

UDR, Inc.
Form 10-Q
October 31, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from to

Commission file number

1-10524 (UDR, Inc.)

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

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

Maryland (UDR, Inc.)

54-0857512

Delaware (United Dominion Realty, L.P.)

54-1776887

(State or other jurisdiction of

(I.R.S. Employer

incorporation of organization)

Identification No.)

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

(Address of principal executive offices) (zip code)

(720) 283-6120

(Registrant's telephone number, including area code)

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

UDR, Inc.

Yes x No o

United Dominion Realty, L.P.

Yes x No o

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

UDR, Inc.

Yes x No o

United Dominion Realty, L.P.

Yes x No o

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

UDR, Inc.

Yes No

United Dominion Realty, L.P.

Yes No

The number of shares of UDR, Inc.'s common stock, \$0.01 par value, outstanding as of October 26, 2012 was 250,136,594.

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UNITED DOMINION REALTY, L.P.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2012 of UDR, Inc. a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as “OP Units” and the holders of the OP Units are referred to as “unitholders”. This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

There are a number of differences between our company and our operating partnership, which are reflected in our disclosure in this report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its subsidiary RE³, whose activities include development of land. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding securities of UDR.

As of September 30, 2012, UDR owned 110,883 units of the general partnership interests of the Operating Partnership and 174,767,502 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership (the “OP Units”). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$7,495,985	\$7,269,347
Less: accumulated depreciation	(1,842,520)	(1,605,090)
Real estate held for investment, net	5,653,465	5,664,257
Real estate under development (net of accumulated depreciation of \$0 and \$570)	355,465	246,229
Real estate sold or held for sale (net of accumulated depreciation of \$0 and \$226,067)	—	332,258
Total real estate owned, net of accumulated depreciation	6,008,930	6,242,744
Cash and cash equivalents	82,377	12,503
Restricted cash	25,091	24,634
Deferred financing costs, net	26,810	30,068
Notes receivable, net	63,998	—
Investment in unconsolidated joint ventures	579,338	213,040
Other assets	124,358	198,365
Total assets	\$6,910,902	\$6,721,354
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	\$1,439,762	\$1,891,553
Unsecured debt	1,902,953	2,026,817
Real estate taxes payable	26,414	13,397
Accrued interest payable	29,498	23,208
Security deposits and prepaid rent	38,737	35,516
Distributions payable	57,916	51,019
Deferred fees and gains on the sale of depreciable property	29,458	29,100
Accounts payable, accrued expenses, and other liabilities	97,164	95,485
Total liabilities	3,621,902	4,166,095
Redeemable non-controlling interests in operating partnership	233,379	236,475
Equity		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2011)	46,571	46,571
0 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (3,264,362 shares at December 31, 2011)	—	81,609
Common stock, \$0.01 par value; 350,000,000 shares authorized 250,136,597 shares issued and outstanding (219,650,225 shares at December 31, 2011)	2,501	2,197
Additional paid-in capital	4,098,089	3,340,470
Distributions in excess of net income	(1,082,458)	(1,142,895)
Accumulated other comprehensive loss, net	(13,073)	(13,902)
Total stockholders' equity	3,051,630	2,314,050
Non-controlling interest	3,991	4,734

Total equity	3,055,621	2,318,784
Total liabilities and equity	\$6,910,902	\$6,721,354
See accompanying notes to consolidated financial statements.		

UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES				
Rental income	\$181,766	\$163,859	\$531,483	\$452,308
Non-property income:				
Other income	4,555	5,229	11,461	12,618
Total revenues	186,321	169,088	542,944	464,926
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	22,633	19,949	65,079	55,113
Personnel	14,479	12,153	41,648	36,541
Utilities	9,641	8,898	27,682	24,495
Repair and maintenance	8,660	8,869	25,994	23,914
Administrative and marketing	4,059	2,958	11,511	9,515
Property management	4,998	4,507	14,615	12,439
Other operating expenses	1,467	1,495	4,284	4,473
Real estate depreciation and amortization	88,223	85,835	260,604	235,958
Interest:				
Expense incurred	31,837	39,616	108,409	111,656
Amortization of convertible debt discount	—	359	—	1,077
Other debt charges/(benefits), net	8	(7	) (277	) 4,052
General and administrative	10,022	11,860	33,139	35,251
Other depreciation and amortization	1,078	983	3,013	3,012
Total expenses	197,105	197,475	595,701	557,496
Loss from operations	(10,784	) (28,387	) (52,757	) (92,570
Loss from unconsolidated entities	(719	) (1,580	) (5,822	) (4,260
Tax benefit/(expense) of taxable REIT subsidiary	2,960	(59	) 28,654	(173
Loss from continuing operations	(8,543	) (30,026	) (29,925	) (97,003
(Loss)/income from discontinued operations, net of tax	(1,133	) 16,240	263,183	69,470
Net (loss)/income	(9,676	) (13,786	) 233,258	(27,533
Net loss/(income) attributable to redeemable non-controlling interests in OP	687	581	(8,644	) 1,192
Net income attributable to non-controlling interests	(42	) (46	) (137	) (134
Net (loss)/income attributable to UDR, Inc.	(9,031	) (13,251	) 224,477	(26,475
Distributions to preferred stockholders — Series E (Convertible)	(931	) (931	) (2,793	) (2,793
Distributions to preferred stockholders — Series G	—	(1,377	) (2,286	) (4,210
Premium on preferred stock redemption or repurchases, net	—	—	(2,791	) (175
Net (loss)/income attributable to common stockholders	\$ (9,962	) \$ (15,559	) \$ 216,607	\$ (33,653
Earnings per weighted average common share — basic and diluted:				
Loss from continuing operations attributable to common stockholders	\$ (0.04) \$ (0.15) \$ (0.20) \$ (0.53
Income from discontinued operations	\$ 0.00	\$ 0.08	\$ 1.12	\$ 0.35

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Net (loss)/income attributable to common stockholders	\$ (0.04)	\$ (0.07)	\$ 0.92	\$ (0.17)
Common distributions declared per share	\$ 0.220	\$ 0.200	\$ 0.660	\$ 0.585
Weighted average number of common shares outstanding — basic and diluted	249,825	213,816	235,173	195,723

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss)/income	\$ (9,676)	\$ (13,786)	\$ 233,258	\$ (27,533)
Other comprehensive income/(loss):				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding loss	(1,355)	(7,845)	(4,847)	(15,748)
Loss reclassified into earnings from other comprehensive income	1,925	2,503	5,677	6,853
Other comprehensive income - marketable securities:				
Gain reclassified into earnings from other comprehensive income	—	—	—	(3,492)
Other comprehensive income/(loss)	570	(5,342)	830	(12,387)
Comprehensive (loss)/income	(9,106)	(19,128)	234,088	(39,920)
Comprehensive (loss)/income attributable to non-controlling interests	(606)	(735)	8,782	(1,487)
Comprehensive (loss)/income attributable to UDR, Inc.	\$ (8,500)	\$ (18,393)	\$ 225,306	\$ (38,433)

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except share and per share data)

(Unaudited)

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interest	Controlling Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2011	6,068,174	\$ 128,180	219,650,225	\$ 2,197	\$ 3,340,470	\$(1,142,895)	\$(13,902)	\$ 4,734	\$ 2,318,778
Net income	—	—	—	—	—	224,477	—	—	224,477
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	137	137
Other comprehensive loss	—	—	—	—	—	—	829	—	829
Issuance/(forfeiture) of common and restricted shares, net	—	—	(23,037)	—	(1,583)	—	—	—	(1,583)
Issuance of common shares through public offering	—	—	30,490,969	305	755,931	—	—	—	756,236
Redemption of 3,264,362 shares of 6.75% Series G Cumulative Redeemable Shares	(3,264,362)	(81,609)	—	—	2,791	(2,791)	—	—	(81,609)
Adjustment for conversion of non-controlling interest of unitholders in Operating Partnership	—	—	18,440	(1)	480	—	—	—	479
Acquisition of non-controlling interest	—	—	—	—	—	—	—	(880)	(880)
Common stock distributions declared (\$0.66 per share)	—	—	—	—	—	(160,625)	—	—	(160,625)
Preferred stock distributions declared-Series E (\$0.9966 per share)	—	—	—	—	—	(2,793)	—	—	(2,793)

Preferred stock distributions declared-Series G (\$0.5671875 per share)	—	—	—	—	—	(2,286	)	—	—	(2,286
Adjustment to reflect redemption value of redeemable non-controlling interests	—	—	—	—	—	4,455	—	—	—	4,455
Balance at September 30, 2012	2,803,812	\$46,571	250,136,597	\$2,501	\$4,098,089	\$(1,082,458)	\$(13,073)	\$3,991		\$3,055,6

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except for share data)

	Nine Months Ended September 30,	
	2012	2011
Operating Activities		
Net income/(loss)	\$233,258	\$(27,533)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	269,957	276,008
Net gain on sale of marketable securities	—	(3,123)
Net gain on sale of cost investments	—	(2,550)
Net gain on the sale of depreciable property	(251,398)	(56,063)
Tax (benefit)/expense of taxable REIT subsidiary	(28,654)	173
(Gain)/loss on debt extinguishment	(277)	4,052
Loss from unconsolidated entities	5,822	4,260
Amortization of deferred financing costs and other	6,877	6,401
Amortization of deferred compensation	7,881	7,650
Amortization of convertible debt discount	—	1,077
Changes in operating assets and liabilities:		
Increase in operating assets	1,294	(27,235)
Decrease in operating liabilities	656	(196)
Net cash provided by operating activities	245,416	182,921
Investing Activities		
Proceeds from sales of real estate investments, net	593,367	77,130
Proceeds from sale of marketable securities	—	4,541
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(15,297)	(943,045)
Cash paid in nonmonetary asset exchange	—	(28,124)
Development of real estate assets	(170,182)	(70,574)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(107,643)	(68,125)
Capital expenditures — non-real estate assets	(3,784)	(12,260)
Investment in unconsolidated joint ventures	(320,509)	(47,509)
Distributions received from unconsolidated joint venture	28,787	4,592
Issuance and purchase of note receivable	(63,998)	—
Purchase deposits on pending real estate acquisitions	—	(3,410)
Net cash used in investing activities	(59,259)	(1,086,784)
Financing Activities		
Payments on secured debt	(487,133)	(222,767)
Proceeds from the issuance of secured debt	250	30,542
Proceeds from the issuance of unsecured debt	396,400	296,964
Payments on unsecured debt	(100,000)	(264,829)
Net (repayment)/borrowings of revolving bank debt	(421,000)	330,250
Payment of financing costs	(4,356)	(4,192)
(Forfeitures)/issuance of common and restricted stock, net	(9,842)	3,832
Proceeds from the issuance of common shares through public offering, net	756,236	864,310

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Payments for the repurchase of Series G preferred stock, net	(81,609) (3,597)
Distributions paid to non-controlling interests	(6,768) (8,717)
Distributions paid to preferred stockholders	(6,023	) (7,003)
Distributions paid to common stockholders	(152,438	) (106,934)
Net cash (used in)/provided by financing activities	(116,283	) 907,859	
Net increase in cash and cash equivalents	69,874	3,996	
Cash and cash equivalents, beginning of period	12,503	9,486	
Cash and cash equivalents, end of period	\$82,377	\$13,482	

Supplemental Information:

Interest paid during the period, net of amounts capitalized	\$120,777	\$128,021
Non-cash transactions:		
Secured debt assumed in the acquisitions of properties, including asset exchange	34,412	247,805
Fair market value adjustment of secured debt assumed in acquisitions of properties, including asset exchange	2,617	26,880
Conversion of operating partnership non-controlling interests to common stock (18,440 shares in 2012 and 4,453 shares in 2011)	479	109
Real estate acquired in asset exchange	—	268,853
Real estate disposed in asset exchange	—	192,576
Contingent consideration accrued in business combination	—	3,000
OP Units issued in partial consideration for property acquisition	—	111,034
Secured debt transferred in asset exchange	—	55,356
Fair market value of land contributed by non-controlling interest	—	4,078
Non-cash consideration to acquire non-real estate asset	—	6,864
Issuance of restricted stock awards	—	6

See accompanying notes to consolidated financial statements.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (“UDR”, the “Company”, “we”, “our”, or “us”) is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the “Operating Partnership”). As of September 30, 2012, there were 184,281,253 units in the Operating Partnership outstanding, of which 174,878,385 units or 94.9% were owned by UDR and 9,402,868 units or 5.1% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2012, and results of operations for the three and nine months ended September 30, 2012 and 2011 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, 2011 appearing in UDR’s Report on Form 8-K, filed with the Securities and Exchange Commission on May 2, 2012. The accompanying interim unaudited consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles (“GAAP”). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the interim unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

The Company evaluated subsequent events through the date its financial statements were issued. Except as discussed in Note 15, Subsequent Event, no other recognized or non-recognized subsequent events were noted.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Revenue and real estate sales gain recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with GAAP. Rental payments are generally due on a monthly basis and recognized when earned. The Company recognizes interest income, management and other fees and incentives when earned, and the amounts are fixed and determinable. The Company accounts for sales of real estate in accordance with GAAP. For sale transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property, we remove the related assets and liabilities from our Consolidated Balance Sheets and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting. Unless certain limited criteria are met, non-monetary transactions, including property exchanges, are accounted for at fair value.

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

involvement are present, we recognize profit proportionate to the outside interest in the buyer and defer the gain on the interest we retain. The Company recognizes any deferred gain when the property is sold to a third party. In transactions accounted by us

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

Notes Receivable

The following table summarizes our notes receivable as of September 30, 2012 (in thousands):

	Balance outstanding	Interest rate	
Note due October 2014 - related party	\$ 24,481	2.97	%
Note due February 2017	13,200	10.00	%
Note due June 2022 (net of discount of \$283)	26,217	7.00	%
Other	100	8.00	%
Total notes receivable, net	\$ 63,998		

The Company has a \$24.5 million unsecured note receivable with one of its unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year. (See Note 5, Joint Ventures.)

The Company has a \$13.2 million secured note receivable with an unaffiliated third party, which bears an interest rate of 10.00% per annum. 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) declaration of acceleration; or (d) the fifth anniversary of the date of the note (February 2017).

On June 21, 2012, the Company purchased mezzanine debt securing a mortgage on a newly constructed, class A community in West Los Angeles. The \$26.5 million loan was purchased at a discount of 6.99% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022.

During the three and nine months ended September 30, 2012, the Company recognized \$931,000 and \$1.7 million, respectively, of interest income, net of accretion, from these notes receivable, of which \$95,000 was related party interest income. Interest income is included in "Other income" on the Consolidated Statements of Operations.

Marketable Securities

During the nine months ended September 30, 2011, the Company sold marketable securities for \$3.5 million, resulting in a realized gain of \$3.1 million, which is included in "Other Income" on the Consolidated Statements of Operations. The cost of securities sold was based on the specific identification method. Unrealized gains of \$3.5 million were reclassified out of accumulated other comprehensive income/(loss) into earnings during the nine months ended September 30, 2011. The marketable securities, which represented common stock in a publicly held company, were classified as "available-for-sale," and were carried at fair value with unrealized gains and losses reported as a component of other comprehensive income/(loss).

Preferred Share Redemption and Repurchases

During the nine months ended September 30, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of \$25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of \$82.1 million.

When redeeming or repurchasing preferred stock, the Company recognizes share issuance costs as a charge to the preferred stock on a pro rata basis to the total costs incurred for the preferred stock as well as any premium or discount on the redemption or repurchase. In connection with the redemption of the Series G Preferred Stock, the Company recognized a decrease in net income/(loss) attributable to common stockholders of \$2.8 million for the nine months

ended September 30, 2012 and \$175,000 for the nine months ended September 30, 2011, which is reported in “Premium on preferred stock redemption and repurchases, net” in the Consolidated Statement of Operations.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

Income Taxes

Due to the structure of the Company as a REIT and the nature of the operations for the operating properties, no provision for federal income taxes has been provided for at UDR. Historically, the Company has generally incurred only state and local excise and franchise taxes. UDR has elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries ("TRS"), primarily those engaged in development activities.

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of September 30, 2012, UDR recorded a net liability of \$6.0 million and a deferred tax asset of \$24.8 million (net of a valuation allowance of \$1.2 million).

Prior to 2012, the TRS had a history of losses and, as a result, has historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the three months ended March 31, 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating loss carry forward, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings from the sale of depreciable property, forecasts of future earnings and its cumulative earnings for the last twelve quarters. The reversal of the valuation allowance resulted in an income tax benefit of \$22.9 million during the nine months ended September 30, 2012, which is reflected in continuing operations, and classified as "Tax benefit of taxable REIT subsidiary" in the Consolidated Statements of Operations.

FASB ASC 740, Income Taxes ("Topic 740") 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. Topic 740 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, we determine whether a tax position is more likely than not (greater than 50 percent probability) to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company will 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, 2012. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state jurisdictions. The tax years 2008 - 2011 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and held for sale properties. As of September 30, 2012, the Company owned and consolidated 145 communities in 10 states plus the District of Columbia totaling 41,827 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2012 and December 31, 2011 (dollar amounts in thousands):

	September 30, 2012	December 31, 2011
Land	\$1,845,105	\$1,821,762
Depreciable property — held and used:		
Building and improvements	5,398,921	5,203,484
Furniture, fixtures and equipment	251,959	244,101
Under development:		
Land	117,112	115,198
Construction in progress	238,353	131,601
Sold or held for sale:		
Land	—	98,340
Building and improvements	—	410,123
Furniture, fixtures and equipment	—	49,862
Real estate owned	7,851,450	8,074,471
Accumulated depreciation	(1,842,520)	(1,831,727)
Real estate owned, net	\$6,008,930	\$6,242,744

On April 27, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for \$11.7 million from an unaffiliated member of one of our joint ventures. (See Note 5, Joint Ventures.)

Total acquisition value of these communities at the acquisition date was recorded \$10.1 million to land; \$35.9 million to buildings and improvements; \$1.5 million to furniture, fixtures, and equipment; \$1.5 million to intangible assets; and \$38.1 million to assumed debt and liabilities.

The Company records the fair value of the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. When recording the acquisition of a community, the Company first assigns fair value to the estimated intangible value of the existing lease agreements and then to the estimated value of the land, building and fixtures assuming the community is vacant. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. The Company estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheets as “Real estate under development.” The costs of development projects which include interest, real estate taxes, insurance and allocated development overhead related to support costs for personnel working directly on the development are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the three and nine months ended September 30, 2012 and 2011 were \$2.5 million and \$7.2 million and \$1.2 million and \$7.1 million, respectively. During the three and nine months ended September 30, 2012 and 2011, total capitalized interest was \$7.6 million and \$17.6 million, and \$3.4 million and \$9.5 million, respectively.

4. DISCONTINUED OPERATIONS

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

property's operations and cash flows have been or will be divested to a third party by the Company whereby UDR will not have any continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Company. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria of held for sale, the Company will recapture any unrecorded depreciation for the property. The assets and liabilities of properties classified as held for sale are presented separately on the Consolidated Balance Sheets at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

There were no sales during the three months ended September 30, 2012. During the nine months ended September 30, 2012, the Company sold 21 communities with 6,507 apartment homes. During three and nine months ended September 30, 2011, the Company sold nine communities with 2,157 apartment homes, which included six communities (1,418 homes) sold in conjunction with an asset exchange. The Company had no communities that met the criteria to be classified as held for sale and included in discontinued operations at September 30, 2012. During the three and nine months ended September 30, 2012, UDR recognized (loss)/gains (before tax) on the sale of communities for financial reporting purposes of \$(1.1) million and \$260.2 million, respectively, and \$11.4 million and \$56.1 million during the three and nine months ended September 30, 2011, respectively, which are included in discontinued operations. The results of operations for sold properties are classified on the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations." Discontinued operations for the three and nine months ended September 30, 2011 also includes operating activities related to nine communities (2,331 homes) sold during the last quarter of 2011.

