

UDR, Inc.
 Form 10-Q
 May 02, 2013
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, DC 20549
 FORM 10-Q

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

For the quarterly period ended March 31, 2013
 OR

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

For the transition period from to
 Commission file number
 1-10524 (UDR, Inc.)
 333-156002-01 (United Dominion Realty, L.P.)
 UDR, Inc.

United Dominion Realty, L.P.
 (Exact name of registrant as specified in its charter)
 Maryland (UDR, Inc.) 54-0857512
 Delaware (United Dominion Realty, L.P.) 54-1776887
 (State or other jurisdiction of (I.R.S. Employer
 incorporation of organization) Identification No.)

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

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

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

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

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

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

UDR, Inc.:
 Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
 (Do not check if a smaller reporting company)

United Dominion Realty, L.P.:
 Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o
 (Do not check if a smaller reporting company)

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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 April 26, 2013 was 250,744,241.

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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 March 31, 2013 of UDR, Inc. a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as “OP Units” and the holders of the OP Units are referred to as “unitholders”. This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

There are a number of differences between our Company and our Operating Partnership, which are reflected in our disclosure in this report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiary (“TRS”), RE³, whose activities include development of land and land entitlement. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding securities of UDR. As of March 31, 2013, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,844,389 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership (the “OP Units”). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$7,729,300	\$7,564,780
Less: accumulated depreciation	(2,006,349	) (1,923,429)
Real estate held for investment, net	5,722,951	5,641,351
Real estate under development (net of accumulated depreciation of \$1,133 and \$1,253)	451,683	489,795
Total real estate owned, net of accumulated depreciation	6,174,634	6,131,146
Cash and cash equivalents	7,121	12,115
Restricted cash	24,628	23,561
Deferred financing costs, net	23,654	24,990
Notes receivable, net	66,193	64,006
Investment in and advances to unconsolidated joint ventures, net	461,397	477,631
Other assets	133,154	125,654
Total assets	\$6,890,781	\$6,859,103
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	\$1,425,663	\$1,430,135
Unsecured debt	2,073,444	1,979,198
Real estate taxes payable	11,132	14,076
Accrued interest payable	29,404	30,937
Security deposits and prepaid rent	48,448	42,589
Distributions payable	61,907	57,915
Accounts payable, accrued expenses, and other liabilities	83,060	87,003
Total liabilities	3,733,058	3,641,853
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in operating partnership	225,595	223,418
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized 2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2012)	46,571	46,571
Common stock, \$0.01 par value; 350,000,000 shares authorized 250,741,559 shares issued and outstanding (250,139,408 shares at December 31, 2012)	2,507	2,501
Additional paid-in capital	4,101,683	4,098,882
Distributions in excess of net income	(1,210,054	) (1,143,781)
Accumulated other comprehensive loss, net	(9,499	) (11,257)
Total stockholders' equity	2,931,208	2,992,916
Noncontrolling interest	920	916
Total equity	2,932,128	2,993,832

Total liabilities and equity	\$6,890,781	\$6,859,103
See accompanying notes to consolidated financial statements.		

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

	Three Months Ended March 31,	
	2013	2012
REVENUES:		
Rental income	\$ 184,301	\$ 172,242
Joint venture management and other fees	2,923	2,989
Total revenues	187,224	175,231
OPERATING EXPENSES:		
Property operating and maintenance	35,461	34,389
Real estate taxes and insurance	23,524	20,911
Property management	5,068	4,737
Other operating expenses	1,643	1,383
Real estate depreciation and amortization	83,442	87,907
General and administrative	9,476	9,379
Hurricane-related (recoveries)/charges, net	(3,021))
Other depreciation and amortization	1,146	918
Total operating expenses	156,739	159,624
Operating income	30,485	15,607
Loss from unconsolidated entities	(2,802)	) (2,691)
Interest expense	(30,981)	) (34,745)
Interest and other income, net	1,016	694
Loss before income taxes and discontinued operations	(2,282)	) (21,135)
Tax benefit of taxable REIT subsidiary, net	1,973	22,876
(Loss)/income from continuing operations	(309)	) 1,741
Income from discontinued operations, net of tax	—	84,887
Net (loss)/income	(309)	) 86,628
Net loss/(income) attributable to redeemable noncontrolling interests in OP	45	) (3,420)
Net income attributable to noncontrolling interests	(4)	) (52)
Net (loss)/income attributable to UDR, Inc.	(268)	) 83,156
Distributions to preferred stockholders — Series E (Convertible)	(931)	) (931)
Distributions to preferred stockholders — Series G	—	) (1,377)
Net (loss)/income attributable to common stockholders	\$(1,199)	) \$80,848
Income/(loss) per weighted average common share — basic and diluted:		
Loss from continuing operations attributable to common stockholders	\$0.00	\$ (0.02)
Income from discontinued operations	\$0.00	\$0.38
Net (loss)/income attributable to common stockholders	\$0.00	\$0.37
Common distributions declared per share	\$0.235	\$0.220
Weighted average number of common shares outstanding — basic and diluted	249,917	221,500
See accompanying notes to consolidated financial statements.		

UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended March	
	31,	
	2013	2012
Net (loss)/income	\$ (309)	) \$ 86,628
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:		
Other comprehensive income/(loss) - derivative instruments:		
Unrealized holding loss	(92)	) (1,959)
Loss reclassified into earnings from other comprehensive income	1,937	1,855
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	1,845	(104)
Comprehensive income	1,536	86,524
Comprehensive (income) attributable to noncontrolling interests	(46)	) (3,405)
Comprehensive income attributable to UDR, Inc.	\$ 1,490	\$ 83,119

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except share and per share data)

(Unaudited)

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2012	2,803,812	\$46,571	250,139,408	\$2,501	\$4,098,882	\$(1,143,781)	\$(11,257)	\$916	\$2,993,832
Net loss	—	—	—	—	—	(268)	—	—	(268)
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	4	4
Other comprehensive income	—	—	—	—	—	—	1,758	—	1,758
Issuance of common and restricted shares, net	—	—	532,914	5	1,153	—	—	—	1,158
Adjustment for conversion of noncontrolling interest of unitholders in Operating Partnership	—	—	69,237	1	1,648	—	—	—	1,649
Common stock distributions declared (\$0.235 per share)	—	—	—	—	—	(58,930)	—	—	(58,930)
Preferred stock distributions declared-Series E (\$0.3322 per share)	—	—	—	—	—	(931)	—	—	(931)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	—	—	(6,144)	—	—	(6,144)
Balance at March 31, 2013	2,803,812	\$46,571	250,741,559	\$2,507	\$4,101,683	\$(1,210,054)	\$(9,499)	\$920	\$2,932,128

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2013	2012
Operating Activities		
Net (loss)/income	\$ (309	) \$86,628
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	84,588	95,165
Net gain on the sale of depreciable property, net of tax	—	(80,525)
Tax benefit of taxable REIT subsidiary, net	(1,973	) (22,876)
Gain on debt extinguishment	—	(4,428)
Loss from unconsolidated entities	2,802	2,691
Hurricane-related (recoveries)/charges, net	(548) —
Other	4,775	5,574
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(3,269	) 3,272
Decrease in operating liabilities	(19,406	) (15,487)
Net cash provided by operating activities	66,660	70,014
Investing Activities		
Development of real estate assets	(85,181	) (56,519)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(22,208	) (25,897)
Capital expenditures related to rehabilitation of hurricane-damaged assets	(2,592) —
Capital expenditures — non-real estate assets	(2,313	) (1,092)
Investment in unconsolidated joint ventures	(936	) (259,156)
Distributions received from unconsolidated joint ventures	14,393	940
Issuance of notes receivable	(2,180	) (13,200)
Proceeds from sales of real estate investments, net	—	130,571
Net cash used in investing activities	(101,017	) (224,353)
Financing Activities		
Payments on secured debt	(3,199	) (72,953)
Proceeds from the issuance of secured debt	—	188
Payments on unsecured debt	—	(100,000)
Proceeds from the issuance of unsecured debt	—	396,400
Net proceeds/(repayment) of revolving bank debt	94,000	(224,000)
Proceeds from the issuance of common shares through public offering, net	—	200,623
Distributions paid to redeemable noncontrolling interests	(2,263	) (2,231)
Distributions paid to preferred stockholders	(931	) (2,308)
Distributions paid to common stockholders	(55,035	) (47,314)
Other	(3,209	) (3,011)
Net cash provided by financing activities	29,363	145,394
Net decrease in cash and cash equivalents	(4,994	) (8,945)
Cash and cash equivalents, beginning of period	12,115	12,503

Cash and cash equivalents, end of period	\$7,121	\$3,558
	Three Months Ended March	
	31,	
	2013	2012
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	\$41,573	\$31,774
Non-cash transactions:		
Conversion of operating partnership redeemable noncontrolling interests to common stock (69,237 shares in 2013 and 0 shares in 2012)	\$1,649	\$—
See accompanying notes to consolidated financial statements.		

