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

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

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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

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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 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 1 5	operating communities; development community (a); land parcels	1,513	71,225	78,404	50.0	50.0%
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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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2018

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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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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		
Description:	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)
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, 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 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.

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

UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

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,

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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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2018

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:

UDR, Inc.

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

Dallas, TX	6	2,040	2.0	%	205,115	96.8	%	1,251	96.7	%	1
Austin, TX	4	1,273	1.6	%	163,614	97.7	%	1,471	97.4	%	1
Total/Average Same-Store Communities	123	38,307	87.9	%	9,075,023	96.9	%	$ 2,161	96.9	%	$ 2
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.

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.

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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.

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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, 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
FFO per weighted average common share and unit, basic	$ 0.49	$ 0.47	$ 1.46	$ 1.38
FFO per weighted average common share and unit, diluted	$ 0.49	$ 0.46	$ 1.44	$ 1.37
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	292,285	291,878	292,075	291,822
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,430	296,900	296,577	296,757
Impact of adjustments to FFO:				
Costs/(benefit) associated with debt extinguishment and other	$ 482	$ —	$ 482	$ 5,834
Acquisition-related costs/(fees)	—	344	—	344
Net gain on the sale of non-depreciable real estate owned	—	—	—	(1,580)
Legal and other costs	563	—	1,188	—
Casualty-related charges/(recoveries), net	740	2,164	2,555	3,857
Casualty-related charges/(recoveries) on unconsolidated joint ventures, net	—	—	—	(881)
	$ 1,785	$ 2,508	$ 4,225	$ 7,574
FFO as Adjusted attributable to common stockholders and unitholders, diluted	$ 145,903	$ 139,604	$ 432,120	$ 413,164

FFO as Adjusted per weighted average common share and unit, diluted	$ 0.49	$ 0.47	$ 1.46	$ 1.39
Recurring capital expenditures	(14,949)	(12,649)	(34,399)	(30,122)
AFFO attributable to common stockholders and unitholders, diluted	$ 130,954	$ 126,955	$ 397,721	$ 383,042
AFFO per weighted average common share and unit, diluted	$ 0.44	$ 0.43	$ 1.34	$ 1.29

(a) During the three and nine months ended September 30, 2018, the Company recorded a gain of zero and $2.1 million, respectively, as a result of measuring an investment in equity securities subject to updated accounting guidance effective for the Company on January 1, 2018. 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.

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The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the UDR Consolidated Statements of Operations for the three and 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
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	292,285	291,878	292,075	291,822
Weighted average number of OP/DownREIT Units outstanding	(24,558)	(24,822)	(24,546)	(24,882)
Weighted average number of common shares outstanding — basic per the Consolidated Statements of Operations	267,727	267,056	267,529	266,940
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,430	296,900	296,577	296,757
Weighted average number of OP/DownREIT Units outstanding	(24,558)	(24,822)	(24,546)	(24,882)
Weighted average number of Series E preferred shares outstanding	(3,011)	(3,016)	(3,011)	(3,024)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	268,861	269,062	269,020	268,851

United Dominion Realty, L.P.:

Business Overview

United Dominion Realty, L.P. (the “Operating Partnership” or “UDR, L.P.”) is a Delaware limited partnership formed in February 2004 and organized pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations on November 4, 1995. Our sole general partner is UDR, Inc., a Maryland corporation (“UDR” or the “General Partner”), which conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership. At September 30, 2018, the Operating Partnership’s real estate portfolio included 52 communities located in nine states and the District of Columbia with a total of 16,434 apartment homes.

As of September 30, 2018, UDR owned 110,883 units of our general partnership interests and 174,137,816 units of our limited partnership interests (the “OP Units”), or approximately 94.8% of our outstanding OP Units. By virtue of its ownership of our OP Units and being our sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this section of this Report to the Operating Partnership or “we,” “us” or “our” refer to UDR, L.P. together with its consolidated subsidiaries, and all references in this section to “UDR” or the “General Partner” refer solely to UDR, Inc.

UDR is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in June 2003. At September 30, 2018, the General Partner’s consolidated real estate portfolio included 127 communities located in 11 states and the District of Columbia with a total of 40,420 apartment homes. In addition, the General Partner had an ownership interest in 32 communities with 8,112 completed apartment homes through unconsolidated operating communities.

The Operating Partnership's same-store community apartment home population for the three and nine months ended September 30, 2018 was 16,216.