The following is a summary of (loss)/income from discontinued operations for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental income	\$—	\$26,588	\$30,316	\$85,859
Rental expenses	—	10,107	10,566	32,209
Property management fee	—	731	834	2,361
Real estate depreciation	—	10,719	6,340	35,872
Interest	—	111	—	1,855
Other expense	—	44	791	155
	—	21,712	18,531	72,452
Income before net gain on the sale of depreciable property	—	4,876	11,785	13,407
Net (loss)/gain on the sale of depreciable property	(1,133)	11,364	260,248	56,063
Income tax expense	—	—	(8,850)	—
(Loss)/income from discontinued operations	\$(1,133)	\$16,240	\$263,183	\$69,470

5. JOINT VENTURES

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

Consolidated Joint Ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop an existing commercial property into a 173 apartment home community in Orange County, California. At closing, the Company contributed \$9.0 million, UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria was met on or before 730 days after the site plan application was deemed complete by the city, the Company was obligated to contribute an additional \$3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized \$3.0 million related to the contingent consideration, which represented the difference between fair value of the property of \$9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of \$12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation.

In September 2012, the Company paid the unaffiliated third party with which the Company invested in the joint venture a total of \$4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint ventures. In addition, we may earn fees for providing management services to the unconsolidated joint ventures. As of September 30, 2012, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

In 2010, the Company acquired The Hanover Company's ("Hanover") partnership interests in the Hanover/MetLife Master Limited Partnership ("UDR/MetLife I") at a cost of \$100.8 million. UDR/MetLife I currently owns a portfolio of 19 operating communities containing 3,930 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of UDR/MetLife I, UDR acts as the general partner with significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions.

UDR has a weighted average ownership interest of 12.6% in the operating communities and 4.0% in the land parcels. Our initial investment of \$100.8 million consisted of \$71.8 million in cash, which included associated transaction costs, and a \$30 million payable (includes present value discount of \$1 million) to Hanover. UDR agreed to pay the \$30 million balance to Hanover in two interest free installments in the amounts of \$20 million (paid in 2011) and \$10 million on the first and second anniversaries of the closing, respectively. The \$30 million payable was recorded at its present value of \$29 million using an effective interest rate of 2.67%. At September 30, 2012 and December 31, 2011, the net carrying value of the payable was \$9.9 million and \$9.8 million, respectively. Interest expense of \$66,000 and \$198,000 and \$197,000 and \$588,000 was recorded during the three and nine months ended September 30, 2012 and 2011, respectively. At September 30, 2012 and December 31, 2011, the Company's investment was \$100.8 million and \$133.8 million, respectively.

UDR's initial cost of its equity investment of \$100.8 million differed from the proportionate share in the underlying net assets of UDR/MetLife I of \$111.4 million. The difference of \$10.6 million was attributable to certain assets and adjustments that were allocated to UDR's proportionate share in UDR/MetLife I's buildings of \$8.4 million, land of \$3.9 million, and \$(1.6) million of lease intangible assets. With the exception of land, the difference related to buildings is accreted and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets was amortized and recorded as a component of loss from unconsolidated entities over 11 months with the offset to the Company's carrying value of its equity investment. During the three and nine months ended September 30, 2012, the Company recorded \$25,000 and \$113,000 of net accretion, respectively. During the three and nine months ended September 30, 2011, the Company recorded \$396,000 and \$1.2 million net of amortization, respectively.

On January 12, 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest in a \$1.3 billion portfolio of 12 operating communities containing 2,528 apartment homes. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for \$637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was \$327.1 million, which consisted of \$293.5 million of cash paid and \$33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

\$293.5 million of cash paid for its investment, the Company paid \$80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.) Our investment at September 30, 2012 was \$301.2 million.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in San Francisco, California. At September 30, 2012, UDR owned a non-controlling interest of 92.5% in the joint venture. Our initial investment was \$37.3 million, and our investment at September 30, 2012 was \$40.1 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Boston, Massachusetts. At closing and at September 30, 2012, UDR owned a non-controlling interest of 98.0% in the joint venture. Our initial investment was \$26.0 million, and our investment at September 30, 2012 was \$28.4 million.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Santa Monica, California. At September 30, 2012, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$10.3 million and our investment at September 30, 2012 was \$10.3 million.

The Company is a partner in a joint venture with an unaffiliated third party which owns and operates a 240-home community in Stoughton, Massachusetts. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$10.0 million. Our investment at September 30, 2012 and December 31, 2011 was \$16.2 million and \$17.2 million, respectively. During the three months ended September 30, 2012, the Company loaned the joint venture \$24.5 million to repay a secured loan with an unaffiliated third party. The loan with the Company has terms similar to the original loan. (See Note 2, Significant Accounting Policies for further discussion on terms of the related party note.)

The Company is a partner in a joint venture with an unaffiliated third party to develop a 264-home community in San Diego, California. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$9.9 million. Our investment at September 30, 2012 and December 31, 2011 was \$27.3 million and \$12.1 million, respectively.

The Company is a partner in a joint venture with an unaffiliated third party to develop a 256-home community in College Park, Maryland. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$7.1 million. Our investment at September 30, 2012 and December 31, 2011 was \$19.9 million and \$8.6 million, respectively.

UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to \$450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180 million of which the Company's maximum equity will be 30% or \$54 million when fully invested. The joint venture owns and operates three communities (660 homes) in Metropolitan Washington D.C. At September 30, 2012 and December 31, 2011, the Company owned a 30% interest in the joint venture. Our investment at September 30, 2012 and December 31, 2011 was \$31.0 million and \$34.1 million, respectively.

UDR is a partner with an unaffiliated third party which owns and operates apartment communities located in Texas. UDR initially contributed cash and a property equal to 20% of the fair value of ten properties (3,992 homes). The unaffiliated member contributed cash equal to 80% of the fair value of the properties, which amount was then used to purchase the nine operating properties from UDR. During three months ended June 30, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for \$11.7 million from its Texas joint venture partner. Our initial investment was \$20.4 million. Our investment at September 30, 2012 and December 31, 2011 was \$4.0 million and \$7.1 million, respectively.

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

in the value of its other investments in unconsolidated joint ventures during the three and nine months ended September 30, 2012 and 2011.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

Combined summary financial information relating to all of the unconsolidated joint ventures operations (not just our proportionate share), is presented below for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	2012	2011
For the Three Months Ended September 30,		
Revenues	\$67,822	\$51,290
Real estate depreciation and amortization	24,263	17,327
Net loss	(3,691	) (4,507
UDR recorded loss from unconsolidated entities	(719	) (1,580
For the Nine Months Ended September 30,		
Revenues	\$205,572	\$146,295
Real estate depreciation and amortization	76,637	50,665
Net loss	(8,768	) (13,238
UDR recorded loss from unconsolidated entities	(5,822	) (4,260

Combined summary balance sheets relating to all of the unconsolidated joint ventures (not just our proportionate share) are presented below as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Real estate, net	\$3,556,353	\$2,908,623
Total assets	3,680,438	2,998,866
Amount due to UDR	29,136	6,251
Third party debt	1,792,243	1,499,419
Total liabilities	1,869,372	1,561,396
Total equity, inclusive of non-controlling interest	1,811,066	1,437,470
Equity held by non-controlling interest	14,739	14,641
UDR's investment in unconsolidated joint ventures	579,338	213,040

As of September 30, 2012, the Company had deferred fees and deferred profit from the sale of properties to a joint venture of \$29.5 million, the majority of which the Company will not recognize until the underlying property is sold to a third party. The Company recognized \$3.3 million and \$9.0 million and \$2.5 million and \$6.4 million of management fees during the three and nine months ended September 30, 2012 and 2011, respectively, for our management of the joint ventures. The management fees are classified in "Other Income" in the Consolidated Statements of Operations.

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

6. SECURED DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of 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 Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt, including debt related to real estate held for sale, which encumbers \$2.3 billion or 29.7% of UDR's total real estate owned based upon gross book value (\$5.5 billion or 70.3% of UDR's real estate owned based on gross book value is unencumbered) consists of the following as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	Principal Outstanding		For the Nine Months Ended September 30,		
	September 30, 2012	December 31, 2011	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	\$464,395	\$590,208	5.32	% 3.6	9
Fannie Mae credit facilities	631,843	744,509	5.12	% 6.1	23
Total fixed rate secured debt	1,096,238	1,334,717	5.20	% 5.0	32
Variable Rate Debt					
Mortgage notes payable	37,415	151,685	1.06	% 0.8	2
Tax-exempt secured notes payable	94,700	94,700	0.95	% 9.9	2
Fannie Mae credit facilities	211,409	310,451	2.08	% 5.8	7
Total variable rate secured debt	343,524	556,836	1.66	% 6.4	11
Total secured debt	\$1,439,762	\$1,891,553	4.36	% 5.3	43

UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of \$932.1 million at September 30, 2012. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. We have \$631.8 million of the outstanding balance fixed at a weighted average interest rate of 5.12% and the remaining balance on these facilities is currently at a weighted average variable interest rate of 2.08%. Further information related to these credit facilities is as follows: (dollars amounts in thousands):

	September 30, 2012	December 31, 2011		
Borrowings outstanding	\$843,252	\$1,054,960		
Weighted average borrowings during the period ended	924,175	1,139,588		
Maximum daily borrowings during the period ended	1,054,735	1,157,557		
Weighted average interest rate during the period ended	4.3	% 4.4		%
Weighted average interest rate at the end of the period	4.4	% 4.1		%

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair market adjustment was a net premium of \$18.2 million and \$24.1 million at September 30, 2012 and December 31, 2011, respectively.

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from October 2012 through May 2019 years and carry interest rates ranging from 3.43% to 6.55%.

Secured credit facilities. At September 30, 2012, the Company had \$631.8 million outstanding of fixed rate secured credit facilities with Fannie Mae with a weighted average fixed interest rate of 5.12%.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at July 2013. The mortgage notes payable are based on LIBOR plus some basis points, which translate into an interest rate of 1.06% at September 30, 2012.

Tax-exempt secured notes payable. The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature on August 2019 and March 2030. Interest on these notes is payable in monthly installments. The variable mortgage notes have interest rates of 0.90% and 1.07% as of September 30, 2012.

Secured credit facilities. At September 30, 2012, the Company had \$211.4 million outstanding of variable rate secured credit facilities with Fannie Mae with a weighted average floating interest rate of 2.08%.

The aggregate maturities, including amortizing principal payments, of our secured debt due during each of the next five calendar years subsequent to September 30, 2012 are as follows (dollars in thousands):

Year	Fixed Mortgage Notes	Credit Facilities	Variable Mortgage Notes	Tax-Exempt Notes Payable	Credit Facilities	Total Secured
2012	\$8,893	\$765	\$—	\$—	\$—	\$9,658
2013	9,787	3,145	37,415	—	—	50,347
2014	44,363	3,328	—	—	—	47,691
2015	193,899	3,522	—	—	—	197,421
2016	132,653	3,702	—	—	—	136,355
Thereafter	74,800	617,381	—	94,700	211,409	998,290
Total	\$464,395	\$631,843	\$37,415	\$94,700	\$211,409	\$1,439,762

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

7. UNSECURED DEBT

A summary of unsecured debt as of September 30, 2012 and December 31, 2011 is as follows (dollars in thousands):

	September 30, 2012	December 31, 2011
Commercial Bank		
Borrowings outstanding under an unsecured credit facility due October 2015 (a), (d)	\$—	\$421,000
Senior Unsecured Notes		
4.63% Medium-Term Notes due January 2022 (net of discount of \$3,331) (b), (d)	396,669	—
1.67% Term Notes due January 2016 (c), (d)	35,000	100,000
2.68% Term Notes due January 2016 (c), (d)	65,000	—
6.05% Medium-Term Notes due June 2013	122,500	122,500
5.13% Medium-Term Notes due January 2014	184,000	184,000
5.50% Medium-Term Notes due April 2014 (net of discount of \$106 and \$157)	128,394	128,343
5.25% Medium-Term Notes due January 2015 (includes discount of \$294 and \$390)	324,881	324,785
5.25% Medium-Term Notes due January 2016	83,260	83,260
2.90% Term Notes due January 2016 (d)	250,000	250,000
8.50% Debentures due September 2024	15,644	15,644
4.25% Medium-Term Notes due June 2018 (net of discount of \$2,429 and \$2,751) (d)	297,571	297,249
5.00% Medium-Term Notes due January 2012	—	100,000
Other	34	36
	1,902,953	1,605,817
	\$1,902,953	\$2,026,817

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

On January 10, 2012, the Company issued \$400 million aggregate principal amount of 4.625% Medium Term (b) Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.

(c) During the quarter ended June 30, 2012, the Company entered into an interest rate swap agreement for a portion of the \$100 million term notes, which carries a fixed interest rate of 2.68% at September 30, 2012.

(d) The Operating Partnership is a guarantor at September 30, 2012 and December 31, 2011.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SEPTEMBER 30, 2012

The following is a summary of short-term bank borrowings under UDR's bank credit facility at September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011		
Total revolving credit facility	\$900,000	\$900,000		
Borrowings outstanding at end of period (1)	—	421,000		
Weighted average daily borrowings during the period ended	212,504	227,498		
Maximum daily borrowings during the period ended	788,000	450,000		
Weighted average interest rate during the period ended	1.5	% 1.0		%
Interest rate at end of the period	N/A	1.5		%

(1) Excludes \$4.1 million of letters of credit at September 30, 2012.

The aggregate maturities of unsecured debt for the next five calendar years subsequent to September 30, 2012 are as follows (dollars in thousands):

Year	Commercial Bank Line	Senior Unsecured Notes	Total Unsecured
2012	\$—	\$—	\$—
2013	—	122,500	122,500
2014	—	311,575	311,575
2015	—	324,388	324,388
2016	—	432,484	432,484
Thereafter	—	712,006	712,006
Total	\$—	\$1,902,953	\$1,902,953

We were in compliance with the covenants of our debt instruments at September 30, 2012.

8. EARNINGS/(LOSS) PER SHARE

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator for earnings per share — basic and diluted:				
Net (loss)/income attributable to common stockholders	\$ (9,962)	\$ (15,559)	\$ 216,607	\$ (33,653)
Denominator for earnings per share — basic and diluted:				
Weighted average common shares outstanding	250,162	215,066	235,904	197,010
Non-vested restricted stock awards	(337)	(1,250)	(731)	(1,287)
Denominator for basic and diluted earnings per share	249,825	213,816	235,173	195,723
Net (loss)/income attributable to common stockholders - basic and diluted	\$ (0.04)	\$ (0.07)	\$ 0.92	\$ (0.17)

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

If the OP Units were converted to common stock, the additional weighted average common shares outstanding for the three and nine months ended September 30, 2012 and 2011 would be 9,405,888 and 9,414,644 and 8,235,068 and 6,987,415, respectively.

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding for the three and nine months ended September 30, 2012 and 2011 would be 3,035,548 weighted average common shares.

If the stock options and unvested restricted stock were converted to common stock, the additional weighted average common shares outstanding using the treasury stock method would be a 1,363,930 and 1,359,951 and 2,156,175 and 2,107,783 weighted average common shares for the three and nine months ended September 30, 2012 and 2011, respectively.

9. NONCONTROLLING INTERESTS

Redeemable non-controlling interests in operating partnership

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

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

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

Redeemable non-controlling interests in the Operating Partnership, December 31, 2011	\$236,475	
Mark to market adjustment to redeemable non-controlling interests in the Operating Partnership	(4,455)
Conversion of OP Units to Common Stock	(479)
Net income attributable to redeemable non-controlling interests in the Operating Partnership	8,644	
Distributions to redeemable non-controlling interests in the Operating Partnership	(6,807)
Allocation of other comprehensive income	1	
Redeemable non-controlling interests in the Operating Partnership, September 30, 2012	\$233,379	

Non-controlling interests

Non-controlling interests represent interests of unrelated partners in certain consolidated affiliates, and is presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. During the three and nine months ended September 30, 2012 and 2011, net income attributable to non-controlling interests was \$42,000 and \$137,000 and \$46,000 and \$134,000, respectively.

10. 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

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levels, which are described below:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2012 and December 31, 2011 are summarized as follows (dollars in thousands):

Description:	September 30, 2012	Fair Value at September 30, 2012 Using Quoted Prices		
		in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Notes receivable	\$70,861	\$—	\$—	\$70,861
Derivatives- Interest rate contracts (c)	6	—	6	—
Total assets	\$70,867	\$—	\$6	\$70,861
Derivatives- Interest rate contracts (c)	\$12,867	\$—	\$12,867	\$—
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	507,516	—	—	507,516
Fannie Mae credit facilities	693,040	—	—	693,040
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	37,415	—	—	37,415
Tax-exempt secured notes payable	94,700	—	—	94,700
Fannie Mae credit facilities	211,409	—	—	211,409
Unsecured debt instruments: (b)				
Commercial bank	—	—	—	—
Senior unsecured notes	2,040,905	—	—	2,040,905
Total liabilities	\$3,597,852	\$—	\$12,867	\$3,584,985
Redeemable non-controlling interests (e)	\$233,379	\$—	\$233,379	\$—

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Description:	December 31, 2011	Fair Value at December 31, 2011 Using Quoted Prices		
		in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (c)	\$89	\$—	\$89	\$—
Total assets	\$89	\$—	\$89	\$—
Derivatives- Interest rate contracts (c)	\$13,660	\$—	\$13,660	\$—
Contingent purchase consideration (d)	3,000	—	—	3,000
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	635,531	—	—	635,531
Fannie Mae credit facilities	799,584	—	—	799,584
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	151,685	—	—	151,685
Tax-exempt secured notes payable	94,700	—	—	94,700
Fannie Mae credit facilities	310,451	—	—	310,451
Unsecured debt instruments: (b)				
Commercial bank	421,000	—	—	421,000
Senior unsecured notes	1,675,189	—	—	1,675,189
Total liabilities	\$4,104,800	\$—	\$13,660	\$4,091,140
Redeemable non-controlling interests (e)	\$236,475	\$—	\$236,475	\$—

(a) See Note 6, "Secured Debt"

(b) See Note 7, "Unsecured Debt"

(c) See Note 11, "Derivatives and Hedging Activity"

(d) The fair value of the contingent purchase consideration was related to our acquisition of a development property in a consolidated joint venture in 2011. (See Note 5, "Joint Ventures.")

(e) See Note 9, "Noncontrolling Interests"

Financial Instruments Carried at Fair Value

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates

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of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2012 and December 31, 2011, 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 non-controlling interests in the Operating Partnership have a redemption feature and are marked to their redemption value. The redemption value is based on the fair value of the Company's common stock at the redemption date, and therefore, is calculated based on the fair value of the Company's common stock at the balance sheet date. Since the valuation is based on observable inputs such as quoted prices for similar instruments in active markets, redeemable non-controlling interests in the Operating Partnership are classified as Level 2.

Financial Instruments Not Carried at Fair Value

At September 30, 2012, 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 investments in an unconsolidated joint venture is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three and nine months ended September 30, 2012 and 2011.

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

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

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UDR, INC.

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11. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated Other Comprehensive Income/(Loss)" 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, 2012 and 2011, 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 and nine months ended September 30, 2012 and 2011, the Company recorded less than a \$1,000 loss from ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item, and the fair value of interest rate swaps that were not zero at inception of the hedging relationship.

Amounts reported in "Accumulated Other Comprehensive Income/(Loss)" related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through September 30, 2013, the Company estimates that an additional \$7.1 million will be reclassified as an increase to interest expense.