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (“UDR”, the “Company”, “we”, “our”, or “us”) is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the “Operating Partnership”). As of March 31, 2013, there were 184,281,253 units in the Operating Partnership outstanding, of which 174,955,272 units or 94.9% were owned by UDR and 9,325,981 units or 5.1% were owned by limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of March 31, 2013, and results of operations for the three months ended March 31, 2013 and 2012 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, 2012 appearing in UDR’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 27, 2013.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-10, Disclosures about Offsetting Assets and Liabilities. The objective of this update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either 1) offset on the balance sheet in accordance with the “Offsetting Guidance” in ASC 210-20-45 or ASC 815-10-45 (collectively, the offsetting guidance) or 2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the “Offsetting Guidance”. The amendments, which were adopted by the Company for the three months reporting period ended March 31, 2013, impact the Company’s disclosures related to its derivative activities. (See Note 10, Derivatives and Hedging Activity.) The new guidance did

not have any impact on the Company's consolidated financial position, results of operations, or cash flows. In February 2012, the FASB issued ASU No. 2013-02, Other Comprehensive Income (Topic 220) to require preparers to report, in one place, information about reclassifications out of accumulated other comprehensive income. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting (either on the face of the

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

statement where net income is presented or in the notes thereto) is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other existing disclosures is required in the notes. The amendments, which were adopted by us for the three months reporting period ended March 31, 2013, do not have any impact on the Company's consolidated financial position, results of operations, or cash flows. The accompanying consolidated financial statements include the required disclosures in the consolidated statement of comprehensive income/(loss) or in the notes thereto for each of the three months period ended March 31, 2013 and 2012.

Revenue and real estate sales gain recognition

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

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

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

Notes Receivable

The following table summarizes our notes receivable as of March 31, 2013 and December 31, 2012 (in thousands):

	Balance outstanding			
	March 31, 2013	December 31, 2012	Interest rate	
Note due October 2014 - related party	\$ 24,481	\$ 24,481	2.95	%
Note due February 2017	14,580	13,200	10.00	%
Note due June 2022 (net of discount of \$268 and \$275)	26,232	26,225	7.00	%
Note due July 2017	900	100	8.00	%
Total notes receivable, net	\$ 66,193	\$ 64,006		

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

The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$14.6 million, which bears an interest rate of 10.00% per annum. During the three months ended March 31, 2013, the Company loaned an additional \$1.4 million under the note. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$5.0 million or

greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (February 2017).

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

In 2012, the Company purchased mezzanine debt securing a mortgage on a class A community in West Los Angeles. The \$26.5 million loan was purchased at a yield of 7.25% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022. The discount is amortized using the effective interest method.

The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$2.5 million, which bears an interest rate of 8.00% per annum. During the three months ended March 31, 2013, the Company loaned an additional \$800,000 under the note. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).

During the three months ended March 31, 2013 and 2012, the Company recognized \$1.0 million and \$245,000 of interest income, net of accretion, from these notes receivable, of which \$181,000 and \$0 was related party interest income, respectively. Interest income is included in "Interest and other income, 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 months ended March 31, 2013 and 2012, the Company's other comprehensive income/(loss) consists of the loss (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, loss reclassified from accumulated other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to redeemable noncontrolling interests. The loss reclassified from accumulated other income income/(loss) is included in interest expense incurred in the accompanying 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 March 31, 2013 and 2012 was \$87,000 and \$(67,000), 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"), primarily those engaged in development activities. Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of March 31, 2013, UDR recorded a net income tax receivable of \$1.4 million and a deferred tax asset of \$24.8 million (net of a valuation allowance of \$1.4 million), which are classified in "Other assets" on the Consolidated Balance Sheets.

Prior to 2012, the TRS had a history of losses and, as a result, historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the three months ended March 31, 2012, the Company determined that it was

more likely than not that the deferred tax assets, including any remaining net operating loss carry forward, would be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings from sales of depreciable property, forecasts of future earnings and its cumulative earnings for the last twelve quarters. The reversal of the valuation allowance resulted in an income tax benefit of \$22.9 million during the three months ended March 31, 2012, which is reflected in continuing operations, and classified as "Tax benefit of taxable REIT subsidiary" in the Consolidated Statements of Operations.

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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

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. The Company will then 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 March 31, 2013. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state jurisdictions. The tax years 2008 through 2011 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development and land held for future development. As of March 31, 2013, the Company owned and consolidated 143 communities in 10 states plus the District of Columbia totaling 41,750 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of March 31, 2013 and December 31, 2012 (dollar amounts in thousands):

	March 31, 2013	December 31, 2012
Land	\$1,945,846	\$1,907,169
Depreciable property — held and used:		
Building and improvements	5,502,984	5,384,971
Furniture, fixtures and equipment	280,470	272,640
Under development:		
Land	119,750	151,154
Construction in progress	333,066	339,894
Real estate owned	8,182,116	8,055,828
Accumulated depreciation	(2,007,482)	(1,924,682)
Real estate owned, net	\$6,174,634	\$6,131,146

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheets as “Real estate under development.” The costs of development projects which include interest, real estate taxes, insurance and allocated development overhead related to support costs for personnel working directly on the development are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the three months ended March 31, 2013 and 2012 were \$3.0 million and \$2.7 million, respectively. During the three months ended March 31, 2013 and 2012, total capitalized interest was \$8.4 million and \$4.9 million, respectively.

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company’s operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to residents for a period following the hurricane. The Company has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management’s estimates, the Company recognized a \$9.0 million impairment charge for the damaged assets’ net book value and incurred \$10.4 million of repair and cleanup costs during the year ended December 31, 2012. The impairment charge and the repair and cleanup costs incurred were reduced as of

December 31, 2012 by \$14.5 million of estimated insurance recovery, and were classified in “Hurricane related (recoveries)/charges, net” on the Consolidated Statements of Operations. During the three months ended March 31, 2013, no further impairment charge related to the damaged assets' net book value has been recognized. With the exception of one of the properties that is under redevelopment at March 31, 2013, the rehabilitation of the remaining two properties is expected to be completed in the third quarter of 2013. See Note 14, Hurricane Related (Recoveries)/Charges for additional information.

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UDR, INC.

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4. DISCONTINUED OPERATIONS

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

There were no sales during the three months ended March 31, 2013. During the three months ended March 31, 2012, the Company sold six communities with 1,576 apartment homes. The Company had no communities that met the criteria to be classified as held for sale and included in discontinued operations at March 31, 2013. During the three months ended March 31, 2012, UDR recognized gains (before tax) on the sale of communities for financial reporting purposes of \$80.5 million, which are included in discontinued operations. The results of operations for sold properties are classified on the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations, net of tax." Discontinued operations for the three months ended March 31, 2012 also includes operating activities related to 14 communities (4,918 homes) sold during the second quarter of 2012.

The following is a summary of Income from discontinued operations, net of tax for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,	
	2013	2012
Rental income	\$—	\$17,101
Rental expenses	—	5,929
Property management	—	470
Real estate depreciation	—	6,340
	—	12,739
Income before net gain on the sale of depreciable property	—	4,362
Net gain on the sale of depreciable property, net of tax	—	80,525
Income from discontinued operations, net of tax	\$—	\$84,887

5. JOINT VENTURES

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

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

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UDR, INC.

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Unconsolidated Joint Ventures

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

The following table summarizes the Company's investment in and advances to unconsolidated joint ventures, net which are accounted for under the equity method of accounting as of March 31, 2013 and December 31, 2012 (dollar amounts in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at March 31, 2013	December 31, 2012	UDR's Ownership Interest	
Operating:							
UDR/MetLife I	Various	14 communities	2,547	\$ 75,959	\$ 75,129	13.3	%
		8 land parcels	N/A			4.3	%
UDR/MetLife II	Various	13 communities	2,752	311,005	327,001	50.0	%
Lodge at Stoughton	Stoughton, MA	1 community	240	16,162	16,311	95.0	%
KFH	Washington D.C.	3 communities	660	28,598	29,663	30.0	%
Texas JV	Texas	8 communities	3,359	2,608	3,457	20.0	%
Development:							
13th & Market	San Diego, CA	1 community	264	30,514	29,930	95.0	%
Domain College Park	College Park, MD	1 community	256	25,930	25,546	95.0	%
				490,776	507,037		
				(29,379	) (29,406)	
				\$ 461,397	\$ 477,631		

As of March 31, 2013 and December 31, 2012, the Company had deferred fees and deferred profit from the sale of properties to joint ventures of \$29.4 million, respectively, which will be recognized through earnings over the weighted average life of the related properties, or upon the disposition of the properties to a third party.

