UDR, Inc.
Form 10-Q
October 31, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from to

Commission file number

1 10524 (UDR, Inc.)

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

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (zip code)

(720) 283 6120

(Registrant's telephone number, including area code)

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

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

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

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

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

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

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of October 30, 2017 was 267,756,048.

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UDR, INC.

UNITED DOMINION REALTY, L.P.

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10 Q for the quarter ended September 30, 2017 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), both Delaware limited partnerships of which UDR is the sole general partner. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P., together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as “OP Units” and “DownREIT Units,” respectively, and the holders of the OP Units and DownREIT Units are referred to as “unitholders.” This combined Form 10 Q is being filed separately by UDR and the Operating Partnership.

There are a number of differences between our Company and our Operating Partnership, which are reflected in our disclosure in this Report. UDR is a real estate investment trust (“REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiaries (“TRS”). UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding debt of UDR.

As of September 30, 2017, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,126,805 OP Units, representing approximately 95.0% of total outstanding OP Units in the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and UDR’s role as the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are presented in this Report for each of UDR and the Operating Partnership.

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UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 9,456,293	$ 9,271,847
Less: accumulated depreciation	(3,235,851)	(2,923,072)
Real estate held for investment, net	6,220,442	6,348,775
Real estate under development (net of accumulated depreciation of $1,737 and $0, respectively)	532,580	342,282
Real estate held for disposition (net of accumulated depreciation of $0 and $553, respectively)	—	1,071
Total real estate owned, net of accumulated depreciation	6,753,022	6,692,128
Cash and cash equivalents	1,788	2,112
Restricted cash	20,413	19,994
Notes receivable, net	18,594	19,790
Investment in and advances to unconsolidated joint ventures, net	839,864	827,025
Other assets	127,024	118,535
Total assets	$ 7,760,705	$ 7,679,584
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$ 804,977	$ 1,130,858
Unsecured debt, net	2,874,034	2,270,620
Real estate taxes payable	35,337	17,388
Accrued interest payable	30,192	29,257
Security deposits and prepaid rent	32,619	34,238
Distributions payable	91,454	86,936
Accounts payable, accrued expenses, and other liabilities	96,009	103,835
Total liabilities	3,964,622	3,673,132
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	943,182	909,482
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,780,994 and 2,796,903 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	46,200	46,457
	1	1

Series F; 16,025,255 and 16,196,889 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively		
Common stock, $0.01 par value; 350,000,000 shares authorized: 267,599,391 and 267,259,469 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	2,676	2,673
Additional paid-in capital	4,643,803	4,635,413
Distributions in excess of net income	(1,843,490)	(1,585,825)
Accumulated other comprehensive income/(loss), net	(4,167)	(5,609)
Total stockholders' equity	2,845,023	3,093,110
Noncontrolling interests	7,878	3,860
Total equity	2,852,901	3,096,970
Total liabilities and equity	$ 7,760,705	$ 7,679,584

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES:				
Rental income	$ 248,264	$ 240,255	$ 734,193	$ 708,380
Joint venture management and other fees	2,827	2,997	8,718	8,473
Total revenues	251,091	243,252	742,911	716,853
OPERATING EXPENSES:				
Property operating and maintenance	42,362	41,852	122,574	119,872
Real estate taxes and insurance	31,181	28,047	90,792	86,703
Property management	6,827	6,607	20,190	19,480
Other operating expenses	1,950	1,636	6,010	5,280
Real estate depreciation and amortization	107,171	105,802	320,653	317,078
General and administrative	12,467	11,826	36,976	36,505
Casualty-related charges/(recoveries), net	2,056	205	3,749	1,834
Other depreciation and amortization	1,585	1,526	4,760	4,565
Total operating expenses	205,599	197,501	605,704	591,317
Operating income	45,492	45,751	137,207	125,536
Income/(loss) from unconsolidated entities	1,819	15,285	11,591	16,289
Interest expense	(30,095)	(31,954)	(94,500)	(93,736)
Interest income and other income/(expense), net	481	478	1,423	1,449
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	17,697	29,560	55,721	49,538
Tax (provision)/benefit, net	(127)	(94)	(825)	711
Income/(loss) from continuing operations	17,570	29,466	54,896	50,249
Gain/(loss) on sale of real estate owned, net of tax	—	—	2,132	10,385
Net income/(loss)	17,570	29,466	57,028	60,634
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,415)	(2,459)	(4,607)	(4,974)
Net (income)/loss attributable to noncontrolling interests	35	(51)	(107)	(365)
Net income/(loss) attributable to UDR, Inc.	16,190	26,956	52,314	55,295
Distributions to preferred stockholders — Series E (Convertible)	(926)	(929)	(2,784)	(2,787)
Net income/(loss) attributable to common stockholders	$ 15,264	$ 26,027	$ 49,530	$ 52,508
Common distributions declared per share	$ 0.310	$ 0.295	$ 0.930	$ 0.885

Income/(loss) per weighted average common share:				
Basic	$ 0.06	$ 0.10	$ 0.19	$ 0.20
Diluted	$ 0.06	$ 0.10	$ 0.18	$ 0.20
Weighted average number of common shares outstanding:				
Basic	267,056	266,301	266,940	265,013
Diluted	269,062	268,305	268,851	266,925

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income/(loss)	$ 17,570	$ 29,466	$ 57,028	$ 60,634
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	131	1,090	256	(1,684)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	119	914	1,328	2,792
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	250	2,004	1,584	1,108
Comprehensive income/(loss)	17,820	31,470	58,612	61,742
Comprehensive (income)/loss attributable to noncontrolling interests	(1,401)	(2,686)	(4,856)	(4,915)
Comprehensive income/(loss) attributable to UDR, Inc.	$ 16,419	$ 28,784	$ 53,756	$ 56,827

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands, except per share data)

(Unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2016	$ 46,458	$ 2,673	$ 4,635,413	$ (1,585,825)	$ (5,609)	$ 3,860	$ 3,096,970
Net income/(loss) attributable to UDR, Inc.	—	—	—	52,314	—	—	52,314
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	98	98
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	125	125
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	3,795	3,795
Other comprehensive income/(loss)	—	—	—	—	1,442	—	1,442
Issuance/(forfeiture) of common and restricted shares, net	—	1	140	—	—	—	141
Cumulative effect upon adoption of ASU 2016-09	—	—	558	(558)	—	—	—
Conversion of Series E Cumulative Convertible shares	(257)	—	257	—	—	—	—
Adjustment for conversion of noncontrolling	—	2	7,435	—	—	—	7,437

interest of unitholders in the Operating Partnership and DownREIT Partnership							
Common stock distributions declared ($0.930 per share)	—	—	—	(248,899)	—	—	(248,899)
Preferred stock distributions declared-Series E ($0.9966 per share)	—	—	—	(2,784)	—	—	(2,784)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(57,738)	—	—	(57,738)
Balance at September 30, 2017	$ 46,201	$ 2,676	$ 4,643,803	$ (1,843,490)	$ (4,167)	$ 7,878	$ 2,852,901

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net income/(loss)	$ 57,028	$ 60,634
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	325,413	321,643
(Gain)/loss on sale of real estate owned, net of tax	(2,132)	(10,385)
(Income)/loss from unconsolidated entities	(11,591)	(16,289)
Return on investment in unconsolidated joint ventures	3,609	19,765
Amortization of share-based compensation	10,072	10,536
Other	13,069	6,490
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(8,189)	(10,646)
Increase/(decrease) in operating liabilities	1,590	1,374
Net cash provided by/(used in) operating activities	388,869	383,122
Investing Activities		
Acquisition of real estate assets	(65,381)	(23,003)
Proceeds from sales of real estate investments, net	3,250	21,901
Development of real estate assets	(190,456)	(136,555)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(91,645)	(59,729)
Capital expenditures — non-real estate assets	(3,230)	(4,447)
Investment in unconsolidated joint ventures	(102,170)	(29,832)
Distributions received from unconsolidated joint ventures	65,053	32,472
Transfers to escrow for Internal Revenue Code Section 1031 exchanges	—	(69,409)
Repayment/(issuance) of notes receivable	1,196	(3,000)
Net cash provided by/(used in) investing activities	(383,383)	(271,602)
Financing Activities		
Payments on secured debt	(325,212)	(352,814)
Proceeds from the issuance of secured debt	—	25,000
Payments on unsecured debt	—	(95,053)
Proceeds from the issuance of unsecured debt	584,292	300,000
Net proceeds/(repayment) of revolving bank debt	19,367	96,925
Proceeds from the issuance of common shares through public offering, net	—	173,238
Distributions paid to redeemable noncontrolling interests	(23,269)	(22,179)
Distributions paid to preferred stockholders	(2,776)	(2,783)