As of September 30, 2012, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

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

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a gain/(loss) of \$(1,000) and \$290,000 and \$(52,000) and \$(16,000) for the three and nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Number of Instruments	Notional
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Interest rate caps	3	\$172,697
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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 (amounts in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at:		Balance Sheet Location	Fair Value at:	
		September 30, 2012	December 31, 2011		September 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	\$6	\$71	Other liabilities	\$12,867	\$13,660
Total		\$6	\$71		\$12,867	\$13,660
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$18	Other liabilities	\$—	\$—
Total		\$—	\$18		\$—	\$—

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

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

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 (dollar amounts in thousands):

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2012	2011		2012	2011		2012	2011
Derivatives in Cash Flow Hedging Relationships								
For the Three Months Ended September 30,								
Interest rate products	\$(1,355)	\$(7,845)			\$(1,925)	\$(2,503)	\$—	\$—
Total	\$(1,355)	\$(7,845)	Interest expense		\$(1,925)	\$(2,503)	Interest expense	\$—
For the Nine Months Ended September 30,								
Interest rate products	\$(4,847)	\$(15,748)	Interest expense		\$(5,677)	\$(6,853)	Interest expense	\$—
Total	\$(4,847)	\$(15,748)			\$(5,677)	\$(6,853)		\$—
Derivatives Not Designated as Hedging Instruments								
For the Three Months Ended September 30,								
Interest rate products					Other income/(expense)	\$ (1)	\$ (52)	
Total						\$ (1)	\$ (52)	
For the Nine Months Ended September 30,								
Interest rate products					Other income/(expense)	\$ 290	\$ (16)	
Total						\$ 290	\$ (16)	

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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.

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

As of September 30, 2012, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$13.5 million. As of September 30, 2012, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2012, it would have been required to settle its obligations under the agreements at their termination value of \$13.5 million.

12. STOCK BASED COMPENSATION

During the three and nine months ended September 30, 2012 and 2011, we recognized \$830,000 and \$7.9 million and \$2.6 million and \$7.7 million, respectively, as stock based compensation expense, which is inclusive of awards granted to our outside directors. Included in the nine months ended September 30, 2012 is \$3.8 million of compensation expense related to restricted shares granted under the Company's 2010-2012 Long Term Incentive ("LTI") Program, which was recognized in the second quarter of 2012. These shares vested as a result of the Company meeting certain performance criteria outlined under the LTI Program.

13. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Company's real estate commitments at September 30, 2012 (dollars in thousands):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete (a)	Average Ownership Stake	
Wholly owned — under development	6	\$355,465	\$296,335	100	%
Wholly owned — redevelopment	5	65,262	213,738	100	%
Joint ventures:					
Unconsolidated joint ventures (b)	2	47,232	6,485	95	%
		\$467,959	\$516,558		

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

(b) Excludes land related to San Francisco, Santa Monica, and Boston development joint ventures. See Note 5, Joint Ventures.

Contingencies

Litigation and Legal Matters

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company

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UDR, INC.

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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.

14. 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 communities and non-mature/other communities:

Same communities represent those communities acquired, developed, and stabilized prior to July 1, 2011 and held as of September 30, 2012. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-mature/other communities represent those communities that were acquired or developed in 2011 and 2012, sold properties, redevelopment properties, properties classified as real estate held for disposition, joint venture properties, and the non-apartment components of mixed use properties.

Management evaluates the performance of each of our apartment communities on a same community and non-mature/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, 2012 and 2011.

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The accounting policies applicable to the operating segments described above are the same as those described in Note 2, Significant Accounting Policies. The following table details rental income and NOI from continuing and discontinued operations for UDR's reportable segments for the three and nine months ended September 30, 2012 and 2011, and reconciles NOI to net income/(loss) attributable to UDR per the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Reportable apartment home segment rental income				
Same Communities				
Western Region	\$57,783	\$54,762	\$170,533	\$158,452
Mid-Atlantic Region	49,974	47,503	147,189	132,557
Southeastern Region	27,983	26,662	82,359	78,552
Southwestern Region	11,153	10,372	32,588	30,181
Non-Mature communities/Other	34,873	51,148	129,130	138,425
Total segment and consolidated rental income	\$181,766	\$190,447	\$561,799	\$538,167
Reportable apartment home segment NOI				
Same Communities				
Western Region	\$39,866	\$38,148	\$118,546	\$109,341
Mid-Atlantic Region	34,872	32,724	102,629	91,321
Southeastern Region	17,718	16,464	53,076	48,981
Southwestern Region	6,602	5,779	19,096	16,776
Non-Mature communities/Other	23,236	34,398	85,972	89,961
Total segment and consolidated NOI	122,294	127,513	379,319	356,380
Reconciling items:				
Non-property income	4,555	5,229	11,461	12,618
Property management	(4,998)	(5,238)	(15,449)	(14,800)
Other operating expenses	(1,467)	(1,539)	(4,284)	(4,628)
Depreciation and amortization	(88,223)	(96,554)	(266,944)	(271,830)
Interest	(31,845)	(40,079)	(108,132)	(118,640)
General and administrative	(10,022)	(11,860)	(33,139)	(35,251)
Other depreciation and amortization	(1,078)	(983)	(3,013)	(3,012)
Loss from unconsolidated entities	(719)	(1,580)	(5,822)	(4,260)
Tax benefit/(expense) of taxable REIT subsidiary, net	2,960	(59)	27,863	(173)
Redeemable non-controlling interests in OP	687	581	(8,644)	1,192
Non-controlling interests	(42)	(46)	(137)	(134)
Net (loss)/gain on sale of depreciable property	(1,133)	11,364	251,398	56,063
Net (loss)/income attributable to UDR, Inc.	\$(9,031)	\$(13,251)	\$224,477	\$(26,475)

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UDR, INC.

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The following table details the assets of UDR's reportable segments as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Reportable apartment home segment assets:		
Same communities:		
Western Region	\$2,371,507	\$2,349,653
Mid-Atlantic Region	1,871,613	1,858,390
Southeastern Region	867,069	852,572
Southwestern Region	412,609	409,751
Non-mature communities/Other	2,328,652	2,604,105
Total segment assets	7,851,450	8,074,471
Accumulated depreciation	(1,842,520)	(1,831,727)
Total segment assets — net book value	6,008,930	6,242,744
Reconciling items:		
Cash and cash equivalents	82,377	12,503
Restricted cash	25,091	24,634
Deferred financing costs, net	26,810	30,068
Notes receivable	63,998	—
Investment in unconsolidated joint ventures	579,338	213,040
Other assets	124,358	198,365
Total consolidated assets	\$6,910,902	\$6,721,354

Capital expenditures related to our same communities totaled \$14.4 million and \$39.7 million and \$13.2 million and \$30.7 million for the three and nine months ended September 30, 2012 and 2011, respectively. Capital expenditures related to our non-mature/other communities totaled \$851,000 and \$5.2 million and \$4.9 million and \$10.0 million for the three and nine months ended September 30, 2012 and 2011, respectively.

Markets included in the above geographic segments are as follows:

- i. Western — Orange County, San Francisco, Seattle, Monterey Peninsula, Los Angeles, San Diego, Inland Empire, Sacramento, and Portland
- ii. Mid-Atlantic — New York, Boston, Metropolitan DC, Richmond, Baltimore, Norfolk, and Other Mid-Atlantic
- iii. Southeastern — Tampa, Orlando, Nashville, and Other Florida
- iv. Southwestern — Dallas and Austin

15. SUBSEQUENT EVENT

In a transaction scheduled to close on October 31, 2012, the Company will exchange its 12% ownership interest in four operating communities, 3.1% ownership in two land parcels in its UDR/MetLife I joint venture, and will pay \$10 million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown Seattle, bringing UDR's ownership interest in The Olivian to 50%. The community will be contributed to the UDR/MetLife II joint venture. The properties and land parcels in which UDR will exchange its ownership interest are located in Houston, Tampa, Charlotte and Chicago. UDR will continue to fee manage the four operating communities.

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The Olivian has a \$63.4 million loan, which carries an interest rate of 4.5% and has a term of seven years. Debt on the four operating communities and two land parcels in which UDR exchanged out of totaled \$134.7 million, carried a weighted average interest rate of 3.5%, and had a term of seven years.

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

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$4,117,331	\$4,062,894
Less: accumulated depreciation	(1,052,150)	(923,471)
Real estate held for investment, net	3,065,181	3,139,423
Real estate under development	41,386	26,793
Real estate sold or held for sale (net of accumulated depreciation of \$0 and \$52,887)	—	62,724
Total real estate owned, net of accumulated depreciation	3,106,567	3,228,940
Cash and cash equivalents	1,918	704
Restricted cash	13,543	12,568
Deferred financing costs, net	6,399	8,184
Other assets	34,116	41,771
Total assets	\$3,162,543	\$3,292,167
LIABILITIES AND CAPITAL		
Secured debt	\$968,759	\$1,189,645
Note payable due to General Partner	88,770	88,771
Real estate taxes payable	12,269	5,280
Accrued interest payable	3,448	1,886
Security deposits and prepaid rent	17,000	16,498
Distributions payable	40,752	39,840
Deferred gains on the sale of depreciable property	63,838	63,838
Accounts payable, accrued expenses, and other liabilities	35,438	33,040
Total liabilities	1,230,274	1,438,798
Capital:		
Partners' capital:		
Operating partnership units: 184,281,253 OP units outstanding at September 30, 2012 and December 31, 2011	—	—
General partner: 110,883 OP units outstanding at September 30, 2012 and December 31, 2011	1,247	1,293
Limited partners: 184,170,370 OP units outstanding at September 30, 2012 and December 31, 2011	1,962,522	2,040,401
Accumulated other comprehensive loss	(6,230)	(6,902)
Total partners' capital	1,957,539	2,034,792
Receivable due from General Partner	(37,735)	(193,584)
Non-controlling interest	12,465	12,161
Total capital	1,932,269	1,853,369
Total liabilities and capital	\$3,162,543	\$3,292,167
See accompanying notes to the consolidated financial statements.		

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

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2012	2011	2012	2011
REVENUES				
Rental income	\$100,235	\$92,179	\$294,161	\$258,694
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	10,930	10,127	31,190	29,760
Personnel	7,494	6,539	21,687	19,954
Utilities	5,387	4,895	15,322	13,518
Repair and maintenance	4,626	4,742	14,241	12,839
Administrative and marketing	1,971	1,818	5,709	5,288
Property management	2,756	2,510	8,089	7,114
Other operating expenses	1,321	1,379	3,944	4,073
Real estate depreciation and amortization	51,012	49,217	148,217	133,602
Interest expense:				
Interest on secured debt	9,357	13,700	34,240	38,233
Interest on note payable due to General Partner	490	248	1,468	694
General and administrative	4,635	5,394	19,581	16,268
Total expenses	99,979	100,569	303,688	281,343
Income/(loss) from continuing operations	256	(8,390)	(9,527)	(22,649)
Loss/(income) from discontinued operations	(132)	1,790	54,162	21,553
Net income/(loss)	124	(6,600)	44,635	(1,096)
Net income attributable to non-controlling interests	(39)	(32)	(304)	(91)
Net income/(loss) attributable to OP unitholders	\$85	\$(6,632)	\$44,331	\$(1,187)
Income/(loss) per OP unit- basic and diluted:				
Loss from continuing operations attributable to OP unitholders	\$0.00	\$(0.05)	\$(0.05)	\$(0.13)
Income from discontinued operations	\$0.00	\$0.01	\$0.29	\$0.12
Net (loss)/income attributable to OP unitholders	\$0.00	\$(0.04)	\$0.24	\$(0.01)
Weighted average OP units outstanding	184,281	183,086	184,281	181,837
See accompanying notes to the consolidated financial statements.				

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income/(loss)	\$124	\$(6,600)	\$44,635	\$(1,096)
Other comprehensive income/(loss):				
Other comprehensive income/(loss)- derivative instruments:				
Unrealized holding loss	(503)	(2,821)	(1,873)	(5,659)
Loss reclassified into earnings from other comprehensive income	863	1,239	2,545	3,620
Other comprehensive income/(loss)	360	(1,582)	672	(2,039)
Comprehensive income/(loss)	484	(8,182)	45,307	(3,135)
Comprehensive income attributable to non-controlling interests	(39)	(32)	(304)	(91)
Comprehensive income/(loss) attributable to OP unitholders	\$445	\$(8,214)	45,003	(3,226)

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partner	Limited Partners	UDR, Inc. Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss)	Total Partners' Capital	Receivable due from General Partner	Non-Controlling Interest	Total
Balance at December 31, 2011	\$43,967	\$192,508	\$1,803,926	\$1,293	\$(6,902)	\$2,034,792	\$(193,584)	\$12,161	\$1,853,369
Distributions OP Unit	(1,746)	(5,056)	(115,382)	(72)	—	(122,256)	—	—	(122,256)
Redemptions for common shares of UDR	—	(481)	481	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	639	1,097	(1,736)	—	—	—	—	—	—
Net income	616	1,835	41,854	26	—	44,331	—	304	44,635
Other comprehensive income	—	—	—	—	672	672	—	—	672
Net change in receivable due from General Partner	—	—	—	—	—	—	155,849	—	155,849
Balance at September 30, 2012	\$43,476	\$189,903	\$1,729,143	\$1,247	\$(6,230)	\$1,957,539	\$(37,735)	\$12,465	\$1,932,269

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September	
	30,	
	2012	2011
Operating Activities		
Net income/(loss)	\$44,635	\$(1,096)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	149,422	143,290
Net gain on the sale of depreciable property	(51,050)	(16,055)
Loss on debt extinguishment	1,221	—
Amortization of deferred financing costs and other	1,142	1,593
Changes in operating assets and liabilities:		
Increase/(decrease) in operating assets	454	(8,206)
Increase in operating liabilities	8,584	7,957
Net cash provided by operating activities	154,408	127,483
Investing Activities		
Development of real estate assets	(11,531)	—
Proceeds from sales of real estate investments, net	113,126	—
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(67,188)	(48,325)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	—	(283,731)
Cash paid in nonmonetary asset exchange	—	(15,407)
Net cash provided by/(used in) investing activities	34,407	(347,463)
Financing Activities		
Advances from General Partner, net	41,273	254,919
Proceeds from the issuance of secured debt	26,054	2,074
Payments on secured debt	(248,160)	(25,655)
Distributions paid to partnership unitholders	(6,768)	(5,070)
Payment of financing costs	—	(3,128)
Net cash (used in)/provided by financing activities	(187,601)	223,140
Net increase in cash and cash equivalents	1,214	3,160
Cash and cash equivalents, beginning of period	704	920
Cash and cash equivalents, end of period	\$1,918	\$4,080
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	\$40,022	\$44,151
Non-cash transactions:		
Properties acquired, including intangibles in asset exchange	—	178,353
Properties disposed in asset exchange, net of accumulated depreciation	—	139,725
OP Units issued in partial consideration for property acquisition	—	111,034
Secured debt assumed in the acquisitions of properties, including asset exchange	—	247,805
Secured debt transferred in asset exchange	—	55,356
	—	21,915

Fair market value adjustment of secured debt assumed in acquisitions of properties,
including asset exchange
See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

1. CONSOLIDATION AND BASIS OF PRESENTATION

United Dominion Realty, L.P. (“UDR, L.P.”, the “Operating Partnership”, “we” or “our”) is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. (“UDR” or the “General Partner”), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three and nine months ended September 30, 2012 and 2011, rental revenues of the Operating Partnership represented 55% and 54% and 52% and 53% , respectively, of the General Partner’s consolidated rental revenues (including those classified within discontinued operations). At September 30, 2012, the Operating Partnership’s apartment portfolio consisted of 73 communities located in 19 markets consisting of 21,992 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, 2012, there were 184,281,253 OP Units outstanding, of which, 174,878,385 or 94.9% were owned by UDR and affiliated entities and 9,402,868 or 5.1% were owned by non-affiliated limited partners. See Note 9, Capital Structure.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2012, and results of operations for the three and nine months ended September 30, 2012 and 2011 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, 2011 included in the Report on Form 8-K filed by UDR and the Operating Partnership with the SEC on May 2, 2012.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Revenue and real estate sales gain recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with GAAP.

Rental payments are generally due on a monthly basis and recognized when earned. The Operating Partnership recognizes

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

interest income, management and other fees and incentives when earned, fixed and determinable.

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

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

Income taxes

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

The Operating Partnership evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Operating Partnership's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Management of the Operating Partnership is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. The Operating Partnership has no examinations in progress and none are expected at this time.

Management of the General Partner has reviewed all open tax years (2008 - 2011) of tax jurisdictions and concluded there is no material tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

Earnings per OP unit

Basic earnings per OP Unit is computed by dividing net income/(loss) attributable to general and limited partner units by the weighted average number of general and limited partner units (including redeemable OP Units) outstanding during the year. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units or resulted in the issuance of OP Units that shared in the earnings of the Operating Partnership. For the three and nine months ended September 30, 2012 and 2011, there were no dilutive instruments outstanding, and therefore, diluted earnings per OP Unit and basic earnings per OP Unit are the same.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consists of income producing operating properties, properties held for sale, properties under development, and land held for future development. At September 30, 2012, the Operating Partnership owned and consolidated 73 communities in nine states plus the District of Columbia totaling 21,992 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2012 and December 31, 2011 (dollar amounts in thousands):

	September 30, 2012	December 31, 2011
Land	\$1,013,906	\$1,008,077
Depreciable property — held and used:		
Buildings and improvements	2,998,307	2,942,125
Furniture, fixtures and equipment	103,818	111,392
Sold:		
Land	—	13,449
Buildings and improvements	—	93,127
Furniture, fixtures and equipment	—	9,035
Under development:		
Land	16,385	16,385
Construction in progress	25,001	10,408
Land held for future development	1,300	1,300
Real estate owned	4,158,717	4,205,298
Accumulated depreciation	(1,052,150)	(976,358)
Real estate owned, net	\$3,106,567	\$3,228,940

The Operating Partnership did not have any acquisitions during the three and nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, the Operating Partnership acquired one community with 507 apartment homes, and four communities with 1,833 apartment homes, respectively.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheets as “Real estate under development.” The costs of development projects which include interest, real estate taxes, insurance and allocated development overhead related to support costs for personnel working directly on the development site are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the three and nine months ended September 30, 2012 and 2011 were \$564,000 and \$1.4 million and \$419,000 and \$1.8 million, respectively. During the three and nine months ended September 30, 2012 and 2011, total capitalized interest was \$1.2 million and \$2.5 million and \$445,000 and \$1.4 million, respectively.

4. DISCONTINUED OPERATIONS

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

reported at the lower of their carrying amount or their estimated fair value less the costs to sell the

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

assets.

During the three months ended September 30, 2012 and 2011, the Operating Partnership did not dispose of any communities. During the nine months ended September 30, 2012, the Operating Partnership sold four communities with 1,314 apartment homes. During the nine months ended September 30, 2011, the Operating Partnership sold four communities with 984 apartment homes in conjunction with an asset exchange. At September 30, 2012, the Operating Partnership had no communities that met the criteria to be classified as held for sale and included in discontinued operations.

During the three and nine months ended September 30, 2012 and 2011, the Operating Partnership recognized a (loss)/gain on the sale of communities for financial reporting purposes of \$(132,000) and \$51.1 million and \$17,000 and \$16.1 million, respectively, which is included in discontinued operations. Discontinued operations for the three and nine months ended September 30, 2011 also includes operating activities related to four communities (984 homes) sold during the last two quarters of 2011. The results of operations for these properties are classified in the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations."

The following is a summary of income from discontinued operations for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental income	\$—	\$7,654	\$6,750	\$27,101
Rental expenses	—	2,938	2,247	10,226
Property management fee	—	235	186	745
Other operating expenses	—	19	—	130
Real estate depreciation	—	2,689	1,205	9,687
Interest	—	—	—	815
	—	5,881	3,638	21,603
Income before net gain on the sale of property	—	1,773	3,112	5,498
Net (loss)/gain on the sale of property	(132) 17	51,050	16,055
(Loss)/income from discontinued operations	\$(132) \$1,790	\$54,162	\$21,553

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

5. DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of September 30, 2012 (dollars in thousands):

	Principal Outstanding		Nine Months Ended September 30,		
	September 30, 2012	December 31, 2011	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	\$396,442	\$457,723	5.32	% 3.7	5
Fannie Mae credit facilities	370,715	444,899	4.90	% 6.5	10
Total fixed rate secured debt	767,157	902,622	5.12	% 5.0	15
Variable Rate Debt					
Mortgage notes payable	37,415	37,415	1.06	% 0.8	2
Tax-exempt secured note payable	27,000	27,000	1.07	% 17.5	1
Fannie Mae credit facilities	137,187	222,608	2.54	% 6.3	5
Total variable rate secured debt	201,602	287,023	2.07	% 7.0	8
Total secured debt	\$968,759	\$1,189,645	4.48	% 5.4	23

As of September 30, 2012, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of \$932.1 million with \$843.3 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. At September 30, 2012, \$631.8 million of the outstanding balance was fixed at a weighted average interest rate of 5.12% and the remaining balance of \$211.4 million on these facilities had a weighted average variable interest rate of 2.08%. There was a total of \$507.9 million of these credit facilities allocated to the Operating Partnership at September 30, 2012 based on the ownership of the assets securing the debt. Following is information related to the credit facilities allocated to the Operating Partnership:

	September 30, 2012	December 31, 2011	
	(dollar amounts in thousands)		
Borrowings outstanding	\$507,902	\$667,507	
Weighted average borrowings during the period ended	556,643	721,054	
Maximum daily borrowings during the period	635,281	732,423	
Weighted average interest rate during the period ended	4.3	% 4.4	%
Interest rate at the end of the period	4.4	% 4.1	%

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair value adjustment of the fixed rate debt instruments on the Operating Partnership's properties was a net premium of \$14.7 million and \$17.8 million at September 30, 2012 and December 31, 2011, respectively.