The Company recognized \$2.7 million and \$3.0 million of management fees during the three months ended March 31, 2013 and 2012, respectively, for our management of the joint ventures. The management fees are classified in "Joint venture management and other fees" in the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three months ended March 31, 2013 and 2012.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

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Combined summary financial information relating to all of the unconsolidated joint ventures operations (not just our proportionate share), is presented below for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues	\$61,080	\$63,025
Real estate depreciation and amortization	21,778	25,885
Net loss	3,837	8,621
UDR recorded loss from unconsolidated entities	2,802	2,691

Combined summary balance sheets relating to all of the unconsolidated joint ventures (not just our proportionate share) are presented below as of March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012
Real estate, net	\$3,181,823	\$3,189,814
Total assets	3,248,847	3,266,518
Amount due to UDR	30,310	34,843
Third party debt	1,676,444	1,663,427
Total liabilities	1,740,604	1,747,855
Total equity, inclusive of noncontrolling interest	1,508,243	1,518,663
Equity held by noncontrolling interest	12,490	12,755
UDR's investment in unconsolidated joint ventures, net	461,397	477,631

Consolidated Joint Ventures

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a noncontrolling interest of 92.5% in the joint venture. The Company's total investment was \$55.5 million, which consists of its initial investment of \$37.3 million and an option to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised the option and paid \$13.5 million, resulting in the consolidation of the joint venture at fair value. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for \$4.7 million.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

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6. SECURED AND UNSECURED DEBT

The following is a summary of our secured and unsecured debt at March 31, 2013 and December 31, 2012 (amounts in thousands):

	Principal Outstanding		For the Three Months Ended March 31, 2013		
	March 31, 2013	December 31, 2012	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:					
Fixed Rate Debt					
Mortgage notes payable (a)	\$453,076	\$455,533	5.41	% 3.3	8
Fannie Mae credit facilities (c)	629,063	631,078	5.11	% 5.6	23
Total fixed rate secured debt	1,082,139	1,086,611	5.24	% 4.6	31
Variable Rate Debt					
Mortgage notes payable (b)	37,415	37,415	1.09	% 0.3	2
Tax-exempt secured notes payable (d)	94,700	94,700	0.87	% 9.9	2
Fannie Mae credit facilities (c)	211,409	211,409	2.06	% 5.3	7
Total variable rate secured debt	343,524	343,524	1.63	% 6.1	11
Total Secured Debt	1,425,663	1,430,135	4.37	% 5.0	42
Unsecured Debt:					
Commercial Banks					
Borrowings outstanding under an unsecured credit facility due October 2015 (e), (f)	170,000	76,000	1.15	% 2.6	
Senior Unsecured Notes					
4.63% Medium-Term Notes due January 2022 (net of discount of \$3,151 and \$3,241) (f)	396,849	396,759	4.63	% 8.8	
1.64% Term Notes due January 2016 (f)	35,000	35,000	1.64	% 2.8	
2.68% Term Notes due January 2016 (f)	65,000	65,000	2.68	% 2.8	
6.05% Medium-Term Notes due June 2013	122,500	122,500	6.05	% 0.2	
5.13% Medium-Term Notes due January 2014	184,000	184,000	5.13	% 0.8	
5.50% Medium-Term Notes due April 2014 (net of discount of \$71 and \$89)	128,429	128,411	5.50	% 1.0	
5.25% Medium-Term Notes due January 2015 (net of discount of \$230 and \$262)	324,945	324,913	5.25	% 1.8	
5.25% Medium-Term Notes due January 2016	83,260	83,260	5.25	% 2.8	
2.90% Term Notes due January 2016 (f)	250,000	250,000	2.90	% 2.8	
8.50% Debentures due September 2024	15,644	15,644	8.50	% 11.5	
	297,785	297,678	4.25	% 5.2	

4.25% Medium-Term Notes due June 2018
(net of discount of \$2,215 and \$2,322) (f)

Other	32	33	N/A	N/A
Total Unsecured Debt	2,073,444	1,979,198	4.31	% 3.8
Total Debt	\$3,499,107	\$3,409,333	4.34	% 4.2

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the 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. Secured debt encumbers \$2.3 billion or 28.4% of UDR's total real estate owned based upon gross book value (\$5.9 billion or 71.6% of UDR's real estate owned based on gross book value is unencumbered) as of March 31, 2013.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

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(a) At March 31, 2013, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2014 through May 2019 and carry interest rates ranging from 3.43% to 5.94%.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. During the three months ended March 31, 2013 and 2012, the Company had \$1.3 million and \$1.1 million of a reduction to interest expense based on amortization on the fair market adjustment of debt assumed in acquisition of properties, respectively. The unamortized fair market adjustment was a net premium of \$15.6 million and \$16.9 million at March 31, 2013 and December 31, 2012, respectively.

(b) Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature July 2013. The mortgage notes payable are based on LIBOR plus specified basis points, which translate into an interest rate of 1.09% at March 31, 2013.

(c) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of \$929.3 million at March 31, 2013. The Fannie Mae credit facilities are for an initial term of 10 years (maturing at various dates from May 2017 through December 2019) and bear interest at floating and fixed rates. At March 31, 2013, we have \$629.1 million of the outstanding balance fixed at a weighted average interest rate of 5.11% and the remaining balance of \$211.4 million on these facilities is currently at a weighted average variable interest rate of 2.06%.

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

	March 31, 2013	December 31, 2012		
Borrowings outstanding	\$840,472	\$842,487		
Weighted average borrowings during the period ended	840,921	903,817		
Maximum daily borrowings during the period ended	841,494	1,054,735		
Weighted average interest rate during the period ended	4.4	% 4.3		%
Weighted average interest rate at the end of the period	4.3	% 4.4		%

(d) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature on August 2019 and March 2032, respectively. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates of 0.86% and 0.90%, respectively, as of March 31, 2013.

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

The following is a summary of short-term bank borrowings under UDR's bank credit facility at March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012		
Total revolving credit facility	\$900,000	\$900,000		
Borrowings outstanding at end of period (1)	170,000	76,000		
Weighted average daily borrowings during the period ended	118,268	167,038		
Maximum daily borrowings during the period ended	184,500	788,000		
Weighted average interest rate during the period ended	1.2	% 1.5		%

Interest rate at end of the period	1.2	%	1.4	%
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(1) Excludes \$2.5 million and \$3.9 million of letters of credit at March 31, 2013 and December 31, 2012, respectively.

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UDR, INC.

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MARCH 31, 2013

(f) The Operating Partnership is a guarantor at March 31, 2013 and December 31, 2012.

The aggregate maturities, including amortizing principal payments of secured debt, of total debt for the next five calendar years subsequent to March 31, 2013 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt (a)	Total Debt
2013	\$8,928	\$37,415	\$46,343	\$121,776	\$168,119
2014	46,369	—	46,369	311,577	357,946
2015	197,229	—	197,229	494,389	691,618
2016	138,449	—	138,449	432,484	570,933
2017	178,378	65,000	243,378	—	243,378
Thereafter	512,786	241,109	753,895	713,218	1,467,113
Total	\$1,082,139	\$343,524	\$1,425,663	\$2,073,444	\$3,499,107

(a) With the exception of the 1.64% Term Notes due January 2016 and revolving credit facility which carry a variable interest rate, all unsecured debt carries fixed interest rates.

We were in compliance with the covenants of our debt instruments at March 31, 2013.

7. EARNINGS/(LOSS) PER SHARE

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

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

	Three Months Ended March 31,	
	2013	2012
Numerator for earnings per share — basic and diluted:		
Net (loss)/income attributable to common stockholders	\$(1,199)	) \$80,848
Denominator for earnings per share — basic and diluted:		
Weighted average common shares outstanding	250,500	222,737
Non-vested restricted stock awards	(583)	) (1,237)
Denominator for basic and diluted earnings per share	249,917	221,500
Net(loss)/income attributable to common stockholders	\$0.00	\$0.37

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

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UDR, INC.

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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 months ended March 31, 2013 and 2012:

	Three Months Ended	
	March 31,	
	2013	2012
OP Units	9,381,025	9,421,302
Preferred Stock	3,035,548	3,035,548
Stock options and unvested restricted stock	1,293,358	1,958,716

8. NONCONTROLLING INTERESTS

Redeemable noncontrolling interests in operating partnership

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

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

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

Redeemable noncontrolling interests in the Operating Partnership, December 31, 2012	\$223,418	
Mark to market adjustment to redeemable noncontrolling interests in the Operating Partnership	6,144	
Conversion of OP Units to Common Stock	(1,649)
Net loss attributable to redeemable noncontrolling interests in the Operating Partnership	(45)
Distributions to redeemable noncontrolling interests in the Operating Partnership	(2,360)
Allocation of other comprehensive income	87	
Redeemable noncontrolling interests in the Operating Partnership, March 31, 2013	\$225,595	

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

	March 31,	
	2013	2012
Net (loss)/income attributable to common stockholders	\$(1,199	) \$80,848
Conversion of OP units to UDR Common Stock	1,649	—
Change in equity from net (loss)/income attributable to common stockholders and conversion of OP units to UDR Common Stock	\$450	80,848

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MARCH 31, 2013

Noncontrolling interests

Noncontrolling interests represent interests of unrelated partners in certain consolidated affiliates, and is presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. During the three months ended March 31, 2013 and 2012, net income attributable to noncontrolling interests was \$4,000 and \$52,000.

