

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-10524 (UDR, Inc.)

Commission file number 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.)
Delaware (United Dominion Realty, L.P.)
(State or other jurisdiction of
incorporation or organization)

54-0857512
54-1776887
(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (720) 283-6120

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$0.01 par value (UDR, Inc.)

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

UDR, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
United Dominion Realty, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

UDR, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
United Dominion Realty, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
United Dominion Realty, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

UDR, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
United Dominion Realty, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

UDR, Inc.:	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
United Dominion Realty, L.P.:	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>

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

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

UDR, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
United Dominion Realty, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

The aggregate market value of the shares of common stock of UDR, Inc. held by non-affiliates on June 30, 2018 was approximately \$4.5 billion. This calculation excludes shares of common stock held by the registrant's officers and directors and each person known by the registrant to beneficially own more than 5% of the registrant's outstanding shares, as such persons may be deemed to be affiliates. This determination of affiliate status should not be deemed conclusive for any other purpose. As of February 18, 2019, there were 275,611,046 shares of UDR, Inc.'s common stock outstanding.

There is no public trading market for the partnership units of United Dominion Realty, L.P. As a result, an aggregate market value of the partnership units of United Dominion Realty, L.P. cannot be determined.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from UDR, Inc.'s definitive proxy statement for the 2019 Annual Meeting of Stockholders.

This Annual Report on Form 10-K includes financial statements required under Rule 3-09 of Regulation S-X for UDR Lighthouse DownREIT L.P.

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EXPLANATORY NOTE

This Report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2018 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), also a Delaware limited partnership of which UDR is the sole general partner. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P., together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as “OP Units” and “DownREIT Units,” respectively, and the holders of the OP Units and DownREIT Units are referred to as “unitholders.” This combined Form 10-K is being filed separately by UDR and the Operating Partnership.

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

As of December 31, 2018, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,137,816 OP Units, representing approximately 94.8% of the total outstanding OP Units in the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and UDR’s role as the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities” and “Control and Procedures” are presented in this report for each of UDR and the Operating Partnership. In addition, certain disclosures in “Business” are separated by entity to the extent that the discussion relates to UDR’s business outside of the Operating Partnership.

PART I

Forward-Looking Statements

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

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

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

- risks that third parties who have an interest in or are otherwise involved in projects in which we have an interest, including mezzanine borrowers, joint ventures or other investors, do not perform as expected;
- changing interest rates, which could increase interest costs and affect the market price of our securities;
- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;
- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and
- changes in real estate laws, tax laws and other laws affecting our business.

A discussion of these and other factors affecting our business and prospects is set forth in Part I, 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.

Item 1. BUSINESS

General

UDR is a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, disposes of, and manages multifamily apartment communities generally located in high barrier-to-entry markets throughout the United States. The high barrier-to-entry markets are characterized by limited land for new construction, difficult and lengthy entitlement processes, low single-family home affordability and strong employment growth potential. At December 31, 2018, our consolidated real estate portfolio included 127 communities located in 19 markets, with a total of 39,931 completed apartment homes, which are held directly or through our subsidiaries, including the Operating Partnership and the DownREIT Partnership, and consolidated joint ventures. In addition, we have an ownership interest in 32 communities containing 8,112 apartment homes through unconsolidated joint ventures or partnerships. As of December 31, 2018, no wholly-owned or unconsolidated joint venture communities were under development.

At December 31, 2018, the Operating Partnership's consolidated real estate portfolio included 52 communities located in 15 markets, with a total of 16,434 completed apartment homes. The Operating Partnership owns, operates, acquires, renovates, develops, redevelops, and manages multifamily apartment communities generally located in high barrier-to-entry markets located throughout the United States. During the year ended December 31, 2018, revenues of the Operating Partnership represented approximately 42% of our total rental revenues.

UDR has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to in this Report as the "Code." To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gains) to our stockholders annually. As a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our stockholders annually. In 2018, we declared total distributions of \$1.29 per common share and paid dividends of \$1.2775 per common share.

	Dividends Declared in 2018	Dividends Paid in 2018
First Quarter	\$ 0.3225	\$ 0.3100
Second Quarter	0.3225	0.3225
Third Quarter	0.3225	0.3225
Fourth Quarter	0.3225	0.3225
Total	<u>\$ 1.2900</u>	<u>\$ 1.2775</u>

UDR was formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. 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 in 1995. The Operating Partnership was redomiciled in 2004 as a Delaware limited partnership. Our corporate offices are located at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado and our telephone number is (720) 283-6120. Our website is www.udr.com. The information contained on our website, including any information referred to in this Report as being available on our website, is not a part of or incorporated into this Report.

As of February 18, 2019, we had 1,405 full-time associates and 26 part-time associates, all of whom were employed by UDR.

Reporting Segments

We report in two segments: *Same-Store Communities* and *Non-Mature Communities/Other*.

Our *Same-Store Communities* segment represents those communities acquired, developed, and stabilized prior to January 1, 2017, and held as of December 31, 2018. 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 communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our *Non-Mature Communities/Other* segment represents those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties. For additional information regarding our operating segments, see Note 15, *Reportable Segments*, in the Notes to the UDR Consolidated Financial Statements included in this Report and Note 11, *Reportable Segments*, in the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report.

Business Objectives

Our principal business objective is to maximize the economic returns of our apartment communities to provide our stockholders with the greatest possible total return and value. To achieve this objective, we intend to continue to pursue the following goals and strategies:

- own and operate apartments in high barrier-to-entry markets, which are characterized by limited land for new construction, difficult and lengthy entitlement processes, low single-family home affordability and strong employment growth potential, thus enhancing stability and predictability of returns to our stockholders;
- manage real estate cycles by taking an opportunistic approach to buying, selling, renovating, redeveloping, and developing apartment communities;
- empower site associates to manage our communities efficiently and effectively;
- measure and reward associates based on specific performance targets; and
- manage our capital structure to help enhance predictability of liquidity, earnings and dividends.

2018 Highlights

- In July 2018, the Company marked its 46th year as a REIT and, in October 2018, paid its 184th consecutive quarterly dividend. The Company's annualized declared 2018 dividend of \$1.29 represented a 4.0% increase over the previous year.
- Total revenues increased 5.1% and net income attributable to common stockholders increased 69.1% over the prior year.
- We achieved Same-Store revenue growth of 3.5% and Same-Store net operating income ("NOI") growth of 3.4%.
- We completed the development of two wholly-owned communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 apartment homes.
- We completed the development of two communities held by unconsolidated joint ventures, located in Los Angeles, California and Addison, Texas, with a total of 533 apartment homes.
- We recognized gains on the sale of real estate of \$136.2 million from the sale of two communities in Huntington Beach, California and Fairfax, Virginia with a total of 868 apartment homes.
- We contributed \$120.7 million to seven unconsolidated investments under our Developer Capital Program, which earn preferred returns ranging between 8.0% to 12.5%.
- We issued \$300.0 million of 4.40% (4.27% effective rate after the effect of a cash flow hedge) 10-year senior unsecured medium-term notes.
- We prepaid \$224.8 million of our secured credit facility and \$50.1 million of fixed rate mortgage debt with proceeds from the refinance of a mortgage note payable and proceeds from the issuance of senior unsecured medium-term notes.