Fixed Rate Debt

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

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

Secured credit facilities. At September 30, 2012, the General Partner had borrowings against its fixed rate facilities of \$631.8 million of which \$370.7 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2012, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 4.90%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature on July 2013. Interest on the variable rate mortgage notes is based on LIBOR plus some basis points, which translated into interest rate of 1.06% at September 30, 2012.

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures in March 2030. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 1.07% as of September 30, 2012.

Secured credit facilities. At September 30, 2012, the General Partner had borrowings against its variable rate facilities of \$211.4 million of which \$137.2 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2012, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 2.54%.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next five calendar years subsequent to September 30, 2012 are as follows (dollars in thousands):

	Fixed Mortgage Notes	Credit Facilities	Variable Mortgage Notes	Tax Exempt Notes Payable	Credit Facilities	Total
2012	\$1,467	\$77	\$—	\$—	\$—	\$1,544
2013	8,130	318	37,415	—	—	45,863
2014	8,358	336	—	—	—	8,694
2015	193,220	356	—	—	—	193,576
2016	131,955	374	—	—	—	132,329
Thereafter	53,312	369,254	—	27,000	137,187	586,753
Total	\$396,442	\$370,715	\$37,415	\$27,000	\$137,187	\$968,759

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility, with an aggregate borrowing capacity of \$900 million, a \$250 million term loan due January 2016, a \$100 million term loan due January 2016, \$300 million of medium-term notes due June 2018, and \$400 million of medium-term notes due January 2022. As of September 30, 2012, there were no outstanding borrowings under the unsecured credit facility. As of December 31, 2011, the outstanding balance under the unsecured credit facility was \$421.0 million.

6. RELATED PARTY TRANSACTIONS**Receivable due 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 receivable balances of \$37.7 million and \$193.6 million at September 30, 2012 and December 31, 2011, respectively, which is reflected as a reduction of capital on the Consolidated Balance Sheets.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR's total apartment homes. During the three and nine months ended September 30, 2012 and 2011, the general and administrative expenses allocated to the Operating Partnership by UDR were \$4.5 million and \$19.1 million and \$11.6 million and \$25.2 million, respectively, and are included in "General and Administrative" expenses on the consolidated statements of operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

Management Fee

In 2011, the Operating Partnership entered into a management agreement with the Taxable REIT Subsidiaries ("TRS") of the General Partner. The TRS charges the Operating Partnership 2.75% of gross rental revenues. During the three and nine months ended September 30, 2012, the Operating Partnership incurred \$2.8 million and \$8.3 million of related party management fees, and is included in "Property Management" on the Consolidated Statements of Operations.

Guaranties by the General Partner

The Operating Partnership provided a "bottom dollar" guaranty to certain limited partners as part of their original contribution to the Operating Partnership. The guaranty protects the tax basis of the underlying contribution and is reflected on the OP unitholder's Schedule K-1 tax form. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 1.998% at September 30, 2012 and 1.14% at December 31, 2011. Interest payments are made monthly and the note is due December 31, 2012. At September 30, 2012 and December 31, 2011, the note payable due to the General Partner was \$83.3 million.

In 2011, the Operating Partnership also provided a guaranty in conjunction with 1,802,239 OP Units issued in partial consideration to the seller for the acquisition of an operating community. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 5.337%. Interest payments are due monthly and the note matures on August 31, 2021. At September 30, 2012 and December 31, 2011, the note payable due to the General Partner was \$5.5 million.

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, 2012

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of September 30, 2012 and December 31, 2011 are summarized as follows (dollars in thousands):

Description:	September 30, 2012	Fair Value at September 30, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (b)	\$5	\$—	\$5	\$—
Total assets	\$5	\$—	\$5	\$—
Derivatives- Interest rate contracts (b)	\$5,567	\$—	\$5,567	\$—
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	434,833	—	—	434,833
Fannie Mae credit facilities	399,952	—	—	399,952
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	—	—	27,000
Fannie Mae credit facilities	137,187	—	—	137,187
Total liabilities	\$1,041,954	\$—	\$5,567	\$1,036,387
Description:	December 31, 2011	Fair Value at December 31, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (b)	\$71	\$—	\$71	\$—
Total assets	\$71	\$—	\$71	\$—
Derivatives- Interest rate contracts (b)	\$6,207	\$—	\$6,207	\$—
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	495,412	—	—	495,412
Fannie Mae credit facilities	462,621	—	—	462,621
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	—	—	27,000
Fannie Mae credit facilities	222,608	—	—	222,608
Total liabilities	\$1,251,263	\$—	\$6,207	\$1,245,056

(a) See Note 5, Debt

(b) See Note 8, Derivatives and Hedging Activity
Financial Instruments Carried at Fair Value

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

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

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

Although the Operating Partnership has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2012 and December 31, 2011, the Operating Partnership has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Operating Partnership has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Operating Partnership made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Financial Instruments Not Carried at Fair Value

At September 30, 2012, 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 Operating Partnership using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Operating Partnership would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

8. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

determined by interest rates. The General Partner's and the Operating Partnership's derivative financial instruments are used to manage differences in the amount, timing, and duration of the General Partner's known or expected cash receipts and its known or expected cash payments principally related to the General Partner's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

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

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated Other Comprehensive Income/(Loss)" 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, 2012 and 2011, 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 and nine months ended September 30, 2012 and 2011, the Operating Partnership recorded less than \$1,000 of ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item.

Amounts reported in "Accumulated Other Comprehensive Income/(Loss)" related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner's variable-rate debt that is allocated to the Operating Partnership. During the next twelve months through September 30, 2013, we estimate that an additional \$2.9 million will be reclassified as an increase to interest expense.

As of September 30, 2012, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

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

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in losses of \$2,000 and \$9,000 and \$33,000 and \$149,000 for the three and nine months ended September 30, 2012 and 2011, respectively.

As of September 30, 2012, we had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Number of Instruments	Notional
Interest rate caps	2	\$95,907

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

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

The table below presents the fair value of the Operating Partnership's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at: September 30, 2012	December 31, 2011	Balance Sheet Location	Fair Value at: September 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	\$5	\$64	Other liabilities	\$5,567	\$6,207
Total		\$5	\$64		\$5,567	\$6,207
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	\$—	\$7	Other liabilities	\$—	\$—
Total		\$—	\$7		\$—	\$—

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

The tables below present the effect of the derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 (dollar amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	2012	2011		2012	2011
For the Three Months Ended September 30,					
Interest rate products	\$ (503)	\$ (2,821)	Interest expense	\$ (863)	\$ (1,239)
Total	\$ (503)	\$ (2,821)		\$ (863)	\$ (1,239)

For the Nine Months Ended
September 30,

Interest rate products	\$ (1,873)	\$ (5,659)	Interest expense	\$ (2,545)	\$ (3,620)
Total	\$ (1,873)	\$ (5,659)		\$ (2,545)	\$ (3,620)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Derivatives Not Designated as Hedging Instruments	Recognized in Income on Derivative	2012	2011
For the Three Months Ended September 30,			
Interest rate products	Other income/(expense)	\$(2	) \$(33
Total		\$(2	) \$(33
For the Nine Months Ended September 30,			
Interest rate products	Other income/(expense)	\$(9	) \$(149
Total		\$(9	) \$(149

Credit-risk-related Contingent Features

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

Certain of the General Partner's agreements with its derivative counterparties contain provisions where if there is a change in the General Partner's financial condition that materially changes the General Partner's creditworthiness in an adverse manner, the General Partner may be required to fully collateralize its obligations under the derivative instrument.

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

As of September 30, 2012, the fair value of derivatives in a net liability position that were allocated to the Operating Partnership, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$5.8 million. As of September 30, 2012, the General Partner has not posted any collateral related to these agreements. If the General Partner had breached any of these provisions at September 30, 2012, it would have been required to settle its obligations under the agreements at their termination value of \$5.8 million.

9. CAPITAL STRUCTURE**General Partnership Units**

The General Partner has complete discretion to manage and control the operations and business of the Operating Partnership, which includes but is not limited to the acquisition and disposition of real property, construction of buildings and making capital improvements, and the borrowing of funds from outside lenders or UDR and its subsidiaries to finance such activities. The General Partner can generally authorize, issue, sell, redeem or purchase any OP Unit or securities of the Operating Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of OP units, the class or one or more series of classes, with designations, preferences, participating, optional or other special rights, powers and duties including rights, powers and duties senior to limited partnership interests without approval of any limited partners except holders of Class A Partnership Units. There were 110,883 General Partnership units outstanding at September 30, 2012 and December 31, 2011, all of which were held by UDR.

Limited Partnership Units

At September 30, 2012 and December 31, 2011, there were 184,170,370 limited partnership units outstanding, of which 1,751,671 were Class A Limited Partnership units. UDR owned 174,767,502 or 94.9% at September 30, 2012 and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

December 31, 2011. The remaining 9,402,868 or 5.1% OP Units outstanding were held by non-affiliated partners at September 30, 2012 and December 31, 2011 of which 1,751,671 were Class A Limited Partnership units.

Subject to the Operating Partnership Agreement, the limited partners have the right to require the Operating Partnership to redeem all or a portion of the OP Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in the Operating Partnership Agreement), provided that such OP Units have been outstanding for at least one year. UDR, as general partner of the Operating Partnership may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Share Amount (generally one share of common stock of UDR for each OP Unit), as defined in the Operating Partnership Agreement.

The non-affiliated limited partners' capital is adjusted to redemption value at the end of each reporting period with the corresponding offset against UDR's limited partner capital account based on the redemption rights noted above. The aggregate value upon redemption of the then-outstanding OP Units held by limited partners was \$233.4 million and \$236.5 million as of September 30, 2012 and December 31, 2011, respectively, based on the value of UDR's common stock at each period end. A limited partner has no right to receive any distributions from the Operating Partnership on or after the date of redemption of its OP Units.

Class A Limited Partnership Units

Class A Partnership units have a cumulative, annual, non-compounded preferred return, which is equal to 8% based on a value of \$16.61 per Class A Partnership unit.

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

Allocation of profits and losses

Profit of the Operating Partnership is allocated in the following order: (i) to the General Partner and the Limited Partners in proportion to and up to the amount of cash distributions made during the year, and (ii) to the General Partner and Limited Partners in accordance with their percentage interests. Losses and depreciation and amortization expenses, non-recourse liabilities are allocated to the General Partner and Limited Partners in accordance with their percentage interests. Losses allocated to the Limited Partners are capped to the extent that such an allocation would not cause a deficit in the Limited Partners capital account. Such losses are, therefore, allocated to the General Partner. If any Partner's capital balance were to fall into a deficit any income and gains are allocated to each Partner sufficient to eliminate its negative capital balance.

10. COMMITMENTS AND CONTINGENCIES

Contingencies

Litigation and Legal Matters

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

11. REPORTABLE SEGMENTS

GAAP guidance, requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating

decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

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

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

Same communities represent those communities acquired, developed, and stabilized prior to July 1, 2011 and held as of September 30, 2012. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-mature/other communities represent those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, and the non-apartment components of mixed use properties.

Management evaluates the performance of each of our apartment communities on a same community and non-mature/other basis, as well as individually and geographically. This is consistent with the aggregation criteria of Topic 280 as each of our apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Operating Partnership's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the Operating Partnership's total revenues during the three and nine months ended September 30, 2012 and 2011.

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

The accounting policies applicable to the operating segments described above are the same as those described in Note 2, "Significant Accounting Policies." The following table details rental income and NOI from continuing and discontinued operations for the Operating Partnership's reportable segments for the three and nine months ended September 30, 2012 and 2011, and reconciles NOI to net income attributable to OP unit holders per the consolidated statement of operations (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Reportable apartment home segment rental income				
Same Communities				
Western Region	\$44,217	\$42,139	\$130,492	\$123,329
Mid-Atlantic Region	25,650	24,214	75,367	64,005
Southeastern Region	10,292	9,802	30,355	28,877
Southwestern Region	5,058	4,657	14,799	13,619
Non-Mature communities/Other	15,018	19,021	49,898	55,965
Total segment and consolidated rental income	\$100,235	\$99,833	\$300,911	\$285,795
Reportable apartment home segment NOI				
Same Communities				
Western Region	\$30,624	\$29,576	\$91,319	\$85,840
Mid-Atlantic Region	18,151	16,808	52,973	44,767
Southeastern Region	6,617	6,028	19,786	17,952
Southwestern Region	3,185	2,875	9,113	8,266
Non-Mature communities/Other	11,250	13,487	37,324	37,385
Total segment and consolidated NOI	69,827	68,774	210,515	194,210
Reconciling items:				
Property management	(2,756)	(2,745)	(8,275)	(7,859)
Other operating expenses	(1,321)	(1,398)	(3,944)	(4,203)
Depreciation and amortization	(51,012)	(51,906)	(149,422)	(143,289)
Interest	(9,847)	(13,948)	(35,708)	(39,742)
General and administrative	(4,635)	(5,394)	(19,581)	(16,268)
Net gain on the sale of real estate	(132)	17	51,050	16,055
Non-controlling interests	(39)	(32)	(304)	(91)
Net income/(loss) attributable to OP unit holders	\$85	\$(6,632)	\$44,331	\$(1,187)

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UNITED DOMINION REALTY, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)

SEPTEMBER 30, 2012

The following table details the assets of the Operating Partnership's reportable segments as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012	December 31, 2011
Reportable apartment home segment assets		
Same Store Communities		
Western Region	\$1,717,514	\$1,699,311
Mid-Atlantic Region	1,139,788	1,132,708
Southeastern Region	322,012	317,354
Southwestern Region	185,356	184,158
Non-Mature communities/Other	794,047	871,767
Total segment assets	4,158,717	4,205,298
Accumulated depreciation	(1,052,150)	(976,358)
Total segment assets - net book value	3,106,567	3,228,940
Reconciling items:		
Cash and cash equivalents	1,918	704
Restricted cash	13,543	12,568
Deferred financing costs, net	6,399	8,184
Other assets	34,116	41,771
Total consolidated assets	\$3,162,543	\$3,292,167

Capital expenditures related to the Operating Partnership's same communities totaled \$8.4 million and \$23.3 million and \$7.1 million and \$18.2 million for the three and nine months ended September 30, 2012 and 2011, respectively. Capital expenditures related to the Operating Partnership's non-mature/other communities totaled \$398,000 and \$1.4 million and \$1.2 million and \$2.9 million for the three and nine months ended September 30, 2012 and 2011, respectively.

Markets included in the above geographic segments are as follows:

- i. Western — Orange County, San Francisco, Monterey Peninsula, Los Angeles, Seattle, Sacramento, Inland Empire, Portland, and San Diego
- ii. Mid-Atlantic — Metropolitan DC, New York, Boston, and Baltimore
- iii. Southeastern — Nashville, Tampa, and Other Florida
- iv. Southwestern — Dallas

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

Forward-Looking Statements

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

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

our failure to succeed in new markets;

changing interest rates, which could increase interest costs and affect the market price of our securities;

potential liability for environmental contamination, which could result in substantial costs to us;

the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;

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- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and

• changes in real estate laws, tax laws and other laws affecting our business.

A discussion of these and other factors affecting our business and prospects is set forth in Part II, Item 1A. Risk Factors. We encourage investors to review these risk factors.

Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such statements included in this Report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

UDR, INC.:

Business Overview

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

At September 30, 2012, our consolidated real estate portfolio included 145 communities with 41,827 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 43 communities with 10,717 apartment homes.

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The following table summarizes our market information by major geographic markets as of September 30, 2012.

Same Communities	As of September 30, 2012				Three Months Ended	September 30, 2012 (a)			
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying (in thousands)	Average Physical Occupancy	Total Income per Occupied Home	Average Physical Occupancy	Total Income per Occupied Home (b)	
Western Region									
Orange Co, CA	10	3,290	7.7	% \$601,459	94.8	% \$1,622	94.9	% \$1,611	
San Francisco, CA	9	2,028	7.0	% 548,715	96.4	% 2,532	96.4	% 2,360	
Seattle, WA	11	2,165	6.0	% 471,565	95.6	% 1,430	95.8	% 1,405	
Los Angeles, CA	5	919	3.8	% 294,589	94.7	% 2,031	94.9	% 2,011	
Monterey Peninsula, CA	7	1,565	2.0	% 156,528	94.7	% 1,133	93.9	% 1,103	
Inland Empire, CA	2	654	1.3	% 101,423	93.9	% 1,436	94.4	% 1,432	
Sacramento, CA	2	914	0.9	% 69,689	93.2	% 885	92.6	% 888	
Portland, OR	3	716	0.9	% 71,161	95.4	% 1,044	94.7	% 1,037	
San Diego, CA	2	366	0.7	% 56,378	95.3	% 1,428	94.8	% 1,409	
Mid-Atlantic Region									
Metropolitan DC	11	3,876	9.6	% 752,664	97.0	% 1,735	97.0	% 1,733	
Baltimore, MD	11	2,301	3.9	% 302,430	96.7	% 1,442	96.7	% 1,425	
Richmond, VA	4	1,358	1.7	% 136,640	95.5	% 1,193	95.3	% 1,171	
Norfolk VA	6	1,438	1.1	% 87,141	94.2	% 989	94.6	% 989	
New York, NY	1	493	3.4	% 264,360	98.4	% 3,314	—	% —	
Boston MA	4	1,179	4.0	% 316,272	95.9	% 2,011	96.4	% 2,735	
Other Mid-Atlantic	1	168	0.2	% 12,106	95.7	% 977	95.0	% 985	
Southeastern Region									
Tampa, FL	10	3,452	4.1	% 324,892	96.2	% 1,057	95.9	% 1,038	
Orlando, FL	11	3,167	3.5	% 278,782	95.9	% 974	95.6	% 960	
Nashville, TN	8	2,260	2.4	% 184,658	96.7	% 966	97.0	% 941	
Other Florida	1	636	1.0	% 78,737	94.6	% 1,243	94.5	% 1,246	
Southwestern Region									
Dallas, TX	9	3,117	4.4	% 351,848	96.3	% 1,075	96.3	% 1,020	
Austin, TX	1	390	0.8	% 60,761	96.5	% 1,305	96.2	% 1,265	
Total/Average Same Communities	129	36,452	70.4	% 5,522,798	95.8	% \$1,402	95.7	% \$1,323	
Non Matures, Commercial Properties & Other	16	5,375	25.1	% 1,973,187					

Total Real Estate Held for Investment	145	41,827	95.5	%	7,495,985
Real Estate Under Development (c)	—	—	4.5	%	355,465
Total Real Estate Owned	145	41,827	100.0	%	7,851,450
Total Accumulated Depreciation					(1,842,520)
Total Real Estate Owned, Net of Accumulated Depreciation					\$6,008,930

(a) Total Income per Occupied Home represents total monthly revenues divided by the product of occupancy and the number of mature apartment homes.

(b) The same community population for the nine months ended September 30, 2012 includes 33,823 homes.

(c) The Company is currently developing six wholly-owned communities with 1,921 apartment homes, none of which have been completed.