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 March 31, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

Description:	Total Carrying Amount in Financial Position at March 31, 2013	Fair Value Estimate at March 31, 2013	Fair Value at March 31, 2013, 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)	\$66,193	\$67,172	\$—	\$—	\$67,172
Total assets	\$66,193	\$67,172	\$—	\$—	\$67,172
Derivatives- Interest rate contracts (b)	\$9,224	\$9,224	\$—	\$9,224	\$—
Secured debt instruments- fixed rate:					
(c)					
Mortgage notes payable	453,076	487,297	—	—	487,297
Fannie Mae credit facilities	629,063	681,792	—	—	681,792
Secured debt instruments- variable rate: (c)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	211,409	211,409	—	—	211,409
Unsecured debt instruments: (c)					
Commercial bank	170,000	170,000	—	—	170,000

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Senior unsecured notes	1,903,444	2,050,809	—	—	2,050,809
Total liabilities	\$3,508,331	\$3,742,646	\$—	\$9,224	\$3,733,422
Redeemable noncontrolling interests (d)	\$225,595	\$225,595	\$—	\$225,595	\$—

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Description:	Total Carrying Amount in Financial Position at December 31, 2012	Fair Value Estimate at December 31, 2012	Fair Value at December 31, 2012, 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)	\$64,006	\$64,930	\$—	\$—	\$64,930
Derivatives- Interest rate contracts (b) 2	2	2	—	2	—
Total assets	\$64,008	\$64,932	\$—	\$2	\$64,930
Derivatives- Interest rate contracts (b)	\$11,022	\$11,022	\$—	\$11,022	\$—
Secured debt instruments- fixed rate: (c)					
Mortgage notes payable	455,533	494,728	—	—	494,728
Fannie Mae credit facilities	631,078	689,295	—	—	689,295
Secured debt instruments- variable rate: (c)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	211,409	211,409	—	—	211,409
Unsecured debt instruments: (c)					
Commercial bank	76,000	76,000	—	—	76,000
Senior unsecured notes	1,903,198	2,039,736	—	—	2,039,736
Total liabilities	\$3,420,355	\$3,654,305	\$—	\$11,022	\$3,643,283
Redeemable noncontrolling interests (d)	\$223,418	\$223,418	\$—	\$223,418	\$—

(a) See Note 2, Significant Accounting Policies

(b) See Note 10, Derivatives and Hedging Activity

(c) See Note 6, Secured and Unsecured Debt

(d) See Note 8, Noncontrolling Interests

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

Financial Instruments Carried at Fair Value

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

above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2013 and December 31, 2012, 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 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 are classified as Level 2.

Financial Instruments Not Carried at Fair Value

At March 31, 2013, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by the future operation and disposition of those assets are less than the net book value of those assets. Our cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair value. Our estimates of fair value represent our best estimate based upon Level 3 inputs such as industry trends and reference to market rates and transactions. We consider various factors to determine if a decrease in the value of our investment in and advances to unconsolidated joint ventures, net is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three months ended March 31, 2013 and December 31, 2012, respectively.

After determining an other-than-temporary decrease in the value of an equity method investment has occurred, we estimate the fair value of our investment by estimating the proceeds we would receive upon a hypothetical liquidation of the investment at the date of measurement. Inputs reflect management's best estimate of what market participants would use in pricing the investment giving consideration to the terms of the joint venture agreement and the estimated

discounted future cash flows to be generated from the underlying joint venture assets. The inputs and assumptions utilized to estimate the future cash flows of the underlying assets are based upon the Company's evaluation of the economy, market trends, operating results, and other factors, including judgments regarding costs to complete any construction activities, lease up and occupancy rates, rental rates, inflation rates, capitalization rates utilized to estimate the projected cash flows at the disposition, and discount rates.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

10. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated other comprehensive loss, net" and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2013 and 2012, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2013 and 2012, the Company recorded less than a \$1,000 loss from ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item, and the fair value of interest rate swaps that were not zero at inception of the hedging relationship.

Amounts reported in "Accumulated other comprehensive loss, net" related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through March 31, 2014, the Company estimates that an additional \$6.2 million will be reclassified as an increase to interest expense.

As of March 31, 2013, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

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

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a (loss)/gain of \$(2,000) and \$298,000 for the three months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Notional
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	Number of Instruments	
Interest rate caps	2	\$155,197

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012 (amounts in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at: March 31, 2013	December 31, 2012	Balance Sheet Location	Fair Value at: March 31, 2013	December 31, 2012
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$2	Other liabilities	\$9,224	\$11,022
Total		\$—	\$2		\$9,224	\$11,022
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$—	Other liabilities	\$—	\$—
Total		\$—	\$—		\$—	\$—

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

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 months ended March 31, 2013 and 2012 (dollar amounts in thousands):

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2013	2012		2013	2012		2013	2012
Derivatives in Cash Flow Hedging Relationships								
For the Three Months Ended March 31,								
Interest rate products	\$(92)	\$(1,959)	Interest expense	\$(1,937)	\$(1,855)	Interest expense	\$—	\$—
Total	\$(92)	\$(1,959)	Interest expense	\$(1,937)	\$(1,855)	Interest expense	\$—	\$—

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2013	2012
For the Three Months Ended March 31,			
Interest rate products	Interest and other income, net	\$(2)	\$298
Total		\$(2)	\$298

Credit-risk-related Contingent Features

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

Certain of the Company's agreements with its derivative counterparties contain provisions where if there is a change in the Company's financial condition that materially changes the Company's creditworthiness in an adverse manner, the Company may be required to fully collateralize its obligations under the derivative instrument. At March 31, 2013 and December 31, 2012, no cash collateral was posted or required to be posted by the Company or by a counterparty.

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

The Company has certain agreements with some of its derivative counterparties that contain a provision where in the event of default by the Company or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative contract, 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 March 31, 2013, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$9.9 million. As of March 31, 2013, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at March 31, 2013, it would have been required to settle its obligations under the agreements at their termination value of \$9.9 million.

The Company has elected not to offset derivative positions in the consolidated financial statements. The tables below present the effect on its financial position had the Company made the election to offset its derivative positions as of March 31, 2013 and December 31, 2012:

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
March 31, 2013	\$—	\$—	\$—	\$—	\$—	\$—
December 31, 2012	\$2	\$—	\$2	\$—	\$—	\$2

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

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (b)	Financial Instruments	Cash Collateral Posted	Net Amount
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March 31, 2013	\$9,224	\$—	\$9,224	\$—	\$—	\$9,224
December 31, 2012	\$11,022	\$—	\$11,022	\$—	\$—	\$11,022

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

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

During the three months ended March 31, 2013 and 2012, we recognized \$1.9 million and \$2.3 million, respectively, as stock based compensation expense, which is inclusive of awards granted to our outside directors.

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

The following summarizes the Company's real estate commitments at March 31, 2013 (dollars in thousands):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete (a)	Average Ownership Stake	
Wholly owned — under development	7	\$452,816	\$427,984	100	%
Wholly owned — redevelopment	3	94,492	76,908	100	%
Joint ventures:					
Unconsolidated joint ventures	2	76,694	—	95	%
		\$624,002	\$504,892		

(a) Represents UDR's remaining equity commitment of unconsolidated joint ventures.

Contingencies**Litigation and Legal Matters**

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

13. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments. UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. 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 January 1, 2012 and held as of March 31, 2013. A comparison of operating results from the prior year is meaningful as these communities

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, 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 were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, consolidated joint venture properties, properties managed by third parties, 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 months ended March 31, 2013 and 2012.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

The following table details rental income and NOI from continuing and discontinued operations for UDR's reportable segments for the three months ended March 31, 2013 and 2012, and reconciles NOI to net income/(loss) attributable to UDR, Inc. per the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended March	
	31,	2012
	2013	
Reportable apartment home segment rental income		
Same Store Communities		
West Region	\$58,493	\$55,588
Mid-Atlantic Region	41,351	39,725
Northeast Region	14,099	13,144
Southeast Region	28,544	27,013
Southwest Region	11,426	10,581
Non-Mature Communities/Other	30,388	43,292
Total segment and consolidated rental income	\$184,301	\$189,343
Reportable apartment home segment NOI		
Same Store Communities		
West Region	\$41,315	\$38,736
Mid-Atlantic Region	28,762	27,565
Northeast Region	10,071	9,301
Southeast Region	18,705	17,594
Southwest Region	6,883	6,265
Non-Mature Communities/Other	19,580	28,653
Total segment and consolidated NOI	125,316	128,114
Reconciling items:		
Joint venture management and other fees	2,923	2,989
Property management	(5,068)	(5,207)
Other operating expenses	(1,643)	(1,383)
Real estate depreciation and amortization	(83,442)	(94,247)
General and administrative	(9,476)	(9,379)
Hurricane-related recoveries/(charges), net	3,021	—
Other depreciation and amortization	(1,146)	(918)
Loss from unconsolidated entities	(2,802)	(2,691)
Interest expense	(30,981)	(34,745)
Interest and other income, net	1,016	694
Tax benefit of taxable REIT subsidiary, net	1,973	22,876
Net loss/(income) attributable to redeemable noncontrolling interests in OP	45	(3,420)
Net income attributable to noncontrolling interests	(4)	(52)
Net gain on sale of depreciable property, net of tax	—	80,525
Net (loss)/income attributable to UDR, Inc.	\$(268)	\$83,156

