September 30, 2018 and 2017, respectively, and $59.2 million and $63.2 million for the nine months ended September 30, 2018 and 2017, respectively. Capital expenditures related to our Non-Mature Communities/Other totaled $1.8 million and $1.2 million for the three months ended September 30, 2018 and 2017, respectively, and $3.8 million and $3.7 million for the nine months ended September 30, 2018 and 2017, 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., Richmond and Baltimore
iii. Northeast Region — New York and Boston
iv. Southeast Region — Orlando, Nashville, Tampa and Other Florida
v. Southwest Region — Dallas, Austin and Denver

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for unit data)

	September 30, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 3,800,526	$ 3,816,956
Less: accumulated depreciation	(1,623,707)	(1,543,652)
Real estate held for investment, net	2,176,819	2,273,304
Real estate held for disposition (net of accumulated depreciation of $3,804 and $0, respectively)	3,788	—
Total real estate owned, net of accumulated depreciation	2,180,607	2,273,304
Cash and cash equivalents	83	293
Restricted cash	13,515	12,579
Investment in unconsolidated entities	53,772	76,907
Other assets	34,005	32,490
Total assets	$ 2,281,982	$ 2,395,573
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	$ 159,966	$ 159,845
Notes payable due to the General Partner	273,334	273,334
Real estate taxes payable	11,422	2,683
Accrued interest payable	614	629
Security deposits and prepaid rent	13,639	13,949
Distributions payable	59,461	57,025
Accounts payable, accrued expenses, and other liabilities	12,101	12,978
Total liabilities	530,537	520,443
Commitments and contingencies (Note 10)		
Capital:		
Partners' capital:		
General partner:		
110,883 OP Units outstanding at September 30, 2018 and December 31, 2017	934	955
Limited partners:		
183,525,660 and 183,240,041 OP Units outstanding at September 30, 2018 and December 31, 2017, respectively	1,441,843	1,463,340
Total partners' capital	1,442,777	1,464,295
Advances (to)/from the General Partner	294,454	397,899
Noncontrolling interests	14,214	12,936
Total capital	1,751,445	1,875,130
Total liabilities and capital	$ 2,281,982	$ 2,395,573

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES:				
Rental income	$ 109,539	$ 105,253	$ 323,397	$ 311,946
OPERATING EXPENSES:				
Property operating and maintenance	17,412	17,196	50,535	50,039
Real estate taxes and insurance	11,979	11,496	34,890	33,269
Property management	3,012	2,894	8,893	8,578
Other operating expenses	2,347	1,572	6,098	5,248
Real estate depreciation and amortization	35,043	37,057	108,906	113,167
General and administrative	4,143	4,134	12,997	13,760
Casualty-related charges/(recoveries), net	(10)	(43)	906	1,701
Total operating expenses	73,926	74,306	223,225	225,762
Operating income	35,613	30,947	100,172	86,184
Income/(loss) from unconsolidated entities	(2,378)	(4,782)	(10,102)	(14,556)
Interest expense	(2,047)	(2,002)	(6,050)	(16,159)
Interest expense on note payable due to the General Partner	(3,053)	(3,053)	(9,159)	(9,159)
Income/(loss) from continuing operations	28,135	21,110	74,861	46,310
Gain/(loss) on sale of real estate owned	—	—	70,300	—
Net income/(loss)	28,135	21,110	145,161	46,310
Net (income)/loss attributable to noncontrolling interests	(440)	(374)	(1,278)	(1,067)
Net income/(loss) attributable to OP unitholders	$ 27,695	$ 20,736	$ 143,883	$ 45,243
Net income/(loss) per weighted average OP Unit - basic and diluted	$ 0.15	$ 0.11	$ 0.78	$ 0.25
Weighted average OP Units outstanding - basic and diluted	183,637	183,351	183,599	183,342

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income/(loss)	$ 28,135	$ 21,110	$ 145,161	$ 46,310
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	—	—	—	106
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	—	—	—	106
Comprehensive income/(loss)	28,135	21,110	145,161	46,416
Comprehensive (income)/loss attributable to noncontrolling interests	(440)	(374)	(1,278)	(1,067)
Comprehensive income/(loss) attributable to OP unitholders	$ 27,695	$ 20,736	$ 143,883	$ 45,349

See accompanying notes to consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

(In thousands)

(Unaudited)

	Class A Limited Partner	Limited Partners and LTIP Units	UDR, Inc Limited Partner	General Partner	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
Balance at December 31, 2017	$ 67,474	$ 283,568	$ 1,112,298	$ 955	$ 1,464,295	$ 397,899	$ 12,936	$ 1,875,130
Net income/(loss)	1,387	6,195	136,214	87	143,883	—	1,278	145,161
Distributions	(1,746)	(8,035)	(168,476)	(108)	(178,365)	—	—	(178,365)
OP Unit redemptions for common shares of UDR	—	(416)	416	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	3,705	14,455	(18,160)	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	12,964	—	—	12,964	—	—	12,964
Net change in advances (to)/from the General Partner	—	—	—	—	—	(103,445)	—	(103,445)
Balance at September 30, 2018	$ 70,820	$ 308,731	$ 1,062,292	$ 934	$ 1,442,777	$ 294,454	$ 14,214	$ 1,751,445

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income/(loss)	$ 145,161	$ 46,310
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	108,906	113,167
(Gain)/loss on sale of real estate owned	(70,300)	—
(Income)/loss from unconsolidated entities	10,102	14,556
Other	850	7,120
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(2,968)	(1,084)
Increase/(decrease) in operating liabilities	4,747	3,363
Net cash provided by/(used in) operating activities	196,498	183,432
Investing Activities		
Proceeds from sales of real estate investments, net	89,433	—
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(31,828)	(42,750)
Distributions received from unconsolidated entities	13,033	12,528
Net cash provided by/(used in) investing activities	70,638	(30,222)
Financing Activities		
Advances (to)/from the General Partner, net	(256,972)	135,155
Payments on secured debt	—	(275,345)
Distributions paid to partnership unitholders	(9,438)	(8,627)
Other	—	(4,013)
Net cash provided by/(used in) financing activities	(266,410)	(152,830)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	726	380
Cash, cash equivalents, and restricted cash, beginning of year	12,872	12,450
Cash, cash equivalents, and restricted cash, end of period	$ 13,598	$ 12,830
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 10,980	$ 20,983
Non-cash transactions:		
Development costs and capital expenditures incurred but not yet paid	3,472	4,027
LTIP Unit grants	12,964	6,127
Distributions declared but not yet paid	59,461	57,028

The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:		
Cash, cash equivalents, and restricted cash, beginning of year		
Cash and cash equivalents	$ 293	$ 756
Restricted cash	12,579	11,694
Total cash, cash equivalents, and restricted cash as shown above	$ 12,872	$ 12,450
Cash, cash equivalents, and restricted cash, end of period		
Cash and cash equivalents	$ 83	$ 222
Restricted cash	13,515	12,608
Total cash, cash equivalents, and restricted cash as shown above	$ 13,598	$ 12,830

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

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 each of the three and nine months ended September 30, 2018 and 2017, rental revenues of the Operating Partnership represented 42% of the General Partner's consolidated rental revenues. As of September 30, 2018, the Operating Partnership's apartment portfolio consisted of 52 communities located in 15 markets consisting of 16,434 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 September 30, 2018, there were 183,636,543 OP Units outstanding, of which 174,248,699, or 94.9%, were owned by UDR and affiliated entities and 9,387,844, or 5.1%, were owned by non-affiliated limited partners. There were 183,350,924 OP Units outstanding as of December 31, 2017, of which 174,237,688, or 95.0%, were owned by UDR and affiliated entities and 9,113,236, or 5.0%, 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 September 30, 2018, and results of operations for the three and nine months ended September 30, 2018 and 2017, 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, 2017 included in the Annual Report on Form 10 K filed by UDR and the Operating Partnership with the SEC on February 20, 2018.