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We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to July 1, 2011 and held as of September 30, 2012. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months. Our Non-Mature/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, joint venture properties, and the non-apartment components of mixed use properties.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale of properties, and the issuance of debt and equity. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings under credit agreements. We routinely use our unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit agreements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, the repayment of financing on development activities, and potential property acquisitions, through secured and unsecured borrowings, the issuance of debt or equity securities, and the disposition of properties. We believe that our net cash provided by operations and borrowings under credit agreements will continue to be adequate to meet both operating requirements and the payment of dividends by the Company in accordance with REIT requirements. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations, borrowings under credit agreements, the issuance of debt or equity securities, and dispositions of properties.

We have a shelf registration statement filed with the Securities and Exchange Commission, or "SEC" which provides for the issuance of an indeterminate amount of common stock, preferred stock, guarantees of debt securities, warrants, subscription rights, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

On January 10, 2012, the Company issued \$400 million aggregate principal amount of 4.625% Medium Term Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.

In March 2011, the Company entered into an equity distribution agreement under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents. In September 2011, the Company entered into a new equity distribution agreement in connection with filing a new registration statement on Form S-3. The new equity distribution agreement replaced the March 2011 agreement, and no material changes were made to the equity distribution agreement. During the three months ended March 31, 2012, we sold all of the remaining 8,569,969 shares of common stock through this program for aggregate gross proceeds of approximately \$220.2 million at a weighted average price per share of \$25.69. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$4.4 million, were approximately \$215.8 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes.

On April 4, 2012, the Company entered into an equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the nine months ended September 30, 2012, we sold 71,000 shares of common stock through this program for aggregate gross

proceeds of approximately \$1.9 million at weighted average price per share of \$26.53. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$38,000, were approximately \$1.8 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes.

On May 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of \$25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of \$82.1 million.

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On June 4, 2012, the Company closed a public offering of 19,000,000 shares of its common stock, including 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of \$25.70 per share, for gross proceeds of approximately \$561.5 million and net proceeds of approximately \$538.8 million after underwriting discounts and commissions and estimated offering expenses. Proceeds from the sale of shares through this offering were used to repay approximately \$363.9 million of the Company's 3.3% (weighted average interest rate) secured debt with various maturities from 2012 - 2014, to redeem all of its outstanding Series G Preferred Stock, to repay a portion of indebtedness outstanding under its unsecured credit facility, and the balance for working capital and general corporate purposes.

On June 21, 2012, the Company purchased mezzanine debt securing a mortgage on a newly constructed, class A community in West Los Angeles. The \$26.5 million loan was purchased at a discount of 6.99% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022.

On August 15, 2012, the Company issued a \$24.5 million unsecured note receivable with one of its unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year.

Future Capital Needs

Future development and redevelopment expenditures may be funded through unsecured or secured credit facilities, proceeds from the issuance of equity or debt securities, the sale of properties and, to a lesser extent, from cash flows provided by operating activities. Acquisition activity in strategic markets may be funded through joint ventures, by the reinvestment of proceeds from the sale of properties, through the issuance of equity or debt securities, the issuance of operating partnership units and the assumption or placement of secured and/or unsecured debt.

As of September 30, 2012, we had approximately \$9.7 million of secured debt maturing during the remainder of 2012, which was subsequently paid in October 2012. We have no other secured and no unsecured debt maturing during the remainder of 2012. We anticipate repaying that debt with cash flow from our operations, debt and equity offerings, and proceeds from sold properties.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our other critical accounting policies are described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in UDR's current Report on Form 8-K, filed with the SEC on May 2, 2012. There have been no significant changes in our critical accounting policies from those reported in our Form 8-K filed with the SEC on May 2, 2012. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flow

The following discussion explains the changes in net cash provided by operating activities, net cash used in investing activities, and net cash provided by financing activities that are presented in our Consolidated Statements of Cash Flows.

Operating Activities

For the nine months ended September 30, 2012, our net cash flow provided by operating activities was \$245.4 million compared to \$182.9 million for the comparable period in 2011. The increase in cash flow from operating activities is primarily due to an increase in property net operating income from our apartment community portfolio and changes in operating assets and operating liabilities.

Investing Activities

For the nine months ended September 30, 2012, net cash used in investing activities was \$59.3 million compared to \$1.1 billion for the comparable period in 2011. The decrease in net cash used for investing activities was due to changes in the level of investment activities, which reflect our strategy as it relates to our investments in joint ventures, dispositions, capital expenditures, and development activities, all of which are discussed in further detail throughout this Report.

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Acquisitions and Dispositions

During the nine months ended September 30, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for \$11.7 million from its Texas joint venture partner.

During the nine months ended September 30, 2012, the Company sold 21 communities with 6,507 apartment homes. The Company had no communities that met the criteria to be classified as held for sale and included in discontinued operations at September 30, 2012. During the nine months ended September 30, 2011, the Company sold nine communities with 2,157 apartment homes, which included six communities (1,418 homes) sold in conjunction with an asset exchange.

Our long-term strategic plan is to continue achieving greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been seeking to expand our interests in communities located in Boston, California, Metropolitan Washington D.C., New York, and Washington state markets over the past years.

Prospectively, we plan to continue to channel new investments into those markets we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single family home ownership affordability and limited new supply for multifamily housing, which are three key drivers to strong rental growth.

Capital Expenditures

In conformity with GAAP, we capitalize those expenditures that materially enhance the value of an existing asset or substantially extend the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

Total capital expenditures, which in aggregate include recurring capital expenditures and major renovations, of \$109.6 million or \$2,449 per stabilized home was spent on all of our communities, excluding development and commercial properties, for the nine months ended September 30, 2012 as compared to \$59.4 million or \$1,236 per home for the comparable period in prior year.

Total recurring capital expenditures of \$43.0 million or \$961 per stabilized home was spent for the nine months ended September 30, 2012 as compared to \$35.8 million or \$746 per stabilized home for the comparable period in the prior year. A significant portion of this increase was attributable to an increase of 106.3% or \$5.3 million in revenue enhancing capital expenditures, such as kitchen and bath remodels, on our existing operating portfolio. The remainder of the increase in total recurring capital expenditures includes expenditures related to exterior/interior upgrades, turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as exterior paint, roofs, siding, parking lots, and asset preservation capital expenditures. Major renovations of \$66.6 million or \$1,487 per home was spent for the nine months ended September 30, 2012 as compared to \$23.6 million or \$491 per home for the comparable period in prior year. Major renovations for the nine months ended September 30, 2012 were primarily attributable to our redevelopment of five wholly-owned communities (2,585 homes) with a budget of \$279.0 million of which we have \$65.3 million of costs incurred at September 30, 2012.

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The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, and commercial properties, for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30, (dollars in thousands)			Per Home Nine Months Ended September 30,				
	2012	2011	% Change	2012	2011	% Change		
Revenue enhancing improvements	\$ 10,286	\$ 4,987	106.3	% \$ 230	\$ 104	121.2	%	
Turnover capital expenditures	11,040	9,315	18.5	% 247	194	27.3	%	
Asset preservation expenditures	21,696	21,519	0.8	% 484	448	8.0	%	
Total recurring capital expenditures	43,022	35,821	20.1	% \$ 961	746	28.8	%	
Major renovations	66,578	23,562	182.6	% 1,487	491	202.9	%	
Total capital expenditures	\$ 109,600	\$ 59,383	84.6	% \$ 2,449	\$ 1,236	98.1	%	
Repair and maintenance expense	\$ 27,937	\$ 28,411	(1.7)	)% \$ 624	\$ 592	5.4	%	
Average stabilized home count	44,762	48,028						

We will continue to selectively add revenue enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital. We will continue to evaluate our existing portfolio for redevelopment opportunities, and have identified candidates located in key markets. Our objective in redeveloping a community is twofold: we aim to meaningfully grow rental rates while also achieving cap rate compression through asset quality improvement. Recurring capital expenditures during 2012 are projected to be approximately \$1,200 per home.

Development

At September 30, 2012, our development pipeline for wholly-owned communities totaled 1,921 homes with a budget of \$651.8 million in which we have a carrying value of \$355.5 million. The estimated completion date for these communities will be through the second quarter of 2014.

Consolidated Joint Ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop an existing commercial property into a 173 apartment home community in Orange County, California. At closing, the Company contributed \$9.0 million, UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria was met on or before 730 days after the site plan application was deemed complete by the city, the Company was obligated to contribute an additional \$3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized \$3.0 million related to the contingent consideration, which represented the difference between fair value of the property of \$9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of \$12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation.

In September 2012, the Company paid the unaffiliated third party with which the Company invested in the joint venture a total of \$4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint ventures. In addition, we may earn fees for providing management services to the unconsolidated joint ventures. As of September 30, 2012, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting. In 2010, the Company acquired The Hanover Company's ("Hanover") partnership interests in the Hanover/MetLife

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Master Limited Partnership (“UDR/MetLife I”) at a cost of \$100.8 million. UDR/MetLife I currently owns a portfolio of 19 operating communities containing 3,930 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of UDR/MetLife I, UDR acts as the general partner with significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions.

UDR has a weighted average ownership interest of 12.6% in the operating communities and 4.0% in the land parcels. Our initial investment of \$100.8 million consisted of \$71.8 million in cash, which included associated transaction costs, and a \$30 million payable (includes present value discount of \$1 million) to Hanover. UDR agreed to pay the \$30 million balance to Hanover in two interest free installments in the amounts of \$20 million (paid in 2011) and \$10 million on the first and second anniversaries of the closing, respectively. The \$30 million payable was recorded at its present value of \$29 million using an effective interest rate of 2.67%. At September 30, 2012 and December 31, 2011, the net carrying value of the payable was \$9.9 million and \$9.8 million, respectively. Interest expense of \$66,000 and \$198,000 and \$197,000 and \$588,000 was recorded during the three and nine months ended September 30, 2012 and 2011, respectively. At September 30, 2012 and December 31, 2011, the Company’s investment was \$100.8 million and \$133.8 million, respectively.

UDR’s initial cost of its equity investment of \$100.8 million differed from the proportionate share in the underlying net assets of UDR/MetLife I of \$111.4 million. The difference of \$10.6 million was attributable to certain assets and adjustments that were allocated to UDR’s proportionate share in UDR/MetLife I’s buildings of \$8.4 million, land of \$3.9 million, and \$(1.6) million of lease intangible assets. With the exception of land, the difference related to buildings is accreted and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets was amortized and recorded as a component of loss from unconsolidated entities over 11 months with the offset to the Company’s carrying value of its equity investment. During the three and nine months ended September 30, 2012, the Company recorded \$25,000 and \$113,000 of net accretion, respectively. During the three and nine months ended September 30, 2011, the Company recorded \$396,000 and \$1.2 million net of amortization, respectively.

On January 12, 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest in a \$1.3 billion portfolio of 12 operating communities containing 2,528 apartment homes. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for \$637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was \$327.1 million, which consisted of \$293.5 million of cash paid and \$33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the \$293.5 million of cash paid for its investment, the Company paid \$80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.) Our investment at September 30, 2012 was \$301.2 million.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in San Francisco, California. At September 30, 2012, UDR owned a non-controlling interest of 92.5% in the joint venture. Our initial investment was \$37.3 million, and our investment at September 30, 2012 was \$40.1 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Boston, Massachusetts. At closing and at September 30, 2012, UDR owned a non-controlling interest of 98.0% in the joint venture. Our initial investment was \$26.0 million, and our investment at September 30, 2012 was \$28.4 million.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire land for future development in Santa Monica, California. At September 30, 2012, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$10.3 million and our investment at September 30, 2012 was \$10.3 million.

The Company is a partner in a joint venture with an unaffiliated third party to develop a 240-home community in Stoughton, Massachusetts. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$10.0 million. Our investment at September 30, 2012 and December 31, 2011 was \$16.2 million and \$17.2 million, respectively. During the three months ended September 30, 2012, the Company loaned the joint venture \$24.5 million to repay a secured loan with an unaffiliated third party. The loan with the Company has terms similar to the original loan. (See Note 2, Significant Accounting Policies for further discussion on terms of the related party note.)

The Company is a partner in a joint venture with an unaffiliated third party to develop a 264-home community in San Diego, California. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$9.9 million. Our investment at September 30, 2012 and December 31, 2011 was \$27.3 million and \$12.1 million, respectively.

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The Company is a partner with an unaffiliated third party in a joint venture to develop a 256-home community in College Park, Maryland. At September 30, 2012 and December 31, 2011, UDR owned a non-controlling interest of 95% in the joint venture. Our initial investment was \$7.1 million. Our investment at September 30, 2012 and December 31, 2011 was \$19.9 million and \$8.6 million, respectively.

UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to \$450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180 million of which the Company's maximum equity will be 30% or \$54 million when fully invested. The joint venture owns and operates three communities (660 homes) in Metropolitan Washington D.C. At September 30, 2012 and December 31, 2011, the Company owned a 30% interest in the joint venture. Our investment at September 30, 2012 and December 31, 2011 was \$31.0 million and \$34.1 million, respectively.

UDR is a partner with an unaffiliated third party which owns and operates apartment communities located in Texas. UDR initially contributed cash and a property equal to 20% of the fair value of ten properties (3,992 homes). The unaffiliated member contributed cash equal to 80% of the fair value of the properties, which amount was then used to purchase the nine operating properties from UDR. During nine months ended September 30, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for \$11.7 million from its Texas joint venture partner. Our initial investment was \$20.4 million. Our investment at September 30, 2012 and December 31, 2011 was \$4.0 million and \$7.1 million, respectively.

For additional information regarding these joint ventures, see Note 5, Joint Ventures, in the Consolidated Financial Statements of UDR, Inc. included in this Report.

Financing Activities

For the nine months ended September 30, 2012, our net cash (used in)/provided by by financing activities was \$(116.3) million compared to \$907.9 million for the comparable period of 2011.

The following significant financing activities occurred during the nine months ended September 30, 2012: repaid \$484.1 million of secured debt. The \$484.1 million of secured debt includes \$157.2 million of construction loans, repayment of \$211.8 million of credit facilities and \$115.1 million of mortgage payments;

repaid \$521.0 million of unsecured debt, which includes \$100 million of 5.00% Medium Term Notes due January 2012, and net payments of \$421.0 million were applied toward borrowings under the Company's \$900 million revolving credit facility;

issued \$400 million in 4.625% Medium Term Notes due January 2022 with a discount of \$3.6 million;

in March 2011, the Company entered into an equity distribution agreement under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents. In September 2011, the Company entered into a new equity distribution agreement in connection with filing a new registration statement on Form S-3. The new equity distribution agreement replaced the March 2011 agreement, and no material changes were made to the equity distribution agreement. During the three months ended March 31, 2012, the Company sold all of the remaining 8,569,969 shares of common stock through this program for aggregate gross proceeds of approximately \$220.2 million at a weighted average price per share of \$25.69. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$4.4 million, were approximately \$215.8 million;

in April 2012, the Company entered into an equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the nine months ended September 30, 2012, the Company sold 71,000 shares of common stock through this program for aggregate gross proceeds of approximately \$1.9 million at weighted average price per share of \$26.53. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$38,000, were approximately \$1.8 million;

in May 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of \$25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of \$82.1 million; and

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in June 2012, the Company closed a public offering of 19,000,000 shares of its common stock, including 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of \$25.70 per share, for gross proceeds of approximately \$561.5 million and net proceeds of approximately \$538.8 million after underwriting discounts and commissions and estimated offering expenses.

Credit Facilities

As of September 30, 2012, we have secured credit facilities with Fannie Mae with an aggregate commitment of \$932.1 million with \$843.3 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. We have \$631.8 million of the funded balance fixed at a weighted average interest rate of 5.12% and the remaining balance on these facilities is currently at a weighted average variable rate of 2.08%.

As of September 30, 2012, we have a \$900 million unsecured revolving credit facility that matures in October 2015. The credit facility has a one-year extension option, and contains an accordion feature that allows us to increase the facility to \$1.35 billion. Based on the Company's current credit ratings, the credit facility carries an interest rate equal to LIBOR plus a spread of 122.5 basis points and a facility fee of 22.5 basis points. As of September 30, 2012, we had no outstanding borrowings under the credit facility, leaving \$900 million of unused capacity (excluding \$4.1 million of letters of credit at September 30, 2012).

The Fannie Mae credit facilities and the bank unsecured revolving credit facility are subject to customary financial covenants and limitations.

Derivative Instruments

As part of UDR's overall interest rate risk management strategy, we use derivatives as a means to fix the interest rates of variable rate debt obligations or to hedge anticipated financing transactions. UDR's derivative transactions used for interest rate risk management include interest rate swaps with indexes that relate to the pricing of specific financial instruments of UDR. We believe that we have appropriately controlled our interest rate risk through the use of derivative instruments to minimize any unintended effect on consolidated earnings. Derivative contracts did not have a material impact on the results of operations during the three and nine months ended September 30, 2012 (see Note 11, Derivatives and Hedging Activity in the Consolidated Financial Statements of UDR, Inc. included in this Report).

Funds from Operations

Funds from operations, or FFO, is defined as net income (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO for all periods presented in accordance with the recommendations set forth by the National Association of Real Estate Investment Trust's ("NAREIT") April 1, 2002 White Paper. We consider FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In the three months ended March 31, 2012, UDR has chosen to exclude from the calculation of FFO a one-time taxable benefit of \$22.9 million from a subsidiary, and in the three months ended June 30, 2012, UDR has chosen to

exclude a tax provision of \$6.6 million associated with a gain on the sale of properties from the same subsidiary. The benefit has been excluded from FFO due to its nonrecurring nature (reversal of a deferred tax valuation allowance). The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real

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estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a Company's real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

The following table outlines our FFO calculation and reconciliation to GAAP for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income/(loss) attributable to UDR, Inc.	\$ (9,031)	\$ (13,251)	\$ 224,477	\$ (26,475)
Distributions to preferred stockholders	(931)	(2,308)	(5,079)	(7,003)
Real estate depreciation and amortization, including discontinued operations	88,223	96,554	266,944	271,830
Non-controlling interest	(645)	(535)	8,781	(1,058)
Real estate depreciation and amortization on unconsolidated joint ventures	6,852	2,956	22,634	8,648
Net gain on the sale of depreciable property in discontinued operations, excluding RE ³	1,133	(11,364)	(243,649)	(55,172)
Tax benefit of taxable REIT subsidiary	—	—	(22,876)	—
Premium on preferred stock repurchases, net	—	—	(2,791)	(175)
Funds from operations ("FFO") — basic	\$ 85,601	\$ 72,052	\$ 248,441	\$ 190,595
Distribution to preferred stockholders — Series E (Convertible)	931	931	2,793	2,793
Funds from operations — diluted	\$ 86,532	\$ 72,983	\$ 251,234	\$ 193,388
FFO per common share — basic	\$ 0.33	\$ 0.32	\$ 1.02	\$ 0.94
FFO per common share — diluted	\$ 0.33	\$ 0.32	\$ 1.01	\$ 0.93
Weighted average number of common shares and OP Units outstanding — basic	259,231	222,051	244,587	202,711
Weighted average number of common shares, OP Units, and common stock equivalents outstanding — diluted	263,631	227,243	248,983	207,854

In the computation of diluted FFO, OP Units, unvested restricted stock, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count.

RE³ is our subsidiary whose activities include development and land entitlement. RE³ tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. To determine whether gains from RE³ will be included in FFO, the Company considers whether the operating asset has been a short term investment. We consider FFO with RE³ recurring tax benefits and gain on sales, net of taxes and any related valuation allowance release, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

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The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 (shares in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Weighted average number of common shares and OP units outstanding basic	259,231	222,051	244,587	202,711
Weighted average number of OP units outstanding	(9,406)	(8,235)	(9,414)	(6,988)
Weighted average number of common shares outstanding - basic per the Consolidated Statements of Operations	249,825	213,816	235,173	195,723
Weighted average number of common shares, OP units, and common stock equivalents outstanding — diluted	263,631	227,243	248,983	207,854
Weighted average number of OP units outstanding	(9,406)	(8,235)	(9,414)	(6,988)
Weighted average incremental shares from assumed conversion of stock options	(1,242)	(1,347)	(1,238)	(1,310)
Weighted average incremental shares from unvested restricted stock	(122)	(809)	(122)	(797)
Weighted average number of Series E preferred shares outstanding	(3,036)	(3,036)	(3,036)	(3,036)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	249,825	213,816	235,173	195,723

FFO also does not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by generally accepted accounting principles, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs. A presentation of cash flow metrics based on GAAP is as follows (dollars in thousands):

	Nine Months Ended	
	September 30,	
	2012	2011
Net cash provided by operating activities	\$245,416	\$182,921
Net cash used in investing activities	(59,259)	(1,086,784)
Net cash (used in)/provided by financing activities	(116,283)	907,859
Results of Operations		

The following discussion includes the results of both continuing and discontinued operations for the periods presented.