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

The following table details the assets of UDR's reportable segments as of March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012
Reportable apartment home segment assets:		
Same Store Communities:		
West Region	\$2,379,289	\$2,376,459
Mid-Atlantic Region	1,421,806	1,419,873
Northeast Region	725,235	723,437
Southeast Region	875,841	870,207
Southwest Region	413,583	413,085
Non-Mature Communities/Other	2,366,362	2,252,767
Total segment assets	8,182,116	8,055,828
Accumulated depreciation	(2,007,482)	(1,924,682)
Total segment assets — net book value	6,174,634	6,131,146
Reconciling items:		
Cash and cash equivalents	7,121	12,115
Restricted cash	24,628	23,561
Deferred financing costs, net	23,654	24,990
Notes receivable, net	66,193	64,006
Investment in and advances to unconsolidated joint ventures, net	461,397	477,631
Other assets	133,154	125,654
Total consolidated assets	\$6,890,781	\$6,859,103

Capital expenditures related to our same store communities totaled \$6.9 million and \$9.9 million for the three months ended March 31, 2013 and 2012, respectively. Capital expenditures related to our non-mature communities/other totaled \$346,000 and \$2.4 million for the three months ended March 31, 2013 and 2012, respectively.

Markets included in the above geographic segments are as follows:

- i. West Region — Orange County, San Francisco, Seattle, Monterey Peninsula, Los Angeles, San Diego, Inland Empire, Sacramento, and Portland
- ii. Mid-Atlantic Region — Washington D.C., Richmond, Baltimore, Norfolk, and other Mid-Atlantic
- iii. Northeast Region — New York and Boston
- iv. Southeast Region — Tampa, Orlando, Nashville, and other Florida
- v. Southwest Region — Dallas and Austin

14. HURRICANE-RELATED (RECOVERIES)/CHARGES

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to residents for a period following the hurricane. The Company has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates, the Company recognized a \$9.0 million impairment charge for the damaged assets' net book value and incurred \$10.4 million of repair and cleanup costs during the year ended December 31,

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

MARCH 31, 2013

2012. The impairment charge and the repair and cleanup costs incurred were reduced as of December 31, 2012 by \$14.5 million of estimated insurance recovery, and were classified in "Hurricane related (recoveries)/charges, net" on the Consolidated Statements of Operations. During the three months ended March 31, 2013, no further impairment charge related to the damaged assets' net book value has been recognized. With the exception of one of the properties that is under redevelopment at March 31, 2013, the rehabilitation of the remaining two properties is expected to be completed in the third quarter of 2013.

As of March 31, 2013, the estimated insurance recovery of \$14.5 million related to the impairment charge and the repair and cleanup costs incurred has been reduced by \$8.4 million of insurance proceeds received. An additional \$4.6 million was received subsequent to March 31, 2013.

Based on the claims filed and management's estimates, the Company recognized \$4.4 million of business interruption losses for the year ended December 31, 2012. \$3.6 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable and were classified in "Hurricane-related (recoveries)/charges, net," on the Consolidated Statements of Operations, and \$767,000 of business interruption losses were related to rent that was not contractually receivable and were classified as a reduction to "Rental income" on the Consolidated Statements of Operations.

During the three months ended March 31, 2013, the Company received \$2.5 million of insurance proceeds for recovery of business interruption losses. An additional \$548,000 was received subsequent to March 31, 2013. Of the \$3.0 million of insurance proceeds received, \$2.8 million related to recovery of business interruption losses incurred in 2012 and the remaining \$187,000 related to recovery of business interruption losses incurred in 2013. The \$3.0 million of recovery was classified as "Hurricane related (recoveries)/charges, net" on the Consolidated Statements of Operations as of March 31, 2013.

To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as recovery of hurricane related charges in the period those amounts are received or when receipt is deemed probable to occur.

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

	March 31, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$4,111,598	\$4,095,528
Less: accumulated depreciation	(1,141,308)	(1,096,001)
Real estate held for investment, net	2,970,290	2,999,527
Real estate under development (net of accumulated depreciation \$1,132 and \$1,132)	97,750	86,260
Total real estate owned, net of accumulated depreciation	3,068,040	3,085,787
Cash and cash equivalents	2,951	2,804
Restricted cash	13,389	12,926
Deferred financing costs, net	5,745	6,072
Other assets	35,947	28,665
Total assets	\$3,126,072	\$3,136,254
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt	\$964,989	\$967,239
Notes payable due to General Partner	88,696	88,696
Real estate taxes payable	4,370	5,783
Accrued interest payable	3,676	3,604
Security deposits and prepaid rent	20,550	18,190
Distributions payable	43,488	40,752
Deferred gains on the sale of depreciable property	63,838	63,838
Accounts payable, accrued expenses, and other liabilities	26,296	29,396
Total liabilities	1,215,903	1,217,498
Capital:		
Partners' capital:		
General partner: 110,883 OP units outstanding at March 31, 2013 and December 31, 2012	1,202	1,223
Limited partners: 184,170,370 OP units outstanding at March 31, 2013 and December 31, 2012	1,885,707	1,921,445
Accumulated other comprehensive loss, net	(4,554)	(5,369)
Total partners' capital	1,882,355	1,917,299
Payable/(receivable) due to/(from) General Partner	15,256	(11,056)
Noncontrolling interest	12,558	12,513
Total capital	1,910,169	1,918,756
Total liabilities and capital	\$3,126,072	\$3,136,254
See accompanying notes to the consolidated financial statements.		

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

	Three Months Ended March 31,	
	2013	2012
REVENUES:		
Rental income	\$ 100,060	\$ 95,895
OPERATING EXPENSES:		
Property operating and maintenance	18,573	18,604
Real estate taxes and insurance	11,364	10,057
Property management	2,752	2,637
Other operating expenses	1,386	4,049
Real estate depreciation and amortization	45,393	50,472
General and administrative	5,575	4,920
Hurricane-related (recoveries)/charges, net	(2,019) —
Total operating expenses	83,024	90,739
Operating income	17,036	5,156
Interest expense	8,995	12,481
Interest expense on note payable due to General Partner	267	489
Income/(loss) from continuing operations	7,774	(7,814
Income from discontinued operations	—	922
Net income/(loss)	7,774	(6,892
Net income attributable to noncontrolling interests	(45	) (34
Net income/(loss) attributable to OP unitholders	\$ 7,729	\$ (6,926
Income/(loss) per OP unit- basic and diluted:		
Income/(loss) from continuing operations attributable to OP unitholders	\$ 0.04	\$ (0.04
Income from discontinued operations	\$ 0.00	\$ 0.00
Net income/(loss) attributable to OP unitholders	\$ 0.04	\$ (0.04
Weighted average OP units outstanding	184,281	184,281
See accompanying notes to the consolidated financial statements.		

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

	Three Months Ended March	
	31, 2013	2012
Net income/(loss)	\$7,774	\$(6,892)
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:		
Other comprehensive income/(loss)- derivative instruments:		
Unrealized holding loss	(54)	(669)
Loss reclassified into earnings from other comprehensive income	869	832
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:	815	163
Comprehensive income/(loss)	8,589	(6,729)
Comprehensive (income) attributable to noncontrolling interests	(45)	(34)
Comprehensive income/(loss) attributable to OP unitholders	\$8,544	\$(6,763)

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partners	Limited Partners	UDR, Inc.		Accumulated Other Comprehensive Income/(Loss) net	Partners' Total Capital	Payable/(Receivable) due to/(from) General Partner	Noncontrolling Interest	Total
			Limited Partner	General Partner					
Balance at December 31, 2012	\$41,656	\$181,762	\$1,698,027	\$1,223	\$(5,369)	\$1,917,299	\$(11,056)	\$12,513	\$1,918,756
Distributions OP Unit	(582)	(1,780)	(41,100)	(26)	—	(43,488)	—	—	(43,488)
Redemptions for common shares of UDR	—	(1,649)	1,649	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	(595)	(2,880)	3,475	—	—	—	—	—	—
Net income	73	318	7,333	5	—	7,729	—	45	7,774
Other comprehensive income	—	—	—	—	815	815	—	—	815
Net change in amount due to/(from) General Partner	—	—	—	—	—	—	26,312	—	26,312
Balance at March 31, 2013	\$40,552	\$175,771	\$1,669,384	\$1,202	\$(4,554)	\$1,882,355	\$15,256	\$12,558	\$1,910,169

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2013	2012
Operating Activities		
Net income/(loss)	\$7,774	\$(6,892)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	45,393	51,677
Hurricane-related (recoveries)/charges, net	(519))
Other	523	1,521
Changes in operating assets and liabilities:		
Increase in operating assets	(7,585)	) (881)
(Decrease)/increase in operating liabilities	(3,033)	) 135
Net cash provided by operating activities	42,553	45,560
Investing Activities		
Development of real estate assets	(9,446)	) (992)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(15,975)	) (16,891)
Capital expenditures related to rehabilitation of hurricane-damaged assets	(1,244))
Net cash used in investing activities	(26,665)	) (17,883)
Financing Activities		
Payments to General Partner, net	(12,177)	) (14,610)
Proceeds from the issuance of secured debt	—	26,054
Payments on secured debt	(1,295)	) (36,168)
Distributions paid to partnership unitholders	(2,263)	) (2,269)
Payments of financing costs	(6)	) (427)
Net cash used in financing activities	(15,741)	) (27,420)
Net increase in cash and cash equivalents	147	257
Cash and cash equivalents, beginning of period	2,804	704
Cash and cash equivalents, end of period	\$2,951	\$961
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	\$12,028	\$11,903
See accompanying notes to the consolidated financial statements.		