- We extended the maturity and lowered the rates on our \$1.1 billion Revolving Credit Facility and \$350 million Term Loan Facility.
- We repurchased 593,373 shares of common stock at a weighted average price per share of \$33.69, for total consideration of approximately \$20.0 million.
- We sold 7,150,000 shares of common stock for aggregate net proceeds of \$299.8 million at a price per share of \$41.98.
- Thomas W. Toomey was named Chairman of the Board, in addition to his responsibilities as Chief Executive Officer.

Refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for further information on the Company's and the Operating Partnership's activities in 2018.

Our Strategic Vision

Our strategic vision is to be the multifamily public REIT of choice. We intend to realize this vision by executing on our strategic objectives, which are:

1. Maintaining a Diversified Portfolio and Allocating Capital to Accretive Investment Opportunities
2. Maintaining a Strong Balance Sheet
3. Consistently Driving Operating Excellence
4. Advancing a Strong Corporate Culture and Ensuring High Resident Satisfaction

Maintaining a Diversified Portfolio and Allocating Capital to Accretive Investment Opportunities

We believe greater portfolio diversification, as defined by geographic concentration, location within a market (i.e., urban or suburban) and property quality (i.e., A or B), reduces the volatility of our same-store growth throughout the real estate cycle, appeals to a wider renter and investor audience and lessens the market risk associated with owning a homogenous portfolio. Diversified characteristics of our portfolio include:

- our consolidated apartment portfolio includes 127 communities located in 19 markets throughout the U.S., including both Coastal and Sunbelt locations; and
- our mix of urban/suburban communities and our mix of A/B quality properties is approximately 50%/50%.

We are focused on increasing our presence in markets with favorable job formation, high propensity to rent, low single-family home affordability, and a favorable demand/supply ratio for multifamily housing. Portfolio investment decisions consider internal analyses and third-party research.

Acquisitions and Dispositions

When evaluating potential acquisitions, we consider a wide variety of factors, including:

- whether it is located in a high barrier-to-entry market;
- population growth, cost of alternative housing, overall potential for economic growth and the tax and regulatory environment of the community in which the property is located;
- geographic location, including proximity to jobs, entertainment, transportation, and our existing communities which can deliver significant economies of scale;
- construction quality, condition and design of the property;
- current and projected cash flow of the property and the ability to increase cash flow;
- ability of the property's projected cash flows to exceed our cost of capital;
- potential for capital appreciation of the property;

- ability to increase the value and profitability of the property through operations and redevelopment;
- terms of resident leases, including the potential for rent increases;
- occupancy and demand by residents for properties of a similar type in the vicinity;
- prospects for liquidity through sale, financing, or refinancing of the property; and
- competition from existing multifamily communities and the potential for the construction of new multifamily properties in the area.

We regularly monitor our assets to increase the quality and performance of our portfolio. Factors we consider in deciding whether to dispose of a property include:

- current market price for an asset compared to projected economics for that asset;
- potential increases in new construction in the market area;
- areas with low job growth prospects;
- markets where we do not intend to establish a long-term concentration; and
- operating efficiencies.

The following table summarizes our apartment community acquisitions and dispositions and our consolidated year-end ownership position for the past five years (*dollars in thousands*):

	2018	2017	2016	2015	2014
Homes acquired	—	462	508	3,246	358
Homes disposed	868	218	1,782	2,735	2,500
Homes owned at December 31,	39,931	39,998	39,454	40,728	39,851
Total real estate owned, at cost	\$ 10,196,159	\$ 10,177,206	\$ 9,615,753	\$ 9,190,276	\$ 8,383,259

The following table summarizes the Operating Partnership's apartment community acquisitions and dispositions and year-end ownership position for the past five years (*dollars in thousands*):

	2018	2017	2016	2015	2014
Homes acquired	—	218	—	421	—
Homes disposed	264	218	276	4,256 (a)	264
Homes owned at December 31,	16,434	16,698	16,698	16,974	20,814
Total real estate owned, at cost	\$ 3,811,985	\$ 3,816,956	\$ 3,674,704	\$ 3,630,905	\$ 4,238,770

(a) Includes 3,107 homes deconsolidated in 2015 upon contribution of communities by the Operating Partnership to the DownREIT Partnership.

Development Activities

Our objective in developing a community is to create value while improving the quality of our portfolio. Demographic trends, economic drivers, and how multifamily fundamentals and valuations have trended over the long-term generally govern our review process on where to allocate development capital. At December 31, 2018, no communities were under development. During the year ended December 31, 2018, we completed the development of two wholly-owned communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 homes.

Redevelopment Activities

Our objective in redeveloping a community is twofold: we aim to meaningfully grow rental rates while also producing a higher yielding and more valuable asset through asset quality improvement. During the year ended December 31, 2018, we incurred \$22.8 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings. As of December 31, 2018, no communities were under redevelopment.

Joint Venture and Partnership Activities

We have entered into, and may continue in the future to enter into, joint ventures (including limited liability companies or partnerships) through which we would own an indirect economic interest of less than 100% of the community or communities owned directly by such joint ventures. Our decision to either hold an apartment community in fee simple or have an indirect interest in the community through a joint venture is based on a variety of factors and considerations, including: (i) the economic and tax terms required by the seller of land or a community; (ii) our desire to diversify our portfolio of communities by market, submarket and product type; (iii) our desire at times to preserve our capital resources to maintain liquidity or balance sheet strength; and (iv) our projections, in some circumstances, that we will achieve higher returns on our invested capital or reduce our risk if a joint venture vehicle is used. Each joint venture agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture agreement.

Maintaining a Strong Balance Sheet

We maintain a capital structure that we believe allows us to proactively source potential investment opportunities in the marketplace. We have structured our debt maturity schedule to be able to opportunistically access both secured and unsecured debt markets when appropriate.

Financing Activities

As part of our plan to finance our activities, we utilize proceeds from debt and equity offerings and refinancings to extend maturities, pay down existing debt, fund development and redevelopment activities, and acquire apartment communities.

Consistently Driving Operational Excellence

Investment in new technologies continues to drive operating efficiencies in our business and help us to better meet the changing needs of our residents. Our residents have the ability to conduct business with us 24 hours a day, 7 days a week and complete online leasing applications and renewals throughout our portfolio using our web-based resident internet portal.

As a result of transforming our operations through technology, residents' satisfaction has improved, and our operating teams have become more efficient. Web-based technologies have also resulted in declining marketing and advertising costs, improved cash management, and better pricing management of our available apartment homes.

Operating Partnership Strategies and Vision

The Operating Partnership's long-term strategic vision is the same as that of the Company as described above.

Competitive Conditions

Competition for new residents is generally intense across all of our markets. Some competing communities offer features that our communities do not have. Competing communities can use rental concessions or lower rents to obtain temporary competitive advantages. Also, some competing communities are larger or newer than our communities. The competitive position of each community is different depending upon many factors, including sub-market supply and demand. In addition, other real estate investors compete with us to acquire existing properties, redevelop existing properties, and to develop new properties. These competitors include insurance companies, pension and investment funds, public and private real estate companies, investment companies and other public and private apartment REITs, some of which may have greater resources, or lower capital costs, than we do.

We believe that, in general, we are well-positioned to compete effectively for residents and investments. We believe our competitive advantages include:

- a fully integrated organization with property management, development, redevelopment, acquisition, marketing, sales and financing expertise;
- scalable operating and support systems, which include automated systems to meet the changing electronic needs of our residents and to effectively focus on our Internet marketing efforts;

- access to sources of capital;
- geographic diversification with a presence in 19 markets across the country; and
- significant presence in many of our major markets that allows us to be a local operating expert.