Net Income/(Loss) Attributable to Common Stockholders

Net loss attributable to common stockholders was \$(10.0) million (\$(0.04) per diluted share) for the three months ended September 30, 2012 as compared to a net loss of \$(15.6) million (\$(0.07) per diluted share) for the comparable period in the prior year. The decrease in net loss attributable to common stockholders for the three months ended September 30, 2012 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- a decrease in interest expense resulting from the early extinguishment of debt during the six months ended June 30, 2012; and

- a decrease in depreciation expense due to dispositions of nine operating communities in the fourth quarter of 2011 and 21 operating communities in 2012.

These were partially offset by:

a decrease in net gains on the sale of depreciable property primarily related to the disposition of two communities during the three months ended September 30, 2011; and

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• a decrease in our net operating income primarily due to the Company's dispositions in 2011 and 2012. Net income attributable to common stockholders was \$216.6 million (\$0.92 per diluted share) for the nine months ended September 30, 2012 as compared to a net loss of \$(33.7) million (\$(0.17) per diluted share) for the comparable period in the prior year. The increase in net income attributable to common stockholders for the nine months ended September 30, 2012 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

• an increase in net gains on the sale of depreciable property primarily related to the disposition of 21 communities during the nine months ended September 30, 2012;

• an increase in income tax benefit of our taxable REIT subsidiary resulting from the reversal of a net deferred tax asset valuation allowance during the nine months ended September 30, 2012; and

• an increase in our net operating income primarily due to the Company's acquisition of eight operating communities in the second and third quarters of 2011.

Apartment Community Operations

Our net income results primarily from net operating income ("NOI") generated from the operation of our apartment communities. The Company defines NOI as rental income less direct property rental expenses. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent.

The following table summarizes the operating performance of our total apartment portfolio (which includes discontinued operations) and excludes commercial operating income and expense for each of the periods presented (dollars in thousands):

	Three Months Ended			Nine Months Ended				
	September 30,			September 30,				
	2012	2011	% Change	2012	2011	% Change		
Property rental income	\$176,770	\$187,137	(5.5)%	\$548,918	\$529,774	3.6		%
Property operating expense (a)	(58,458)	(63,730)	(8.3)%	(180,149)	(180,422)	—		%
Property net operating income	\$118,312	\$123,407	(4.1)%	\$368,769	\$349,352	5.6		%

(a) Excludes depreciation, amortization, and property management expenses.

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The following table is our reconciliation of property NOI to net (loss)/income attributable to UDR as reflected, for both continuing and discontinued operations, for the periods presented (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Property net operating income	\$118,312	\$123,407	\$368,769	\$349,352
Other net operating income	3,982	4,106	10,550	7,028
Non-property income	4,555	5,229	11,461	12,618
Real estate depreciation and amortization	(88,223)	(96,554)	(266,944)	(271,830)
Interest expense	(31,845)	(40,079)	(108,132)	(118,640)
General and administrative and property management	(15,020)	(17,098)	(48,588)	(50,051)
Other depreciation and amortization	(1,078)	(983)	(3,013)	(3,012)
Other operating expenses	(1,467)	(1,539)	(4,284)	(4,628)
Loss from unconsolidated entities	(719)	(1,580)	(5,822)	(4,260)
Tax benefit/(expense) of taxable REIT subsidiary	2,960	(59)	27,863	(173)
Redeemable non-controlling interests in OP	687	581	(8,644)	1,192
Non-controlling interests	(42)	(46)	(137)	(134)
Net gain on sale of properties	(1,133)	11,364	251,398	56,063
Net (loss)/income attributable to UDR, Inc.	\$(9,031)	\$(13,251)	\$224,477	\$(26,475)

Same Store Communities

Three Months Ended September 30, 2012 vs. Three Months Ended September 30, 2011

Our same store community properties (those acquired, developed, and stabilized prior to July 1, 2011 and held on September 30, 2012) consisted of 36,452 apartment homes and provided 84% of our total NOI for the three months ended September 30, 2012.

NOI for our same store community properties increased 6.4% or \$5.9 million for the three months ended September 30, 2012 compared to the same period in 2011. The increase in property NOI was attributable to a 5.5% or \$7.6 million increase in property rental income and a 3.6% or \$1.7 million increase in operating expenses. The increase in revenues was primarily driven by a 4.7% or \$6.4 million increase in rental rates and a 4.9% or \$575,000 increase in reimbursement and fee income. Physical occupancy increased 0.1% to 95.8% and total monthly income per occupied home increased 5.3% to \$1,402.

The increase in operating expenses was primarily driven by a 9.0% or \$1.2 million increase in real estate tax and 13.4% or \$398,000 increase in administrative and marketing costs, which was partially offset by an 18.7% or \$445,000 decrease in insurance expense.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 67.4% for the three months ended September 30, 2012 as compared to 66.8% for the comparable period in 2011.

Non-Mature/Other Communities

The remaining \$19.3 million or 16% of our total NOI during the three months ended September 30, 2012 was generated from our "non-mature communities." UDR's non-mature communities consist of communities that do not meet the criteria to be included in same communities, which includes communities developed or acquired, redevelopment properties, sold properties and non-apartment components of mixed use properties. For the three months ended September 30, 2012, we recognized NOI from our communities acquired in 2011 and 2012 of \$7.4 million and our redeveloped properties of \$10.3 million. During the three months ended September 30, 2012, a \$1.9 million benefit to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move out.

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Nine Months Ended September 30, 2012 vs. Nine Months Ended September 30, 2011

Our same store community properties (those acquired, developed, and stabilized prior to January 1, 2011 and held on September 30, 2012) consisted of 33,823 apartment homes and provided 71% of our total NOI for the nine months ended September 30, 2012.

NOI for our same store community properties increased 6.8% or \$16.5 million for the nine months ended September 30, 2012 compared to the same period in 2011. The increase in property NOI was attributable to a 5.3% or \$19.4 million increase in property rental income and a 2.4% or \$3.0 increase in operating expenses. The increase in property rental income was primarily driven by a 4.7% or \$16.6 million increase in rental rates and a 8.5% or \$2.6 million increase in reimbursement and fee income. Physical occupancy remained consistent at 95.7% and total monthly income per occupied home increased 5.3% to \$1,323.

The increase in operating expenses was primarily driven by a 8.7% or \$3.2 million increase in real estate tax and a 5.8% or \$1.1 million increase in repairs and maintenance, which was partially offset by a 2.3% or \$475,000 decrease in utility expense, and a 4.5% or \$1.4 million decrease in personnel costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 67.6% for the nine months ended September 30, 2012 as compared to 66.6% for the comparable period in 2011.

Non-Mature/Other Communities

The remaining \$108.4 million or 29% of our total NOI during the nine months ended September 30, 2012 was generated from our “non-mature communities.” UDR’s non-mature communities consist of communities that do not meet the criteria to be included in same communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. For the nine months ended September 30, 2012, we recognized NOI from our communities acquired in 2011 and 2012 of \$44.5 million, redeveloped properties of \$35.3 million, our sold communities of \$19.7 million, and developments of \$5.6 million. During the nine months ended September 30, 2012, a \$1.9 million benefit to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move out.

Other Income

During the three and nine months ended September 30, 2012 and 2011, other income from continuing operations includes fees earned from the Company’s joint ventures of \$3.3 million and \$9.0 million and \$2.5 million and \$6.4 million, respectively. During the nine months ended September 30, 2011, other income also includes a gain of \$3.1 million from the sale of marketable securities for \$3.5 million.

Real Estate Depreciation and Amortization

For the three months ended September 30, 2012, real estate depreciation and amortization attributable to both continuing and discontinued operations decreased 8.6% or \$8.3 million as compared to the comparable period in 2011. During the nine months ended September 30, 2012, real estate and amortization attributable to both continuing and discontinued operations decreased 1.8% or \$4.9 million as compared to the comparable periods in 2011. The decrease in depreciation and amortization for the three and nine months ended September 30, 2012 is primarily from the disposition of assets and ceasing depreciation on assets classified as held for sale. As part of the Company's acquisition activity in 2011 a portion of the purchase price was attributable to the fair value of intangible assets which were typically amortized over a period of less than one year. The decrease in depreciation and amortization expense was also attributable to amortization expense related to in place leases acquired in 2011.

Interest Expense

For the three months ended September 30, 2012, interest expense attributable to both continuing and discontinued operations decreased 20.5% or \$8.2 million as compared to the comparable period in 2011. For the nine months ended September 30, 2012, interest expense attributable to both continuing and discontinued operations decreased 8.9% or \$10.5 million. The decreases in interest expense were primarily due to early debt extinguishment during the six months ended June 30, 2012, and the write off of \$4.0 million of deferred financing costs related to the prepayment of debt in 2011.

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Tax Benefit of Taxable REIT Subsidiary

UDR elected for RE³ to be treated as a taxable REIT subsidiary. Income taxes for RE³ 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.

Prior to 2012, RE³ had a history of losses and, as a result, had historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the three months ended March 31, 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating losses, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings, forecasts of future earnings from the sale of depreciable property, and its cumulative earnings for the last twelve quarters. For the nine months ended September 30, 2012, the Company recognized an income tax benefit of taxable REIT subsidiary of \$27.9 million, net, which primarily resulted from the reversal of a net deferred tax asset valuation allowance of \$22.9 million.

General and administrative

For the three months ended September 30, 2012, general and administrative expense decreased 15.5% or \$1.8 million from the comparable period in 2011. The change was primarily due to a decrease in stock-based compensation expense of \$1.7 million, which was primarily due to the second quarter of 2012 vesting of restricted shares granted under the Company's 2010-2012 Long Term Incentive ("LTI") Program. These shares vested as a result of the Company meeting certain performance criteria outlined under the LTI Program. The decrease in general and administrative expense during the three months ended September 30, 2012 from the comparable period in 2011 was also attributable to a decrease in acquisition-related costs of \$697,000 due to minimal acquisition activity in 2012. General and administrative expenses decreased 6.0% or \$2.1 million for the nine months ended September 30, 2012 as compared to the comparable period in 2011. The decrease in general and administrative expense during the nine months ended September 30, 2012 was primarily due to a decrease of \$3.0 million in acquisition-related costs related to the Company's acquisition of eight operating communities during the nine months ended September 30, 2011.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, the majority of our leases are for a term of fourteen months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the three months ended September 30, 2012.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

UNITED DOMINION REALTY, L.P.:

Business Overview

United Dominion Realty, L.P. (the "Operating Partnership" or "UDR, L.P."), is a Delaware limited partnership formed in February 2004 and organized pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act (as amended from time to time, or any successor to such statute, the "Act"). The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations on November 4, 1995. Our sole general partner is UDR, Inc., a Maryland corporation ("UDR" or the "General Partner"), which conducts a substantial amount of its business and holds a substantial amount of its assets

through the Operating Partnership. At September 30, 2012, the Operating Partnership's real estate portfolio included 73 communities located in nine, with a total of 21,992 apartment homes.

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As of September 30, 2012, UDR owned 110,883 units of our general limited partnership interests and 174,767,502 units of our limited partnership interests (the “OP Units”), or approximately 94.9% of our outstanding OP Units. By virtue of its ownership of our OP Units and being our sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this Report to the Operating Partnership or “we,” “us” or “our” refer to UDR, L.P. together with its consolidated subsidiaries. We refer to our General Partner together with its consolidated subsidiaries (including us) and the General Partner’s consolidated joint ventures as “UDR” or the “General Partner.”

UDR operates as a self-administered real estate investment trust, or REIT. UDR focuses on owning, acquiring, renovating, developing, and managing apartment communities nationwide. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in September 2003. At September 30, 2012, the General Partner’s consolidated real estate portfolio included 145 communities located in 10 states and the District of Columbia with a total of 41,827 apartment homes. In addition, the General Partner has an ownership interest in 43 communities with 10,717 completed apartment homes through unconsolidated joint ventures.

The following table summarizes our market information by major geographic markets as of September 30, 2012.

Same Communities	As of September 30, 2012				Three Months Ended September 30, 2012 (a)		Nine Months Ended September 30, 2012 (a)	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Total Income per Occupied Home	Average Physical Occupancy	Total Income per Occupied Home (b)
Western Region								
Orange County, CA	8	2,935	12.3 %	\$512,312	94.6 %	\$1,579	94.7 %	\$1,573
San Francisco, CA	7	1,777	10.7 %	446,073	96.4 %	2,373	96.4 %	2,357
Monterey Peninsula, CA	7	1,565	3.8 %	156,528	94.7 %	1,133	93.9 %	1,103
Los Angeles, CA	3	463	3.0 %	125,942	94.8 %	1,841	95.0 %	1,824
San Diego, CA	2	366	1.4 %	56,378	95.3 %	1,428	94.8 %	1,409
Seattle, WA	5	932	5.0 %	209,563	95.8 %	1,385	96.0 %	1,354
Inland Empire, CA	1	414	1.7 %	69,868	94.1 %	1,548	94.5 %	1,544
Sacramento, CA	2	914	1.7 %	69,689	93.2 %	885	92.6 %	888
Portland, OR	3	716	1.7 %	71,161	95.4 %	1,044	94.7 %	1,037
Mid-Atlantic Region								
Metropolitan DC	7	2,378	13.3 %	553,082	96.2 %	1,858	96.4 %	1,832
New York, NY	1	493	6.4 %	264,360	98.4 %	3,314	—	—
Boston, MA	2	833	4.2 %	174,277	96.2 %	1,680	—	—
Baltimore, MD	5	994	3.6 %	148,069	96.6 %	1,403	96.2 %	1,386
Southeastern Region								
Tampa, FL	3	1,154	2.7 %	113,094	96.4 %	1,096	96.0 %	1,078
Nashville, TN	6	1,612	3.1 %	130,181	97.0 %	936	97.0 %	914

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Other Florida Southwestern Region	1	636	1.9	% 78,737	94.6	% 1,243	94.5	% 1,246
Dallas, TX	2	1,348	4.5	% 185,356	95.8	% 1,305	95.7	% 1,275
Total/Average Same Communities Non Matures, Commercial Properties & Other	65	19,530	81.0	% 3,364,670	95.6	% \$1,521	95.4	% \$1,430
Total Real Estate Held for Investment	73	21,992	100.0	% 4,158,717				
Total Accumulated Depreciation				(1,052,150)				
Total Real Estate Owned, Net of Accumulated Depreciation				\$3,106,567				

(a) Total Income per Occupied Home represents total monthly revenues divided by the product of occupancy and the

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number of mature apartment homes.

(b) The same community population for the nine months ended September 30, 2012 includes 17,880 apartment homes. We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to July 1, 2011, and held as of September 30, 2012. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months. Our Non-Mature/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, joint venture properties, and the non-apartment components of mixed use properties.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale of properties, and the issuance of debt. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. The Operating Partnership's primary source of liquidity is cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings allocated to us under the General Partner's credit agreements. The General Partner will routinely use its unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

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

Future Capital Needs

Future capital expenditures are expected to be funded with proceeds from the issuance of secured debt, the sale of properties, the borrowings allocated to us under our General Partner's credit agreements, and to a lesser extent, from cash flows provided by operating activities. Acquisition activity in strategic markets is expected to be largely financed by the reinvestment of proceeds from the sale of properties, the issuance of OP units and the assumption or placement of secured debt.

During the remainder of 2012, the Operating Partnership has approximately \$1.5 million of secured debt maturing, inclusive of principal amortization. We anticipate that we will repay that debt with operating cash flows, proceeds from borrowings allocated to us under our General Partner's credit agreements, or by exercising extension rights on such secured debt, as applicable. The repayment of debt will be recorded as an offset to the "Receivable due from General Partner".

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our other critical accounting policies are described in more detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in UDR's current Report on Form 8-K, filed with the SEC on May 2, 2012. There have been no significant changes in our critical accounting policies from those reported in UDR's Form 8-K filed with the SEC on May 2, 2012. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows for the Nine Months Ended September 30, 2012

The following discussion explains the changes in net cash provided by operating activities, net cash provided by/(used in) investing activities, and (used in)/provided by financing activities that are presented in our Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011.

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Operating Activities

For the nine months ended September 30, 2012, net cash flow provided by operating activities was \$154.4 million compared to \$127.5 million for the comparable period in 2011. The increase in net cash flow from operating activities was primarily due to an increase in property net operating income from our apartment community portfolio and changes in operating assets and operating liabilities.

Investing Activities

For the nine months ended September 30, 2012, net cash provided by/(used in) investing activities was \$34.4 million compared to \$(347.5) million for the comparable period in 2011. Changes in the level of investment activities from period to period reflect our strategy as it relates to acquisitions, dispositions and capital expenditures.

Acquisitions and Dispositions

The Operating Partnership did not have any acquisitions during the three and nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, the Operating Partnership acquired one community with 507 apartment homes and four communities with 1,833 apartment homes, respectively.

During the three months ended September 30, 2012 and 2011, the Operating Partnership did not dispose of any communities. During the nine months ended September 30, 2012, the Operating Partnership sold four communities with 1,314 apartment homes. During the nine months ended September 30, 2011, the Operating Partnership sold four communities with 984 apartment homes in conjunction with an asset exchange.

The Operating Partnership's long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been seeking to expand our interests in communities located in Boston, California, Metropolitan Washington D.C., New York, and the Washington state markets over the past years. Prospectively, we plan to continue to channel new investments into those markets we believe will continue to provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single-family home affordability and limited, new supply for multifamily housing, which are three key drivers to strong rental growth.

Financing Activities

For the nine months ended September 30, 2012, our net cash (used in)/provided by financing activities was \$(187.6) million compared to \$223.1 million for the comparable period of 2011. The change in cash used in financing activities was primarily due to an increase in payments on secured debt and a decrease in advances from the General Partner, partially offset by proceeds from the issuance of secured debt.

Credit Facilities

As of September 30, 2012, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of \$932.1 million with \$843.3 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. At September 30, 2012, \$631.8 million of the funded balance was fixed at a weighted average interest rate of 5.12% and the remaining balance on these facilities was at a weighted average variable rate of 2.08%. At September 30, 2012, \$507.9 million of these credit facilities are allocated to the Operating Partnership based on the ownership of the assets securing the debt.

The Operating Partnership is a guarantor on the General Partner's \$250 million term loan due January 2016, \$100 million term loan due January 2016, \$300 million of medium-term notes due June 2018, and \$400 million of medium-term notes due January 2022. At September 30, 2012 and December 31, 2011, the Operating Partnership guaranteed the General Partner's unsecured credit facility, with an aggregate borrowing capacity of \$900 million. There were no borrowings outstanding on the unsecured credit facility at September 30, 2012 and \$421.0 million outstanding at December 31, 2011.

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

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term

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interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$201.6 million in variable rate debt that is not subject to interest rate swap contracts as of September 30, 2012. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$2.0 million based on the balance at September 30, 2012.

These amounts are determined by considering the impact of hypothetical interest rates on our borrowing cost. These analyses do not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

Results of Operations for the Three and Nine Months Ended September 30, 2012

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the three months ended September 30, 2012 and 2011, and includes the results of both continuing and discontinued operations for the periods presented.

Net Income/(Loss) Attributable to OP Unitholders

Net income/(loss) attributable to OP unitholders was \$85,000 (\$0.00 per OP unit) for the three months ended September 30, 2012 as compared to \$(6.6) million (\$(0.04) per OP unit) for the comparable period in the prior year.