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

United Dominion Realty, L.P. (“UDR, L.P.”, the “Operating Partnership”, “we” or “our”) is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. (“UDR” or the “General Partner”), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three months ended March 31, 2013 and 2012, rental revenues of the Operating Partnership represented 54% and 52%, respectively, of the General Partner’s consolidated rental revenues (including those classified within discontinued operations). At March 31, 2013, the Operating Partnership’s apartment portfolio consisted of 70 communities located in 18 markets consisting of 21,660 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 March 31, 2013, there were 184,281,253 OP Units outstanding, of which, 174,955,272 or 94.9% were owned by UDR and affiliated entities and 9,325,981 or 5.1% 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 March 31, 2013, and results of operations for the three months ended March 31, 2013 and 2012 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, 2012 included in the Annual Report on Form 10-K filed by UDR and the Operating Partnership with the SEC on February 27, 2013.

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. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

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

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-10, Disclosures about Offsetting Assets and Liabilities. The objective of this update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either 1) offset on the balance sheet in accordance with the “Offsetting Guidance” in ASC 210-20-45 or ASC 815-10-45 (collectively, the offsetting guidance) or 2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the “Offsetting Guidance”. The amendments, which were adopted by the Operating Partnership for the three month reporting period ended March 31, 2013, impact the Operating Partnership's disclosures related to its derivative activities. (See Note 8, Derivatives and Hedging Activity.) The new guidance did not have any impact on the Operating Partnership's consolidated financial position, results of operations, or cash flows.

In February 2012, the FASB issued ASU No. 2013-02, Other Comprehensive Income (Topic 220) to require preparers to report, in one place, information about reclassifications out of accumulated other comprehensive income. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting (either on the face of the statement where net income is presented or in the notes thereto) is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other existing disclosures is required in the notes. The amendments, which were adopted by us for the three month reporting period ended March 31, 2013, do not have any impact on the Operating Partnership's consolidated financial position, results of operations, or cash flows. The accompanying consolidated financial statements include the required disclosures in the consolidated statement of comprehensive income/(loss) or in the notes thereto for each of the three months period ended March 31, 2013 and 2012.

Revenue and real estate sales gain recognition

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

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

Sales to entities in which we or our General Partner retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer and will defer the gain on the interest we or our General Partner retain. The Operating Partnership will recognize any deferred gain when the property is then sold to a third party. In transactions accounted 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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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

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 months ended March 31, 2013 and 2012, the Operating Partnership's other comprehensive income/(loss) consists of the loss (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and loss reclassified from accumulated other comprehensive income/(loss) into earnings. The loss reclassified from accumulated other income income/(loss) is included in interest expense incurred in the accompanying 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 General Partner has reviewed all open tax years (2009 through 2011) of tax jurisdictions and concluded there is no material tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

Earnings per OP unit

Basic earnings per OP Unit is computed by dividing net income/(loss) attributable to general and limited partner units by the weighted average number of general and limited partner units (including redeemable OP Units) outstanding during the year. Diluted earnings 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 that shared in the earnings of the Operating Partnership. For the three months ended March 31, 2013 and 2012, there were no dilutive instruments outstanding, and therefore, diluted earnings per OP Unit and basic earnings per OP Unit are the same.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consists of income producing operating properties, properties held for sale, properties under development, and land held for future development. At March 31, 2013, the Operating Partnership owned and consolidated 70 communities in nine states plus the District of Columbia totaling 21,660 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of March 31, 2013 and December 31, 2012 (dollar amounts in thousands):

	March 31, 2013	December 31, 2012
Land	\$1,009,706	\$1,006,724
Depreciable property — held and used:		
Buildings and improvements	2,981,947	2,970,510
Furniture, fixtures and equipment	119,945	118,294
Under development:		
Land	25,833	25,833
Construction in progress	73,049	61,559
Real estate owned	4,210,480	4,182,920
Accumulated depreciation	(1,142,440)	(1,097,133)
Real estate owned, net	\$3,068,040	\$3,085,787

The Operating Partnership did not have any acquisitions during the three months ended March 31, 2013 and 2012. All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheets as "Real estate under development." The costs of development projects which include interest, real estate taxes, insurance and allocated development overhead related to support costs for personnel working directly on the development site are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the three months ended March 31, 2013 and 2012 were \$673,000 and \$539,000, respectively. During the three months ended March 31, 2013 and 2012, total capitalized interest was \$1.3 million and \$639,000, respectively.

In October 2012, Hurricane Sandy hit the East Coast, affecting two of the Operating Partnership's operating communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to residents for a period following the hurricane. The Operating Partnership has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates, the Operating Partnership recognized a \$7.1 million impairment charge for the damaged assets' net book value and incurred \$7.0 million of repair and cleanup costs during the year ended December 31, 2012. The impairment charge and the repair and cleanup costs incurred were reduced as of December 31, 2012 by \$10.8 million of estimated insurance recovery, and were classified in "Hurricane related (recoveries)/charges, net" on the Consolidated Statements of Operations. During the three months ended March 31, 2013, no further impairment charge related to the damaged assets' net book value has been recognized. The rehabilitation of these two properties is expected to be completed in the third quarter of 2013. See Note 12, Hurricane-Related (Recoveries)/Charges for additional information.

4. DISCONTINUED OPERATIONS

Discontinued operations represent properties that the Operating Partnership has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as

discontinued operations, a property's operations and cash flows have or will be divested to a third party by the Operating Partnership whereby the Operating Partnership will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Operating Partnership. Once a property is deemed as held

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

for sale, depreciation is no longer recorded. However, if the Operating Partnership determines that the property no longer meets the criteria of held for sale, the Operating Partnership will recapture any unrecorded depreciation for the property. The assets and liabilities of properties deemed as held for sale are presented separately on the Consolidated Balance Sheets. Properties deemed as held for sale are reported at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

During the three months ended March 31, 2013 and 2012, the Operating Partnership did not dispose of any communities. At March 31, 2013, the Operating Partnership had no communities that met the criteria to be classified as held for sale and included in discontinued operations.

During the three months ended March 31, 2013 and 2012, the Operating Partnership recognized a net loss on the sale of communities for financial reporting purposes of \$0 and \$84,000, respectively, which is included in discontinued operations. Discontinued operations for the three months ended March 31, 2012 also includes operating activities related to four communities (1,314 homes) sold during the second quarter of 2012. The results of operations for these properties are classified in the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations."

The following is a summary of income from discontinued operations for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31,	
	2013	2012
Rental income	\$—	\$3,373
Rental expenses	—	1,069
Property management	—	93
Real estate depreciation	—	1,205
	—	2,367
Income before net loss on the sale of depreciable property	—	1,006
Net loss on the sale of depreciable property	—	(84)
Income from discontinued operations	\$—	\$922

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

5. DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification 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 March 31, 2013 and December 31, 2012 (dollars in thousands):

	Principal Outstanding		Three Months Ended March 31,		Number of Communities Encumbered
	March 31, 2013	December 31, 2012	Weighted Average Interest Rate	Weighted Average Years to Maturity	
Fixed Rate Debt					
Mortgage notes payable	\$392,953	\$394,999	5.41	% 3.3	5
Fannie Mae credit facilities	370,434	370,638	4.90	% 6.0	10
Total fixed rate secured debt	763,387	765,637	5.16	% 4.6	15
Variable Rate Debt					
Mortgage notes payable	37,415	37,415	1.09	% 0.3	2
Tax-exempt secured note payable	27,000	27,000	0.90	% 19.0	1
Fannie Mae credit facilities	137,187	137,187	2.52	% 5.8	5
Total variable rate secured debt	201,602	201,602	2.04	% 6.5	8
Total secured debt	\$964,989	\$967,239	4.51	% 5.0	23

As of March 31, 2013, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of \$929.3 million with \$840.5 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. At March 31, 2013, \$629.1 million of the outstanding balance was fixed at a weighted average interest rate of 5.11% and the remaining balance of \$211.4 million on these facilities had a weighted average variable interest rate of 2.06%. There was a total of \$507.6 million of these credit facilities allocated to the Operating Partnership at March 31, 2013 based on the ownership of the assets securing the debt. Following is information related to the credit facilities allocated to the Operating Partnership:

	March 31, 2013	December 31, 2012	
	(dollar amounts in thousands)		
Borrowings outstanding	\$507,621	\$507,825	
Weighted average borrowings during the period ended	507,893	544,793	
Maximum daily borrowings during the period	508,239	635,762	
Weighted average interest rate during the period ended	4.4	% 4.3	%
Interest rate at the end of the period	4.3	% 4.4	%

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair value adjustment of the fixed rate debt instruments on the Operating Partnership's properties was a net premium of \$12.8 million and \$13.8 million at March 31, 2013 and December 31, 2012, respectively.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2015 through May 2019 and carry interest rates ranging from 3.43% to 5.94%.