Distributions paid to common stockholders	(244,788)	(230,094)
Other	(13,424)	(7,201)
Net cash provided by/(used in) financing activities	(5,810)	(114,961)
Net increase/(decrease) in cash and cash equivalents	(324)	(3,441)
Cash and cash equivalents, beginning of period	2,112	6,742
Cash and cash equivalents, end of period	$ 1,788	$ 3,301
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 95,008	$ 95,808
Cash paid/(refunds received) for income taxes	1,803	859
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	$ 32,260	$ 14,849
Vesting of LTIP Units	2,317	—
Development costs and capital expenditures incurred but not yet paid	48,995	44,564
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (202,218 shares in 2017 and 163,330 shares in 2016)	7,437	5,974
Dividends declared but not yet paid	91,454	86,959

See accompanying notes to consolidated financial statements.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries ("UDR," the "Company," "we," "our," or "us"), is a self-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership" or the "OP") and UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership"). As of September 30, 2017, there were 183,350,924 units in the Operating Partnership ("OP Units") outstanding, of which 174,237,688 OP Units, or 95.0%, were owned by UDR and 9,113,236 OP Units, or 5.0%, were owned by outside limited partners. As of September 30, 2017, there were 32,367,380 units in the DownREIT Partnership ("DownREIT Units") outstanding, of which 16,679,628, or 51.5%, were owned by UDR (including 13,470,651 DownREIT Units, or 41.6%, that were held by the Operating Partnership) and 15,687,752, or 48.5%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2017, and results of operations for the three and nine months ended September 30, 2017 and 2016 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2016 appearing in UDR's Annual Report on Form 10 K, filed with the Securities and Exchange Commission on February 21, 2017.

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

The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted other than those in Note 3, Real Estate Owned, Note 5, Joint Ventures and Partnerships, and Note 12, Commitments and Contingencies.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

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

In November 2016, the FASB issued ASU 2016 18, Statement of Cash Flows (Topic 230), Restricted Cash. The ASU addresses the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard will be effective for the Company on January 1, 2018 and must be applied retrospectively to all periods presented; however, early adoption of the ASU is permitted. The Company does not expect the updated standard to have a material impact on the consolidated financial statements and related disclosures will be updated pursuant the requirements of the ASU.

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

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

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

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

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

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will have on our consolidated financial statements and related disclosures, we expect to adopt the guidance on its effective date, at which time we will recognize right-of-use assets and related lease liabilities on our consolidated balance sheets related to ground leases on any communities where we are the lessee.

In May 2014, the FASB issued ASU No. 2014 09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, including industry-specific revenue guidance. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method and will be effective for the Company on January 1, 2018, at which time the Company expects to adopt the updated standard using the modified retrospective approach. However, as the majority of the Company's revenue is from rental income related to leases, the Company does not expect the ASU to have a material impact on the consolidated financial statements and related disclosures will be updated pursuant the requirements of the ASU.

Principles of Consolidation

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

Discontinued Operations

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

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

Revenue and Real Estate Sales Gain Recognition

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

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

Sales to entities in which we retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing

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UDR, INC.

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involvement are present, we recognize profit proportionate to the outside interest of the buyer and defer the gain on the interest we retain. The Company recognizes any deferred gain when the property is sold to a third party. In transactions accounted for by us as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

Notes Receivable

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

	Interest rate at September 30, 2017		Balance Outstanding	
			September 30, 2017	December 31, 2016
Note due February 2020 (a)	10.00	%	$ 12,994	$ 12,994
Note due July 2017 (b)	—	%	—	2,500
Note due October 2020 (c)	8.00	%	2,000	1,296
Note due August 2022 (d)	10.00	%	3,600	3,000
Total notes receivable, net			$ 18,594	$ 19,790

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

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

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.0 million, of which $2.0 million had been funded. During the nine months ended September 30, 2017, the Company loaned $0.7 million. Interest payments are due when the loan matures. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $10.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (October 2020).

(d) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $10.0 million, of which, $3.6 million has been funded. During the nine months ended September 30, 2017, the Company loaned $0.6 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) August 2022.

In September 2017, the terms of this secured note receivable were amended to reduce the aggregate commitment from $15.0 million to $10.0 million and to extend the maturity date of the note from the fifth anniversary of the note (April 2021) to August 2022.

The Company recognized $0.4 million and $0.5 million of interest income from notes receivable during the three months ended September 30, 2017 and 2016, respectively, and $1.4 million and $1.3 million during the nine months ended September 30, 2017 and 2016, respectively, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

UDR, INC.

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Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and nine months ended September 30, 2017 and 2016, the Company’s other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the three months ended September 30, 2017 and 2016 was less than $0.1 million and $0.2 million, respectively, and during the nine months ended September 30, 2017 and 2016 was $0.1 million and $(0.4) million, respectively.

Income Taxes

Due to the structure of the Company as a REIT and the nature of the operations for the operating properties, no provision for federal income taxes has been provided for at UDR. Historically, the Company has generally incurred only state and local excise and franchise taxes. UDR has elected for certain consolidated subsidiaries to be treated as taxable REIT subsidiaries (“TRS”).

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of September 30, 2017 and December 31, 2016, UDR’s net deferred tax asset was $0.2 million and $0.6 million, respectively.

GAAP defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. GAAP also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

The Company recognizes its tax positions and evaluates them using a two-step process. First, UDR determines whether a tax position is more likely than not (greater than 50 percent probability) to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, the Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

UDR had no material unrecognized tax benefit, accrued interest or penalties at September 30, 2017. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2013 through 2016 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax (provision)/benefit, net on the Consolidated Statements of Operations.

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3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of September 30, 2017, the Company owned and consolidated 128 communities in 10 states plus the District of Columbia totaling 39,906 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Land	$ 1,788,391	$ 1,801,576
Depreciable property — held and used:		
Land improvements	186,736	178,701
Building, improvements, and furniture, fixtures and equipment	7,481,166	7,291,570
Under development:		
Land and land improvements	111,028	111,028
Building, improvements, and furniture, fixtures and equipment	423,289	231,254
Real estate held for disposition:		
Land and land improvements	—	1,104
Building, improvements, and furniture, fixtures and equipment	—	520
Real estate owned	9,990,610	9,615,753
Accumulated depreciation	(3,237,588)	(2,923,625)
Real estate owned, net	$ 6,753,022	$ 6,692,128

Acquisitions

During the nine months ended September 30, 2017, the Company exercised its fixed-price option to purchase its joint venture partner's ownership interest in a 244 home operating community in Seattle, Washington, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately $66.0 million. As a result, the Company consolidated the operating community. The Company had previously accounted for its 49% ownership interest as a preferred equity investment in an unconsolidated joint venture (see Note 5, Joint Ventures and Partnerships). As a result of the consolidation, the Company increased its real estate owned by approximately $97.0 million, recorded approximately $1.7 million of in-place lease intangibles and recorded a gain on consolidation of $12.2 million, which is included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations.

On October 5, 2017, the Company acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately $141.5 million. Prior to acquiring the community, the Company had provided $93.5 million as a participating loan investment to the third-party developer and was entitled to receive, in addition to repayment of principal and interest, contingent interest equal to 50% of the sum of the amount the property was sold for less construction and closing costs, which equaled

approximately $14.9 million. As of September 30, 2017, UDR accounted for its participating loan investment as an unconsolidated joint venture (see Note 5, Joint Ventures and Partnerships). As of October 5, 2017, the Company consolidated the operating community and accounted for the consolidation as a business combination, resulting in a projected gain on consolidation of approximately $14.8 million.

Dispositions

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

Other Activity

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $2.2 million and $1.0 million for the three months ended September 30, 2017 and 2016, respectively, and $6.6 million and $5.7 million for the nine months ended September 30, 2017 and 2016, respectively. Total interest capitalized was $4.6 million and $4.1 million for the three months ended September 30, 2017 and 2016, respectively, and $14.0 million and $12.1 million for the nine months ended September 30, 2017 and 2016, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

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

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

4. VARIABLE INTEREST ENTITIES

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

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

5. JOINT VENTURES AND PARTNERSHIPS

UDR has entered into joint ventures and partnerships with unrelated third parties to acquire real estate assets that are either consolidated and included in Real estate owned on the Consolidated Balance Sheets or are accounted for under the equity method of accounting, and are included in Investment in and advances to unconsolidated joint ventures, net, on the Consolidated Balance Sheets. The Company consolidates the entities that we control as well as any variable interest entity where we are the primary beneficiary. Under the VIE model, the Company consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could

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potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest.