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 significant recognized or non-recognized subsequent events were noted other than those noted in Note 5, Debt, Net.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities. The ASU aims to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. The updated standard would have been effective for the Operating Partnership on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU is permitted. The Operating Partnership early adopted the guidance on January 1, 2018; however, the updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

In January 2017, the FASB issued ASU 2017 01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The ASU changes the definition of a business to assist entities with evaluating whether a set of transferred assets is a business. As a result, the accounting for acquisitions of real estate could be impacted. The updated standard was effective for the Operating Partnership on January 1, 2018. The ASU will be applied prospectively to any transactions occurring after adoption. The Operating Partnership expects that the updated standard will result in fewer acquisitions of real estate meeting the definition of a business and fewer acquisition-related costs being expensed in the period incurred.

In November 2016, the FASB issued ASU 2016 18, Statement of Cash Flows (Topic 230), Restricted Cash. The ASU addresses the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard was effective for the Operating Partnership on January 1, 2018, and was applied retrospectively to all periods presented. The updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

As a result of the adoption of ASU 2016-18, for the nine months ended September 30, 2017, the following line items in the following amounts were reclassified on the Consolidated Statements of Cash Flows (in thousands):

	Nine months ended September 30, 2017	
(Increase)/decrease in operating assets	$	846
Net cash provided by /(used in) operating activities	$	846
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	$	68
Net cash provided by /(used in) investing activities	$	68
Net increase/(decrease) in cash, cash equivalents, and restricted cash	$	914

In June 2016, the FASB issued 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; however, early adoption of the ASU 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 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. The standard will be effective for the Operating Partnership on January 1, 2019; however, early adoption of the standard is permitted.

While the Operating Partnership is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, we expect to adopt the guidance on its effective date. The Operating Partnership intends to elect the following package of practical expedients provided by the standard which includes: (i) an entity need not reassess whether any expired or existing contract is a lease or contains a lease, (ii) an entity need not reassess the lease classification of any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases. The Operating Partnership anticipates recognizing right-of-use assets and related lease liabilities on our consolidated balance sheets upon adoption equal to the present value of the remaining minimum lease payments related to ground leases for communities where we are the lessee. The Operating Partnership plans to continue recognizing lease expense for these leases in a manner similar to current accounting upon adoption of the standard based on our election of the package of practical expedients. However, in the event we modify existing ground leases and/or enter into new ground leases subsequent to the adoption of the standard, such leases would likely be classified as finance leases under the standard and require expense recognition based on the effective interest method. Under the standard, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, we will be required to expense internal leasing costs as incurred.

In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, Leases. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Operating Partnership intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The Operating Partnership also intends to elect the transition option.

In May 2014, the FASB issued ASU No. 2014 09, Revenue from Contracts with Customers. ASU No. 2014-09 amended the FASB Accounting Standards Codification ("ASC") by creating ASC Topic 606, 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 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, including industry-specific revenue guidance. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method. ASC Topic 606 was effective for the Operating Partnership on January 1, 2018, at which time the Operating Partnership adopted it using the modified retrospective approach. However, as the majority of the Operating Partnership's revenue is from rental income related

to leases, the ASU did not have a material impact on the consolidated financial statements. Related disclosures are provided and/or updated pursuant to the requirements of the ASU.

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 variable interest entity (“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,

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

(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 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

On January 1, 2018, the Operating Partnership adopted ASC Topic 606, Revenue from Contracts with Customers, utilizing the modified retrospective method, under which only contracts entered into after the effective date or not complete as of the effective date are subject to the new standard and an adjustment to the opening balance of partners' capital is made to recognize any required adjustments. As a result of the adoption, the Operating Partnership did not make an adjustment to partners' capital because no open contracts required different treatment under the new standard.

Revenue is measured based on consideration specified in contracts with customers. The Operating Partnership recognizes revenue when it satisfies a performance obligation by providing the services specified in a contract to the customer.

The following is a description of the principal streams from which the Operating Partnership generates its revenue:

Lease Revenue

Lease revenue related to leases is recognized on an accrual basis when due from residents or tenants in accordance with ASC 840, Leases. Rental payments are generally due on a monthly basis and recognized on a straight-line basis over the reasonably assured lease term. In addition, in circumstances where a lease incentive is provided to tenants,

the incentive is recognized as a reduction of lease revenue on a straight-line basis over the reasonably assured lease term.

Reimbursements Revenue

Reimbursements revenue includes all pass-through revenue from retail and residential leases and common area maintenance reimbursements from retail leases. Reimbursements revenue is recognized on a gross basis as earned as the Operating Partership has determined it is the principal provider of the services.

Other Revenue

Other revenue is generated by services provided by the Operating Partnership to its retail and residential tenants and other unrelated third parties. These fees are generally recognized as earned.

Real Estate Sales Gain Recognition

For sale transactions resulting in a transfer of a controlling financial interest of a property, the Operating Partnership generally derecognizes the related assets and liabilities from its Consolidated Balance Sheets and records the gain or loss in the period in which the transfer of control occurs. If control of the property has not transferred to the counterparty, the criteria for derecognition are not met and the Operating Partnership will continue to recognize the related assets and liabilities on its Consolidated Balance Sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

Sale transactions to entities in which the Operating Partnership sells a controlling financial interest in a property but retains a noncontrolling interest are accounted for as partial sales. Partial sales resulting in a change in control are accounted for at fair value and a full gain or loss is recognized. Therefore, the Operating Partnership will record a gain or loss on the partial interest sold, and the initial measurement of our retained interest will be accounted for at fair value.

Sales of real estate to joint ventures or other noncontrolled investees are also accounted for at fair value and the Operating Partnership will record a full gain or loss in the period the property is contributed.

Disaggregation of Revenue

Rental income, as disclosed on the Consolidated Statements of Operations, is disaggregated by principal revenue stream and by reportable segment in the following tables (dollars in thousands):

	Three Months Ended September 30, (a)		Nine Months Ended September 30, (b)	
	2018	2017	2018	2017
Lease Revenue (c)				
Same-Store Communities				
West Region	$ 57,629	$ 54,855	$ 169,638	$ 161,828
Mid-Atlantic Region	14,065	13,615	41,944	41,008
Northeast Region	13,048	13,020	38,774	38,671
Southeast Region	11,834	11,057	34,479	32,893
Non-Mature Communities/Other	4,487	4,467	12,772	12,752
Total segment and consolidated lease revenue	$ 101,063	$ 97,014	$ 297,607	$ 287,152
Reimbursements Revenue				
Same-Store Communities				
West Region	$ 2,940	$ 2,732	$ 8,763	$ 8,248
Mid-Atlantic Region	580	572	1,869	1,806
Northeast Region	422	483	1,200	1,451
Southeast Region	770	728	2,302	2,218

Non-Mature Communities/Other	539	480	1,626	1,431
Total segment and consolidated reimbursements revenue	$ 5,251	$ 4,995	$ 15,760	$ 15,154
Other Revenue				
Same-Store Communities				
West Region	$ 1,751	$ 1,796	$ 5,484	$ 5,302
Mid-Atlantic Region	440	470	1,359	1,389
Northeast Region	301	243	806	728
Southeast Region	658	663	2,100	2,060
Non-Mature Communities/Other	75	72	281	161
Total segment and consolidated other revenue	$ 3,225	$ 3,244	$ 10,030	$ 9,640
Total Revenue				
Same-Store Communities				
West Region	$ 62,320	$ 59,383	$ 183,885	$ 175,378
Mid-Atlantic Region	15,085	14,657	45,172	44,203
Northeast Region	13,771	13,746	40,780	40,850
Southeast Region	13,262	12,448	38,881	37,171
Non-Mature Communities/Other	5,101	5,019	14,679	14,344
Total segment and consolidated total revenue	$ 109,539	$ 105,253	$ 323,397	$ 311,946

(a) Same-Store Community population consisted of 16,216 apartment homes.