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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 End September 30, 20	
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	M I p O H
West Region								
Orange County, CA	5	3,119	19.2 %	$ 734,273	96.6 %	$ 2,260	96.4 %	$
San Francisco, CA	9	2,185	15.8 %	600,255	96.8 %	3,275	96.7 %	
Seattle, WA	5	932	5.9 %	225,383	96.2 %	2,087	96.4 %	
Los Angeles, CA	2	344	3.0 %	114,692	95.6 %	2,761	95.7 %	
Monterey Peninsula, CA	7	1,565	4.6 %	176,622	97.2 %	1,785	97.2 %	
Other Southern California	1	414	2.0 %	73,747	96.5 %	2,025	96.3 %	
Portland, OR	2	476	1.3 %	48,824	96.2 %	1,587	96.5 %	
Mid-Atlantic Region								
Metropolitan D.C.	6	2,068	14.6 %	556,593	97.4 %	2,111	97.4 %	
Baltimore, MD	2	540	2.7 %	104,182	95.3 %	1,507	96.2 %	
Northeast Region								
New York, NY	2	996	16.0 %	607,604	97.7 %	3,909	97.5 %	
Boston, MA	1	387	1.9 %	72,623	96.8 %	2,102	97.1 %	
Southeast Region								
Nashville, TN	6	1,612	3.9 %	147,173	96.1 %	1,335	96.3 %	
Tampa, FL	2	942	2.8 %	106,537	97.8 %	1,479	97.9 %	
Other Florida	1	636	2.2 %	85,254	96.7 %	1,610	96.6 %	
Total/Average Same-Store Communities	51	16,216	95.9 %	3,653,762	96.8 %	$ 2,218	96.8 %	$
Non-Mature, Commercial	1	218	3.9 %	146,764				

Properties & Other					
Total Real Estate Held for Investment	52	16,434	99.8	%	3,800,526
Real Estate Held for Disposition (b)	—	—	0.2	%	7,592
Total Real Estate Owned	52	16,434	100.0	%	3,808,118
Total Accumulated Depreciation					(1,627,511)
Total Real Estate Owned, Net of Accumulated Depreciation					$ 2,180,607

(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) The Operating Partnership had a commercial office building 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 held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our Non-Mature Communities/Other segment represents those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped 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, the sale of properties, and the issuance of debt. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. The Operating Partnership's primary source of liquidity is cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings owed by us under the General Partner's credit agreements. The General Partner will routinely use its unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we continue to execute on maintaining a diversified portfolio.

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

Future Capital Needs

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

As of September 30, 2018, the Operating Partnership does not have any secured debt maturing during the remainder of 2018 and approximately $133.2 million of secured debt maturing in 2019. We will prepay all of the secured debt due in 2019 with proceeds from the senior unsecured medium-term notes issued by the General Partner on October 26, 2018. The Operating Patnership is a guarantor of this debt.

Critical Accounting Policies and Estimates and New Accounting Pronouncements

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition.

Our critical accounting policies are described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Operating Partnership's 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. 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 and 2017, Net cash provided by/(used in) operating activities was $196.5 million compared to $183.4 million for the comparable period in 2017. The increase in cash flow from operating activities was primarily due to improved operating income, primarily driven by revenue growth at communities.

Investing Activities

For the nine months ended September 30, 2018 and 2017, Net cash provided by/(used in) investing activities was $70.6 million compared to $(30.2) million for the comparable period in 2017. The increase in cash provided by investing activities was primarily due to proceeds received from the sale of an operating community in Orange County, California in 2018 and a decrease in capital expenditures during the nine months ended September 30, 2018, as compared to the same period in 2017.

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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.

Financing Activities

For the nine months ended September 30, 2018 and 2017, our Net cash provided by/(used in) financing activities was $(266.4) million compared to $(152.8) million for the comparable period of 2017. The increase in cash used in financing activities was primarily due to an increase in advances to the General Partner, partially offset by reduced payments on secured debt.

Credit Facilities

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 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.

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.

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

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 $27.0 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 $0.2 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. These analyses do not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

The General Partner also utilizes derivative financial instruments owed by the Operating Partnership to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 8, Derivatives and

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Hedging Activities, in the Notes to the Operating Partnership's Consolidated Financial Statements for additional discussion of derivative 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	$ 196,498	$ 183,432
Net cash provided by/(used in) investing activities	70,638	(30,222)
Net cash provided by/(used in) financing activities	(266,410)	(152,830)

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 OP Unitholders

Net income attributable to OP unitholders was $27.7 million ($0.15 per diluted OP Unit) for the three months ended September 30, 2018, as compared to net income of $20.7 million ($0.11 per diluted OP Unit) for the comparable period in the prior year. The increase in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- an increase of $3.6 million in total property NOI primarily due to higher revenue per occupied home; and

- a decrease in depreciation and amortization expense of $2.0 million primarily due to the sale of a community in 2018.

Net income attributable to OP unitholders was $143.9 million ($0.78 per diluted OP Unit) for the nine months ended September 30, 2018, as compared to net income of $45.2 million ($0.25 per diluted OP Unit) for the comparable period in the prior year. The increase in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- gains 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 no gains during the nine months ended September 30, 2017;
- a decrease in interest expense of $10.1 million due to lower debt balances and prepayment penalties incurred during the nine months ended September 30, 2017;
- an increase of $9.3 million in total property NOI primarily due to higher revenue per occupied home; and
- a decrease in depreciation and amortization expense of $4.3 million primarily due to the sale of a community in 2018.

Apartment Community Operations

Our net income results primarily from NOI generated from the operation of our apartment communities. The Operating Partnership defines NOI, which is a non-GAAP financial measure, as rental income less direct property rental expenses. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI 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.

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.

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Although we consider 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 OP unitholders below.