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

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

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

Venture	Location of Properties	Number of Properties September 30, 2017		Number of Apartment Homes September 30, 2017	Investment at September 30, 2017	Investment at December 31, 2016	UDR’s Ownership Interest September 30, 2017	UDR’s Ownership Interest December 31, 2016
ating and lopment:								
./MetLife	Los Angeles, CA	1	development community (a)	150	$ 34,404	$ 25,209	50.0 %	50.0 %
./MetLife)	Various	18	operating communities	4,059	307,410	311,282	50.0 %	50.0 %
r ./MetLife elopment Ventures	Various	2 3	operating communities; development communities (a)	1,437	140,160	160,979	50.6 %	50.6 %
./MetLife vian ®	Addison, TX	3 1 5	operating communities; development community (a); land parcels	1,513	75,608	72,414	50.0 %	50.0 %
./KFH		3		660	9,930	12,835	30.0 %	30.0 %

	Washington, D.C.	operating communities		
stment in and advances to unconsolidated ventures, net, before participating loan stment, preferred equity investments and investments			$ 567,512	$ 582,719

					Investment at		Income from investments Three Months Ended		Nine Months Ende	
			Years To	UDR	September 30,	December 31,	September 30,		September 30,	
eveloper apital rogram (c)	Location	Rate	Maturity	Commitment	2017	2016	2017	2016	2017	2016
articipating an vestment:										
teele Creek)	Denver, CO	6.5 %	0.3	$ 93,458	$ 93,983	$ 94,003	$ 1,567	$ 1,567	$ 4,650	$ 4,64
referred quity vestments:										
est Coast evelopment oint entures (e)	Various	6.5 % (c)	N/A	—	138,548	150,303	3,355	1,476	16,894	4,67
532 arrison (f)	San Francisco, CA	11.0 %	5.0	24,645	9,115	—	226	—	228	—
200 roadway (g)	Nashville, TN	8.0 %	5.0	55,558	12,894	—	65	—	65	—
ther vestments:										
ne Portals)	Washington, DC	11.0 %	4.0	38,559	17,048	—	330	—	346	—
ther vestment entures	N/A	N/A	N/A	$ 15,000	764	—	$ —	$ —	$ —	$ —
otal eveloper apital rogram					272,352	244,306				
otal investment in and advances to unconsolidated int ventures, net					$ 839,864	$ 827,025				

(a) The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes upon completion of development. As of September 30, 2017, 726 apartment homes had been completed in Other UDR/MetLife Development Joint Ventures, and no apartment homes had been completed in UDR/MetLife I or in UDR/MetLife Vitruvian Park®.

(b) In September 2015, the 717 Olympic community, which is owned by the UDR/MetLife II joint venture, experienced extensive water damage due to a ruptured water pipe. For the nine months ended September 30, 2017 and 2016, the Company recorded casualty-related charges/(recoveries) of $(0.9) million and $(3.5) million, respectively, representing its proportionate share of the total charges/(recoveries) recognized.

(c) The Developer Capital Program is the program through which the Company makes investments, including preferred equity investments, mezzanine loans or other structured investments that may receive a fixed yield on the investment and may include provisions pursuant to which the Company participates in the increase in value of the

property upon monetization of the applicable property and/or holds fixed price purchase options.

(d) On October 5, 2017, the Company acquired the Steele Creek community for a purchase price of approximately $141.5 million (see Note 3, Real Estate Owned).

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

At inception of the agreement, the Company had a fixed-price option to acquire the remaining interest in each community beginning one year after completion. If the options are exercised for all five communities, the Company's total purchase price will be $597.4 million. In the event the Company does not exercise its options to purchase at least two communities, the unaffiliated joint venture partner will be entitled to earn a contingent disposition fee equal to a 6.5% return on its implied equity in the communities not acquired. The unaffiliated joint venture partner is providing certain guaranties and there are construction loans on all five communities.

In January 2017, the Company exercised its fixed-price option to purchase the joint venture partner's ownership interest in one of the five communities, a 244 home operating community in Seattle, Washington, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately $66.0 million. As a result, the Company consolidated the operating community and it is no longer accounted for as a preferred equity investment in an unconsolidated joint venture (see Note 3, Real Estate Owned). As a result of the consolidation, the Company recorded a gain on consolidation of $12.2 million, which is included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations.

In August 2017, the joint venture sold one of the four remaining communities, a 211 home operating community in Seattle, Washington for a sales price of approximately $101.3 million. As a result, the Company recorded a gain on the sale of approximately $2.4 million, which is included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations.

As of September 30, 2017, construction was completed on two of the three remaining communities. One of the completed communities has achieved stabilization; the other completed community has not achieved stabilization and the Company continues to receive a 6.5% preferred return on its investment in that community; and the third community is still under construction and the Company continues to receive a 6.5% preferred return on its investment in that community.

In October 2017, the joint venture entered into a contract to sell the community that had achieved stabilization to an unrelated party for $148.0 million.

In March 2017 and May 2017, the Company entered into two additional joint venture agreements with the unaffiliated joint venture partner and agreed to pay $15.5 million for a 49% ownership interest in a 155 home community that is currently under construction in Seattle, Washington and $16.1 million for a 49% ownership interest in a 276 home community that is currently under construction in Hillsboro, Oregon (together with the May 2015 joint venture described above, the "West Coast Development Joint Ventures"). Consistent with the terms of the May 2015 joint venture agreement, UDR earns a 6.5% preferred return on its investments through the communities' date of stabilization, as defined above, while our joint venture partner is allocated all operating income and expense during the pre-stabilization period. Upon stabilization of the communities, income and expense

UDR, INC.

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will be shared based on each partner's ownership percentage and the Company will no longer receive a 6.5% preferred return on its investment. The Company will serve as property manager and will earn a management fee during the lease-up phase and subsequent operation of the stabilized communities. The unaffiliated joint venture partner is the general partner and the developer of the communities. The Company has concluded it does not control the joint ventures and accounts for them under the equity method of accounting.

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

The Company's recorded equity investment in the West Coast Development Joint Ventures at September 30, 2017 and December 31, 2016 of $138.5 million and $150.3 million, respectively, is inclusive of outside basis costs and our accrued but unpaid preferred return.

(f) In June 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 136 apartment home community in San Francisco, California. The Company's preferred equity investment of up to $24.6 million earns a preferred return of 11.0% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. As of September 30, 2017, the Company had contributed approximately $9.1 million to the joint venture. The Company has concluded it does not control the joint venture and accounts for it under the equity method of accounting.

(g) In September 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 313 apartment home community in Nashville, Tennessee. The Company's preferred equity investment of up to $55.6 million earns a preferred return of 8.0% per annum and receives a variable percentage of the value created from the project upon a capital or liquidating event. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. As of September 30, 2017, the Company had contributed approximately $12.9 million to the joint venture. The Company has concluded it does not control the joint venture and accounts for it under the equity method of accounting.

(h) In May 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner. The joint venture has made a mezzanine loan to a third-party developer of a 373 apartment home community in Washington, D.C. The unaffiliated joint venture partner is the managing member of the joint venture. The mezzanine loan is for up to $71.0 million at an interest rate of 13.5% per annum and carries a term of four years with one, 12-month extension option. The Company's investment commitment to the joint venture is approximately $38.6 million and earns a weighted average return rate of approximately 11.0% per annum. As of September 30, 2017, the Company had contributed approximately $17.0 million to the joint venture. The Company has concluded it does not control the joint venture and accounts for it under the equity method of accounting.

As of September 30, 2017 and December 31, 2016, the Company had deferred fees of $10.7 million and $9.5 million, respectively, which will be recognized through earnings over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees of $2.8 million and $3.0 million for the three months ended September 30, 2017 and 2016, respectively, and $8.7 million and $8.4 million for the nine months ended September 30, 2017 and 2016, respectively, for our management of the communities held by the joint ventures and partnerships. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to

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determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three and nine months ended September 30, 2017 and 2016.