(b) Same-Store Community population consisted of 16,216 apartment homes.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

(c) Lease Revenue is subject to recognition under ASC 840, Leases.

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 nine months ended September 30, 2018 and 2017, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) 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 (2014 through 2017) 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.

As of December 31, 2017, management of the Operating Partnership had completed its review of the effects of the Tax Cuts and Jobs Act and it determined there was no material impact.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

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. At September 30, 2018, the Operating Partnership owned and consolidated 52 communities in nine states plus the District of Columbia totaling 16,434 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Land	$ 711,256	$ 719,410
Depreciable property — held and used:		
Land improvements	90,506	89,331
Buildings, improvements, and furniture, fixtures and equipment	2,998,764	3,008,215
Real estate held for disposition:		
Land and land improvements	1,380	—
Building, improvements, and furniture, fixtures and equipment	6,212	—
Real estate owned	3,808,118	3,816,956
Accumulated depreciation	(1,627,511)	(1,543,652)
Real estate owned, net	$ 2,180,607	$ 2,273,304

Acquisitions

The Operating Partnership did not have any acquisitions of real estate during the nine months ended September 30, 2018.

Dispositions

During the nine months ended September 30, 2018, the Operating Partnership sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of $90.5 million, resulting in a gain of $70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

In September 2018, the Operating Partnership entered into an agreement to sell a commercial office building located in Fairfax, Virginia for a sales price of approximately $9.3 million. The commercial office building was classified as held for disposition as of September 30, 2018 and the sale is expected to close in the fourth quarter of 2018.

Other Activity

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 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 zero and less than $0.1 million for the three months ended September 30, 2018 and 2017, respectively, and less than $0.1 million and $0.4 million for the nine months ended September 30, 2018 and 2017, respectively. During each of the three and nine months ended September 30, 2018 and 2017, total interest capitalized was less than $0.1 million. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion of the costs and depreciation commences over the estimated useful life.

In connection with the acquisition of certain properties, the Operating Partnership agreed to pay certain of the tax liabilities of certain contributors if the Operating Partnership sells one or more of the properties contributed in a

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

taxable transaction prior to the expiration of specified periods of time following the acquisition. The Operating Partnership may, however, sell, without being required to pay any tax liabilities, any of such properties in a non-taxable transaction, including, but not limited to, in an exchange under Section 1031 of the Internal Revenue Code.

Further, the Operating Partnership has agreed to maintain certain debt that may be guaranteed by certain contributors for specified periods of time following the acquisition. The Operating Partnership, however, has the ability to refinance or repay guaranteed debt or to substitute new debt if the debt and the guaranty continue to satisfy certain conditions.

4. UNCONSOLIDATED ENTITIES

The DownREIT Partnership is accounted for by the Operating Partnership 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 proportionate share of the net earnings or losses of the partnership in accordance with the Partnership Agreement.

The DownREIT Partnership is 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 September 30, 2018, the DownREIT Partnership owned 13 communities with 6,261 apartment homes. The Operating Partnership's investment in the DownREIT Partnership was $53.8 million and $76.9 million as of September 30, 2018 and December 31, 2017, respectively.

In September 2018, the DownREIT Partnership entered into an agreement to sell an operating community in Fairfax, Virginia with a total of 604 apartment homes for a sales price of approximately $150.7 million. The sale is expected to close in the fourth quarter of 2018.

Combined summary balance sheets relating to all of the DownREIT Partnership (not just our proportionate share) are presented below as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Total real estate, net	$ 1,306,468	$ 1,359,170
Cash and cash equivalents	41	39
Note receivable from the General Partner	126,500	126,500
Other assets	5,428	4,937
Total assets	$ 1,438,437	$ 1,490,646
Secured debt, net	$ 432,659	$ 437,510

Other liabilities	26,300	27,574
Total liabilities	458,959	465,084
Total capital	979,478	1,025,562
Total liabilities and capital	$ 1,438,437	$ 1,490,646

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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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Rental income	$ 35,069	$ 33,883	$ 103,842	$ 100,809
Property operating expenses	(14,303)	(13,974)	(43,180)	(41,589)
Real estate depreciation and amortization	(22,097)	(21,135)	(65,704)	(62,651)
Operating income/(loss)	(1,331)	(1,226)	(5,042)	(3,431)
Interest expense	(3,343)	(3,657)	(10,553)	(10,830)
Interest income on note receivable from the General Partner	1,196	1,192	3,587	3,525
Net income/(loss)	$ (3,478)	$ (3,691)	$ (12,008)	$ (10,736)

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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	Principal Outstanding		As of September 30, 2018		
	September 30, 2018	December 31, 2017	Weighted Average Interest Rate	Weighted Average Years to Maturity	Communities Encumbered
Fixed Rate Debt					
Fannie Mae credit facilities	$ 133,205	$ 133,205	5.28 %	1.1	4
Deferred financing costs	(166)	(282)			
Total fixed rate secured debt, net	133,039	132,923	5.28 %	1.1	4
Variable Rate Debt					
Tax-exempt secured note payable	27,000	27,000	2.20 %	13.5	1
Deferred financing costs	(73)	(78)			
Total variable rate secured debt, net	26,927	26,922	2.20 %	13.5	1
Total Secured Debt, Net	$ 159,966	$ 159,845	4.87 %	3.2	5

As of September 30, 2018, an aggregate commitment of $133.2 million of the General Partner's secured credit facilities with Fannie Mae was owed by the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at September 30, 2018. The portions of the Fannie Mae credit facilities owed by the Operating Partnership mature at various dates from October 2019 through December 2019 and bear interest at fixed rates. At September 30, 2018, the weighted average interest rate was 5.28%.

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

	September 30, 2018		December 31, 2017	
Borrowings outstanding	$ 133,205		$ 133,205	
Weighted average borrowings during the period ended	133,205		223,347	
Maximum daily borrowings during the period ended	133,205		408,549	
Weighted average interest rate during the period ended	5.3	%	4.6	%
Interest rate at the end of the period	5.3	%	5.3	%

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

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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

At September 30, 2018, the General Partner had borrowings against its fixed rate facilities of $285.8 million, of which $133.2 million was owed by the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2018, the funds borrowed under the fixed rate Fannie Mae credit facilities owed by the Operating Partnership had a weighted average fixed interest rate of 5.28%.

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 2.20% as of September 30, 2018.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next ten calendar years subsequent to September 30, 2018 are as follows (dollars in thousands):

Year	Fixed Secured Credit Facilities	Variable Tax-Exempt Secured Notes Payable	Total
2018	$ —	$ —	$ —
2019	133,205	—	133,205
2020	—	—	—
2021	—	—	—
2022	—	—	—
2023	—	—	—
2024	—	—	—
2025	—	—	—
2026	—	—	—
2027	—	—	—
Thereafter	—	27,000	27,000
Subtotal	133,205	27,000	160,205
Non-cash (a)	(166)	(73)	(239)
Total	$ 133,039	$ 26,927	$ 159,966

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, and deferred financing costs. For the three months ended September 30, 2018 and 2017, the Operating Partnership amortized less than $0.1 million and less than $0.1 million, respectively, and $0.1 million and $0.3 million for the nine months ended

September 30, 2018 and 2017, 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, an unsecured commercial paper program with an aggregate borrowing capacity of $500 million, $300 million of medium-term notes due October 2020, $400 million of medium-term notes due January 2022, a $350 million term loan due September 2023, $300 million of medium-term notes due July 2024, $300 million of medium-term notes due October 2025, $300 million of medium-term notes due September 2026, $300 million of medium-term notes due July 2027, and $300 million of medium-term notes due January 2028. As of September 30, 2018 and December 31, 2017, the General Partner did not have an outstanding balance under the unsecured revolving credit facility and had $415 million and $300 million, respectively, outstanding under its unsecured commercial paper program.

