UDR, Inc.
Form 10-Q
July 27, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from to

Commission file number

1 10524 (UDR, Inc.)

333 156002 01 (United Dominion Realty, L.P.)

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

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

1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129

(Address of principal executive offices) (zip code)

(720) 283 6120

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

UDR, Inc.:

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

United Dominion Realty, L.P.:

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	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 July 25, 2017 was 267,573,214.

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UDR, INC.

UNITED DOMINION REALTY, L.P.

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PART II — OTHER INFORMATION

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10 Q for the quarter ended June 30, 2017 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”), both Delaware limited partnerships 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 our Company and our Operating Partnership, which are reflected in our disclosure 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 subsidiaries (“TRS”). UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding debt of UDR.

As of June 30, 2017, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,122,808 OP Units, representing approximately 95.0% of 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)

	June 30, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 9,423,191	$ 9,271,847
Less: accumulated depreciation	(3,131,603)	(2,923,072)
Real estate held for investment, net	6,291,588	6,348,775
Real estate under development (net of accumulated depreciation of $428 and $0, respectively)	465,301	342,282
Real estate held for disposition (net of accumulated depreciation of $0 and $553, respectively)	—	1,071
Total real estate owned, net of accumulated depreciation	6,756,889	6,692,128
Cash and cash equivalents	1,411	2,112
Restricted cash	19,602	19,994
Notes receivable, net	17,290	19,790
Investment in and advances to unconsolidated joint ventures, net	843,167	827,025
Other assets	129,575	118,535
Total assets	$ 7,767,934	$ 7,679,584
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$ 806,647	$ 1,130,858
Unsecured debt, net	2,828,001	2,270,620
Real estate taxes payable	19,595	17,388
Accrued interest payable	28,482	29,257
Security deposits and prepaid rent	35,336	34,238
Distributions payable	91,447	86,936
Accounts payable, accrued expenses, and other liabilities	92,161	103,835
Total liabilities	3,901,669	3,673,132
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	967,797	909,482
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,796,903 shares issued and outstanding at June 30, 2017 and December 31, 2016	46,457	46,457
Series F; 16,038,692 and 16,196,889 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1	1

Common stock, $0.01 par value; 350,000,000 shares authorized: 267,557,894 and 267,259,469 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	2,676	2,673
Additional paid-in capital	4,640,550	4,635,413
Distributions in excess of net income	(1,792,674)	(1,585,825)
Accumulated other comprehensive income/(loss), net	(4,395)	(5,609)
Total stockholders' equity	2,892,615	3,093,110
Noncontrolling interests	5,853	3,860
Total equity	2,898,468	3,096,970
Total liabilities and equity	$ 7,767,934	$ 7,679,584

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES:				
Rental income	$ 244,658	$ 236,168	$ 485,929	$ 468,125
Joint venture management and other fees	3,321	2,618	5,891	5,476
Total revenues	247,979	238,786	491,820	473,601
OPERATING EXPENSES:				
Property operating and maintenance	40,612	38,574	80,212	78,020
Real estate taxes and insurance	29,423	30,279	59,611	58,656
Property management	6,728	6,494	13,363	12,873
Other operating expenses	2,369	1,892	4,060	3,644
Real estate depreciation and amortization	108,450	105,937	213,482	211,276
General and administrative	11,434	10,835	24,509	24,679
Casualty-related charges/(recoveries), net	1,191	1,629	1,693	1,629
Other depreciation and amortization	1,567	1,486	3,175	3,039
Total operating expenses	201,774	197,126	400,105	393,816
Operating income	46,205	41,660	91,715	79,785
Income/(loss) from unconsolidated entities	(1,426)	325	9,772	1,004
Interest expense	(33,866)	(30,678)	(64,405)	(61,782)
Interest income and other income/(expense), net	515	540	942	971
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	11,428	11,847	38,024	19,978
Tax (provision)/benefit, net	(366)	402	(698)	805
Income/(loss) from continuing operations	11,062	12,249	37,326	20,783
Gain/(loss) on sale of real estate owned, net of tax	—	7,315	2,132	10,385
Net income/(loss)	11,062	19,564	39,458	31,168
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(854)	(1,610)	(3,192)	(2,515)
Net (income)/loss attributable to noncontrolling interests	(51)	(8)	(142)	(314)
Net income/(loss) attributable to UDR, Inc.	10,157	17,946	36,124	28,339
Distributions to preferred stockholders — Series E (Convertible)	(929)	(929)	(1,858)	(1,858)
Net income/(loss) attributable to common stockholders	$ 9,228	$ 17,017	$ 34,266	$ 26,481
Common distributions declared per share	$ 0.310	$ 0.295	$ 0.620	$ 0.590