Combined summary balance sheets relating to the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Total real estate, net	$ 2,925,111	$ 2,901,067
Cash and cash equivalents	37,794	32,503
Other assets	17,960	19,047
Total assets	$ 2,980,865	$ 2,952,617
Amount due to/(from) UDR	$ 2,059	$ 521
Third party debt, net	1,857,796	1,794,379
Accounts payable and accrued liabilities	68,042	66,931
Total liabilities	$ 1,927,897	$ 1,861,831
Total equity	$ 1,052,968	$ 1,091,326

Combined summary financial information relating to the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share) is presented below for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total revenues	$ 63,865	$ 60,366	$ 183,564	$ 173,556
Property operating expenses	(24,686)	(16,309)	(69,356)	(62,703)
Real estate depreciation and amortization	(25,595)	(21,260)	(73,712)	(61,973)
Operating income/(loss)	13,584	22,797	40,496	48,880
Interest expense	(19,055)	(17,176)	(55,695)	(50,360)
Other income/(expense)	—	(10)	—	(14)
Gain/(loss) on sale of real estate	—	10,262	—	10,262
Net income/(loss)	$ (5,471)	$ 15,873	$ (15,199)	$ 8,768

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6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at September 30, 2017 and December 31, 2016 (dollars in thousands):

	Principal Outstanding		As of September 30, 2017			
	September 30, 2017	December 31, 2016	Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	$ 397,482	$ 402,996	4.04	%	5.6	7
Fannie Mae credit facilities (b)	285,836	355,836	4.86	%	2.3	8
Deferred financing costs	(1,802)	(2,681)				
Total fixed rate secured debt, net	681,516	756,151	4.39	%	4.2	15
Variable Rate Debt						
Tax-exempt secured notes payable (c)	94,700	94,700	1.59	%	5.4	2
Fannie Mae credit facilities (b)	29,034	280,946	2.78	%	1.2	1
Deferred financing costs	(273)	(939)				
Total variable rate secured debt, net	123,461	374,707	1.87	%	4.4	3
Total Secured Debt, net	804,977	1,130,858	4.00	%	4.2	18
Unsecured Debt:						
Variable Rate Debt						
Borrowings outstanding under unsecured credit facility due January 2020 (d) (i)	—	—	—	%	2.3	
Borrowings outstanding under unsecured commercial paper program due October 2017 (e) (i)	285,000	—	1.45	%	0.1	
Borrowings outstanding under unsecured working capital credit facility due January 2019 (f)	40,717	21,350	2.13	%	1.3	
Term Loan Facility due January 2021 (d) (i)	35,000	35,000	2.19	%	3.3	
Fixed Rate Debt						
4.25% Medium-Term Notes due June 2018 (net of discounts of $287 and $608, respectively) (i)	299,713	299,392	4.25	%	0.7	

3.70% Medium-Term Notes due October 2020 (net of discounts of $24 and $30, respectively) (i)	299,976	299,970	3.70	%	3.0
1.98% Term Loan Facility due January 2021 (d) (i)	315,000	315,000	1.98	%	3.3
4.63% Medium-Term Notes due January 2022 (net of discounts of $1,536 and $1,805, respectively) (i)	398,464	398,195	4.63	%	4.3
3.75% Medium-Term Notes due July 2024 (net of discounts of $704 and $782, respectively) (i)	299,296	299,218	3.75	%	6.8
8.50% Debentures due September 2024	15,644	15,644	8.50	%	7.0
4.00% Medium-Term Notes due October 2025 (net of discounts of $551 and $602, respectively) (g) (i)	299,449	299,398	4.00	%	8.0
2.95% Medium-Term Notes due September 2026 (i)	300,000	300,000	2.95	%	8.9
3.50% Medium-Term Notes due July 2027 (net of discounts of $687 and $0, respectively) (h) (i)	299,313	—	3.50	%	9.8
Other	19	21			
Deferred financing costs	(13,557)	(12,568)			
Total Unsecured Debt, net	2,874,034	2,270,620	3.45	%	4.9
Total Debt, net	$ 3,679,011	$ 3,401,478	3.65	%	4.8

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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For purposes of classification of the above table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument.

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. As of September 30, 2017, secured debt encumbered $1.7 billion or 16.8% of UDR's total real estate owned based upon gross book value ($8.3 billion or 83.2% of UDR's real estate owned based on gross book value is unencumbered).

(a) At September 30, 2017, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from May 2019 through November 2026 and carry interest rates ranging from 3.15% to 5.86%.
The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par value to interest expense over the life of the underlying debt instrument.

During the three months ended September 30, 2017 and 2016, the Company had $0.7 million and $0.6 million, respectively, and during the nine months ended September 30, 2017 and 2016, the Company had $2.2 million and $2.1 million, respectively, of amortization of the fair market adjustment of debt assumed in the acquisition of properties,which was included in Interest expense on the Consolidated Statements of Operations. The unamortized fair market adjustment was a net premium of $9.0 million and $11.2 million at September 30, 2017 and December 31, 2016, respectively.

(b) UDR had two secured credit facilities with Fannie Mae with an aggregate commitment of $314.9 million at September 30, 2017. The Fannie Mae credit facilities mature at various dates from December 2018 through July 2020 and bear interest at floating and fixed rates. At September 30, 2017, $285.8 million of the outstanding balance was fixed and had a weighted average interest rate of 4.86% and the remaining balance of $29.0 million had a weighted average variable interest rate of 2.78%.
During the nine months ended September 30, 2017, the Company prepaid $275.3 million of its secured credit facilities with borrowings under the Company's unsecured commercial paper program and proceeds from the issuance of senior unsecured medium-term notes. The Company incurred prepayment costs of $0 and $5.8 million during the three and nine months ended September 30, 2017, respectively, which were included in Interest expense on the Consolidated Statements of Operations.

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

	September 30, 2017	December 31, 2016

Borrowings outstanding	$	314,870		$	636,782	
Weighted average borrowings during the period ended		450,581			737,802	
Maximum daily borrowings during the period ended		636,782			813,544	
Weighted average interest rate during the period ended		4.2	%		3.9	%
Weighted average interest rate at the end of the period		4.7	%		3.8	%

(c) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates ranging from 1.59% to 1.60% as of September 30, 2017.

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(d) The Company has a $1.1 billion unsecured revolving credit facility (the “Revolving Credit Facility”) and a $350.0 million unsecured term loan facility (the “Term Loan Facility”). The credit agreement for these facilities (the “Credit Agreement”) allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021.
Based on the Company’s current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points and a facility fee of 15 basis points, and the Term Loan Facility has an interest rate equal to LIBOR plus a margin of 95 basis points. Depending on the Company’s credit rating, the margin under the Revolving Credit Facility ranges from 85 to 155 basis points, the facility fee ranges from 12.5 to 30 basis points, and the margin under the Term Loan Facility ranges from 90 to 175 basis points.

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

The following is a summary of short-term bank borrowings under the Revolving Credit Facility at September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017		December 31, 2016	
Total revolving credit facility	$ 1,100,000		$ 1,100,000	
Borrowings outstanding at end of period (1)	—		—	
Weighted average daily borrowings during the period ended	3,040		161,505	
Maximum daily borrowings during the period ended	120,000		340,000	
Weighted average interest rate during the period ended	1.6	%	1.4	%
Interest rate at end of the period	—	%	—	%

(1) Excludes $3.3 million and $2.9 million of letters of credit at September 30, 2017 and December 31, 2016, respectively.

(e) On January 23, 2017, the Company entered into an unsecured commercial paper program. Under the terms of the program, the Company may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500.0 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of the Company’s other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership.

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The following is a summary of short-term bank borrowings under the unsecured commercial paper program at September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017		December 31, 2016	
Total unsecured commercial paper program	$ 500,000		$ —	
Borrowings outstanding at end of period	285,000		—	
Weighted average daily borrowings during the period ended	216,174		—	
Maximum daily borrowings during the period ended	340,000		—	
Weighted average interest rate during the period ended	1.4	%	—	%
Interest rate at end of the period	1.4	%	—	%

(f) The Company has a working capital credit facility, which provides for a $75.0 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 1, 2019. Based on the Company's current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin ranges from 85 to 155 basis points.
The following is a summary of short-term bank borrowings under the Working Capital Credit Facility at September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017		December 31, 2016	
Total working capital credit facility	$ 75,000		$ 75,000	
Borrowings outstanding at end of period	40,717		21,350	
Weighted average daily borrowings during the period ended	26,258		21,936	
Maximum daily borrowings during the period ended	67,799		69,633	
Weighted average interest rate during the period ended	1.9	%	1.4	%
Interest rate at end of the period	2.1	%	1.7	%

(g) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on $200.0 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.55%.
(h) On June 16, 2017, the Company issued $300.0 million of 3.50% senior unsecured medium-term notes due July 1, 2027. Interest is payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2018. The notes were priced at 99.764% of the prinicipal amount at issuance. The Company used the net proceeds for the repayment of outstanding indebtedness and for general corporate purposes.
(i) The Operating Partnership is a guarantor of this debt.

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UDR, INC.

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The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next ten calendar years subsequent to September 30, 2017 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2017	$ 1,133	$ —	$ 1,133	$ 285,000	$ 286,133
2018	4,636	29,034	33,670	300,000	333,670
2019	249,395	67,700	317,095	40,717	357,812
2020	198,076	—	198,076	300,000	498,076
2021	1,117	—	1,117	350,000	351,117
2022	1,157	—	1,157	400,000	401,157
2023	41,245	—	41,245	—	41,245
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
2026	50,000	—	50,000	300,000	350,000
Thereafter	—	27,000	27,000	300,000	327,000
Subtotal	674,359	123,734	798,093	2,891,361	3,689,454
Non-cash (a)	7,157	(273)	6,884	(17,327)	(10,443)
Total	$ 681,516	$ 123,461	$ 804,977	$ 2,874,034	$ 3,679,011

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts and deferred financing costs. For the three months ended September 30, 2017 and 2016, the Company amortized $1.1 million and $1.0 million, respectively, of deferred financing costs into Interest expense. For the nine months ended September 30, 2017 and 2016, the Company amortized $3.2 million and $3.5 million, respectively, of deferred financing costs into Interest expense.