The following table summarizes the operating performance of our total portfolio for the three and nine months ended September 30, 2018 and 2017 (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	$ 104,438	$ 100,234	4.2	%	$ 308,718	$ 297,602	3.7	%
Same-Store operating expense (c)	(27,761)	(27,058)	2.6	%	(80,810)	(79,002)	2.3	%
Same-Store NOI	76,677	73,176	4.8	%	227,908	218,600	4.3	%
Non-Mature Communities/Other NOI:								
Stabilized, non-mature communities NOI (d)	3,355	2,023	65.8	%	9,166	6,006	52.6	%
Sold and held for disposition communities NOI	116	1,362	(91.5)	%	898	4,032	(77.7)	%
Total Non-Mature Communities/Other NOI	3,471	3,385	2.5	%	10,064	10,038	0.3	%
Total property NOI	$ 80,148	$ 76,561	4.7	%	$ 237,972	$ 228,638	4.1	%

(a) Same-Store consists of 16,216 apartment homes.
(b) Same-Store consists of 16,216 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.

The following table is our reconciliation of Net income/(loss) attributable to OP unitholders to total property NOI 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 OP unitholders	$ 27,695	$ 20,736	$ 143,883	$ 45,243
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
Total property NOI	$ 80,148	$ 76,561	$ 237,972	$ 228,638

Same-Store Communities

Our Same-Store Community properties, those acquired, developed, and stabilized prior to July 1, 2017 (for quarter-to-date comparison) and January 1, 2017 (for year-to-date comparison) and held as of September 30, 2018, consisted of 16,216 apartment homes and provided 95.7% and 95.8% 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 4.8%, or $3.5 million, for the three months ended September 30, 2018 compared to the same period in 2017. The increase in property NOI was primarily attributable to a 4.2%, or $4.2 million, increase in property rental income, which was partially offset by a 2.6%, or $0.7 million, increase in operating expenses. The increase in revenues was primarily driven by a 2.4%, or $2.2 million, increase in rental rates and a 11.5%, or

$1.1 million, increase in reimbursement, ancillary and fee income. Physical occupancy increased 0.2% to 96.8% and total income per occupied home increased 3.9% to $2,218 for the three months ended September 30, 2018 compared to the same period in 2017.

The increase in property operating expenses was primarily driven by a 7.9%, or $0.8 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 73.4% and 73.0% for the three months ended September 30, 2018 and 2017, respectively.

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

NOI for our Same-Store Community properties increased 4.3%, or $9.3 million, for the nine months ended September 30, 2018 compared to the same period in 2017. The increase in property NOI was primarily attributable to a 3.7%, or $11.1 million, increase in property rental income, which was partially offset by a 2.3%, or $1.8 million, increase in operating expenses. The increase in revenues was primarily driven by a 2.3%, or $6.3 million, increase in rental rates and a 11.0%, or $3.2 million, increase in reimbursement, ancillary and fee income. Physical occupancy increased 0.3% to 96.8% and total income per occupied home increased 3.5% to $2,185 for the nine months ended September 30, 2018 compared to the same period in 2017.

The increase in property operating expenses was primarily driven by a 6.9%, or $1.9 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 73.8% and 73.5% for the nine months ended September 30, 2018 and 2017, respectively.

Non-Mature Communities/Other

The Operating Partnership's Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, which include communities recently developed or acquired, redevelopment properties, sold or held for disposition properties and the non-apartment components of mixed use properties.

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

The remaining 4.3%, or $3.5 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 2.5%, or $0.1 million, for the three months ended September 30, 2018, compared to the same period in 2017.

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

The remaining 4.2%, or $10.1 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 decreased 0.3%, or less than $0.1 million, for the nine months ended September 30, 2018, compared to the same period in 2017.

Real Estate Depreciation and Amortization

During the three and nine months ended September 30, 2018, Real estate depreciation and amortization decreased by $2.0 million and $4.3 million, respectively, as compared to the same periods in 2017. The decreases were primarily due to the sale of a community in 2018.

Interest Expense

During the nine months ended September 30, 2018, interest expense decreased by $10.1 million, primarily due to lower debt balances and prepayment penalties incurred during the nine months ended September 30, 2017.

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Gain/(Loss) on Sale of Real Estate Owned

During the nine months ended September 30, 2018, the Operating Partnership recognized a gain of $70.3 million on the sale of an operating community in Orange County, California. During the nine months ended September 30, 2017, the Operating Partnership did not have any dispositions.

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.

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Item 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

See our Annual Report on Form 10 K for the year ended December 31, 2017 under the heading “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” for a more complete discussion of our interest rate sensitive assets and liabilities. As of September 30, 2018, our market risk has not changed materially from the amounts reported in our Annual Report on Form 10 K for the year ended December 31, 2017.

Item 4.CONTROLS AND PROCEDURES

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

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

As of September 30, 2018, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, of the effectiveness of the design and operation of the disclosure controls and procedures of the Company and the Operating Partnership. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the disclosure controls and procedures of the Company and the Operating Partnership are effective at the reasonable assurance level described above.