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On October 26, 2018, the General Partner issued $300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029. The General Partner will use the net proceeds for the repayment of debt, including all of the Fannie Mae credit facilities allocated to the Operating Partnership, and for general corporate purposes. The Operating Partnership is a guarantor of this debt.

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 the General Partner of $294.5 million and $397.9 million at September 30, 2018 and December 31, 2017, respectively, which are reflected as increases/(decreases) of capital on the Consolidated Balance Sheets.

Allocation of General and Administrative Expenses

The General Partner shares various general and administrative costs, employees and other overhead costs with the Operating Partnership including legal assistance, acquisitions analysis, marketing, human resources, IT, accounting, rent, supplies and advertising, and allocates these costs to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on the reasonably anticipated benefits to the parties. The general and administrative expenses allocated to the Operating Partnership by UDR were $3.3 million and $2.7 million during the three months ended September 30, 2018 and 2017, respectively, and $10.5 million and $10.8 million during the nine months ended September 30, 2018 and 2017, 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 September 30, 2018 and 2017, the Operating Partnership reimbursed the General Partner $3.8 million and $4.4 million, respectively, and during the nine months ended September 30, 2018 and 2017, the Operating Partnership reimbursed the General Partner $11.4 million and $11.5 million, respectively, for shared services related to corporate level property management costs incurred by the General Partner. These shared cost reimbursements and related party management fees are initially recorded within the line item General and administrative on the Consolidated Statements of Operations, and a portion related to management costs is reclassified to Property management on the Consolidated Statements of Operations. (See further discussion below.)

Shared Services/Management Fee

The Operating Partnership self-manages its own properties and is party to an Inter-Company Employee and Cost Sharing Agreement with the General Partner. This agreement provides for reimbursements to the General Partner for the Operating Partnership's allocable share of costs incurred by the General Partner for (a) shared services of corporate level property management employees and related support functions and costs, and (b) general and administrative

costs. As discussed above, the reimbursement for shared services is classified in Property management on the Consolidated Statements of Operations.

Notes Payable to the General Partner

As of both September 30, 2018 and December 31, 2017, 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 or reimbursement agreements 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 during both the three months ended September 30, 2018 and 2017 and $9.2 million during both the nine months ended September 30, 2018 and 2017.

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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.

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2018 and December 31, 2017 are summarized as follows (dollars in thousands):

			Fair Value at September 30, 2018, Using		
	Total Carrying Amount in Statement of Financial Position at September 30, 2018	Fair Value Estimate at September 30, 2018	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Secured debt instruments - fixed rate: (a)					
Fannie Mae credit facilities	$ 133,205	$ 135,030	$ —	$ —	$ 135,030
Secured debt instruments - variable rate: (a)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Total liabilities	$ 160,205	$ 162,030	$ —	$ —	$ 162,030

			Fair Value at December 31, 2017, Using
	Total Carrying		Quoted Prices in Active

Description:	Amount in Statement of Financial Position at December 31, 2017	Fair Value Estimate at December 31, 2017	Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Secured debt instruments - fixed rate: (a)					
Fannie Mae credit facilities	$ 133,205	$ 137,150	$ —	$ —	$ 137,150
Secured debt instruments - variable rate: (a)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Total liabilities	$ 160,205	$ 164,150	$ —	$ —	$ 164,150

(a) See Note 5, Debt, Net.

There were no transfers into or out of each of the levels of the fair value hierarchy during the nine months ended September 30, 2018.

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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 September 30, 2018 and December 31, 2017, 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 September 30, 2018, 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, which includes debt instruments, are classified in Level 3 of the fair value hieracrchy due to the significant unobservable inputs that are utilized in their respective valuations.

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. The Operating Partnership did not incur any other-than-temporary impairments in the value of its investments in unconsolidated entities during the three and nine months ended September 30, 2018 and 2017.

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

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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 are owed by the Operating Partnership based on the General Partner’s underlying debt instruments owed by the Operating Partnership. (See Note 5, Debt, Net.)

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income/(loss), net on the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of and during the three and nine months ended September 30, 2018, no derivatives designated as cash flow hedges were held by the Operating Partnership.

During both the three and nine months ended September 30, 2017, the Operating Partnership recognized zero and a loss of less than $0.1 million reclassified from Accumulated other comprehensive income/(loss), net to Interest expense due to the de-designation of a cash flow hedge. No amounts were de-designated during the three and nine months ended September 30, 2018.

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 owed by the Operating Partnership. As of September 30, 2018, no derivatives designated as cash flow hedges were held by the Operating Partnership and, as a result, no amounts will be reclassified as an increase to interest expense through September 30, 2019.

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 no gain or loss for both the three and nine months ended September 30, 2018 and a loss of less than $0.1 million for both the three and nine months ended September 30, 2017.

As of September 30, 2018, we 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	1	$ 19,880

Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Balance Sheets

As of September 30, 2018 and December 31, 2017, the fair value of the Operating Partnership’s derivative financial instruments was zero.

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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 derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Unrealized holding gain/(loss) Recognized in OCI		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense		Gain/(Loss) Recognized in Interest expense (Amount Excluded from Effectiveness Testing)	
	2018	2017	2018	2017	2018	2017
Three Months Ended September 30,						
Interest rate products	$ —	$ —	$ —	$ —	$ —	$ —
Nine Months Ended September 30,						
Interest rate products	$ —	$ —	$ —	$ —	$ —	$ (106)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total amount of Interest expense presented on the Consolidated Statements of Operations	$ 2,047	$ 2,002	$ 6,050	$ 16,159

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net 2018	2017
Three Months Ended September 30,		
Interest rate products	$ —	$ —
Nine Months Ended September 30,		
Interest rate products	$ —	$ (1)

Credit-risk-related Contingent Features

The General Partner has agreements with its derivative counterparties that contain a provision where the 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.

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.

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 September 30, 2018 and December 31, 2017, all of which were held by UDR.

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Limited Partnership Units

As of September 30, 2018 and December 31, 2017, there were 183,525,660 and 183,240,041, respectively, of limited partnership units outstanding, of which 1,873,332 were Class A Limited Partnership Units for both periods. UDR owned 174,137,816, or 94.9%, and 174,126,805, or 95.0%, of OP Units outstanding at September 30, 2018 and December 31, 2017, respectively, of which 121,661 were Class A Limited Partnership Units for both periods. The remaining 9,387,844, or 5.1%, and 9,113,236, or 5.0%, of OP Units outstanding were held by non-affiliated partners at September 30, 2018 and December 31, 2017, respectively, of which 1,751,671 were Class A Limited Partnership Units for both periods.

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 $379.6 million and $351.0 million as of September 30, 2018 and December 31, 2017, 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 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.

The following table shows OP Units outstanding and OP Unit activity as of and for the nine months ended September 30, 2018:

	Class A Limited Partners	Limited Partners	Limited Partner	Class A Limited Partner	General Partner	Total
Ending balance at December 31, 2017	1,751,671	7,361,565	174,005,144	121,661	110,883	183,350,924
Vesting of LTIP Units	—	285,619	—	—	—	285,619
OP redemptions for UDR stock	—	(11,011)	11,011	—	—	—
Ending balance at September 30, 2018	1,751,671	7,636,173	174,016,155	121,661	110,883	183,636,543

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.