Moving forward, we will continue to optimize lease management, improve expense control, increase resident retention efforts and align employee incentive plans with our bottom line performance. We believe this plan of operation, coupled with the portfolio's strengths in targeting renters across a geographically diverse platform, should position us for continued operational upside.

Communities

At December 31, 2018, our consolidated real estate portfolio included 127 communities with a total of 39,931 completed apartment homes, which included the Operating Partnership's consolidated real estate portfolio of 52 communities with a total of 16,434 completed apartment homes. The overall quality of our portfolio enables us to raise rents and to attract residents with higher levels of disposable income who are more likely to absorb such rents.

At December 31, 2018, no communities were under development or redevelopment.

Same-Store Community Comparison

We believe that one pertinent quantitative measurement of the performance of our portfolio is tracking the results of our *Same-Store Communities*' NOI, which is total rental revenue, less rental and other operating expenses excluding property management. Our *Same-Store Community* population is comprised of operating communities which we own and have stabilized occupancy, revenues and expenses as of the beginning of the prior year.

Net income attributable to common stockholders was \$199.2 million as compared to \$117.9 million in the prior year period. The increase was primarily driven by higher operating income, including gains on the sale of real estate.

For the year ended December 31, 2018, our Same-Store NOI increased by \$22.0 million compared to the prior year. Our *Same-Store Community* properties provided 91.8% of our total NOI for the year ended December 31, 2018. The increase in NOI for the 37,673 Same-Store apartment homes, or 94.3% of our portfolio, was primarily driven by an increase in rental rates and reimbursements and ancillary and fee income, partially offset by an increase in real estate taxes.

For the year ended December 31, 2018, the Operating Partnership's Same-Store NOI increased by \$12.5 million compared to the prior year. The Operating Partnership's *Same-Store Community* properties provided 96.0% of its total NOI for the year ended December 31, 2018. The increase in NOI for the 16,216 Same-Store apartment homes, or 98.7% of the Operating Partnership's portfolio, was primarily driven by an increase in rental rates and reimbursements and ancillary and fee income, partially offset by an increase in real estate taxes.

Revenue growth in 2019 may be impacted by adverse developments affecting the general economy, reduced occupancy rates, increased rental concessions, new supply, increased bad debt and other factors which may adversely impact our ability to increase rents.

Tax Matters

UDR has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, UDR must continue to meet certain tests that, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than net capital gains) to our stockholders annually. Provided we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent such net income is distributed to our stockholders annually. 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.

We may utilize our taxable REIT subsidiary ("TRS") to engage in activities that REITs may be prohibited from performing, including the provision of management and other services to third parties and the conduct of certain nonqualifying real estate transactions. Our TRS generally is taxable as a regular corporation, and therefore, subject to federal, state and local income taxes.

The Operating Partnership intends to qualify as a partnership for federal income tax purposes. As a partnership, the Operating Partnership generally is not a taxable entity and does not incur federal income tax liability. However, any state or local revenue, excise or franchise taxes that result from the operating activities of the Operating Partnership are incurred at the entity level.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2018.

Environmental Matters

Various environmental laws govern certain aspects of the ongoing operation of our communities. Such environmental laws include those regulating the existence of asbestos-containing materials in buildings, management of surfaces with lead-based paint (and notices to residents about the lead-based paint), use of active underground petroleum storage tanks, and waste-management activities. The failure to comply with such requirements could subject us to a government enforcement action and/or claims for damages by a private party.

To date, compliance with federal, state and local environmental protection regulations has not had a material effect on our capital expenditures, earnings or competitive position. We have a property management plan for hazardous materials. As part of the plan, Phase I environmental site investigations and reports have been completed for each property we acquire. In addition, all proposed acquisitions are inspected prior to acquisition. The inspections are conducted by qualified environmental consultants, and we review the issued report prior to the purchase or development of any property. Nevertheless, it is possible that the environmental assessments will not reveal all environmental liabilities, or that some material environmental liabilities exist of which we are unaware. In some cases, we have abandoned otherwise economically attractive acquisitions because the costs of removal or control of hazardous materials have been prohibitive or we have been unwilling to accept the potential risks involved. We do not believe we will be required to engage in any large-scale abatement at any of our properties. We believe that through professional environmental inspections and testing for asbestos, lead paint and other hazardous materials, coupled with a relatively conservative posture toward accepting known environmental risk, we can minimize our exposure to potential liability associated with environmental hazards.

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential residents or purchasers of the communities any known lead paint hazards and imposes treble damages for failure to provide such notification. In addition, lead based paint in any of the communities may result in lead poisoning in children residing in that community if chips or particles of such lead based paint are ingested, and we may be held liable under state laws for any such injuries caused by ingestion of lead based paint by children living at the communities.

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on our results of operations and our financial condition.

Insurance

We carry comprehensive general liability coverage on our communities, with limits of liability customary within the multi-family apartment industry to insure against liability claims and related defense costs. We are also insured, with limits of liability customary within the multi-family apartment industry, against the risk of direct physical

damage in amounts necessary to reimburse us on a replacement cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period.

Available Information

Both UDR and the Operating Partnership file electronically with the Securities and Exchange Commission their respective annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports on the day of filing with the SEC on our website at www.udr.com, or by sending an e-mail message to ir@udr.com.

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

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

The Geographic Concentration of Our Communities in Certain Markets Could Have an Adverse Effect on Our Operations if a Particular Market is Adversely Impacted by Economic or Other Conditions. For the year ended December 31, 2018, approximately 52.3% of our total NOI was generated from communities located in the Washington, D.C. metropolitan area (17.0%), Orange County, CA (12.8%), the San Francisco Bay Area, CA (12.2%) and New York, NY (10.3%). As a result, if any one or more of these markets is adversely impacted by regional or local economic conditions or local real estate market conditions or regulations, such conditions may have a greater adverse impact on our results of operations than if our portfolio was more geographically diverse.

We May Be Unable to Renew Leases or Relet Apartment Units as Leases Expire, or the Terms of Renewals or New Leases May Be Less Favorable Than Current Leases. When our residents decide to leave our apartments, whether because they decide not to renew their leases or they leave prior to their lease expiration date, we may not be able to relet

their apartment units. Even if the residents do renew or we can relet the apartment units, the terms of renewal or reletting may be less favorable than current lease terms. Furthermore, because the majority of our apartment leases have initial terms of 12 months or less, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms. If we are unable to promptly renew the leases or relet the apartment units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition may be adversely affected. If residents do not experience increases in their income, we may be unable to increase rent and/or delinquencies may increase.