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

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PART II — OTHER INFORMATION

Item 1.LEGAL PROCEEDINGS

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

Item 1A.RISK FACTORS

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

Risks Related to Our Real Estate Investments and Our Operations

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

- downturns in the global, national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates, making alternative housing more affordable;
- government or builder incentives with respect to home ownership, making alternative housing options more attractive;
- local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- changes in market rental rates;
- our ability to renew leases or re-lease space on favorable terms;
- the timing and costs associated with property improvements, repairs or renovations;
- declines in household formation; and
-

rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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The Geographic Concentration of Our Communities in Certain Markets Could Have an Adverse Effect on Our Operations if a Particular Market is Adversely Impacted by Economic or Other Conditions. For the year ended December 31, 2017, approximately 53.8% of our total NOI was generated from communities located in the Washington, D.C. metropolitan area (18.6%), Orange County, CA (12.2%), the San Francisco Bay Area, CA (11.8%) and New York, NY (11.2%). For the nine months ended September 30, 2018, approximately 52.4% of our total NOI was generated from communities located in the Washington, D.C. metropolitan area (17.1%), Orange County, CA (12.6%), the San Francisco Bay Area, CA (12.3%) and New York, NY (10.4%). As a result, if any one or more of these markets is adversely impacted by regional or local economic conditions or local real estate market conditions or regulations, such conditions may have a greater adverse impact on our results of operations than if our portfolio was more geographically diverse.

We May Be Unable to Renew Leases or Relet Apartment Units as Leases Expire, or the Terms of Renewals or New Leases May Be Less Favorable Than Current Leases. When our residents decide to leave our apartments, whether because they decide not to renew their leases or they leave prior to their lease expiration date, we may not be able to relet their apartment units. Even if the residents do renew or we can relet the apartment units, the terms of renewal or reletting may be less favorable than current lease terms. Furthermore, because the majority of our apartment leases have initial terms of 12 months or less, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms. If we are unable to promptly renew the leases or relet the apartment units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition may be adversely affected. If residents do not experience increases in their income, we may be unable to increase rent and/or delinquencies may increase.

We Face Certain Risks Related to Our Retail and Commercial Space. Certain of our properties include retail or commercial space that we lease to third parties. The long term nature of our retail and commercial leases (generally five to ten years with market based renewal options) and the characteristics of many of our tenants (generally small and/or local businesses) may subject us to certain risks. The longer term leases could result in below market lease rates over time. We may not be able to lease new space for rents that are consistent with our projections or for market rates. Also, when leases for our retail or commercial space expire, the space may not be relet or the terms of reletting, including the cost of allowances and concessions to tenants, may be less favorable than the prior lease terms. Our properties compete with other properties with retail or commercial space. The presence of competitive alternatives may adversely affect our ability to lease space and the level of rents we can obtain. If our retail or commercial tenants experience financial distress or bankruptcy, they may fail to comply with their contractual obligations, seek concessions in order to continue operations or cease their operations, which could adversely impact our results of operations and financial condition.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. The general risk of inflation is that interest on our debt and general and administrative expenses increase at a rate faster than increases in our rental rates, which could adversely affect our financial condition or results of operations.

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

- a significant portion of the proceeds from property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended, or the "Code," so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales; and
- federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

Competition Could Limit Our Ability to Lease Apartment Homes or Increase or Maintain Rents. Our apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities,

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condominiums and single-family rental homes, as well as owner occupied single- and multi-family homes. Competitive housing in a particular area could adversely affect our ability to lease apartment homes and increase or maintain rents, which could materially adversely affect our results of operations and financial condition.

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

· we may be unable to obtain financing for acquisitions on favorable terms, including but not limited to interest rates, term and/or loan-to-value ratios, or at all, all of which could cause us to delay or even abandon potential acquisitions;
· even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the debt used to finance the acquisition;
· even if we enter into an acquisition agreement for an apartment community, we may not complete the acquisition for a variety of reasons after incurring certain acquisition-related costs;
· we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;
· when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability;
· the expected occupancy rates and rental rates may differ from actual results; and
· we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could materially adversely affect our expected return on our investments and our overall profitability.

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

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

· we may be unable to obtain construction financing for development activities on favorable terms, including but not limited to interest rates, term and/or loan to value ratios, or at all, which could cause us to delay or even abandon potential developments;
· we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental or third-party permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;
· yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than expected;
·

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

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- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;
- occupancy rates, rents and concessions at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our expected return on our investment and our overall profitability goals; and
- when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

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

Property Ownership Through Partnerships and Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and/or acquire properties in partnerships and joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. As of September 30, 2018, we had active joint ventures and partnerships, including our preferred equity investments, with a total equity investment of $767.4 million. We could become engaged in a dispute with one or more of our partners which might affect our ability to operate a jointly-owned property. Moreover, our partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our partners may have competing interests in our markets that could create conflicts of interest. Also, our partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. In general, we and our partners may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of our interest in the partnership or joint venture (if we are the seller) or of the other partner's interest in the partnership or joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process.