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Two classes of LTIP Units are granted, Class 1 LTIP Units and Class 2 LTIP Units. Class 1 LTIP Units are granted to certain employees and non-employee directors and vest over a period of up to four years. 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.

10. COMMITMENTS AND CONTINGENCIES

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 flows.

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 are property management costs, which are the Operating Partnership's allocable share of costs incurred by the General Partner for shared services of corporate level property management employees and related support functions and costs. 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 July 1, 2017 (for the quarter-to-date comparison) or January 1, 2017 (for the year-to-date comparison) and held as of September 30, 2018. A comparison of operating results from the prior year is meaningful as these

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

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 our 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 nine months ended September 30, 2018 and 2017.

The following table details rental income and NOI for the Operating Partnership's reportable segments for the three and nine months ended September 30, 2018 and 2017, and reconciles NOI to Net income/(loss) attributable to OP unitholders on the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended September 30, (a)		Nine Months Ended September 30, (b)	
	2018	2017	2018	2017
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$ 62,320	$ 59,383	$ 183,885	$ 175,378
Mid-Atlantic Region	15,085	14,657	45,172	44,203
Northeast Region	13,771	13,746	40,780	40,850
Southeast Region	13,262	12,448	38,881	37,171
Non-Mature Communities/Other	5,101	5,019	14,679	14,344
Total segment and consolidated rental income	$ 109,539	$ 105,253	$ 323,397	$ 311,946
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$ 47,692	$ 44,605	$ 140,603	$ 132,368
Mid-Atlantic Region	10,178	9,843	30,953	30,073
Northeast Region	9,471	9,884	29,373	30,488
Southeast Region	9,336	8,844	26,979	25,671
Non-Mature Communities/Other	3,471	3,385	10,064	10,038
Total segment and consolidated NOI	80,148	76,561	237,972	228,638
Reconciling items:				

Property management	(3,012)	(2,894)	(8,893)	(8,578)
Other operating expenses	(2,347)	(1,572)	(6,098)	(5,248)
Real estate depreciation and amortization	(35,043)	(37,057)	(108,906)	(113,167)
General and administrative	(4,143)	(4,134)	(12,997)	(13,760)
Casualty-related (charges)/recoveries, net	10	43	(906)	(1,701)
Income/(loss) from unconsolidated entities	(2,378)	(4,782)	(10,102)	(14,556)
Interest expense	(5,100)	(5,055)	(15,209)	(25,318)
Gain/(loss) on sale of real estate owned	—	—	70,300	—
Net (income)/loss attributable to noncontrolling interests	(440)	(374)	(1,278)	(1,067)
Net income/(loss) attributable to OP unitholders	$ 27,695	$ 20,736	$ 143,883	$ 45,243

(a) Same-Store Community population consisted of 16,216 apartment homes.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

(b) Same-Store Community population consisted of 16,216 apartment homes.

The following table details the assets of the Operating Partnership's reportable segments as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018	December 31, 2017
Reportable apartment home segment assets		
Same-Store Communities		
West Region	$ 1,973,796	$ 1,955,962
Mid-Atlantic Region	660,775	655,850
Northeast Region	680,227	677,767
Southeast Region	338,964	334,811
Non-Mature Communities/Other	154,356	192,566
Total segment assets	3,808,118	3,816,956
Accumulated depreciation	(1,627,511)	(1,543,652)
Total segment assets - net book value	2,180,607	2,273,304
Reconciling items:		
Cash and cash equivalents	83	293
Restricted cash	13,515	12,579
Investment in unconsolidated entities	53,772	76,907
Other assets	34,005	32,490
Total consolidated assets	$ 2,281,982	$ 2,395,573

Capital expenditures related to the Operating Partnership's Same-Store Communities totaled $11.1 million and $10.9 million for the three months ended September 30, 2018 and 2017, respectively, and $28.4 million and $30.8 million for the nine months ended September 30, 2018 and 2017, respectively. Capital expenditures related to the Operating Partnership's Non-Mature Communities/Other totaled $0.4 million and $0.5 million for the three months ended September 30, 2018 and 2017, respectively, and $0.6 million and $1.2 million for the nine months ended September 30, 2018 and 2017, 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 — Nashville, Tampa and Other Florida
v. Southwest Region — Denver

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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 the availability of capital and the stability of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments and redevelopments, delays in completing lease-ups on schedule or at expected rent and occupancy levels, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels and rental rates, expectations concerning joint ventures and partnerships 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;
- risks from cybersecurity breaches of our information technology systems and the information technology systems of our third party vendors and other third parties;
- 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;
- risks that borrowers of mezzanine loans that we make and/or our partners in projects in which we have a preferred equity return interest and/or the related developments do not perform as expected;

- changing interest rates, which could increase interest costs and affect the market price of our securities;
- potential liability for environmental contamination, which could result in substantial costs to us;

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- 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.

The following discussion should be read in conjunction with the consolidated financial statements appearing elsewhere herein and is based primarily on the consolidated financial statements for the three and nine months ended September 30, 2018 and 2017, of each of UDR, Inc. and United Domination Realty, L.P.

UDR, Inc.:

Business Overview

We are a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, disposes of, and manages multifamily 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 joi ventures.

At September 30, 2018, our consolidated real estate portfolio included 127 communities in 11 states plus the District of Columbia totaling 40,420 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 32 communities with 8,112 apartment homes. The Same-Store Community apartment home population for the three and nine months ended September 30, 2018, was 38,307 and 37,673, respectively.

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The following table summarizes our market information by major geographic markets as of and for the three and nine months ended September 30, 2018:

		September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ende September 30, 201	
Same-Store Communities	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)	Average Physical Occupancy	Mo Inc per Oc Ho
West Region								
Orange County, CA	10	4,434	10.8 %	$ 1,120,098	96.3 %	$ 2,325	96.2 %	$
San Francisco, CA	11	2,751	8.4 %	862,586	96.7 %	3,604	96.8 %	
Seattle, WA	15	2,837	9.5 %	983,605	96.3 %	2,456	96.6 %	
Los Angeles, CA	4	1,225	4.4 %	453,682	96.1 %	2,830	95.9 %	
Monterey Peninsula, CA	7	1,565	1.7 %	176,622	97.2 %	1,786	97.2 %	
Other Southern California	2	654	1.0 %	106,905	96.5 %	1,913	96.5 %	
Portland, OR	2	476	0.5 %	48,824	96.2 %	1,588	96.5 %	
Mid-Atlantic Region								
Metropolitan D.C.	21	7,798	19.5 %	2,009,507	97.3 %	2,043	97.4 %	
Richmond, VA	4	1,358	1.4 %	147,559	97.9 %	1,340	98.0 %	
Baltimore, MD	3	720	1.5 %	151,429	95.3 %	1,689	96.1 %	
Northeast Region								
New York, NY	4	1,945	12.6 %	1,305,282	98.0 %	4,354	97.7 %	
Boston, MA	5	1,548	5.5 %	566,105	96.4 %	3,110	96.6 %	
Southeast Region								
Orlando, FL	9	2,500	2.2 %	223,940	97.2 %	1,354	97.0 %	
Nashville, TN	8	2,260	2.0 %	209,917	96.4 %	1,347	96.6 %	
Tampa, FL	7	2,287	2.5 %	254,979	97.2 %	1,401	97.4 %	
Other Florida	1	636	0.8 %	85,254	96.7 %	1,609	96.6 %	
Southwest Region								

Dallas, TX	6	2,040	2.0 %	205,115	96.8 %	1,251	96.7 %	
Austin, TX	4	1,273	1.6 %	163,614	97.7 %	1,471	97.4 %	
Total/Average Same-Store Communities	123	38,307	87.9 %	9,075,023	96.9 %	$ 2,161	96.9 %	$
Non-Mature, Commercial Properties & Other	3	1,039	7.1 %	734,119				
Total Real Estate Held for Investment	126	39,346	95.0 %	9,809,142				
Real Estate Under Development (b)	—	470	3.4 %	350,686				
Real Estate Held for Disposition (c)	1	604	1.6 %	167,836				
Total Real Estate Owned	127	40,420	100.0 %	10,327,664				
Total Accumulated Depreciation				(3,626,327)				
Total Real Estate Owned, Net of Accumulated Depreciation				$ 6,701,337				

(a) Monthly Income per Occupied Home represents total monthly revenues divided by the average physical number of occupied apartment homes in our Same-Store portfolio.
(b) As of September 30, 2018, the Company was developing one wholly-owned community with a total of 585 apartment homes, 470 of which have been completed.
(c) The Company had one community located in Fairfax, Virginia that met the criteria to be classified as held for disposition at September 30, 2018.