We were in compliance with the covenants of our debt instruments at September 30, 2017.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

7. INCOME/(LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator for income/(loss) per share:				
Income/(loss) from continuing operations	$ 17,570	$ 29,466	$ 54,896	$ 50,249
Gain/(loss) on sale of real estate owned, net of tax	—	—	2,132	10,385
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,415)	(2,459)	(4,607)	(4,974)
Net (income)/loss attributable to noncontrolling interests	35	(51)	(107)	(365)
Net income/(loss) attributable to UDR, Inc.	16,190	26,956	52,314	55,295
Distributions to preferred stockholders — Series E (Convertible)	(926)	(929)	(2,784)	(2,787)
Income/(loss) attributable to common stockholders - basic and diluted	$ 15,264	$ 26,027	$ 49,530	$ 52,508
Denominator for income/(loss) per share:				
Weighted average common shares outstanding	267,577	267,081	267,492	265,854
Non-vested restricted stock awards	(521)	(780)	(552)	(841)
Denominator for basic income/(loss) per share	267,056	266,301	266,940	265,013
Incremental shares issuable from assumed conversion of stock options, unvested LTIP Units and unvested restricted stock	2,006	2,004	1,911	1,912
Denominator for diluted income/(loss) per share	269,062	268,305	268,851	266,925
Income/(loss) per weighted average common share:				
Basic	$ 0.06	$ 0.10	$ 0.19	$ 0.20
Diluted	$ 0.06	$ 0.10	$ 0.18	$ 0.20

Basic income/(loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income/(loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of the OP Units and DownREIT Units, convertible preferred stock, stock options, unvested long-term incentive plan units (“LTIP Units”), unvested restricted stock and continuous equity program forward sales agreements. Only those instruments having a dilutive impact on our basic income/(loss) per share are included in diluted income/(loss) per share during the periods.

For the three and nine months ended September 30, 2017 and 2016, the effect of the conversion of the OP Units, DownREIT Units and convertible preferred stock was not dilutive and therefore not included in the above calculation. For the three and nine months ended September 30, 2017 and 2016, the Company did not enter into any forward purchase agreements under its continuous equity program.

The following table sets forth the additional shares of common stock outstanding by equity instrument if converted to common stock for each of the three and nine months ended September 30, 2017 and 2016 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
OP/DownREIT Units	24,822	25,168	24,882	25,183
Convertible preferred stock	3,016	3,028	3,024	3,028
Stock options, unvested LTIP Units and unvested restricted stock	2,006	2,004	1,911	1,912

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

8. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership

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

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

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

Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, December 31, 2016	$ 909,482
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	57,738
Conversion of OP Units/DownREIT Units to Common Stock	(7,437)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	4,607
Distributions to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(23,667)
Vesting of Long-Term Incentive Plan Units	2,317
Allocation of other comprehensive income/(loss)	142
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, September 30, 2017	$ 943,182

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners and unvested LTIP Units in certain consolidated affiliates, and is presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. Net (income)/loss attributable to noncontrolling interests was less than $0.1 million and $(0.1) million during the three months ended September 30, 2017 and 2016, respectively, and $(0.1) million and $(0.4) million during the nine months ended September 30, 2017 and 2016, respectively.

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

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

9. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Fair value is based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level valuation hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2017 and December 31, 2016 are summarized as follows (dollars in thousands):

	Total Carrying Amount in Statement of Financial Position at September 30, 2017	Fair Value Estimate at September 30, 2017	Fair Value at September 30, 2017, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$ 18,594	$ 18,578	$ —	$ —	$ 18,578
Derivatives - Interest rate contracts (b)	4,350	4,350	—	4,350	—
Total assets	$ 22,944	$ 22,928	$ —	$ 4,350	$ 18,578
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	$ 397,482	$ 398,437	$ —	$ —	$ 398,437
Fannie Mae credit facilities	285,836	293,050	—	—	293,050
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	29,034	29,034	—	—	29,034
Unsecured debt instruments: (c)					
Working capital credit facility	40,717	40,717	—	—	40,717
Commercial paper program	285,000	285,000	—	—	285,000
Unsecured notes	2,561,874	2,623,456	—	—	2,623,456
Total liabilities	$ 3,694,643	$ 3,764,394	$ —	$ —	$ 3,764,394
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	$ 943,182	$ 943,182	$ —	$ 943,182	$ —

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

			Fair Value at December 31, 2016, Using		
Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2016	Fair Value Estimate at December 31, 2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Notes receivable (a)	$ 19,790	$ 19,645	$ —	$ —	$ 19,645
Derivatives - Interest rate contracts (b)	4,360	4,360	—	4,360	—
Total assets	$ 24,150	$ 24,005	$ —	$ 4,360	$ 19,645
Derivatives- Interest rate contracts (b)	$ 413	$ 413	$ —	$ 413	$ —
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	402,996	396,045	—	—	396,045
Fannie Mae credit facilities	355,836	365,693	—	—	365,693
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	280,946	280,946	—	—	280,946
Unsecured debt instruments: (c)					
Working capital credit facility	21,350	21,350	—	—	21,350
Unsecured notes	2,261,838	2,304,492	—	—	2,304,492
Total liabilities	$ 3,418,079	$ 3,463,639	$ —	$ 413	$ 3,463,226
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	$ 909,482	$ 909,482	$ —	$ 909,482	$ —

(a) See Note 2, Significant Accounting Policies.
(b) See Note 10, Derivatives and Hedging Activity.
(c) See Note 6, Secured Debt and Unsecured Debt, Net.
(d) See Note 8, Noncontrolling Interests.

There were no transfers into or out of any of the levels of the fair value hierarchy during the nine months ended September 30, 2017.

Financial Instruments Carried at Fair Value

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

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of

its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2017 and December 31, 2016, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership have a redemption feature and are marked to their redemption value. The redemption value is based on the fair value of the Company's common stock at the redemption date, and therefore, is calculated based on the fair value of the Company's common stock at the balance sheet date. Since the valuation is based on observable inputs such as quoted prices for similar instruments in active markets, redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership are classified as Level 2.

Financial Instruments Not Carried at Fair Value

At September 30, 2017 and December 31, 2016, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the 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

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September 30, 2017

did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three and nine months ended September 30, 2017 and 2016.

After determining an other-than-temporary decrease in the value of an equity method investment has occurred, we estimate the fair value of our investment by estimating the proceeds we would receive upon a hypothetical liquidation of the investment at the date of measurement. Inputs reflect management’s best estimate of what market participants would use in pricing the investment giving consideration to the terms of the joint venture agreement and the estimated discounted future cash flows to be generated from the underlying joint venture assets. The inputs and assumptions utilized to estimate the future cash flows of the underlying assets are based upon the Company’s evaluation of the economy, market trends, operating results, and other factors, including judgments regarding costs to complete any construction activities, lease up and occupancy rates, rental rates, inflation rates, capitalization rates utilized to estimate the projected cash flows at the disposition, and discount rates.

10. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2017 and 2016, 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 September 30, 2017, the Company recorded no

ineffectiveness to earnings and during the nine months ended September 30, 2017, recognized a loss of $0.1 million reclassified from Accumulated OCI to Interest expense due to the de-designation of cash flow hedges. During the three and nine months ended September 30, 2016, the Company recorded no ineffectiveness to earnings.

Amounts reported in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets related to derivatives that will be reclassified to interest expense as interest payments are made on the Company's

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

variable-rate debt. Through September 30, 2018, the Company estimates that an additional $0.2 million will be reclassified as a decrease to interest expense.

As of September 30, 2017, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollars in thousands):

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

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a loss of less than $0.1 million for the three and nine months ended September 30, 2017 and 2016.

As of September 30, 2017, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	3	$ 271,076

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	Asset Derivatives (included in Other assets) Fair Value at:		Liability Derivatives (included in Other liabilities) Fair Value at:	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:				
Interest rate products	$ 4,350	$ 4,359	$ —	$ 413
Derivatives not designated as hedging instruments:				

Interest rate products	$ —	$ 1	$ —	$ —

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)		Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2017	2016	2017	2016	2017	2016
Three Months Ended September 30,						
Interest rate products	$ 131	$ 1,090	$ (119)	$ (914)	$ —	$ —
Nine Months Ended September 30,						
Interest rate products	$ 256	$ (1,684)	$ (1,192)	$ (2,792)	$ (136)	$ —

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
	2017	2016
Three Months Ended September 30,		
Interest rate products	$ —	$ (1)
Nine Months Ended September 30,		
Interest rate products	$ (1)	$ (4)

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 September 30, 2017 and December 31, 2016, 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 applicable agreement.