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

We May Not be Permitted to Dispose of Certain Properties or Pay Down the Indebtedness Associated with Those Properties When We Might Otherwise Desire to do so Without Incurring Additional Costs. In connection with certain property acquisitions, we have agreed with the sellers that we will not dispose of the acquired properties or reduce the mortgage indebtedness on such properties for significant periods of time unless we pay certain of the resulting tax costs of the sellers or dispose of the property in a transaction in which gain is not recognized for federal income tax purposes by such sellers, and we may enter into similar agreements in connection with future property acquisitions. These agreements could result in us retaining properties that we would otherwise sell or not paying down or refinancing indebtedness that we would otherwise pay down or refinance. However, subject to certain conditions, we retain the right to substitute other property or debt to meet these obligations to the sellers.

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

If an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. If one or more of our significant properties were to experience a catastrophic loss,

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it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our financial condition and results of operations.

As a result of our substantial real estate holdings, the cost of insuring our apartment communities is a component of expense. Insurance premiums are subject to significant increases and fluctuations, which are generally outside of our control. We insure our properties with insurance companies that we believe have a good rating at the time our policies are put into effect. The financial condition of one or more insurance companies that we hold policies with may be negatively impacted, which could result in their inability to pay on future insurance claims. Their inability to pay future claims may have a negative impact on our financial results. In addition, the failure of one or more insurance companies may increase the costs to renew or replace our insurance policies or increase the cost of insuring properties.

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

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

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

In addition, our properties are subject to various federal, state and local environmental, health and safety laws, including laws governing the management of wastes and underground and aboveground storage tanks. Noncompliance with these environmental, health and safety laws could subject us to liability. Changes in laws could increase the potential costs of compliance with environmental laws, health and safety laws or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our financial condition and results of operations.

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

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

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not adversely affect our financial condition and results of operations.

Our Properties May Contain or Develop Harmful Mold or Suffer from Other Indoor Air Quality Issues, Which Could Lead to Liability for Adverse Health Effects or Property Damage or Cost for Remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological

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contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation, which could adversely affect our results of operations and cash flow. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

Compliance or Failure to Comply with the Americans with Disabilities Act of 1990 or Other Safety Regulations and Requirements Could Result in Substantial Costs. The Americans with Disabilities Act generally requires that public buildings, including our properties, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. From time to time, claims may be asserted against us with respect to some of our properties under the Americans with Disabilities Act. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations.

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

Compliance with or Changes in Real Estate Tax and Other Laws and Regulations Could Adversely Affect Our Funds from Operations and Our Ability to Make Distributions to Stockholders. We are subject to federal, state and local laws, regulations, rules and ordinances at locations where we operate regarding a wide variety of matters that could affect, directly or indirectly, our operations. Generally, we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws and regulations regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures or unanticipated reductions in revenue, which could adversely affect our financial condition and results of operations.

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

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

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

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

Actual or Threatened Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. Actual or threatened terrorist attacks and other acts of violence or war could have an adverse effect on our business and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our ability to achieve our expected results. Further, our insurance coverage may not cover all losses caused by a terrorist attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have an adverse effect on our financial condition and results of operations.

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

Risk Related to Preferred Equity Investments. We may make preferred equity investments in corporations, limited partnerships, limited liability companies or other entities that have been formed for the purpose of acquiring, developing or managing real property. Generally, we will not have the ability to control the daily operations of the entity, and we will not have the ability to select or remove a majority of the members of the board of directors, managers, general partner or partners or similar governing body of the entity or otherwise control its operations. Although we would seek to maintain sufficient influence over the entity to achieve our objectives, our partners may have interests that differ from ours and may be in a position to take actions without our consent or that are inconsistent with our interests. Further, if our partners were to fail to invest additional capital in the entity when required, we may have to invest additional capital to protect our investment. Our partners may fail to develop or operate the real property or refinance property indebtedness or sell the real property in the manner intended and as a result the entity may not be able to redeem our investment or pay the return expected to us in a timely manner if at all. In addition, we may not be able to dispose of our investment in the entity in a timely manner or at the price at which we would want to divest. In the event that such an entity fails to meet expectations or becomes insolvent, we may lose our entire investment in the entity.

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR’s Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under generally accepted accounting principles as in effect in the United States (“GAAP”), if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we are required to recognize asset impairment charges in the future, these charges could adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR's common stock.

Any Material Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on UDR's Stock Price. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on the per share trading price of UDR's common stock.

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A Breach of Information Technology Systems On Which We Rely Could Materially and Adversely Impact Our Business, Financial Condition, Results of Operations and Reputation. We rely on information technology systems, including the Internet and networks and systems maintained and controlled by third party vendors and other third parties, to process, transmit and store information and to manage or support our business processes. Third party vendors collect and hold personally identifiable information and other confidential information of our tenants, prospective tenants and employees. We also maintain confidential financial and business information regarding us and persons and entities with which we do business on our information technology systems. While we take steps, and generally require third party vendors to take steps, to protect the security of the information maintained in our and third party vendors' information technology systems, including associate training and the use of commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing of the information, it is possible that our or our third party vendors' security measures will not be able to prevent the systems' improper functioning, or the loss, misappropriation, disclosure or corruption of personally identifiable information or other confidential or sensitive information, including information about our tenants and employees. Cybersecurity breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized access to information maintained on our information technology systems or the information technology systems of our third party vendors or other third parties. While we maintain cyber risk insurance to provide some coverage for certain risks arising out of cybersecurity breaches, there is no assurance that such insurance would cover all or a significant portion of the costs or consequences associated with a cybersecurity breach. As the techniques used to obtain unauthorized access to information technology systems become more varied and sophisticated and the occurrence of such breaches becomes more frequent, we and our third party vendors and other third parties may be unable to adequately anticipate these techniques or breaches and implement appropriate preventative measures. Any failure to prevent cybersecurity breaches and maintain the proper function, security and availability of our or our third party vendors' and other third parties' information technology systems could interrupt our operations, damage our reputation and brand, damage our competitive position, make it difficult for us to attract and retain tenants, subject us to liability claims or regulatory penalties and could adversely affect our business, financial condition and results of operations.