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

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

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

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

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

We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies. We have selectively acquired in the past, and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities

that meet our investment criteria. Our acquisition activities and their success are subject to the following risks, among others:

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

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

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

- we may be unable to obtain construction financing for development activities on favorable terms, including but not limited to interest rates, term and/or loan to value ratios, or at all, which could cause us to delay or even abandon potential developments;
- we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental or quasi-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;
- cost may be higher or yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than expected;
- we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such development opportunities;
- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;
- occupancy rates, rents and concessions at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our expected return on our investment and our overall profitability goals; and

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

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

Property Ownership Through Partnerships and Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and/or acquire properties in partnerships and joint ventures, including those in which we own a preferred interest, with other persons or entities when we believe circumstances warrant the use of such structures. As of December 31, 2018, we had active joint ventures and partnerships, including our preferred equity investments, with a total equity investment of \$780.9 million. We could become engaged in a dispute with one or more of our partners which might affect our ability to operate a jointly-owned property or otherwise adversely impact us. Moreover, our partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our partners may have competing interests in our markets that could create conflicts of interest. Also, our partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. In general, we and our partners may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of our interest in the partnership or joint venture (if we are the seller) or of the other partner's interest in the partnership or joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process and could cause us to recognize unanticipated capital gains or losses or the loss of fee income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compliance with or Changes in Real Estate Tax and Other Laws and Regulations Could Adversely Affect Our Funds from Operations and Our Ability to Make Distributions to Stockholders. We are subject to federal, state and local laws, regulations, rules and ordinances at locations where we operate regarding a wide variety of matters that could affect, directly or indirectly, our operations. Generally, we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws and regulations regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures or unanticipated reductions in revenue, which could adversely affect our financial condition and results of operations. In addition, changes in federal and state legislation and regulation on climate change may result in increased capital expenditures to improve the energy efficiency of our existing communities and also may require us to spend more on our new development communities without a corresponding increase in revenue.

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

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

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

experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in management's view, economically impractical.

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

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

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

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

Risks Related to Ground leases. We have in the past and may in the future enter into, as either landlord or tenant, a long-term ground lease with respect to a property or a portion thereof. Such ground leases may contain a rent reset provision that requires both parties to agree to a new rent or is based upon factors, for example fair market rent, that are not objective and are not within our control. We may not be able to agree with the counterparty to a revised rental rate, or the revised rental rate may be set by external factors, which could result in a different rental rate than we forecasted. In addition, the other party may not perform as expected under the ground lease or there may be a dispute with the other party to the ground lease. Any of these circumstances could have an adverse effect on our business, financial condition or operating results.

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR's Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under generally accepted accounting principles as in effect in the United States ("GAAP"), if we

were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we are required to recognize asset impairment charges in the future, these charges could adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR's common stock.

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

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

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

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

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

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

Risks Related to Our Indebtedness and Financings

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

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

Expenses associated with our investment in an apartment community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in 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.

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt, including unsecured commercial paper, at rates that vary with market interest rates. As of December 31, 2018, UDR had approximately \$230.8 million of variable rate indebtedness outstanding, which constitutes approximately 6.5% of total outstanding indebtedness as of such date. As of December 31, 2018, the Operating Partnership had approximately \$27.0 million of variable rate indebtedness outstanding, which constitutes all outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt, including unsecured commercial paper. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties.

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

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

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

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

A Change in U.S. Government Policy or Support Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. While in recent years we have decreased our borrowing from Fannie Mae and Freddie Mac, Fannie Mae and Freddie Mac are a major source of financing to participants in the multifamily housing

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

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

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Termination of these hedging agreements typically involves costs, such as transaction fees or breakage costs.

Risks Related to Tax Laws

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

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

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

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

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

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

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

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

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

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

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

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

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

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

this “Risk Factors” section, a number of factors could negatively affect the price per share of UDR’s common stock, including:

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

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

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR’s Stockholders’ Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR’s stockholders’ best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR’s stock

representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

At December 31, 2018, our consolidated apartment portfolio included 127 communities located in 19 markets, with a total of 39,931 completed apartment homes.

The tables below set forth a summary of real estate portfolio by geographic market of the Company and of the Operating Partnership at December 31, 2018.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2018

UDR, INC.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (in square feet)
WEST REGION								
Orange County, CA	11	4,950	14.4 %	\$ 1,475,898	\$ —	\$ 298,161	92.3 %	731
San Francisco, CA	11	2,751	8.5 %	868,607	27,000	315,742	96.7 %	830
Seattle, WA	15	2,837	9.7 %	993,287	74,910	350,119	96.5 %	900
Los Angeles, CA	4	1,225	4.5 %	454,303	67,700	370,860	96.2 %	967
Monterey Peninsula, CA	7	1,565	1.7 %	177,687	—	113,538	96.8 %	728
Other Southern California	2	654	1.1 %	107,159	—	163,852	96.5 %	960
Portland, OR	2	476	0.5 %	49,113	—	103,179	96.6 %	903
MID-ATLANTIC REGION								
Metropolitan D.C.	21	7,798	19.9 %	2,036,504	213,078	261,157	97.4 %	883
Richmond, VA	4	1,358	1.5 %	148,231	—	109,154	97.9 %	1,018
Baltimore, MD	3	720	1.5 %	152,023	—	211,143	96.2 %	993
NORTHEAST REGION								
New York, NY	4	1,945	12.9 %	1,314,294	—	675,730	97.9 %	742
Boston, MA	6	2,133	9.1 %	924,630	105,000	433,488	81.3 %	957
SOUTHEAST REGION								
Orlando, FL	9	2,500	2.2 %	225,722	—	90,289	96.8 %	946
Tampa, FL	7	2,287	2.5 %	256,749	—	112,265	97.2 %	982
Nashville, TN	8	2,260	2.1 %	211,364	—	93,524	96.5 %	933
Other Florida	1	636	0.8 %	85,475	—	134,395	96.5 %	1,130
SOUTHWEST REGION								
Dallas, TX	7	2,345	2.8 %	283,351	115,000	120,832	96.5 %	862
Austin, TX	4	1,273	1.6 %	164,002	—	128,831	97.1 %	913
Denver, CO	1	218	1.4 %	141,918	—	651,000	91.6 %	948
Total Operating Communities	127	39,931	98.7 %	10,070,317	602,688	\$ 252,193	95.5 %	880
Land	—	—	0.7 %	67,734	—	—	—	—
Other	—	—	0.6 %	58,108	(1,461)	—	—	—
Total Real Estate Owned	127	39,931	100.0 %	\$ 10,196,159	\$ 601,227	—	—	—

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2018

UNITED DOMINION REALTY, L.P.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (in square feet)
WEST REGION								
Orange County, CA	5	3,119	19.3 %	\$ 737,373	\$ —	\$ 236,413	96.4 %	583
San Francisco, CA	9	2,209	15.8 %	601,989	27,000	272,517	96.7 %	817
Seattle, WA	5	932	5.9 %	226,436	—	242,957	96.4 %	874
Los Angeles, CA	2	344	3.0 %	114,895	—	333,997	96.2 %	976
Monterey Peninsula, CA	7	1,565	4.7 %	177,687	—	113,538	96.8 %	728
Other Southern California	1	414	1.9 %	73,962	—	178,652	96.2 %	996
Portland, OR	2	476	1.3 %	49,113	—	103,179	96.6 %	903
MID-ATLANTIC REGION								
Metropolitan D.C.	6	2,068	14.7 %	559,691	—	270,644	97.5 %	898
Baltimore, MD	2	540	2.8 %	104,684	—	193,859	96.4 %	968
NORTHEAST REGION								
New York, NY	2	996	16.0 %	609,698	—	612,147	97.8 %	690
Boston, MA	1	387	1.9 %	72,882	—	188,326	97.0 %	1,069
SOUTHEAST REGION								
Tampa, FL	2	942	2.8 %	106,909	—	113,492	97.7 %	1,043
Nashville, TN	6	1,612	3.9 %	148,338	—	92,021	96.3 %	925
Other Florida	1	636	2.3 %	85,475	—	134,395	96.5 %	1,130
SOUTHWEST REGION								
Denver, CO	1	218	3.7 %	141,918	—	651,000	91.6 %	948
Total Operating Communities	52	16,458	100.0 %	3,811,050	27,000	\$ 231,562	96.7 %	828
Other	—	—	— %	935	(71)			
Total Real Estate Owned	52	16,458	100.0 %	\$ 3,811,985	\$ 26,929			

Item 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims arising in the ordinary course of business. We cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. We believe 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.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

UDR, Inc.:

Common Stock

UDR, Inc.'s common stock has been listed on the New York Stock Exchange ("NYSE") under the symbol "UDR" since May 7, 1990.