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 July 1, 2017 (for quarter-to-date comparison) or January 1, 2017 (for year-to-date comparison) and held as of September 30, 2018. 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 classified as 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.

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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 communities, 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 as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings under our credit agreements. We routinely use our unsecured revolving 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 continue to execute on maintaining a diversified portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by property operations and borrowings under our credit agreements and our unsecured commercial paper program. 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 net cash provided by property operations, 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 and our unsecured commercial paper program 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/or dispositions of properties.

We have a shelf registration statement filed with the Securities and Exchange Commission, or “SEC,” which provides for the issuance of common stock, preferred stock, depositary shares, debt securities, 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.

In July 2017, the Company entered into an ATM sales agreement 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 and may enter into separate forward sales agreements to or through its forward purchasers. Upon entering into the ATM sales agreement, the Company simultaneously terminated the sales agreement for its prior at-the-market equity offering program, which was entered into in April 2017, which had replaced the prior at-the-market equity offering program entered into in April 2012. During the three and nine months ended September 30, 2018, the Company did not sell any shares of common stock through its ATM program.

In February 2018, the Company amended the working capital credit facility to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. The maximum borrowing capacity and interest rate were unchanged by the amendment.

During the nine months ended September 30, 2018, the Company repurchased 593,373 shares of its common stock at an average price of $33.69 for total consideration of approximately $20.0 million under its share repurchase program.

In September 2018, the Company entered into a $1.1 billion unsecured revolving credit facility (the "Revolving Credit Facility") and a $350.0 million unsecured term loan (the "Term Loan"). 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 to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company's prior credit agreement, which provided for: (i) a $1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a $350.0 million term loan scheduled to mature in January 2020. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions.

On October 26, 2018, the Company issued $300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029. Interest is payable semi-annually in arrears on January 26 and July 26 of each year, beginning on January 26, 2019. The notes were priced at 99.998% of the principal amount at issuance. The Company will use the net proceeds for the repayment of debt, including $195.8 million of the outstanding balance under the Fannie Mae credit facilities, and for general corporate purposes.

Future Capital Needs

Future development and redevelopment expenditures may be funded through unsecured or secured credit facilities, unsecured commercial paper, proceeds from the issuance of equity or debt securities, sales of properties, joint ventures, and, to a lesser extent, from cash flows 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.

During the remainder of 2018, we have approximately $0.9 million of secured debt maturing, inclusive of principal amortization, and $415.0 million of unsecured debt maturing, comprised solely of unsecured commercial paper. During 2019, we have approximately $267.4 million of secured debt maturing, inclusive of principal amortization, and no unsecured debt maturing. We will prepay $195.8 million of the secured debt due in 2019 with proceeds from the senior unsecured medium-term notes issued on October 26, 2018 and anticipate repaying the remaining 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 and our unsecured commercial paper program.

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 20, 2018. 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 20, 2018. 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 nine months ended September 30, 2018 and 2017.

Operating Activities

For the nine months ended September 30, 2018, our Net cash provided by/(used in) operating activities was $406.7 million compared to $389.3 million for the comparable period in 2017. The increase in cash flow from operating activities was primarily due to improved net operating income, primarily driven by revenue growth at communities.

Investing Activities

For the nine months ended September 30, 2018, Net cash provided by/(used in) investing activities was $(203.1) million compared to $(383.4) million for the comparable period in 2017. The decrease in cash used in investing activities was primarily due to an increase in proceeds from the sale of real estate assets and decreases in the acquisition of real estate assets, investment in unconsolidated joint ventures, development of real estate assets and capital expenditures and other major improvements, partially offset by a decrease in distributions received from unconsolidated joint ventures and an increase in the issuance of notes receivable.

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Acquisitions

During the nine months ended September 30, 2018, the Company did not have any acquisitions of real estate.

Dispositions

During the nine months ended September 30, 2018, the Company sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of $90.5 million, resulting in a gain of $70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

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.

For the nine months ended September 30, 2018, total capital expenditures of $80.4 million, or $2,037 per stabilized home, which in aggregate include recurring capital expenditures and major renovations, were spent across our portfolio, excluding development, as compared to $75.6 million, or $1,905 per stabilized home, for the comparable period in 2017.

The increase in total capital expenditures was primarily due to:

- an increase of 93.6%, or $9.1 million, in major renovations, which include major structural changes and/or architectural revisions to existing buildings; and
- an increase of 19.3%, or $4.2 million, in asset preservation expenditures, such as building interiors, building exteriors, and landscaping and grounds.

This was partially offset by:

- a decrease of 24.0%, or $8.6 million, in revenue-enhancing improvements, such as kitchen and bath remodels and upgrades to common areas.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended September 30,			Per Home Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Turnover capital expenditures	$ 8,340	$ 8,284	0.7 %	$ 211	$ 209	1.0 %
Asset preservation expenditures	26,059	21,838	19.3 %	660	550	20.0 %
Total recurring capital expenditures	34,399	30,122	14.2 %	871	759	14.8 %
Revenue-enhancing improvements	27,145	35,724	(24.0) %	688	900	(23.6) %
Major renovations (a)	18,883	9,752	93.6 %	478	246	94.5 %
Total capital expenditures	$ 80,427	$ 75,598	6.4 %	$ 2,037	$ 1,905	7.0 %

Repair and maintenance expense	$ 26,116	$ 25,066	4.2 %	$ 662	$ 631	4.9 %
Average home count (b)	39,463	39,698	(0.6) %			

(a) Major renovations include major structural changes and/or architectural revisions to existing buildings.
(b) Average number of homes is calculated based on the number of homes outstanding at the end of each month.
The above table includes 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.

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Consolidated Real Estate Under Development

At September 30, 2018, our development pipeline consisted of one wholly-owned community totaling 585 homes, 470 of which have been completed, with a budget of $362.5 million, in which we have a carrying value of $350.7 million. The community is estimated to be completed during the fourth quarter of 2018.

During the nine months ended September 30, 2018, the Company completed the development of a 516 apartment home community in Huntington Beach, California.

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 communities held by 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 nine months ended September 30, 2018:

- we made investments totaling $85.1 million in our unconsolidated joint ventures;
- our proportionate share of the net income/(loss) of the joint ventures and partnerships was $(5.1) million; and
- we received distributions of $33.4 million, of which $2.8 million were operating cash flows and $30.6 million were investing cash flows.

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 impairments in the value of its investments in unconsolidated joint ventures or partnerships during the three and nine months ended September 30, 2018 and 2017.

Financing Activities

For the nine months ended September 30, 2018, our Net cash provided by/(used in) financing activities was $(197.4) million, compared to $(5.8) million for the comparable period of 2017.