Our Business and Operations Would Suffer in the Event of Information Technology System Failures. Despite system redundancy and the existence of a disaster recovery plan for our information technology systems, our information technology systems and the information technology systems maintained by our third party vendors are vulnerable to damage arising from any number of sources beyond our or our third party vendors' control, including energy blackouts, natural disasters, terrorism, war, and telecommunication failures. Any failure to maintain proper function and availability of our or third party vendors' information technology systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could adversely affect our business, financial condition and results of operations.

Social Media Presents Risks. The use of social media could cause us to suffer brand damage or unintended information disclosure. Negative posts or communications about us on a social networking website could damage our reputation. Further, employees or others may disclose non-public information regarding us or our business or otherwise make negative comments regarding us on social networking or other websites, which could adversely affect our business and results of operations. As social media evolves we will be presented with new risks and challenges.

Our Success Depends on Our Senior Management. Our success depends upon the retention of our senior management, whose continued service is not guaranteed. We may not be able to find qualified replacements for the individuals who make up our senior management if their services should no longer be available to us. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations.

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

Risks Related to Our Indebtedness and Financings

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

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

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

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

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt, including unsecured commercial paper, at rates that vary with market interest rates. As of September 30, 2018, UDR had approximately $595.7 million of variable rate indebtedness outstanding, which constitutes approximately 15.6% of total outstanding indebtedness as of such date. As of September 30, 2018, the Operating Partnership had approximately $27.0 million of variable rate indebtedness outstanding, which constitutes approximately 16.9% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt, including unsecured commercial paper. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties.

Our Debt Level May Be Increased. Our ability to incur debt is limited by covenants in our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

Financing May Not Be Available and Could Be Dilutive. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit, construction loans and other forms of secured debt, commercial paper and other forms of unsecured debt, and equity financing, including common and preferred equity. We and other companies in the real estate industry have experienced limited availability of financing from time to time, including due to regulatory changes directly or indirectly affecting financing markets, for example the changes in terms on construction loans brought about by the Basel III capital requirements and the associated “High Volatility Commercial Real Estate” designation, which has adversely impacted the availability of loans, including construction loans, and the proceeds of and the interest rate thereon. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of UDR’s existing stockholders could be diluted.

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

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

A Change in U.S. Government Policy or Support Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. While in recent years we have decreased our borrowing from Fannie Mae and Freddie Mac, Fannie Mae and Freddie Mac are a major source of financing to participants in the multifamily housing market including potential purchasers of our properties. Potential options for the future of agency mortgage financing in the U.S. have been suggested, including options that could involve a reduction in the amount of financing Fannie Mae and Freddie Mac are able to provide, limitations on the loans that the agencies may make, which may not include loans secured by properties like our properties, or the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, or if there is reduced government support for multifamily housing generally, it may adversely affect interest rates, capital availability, development of multifamily communities and the value of multifamily residential real estate and, as a result, may adversely affect our business and results of operations.

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

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective.

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Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Termination of these hedging agreements typically involves costs, such as transaction fees or breakage costs.

Risks Related to Tax Laws

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

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including, for periods prior to 2018, any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to UDR’s stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until the fifth calendar year after the year in which we first failed to qualify as a REIT. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to UDR’s stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to UDR’s stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

Dividends Paid By REITs Generally Do Not Qualify for Reduced Tax Rates. In general, the maximum U.S. federal income tax rate for dividends paid to individual U.S. stockholders is 20%. Unlike dividends received from a corporation that is not a REIT, our regular dividends (i.e., dividends other than capital gain dividends) to individual stockholders generally are not eligible for the reduced rates. However, under the Tax Cuts and Jobs Act of 2017, our individual U.S. stockholders generally may deduct 20% of such regular dividends under Section 199A of the Code, reducing the effective tax rate applicable to such dividends (although such provision will expire after 2025 absent future legislation).