On February 18, 2019, there were 3,464 holders of record of the 275,611,046 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 61% of the distributions for 2018 represented ordinary income, less than 1% represented qualified ordinary income, 5% represented long-term capital gain, 18% represented unrecaptured section 1250 gain, and 16% represented nondividend distributions.

UDR pays regular quarterly distributions to holders of its common stock. Future distributions will be at the discretion of our Board of Directors and will depend on our actual funds from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, and other factors.

Series E Preferred Stock

The Series E Cumulative Convertible Preferred Stock ("Series E") has no stated par value and a liquidation preference of \$16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder's option into 1.083 shares of our common stock. The holders of the Series E are entitled to vote on an as-converted basis as a single class in combination with the holders of common stock at any meeting of our stockholders for the election of directors or for any other purpose on which the holders of common stock are entitled to vote. The Series E has no stated maturity and is not subject to any sinking fund or any mandatory redemption. In connection with a special dividend (declared on November 5, 2008), the Company reserved for issuance upon conversion of the Series E additional shares of common stock to which a holder of the Series E would have received if the holder had converted the Series E immediately prior to the record date for this special dividend.

Distributions declared on the Series E for the years ended December 31, 2018 and 2017 were \$1.3968 per share, or \$0.3492 per quarter, and \$1.33 per share, or \$0.3322 per quarter, respectively. The Series E is not listed on any exchange. At December 31, 2018, a total of 2,780,994 shares of the Series E were outstanding.

Series F Preferred Stock

We are authorized to issue up to 20,000,000 shares of our Series F Preferred Stock ("Series F"). The Series F may be purchased by holders of our Operating Partnership Units, or OP Units, described below under "Operating Partnership Units," and holders of limited partnership interests in the DownREIT Partnership at a purchase price of \$0.0001 per share. OP/DownREIT unitholders are entitled to subscribe for and purchase one share of the Series F for each OP/DownREIT Unit held.

As of December 31, 2018, a total of 15,802,393 shares of the Series F were outstanding. Holders of the Series F are entitled to one vote for each share of the Series F they hold, voting together with the holders of our common stock, on each matter submitted to a vote of security holders at a meeting of our stockholders. The Series F does not entitle its holders to any other rights, privileges or preferences.

Distribution Reinvestment and Stock Purchase Plan

We have a Distribution Reinvestment and Stock Purchase Plan under which holders of our common stock may elect to automatically reinvest their distributions and make additional cash payments to acquire additional shares of our common stock. Stockholders who do not participate in the plan continue to receive distributions as and when declared. As of February 18, 2019, there were approximately 2,000 participants in the plan.

United Dominion Realty, L.P.:

Operating Partnership Units

There is no established public trading market for United Dominion Realty, L.P.'s Operating Partnership Units. From time to time we issue shares of our common stock in exchange for OP Units tendered to the Operating Partnership for redemption in accordance with the provisions of the Operating Partnership's limited partnership agreement. At December 31, 2018, there were 183,636,543 OP Units outstanding in the Operating Partnership, of which 174,248,699 OP Units or 94.9% were owned by UDR and affiliated entities and 9,387,844 OP Units or 5.1% were owned by non-affiliated limited partners. Under the terms of the Operating Partnership's limited partnership agreement, the holders of OP Units have the right to require the Operating Partnership to redeem all or a portion of the OP Units held by the holder 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 our common stock equal to the number of OP Units being redeemed.

During 2018, we issued a total of 11,011 shares of common stock upon redemption of OP Units.

Purchases of Equity Securities

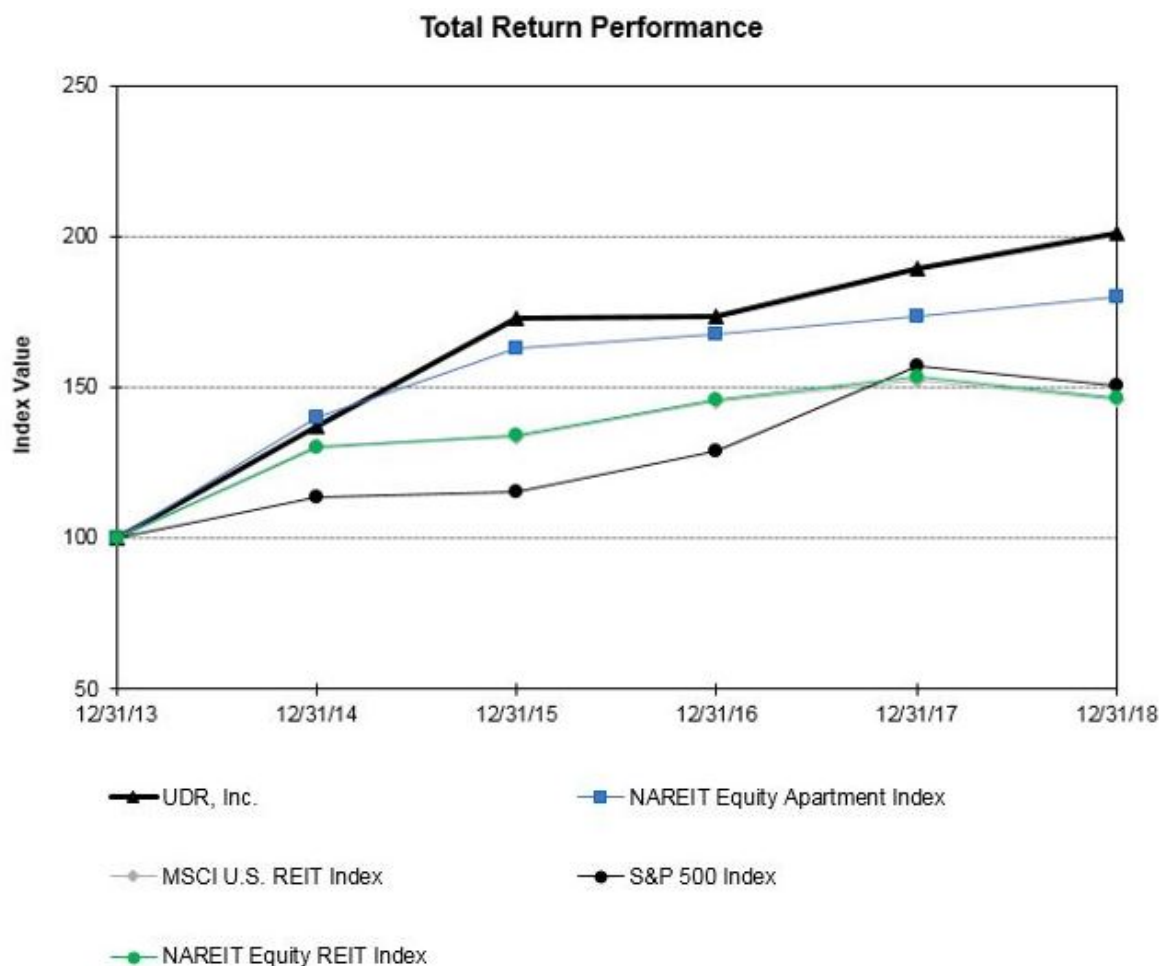
In February 2006, UDR's Board of Directors authorized a 10 million share repurchase program. In January 2008, UDR's Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. The following table summarizes all of UDR's repurchases of shares of common stock under these programs during the quarter ended December 31, 2018.