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

As of September 30, 2017, the fair value of derivatives was in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, of $4.4 million. As of September 30, 2017, the Company has not posted any collateral related to these agreements.

Tabular Disclosure of Offsetting Derivatives

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 September 30, 2017 and December 31, 2016 (dollars in thousands):

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
September 30, 2017	$ 4,350	$ —	$ 4,350	$ —	$ —	$ 4,350
December 31, 2016	$ 4,360	$ —	$ 4,360	$ (221)	$ —	$ 4,139

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

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Posted	Net Amount
September 30, 2017	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2016	$ 413	$ —	$ 413	$ (221)	$ —	$ 192

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

11. STOCK BASED COMPENSATION

The Company recognized stock based compensation expense, inclusive of awards granted to our independent directors, net of capitalization, of $3.3 million and $3.5 million during the three months ended September 30, 2017 and 2016, respectively, and $10.1 million and $10.5 million during the nine months ended September 30, 2017 and 2016, respectively.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

12. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Company’s real estate commitments at September 30, 2017 (dollars in thousands):

	Number of Properties	Costs Incurred to Date (a)		Expected Costs to Complete		Average Ownership Stake	
Wholly-owned — under development	2	$ 534,317	(b)	$ 182,183		100	%
Wholly-owned — redevelopment	1	8,006	(b)	1,494		100	%
Joint ventures:							
Unconsolidated joint ventures	5	463,682		36,263	(c)	50	%
Participating loan investments	1	93,983	(d)	—		—	%
Preferred equity investments	5	80,143	(e)	58,194	(f)	48	% (g)
Other investments	1	17,812		35,747	(h)	—	%
Total		$ 1,197,943		$ 313,881			

(a) Represents 100% of project costs incurred as of September 30, 2017.
(b) Costs incurred as of September 30, 2017 include $38.3 million and $1.5 million of accrued fixed assets for development and redevelopment, respectively.
(c) Represents UDR’s proportionate share of expected remaining costs to complete the developments.
(d) Represents the participating loan balance funded as of September 30, 2017. On October 5, 2017, the Company acquired the Steele Creek community for a purchase price of approximately $141.5 million (see Note 3, Real Estate Owned).
(e) Represents UDR’s investment in the West Coast Development Joint Ventures, 1532 Harrison and 1200 Broadway for the properties under development as of September 30, 2017.
(f) Represents UDR’s remaining commitment for 1532 Harrison and 1200 Broadway.
(g) Represents UDR’s average ownership stake in the West Coast Development Joint Ventures only and does not include UDR’s preferred equity interest in 1532 Harrison and 1200 Broadway.
(h) Represents UDR’s remaining commitment for The Portals and other investment 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

13. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. UDR's chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

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

- Same-Store Communities represent those communities acquired, developed, and stabilized prior to July 1, 2016 (for quarter-to-date comparison) and January 1, 2016 (for year-to-date comparison) and held as of September 30, 2017. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.
- Non-Mature Communities/Other represent those communities that do not meet the criteria to be included in Same-Store Communities, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the three and nine months ended September 30, 2017 and 2016.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

The following table details rental income and NOI for UDR's reportable segments for the three and nine months ended September 30, 2017 and 2016, and reconciles NOI to Net Income/(Loss) Attributable to UDR, Inc. in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended September 30, (a)		Nine Months Ended September 30, (b)	
	2017	2016	2017	2016
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$ 84,287	$ 80,975	$ 249,730	$ 238,948
Mid-Atlantic Region	57,061	55,903	157,010	152,661
Northeast Region	38,162	37,211	113,814	110,420
Southeast Region	29,297	28,150	87,103	82,989
Southwest Region	10,816	10,453	32,181	30,815
Non-Mature Communities/Other	28,641	27,563	94,355	92,547
Total segment and consolidated rental income	$ 248,264	$ 240,255	$ 734,193	$ 708,380
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$ 62,939	$ 61,510	$ 187,493	$ 179,473
Mid-Atlantic Region	39,479	37,958	108,965	104,150
Northeast Region	26,100	26,379	80,151	79,721
Southeast Region	20,712	18,882	60,432	56,759
Southwest Region	6,429	6,415	19,722	19,090
Non-Mature Communities/Other	19,062	19,212	64,064	62,612
Total segment and consolidated NOI	174,721	170,356	520,827	501,805
Reconciling items:				
Joint venture management and other fees	2,827	2,997	8,718	8,473
Property management	(6,827)	(6,607)	(20,190)	(19,480)
Other operating expenses	(1,950)	(1,636)	(6,010)	(5,280)
Real estate depreciation and amortization	(107,171)	(105,802)	(320,653)	(317,078)
General and administrative	(12,467)	(11,826)	(36,976)	(36,505)
Casualty-related (charges)/recoveries, net	(2,056)	(205)	(3,749)	(1,834)
Other depreciation and amortization	(1,585)	(1,526)	(4,760)	(4,565)
Income/(loss) from unconsolidated entities	1,819	15,285	11,591	16,289
Interest expense	(30,095)	(31,954)	(94,500)	(93,736)
Interest income and other income/(expense), net	481	478	1,423	1,449
Tax (provision)/benefit, net	(127)	(94)	(825)	711
Gain/(loss) on sale of real estate owned, net of tax	—	—	2,132	10,385
	(1,415)	(2,459)	(4,607)	(4,974)

Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership				
Net (income)/loss attributable to noncontrolling interests	35	(51)	(107)	(365)
Net income/(loss) attributable to UDR, Inc.	$ 16,190	$ 26,956	$ 52,314	$ 55,295

(a) Same-Store Community population consisted of 36,540 apartment homes.
(b) Same-Store Community population consisted of 35,689 apartment homes.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

September 30, 2017

The following table details the assets of UDR's reportable segments as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	$ 2,964,637	$ 2,938,073
Mid-Atlantic Region	2,440,929	2,427,948
Northeast Region	1,863,595	1,857,193
Southeast Region	757,135	746,762
Southwest Region	289,123	283,260
Non-Mature Communities/Other	1,675,191	1,362,517
Total segment assets	9,990,610	9,615,753
Accumulated depreciation	(3,237,588)	(2,923,625)
Total segment assets — net book value	6,753,022	6,692,128
Reconciling items:		
Cash and cash equivalents	1,788	2,112
Restricted cash	20,413	19,994
Notes receivable, net	18,594	19,790
Investment in and advances to unconsolidated joint ventures, net	839,864	827,025
Other assets	127,024	118,535
Total consolidated assets	$ 7,760,705	$ 7,679,584

Capital expenditures related to our Same-Store Communities totaled $24.8 million and $25.5 million for the three months ended September 30, 2017 and 2016, respectively, and $63.8 million and $62.0 million for the nine months ended September 30, 2017 and 2016, respectively. Capital expenditures related to our Non-Mature Communities/Other totaled $0.8 million and $1.5 million for the three months ended September 30, 2017 and 2016, respectively, and $3.1 million and $6.5 million for the nine months ended September 30, 2017 and 2016, respectively.

Markets included in the above geographic segments are as follows:

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

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for unit data)

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 3,708,050	$ 3,674,704
Less: accumulated depreciation	(1,520,305)	(1,408,815)
Total real estate owned, net of accumulated depreciation	2,187,745	2,265,889
Cash and cash equivalents	222	756
Restricted cash	12,608	11,694
Investment in unconsolidated entities	85,783	112,867
Other assets	30,634	24,329
Total assets	$ 2,316,992	$ 2,415,535
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	$ 159,805	$ 433,974
Notes payable due to the General Partner	273,334	273,334
Real estate taxes payable	10,854	2,104
Accrued interest payable	606	1,410
Security deposits and prepaid rent	14,267	14,593
Distributions payable	57,028	54,192
Accounts payable, accrued expenses, and other liabilities	12,490	17,429
Total liabilities	528,384	797,036
Commitments and contingencies (Note 10)		
Capital:		
Partners’ capital:		
General partner:		
110,883 OP Units outstanding at September 30, 2017 and December 31, 2016	952	1,026
Limited partners:		
183,240,041 and 183,167,815 OP Units outstanding at September 30, 2017 and December 31, 2016, respectively	1,457,663	1,577,289
Accumulated other comprehensive income/(loss), net	—	(113)
Total partners’ capital	1,458,615	1,578,202
Advances (to)/from the General Partner	308,294	19,659
Noncontrolling interests	21,699	20,638
Total capital	1,788,608	1,618,499
Total liabilities and capital	$ 2,316,992	$ 2,415,535