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

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

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Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction. From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction and subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property sales. In addition, income from a prohibited transaction might adversely affect UDR’s ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

Changes to the U.S. Federal Income Tax Laws, including the Enactment of Certain Tax Reform Measures, Could Have an Adverse Impact on Our Business and Financial Results. The recently passed Tax Cuts and Jobs Act of 2017 significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. The impact of the Act on us and our stockholders is uncertain, and may not become evident for some period of time. For example, the Act contained provisions that may reduce the relative competitive advantage of operating as a REIT, including the lowering of income tax rates on individuals and corporations, which eases the burden of double taxation on corporate dividends and potentially causes the single level of taxation on REIT distributions to become relatively less attractive. The Act also contains provisions allowing the expensing of capital expenditures, which could result in the bunching of taxable income and required distributions for REITs, and provisions extending the depreciable lives of certain real estate assets and further limiting the deductibility of interest expense, which could negatively impact the real estate market. In addition, although the Tax Cuts and Jobs Act of 2017 was recently passed, there can be no assurance that future changes to the U.S. federal income tax laws or regulatory changes will not be proposed or enacted that could impact our business and financial results. The REIT rules are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, which may result in revisions to regulations and interpretations in addition to statutory changes. If enacted, certain of such changes could have an adverse impact on our business and financial results.

We cannot predict whether, when or to what extent the Tax Cuts and Jobs Act of 2017 and any new U.S. federal tax laws, regulations, interpretations or rulings will impact the real estate investment industry or REITs. Prospective investors are urged to consult their tax advisors regarding the effect of the Tax Cuts and Jobs Act of 2017 and potential future changes to the federal tax laws on an investment in our shares.

We May Be Adversely Affected by Changes in State and Local Tax Laws and May Become Subject to Tax Audits from Time to Time. Because UDR is organized and qualifies as a REIT, it is generally not subject to federal income taxes, but it is subject to certain state and local taxes. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and local jurisdictions in which we own apartment communities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional state and local taxes. These increased tax costs could adversely affect our financial condition and the amount of cash available for the payment of distributions to UDR’s stockholders. In the normal course of business, we or our affiliates (including entities through which we own real estate) may also become subject to federal, state or local tax audits. If we (or such entities) become subject to federal, state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition and results of operations.

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

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

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

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

- general market and economic conditions;
- actual or anticipated variations in UDR’s quarterly operating results or dividends or UDR’s payment of dividends in shares of UDR’s stock;
- changes in our funds from operations or earnings estimates;
- difficulties or inability to access capital or extend or refinance existing debt;
- decreasing (or uncertainty in) real estate valuations;
- changes in market valuations of similar companies;
- publication of research reports about us or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of UDR’s stock to demand a higher annual yield from future dividends;
- a change in analyst ratings;
- additions or departures of key management personnel;
- adverse market reaction to any additional debt we incur in the future;
- speculation in the press or investment community;
- terrorist activity which may adversely affect the markets in which UDR’s securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;

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

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- failure to satisfy listing requirements of the NYSE;
- governmental regulatory action and changes in tax laws; and
- the issuance of additional shares of UDR’s common stock, or the perception that such sales might occur, including under UDR’s at-the-market equity distribution program.

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

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR’s Stockholders’ Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR’s stockholders’ best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR’s stock representing 10% or more of the voting power without our board of directors’ prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

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

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

Unregistered Sales of Equity Securities

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

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During the three months ended September 30, 2018, we did not issue any shares of our common stock upon redemption of OP Units.

Repurchase of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. The following table summarizes all of UDR's repurchases of shares of common stock under these programs during the three months ended September 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
Beginning Balance	10,560,863	$ 22.66	10,560,863	14,439,137
July 1, 2018 through July 31, 2018	—	—	—	14,439,137
August 1, 2018 through August 31, 2018	—	—	—	14,439,137
September 1, 2018 through September 30, 2018	—	—	—	14,439,137
Balance as of September 30, 2018	10,560,863	$ 22.66	10,560,863	14,439,137

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

During the three months ended September 30, 2018, certain of our employees surrendered shares of common stock owned by them to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted shares of common stock and the exercise of stock options issued under our 1999 Long-Term Incentive Plan (the "LTIP"). The following table summarizes all of these repurchases during the three months ended September 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share(a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2018 through July 31, 2018	268,009	$ 38.48	N/A	N/A
August 1, 2018 through August 31, 2018	184,236	39.95	N/A	N/A
September 1, 2018 through September 30, 2018	88,098	40.80	N/A	N/A
Total	540,343	$ 39.36		

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

Item 3.DEFAULTS UPON SENIOR SECURITIES

None.

Item 4.MINE SAFETY DISCLOSURES

Not applicable.

Item 5.OTHER INFORMATION

On October 29, 2018, the Company, as general partner of the Operating Partnership, entered into the Tenth Amendment (the “Tenth Amendment”) to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the “Partnership Agreement”). The Tenth Amendment modifies Exhibit H of the Partnership Agreement to generally exclude the effect of depreciation and amortization on the value of the Operating Partnership’s assets for purposes of allocating certain gains and losses to the holders of LTIP Units (as defined in the Partnership Agreement) and to provide for automatic conversion of LTIP Units to Common Units (as defined in the Partnership Agreement) at certain times provided that the holder of such LTIP Units has the option of requiring such conversion pursuant to the Partnership Agreement.