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

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

Comparison of Five-year Cumulative Total Returns

The following graph compares the five-year cumulative total returns for UDR common stock with the comparable cumulative return of the NAREIT Equity REIT Index, Standard & Poor's 500 Stock Index, the NAREIT Equity Apartment Index and the MSCI U.S. REIT Index. The graph assumes that \$100 was invested on December 31, 2013, in each of our common stock and the indices presented. Historical stock price performance is not necessarily indicative of future stock price performance. The comparison assumes that all dividends are reinvested.



Index	Period Ending					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
UDR, Inc.	100.00	137.18	172.79	173.25	189.05	201.16
NAREIT Equity Apartment Index	100.00	139.62	162.60	167.24	173.46	179.88
MSCI U.S. REIT Index	100.00	130.38	133.67	145.16	152.52	145.55
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
NAREIT Equity REIT Index	100.00	130.14	134.30	145.74	153.36	146.27

The performance graph and the related chart and text, are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of ours, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and other information of UDR, Inc. and of the Operating Partnership as of and for each of the years in the five-year period ended December 31, 2018. The tables should be read in conjunction with each of UDR, Inc.'s and the Operating Partnership's respective consolidated financial statements and the notes thereto, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Report.

	UDR, Inc. Year Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2018	2017	2016	2015	2014
OPERATING DATA:					
Rental income	\$ 1,035,105	\$ 984,309	\$ 948,461	\$ 871,928	\$ 805,002
Income/(loss) from continuing operations (a)	221,542	132,655	320,380	357,159	159,832
Income/(loss) from discontinued operations, net of tax	—	—	—	—	10
Net income/(loss)	221,542	132,655	320,380	357,159	159,842
Distributions to preferred stockholders	3,868	3,708	3,717	3,722	3,724
Net income/(loss) attributable to common stockholders	199,238	117,850	289,001	336,661	150,610
Common stock distributions declared	348,079	331,974	315,102	289,500	263,503
Income/(loss) per weighted average common share — basic	\$ 0.74	\$ 0.44	\$ 1.09	\$ 1.30	\$ 0.60
Income/(loss) per weighted average common share — diluted	\$ 0.74	\$ 0.44	\$ 1.08	\$ 1.29	\$ 0.59
Weighted average number of Common Shares outstanding — basic	268,179	267,024	265,386	258,669	251,528
Weighted average number of Common Shares outstanding — diluted	269,483	268,830	267,311	263,752	253,445
Weighted average number of Common Shares outstanding, OP Units/DownREIT Units and Common Stock equivalents outstanding — diluted	297,042	296,672	295,469	276,699	265,728
Common stock distributions declared - per share	\$ 1.29	\$ 1.24	\$ 1.18	\$ 1.11	\$ 1.04
Balance Sheet Data:					
Real estate owned, at cost (b)	\$ 10,196,159	\$ 10,177,206	\$ 9,615,753	\$ 9,190,276	\$ 8,383,259
Accumulated depreciation (b)	3,654,160	3,330,166	2,923,625	2,646,874	2,434,772
Total real estate owned, net of accumulated depreciation (b)	6,541,999	6,847,040	6,692,128	6,543,402	5,948,487
Total assets	7,711,728	7,733,273	7,679,584	7,663,844	6,828,728
Secured debt, net (b)	601,227	803,269	1,130,858	1,376,945	1,354,321
Unsecured debt, net	2,946,560	2,868,394	2,270,620	2,193,850	2,210,978
Total liabilities	3,816,211	3,949,771	3,673,132	3,816,797	3,810,298
Total stockholders' equity	2,905,625	2,825,800	3,093,110	2,899,755	2,735,097
Number of Common Shares outstanding	275,546	267,822	267,259	261,845	255,115
Other Data (b)					
Total consolidated apartment homes owned (at end of year)	39,931	39,998	39,454	40,728	39,851
Weighted average number of consolidated apartment homes owned during the year	39,406	39,692	40,543	39,501	40,644
Cash Flow Data:					
Cash provided by/(used in) operating activities (c)	\$ 560,676	\$ 518,915	\$ 536,568	\$ 457,162	\$ 397,582
Cash provided by/(used in) investing activities (c)	(113,548)	(407,406)	(112,720)	(265,538)	(299,338)
Cash provided by/(used in) financing activities	(260,067)	(111,785)	(429,282)	(201,648)	(113,725)
Funds from Operations (d):					
Funds from operations attributable to common stockholders and unitholders — basic	\$ 570,254	\$ 538,916	\$ 527,096	\$ 455,565	\$ 411,702
Funds from operations attributable to common stockholders and unitholders — diluted	574,122	542,624	530,813	459,287	415,426

- (a) As a result of SEC rule changes effective November 2018, *Income/(loss) from continuing operations* has been retrospectively updated to include *Gain/(loss) on the sale of real estate*. For additional information, see Note 2, *Significant Accounting Policies*, in the notes to the UDR Consolidated Financial Statements included in this Report. As a result, the following retrospective changes were made to the above table:

	Year ended December 31,			
	2017	2016	2015	2014
<i>Income/(loss) from continuing operations</i> - as previously reported	\$ 89,251	\$ 109,529	\$ 105,482	\$ 16,260
<i>Gain/(loss) on sale of real estate owned, net of tax</i>	43,404	210,851	251,677	143,572
<i>Income/(loss) from continuing operations</i> - as reported herein	\$ 132,655	\$ 320,380	\$ 357,159	\$ 159,832

- (b) Includes amounts classified as Held for Disposition, where applicable.

- (c) The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. See Note 2, *Significant Accounting Policies*, in the Notes to the UDR, Inc. Consolidated Financial Statements included in this Report for a complete description of the ASU and its impact. As a result, the following retrospective changes were made to the above table:

	Year ended December 31,			
	2017	2016	2015	2014
<i>Net cash provided by/(used in) operating activities</i> - as previously reported	\$ 519,152	\$ 536,929	\$ 458,627	\$ 397,303
<i>(Increase)/decrease in operating assets</i>	(237)	(361)	(1,465)	279
<i>Net cash provided by/(used in) operating activities</i> - as reported herein	\$ 518,915	\$ 536,568	\$ 457,162	\$ 397,582
<i>Net cash provided by/(used in) investing activities</i> - as previously reported	\$ (407,441)	\$ (112,277)	\$ (265,461)	\$ (298,603)
<i>Proceeds from sales of real estate investments, net</i>	-	(555)	-	(82)
<i>Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement</i>	35	112	(77)	(653)
<i>Net cash provided by/(used in) investing activities</i> - as reported herein	\$ (407,406)	\$ (112,720)	\$ (265,538)	\$ (299,338)

- (d) Funds from operations (“FFO”) is defined as *Net income/(loss) attributable to common stockholders* (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains or losses from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for noncontrolling interests, unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust’s (“NAREIT”) definition issued in April 2002. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of a REIT’s operating performance. In the computation of diluted FFO, if OP Units, DownREIT Units, unvested restricted stock, unvested LTIP Units, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive, they are included in the diluted share count.