Secured credit facilities. At March 31, 2013, the General Partner had borrowings against its fixed rate facilities of \$629.1 million of which \$370.4 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of March 31, 2013, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 4.90%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature July 2013. Interest on the variable rate mortgage notes is based on LIBOR plus some basis points, which translated into an interest rate of 1.09% at March 31, 2013.

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 had an interest rate of 0.90% as of March 31, 2013.

Secured credit facilities. At March 31, 2013, the General Partner had borrowings against its variable rate facilities of \$211.4 million of which \$137.2 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of March 31, 2013, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 2.52%.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next five calendar years subsequent to March 31, 2013 are as follows (dollars in thousands):

	Fixed Mortgage Notes	Credit Facilities	Variable Mortgage Notes	Tax Exempt Notes Payable	Credit Facilities	Total
2013	\$5,336	\$242	\$37,415	\$—	\$—	\$42,993
2014	7,391	344	—	—	—	7,735
2015	192,534	364	—	—	—	192,898
2016	134,082	382	—	—	—	134,464
2017	1,449	15,684	—	—	6,566	23,699
Thereafter	52,161	353,418	—	27,000	130,621	563,200
Total	\$392,953	\$370,434	\$37,415	\$27,000	\$137,187	\$964,989

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 \$900 million, a \$250 million term loan due January 2016, a \$100 million term loan due January 2016, \$300 million of medium-term notes due June 2018, and \$400 million of medium-term notes due January 2022. As of March 31, 2013 and December 31, 2012, there were \$170.0 million and \$76.0 million outstanding borrowings under the unsecured credit facility, respectively.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

6. RELATED PARTY TRANSACTIONS

Payable/(Receivable) Due 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 a net payable balance of \$15.3 million and a net receivable balance of \$11.1 million at March 31, 2013 and December 31, 2012, which is reflected as an increase and a reduction of capital, respectively, on the Consolidated Balance Sheets.

Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR's total apartment homes. During the three months ended March 31, 2013 and 2012, the general and administrative expenses allocated to the Operating Partnership by UDR were \$5.3 million and \$7.5 million, respectively, and are included in "General and Administrative" expenses 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 March 31, 2013 and 2012, the Operating Partnership incurred \$3.0 million and \$2.7 million of related party management fees related to a management agreement entered into in 2011 with the TRS of the General Partner. (See further discussion in paragraph below.) These related party management fees are initially recorded to "General and Administrative" expense, and a portion related to management fees charged by the Taxable REIT Subsidiary ("TRS") of the General Partner is reclassified to "Property Management" expense on the Consolidated Statements of Operations. (See further discussion below.)

Management Fee

In 2011, the Operating Partnership entered into a management agreement with the TRS of the General Partner. The TRS charges the Operating Partnership 2.75% of gross rental revenues, and is classified in "Property Management" on the Consolidated Statements of Operations.

Guaranties by the General Partner

The Operating Partnership provided a "bottom dollar" guaranty to certain limited partners as part of their original contribution to the Operating Partnership. The guaranty protects the tax basis of the underlying contribution and is reflected on the OP unitholder's Schedule K-1 tax form. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 0.932% at March 31, 2013 and December 31, 2012, respectively. Interest payments are made monthly and the note is due December 31, 2013. At March 31, 2013 and December 31, 2012, respectively, the note payable due to the General Partner was \$83.2 million. In 2011, the Operating Partnership also provided a "bottom dollar" guaranty in conjunction with 1,802,239 OP Units issued in partial consideration to the seller for the acquisition of an operating community. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 5.337%. Interest payments are due monthly and the note matures on August 31, 2021. At March 31, 2013 and December 31, 2012, respectively, the note payable due to the General Partner was \$5.5 million.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

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 March 31, 2013 and December 31, 2012 are summarized as follows (dollars in thousands):

Description:	Total Carrying Amount in Statement of Financial Position on March 31, 2013	Fair Value Estimate at March 31, 2013	Fair Value at March 31, 2013, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (a)	\$3,977	\$3,977	\$—	\$3,977	\$—
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	392,953	423,373	—	—	423,373
Fannie Mae credit facilities	370,434	395,484	—	—	395,484
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	137,187	137,187	—	—	137,187
Total liabilities	\$968,966	\$1,024,436	\$—	\$3,977	\$1,020,459

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

Description:	Total Carrying Amount in Statement of Financial Position on December 31, 2012	Fair Value Estimate at December 31, 2012	Fair Value at December 31, 2012, Using Quoted Prices in		
			Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (a)	\$2	\$2	\$—	\$2	\$—
Total assets	\$2	\$2	\$—	\$2	\$—
Derivatives- Interest rate contracts (a)	\$4,750	\$4,750	\$—	\$4,750	\$—
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	394,999	429,973	—	—	429,973
Fannie Mae credit facilities	370,638	399,389	—	—	399,389
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	137,187	137,187	—	—	137,187
Total liabilities	\$971,989	\$1,035,714	\$—	\$4,750	\$1,030,964

(a) See Note 8, Derivatives and Hedging Activity

(b) See Note 5, Debt

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 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 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 March 31, 2013 and December 31, 2012, 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

At March 31, 2013, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

MARCH 31, 2013

approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Operating Partnership using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Operating Partnership would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

8. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

The Operating Partnership is exposed to certain risk arising from both its business operations and economic conditions. The General Partner principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The General Partner manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the General Partner enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The General Partner's and the Operating Partnership's derivative financial instruments are used to manage differences in the amount, timing, and duration of the General Partner's known or expected cash receipts and its known or expected cash payments principally related to the General Partner's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The General Partner's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the General Partner primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the General Partner making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

A portion of the General Partner's interest rate derivatives have been allocated to the Operating Partnership based on the General Partner's underlying debt instruments allocated to the Operating Partnership. (See Note 5, Debt.)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated other comprehensive loss, net" and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2013 and 2012, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective

portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2013 and 2012, the Operating Partnership recorded less than a \$1,000 loss of ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item.

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Amounts reported in “Accumulated other comprehensive loss, net” related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner’s variable-rate debt that is allocated to the Operating Partnership. During the next twelve months through March 31, 2014, we estimate that an additional \$2.3 million will be reclassified as an increase to interest expense.

As of March 31, 2013, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	4	\$173,781
Interest rate caps	5	\$247,202

Derivatives not designated as hedges are not speculative and are used to manage the Company’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in losses of \$2,000 for the three months ended March 31, 2013 and 2012.

As of March 31, 2013, we had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Number of Instruments	Notional
Interest rate caps	1	\$80,294

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

The table below presents the fair value of the Operating Partnership’s derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at: March 31, 2013	December 31, 2012	Balance Sheet Location	Fair Value at: March 31, 2013	December 31, 2012
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$2	Other liabilities	\$3,977	\$4,750
Total		\$—	\$2		\$3,977	\$4,750
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$—	Other liabilities	\$—	\$—
Total		\$—	\$—		\$—	\$—

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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 months ended March 31, 2013 and 2012 (dollar amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2013	2012		2013	2012

For the Three Months Ended March 31,

Interest rate products	\$ (54)	\$ (669)		\$ (869)	\$ (832)
Total	\$ (54)	\$ (669)	Interest expense	\$ (869)	\$ (832)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2013	2012

For the Three Months Ended March 31,

Interest rate products	Other operating expenses	\$ (2)	\$ (2)
Total		\$ (2)	\$ (2)

Credit-risk-related Contingent Features

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

Certain of the General Partner's agreements with its derivative counterparties contain provisions where if there is a change in the General Partner's financial condition that materially changes the General Partner's creditworthiness in an adverse manner, the General Partner may be required to fully collateralize its obligations under the derivative instrument. At March 31, 2013 and December 31, 2012, no cash collateral was posted or required to be posted by the General Partner or by a counterparty.

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

instrument obligations covered by the agreement.