Income/(loss) per weighted average common share:				
Basic	$ 0.03	$ 0.06	$ 0.13	$ 0.10
Diluted	$ 0.03	$ 0.06	$ 0.13	$ 0.10
Weighted average number of common shares outstanding:				
Basic	266,972	266,268	266,881	264,362
Diluted	268,859	268,174	268,742	266,227

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income/(loss)	$ 11,062	$ 19,564	$ 39,458	$ 31,168
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(507)	(1,963)	126	(2,774)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	390	943	1,209	1,878
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	(117)	(1,020)	1,335	(896)
Comprehensive income/(loss)	10,945	18,544	40,793	30,272
Comprehensive (income)/loss attributable to noncontrolling interests	(897)	(1,537)	(3,455)	(2,229)
Comprehensive income/(loss) attributable to UDR, Inc.	$ 10,048	$ 17,007	$ 37,338	$ 28,043

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, 2016	$ 46,458	$ 2,673	$ 4,635,413	$ (1,585,825)	$ (5,609)	$ 3,860	$ 3,096,970
Net income/(loss) attributable to UDR, Inc.	—	—	—	36,124	—	—	36,124
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	141	141
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	125	125
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	1,727	1,727
Other comprehensive income/(loss)	—	—	—	—	1,214	—	1,214
Issuance/(forfeiture) of common and restricted shares, net	—	1	(1,554)	—	—	—	(1,553)
Cumulative effect upon adoption of ASU 2016-09	—	—	558	(558)	—	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the Operating	—	2	6,133	—	—	—	6,135

Partnership and DownREIT Partnership							
Common stock distributions declared ($0.620 per share)	—	—	—	(165,941)	—	—	(165,941)
Preferred stock distributions declared-Series E ($0.6644 per share)	—	—	—	(1,858)	—	—	(1,858)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(74,616)	—	—	(74,616)
Balance at June 30, 2017	$ 46,458	$ 2,676	$ 4,640,550	$ (1,792,674)	$ (4,395)	$ 5,853	$ 2,898,468

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
Operating Activities		
Net income/(loss)	$ 39,458	$ 31,168
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	216,657	214,315
(Gain)/loss on sale of real estate owned, net of tax	(2,132)	(10,385)
Tax provision/(benefit), net	698	(805)
(Income)/loss from unconsolidated entities	(9,772)	(1,004)
Return on investment in unconsolidated joint ventures	2,669	1,953
Amortization of share-based compensation	6,833	7,075
Other	10,929	5,562
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(9,302)	(8,551)
Increase/(decrease) in operating liabilities	(16,040)	(12,858)
Net cash provided by/(used in) operating activities	239,998	226,470
Investing Activities		
Acquisition of real estate assets	(65,381)	(17,235)
Proceeds from sales of real estate investments, net	3,250	21,943
Development of real estate assets	(128,433)	(66,138)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(51,298)	(49,112)
Capital expenditures — non-real estate assets	(2,043)	(1,941)
Investment in unconsolidated joint ventures	(67,509)	(20,635)
Distributions received from unconsolidated joint ventures	26,210	13,663
Repayment/(issuance) of notes receivable	2,500	(3,000)
Net cash provided by/(used in) investing activities	(282,704)	(122,455)
Financing Activities		
Payments on secured debt	(324,118)	(145,499)
Proceeds from the issuance of secured debt	—	25,000
Payments on unsecured debt	—	(95,053)
Proceeds from the issuance of unsecured debt	539,292	—
Net proceeds/(repayment) of revolving bank debt	18,708	109,199
Proceeds from the issuance of common shares through public offering, net	—	173,283
Distributions paid to redeemable noncontrolling interests	(15,385)	(14,624)
Distributions paid to preferred stockholders	(1,858)	(1,858)
Distributions paid to common stockholders	(161,840)	(151,512)