We consider FFO a useful metric for investors as we use FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with GAAP. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of funds available to fund our cash needs.

See “Funds from Operations” in Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of *Net income/(loss) attributable to common stockholders* to FFO.

United Dominion Realty, L.P.
Year Ended December 31,
(In thousands, except per OP unit data
and apartment homes owned)

	2018	2017	2016	2015	2014
OPERATING DATA:					
Rental income	\$ 431,920	\$ 419,377	\$ 404,415	\$ 440,408	\$ 422,634
Net income/(loss) (a)	231,485	107,855	79,262	215,063	97,179
Net income/(loss) attributable to OP unitholders	229,763	106,307	77,818	213,301	96,227
Income/(loss) per weighted average OP Unit - basic and diluted	\$ 1.25	\$ 0.58	\$ 0.42	\$ 1.16	\$ 0.53
Weighted average number of OP Units outstanding — basic and diluted	183,609	183,344	183,279	183,279	183,279
Balance Sheet Data:					
Real estate owned, at cost (b)	\$ 3,811,985	\$ 3,816,956	\$ 3,674,704	\$ 3,630,950	\$ 4,238,770
Accumulated depreciation (b)	1,658,161	1,543,652	1,408,815	1,281,258	1,403,303
Total real estate owned, net of accumulated depreciation (b)	2,153,824	2,273,304	2,265,889	2,349,647	2,835,467
Total assets	2,304,590	2,395,573	2,415,535	2,554,808	2,873,809
Secured debt, net (b)	26,929	159,845	433,974	475,964	927,484
Total liabilities	818,701	520,443	797,036	833,478	1,139,758
Total partners' capital	1,472,070	1,464,295	1,578,202	1,713,412	1,703,001
Advances (to)/from the General Partner	—	397,899	19,659	(11,270)	13,624
Number of OP units outstanding	183,637	183,351	183,279	183,279	183,279
Other Data:					
Total consolidated apartment homes owned (at end of year) (b)	16,434	16,698	16,698	16,974	20,814
Cash Flow Data:					
Cash provided by/(used in) operating activities (c)	\$ 255,668	\$ 235,257	\$ 228,941	\$ 224,396	\$ 208,118
Cash provided by/(used in) investing activities (c)	71,683	(105,989)	(9,455)	23,485	(46,451)
Cash provided by/(used in) financing activities	(326,535)	(128,846)	(221,483)	(247,747)	(162,777)

(a) As a result of SEC rule changes effective November 2018, *Income/(loss) from continuing operations* has been retrospectively updated to include *Gain/(loss) on the sale of real estate* and is now presented as *Net income/(loss)*. For additional information, see Note 2, *Significant Accounting Policies*, in the notes to the United Dominion Realty, L.P. Consolidated Financial Statements included in this Report.

(b) Includes amounts classified as Held for Disposition, where applicable.

- (c) The Operating Partnership adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. See Note 2, *Significant Accounting Policies*, in the Notes to the United Dominion Realty, L.P. Consolidated Financial Statements included in this Report for a complete description of the ASU and its impact. As a result, the following retrospective changes were made to the above table:

	<u>Year ended December 31,</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Net cash provided by/(used in) operating activities</i> - as previously reported	\$ 234,463	\$ 228,682	\$ 226,765	\$ 208,032
<i>(Increase)/decrease in operating assets</i>	794	259	(2,369)	86
<i>Net cash provided by/(used in) operating activities</i> - as reported herein	<u>\$ 235,257</u>	<u>\$ 228,941</u>	<u>\$ 224,396</u>	<u>\$ 208,118</u>
<i>Net cash provided by/(used in) investing activities</i> - as previously reported	\$ (106,080)	\$ (9,546)	\$ 23,583	\$ (46,650)
<i>Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement</i>	91	91	(98)	199
<i>Net cash provided by/(used in) investing activities</i> - as reported herein	<u>\$ (105,989)</u>	<u>\$ (9,455)</u>	<u>\$ 23,485</u>	<u>\$ (46,451)</u>

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

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

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

- risks that third parties who have an interest in or are otherwise involved in projects in which we have an interest, including mezzanine borrowers, joint ventures or other investors, do not perform as expected;
- changing interest rates, which could increase interest costs and affect the market price of our securities;
- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;
- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and
- changes in real estate laws, tax laws and other laws affecting our business.

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

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

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

The following discussion should be read in conjunction with the consolidated financial statements appearing elsewhere herein and is based primarily on the consolidated financial statements for the years ended December 31, 2018, 2017 and 2016 of each of UDR, Inc. and United Domination Realty, L.P.

UDR, Inc.:

Business Overview

We are a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, disposes of, and manages multifamily apartment communities. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include the Operating Partnership and the DownREIT Partnership. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” “the Company,” or “UDR” refer collectively to UDR, Inc., its subsidiaries and its consolidated joint ventures.

At December 31, 2018, our consolidated real estate portfolio included 127 communities in 11 states plus the District of Columbia totaling 39,931 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 32 communities with 8,112 apartment homes.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (“GAAP”) requires management to use judgment in the application of accounting policies, including making estimates and assumptions. A critical accounting policy is one that is both important to our financial condition and results of operations as well as involves some degree of uncertainty. Estimates are prepared based on management’s assessment after considering all evidence available. Changes in estimates could affect our financial position or results of operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, *Significant Accounting Policies*, to the Notes to the UDR, Inc. Consolidated Financial Statements included in this Report.

Cost Capitalization

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.

In addition to construction costs, we capitalize costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion. The costs capitalized are reported on the Consolidated Balance Sheets as *Total Real Estate Owned, Net of Accumulated Depreciation*. Amounts capitalized during the years ended December 31, 2018, 2017, and 2016 were \$18.1 million, \$27.4 million, and \$24.4 million, respectively.

Investment in Unconsolidated Entities

We may enter into various joint venture agreements and/or partnerships with unrelated third parties to hold or develop real estate assets. We must determine for each of these ventures whether to consolidate the entity or account for our investment under the equity method of accounting. We determine whether to consolidate a joint venture or partnership based on our rights and obligations under the venture agreement, applying the applicable accounting guidance. The application of the rules in evaluating the accounting treatment for each joint venture or partnership is complex and requires substantial management judgment. We evaluate our accounting for investments on a regular basis including when a significant change in the design of an entity occurs. Throughout our financial statements, and in this Management's Discussion and Analysis of Financial Condition and Results of Operations, we use the term "joint venture" or "partnership" when referring to investments in entities in which we do not have a 100% ownership interest.

We continually 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. 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. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Impairment of Long-Lived Assets

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 market value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs (defined as Level 3 inputs in the fair value hierarchy) related to rental rates, operating costs, growth rates, discount rates, capitalization rates, industry trends and reference to market rates and transactions.

Real Estate Investment Properties

We purchase real estate investment properties from time to time and record the fair value to various components, such as land, buildings, and intangibles related to in-place leases, based on the fair value of each component. In making estimates of fair values for purposes of allocating purchase price, we utilize various sources, including independent appraisals, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease-up period. We determine the

fair value of in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In addition, we consider the cost of acquiring similar leases, the foregone rents associated with the lease-up period, and the carrying costs associated with the lease-up period. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining average contractual lease period.