The General Partner has certain agreements with some of its derivative counterparties that contain a provision where in the event of default by the General Partner or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to

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default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative contract, 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 March 31, 2013, the fair value of derivatives in a net liability position that were allocated to the Operating Partnership, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$4.3 million. As of March 31, 2013, the General Partner has not posted any collateral related to these agreements. If the General Partner had breached any of these provisions at March 31, 2013, it would have been required to settle its obligations under the agreements at their termination value of \$4.3 million.

The General Partner has elected not to offset derivative positions in the consolidated financial statements. The table below presents the effect on the Operating Partnership's financial position had the General Partner made the election to offset its derivative positions as of March 31, 2013 and December 31, 2012:

Offsetting of Derivative Assets

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	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
March 31, 2013	\$—	\$—	\$—	\$—	\$—	\$—
December 31, 2012	\$2	\$—	\$2	\$—	\$—	\$2

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

Offsetting of Derivative Liabilities

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (b)	Financial Instruments	Cash Collateral Posted	Net Amount
March 31, 2013	\$3,977	\$—	\$3,977	\$—	\$—	\$3,977
December 31, 2012	\$4,750	\$—	\$4,750	\$—	\$—	\$4,750

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

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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 Partnership Units. There were 110,883 General Partnership units outstanding at March 31, 2013 and December 31, 2012, all of which were held by UDR.

Limited Partnership Units

At March 31, 2013 and December 31, 2012, there were 184,170,370 limited partnership units outstanding, of which 1,751,671 were Class A Limited Partnership units. UDR owned 174,844,389 or 94.9% and 174,775,152 or 94.9% at March 31, 2013 and December 31, 2012, respectively. The remaining 9,325,981 or 5.1% and 9,395,218 or 5.1% limited partnership units, were held by non-affiliated partners at March 31, 2013 and December 31, 2012, respectively, of which 1,751,671 were Class A Limited Partnership units.

Subject to 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 \$225.6 million and \$223.4 million as of March 31, 2013 and December 31, 2012, 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 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 Partnership unit.

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

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

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MARCH 31, 2013

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 flow.

11. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments. The Operating Partnership owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures of the Operating Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the chief operating decision maker's assessment of UDR's performance on a consolidated basis. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.

The Operating Partnership's two reportable segments are same store communities and non-mature communities/other:

Same store communities represent those communities acquired, developed, and stabilized prior to January 1, 2012 and held as of March 31, 2013. 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 year, 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 were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, properties managed by third parties, 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 of Topic 280 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 months ended March 31, 2013 and 2012.

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The following table details rental income and NOI from continuing and discontinued operations for the Operating Partnership's reportable segments for the three months ended March 31, 2013 and 2012, and reconciles NOI to net income/(loss) attributable to OP unitholders per the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended March	
	31,	2012
	2013	
Reportable apartment home segment rental income		
Same Store Communities		
West Region	\$44,571	\$42,525
Mid-Atlantic Region	16,911	16,336
Northeast Region	8,906	8,374
Southeast Region	10,586	9,985
Southwest Region	5,143	4,784
Non-Mature Communities/Other	13,943	17,264
Total segment and consolidated rental income	\$100,060	\$99,268
Reportable apartment home segment NOI		
Same Store Communities		
West Region	\$31,701	\$29,818
Mid-Atlantic Region	11,533	11,172
Northeast Region	6,475	6,047
Southeast Region	7,005	6,577
Southwest Region	3,179	2,986
Non-Mature Communities/Other	10,230	12,938
Total segment and consolidated NOI	70,123	69,538
Reconciling items:		
Property management	(2,752	) (2,730
Other operating expenses	(1,386	) (4,049
Real estate depreciation and amortization	(45,393	) (51,677
General and administrative	(5,575	) (4,920
Hurricane-related recoveries/(charges), net	2,019	—
Interest expense	(9,262	) (12,970
Net loss on the sale of depreciable real estate	—	(84
Net income attributable to noncontrolling interests	(45) (34
Net income/(loss) attributable to OP unitholders	\$7,729	\$(6,926)

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The following table details the assets of the Operating Partnership's reportable segments as of March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013	December 31, 2012
Reportable apartment home segment assets		
Same Store Communities		
West Region	\$1,723,544	\$1,721,252
Mid-Atlantic Region	702,801	701,741
Northeast Region	434,657	434,138
Southeast Region	323,577	322,882
Southwest Region	185,654	185,501
Non-Mature Communities/Other	840,247	817,406
Total segment assets	4,210,480	4,182,920
Accumulated depreciation	(1,142,440)	(1,097,133)
Total segment assets - net book value	3,068,040	3,085,787
Reconciling items:		
Cash and cash equivalents	2,951	2,804
Restricted cash	13,389	12,926
Deferred financing costs, net	5,745	6,072
Other assets	35,947	28,665
Total consolidated assets	\$3,126,072	\$3,136,254

Capital expenditures related to the Operating Partnership's same store communities totaled \$3.9 million and \$6.1 million for the three months ended March 31, 2013 and 2012, respectively. Capital expenditures related to the Operating Partnership's non-mature communities/other totaled \$121,000 and \$402,000 for the three months ended March 31, 2013 and 2012, respectively.

Markets included in the above geographic segments are as follows:

- i. West Region — Orange County, San Francisco, Monterey Peninsula, Los Angeles, Seattle, Sacramento, Inland Empire, Portland, and San Diego
- 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 — Dallas

12. HURRICANE-RELATED (RECOVERIES)/CHARGES

In October 2012, Hurricane Sandy hit the East Coast, affecting two of the Operating Partnership's operating communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to residents for a period following the hurricane. The Operating Partnership has insurance policies that provide coverage for property damage and business interruption.

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Based on the claims filed and management's estimates, the Operating Partnership recognized a \$7.1 million impairment charge for the damaged assets' net book value and incurred \$7.0 million of repair and cleanup costs during the year ended December 31, 2012. The impairment charge and the repair and cleanup costs incurred were reduced as of December 31, 2012 by \$10.8 million of estimated insurance recovery, and were classified in "Hurricane related (recoveries)/charges, net" on the Consolidated Statements of Operations. During the three months ended March 31, 2013, no further impairment charge related to the damaged assets' net book value has been recognized. The rehabilitation of these two properties is expected to be completed in the third quarter of 2013.

As of March 31, 2013, the estimated recovery of \$10.8 million related to the impairment charge and the repair and cleanup costs incurred has been reduced by \$6.0 million of insurance proceeds received. An additional \$3.2 million was received subsequent to March 31, 2013.

Based on the claims filed and management's estimates, the Operating Partnership recognized \$2.2 million of business interruption losses for the year ended December 31, 2012. \$1.8 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable and were classified in "Hurricane-related (recoveries)/charges, net," on the Consolidated Statements of Operations, and \$400,000 of business interruption losses were related to rent that was not contractually receivable and were classified as a reduction to "Rental income" on the Consolidated Statements of Operations.

During the three months March 31, 2013, the Company received \$2.0 million of insurance proceeds for recovery of business interruption losses. An additional \$519,000 was received subsequent to March 31, 2013. Of the \$2.0 million of insurance proceeds received, \$1.8 million related to recovery of business interruption losses incurred in 2012 and the remaining \$187,000 related to recovery of business interruption losses incurred in 2013. The \$2.0 million of recovery was classified as "Hurricane related (recoveries)/charges, net" on the Consolidated Statements of Operations. To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as recovery of Hurricane related charges in the period those amounts are received or when receipt is deemed probable to occur.

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

Forward-Looking Statements

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

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

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

- delays in completing developments and lease-ups on schedule;
- our failure to succeed in new markets;
- changing interest rates, which could increase interest costs and affect the market price of our securities;
- 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.

UDR, INC.:

Business Overview

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

At March 31, 2013, our consolidated real estate portfolio included 143 communities with 41,750 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated operating communities, included an additional 39 communities with 9,558 apartment homes.

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The following table summarizes our market information by major geographic markets as of March 31, 2013.

	As of March 31, 2013				For the Three Months Ended March 31, 2013	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying (in thousands)	Average Physical Occupancy	Total Income per Occupied Home (a)
West Region						
Orange County, CA	10	3,290	7.4	% \$603,857	94.6	% \$1,659
San Francisco, CA	9	2,028	6.7	% 549,894	95.7	% 2,580
Seattle, WA	11	2,165	5.8	% 472,886	95.9	% 1,465
Los Angeles, CA	5	919	3.6	% 295,009	95.1	% 2,079
Monterey Peninsula, CA	7	1,565	1.9	% 157,651	89.6	% 1,122
Inland Empire, CA	2	654	1.2	% 101,572	94.4	% 1,442
Portland, OR	3	716	0.9	% 71,653	96.1	% 1,073
Sacramento, CA	2	914	0.9	% 70,119	91.1	% 917
San Diego, CA	2	366	0.7	% 56,648	94.1	% 1,462
Mid-Atlantic Region						
Washington D.C.	13	4,313	10.8	% 881,560	96.9	% 1,795
Baltimore, MD	11	2,301	3.7	% 303,524	96.5	% 1,441
Richmond, VA	4	1,358	1.7	% 136,925	96.6	% 1,179
Norfolk, VA	6					