Other	(12,794)	(4,526)
Net cash provided by/(used in) financing activities	42,005	(105,590)
Net increase/(decrease) in cash and cash equivalents	(701)	(1,575)
Cash and cash equivalents, beginning of period	2,112	6,742
Cash and cash equivalents, end of period	$ 1,411	$ 5,167
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 66,047	$ 64,793
Cash paid/(refunds received) for income taxes	1,641	852
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	$ 32,260	$ 11,526
Vesting of LTIP Units	2,317	—
Development costs and capital expenditures incurred but not yet paid	49,295	42,940
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (168,804 shares in 2017 and 2,080 shares in 2016)	6,135	81
Dividends declared but not yet paid	91,447	86,936

See accompanying notes to consolidated financial statements.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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 June 30, 2017, there were 183,350,924 units in the Operating Partnership ("OP Units") outstanding, of which 174,233,691 OP Units, or 95.0%, were owned by UDR and 9,117,233 OP Units, or 5.0%, were owned by outside limited partners. As of June 30, 2017, there were 32,367,380 units in the DownREIT Partnership ("DownREIT Units") outstanding, of which 16,650,211, or 51.4%, were owned by UDR (including 13,470,651 DownREIT Units, or 41.6%, that were held by the Operating Partnership) and 15,717,169, or 48.6%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2017, and results of operations for the three and six months ended June 30, 2017 and 2016 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, 2016 appearing in UDR's Annual Report on Form 10 K, filed with the Securities and Exchange Commission on February 21, 2017.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 will be effective for the Company on January 1, 2018; early adoption is permitted. The ASU will be applied prospectively to any transactions occurring within the period of 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

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 will be effective for the Company on January 1, 2018 and must be applied retrospectively to all periods presented; early adoption is permitted. The Company does not expect the updated standard to have a material impact on the consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016 15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The ASU addresses specific cash flow items with the objective of reducing existing diversity in practice, including the treatment of distributions received from equity method investees. The updated standard will be effective for the Company on January 1, 2018 and must be applied retrospectively to all periods presented; early adoption is permitted.

The Company elected to early adopt ASU 2016 15 in 2016 and elected to classify distributions received from equity method investees using the cumulative earnings approach. No prior period amounts required adjustment as a result of the adoption.

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; early adoption is permitted on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016 09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU aims to simplify the accounting for share-based payments by amending the accounting for forfeitures, statutory tax withholding requirements, classification in the statements of cash flow and income taxes. The updated standard was effective for the Company on January 1, 2017, at which time the Company prospectively began accounting for forfeitures as incurred and began applying the updated rules for statutory withholdings. As a result of adopting the ASU, the Company recorded a one-time adjustment for existing estimated forfeitures of $0.6 million as of January 1, 2017 to Distributions in Excess of Net Income on January 1, 2017.

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

In May 2014, the FASB issued ASU No. 2014 09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and 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 and will be effective for the Company on January 1, 2018, at which time the Company expects to adopt the updated standard using the modified retrospective approach. However, as the majority

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

of the Company’s revenue is from rental income related to leases, the Company does not expect the ASU to have a material impact on the consolidated financial statements and related disclosures.

Principles of Consolidation

The Company accounts for subsidiary partnerships, joint ventures and other similar entities in which it holds an ownership interest in accordance with the 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 and Real Estate Sales Gain Recognition

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

For sale transactions meeting the requirements for full accrual profit recognition, we remove the related assets and liabilities from our Consolidated Balance Sheets and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting. Unless certain limited criteria are met, non-monetary transactions, including property exchanges, are accounted for at fair value.

Sales to entities in which we retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest of the buyer and defer the gain on the interest we retain. The Company recognizes any deferred gain when the property is sold to a third party. In transactions accounted for by us as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

Notes Receivable

The following table summarizes our notes receivable, net as of June 30, 2017 and December 31, 2016 (dollars in thousands):

	Interest rate at June 30, 2017		Balance Outstanding June 30, 2017	December 31, 2016
Note due February 2020 (a)	10.00	%	$ 12,994	$ 12,994
Note due July 2017 (b)	—	%	—	2,500
Note due October 2020 (c)	8.00	%	1,296	1,296
Note due April 2021 (d)	10.00	%	3,000	3,000
Total notes receivable, net			$ 17,290	$ 19,790

(a) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $13.0 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).