The increase in net income attributable to OP unit holders resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in net operating income primarily due to four community acquisitions in 2011; and
- a decrease in interest expense due to early extinguishment of secured debt during the six months ended June 30, 2012.

Net income/(loss) attributable to OP unitholders was \$44.3 million (\$0.24 per OP unit) for the nine months ended September 30, 2012 as compared to \$(1.2) million (\$(0.01) per OP unit) for the comparable period in the prior year.

The increase in net income attributable to OP unit holders resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

an increase in disposition gains for the nine months ended September 30, 2012 as compared to the comparable period in the prior year. The Operating Partnership recognized gains of \$51.1 million and \$16.1 million during the nine months ended September 30, 2012 and 2011, respectively, on the sale of four apartment home communities in each of these periods;

- an increase in net operating income primarily due to the acquisition of four communities in 2011; and
- a decrease in interest expense due to early extinguishment of secured debt during the six months ended June 30, 2012.

These were partially offset by an increase in depreciation expense due to community acquisitions in 2011.

Apartment Community Operations

Our net income results primarily from net operating income ("NOI") generated from the operation of our apartment communities. The Operating Partnership defines NOI as rental income less direct property rental expenses. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense which is calculated as 2.75% of property revenue.

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The following table summarizes the operating performance of our total portfolio (which includes discontinued operations) for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended			Nine Months Ended			
	September 30,			September 30,			
	2012	2011	% Change	2012	2011	% Change	
Property rental income	\$100,235	\$99,833	0.4	% \$300,911	\$285,795	5.3	%
Property operating expense (a)	(30,408)	(31,059)	(2.1)	% (90,396)	(91,585)	(1.3)	%
Property net operating income	\$69,827	\$68,774	1.5	% \$210,515	\$194,210	8.4	%

(a) Excludes depreciation, amortization, and property management expenses.

The following table is our reconciliation of property NOI to net income/(loss) attributable to OP unit holders as reflected, for both continuing and discontinued operations, for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Property net operating income	\$69,827	\$68,774	\$210,515	\$194,210
Real estate depreciation and amortization	(51,012)	(51,906)	(149,422)	(143,289)
Interest	(9,847)	(13,948)	(35,708)	(39,742)
General and administrative and property management	(7,391)	(8,139)	(27,856)	(24,127)
Other operating expenses	(1,321)	(1,398)	(3,944)	(4,203)
Net (loss)/gain on sale of real estate	(132)	17	51,050	16,055
Non-controlling interests	(39)	(32)	(304)	(91)
Net income/(loss) attributable to OP unitholders	\$85	\$(6,632)	\$44,331	\$(1,187)

Same Store Communities**Three Months Ended September 30, 2012 vs. Three Months Ended September 30, 2011**

Our same store communities (those acquired, developed, and stabilized prior to July 1, 2011 and held on September 30, 2012) consisted of 19,530 apartment homes and provided 84% of our total NOI for the three months ended September 30, 2012.

NOI for our same store community properties increased 5.9% or \$3.3 million for the three months ended September 30, 2012 compared to the same period in 2011. The increase in property NOI was primarily attributable to a 5.4% or \$4.4 million increase in total revenue, which was partially offset by a 4.4% or \$1.1 million increase in operating expenses. The increase in revenues was primarily driven by a 5.0% or \$3.9 million increase in rental rates and a 6.0% or \$368,000 increase in fee and reimbursement income. Physical occupancy increased 0.1% to 95.6% and total income per occupied home increased \$77 to \$1,521 for the three months ended September 30, 2012 compared to the same period in 2011.

The increase in property operating expenses was primarily driven by a 8.4% increase of \$648,000 in real estate tax, a 5.5% or \$232,000 increase in repair and maintenance costs, and a 3.5% or \$220,000 increase in personnel costs, which was partially offset by a 22.3% or \$291,000 decrease in insurance costs.

As a result of the percentage changes in property rental income, the operating margin (property net operating income divided by property rental income) was 68.7% for the three months ended September 30, 2012 as compared to 68.4% for the comparable period in 2011.

Nine Months Ended September 30, 2012 vs. Nine Months Ended September 30, 2011

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2011 and held on September 30, 2012) consisted of 17,880 apartment homes and provided 71% of our total NOI for the nine months ended September 30, 2012.

NOI for our same store community properties increased 6.5% or \$9.1 million for the nine months ended September 30,

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2012 compared to the same period in 2011. The increase in property NOI was primarily attributable to a 5.4% or \$11.3 million increase in total revenue, which was partially offset by a 3.2% or \$2.2 million increase in operating expenses. The increase in revenues was primarily driven by a 5.3% or \$10.7 million increase in rental rates and a 9.7% or \$1.5 million increase in fee and reimbursement income, which was partially offset by a 9.5% or \$791,000 increase in vacancy loss. Physical occupancy decreased 0.2% to 95.4% and total income per occupied home increased \$76 to \$1,430 for the nine months ended September 30, 2012 compared to the same period in 2011.

The increase in property operating expenses was primarily driven by a 7.9% increase of \$1.7 million in real estate tax and a 8.0% or \$844,000 increase in repair and maintenance costs, which was partially offset by a 3.2% or \$535,000 decrease in personnel costs.

As a result of the percentage changes in property rental income, the operating margin (property net operating income divided by property rental income) was 68.5% for the nine months ended September 30, 2012 as compared to 67.8% for the comparable period in 2011.

Non-Mature/Other CommunitiesThree Months Ended September 30, 2012

The remaining \$11.2 million or 16% of our total NOI during the three months ended September 30, 2012, was generated from communities that we classify as “non-mature communities.” The Operating Partnership’s non-mature communities consist of communities that do not meet the criteria to be included in same store communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. For the three months ended September 30, 2012, we recognized NOI from our acquired communities of \$3.7 million and NOI from our redevelopment properties of \$4.8 million. During the three months ended September 30, 2012, a \$996,000 benefit to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move out.

Nine Months Ended September 30, 2012

The remaining \$60.2 million or 29% of our total NOI during the nine months ended September 30, 2012, was generated from communities that we classify as “non-mature communities.” The Operating Partnership’s non-mature communities consist of communities that do not meet the criteria to be included in same store communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. For the nine months ended September 30, 2012, we recognized NOI from our acquired communities of \$29.3 million, NOI from our redevelopment properties of \$19.3 million and NOI from our sold communities of \$4.5 million. During the nine months ended September 30, 2012, a \$996,000 benefit to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move out.

Real Estate Depreciation and Amortization

For the three months ended September 30, 2012 and 2011, real estate depreciation and amortization from continuing and discontinued operations decreased by 1.7% or \$894,000 as compared to the comparable period in 2011. The decrease in depreciation and amortization for the three months ended September 30, 2012 is primarily the result of acquisitions in 2011 and dispositions in 2011 and 2012. For the nine months ended September 30, 2012, real estate depreciation and amortization from continuing and discontinued operations increased by 4.3% or \$6.1 million as compared to the comparable period in 2011. The increase in depreciation and amortization for the nine months ended September 30, 2012 is due to the acquisition of four apartment home communities in 2011. As part of the Operating Partnership’s acquisition activity, a portion of the purchase price is attributable to the fair value of intangible assets which are typically amortized over a period of less than one year.

Income from Discontinued Operations

For the three and nine months ended September 30, 2012 and 2011, we recognized (loss)/income from discontinued operations for financial reporting purposes of \$(132,000) and \$54.2 million and \$1.8 million and \$21.6 million, respectively. The change in income from discontinued operations primarily relates to the recognition of net (loss)/gain from the sale of property of \$(132,000) and \$51.1 million and \$17,000 and \$16.1 million during the three and nine months ended September 30, 2012 and 2011, respectively.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of

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one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the three and nine months ended September 30, 2012 and 2011.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

See our Annual Report on Form 10-K for the year ended December 31, 2011 under the heading "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a more complete discussion of our interest rate sensitive assets and liabilities. As of September 30, 2012, our market risk has not changed materially from the amounts reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. CONTROLS AND PROCEDURES

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

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

As of September 30, 2012, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Principal Financial Officer of the Company, of the effectiveness of the design and operation of the disclosure controls and procedures of the Company and the Operating Partnership. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer of the Company concluded that the disclosure controls and procedures of the Company and the Operating Partnership are effective at the reasonable assurance level described above.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

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

Risks Related to Our Real Estate Investments and Our Operations

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

• downturns in the national, regional and local economic conditions, particularly increases in unemployment;

• declines in mortgage interest rates, making alternative housing more affordable;

• government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing options more attractive;

• local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;

• declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;

• changes in market rental rates;

• our ability to renew leases or re-lease space on favorable terms;

- the timing and costs associated with property improvements, repairs or renovations;
- declines in household formation; and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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Continued Economic Weakness Following the Economic Recession that the U.S. Economy Recently Experienced May Materially and Adversely Affect our Financial Condition and Results of Operations. The U.S. economy continues to experience weakness following a severe recession, which has resulted in increased unemployment, decreased consumer spending and a decline in residential and commercial property values. Although it is not clear whether the U.S. economy has fully emerged from the recession, high levels of unemployment have continued to persist. If the economic recovery slows or stalls, we may experience adverse effects on our occupancy levels, our rental revenues and the value of our properties, any of which could adversely affect our cash flow, financial condition and results of operations.

Substantial International, National and Local Government Spending and Increasing Deficits May Adversely Impact Our Business, Financial Condition and Results of Operations. The values of, and the cash flows from, the properties we own are affected by developments in global, national and local economies. As a result of the recent recession and the significant government interventions, federal, state and local governments have incurred record deficits and assumed or guaranteed liabilities of private financial institutions or other private entities. These increased budget deficits and the weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. Neither inflation nor deflation has materially impacted our operations in the recent past. The general risk of inflation is that our debt interest and general and administrative expenses increase at a rate higher than our rental rates. The predominant effects of deflation include high unemployment and credit contraction. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties. High unemployment may have a negative effect on our occupancy levels and our rental revenues.

We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities: a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended, or the "Code," so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales; and

federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

Competition Could Limit Our Ability to Lease Apartment Homes or Increase or Maintain Rents. Our apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities, condominiums and single-family rental homes, as well as owner occupied single- and multi-family homes. Competitive housing in a particular area could adversely affect our ability to lease apartment homes and increase or maintain rents.

We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies. We have selectively acquired in the past,

and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

• we may be unable to obtain financing for acquisitions on favorable terms or at all;

• even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the acquisition;

• even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the

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acquisition after incurring certain acquisition-related costs;

we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;

when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability; and

we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other public and private apartment REITs, have competed with us to acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect growth.

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

we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all which could cause us to delay or even abandon potential developments;

we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;

yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than pro forma;

if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;

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

we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;

occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; and

when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

In some cases in the past, the costs of upgrading acquired communities exceeded our original estimates. We may experience similar cost increases in the future. Our inability to charge rents that will be sufficient to offset the effects of any increases in these costs may impair our profitability.

Bankruptcy of Developers in Our Development Joint Ventures Could Impose Delays and Costs on Us With Respect to the Development of Our Communities and May Adversely Affect Our Financial Condition and Results of Operations.

The bankruptcy of one of the developers in any of our development joint ventures could materially and adversely affect the relevant property or properties. If the relevant joint venture through which we have invested in a property has incurred recourse obligations, the discharge in bankruptcy of the developer may require us to honor a completion guarantee and therefore might

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result in our ultimate liability for a greater portion of those obligations than we would otherwise bear.

Property Ownership Through Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. If we use such a structure, we could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, joint venture partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest.

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

If an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. If one or more of our significant properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions to UDR's stockholders.

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

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

These risks include, among others:

• inability to accurately evaluate local apartment market conditions and local economies;

• inability to hire and retain key personnel;

• lack of familiarity with local governmental and permitting procedures; and

• inability to achieve budgeted financial results.

Potential Liability for Environmental Contamination Could Result in Substantial Costs. Under various federal, state and local environmental laws, as a current or former owner or operator of real estate, we could be required to investigate and remediate the effects of contamination of currently or formerly owned real estate by hazardous or toxic substances, often regardless of our knowledge of or responsibility for the contamination and solely by virtue of our current or former ownership or operation of the real estate. In addition, we could be held liable to a governmental authority or to third parties for property damage and for investigation and clean-up costs incurred in connection with

the contamination. These costs could be substantial, and in many cases environmental laws create liens in favor of governmental authorities to secure their payment. The presence of such substances or a failure to properly remediate any resulting contamination could materially and adversely affect our ability to borrow against, sell or rent an affected property.

In addition, our properties are subject to various federal, state and local environmental, health and safety laws, including laws governing the management of wastes and underground and aboveground storage tanks.

Noncompliance with these environmental, health and safety laws could subject us to liability. Changes in laws could increase the potential costs of compliance with environmental laws, health and safety laws or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations.

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

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

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our shareholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations.

Our Properties May Contain or Develop Harmful Mold or Suffer from Other Indoor Air Quality Issues, Which Could Lead to Liability for Adverse Health Effects or Property Damage or Cost for Remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

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

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

Real Estate Tax and Other Laws. Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

Risk of Damage from Catastrophic Weather Events. Certain of our communities are located in the general vicinity of active earthquake faults, mudslides and fires, and others where there are hurricanes, tornadoes or risks of other inclement weather. The adverse weather events could cause damage or losses that may be greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our

business and our financial condition and results of operations.

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

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

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

Our Business and Operations Would Suffer in the Event of System Failures. Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and keeping of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Although we take steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information, such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

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

We May be Adversely Affected by New Laws and Regulations. The United States Administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate control, executive compensation and others. We believe that these and other

potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us. Certain rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the recent economic downturn. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area culminated in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Many of the provisions of the Dodd-Frank Act have extended

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implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

Changing laws, regulations and standards relating to corporate governance and public disclosure in particular, including certain provisions of the Dodd-Frank Act and the rules and regulations promulgated thereunder, have created uncertainty for public companies like ours and could significantly increase the costs and risks associated with accessing the U.S. public markets. Because we are committed to maintaining high standards of internal control over financial reporting, corporate governance and public disclosure, our management team will need to devote significant time and financial resources to comply with these evolving standards for public companies. We intend to continue to invest appropriate resources to comply with both existing and evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

The Adoption of Derivatives Legislation by Congress Could Have an Adverse Impact on our Ability to Hedge Risks Associated with our Business. The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. While we may ultimately be eligible for such exceptions, the scope of these exceptions is currently uncertain, pending further definition through rulemaking proceedings. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available hedge counterparties to us.

Changes in the System for Establishing U.S. Accounting Standards May Materially and Adversely Affect Our Reported Results of Operations. Accounting for public companies in the United States has historically been conducted in accordance with generally accepted accounting principles as in effect in the United States (“GAAP”). GAAP is established by the Financial Accounting Standards Board (the “FASB”), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The International Accounting Standards Board (the “IASB”) is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards (“IFRS”). IFRS generally reflects accounting practices that prevail in Europe and in developed nations around the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on “fair value” models of accounting for assets and liabilities than GAAP. “Fair value” models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

We are monitoring the SEC’s activity with respect to the proposed adoption of IFRS by United States public companies. It is unclear at this time how the SEC will propose that GAAP and IFRS be harmonized if the proposed change is adopted. In addition, switching to a new method of accounting and adopting IFRS will be a complex undertaking. We may need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately to be adopted are not now known, the magnitude of costs associated with this conversion are uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial position and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific IFRS standards that will be adopted. Until there is more certainty with respect to the IFRS standards to be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

Risks Related to Our Indebtedness and Financings

Insufficient Cash Flow Could Affect Our Debt Financing and Create Refinancing Risk. We are subject to the risks normally associated with debt financing, including the risk that our operating income and cash flow will be insufficient to make required payments of principal and interest, or could restrict our borrowing capacity under our line of credit due to debt covenant restraints. Sufficient cash flow may not be available to make all required principal payments and still satisfy UDR's distribution requirements to maintain its status as a REIT for federal income tax purposes. In addition, the full limits of our line

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of credit may not be available to us if our operating performance falls outside the constraints of our debt covenants. We are also likely to need to refinance substantially all of our outstanding debt as it matures. We may not be able to refinance existing debt, or the terms of any refinancing may not be as favorable as the terms of the existing debt, which could create pressures to sell assets or to issue additional equity when we would otherwise not choose to do so. In addition, our failure to comply with our debt covenants could result in a requirement to repay our indebtedness prior to its maturity, which could have an adverse effect on our cash flow, increase our financing costs and impact our ability to make distributions to UDR's stockholders.

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

- the national and local economies;

- local real estate market conditions, such as an oversupply of apartment homes;

- tenants' perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;

- our ability to provide adequate management, maintenance and insurance;

- rental expenses, including real estate taxes and utilities;

- competition from other apartment communities;

- changes in interest rates and the availability of financing;

- changes in governmental regulations and the related costs of compliance; and

- changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multi-family housing.

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

Our Debt Level May Be Increased. Our current debt policy does not contain any limitations on the level of debt that we may incur, although our ability to incur debt is limited by covenants in our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

Financing May Not Be Available and Could Be Dilutive. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. We and other companies in the real estate industry have experienced limited availability of financing from time to time. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

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

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR's Stock. Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the past few years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks

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to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. The downgrade of the U.S. credit rating by Standard & Poor's and the European debt crisis have contributed to the instability in global credit markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of UDR's common or preferred stock. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of UDR's common shares and other adverse effects on us and our business.

Prospective buyers of our properties may also experience difficulty in obtaining debt financing which might make it more difficult for us to sell properties at acceptable pricing levels. Tightening of credit in financial markets and high unemployment rates may also adversely affect the ability of tenants to meet their lease obligations and for us to continue increasing rents on a prospective basis. Disruptions in the credit and financial markets may also have other adverse effects on us and the overall economy.

A Change in U.S. Government Policy Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. Fannie Mae and Freddie Mac are a major source of financing for secured multifamily rental real estate. We and other multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guaranteeing apartment loans. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. The Administration has proposed potential options for the future of mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, it would significantly reduce our access to debt capital and adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. Uncertainty in the future activity and involvement of Fannie Mae and Freddie Mac as a source of financing could negatively impact our ability to make acquisitions and make it more difficult or not possible for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

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

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of September 30, 2012, UDR had approximately \$378.5 million of variable rate indebtedness outstanding, which constitutes approximately 11% of total outstanding indebtedness as of such date. As of September 30, 2012, the Operating Partnership had approximately \$201.6 million of variable rate indebtedness outstanding, which constitutes approximately 21% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our

ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of UDR's common and preferred stock and debt securities.

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

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

Risks Related to Tax Laws

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

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

Dividends Paid By REITs Generally Do Not Qualify for Reduced Tax Rates. In general, the maximum U.S. federal income tax rate for dividends paid to individual U.S. shareholders is 15% (through 2012). Unlike dividends received from a corporation that is not a REIT, our distributions to individual shareholders generally are not eligible for the reduced rates.

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

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

short-term or long-term basis to meet the 90% distribution requirement of the Code.

Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction. From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction and subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a

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transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property sales. In addition, income from a prohibited transaction might adversely affect UDR's ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

We Could Face Possible State and Local Tax Audits and Adverse Changes in State and Local Tax Laws. As discussed in the risk factors above, because UDR is organized and qualifies as a REIT it is generally not subject to federal income taxes, but it is subject to certain state and local taxes. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and municipalities in which we own apartment communities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional state and local taxes. These increased tax costs could adversely affect our financial condition and the amount of cash available for the payment of distributions to UDR's stockholders. In the normal course of business, entities through which we own real estate may also become subject to tax audits. If such entities become subject to state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition.