The following significant financing activities occurred during the nine months ended September 30, 2018:

- net proceeds of $115.0 million from our unsecured commercial paper program;
- net proceeds of $29.2 million from the Company's unsecured revolving credit facilities;
- repayment of $82.5 million of secured debt;
- issuance of $80.0 million of secured debt;
- repurchase of common shares for approximately $20.0 million; and
- payment of distributions of $255.7 million to our common stockholders.

Credit Facilities and Commercial Paper Program

We have two secured credit facilities with Fannie Mae with an aggregate commitment of $285.8 million, all of which was outstanding as of September 30, 2018. The Fannie Mae credit facilities mature at various dates from October 2019 through July 2020 and bear interest at fixed rates. At September 30, 2018, the entire outstanding balance was fixed and had a weighted average interest rate of 4.86%.

We will prepay $195.8 million of the outstanding balance under the Fannie Mae credit facilities with proceeds from the senior unsecured medium-term notes issued on October 26, 2018.

In September 2018, the Company entered into a $1.1 billion unsecured revolving credit facility and a $350.0 million unsecured term loan. The Credit Agreement for these facilities allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company's prior credit agreement, which provided for: (i) a $1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a $350.0 million term loan scheduled to mature in January 2020. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions.

Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points and a facility fee of 15 basis points, and the Term Loan has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin under the Revolving Credit Facility ranges from 75 to 145 basis points, the facility fee ranges from 10 to 30 basis points, and the margin under the Term Loan ranges from 80 to 165 basis points.

As of September 30, 2018, we had no outstanding borrowings under the Revolving Credit Facility, leaving $1.1 billion of unused capacity (excluding $3.3 million of letters of credit at September 30, 2018), and $350.0 million of outstanding borrowings under the Term Loan.

We have a working capital credit facility, which provides for a $75 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 15, 2021. 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 February 2018, we amended the working capital credit facility to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. The maximum borrowing capacity and interest rate were unchanged by the amendment.

As of September 30, 2018, we had $51.0 million of outstanding borrowings under the Working Capital Credit Facility, leaving $24.0 million of unused capacity.

The Fannie Mae credit facilities, the bank revolving credit facilities and the term loan are subject to customary financial covenants and limitations, all of which we were in compliance with at September 30, 2018.

We have an unsecured commercial paper program. Under the terms of the program, we may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of our other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership. As of September 30, 2018, we had issued $415.0 million of commercial paper, for one month terms, at a weighted average annualized rate of 2.43%, leaving $85.0 million of unused capacity.

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 $595.7 million in variable rate debt that is not subject to interest rate swap contracts as of September 30, 2018. If market interest rates for variable rate debt increased by 100 basis points, our interest expense for the nine months ended September 30, 2018 would increase by $4.3 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

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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 derivate instruments.

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

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by/(used in) operating activities	$ 406,724	$ 389,276
Net cash provided by/(used in) investing activities	(203,106)	(383,371)
Net cash provided by/(used in) financing activities	(197,368)	(5,810)

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 nine months ended September 30, 2018 and 2017.

Net Income/(Loss) Attributable to Common Stockholders

Net income/(loss) attributable to common stockholders was $17.6 million ($0.07 per diluted share) for the three months ended September 30, 2018, as compared to $15.3 million ($0.06 per diluted share) for the comparable period in the prior year. The increase resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in total property NOI of $10.1 million primarily due to higher revenue per occupied home and NOI from communities acquired in 2017, redeveloped in 2017 or recently developed, partially offset by a decrease from sold communities.

This was partially offset by

- an increase in interest expense of $4.3 million primarily due to increased debt balances, higher interest rates and lower capitalized interest from development and redevelopment activities; and
- a decrease in income from unconsolidated entities of $3.2 million primarily due to a $2.4 million gain recorded on the sale of an operating community in Seattle, Washington from our West Coast Development Joint Ventures for the three months ended September 30, 2017.

Net income/(loss) attributable to common stockholders was $118.1 million ($0.44 per diluted share) for the nine months ended September 30, 2018, as compared to $49.5 million ($0.18 per diluted share) for the comparable period in the prior year. The increase resulted primarily from the following items, all of which are discussed in further detail

elsewhere within this Report:

- gains, net of tax, of $70.3 million on the sale of an operating community in Orange County, California during the nine months ended September 30, 2018, as compared to a gain, net of tax, of $2.1 million on the sale of a parcel of land in Richmond, Virginia during the nine months ended September 30, 2017; and
- an increase in total property NOI of $23.9 million primarily due to higher revenue per occupied home and NOI from communities acquired in 2017, redeveloped in 2017 or recently developed, partially offset by a decrease from sold communities.

This was partially offset by:

- a decrease in income from unconsolidated entities of $16.7 million primarily due to a gain on consolidation of $12.2 million from the purchase of a previously unconsolidated operating community in Seattle, Washington

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from our West Coast Development Joint Ventures and a $2.4 million gain recorded on the sale of an operating community in Seattle, Washington from our West Coast Development Joint Ventures during the nine months ended September 30, 2017;

- an increase in interest expense of $1.4 million primarily due to increases in debt balances, higher interest rates and lower capitalized interest from development and redevelopment activities, which was partially offset by prepayment penalties incurred in 2017 related to the early repayment of debt; and
- an increase in net income attributable to redeemable noncontrolling interests in the Operating Partnership of $6.2 million primarily attributable to the noncontrolling interest's share of a gain on sale associated with a disposition made in 2018.

Apartment Community Operations

Our net income results are primarily from NOI generated from the operation of our apartment communities. The Company 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 the regional supervision and accounting costs related to consolidated property operations and land rent.

Management considers NOI a useful metric for investors as it is a more meaningful representation of a community's continuing operating performance than net income as it is prior to corporate-level expense allocations, general and administrative costs, capital structure and depreciation and amortization.

Although the Company considers NOI a useful measure of operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities as determined in accordance with GAAP. NOI excludes several income and expense categories as detailed in the reconciliation of NOI to Net income/(loss) attributable to UDR, Inc. below.

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

	Three Months Ended September 30, (a)				Nine Months Ended September 30, (b)			
	2018	2017	% Change		2018	2017	% Change	
Same-Store Communities:								
Same-Store rental income	$ 240,646	$ 231,882	3.8	%	$ 702,409	$ 679,537	3.4	%
Same-Store operating expense (c)	(69,927)	(67,585)	3.5	%	(200,139)	(193,625)	3.4	%
Same-Store NOI	170,719	164,297	3.9	%	502,270	485,912	3.4	%
Non-Mature Communities/Other NOI:								
Stabilized, non-mature communities NOI	2,259	945	139.0	%	13,975	9,227	51.5	%

(d) Development communities NOI	3,049	(6)	NM	*	4,374	(441)	NM	*
Non-residential/other NOI	6,373	4,851	31.4	%	16,188	12,509	29.4	%
Sold and held for disposition communities NOI	2,414	4,634	(47.9)	%	7,896	13,620	(42.0)	%
Total Non-Mature Communities/Other NOI	14,095	10,424	35.2	%	42,433	34,915	21.5	%
Total property NOI	$ 184,814	$ 174,721	5.8	%	$ 544,703	$ 520,827	4.6	%