Item 6. EXHIBITS

Exhibit No.	Description
3.1	Articles of Restatement of UDR, Inc. (incorporated by reference to Exhibit 3.09 to UDR, Inc.'s Current Report on Form 8 K dated July 27, 2005 and filed with the SEC on August 1, 2005).
3.2	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007 (incorporated by reference to Exhibit 3.2 to UDR, Inc.'s Current Report on Form 8 K dated March 14, 2007 and filed with the SEC on March 15, 2007).
3.3	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated August 30, 2011 and filed with the State Department of Assessments and Taxation of the State of Maryland on August 31, 2011 (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8 K dated August 29, 2011 and filed with the SEC on September 1, 2011).
3.4	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 24, 2018 (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated May 24, 2018 and filed with the SEC on May 29, 2018).
3.5	Articles Supplementary relating to UDR, Inc.'s 6.75% Series G Cumulative Redeemable Preferred Stock dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 30, 2007 (incorporated by reference to Exhibit 3.4 to UDR, Inc.'s Form 8 A Registration Statement dated and filed with the SEC on May 30, 2007).
3.6	Amended and Restated Bylaws of UDR, Inc. (as amended through May 24, 2018).
3.7	Certificate of Limited Partnership of United Dominion Realty, L.P. dated as of February 19, 2004 (incorporated by reference to Exhibit 3.4 to United Dominion Realty, L.P.'s Post-Effective Amendment No. 1 to Registration Statement on Form S 3 dated and filed with the SEC on October 15, 2010).
3.8	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004 (incorporated by reference to Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2003).
3.9	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of June 24, 2005 (incorporated by reference to Exhibit 10.06 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended June 30, 2005).

3.10	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2006 (incorporated by reference to Exhibit 10.6 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended March 31, 2006).
3.11	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 2, 2007 (incorporated by reference to Exhibit 99.1 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended September 30, 2009).
3.12	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of December 27, 2007 (incorporated by reference to Exhibit 10.25 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2007).
3.13	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of March 7, 2008 (incorporated by reference to Exhibit 10.53 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2008).

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Exhibit No.	Description
3.14	Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of December 9, 2008 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated December 9, 2008 and filed with the Commission on December 10, 2008).
3.15	Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of March 13, 2009 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated March 18, 2009 and filed with the SEC on March 19, 2009).
3.16	Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of November 17, 2010 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated and filed with the SEC on November 18, 2010).
3.17	Ninth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of December 4, 2015 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated December 4, 2015 and filed with the SEC on December 10, 2015).
3.18	Tenth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of October 29, 2018.
10.1	First Amended and Restated Credit Agreement, dated as of September 27, 2018, by and among UDR, Inc., as borrower, and the lenders and agents party thereto (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated September 27, 2018 and filed with the SEC on October 1, 2018).
10.2	Guaranty of United Dominion Realty, dated as of September 27, 2018, with respect to the Credit Agreement, dated as of September 27, 2018 (incorporated by reference to Exhibit 10.2 to UDR, Inc.'s Current Report on Form 8 K dated September 27, 2018 and filed with the SEC on October 1, 2018).
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends of UDR, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges of United Dominion Realty, L.P.
31.1	Rule 13a 14(a) Certification of the Chief Executive Officer of UDR, Inc.
31.2	Rule 13a 14(a) Certification of the Chief Financial Officer of UDR, Inc.
31.3	Rule 13a 14(a) Certification of the Chief Executive Officer of UDR, Inc., general partner of United Dominion Realty, L.P.
31.4	Rule 13a 14(a) Certification of the Chief Financial Officer of UDR, Inc., general partner of United Dominion Realty, L.P.
32.1	Section 1350 Certification of the Chief Executive Officer of UDR, Inc.

32.2	Section 1350 Certification of the Chief Financial Officer of UDR, Inc.
32.3	Section 1350 Certification of the Chief Executive Officer of UDR, Inc., general partner of United Dominion Realty, L.P.
32.4	Section 1350 Certification of the Chief Financial Officer of UDR, Inc., general partner of United Dominion Realty, L.P.
101	XBRL (Extensible Business Reporting Language). The following materials from this Quarterly Report on Form 10 Q for the periods ended September 30, 2018, formatted in XBRL: (i) consolidated balance sheets of UDR, Inc., (ii) consolidated statements of operations of UDR, Inc., (iii) consolidated statements of comprehensive income/(loss) of UDR, Inc., (iv) consolidated statements of changes in equity of UDR, Inc., (v) consolidated statements of cash flows of UDR, Inc., (vi) notes to consolidated financial statements of UDR, Inc., (vii) consolidated balance sheets of United Dominion Realty, L.P., (viii) consolidated statements of operations of United Dominion Realty, L.P., (ix) consolidated statements of comprehensive income/(loss) of United Dominion Realty, L.P., (x) consolidated statements of changes in capital of United Dominion Realty, L.P., (xi) consolidated statements of cash flows of United Dominion Realty, L.P., and (xii) notes to consolidated financial statements of United Dominion Realty, L.P.

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SIGNATURES

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

	UDR, Inc.
Date: October 30, 2018	/s/ Joseph D. Fisher
	Joseph D. Fisher
	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
	United Dominion Realty, L.P.
	By: UDR, Inc., its general partner
Date: October 30, 2018	/s/ Joseph D. Fisher
	Joseph D. Fisher
	Senior Vice President and Chief Financial Officer (Principal Financial Officer)