The Operating Partnership Intends to Qualify as a Partnership, But Cannot Guarantee That It Will Qualify. The Operating Partnership intends to qualify as a partnership for federal income tax purposes at any such time that the Operating Partnership admits additional limited partners other than UDR. If classified as a partnership, the Operating Partnership generally will not be a taxable entity and will not incur federal income tax liability. However, the Operating Partnership would be treated as a corporation for federal income tax purposes if it were a "publicly traded partnership," unless at least 90% of the Operating Partnership's income was qualifying income as defined in the Code. A "publicly traded partnership" is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although the Operating Partnership's partnership units are not traded on an established securities market, because of the redemption right, the Operating Partnership's units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and the Operating Partnership may not qualify for one of the "safe harbors" under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. The Operating Partnership may not meet this qualifying income test. If the Operating Partnership were to be taxed as a corporation, it would incur substantial tax liabilities, and UDR would then fail to qualify as a REIT for tax purposes, unless it qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

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

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

Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of UDR's Common Stock. The stock markets, including the New York Stock Exchange ("NYSE"), on which we list UDR's common stock, have experienced significant price and volume fluctuations. As a result, the market price of UDR's common stock could be similarly volatile, and investors in UDR's common stock may experience a decrease in the

value of their shares, including decreases unrelated to our operating performance or prospects. In addition to the risks listed in this “Risk Factors” section, a number of factors could negatively affect the price per share of UDR’s common stock, including:

• general market and economic conditions;

• actual or anticipated variations in UDR’s quarterly operating results or dividends or UDR’s payment of dividends in shares of UDR’s stock;

• changes in our funds from operations or earnings estimates;

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- difficulties or inability to access capital or extend or refinance existing debt;
- decreasing (or uncertainty in) real estate valuations;
- changes in market valuations of similar companies;
- publication of research reports about us or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of UDR's stock to demand a higher annual yield from future dividends;
- a change in analyst ratings;
- additions or departures of key management personnel;
- adverse market reaction to any additional debt we incur in the future;
- speculation in the press or investment community;
- terrorist activity which may adversely affect the markets in which UDR's securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;
- failure to qualify as a REIT;
- strategic decisions by us or by our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- failure to satisfy listing requirements of the NYSE;
- governmental regulatory action and changes in tax laws; and
- the issuance of additional shares of UDR's common stock, or the perception that such sales might occur, including under UDR's at-the-market equity distribution program.

Many of the factors listed above are beyond our control. These factors may cause the market price of shares of UDR's common stock to decline, regardless of our financial condition, results of operations, business or our prospects. We May Change the Dividend Policy for UDR's Common Stock in the Future. The decision to declare and pay dividends on UDR's common stock, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of our board of directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of directors considers relevant. Any change in our dividend policy could have a material adverse effect on the market price of UDR's common stock.

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR's Stockholders' Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us.

As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR's stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR's stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights

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unless approved by a vote of two-thirds of the shares eligible to vote.

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

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

Unregistered Sales of Equity Securities

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

On August 23, 2012, the Company filed a registration statement for up to 1,802,239 shares of common stock in an offering valued at approximately \$44.9 million. This registration statement relates to up to 1,802,239 shares of our common stock that the Company may issue to certain holders of OP Units, in the Operating Partnership, to the extent that:

- the OP Unit holders tender their OP Units for redemption in accordance with the terms of the partnership agreement of the Operating Partnership; and
- the Company elects, in its sole discretion, to issue to the OP Unit holders the shares of common stock covered by the registration statement upon such redemption.

In lieu of issuing common shares to the OP Unit holders, cash may be paid for any OP Units that are tendered for redemption. The registration of the offer and sale of up to 1,802,239 shares of our common stock pursuant to the registration statement does not necessarily mean that the OP Unit holders will tender their OP Units for redemption, or that those OP Units will be redeemed in exchange for shares of UDR common stock. The OP Units that could potentially be redeemed in exchange for up to 1,802,239 shares of UDR common stock were originally issued as part of the consideration paid in our acquisition of 95 Wall in New York, New York. The Company will not receive any cash proceeds from the issuance of our common stock to OP Unit holders who tender their OP Units for redemption.

On July 16, 2012 and August 27, 2012, we issued 10,957 and 1,998, respectively, shares of our common stock upon redemption of OP Units. Because these shares of common stock were issued to accredited investors in transactions not involving a public offering, the transaction is exempt from registration under the Securities Act of 1933 in accordance

with Section 4(2) of the Securities Act. We did not issue any other shares of our common stock upon redemption of OP Units during the three months ended September 30, 2012.

Repurchase of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or

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otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended September 30, 2012.

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Beginning Balance	9,967,490	\$22.00	9,967,490	15,032,510
July 1, 2012 through July 31, 2012	—	—	—	15,032,510
August 1, 2012 through August 31, 2012	—	—	—	15,032,510
September 1, 2012 through September 30, 2012	—	—	—	15,032,510
Balance as of September 30, 2012	9,967,490	\$22.00	9,967,490	15,032,510

(1) This number reflects the amount of shares that were available for purchase under our 10,000,000 share repurchase program authorized in February 2006 and our 15,000,000 share repurchase program authorized in January 2008.

Item 3. **DEFAULTS UPON SENIOR SECURITIES**
None.

Item 4. **MINE SAFETY DISCLOSURES**

Not applicable.

Item 5. **OTHER INFORMATION**

There is no other information required to be disclosed in a report on Form 8-K during the quarter ended September 30, 2012, that was not previously disclosed in a Form 8-K.

Item 6. **EXHIBITS**

The exhibits filed or furnished with this Report are set forth in the Exhibit Index.

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SIGNATURES

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

UDR, Inc.
(registrant)

Date: October 31, 2012

/s/ Mark A. Schumacher
Mark A. Schumacher
Chief Accounting Officer and Senior Vice
President

United Dominion Realty, L.P.
(registrant)

By: UDR, Inc., its general partner

Date: October 31, 2012

/s/ Mark A. Schumacher
Mark A. Schumacher
Chief Accounting Officer and Senior Vice
President

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Restatement of UDR, Inc. (incorporated by reference to Exhibit 3.09 to UDR, Inc.'s Current Report on Form 8-K dated July 27, 2005 and filed with the SEC on August 1, 2005).
3.2	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007 (incorporated by reference to Exhibit 3.2 to UDR, Inc.'s Current Report on Form 8-K dated March 14, 2007 and filed with the SEC on March 15, 2007).
3.3	Articles Supplementary relating to UDR, Inc.'s 6.75% Series G Cumulative Redeemable Preferred Stock dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 30, 2007 (incorporated by reference to Exhibit 3.4 to UDR, Inc.'s Form 8-A Registration Statement dated and filed with the SEC on May 30, 2007).
3.4	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on August 30, 2011 (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the SEC on September 1, 2011).
3.5	Certificate of Limited Partnership of United Dominion Realty, L.P. dated February 19, 2004 (incorporated by reference to Exhibit 3.4 to United Dominion Realty, L.P.'s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 dated and filed with the SEC on October 15, 2010).
3.6	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004 (incorporated by reference to Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003).
3.7	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated June 24, 2005 (incorporated by reference to Exhibit 10.06 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
3.8	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 23, 2006 (incorporated by reference to Exhibit 10.6 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
3.9	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 2, 2007 (incorporated by reference to Exhibit 99.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.10	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated December 27, 2007 (incorporated by reference to Exhibit 10.25 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007).
3.11	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated March 7, 2008 (incorporated by reference to Exhibit 10.53 to UDR,

Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008).

3.12 Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated December 9, 2008 and filed with the SEC on December 10, 2008).

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Exhibit No.	Description
3.13	Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of March 13, 2009 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated March 18, 2009 and filed with the SEC on March 19, 2009).
3.14	Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of November 17, 2010 (incorporated by reference to Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated November 18, 2010 and filed with the SEC on November 18, 2010).
3.15	Amended and Restated Bylaws of UDR, Inc. (as amended through May 12, 2011) (incorporated by reference to Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K filed with the SEC on May 13, 2011).
10.1	Consulting Agreement, dated July 1, 2012.
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends of UDR, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges of United Dominion Realty, L.P.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR, Inc.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer of UDR, Inc.
31.3	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR Inc., general partner of United Dominion Realty, L.P.
31.4	Rule 13a-14(a) Certification of the Principal Financial Officer of UDR Inc., general partner of United Dominion Realty, L.P.
32.1	Section 1350 Certification of the Chief Executive Officer of UDR, Inc.
32.2	Section 1350 Certification of the Principal Financial Officer of UDR, Inc.
32.3	Section 1350 Certification of the Chief Executive Officer of UDR Inc., general partner of United Dominion Realty, L.P.
32.4	Section 1350 Certification of the Principal Financial Officer of UDR Inc., general partner of United Dominion Realty, L.P.

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Exhibit No. Description

101	<p>XBRL (Extensible Business Reporting Language). The following materials from this Quarterly Report on Form 10-Q for the period ended September 30, 2012, formatted in XBRL: (i) consolidated balance sheets of UDR, Inc., (ii) consolidated statements of operations of UDR, Inc., (iii) consolidated statements of comprehensive income/(loss) of UDR, Inc., (iv) consolidated statements of cash flows of UDR, Inc., (v) consolidated statements of changes in equity, (vi) notes to consolidated financial statements of UDR, Inc, (vii) consolidated balance sheets of United Dominion Realty, L.P., (viii) consolidated statements of operations of United Dominion Realty, L.P., (ix) consolidated statements of comprehensive income/(loss) of United Dominion Realty, LP; (x) consolidated statements of capital of United Dominion Realty, L.P., (xi) consolidated statements of cash flows of United Dominion Realty, L.P., (xi) notes to consolidated financial statements of United Dominion Realty, L.P.</p>
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Exhibit 10.1

July 1, 2012

David L. Messenger

Re: Consulting Agreement

Dear Dave:

As we have discussed, we are interested in retaining your services to assist UDR, Inc. (the "Company") with accounting and finance activities.

This Consulting Agreement ("Agreement") sets forth the terms of our agreement concerning your engagement with the Company.

1.Services. You will report to Warren L. Troupe, Senior Executive Vice President, and perform the following services (collectively the "Services"):

(a)Oversee the accounting and finance activities as designated by Warren L. Troupe. Such activities will include, but not be limited to:

(i)accounting matters;

(ii)modeling; and

(iii)tax.

(b)Such other matters as may be requested by Warren L. Troupe during the Term.

2.Term and Termination. The term of this Agreement shall commence on July 1, 2012 (the "Effective Date") and continue until June 30, 2013 (the "Term"). This Agreement may be terminated with or without cause by you or the Company at any time upon written notice and without liability or continuing obligation to you or the Company (except for any compensation earned and expenses incurred by you to the date of termination.)

3.Fees and Expenses. In connection with the Services and during the Term, the Company will pay the following compensation:

(a)Fees. The Company will pay you a monthly fee of \$6,250.

(b)Expenses. In addition to any fees payable to you, the Company will promptly reimburse you, from time to time upon request, for all reasonably documented travel and other expenses incurred in performing the Services.

4. Schedule. You will perform the Services under this Agreement from either your home or an office to be provided to you by the Company at the Company's office at Shea Center Drive. You shall be available to perform the Services

at the office or at such other places and times as mutually agreed with Warren L. Troupe.

5. Consultation. In performing services under this Agreement, you will consult and coordinate with Warren L. Troupe, and/or such other person(s) as may be assigned by Warren L. Troupe.

6. Independent Contractor Status.

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- (a) Your status shall at all times be that of an independent contractor. Under no circumstances shall you be considered an employee of the Company.
- (b) You shall be solely responsible for determining the means, manner and methods by which you will perform your obligations under this Agreement.
- (c) The Company will provide no training to you.
- (d) The Company shall not provide or reimburse you for any tools, equipment or other materials, nor shall the Company provide or reimburse you for any labor costs.
- (e) The Company shall have no control or supervision over your working hours or work schedule.
- (f) The Company will not provide unemployment insurance or workers' compensation insurance for you. You are not entitled to unemployment insurance benefits or workers' compensation benefits under this Agreement and/or any other benefits customarily provided to employees.
- (g) You are obligated to pay federal and state income taxes on any monies paid pursuant to this Agreement. The Company will not withhold from your compensation any amounts of taxes of any kind. You agree to indemnify the Company for any claims, costs, losses, fees, penalties, interest or damages suffered or incurred by the Company due to your failure to pay taxes as required by this Section.

7. Confidentiality. You shall keep as confidential all non-public information received from the Company in conjunction with this Agreement, except: (i) as requested by the Company or its legal counsel; (ii) as required by legal proceedings or (iii) as reasonably required in the performance of this Agreement. All obligations as to non-disclosure shall cease as to any part of such information to the extent that such information is or becomes public other than as a result of a breach of this provision.

8. Conflicts. You are not currently aware of any relationship that would create a conflict of interest with the Company in providing the Services. During the Term, you will not provide services to any other real estate company which services may conflict with the Company's business.

9. Indemnification. The Company shall indemnify you and hold you harmless from and against all damages, liabilities, costs, expenses, claims and/or judgments, including, without limitation, reasonable attorneys' fees and disbursements (collectively the "Claims") arising out of or resulting from the consulting services you provide under this Agreement; provided, however, the Company's indemnification obligation under this Section 9, shall not apply to any Claims that result from or arise out of your gross negligence or willful misconduct.

10. General. Your services are not exclusive to the Company and you may perform the same or similar services for others, as well as engage in other business activities. This Agreement sets forth the entire agreement between the parties and no promise, representation or inducement, except as herein set forth, has been made by either party to this Agreement. No provision or term of this Agreement may be amended, modified, changed, altered, or waived except by written document executed by the parties hereto. In the event that any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable because it is invalid or in conflict with any law of any relevant jurisdiction, the validity of the remaining provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Agreement did not contain the particular provision(s) held to be unenforceable and the unenforceable provision(s) shall be replaced by mutually acceptable provision(s) which, being valid, legal and enforceable, come closest to the intention of the parties underlying the invalid or unenforceable provision. This Agreement, and the obligations set forth herein, shall be binding on any and all successors and permitted assigns of the parties, including, without limitation, any corporation or other entity with or into which you or the Company is merged or consolidated, provided that neither party shall be permitted to assign this Agreement, in whole or in part, to any third party without the prior written consent of the other party. This Agreement shall be

interpreted and enforced in accordance with the laws of the State of Colorado applicable to contracts made and to be performed entirely therein, without regard to the conflict of laws provisions thereof. This clause shall survive any termination of this Agreement. Any notice or communication required or permitted under this Agreement shall be in writing and shall be deemed received (a) on the date personally delivered, (b) the next day after sending if sent by facsimile (with electronic confirmation of submission), Federal Express or any other next-day carrier service, or (c) the third day after mailing via first-class mail, return receipt requested, to a party at the address specified in this Agreement or such other address as designated from time to time.

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11. Counterparts; Facsimile. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same Agreement. The parties agree that signatures to this Agreement may be transmitted by facsimile and such signatures shall be deemed to be originals for all purposes.

We look forward to working with you on this matter. Please confirm that the foregoing is in accordance with your understanding of our agreement by signing and returning to me a copy of this Agreement.

Sincerely,

UDR, Inc.

/s/ Warren L. Troupe

Warren L. Troupe

Senior Executive Vice President

Accepted and agreed to as of the
Effective Date:

/s/ David L. Messenger

David L. Messenger

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EXHIBIT 12.1

UDR, Inc.

Computation of Ratio Earnings to Combined Fixed Charges and Preferred Stock Dividends

(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Loss from continuing operations	\$(8,543)	\$(30,026)	\$(29,925)	\$(97,003)
Add (from continuing operations):				
Interest on indebtedness	31,845	39,968	108,132	116,785
Portion of rents representative of the interest factor	510	522	1,534	1,519
	\$23,812	\$10,464	\$79,741	\$21,301
Fixed charges and preferred stock dividends (from continuing operations):				
Interest on indebtedness	\$31,845	\$39,968	\$108,132	\$116,785
Capitalized interest	7,616	3,397	17,604	9,489
Portion of rents representative of the interest factor	510	522	1,534	1,519
Fixed charges	\$39,971	\$43,887	\$127,270	\$127,793
Add:				
Preferred stock dividends	\$931	\$2,308	\$5,079	\$7,003
Premium on preferred stock	—	—	2,791	175
Combined fixed charges and preferred stock dividends	\$40,902	\$46,195	\$135,140	\$134,971
Ratio of earnings to fixed charges	—	—	—	—
Ratio of earnings to combined fixed charges and preferred stock	—	—	—	—

For the three months ended September 30, 2012, the ratio of earnings to fixed charges and the ratio of combined fixed charges and preferred stock dividends was deficient of 1:1 ratio by \$16.2 million and \$17.1 million, respectively.

For the nine months ended September 30, 2012, the ratio of earnings to fixed charges and the ratio of combined fixed charges and preferred stock dividends was deficient of 1:1 ratio by \$47.5 million and \$55.4 million, respectively.

For the three months ended September 30, 2011, the ratio of earnings to fixed charges and the ratio of combined fixed charges and preferred stock dividends was deficient of 1:1 ratio by \$33.4 million and \$35.7 million, respectively.

For the nine months ended September 30, 2011, the ratio of earnings to fixed charges and the ratio of combined fixed charges and preferred stock dividends was deficient of 1:1 ratio by \$106.5 million and \$113.7 million, respectively.

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EXHIBIT 12.2

United Dominion Realty, L.P.
 Computation of Ratio Earnings to Fixed Charges
 (Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income/(loss) from continuing operations	\$256	\$(8,390)	\$(9,527)	\$(22,649)
Add from continuing operations:				
Interest on indebtedness	9,847	13,948	35,708	38,927
Portion of rents representative of the interest factor	416	403	1,242	1,198
	\$10,519	\$5,961	\$27,423	\$17,476
Fixed charges from continuing operations:				
Interest on indebtedness	\$9,847	\$13,948	\$35,708	\$38,927
Capitalized interest	1,151	445	2,470	1,356
Portion of rents representative of the interest factor	416	403	1,242	1,198
Fixed charges	\$11,414	\$14,796	\$39,420	\$41,481

Ratio of earnings to fixed charges

— — — —

For the three months ended September 30, 2012 and 2011, the ratio of earnings to fixed charges was deficient of achieving a 1:1 ratio by \$895,000 and \$8.8 million, respectively.

For the nine months ended September 30, 2012 and 2011, the ratio of earnings to fixed charges was deficient of achieving a 1:1 ratio by \$12.0 million and \$24.0 million, respectively.

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EXHIBIT 31.1

CERTIFICATION

I, Thomas W. Toomey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of UDR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2012

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer and President

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EXHIBIT 31.2

CERTIFICATION

I, Warren L. Troupe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of UDR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2012

/s/ Warren L. Troupe

Warren L. Troupe
Senior Executive Vice President

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EXHIBIT 31.3

CERTIFICATION

I, Thomas W. Toomey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Dominion Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2012

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer and President of UDR,
Inc.,
general partner of United Dominion Realty, L.P.

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EXHIBIT 31.4

CERTIFICATION

I, Warren L. Troupe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Dominion Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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Date: October 31, 2012

/s/ Warren L. Troupe

Warren L. Troupe
Senior Executive Vice President of UDR, Inc.,
general partner of United Dominion Realty, L.P.

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EXHIBIT 32.1

CERTIFICATION

In connection with the periodic report of UDR, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission (the “Report”), I, Thomas W. Toomey, Chief Executive Officer and President of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: October 31, 2012

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer and President

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EXHIBIT 32.2

CERTIFICATION

In connection with the periodic report of UDR, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission (the “Report”), I, Warren L. Troupe, Senior Executive Vice President of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: October 31, 2012

/s/ Warren L. Troupe

Warren L. Troupe
Senior Executive Vice President

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EXHIBIT 32.3

CERTIFICATION

In connection with the periodic report of United Dominion Realty, L.P. (the "Operating Partnership") on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), I, Thomas W. Toomey, Chief Executive Officer and President of UDR, Inc., the general partner of the Operating Partnership, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership at the dates and for the periods indicated.

Date: October 31, 2012

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer and President of UDR,
Inc.,
general partner of United Dominion Realty, L.P.

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EXHIBIT 32.4

CERTIFICATION

In connection with the periodic report of United Dominion Realty, L.P. (the “Operating Partnership”) on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission (the “Report”), I, Warren L. Troupe, Senior Executive Vice President of UDR, Inc., the general partner of the Operating Partnership, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership at the dates and for the periods indicated.

Date: October 31, 2012

/s/ Warren L. Troupe

Warren L. Troupe
Senior Executive Vice President of UDR, Inc.,
general partner of United Dominion Realty, L.P.