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES:				
Rental income	$ 105,253	$ 102,595	$ 311,946	$ 302,273
OPERATING EXPENSES:				
Property operating and maintenance	17,196	17,160	50,039	49,058
Real estate taxes and insurance	11,496	10,739	33,269	31,309
Property management	2,894	2,821	8,578	8,313
Other operating expenses	1,572	1,509	5,248	4,528
Real estate depreciation and amortization	37,057	36,925	113,167	110,769
General and administrative	4,134	4,631	13,760	13,896
Casualty-related (recoveries)/charges, net	(43)	14	1,701	479
Total operating expenses	74,306	73,799	225,762	218,352
Operating income	30,947	28,796	86,184	83,921
Income/(loss) from unconsolidated entities	(4,782)	(9,463)	(14,556)	(32,880)
Interest expense	(2,002)	(4,395)	(16,159)	(13,472)
Interest expense on note payable due to the General Partner	(3,053)	(3,053)	(9,159)	(9,159)
Net income/(loss)	21,110	11,885	46,310	28,410
Net (income)/loss attributable to noncontrolling interests	(374)	(368)	(1,067)	(1,062)
Net income/(loss) attributable to OP unitholders	$ 20,736	$ 11,517	$ 45,243	$ 27,348
Net income/(loss) per weighted average OP Unit - basic and diluted:	$ 0.11	$ 0.06	$ 0.25	$ 0.15
Weighted average OP Units outstanding - basic and diluted	183,351	183,279	183,342	183,279

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income/(loss)	$ 21,110	$ 11,885	$ 46,310	$ 28,410
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	—	(1)	—	(4)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	—	3	106	6
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	—	2	106	2
Comprehensive income/(loss)	21,110	11,887	46,416	28,412
Comprehensive (income)/loss attributable to noncontrolling interests	(374)	(368)	(1,067)	(1,062)
Comprehensive income/(loss) attributable to OP unitholders	$ 20,736	$ 11,519	$ 45,349	$ 27,350

See accompanying notes to consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

(In thousands)

(Unaudited)

	Class A Limited Partner	Limited Partners and LTIP Units	UDR, Inc Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss), net	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
ance at cember 31, 2016	$ 63,901	$ 269,928	$ 1,243,460	$ 1,026	$ (113)	$ 1,578,202	$ 19,659	$ 20,638	$ 1,618,4
: income/(loss)	432	1,819	42,964	28	—	45,243	—	1,067	46,310
tributions	(1,746)	(7,280)	(161,942)	(102)	—	(171,070)	—	—	(171,07
Unit emptions for nmon shares of)R	—	(288)	288	—	—	—	—	—	—
justment to ect limited tners' capital at emption value	4,029	9,652	(13,681)	—	—	—	—	—	—
ng-Term entive Plan Unit nts	—	6,127	—	—	—	6,127	—	—	6,127
realized n/(loss) on ivative financial estments	—	—	—	—	113	113	—	(6)	107
: change in ances (to)/from General Partner	—	—	—	—	—	—	288,635	—	288,63
ance at otember 30, 2017	$ 66,616	$ 279,958	$ 1,111,089	$ 952	$ —	$ 1,458,615	$ 308,294	$ 21,699	$ 1,788,6

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2017	2016
Operating Activities		
Net income/(loss)	$ 46,310	$ 28,410
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	113,167	110,769
(Income)/loss from unconsolidated entities	14,556	32,880
Other	7,120	1,270
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(1,930)	(1,894)
Increase/(decrease) in operating liabilities	3,363	7,911
Net cash provided by/(used in) operating activities	182,586	179,346
Investing Activities		
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(42,818)	(49,937)
Distributions received from unconsolidated entities	12,528	11,920
Net cash provided by/(used in) investing activities	(30,290)	(38,017)
Financing Activities		
Advances (to)/from the General Partner, net	135,155	(93,829)
Proceeds from the issuance of secured debt	—	10,109
Payments on secured debt	(275,345)	(52,723)
Distributions paid to partnership unitholders	(8,627)	(7,944)
Other	(4,013)	—
Net cash provided by/(used in) financing activities	(152,830)	(144,387)
Net increase/(decrease) in cash and cash equivalents	(534)	(3,058)
Cash and cash equivalents, beginning of period	756	3,103
Cash and cash equivalents, end of period	$ 222	$ 45
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 20,983	$ 16,900
Non-cash transactions:		
Development costs and capital expenditures incurred but not yet paid	4,027	7,371
LTIP Unit grants	6,127	2,979
Dividends declared but not yet paid	57,028	54,193

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

1. CONSOLIDATION AND BASIS OF PRESENTATION

Basis of Presentation

United Dominion Realty, L.P. ("UDR, L.P.," the "Operating Partnership," "we" or "our") is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. ("UDR" or the "General Partner"), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three months ended September 30, 2017 and 2016, rental revenues of the Operating Partnership represented 42% and 43%, respectively, and for the nine months ended September 30, 2017 and 2016, 42% and 43%, respectively, of the General Partner's consolidated rental revenues. As of September 30, 2017, the Operating Partnership's apartment portfolio consisted of 54 communities located in 14 markets consisting of 16,698 apartment homes.

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

As of September 30, 2017, there were 183,350,924 OP Units outstanding, of which 174,237,688, or 95.0%, were owned by UDR and affiliated entities and 9,113,236, or 5.0%, were owned by non-affiliated limited partners. See Note 9, Capital Structure.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2017, and results of operations for the three and nine months ended September 30, 2017 and 2016 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2016 included in the Annual Report on Form 10 K filed by UDR and the Operating Partnership with the SEC on February 21, 2017.

The accompanying interim unaudited consolidated statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP"). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the interim

unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All intercompany accounts and transactions have been eliminated in consolidation.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities. The purpose of ASU is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The updated standard will be effective for the Operating Partnership on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU is permitted. The Operating Partnership does not expect the updated standard to have a material impact on the consolidated financial statements and related disclosures.

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

In November 2016, the FASB issued ASU 2016 18, Statement of Cash Flows (Topic 230), Restricted Cash. The ASU addresses the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard will be effective for the Operating Partnership on January 1, 2018 and must be applied retrospectively to all periods presented; however, early adoption of the ASU is permitted. The Operating Partnership does not expect the updated standard to have a material impact on the consolidated financial statements and related disclosures will be updated pursuant the requirements of the ASU.

In August 2016, the FASB issued ASU 2016 15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The ASU addresses specific cash flow items with the objective of reducing existing diversity in practice, including the treatment of distributions received from equity method investees. The updated standard will be effective for the Operating Partnership on January 1, 2018 and must be applied retrospectively to all periods presented; however, early adoption of the ASU is permitted. The Operating Partnership elected to early adopt ASU 2016 15 in 2016. The adoption did not have an impact on the Operating Partnership's consolidated financial statements and related disclosures.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

retrospective application is prohibited. The standard will be effective for the Operating Partnership on January 1, 2019; however, early adoption of the ASU is permitted. While the Operating Partnership is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, we expect to adopt the guidance on its effective date, at which time we will recognize right-of-use assets and related lease liabilities on our consolidated balance sheets related to ground leases on any communities where we are the lessee.

In May 2014, the FASB issued ASU No. 2014 09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, including industry-specific revenue guidance. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method and will be effective for the Operating Partnership on January 1, 2018, at which time the Operating Partnership expects to adopt the updated standard using the modified retrospective approach. However, as the majority of the Operating Partnership's revenue is from rental income related to leases, the Operating Partnership does not expect the ASU to have a material impact on the consolidated financial statements and related disclosures will be updated pursuant the requirements of the ASU.

Principles of Consolidation

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

Discontinued Operations

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

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

Income/(Loss) Per Operating Partnership Unit

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

the income/(loss) of the Operating Partnership.

Revenue and Real Estate Sales Gain Recognition

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

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

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

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to unitholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and nine months ended September 30, 2017 and 2016, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 8, Derivatives and Hedging Activity, for further discussion.

Income Taxes

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

The Operating Partnership evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Operating Partnership's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the

more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Management of the Operating Partnership is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. The Operating Partnership has no examinations in progress and none are expected at this time.

Management of the Operating Partnership has reviewed all open tax years (2013 through 2016) of tax jurisdictions and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. At September 30, 2017, the Operating Partnership owned and consolidated 54 communities in eight states plus the District of Columbia totaling 16,698 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Land	$ 816,031	$ 836,644
Depreciable property — held and used:		
Buildings, improvements, and furniture, fixtures and equipment	2,892,019	2,838,060
Real estate owned	3,708,050	3,674,704
Accumulated depreciation	(1,520,305)	(1,408,815)
Real estate owned, net	$ 2,187,745	$ 2,265,889

The Operating Partnership did not have any acquisitions or sales of real estate during the nine months ended September 30, 2017.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Operating Partnership capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were less than $0.1 million and $0.1 million for the three months ended September 30, 2017 and 2016, respectively, and $0.4 million and $0.7 million for the nine months ended September 30, 2017 and 2016, respectively. Total interest capitalized was less than $0.1 million for the three months ended September 30, 2017 and 2016, and less than $0.1 million and $0.2 million for the nine months ended September 30, 2017 and 2016, respectively. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

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

Code.