* Not meaningful

(a) Same-Store consists of 38,307 apartment homes.
(b) Same-Store consists of 37,673 apartment homes.
(c) Excludes depreciation, amortization, and property management expenses.
(d) Represents non-mature communities that have achieved 90% occupancy for three consecutive months but do not meet the criteria to be included in Same-Store Communities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income/(loss) attributable to UDR, Inc.	$ 18,610	$ 16,190	$ 120,967	$ 52,314
Joint venture management and other fees	(2,888)	(2,827)	(8,819)	(8,718)
Property management	7,240	6,827	21,185	20,190
Other operating expenses	3,314	1,950	8,148	6,010
Real estate depreciation and amortization	107,881	107,171	322,537	320,653
General and administrative	11,896	12,467	36,028	36,976
Casualty-related charges/(recoveries), net	678	2,056	2,364	3,749
Other depreciation and amortization	1,682	1,585	5,057	4,760
(Income)/loss from unconsolidated entities	1,382	(1,819)	5,091	(11,591)
Interest expense	34,401	30,095	95,942	94,500
Interest income and other (income)/expense, net	(1,188)	(481)	(5,075)	(1,423)
Tax provision/(benefit), net	158	127	618	825
(Gain)/loss on sale of real estate owned, net of tax	—	—	(70,300)	(2,132)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	1,616	1,415	10,819	4,607
Net income/(loss) attributable to noncontrolling interests	32	(35)	141	107
Total property NOI	$ 184,814	$ 174,721	$ 544,703	$ 520,827

Same-Store Communities

Our Same-Store Community properties, those acquired, developed, and stabilized prior to July 1, 2017 (for the quarter-to-date comparison) and January 1, 2017 (for year-to-date comparison) and held on September 30, 2018, consisted of 38,307 and 37,673 apartment homes, respectively, and provided 92.4% and 92.2%, respectively, of our total NOI for the three and nine months ended September 30, 2018, respectively.

Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

NOI for our Same-Store Community properties increased 3.9%, or $6.4 million, for the three months ended September 30, 2018 compared to the same period in 2017. The increase in property NOI was attributable to a 3.8%, or $8.8 million, increase in property rental income, which was partially offset by a 3.5%, or $2.3 million, increase in operating expenses. The increase in property income was primarily driven by a 2.1%, or $4.6 million, increase in rental rates and an 13.8%, or $3.0 million, increase in reimbursement, ancillary and fee income. Physical occupancy increased 0.3% to 96.9% and total monthly income per occupied home increased 3.5% to $2,161.

The increase in operating expenses was primarily driven by a 9.0%, or $2.3 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

The operating margin (property net operating income divided by property rental income) was 70.9% for both the three months ended September 30, 2018 and 2017.

Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017

NOI for our Same-Store Community properties increased 3.4%, or $16.4 million, for the nine months ended September 30, 2018 compared to the same period in 2017. The increase in property NOI was attributable to a 3.4%, or $22.9 million, increase in property rental income, which was partially offset by a 3.4%, or $6.5 million, increase in operating expenses. The increase in property income was primarily driven by a 1.9%, or $12.5 million, increase in rental rates and an 11.5%, or $7.2 million, increase in reimbursement, ancillary and fee income. Physical occupancy increased 0.3% to 96.9% and total monthly income per occupied home increased 3.1% to $2,137.

The increase in operating expenses was primarily driven by a 8.3%, or $6.3 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

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The operating margin (property net operating income divided by property rental income) was 71.5% for both the nine months ended September 30, 2018 and 2017.

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, which include communities recently developed or acquired, redevelopment properties, sold or held for disposition properties, and non-apartment components of mixed use properties.

Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

The remaining 7.6%, or $14.1 million, of our total NOI during the three months ended September 30, 2018 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 35.2%, or $3.7 million, for the three months ended September 30, 2018 as compared to the same period in 2017. The increase was primarily attributable to a $3.1 million increase in development communities, a $1.5 million increase in NOI from non-residential/other, and a $1.3 million increase in stabilized, non-mature communities, partially offset by a $2.2 million decrease in NOI from sold and held for disposition communities.

Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017

The remaining 7.8%, or $42.4 million, of our total NOI during the nine months ended September 30, 2018 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 21.5%, or $7.5 million, for the nine months ended September 30, 2018 as compared to the same period in 2017. The increase was primarily attributable to a $4.8 million increase in development communities, a $4.7 million increase in NOI from stabilized, non-mature communities, and a $3.7 million increase in non-residential/other, partially offset by a $5.7 million decrease in NOI from sold and held for disposition communities.

Income/(Loss) from Unconsolidated Entities

For the three months ended September 30, 2018 and 2017, we recognized income/(loss) from unconsolidated entities of $(1.4) million and $1.8 million, respectively. The decrease of $3.2 million was primarily due to a $2.4 million gain recorded on the sale of an operating community located in Seattle, Washington from our West Coast Development Joint Ventures during the three months ended September 30, 2017.

For the nine months ended September 30, 2018 and 2017, we recognized income/(loss) from unconsolidated entities of $(5.1) million and $11.6 million, respectively. The decrease of $16.7 million was primarily due to a gain on consolidation of $12.2 million from the purchase of a previously unconsolidated operating community in Seattle, Washington from our West Coast Development Joint Ventures and a $2.4 million gain recorded on the sale of an operating community located in Seattle, Washington from our West Coast Development Joint Ventures during the nine months ended September 30, 2017.

Interest Expense

During the three months ended September 30, 2018, Interest expense increased by $4.3 million compared to the same period in 2017. The increase was primarily due to increased debt balances, higher interest rates and lower capitalized interest from development and redevelopment activities.

During the nine months ended September 30, 2018, Interest expense increased by $1.4 million compared to the same periods in 2017. The increases were primarily due to increases in debt balances, higher interest rates and lower capitalized interest from development and redevelopment activities, which was partially offset by prepayment penalties incurred in 2017 related to the early repayment of debt.

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

During the nine months ended September 30, 2018, the Company recognized a gain, net of tax, of $70.3 million on the sale of an operating community in Orange County, California. During the nine months ended September 30, 2017, the Company recognized a gain, net of tax, of $2.1 million on the sale of a parcel of land in Richmond, Virginia.

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Noncontrolling Interest

For the nine months ended September 30, 2018 and 2017, we recognized net income attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership of $10.8 million and $4.6 million, respectively. The increase in 2018 as compared to 2017 was primarily attributable to the noncontrolling interest’s share of a gain on sale associated with a disposition made in 2018.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rental rates on our apartment homes. Although an extreme escalation in 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 nine months ended September 30, 2018.

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.

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

Funds from Operations

Funds from operations (“FFO”) attributable to common stockholders and unitholders is defined as Net income/(loss) 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 depreciable property, 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 diluted FFO, 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.

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 attributable to common stockholders and unitholders 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 or losses on sales of non-depreciable property and marketable securities, deferred tax valuation allowance increases and decreases, casualty-related charges 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,

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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") attributable to common stockholders and unitholders is defined as FFO as Adjusted less recurring capital expenditures on consolidated communities 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 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/(loss) (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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income/(loss) attributable to common stockholders	$ 17,639	$ 15,264	$ 118,070	$ 49,530
Real estate depreciation and amortization	107,881	107,171	322,537	320,653
Noncontrolling interests	1,648	1,380	10,960	4,714
Real estate depreciation and amortization on unconsolidated joint ventures	15,979	14,710	45,831	42,974
Cumulative effect of change in accounting principle (a)	—	—	(2,100)	—
Net gain on the sale of unconsolidated depreciable property	—	(2,355)	—	(14,513)
Net gain on the sale of depreciable real estate owned	—	—	(70,300)	(552)
Funds from operations (“FFO”) attributable to common stockholders and unitholders, basic	$ 143,147	$ 136,170	$ 424,998	$ 402,806
Distribution to preferred stockholders — Series E (Convertible)	971	926	2,897	2,784
FFO attributable to common stockholders and unitholders, diluted	$ 144,118	$ 137,096	$ 427,895	$ 405,590
Income/(loss) per weighted average common share - diluted	$ 0.07	$ 0.06	$ 0.44	$ 0.18