(b) At December 31, 2016, the Company had a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.5 million. The outstanding balance was paid in full during the six months ended June 30, 2017.

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.0 million, of which, $1.3 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 $15.0 million, of which, $3.0 million has been funded. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (April 2021).

The Company recognized $0.5 million and $0.5 million of interest income from notes receivable during the three months ended June 30, 2017 and 2016, respectively, and $0.9 million and $0.8 million during the six months ended June 30, 2017 and 2016, respectively, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2017 and 2016, the

Company's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during

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UDR, INC.

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June 30, 2017

the three months ended June 30, 2017 and 2016 was less than $(0.1) million and $(0.1) million, respectively, and during the six months ended June 30, 2017 and 2016 was $0.1 million and $(0.6) million, respectively.

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 June 30, 2017 and December 31, 2016, UDR’s net deferred tax asset was $0.3 million and $0.6 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 June 30, 2017. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2013 through 2016 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.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2017, the Company owned and consolidated 128 communities in 10 states plus the District of Columbia totaling 39,822 apartment

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017	December 31, 2016
Land	$ 1,788,391	$ 1,801,576
Depreciable property — held and used:		
Land improvements	183,796	178,701
Building, improvements, and furniture, fixtures and equipment	7,451,004	7,291,570
Under development:		
Land and land improvements	111,028	111,028
Building, improvements, and furniture, fixtures and equipment	354,701	231,254
Real estate held for disposition:		
Land and land improvements	—	1,104
Building, improvements, and furniture, fixtures and equipment	—	520
Real estate owned	9,888,920	9,615,753
Accumulated depreciation	(3,132,031)	(2,923,625)
Real estate owned, net	$ 6,756,889	$ 6,692,128

Acquisitions

During the six months ended June 30, 2017, the Company exercised its fixed-price option to purchase its joint venture partner's ownership interest in 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. The Company had previously accounted for its 49% ownership interest as a preferred equity investment in an unconsolidated joint venture (see Note 5, Joint Ventures and Partnerships). As a result of the consolidation, the Company increased its real estate owned by approximately $97.0 million, recorded approximately $1.7 million of in-place lease intangibles and recorded a gain on consolidation of $12.2 million, which is included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations.

Dispositions

During the six months ended June 30, 2017, the Company sold a parcel of land in Richmond, Virginia for gross proceeds of $3.5 million, resulting in net proceeds of $3.3 million and a gain of $2.1 million.

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, were $1.7 million and $2.7 million for the three months ended June 30, 2017 and 2016, respectively, and $4.4 million and $4.7 million for the six months ended June 30, 2017 and 2016, respectively. Total interest capitalized was $4.6 million and $3.8 million for the three months ended June 30, 2017 and 2016, respectively, and $9.4 million and $8.0 million for the six months ended June 30, 2017

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

and 2016, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion 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, in an exchange under Section 1031 of the Internal Revenue Code.

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.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2017

The following table summarizes the Company’s investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of June 30, 2017 and December 31, 2016 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties June 30, 2017	Number of Apartment Homes June 30, 2017	Investment at June 30, 2017	Investment at December 31, 2016	UDR’s Ownership Interest June 30, 2017	UDR’s Ownership Interest December 31, 2016
Operating and development:							
UDR/MetLife I	Los Angeles, CA	1 development community (a)	150	$ 34,416	$ 25,209	50.0 %	50.0 %
UDR/MetLife II (b)	Various	18 operating communities	4,059	309,586	311,282	50.0 %	50.0 %
Other UDR/MetLife Development Joint Ventures	Various	2 operating community; 3 development communities (a)	1,437	142,363	160,979	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities; 1 development community (a); 5 land parcels	1,513	73,317	72,414	50.0 %	50.0 %
UDR/KFH	Washington, D.C.	3 operating communities	660	10,991	12,835	30.0 %	30.0 %
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment, preferred equity				$ 570,673	$ 582,719		

investments
and other
investments