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

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September 30, 2017

4. UNCONSOLIDATED ENTITIES

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

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

As of September 30, 2017, the DownREIT Partnership owned 13 communities with 6,261 apartment homes. The Operating Partnership's investment in the DownREIT Partnership was $85.8 million and $112.9 million as of September 30, 2017 and December 31, 2016, respectively.

Combined summary balance sheets relating to all of the DownREIT Partnership (not just our proportionate share) are presented below as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Total real estate, net	$ 1,375,037	$ 1,413,983
Cash and cash equivalents	40	66
Note receivable from the General Partner	126,500	126,500
Other assets	4,448	4,843
Total assets	$ 1,506,025	$ 1,545,392
Secured debt, net	$ 439,042	$ 443,607
Other liabilities	28,969	27,571
Total liabilities	468,011	471,178
Total capital	1,038,014	1,074,214
Total liabilities and capital	$ 1,506,025	$ 1,545,392

Combined summary financial information relating to all of the DownREIT Partnership (not just our proportionate share) is presented below for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental income	$ 33,883	$ 33,004	$ 100,809	$ 97,267

Property operating expenses	(13,974)	(14,232)	(41,589)	(42,122)
Real estate depreciation and amortization	(21,135)	(30,704)	(62,651)	(91,065)
Operating income/(loss)	(1,226)	(11,932)	(3,431)	(35,920)
Interest expense	(3,657)	(3,518)	(10,830)	(10,783)
Interest income on note receivable from the General Partner	1,192	1,192	3,525	3,551
Net income/(loss)	$ (3,691)	$ (14,258)	$ (10,736)	$ (43,152)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

5. DEBT, NET

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	Principal Outstanding		As of September 30, 2017			
	September 30, 2017	December 31, 2016	Weighted Average Interest Rate		Weighted Average Years to Maturity	Communities Encumbered
Fixed Rate Debt						
Fannie Mae credit facilities	$ 133,205	$ 244,912	5.28	%	2.1	4
Deferred financing costs	(320)	(1,070)				
Total fixed rate secured debt, net	132,885	243,842	5.28	%	2.1	4
Variable Rate Debt						
Tax-exempt secured note payable	27,000	27,000	1.60	%	14.5	1
Fannie Mae credit facilities	—	163,637	—	%	—	—
Deferred financing costs	(80)	(505)				
Total variable rate secured debt, net	26,920	190,132	1.60	%	14.5	1
Total Secured Debt, Net	$ 159,805	$ 433,974	4.97	%	4.2	5

As of September 30, 2017, an aggregate commitment of $133.2 million of the General Partner’s secured credit facilities with Fannie Mae was owed by the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at September 30, 2017. The portions of the Fannie Mae credit facilities owed by the Operating Partnership mature at various dates from October 2019 through December 2019 and bear interest at fixed rates. At September 30, 2017, the entire outstanding balance was fixed and had a weighted average interest rate of 5.28%.

During the nine months ended September 30, 2017, $275.3 million of the Fannie Mae credit facilities owed by the Operating Partnership were prepaid. The Operating Partnership incurred prepayment costs of $0 and $5.8 million during the three and nine months ended September 30, 2017, respectively, which were included in Interest expense on the Consolidated Statements of Operations.

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

	September 30,	December 31,

	2017		2016	
Borrowings outstanding	$ 133,205		$ 408,549	
Weighted average borrowings during the period ended	253,394		414,759	
Maximum daily borrowings during the period ended	408,549		421,001	
Weighted average interest rate during the period ended	4.5	%	3.9	%
Interest rate at the end of the period	5.3	%	4.0	%

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Operating Partnership did

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

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

Fixed Rate Debt

At September 30, 2017, the General Partner had borrowings against its fixed rate facilities of $285.8 million, of which $133.2 million was owed by the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2017, the fixed rate Fannie Mae credit facilities owed by the Operating Partnership had a weighted average fixed interest rate of 5.28%.

Variable Rate Debt

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures March 2032. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 1.60% as of September 30, 2017.

Secured credit facilities. At September 30, 2017, the General Partner had borrowings against its variable rate facilities of $29.0 million, none of which was owed by the Operating Partnership based on the ownership of the assets securing the debt.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next ten calendar years subsequent to September 30, 2017 are as follows (dollars in thousands):

	Fixed	Variable	
Year	Secured Credit Facilities	Tax-Exempt Secured Notes Payable	Total
2017	$ —	$ —	$ —
2018	—	—	—
2019	133,205	—	133,205
2020	—	—	—
2021	—	—	—
2022	—	—	—
2023	—	—	—
2024	—	—	—
2025	—	—	—
2026	—	—	—
Thereafter	—	27,000	27,000
Subtotal	133,205	27,000	160,205
Non-cash (a)	(320)	(80)	(400)
Total	$ 132,885	$ 26,920	$ 159,805

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended September 30, 2017 and 2016, the Operating Partnership amortized less than $0.1 million and $0.1 million, respectively, and $0.3 million and $0.4 million for the nine months ended September 30, 2017 and 2016, respectively, of deferred financing costs into Interest expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of $1.1 billion and unsecured commercial paper program with an aggregate borrowing capacity of $500 million, $300 million of medium-term notes due June 2018, $300 million of medium-term notes due October 2020, a $350 million term loan facility due January 2021, $400 million of medium-term notes due January 2022, $300 million of medium-term notes due July 2024, $300 million of medium-term notes due October 2025, $300 million of medium-term notes due September 2026 and $300 million of medium-term notes due July 2027. As of September 30, 2017 and December 31, 2016, the General Partner did not have an outstanding balance under the unsecured revolving credit facility and had $285.0 million and $0, respectively, outstanding under its unsecured commercial paper program.

6. RELATED PARTY TRANSACTIONS

Advances (To)/From the General Partner

The Operating Partnership participates in the General Partner's central cash management program, wherein all the Operating Partnership's cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net Advances (to)/from the General Partner of $308.3 million and $19.7 million at September 30, 2017 and December 31, 2016, respectively, which are reflected as increases/(decreases) of capital on the Consolidated Balance Sheets.

Allocation of General and Administrative Expenses

The General Partner shares various general and administrative costs, employees and other overhead costs with the Operating Partnership including legal assistance, acquisitions analysis, marketing, human resources, IT, accounting, rent, supplies and advertising, and allocates these costs to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on the reasonably anticipated benefits to the parties. The general and administrative expenses allocated to the Operating Partnership by UDR were $2.7 million and $4.3 million during the three months ended September 30, 2017 and 2016, respectively, and $10.8 million and $11.8 million during the nine months ended September 30, 2017 and 2016, respectively, and are included in General and administrative on the Consolidated Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the three months ended September 30, 2017 and 2016, the Operating Partnership reimbursed the General Partner $4.4 million and $3.1 million, respectively, and during the nine months ended September 30, 2017 and 2016, the Operating Partnership reimbursed the General Partner $11.5 million and $10.4 million, respectively, for shared services related to corporate level property management costs incurred by the General Partner. These shared costs reimbursements and related party management fees are initially recorded within the line item General and administrative on the Consolidated Statements of Operations, and a portion related to management costs is reclassified to Property management on the Consolidated Statements of Operations. (See further discussion below.)

Shared Services/Management Fee

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

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

Notes Payable to the General Partner

As of both September 30, 2017 and December 31, 2016, the Operating Partnership had $273.3 million of unsecured notes payable to the General Partner at annual interest rates between 4.12% and 5.34%. Certain limited partners of the Operating Partnership have provided guarantees or reimbursement agreements related to these notes payable. The guarantees were provided by the limited partners in conjunction with their contribution of properties to the Operating Partnership. The notes mature on August 31, 2021, December 31, 2023 and April 1, 2026, and interest payments are made monthly. The Operating Partnership recognized interest expense on the notes payable of $3.1 million during both the three months ended September 30, 2017 and 2016 and $9.2 million during both the nine months ended September 30, 2017 and 2016.

7. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Fair value is based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level valuation hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

September 30, 2017

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2017 and December 31, 2016 are summarized as follows (dollars in thousands):

			Fair Value at September 30, 2017, Using		
	Total Carrying Amount in Statement of Financial Position at September 30, 2017	Fair Value Estimate at September 30, 2017	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Secured debt instruments - fixed rate: (a)					
Fannie Mae credit facilities	$ 133,205	$ 137,663	$ —	$ —	$ 137,663
Secured debt instruments - variable rate: (a)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Total liabilities	$ 160,205	$ 164,663	$ —	$ —	$ 164,663

			Fair Value at December 31, 2016, Using		
	Total Carrying Amount in Statement of Financial Position at December 31, 2016	Fair Value Estimate at December 31, 2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives - Interest rate contracts (b)	$ 1	$ 1	$ —	$ 1	$ —
Total assets	$ 1	$ 1	$ —	$ 1	$