REIT Status

We are a Maryland corporation that has elected to be treated for federal income tax purposes as a REIT. A REIT is a legal entity that holds interests in real estate and is required by the Code to meet a number of organizational and operational requirements, including a requirement that a REIT must distribute at least 90% of our REIT taxable income (other than our net capital gain) to our stockholders. If we were to fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at the regular corporate rates and may not be able to qualify as a REIT for four years. Based on the net earnings reported for the year ended December 31, 2018 in our Consolidated Statements of Operations, we would have incurred federal and state GAAP income taxes if we had failed to qualify as a REIT.

Summary of Real Estate Portfolio by Geographic Market

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2018

	December 31, 2018				Year Ended December 31, 2018		
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)
Same-Store Communities							
West Region							
Orange County, CA	10	4,434	11.0 %	\$ 1,123,626	96.2 %	\$ 2,302	\$ 91,463
San Francisco, CA	11	2,751	8.5 %	865,010	96.7 %	3,560	86,159
Seattle, WA	14	2,593	8.7 %	889,283	96.6 %	2,423	51,882
Los Angeles, CA	4	1,225	4.5 %	454,304	96.2 %	2,812	29,462
Monterey Peninsula, CA	7	1,565	1.7 %	177,689	96.8 %	1,770	24,859
Other Southern California	2	654	1.1 %	107,144	96.5 %	1,896	10,747
Portland, OR	2	476	0.5 %	49,113	96.6 %	1,576	6,526
Mid-Atlantic Region							
Metropolitan D.C.	21	7,798	19.8 %	2,017,115	97.4 %	2,031	127,994
Richmond, VA	4	1,358	1.5 %	148,231	97.9 %	1,335	16,039
Baltimore, MD	3	720	1.5 %	152,023	96.2 %	1,689	9,637
Northeast Region							
New York, NY	4	1,945	12.8 %	1,307,371	97.9 %	4,335	64,798
Boston, MA	5	1,548	5.6 %	567,245	96.6 %	3,063	41,200
Southeast Region							
Orlando, FL	9	2,500	2.2 %	225,723	96.8 %	1,344	27,690
Tampa, FL	7	2,287	2.5 %	256,747	97.2 %	1,402	25,187
Nashville, TN	8	2,260	2.1 %	211,365	96.5 %	1,301	24,583
Other Florida	1	636	0.8 %	85,475	96.5 %	1,595	7,760
Southwest Region							
Dallas, TX	6	2,040	2.0 %	206,465	96.7 %	1,253	18,244
Austin, TX	3	883	0.9 %	91,216	97.5 %	1,361	8,164
Total/Average Same-Store Communities	121	37,673	87.7 %	8,935,145	96.9 %	\$ 2,145	672,394
Non-Mature, Commercial Properties & Other	6	2,258	12.3 %	1,261,014			59,721
Total Real Estate Owned	127	39,931	100.0 %	10,196,159			\$ 732,115
Total Accumulated Depreciation				(3,654,160)			
Total Real Estate Owned, Net of Accumulated Depreciation				\$ 6,541,999			

(a) Monthly Income per Occupied Home represents total monthly revenues divided by the average physical number of occupied apartment homes in our Same-Store portfolio.

We report in two segments: *Same-Store Communities* and *Non-Mature Communities/Other*.

Our *Same-Store Communities* segment represents those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. 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 communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our *Non-Mature Communities/Other* segment represents those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, sales of properties, borrowings under our credit agreements, and/or the issuance of debt and/or equity securities. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings under our credit agreements. We routinely use our

unsecured revolving credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we continue to excute on maintaining a diversified portfolio.

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

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

In July 2017, the Company entered into an ATM sales agreement under which the Company may offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents and may enter into separate forward sales agreements to or through its forward purchasers. Upon entering into the ATM sales agreement, the Company simultaneously terminated the sales agreement for its prior at-the-market equity offering program, which was entered into in April 2017, which had replaced the prior at-the-market equity offering program entered into in April 2012. During the year ended December 31, 2018, the Company did not sell any shares of common stock through its ATM program.

In February 2018, the Company amended its working capital credit facility, which provides for a \$75 million unsecured revolving credit facility (the “Working Capital Credit Facility”), to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. Based on the Company’s current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points. Depending on the Company’s credit rating, the margin ranges from 75 to 145 basis points. In September 2018, the Company further amended the Working Capital Credit Facility to lower the margin to the ranges disclosed above, which are consistent with the margins for the \$1.1 billion unsecured revolving credit facility described below.

During the year ended December 31, 2018, the Company repurchased 593,373 shares of its common stock at a weighted average price per share of \$33.69, for total consideration of approximately \$20.0 million under its share repurchase program.

In September 2018, the Company entered into a \$1.1 billion unsecured revolving credit facility (the “Revolving Credit Facility”) and a \$350.0 million unsecured term loan (the “Term Loan”). The credit agreement for these facilities (the “Credit Agreement”) allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company’s prior credit agreement, which provided for: (i) a \$1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a \$350.0 million term loan scheduled to mature in January 2021. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions.

In October 2018, the Company issued \$300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029. The effective rate of the notes is 4.27% after the effect of a cash flow hedge. Interest is payable semi-annually in arrears on January 26 and July 26 of each year, beginning on January 26, 2019. The notes were priced at

99.998% of the principal amount at issuance. The Company used the net proceeds for the repayment of debt, including \$195.8 million of the outstanding balance under the Fannie Mae credit facilities, and for general corporate purposes.

In December 2018, the Company sold 7,150,000 shares of its common stock for aggregate gross proceeds of approximately \$300.2 million at a price per share of \$41.98. Aggregate net proceeds from the sale, after deducting the underwriting discount and offering-related expenses, were approximately \$299.8 million, which will be used for planned acquisitions of assets, working capital and general corporate purposes.

Future Capital Needs

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

During 2019, we have approximately \$71.5 million of secured debt maturing, inclusive of principal amortization, and \$101.1 million of unsecured debt maturing, comprised solely of unsecured commercial paper. We prepaid \$195.8 million of secured debt previously due in 2019 with proceeds from the senior unsecured medium-term notes issued in October 2018 and anticipate repaying the remaining debt with cash flow from our operations, proceeds from debt or equity offerings, proceeds from dispositions of properties, or from borrowings under our credit agreements and our unsecured commercial paper program.

Statements of Cash Flows

The following discussion explains the changes in *Net cash provided by/(used in) operating activities*, *Net cash provided by/(used in) investing activities*, and *Net cash provided by/(used in) financing activities* that are presented in our Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016.

Operating Activities

For the year ended December 31, 2018, *Net cash provided by/(used in) operating activities* was \$560.7 million compared to \$518.9 million for 2017. The increase in cash flow from operating activities was primarily due to improved net operating income, primarily driven by revenue growth at communities, and changes in operating assets and liabilities.

For the year ended December 31, 2017, *Net cash provided by/(used in) operating activities* was \$518.9 million compared to \$536.6 million for 2016. The decrease in cash flow from operating activities was primarily due to a decrease in cash from return on investment in unconsolidated joint ventures, partially offset by improved net operating income, primarily driven by revenue growth at communities, and changes in operating assets and liabilities.

Investing Activities

For the year ended December 31, 2018, *Net cash provided by/(used in) investing activities* was \$(113.5) million compared to \$(407.4) million for 2017. The decrease in cash used in investing activities was primarily due to an increase in proceeds from the sale of real estate assets and decreases in the acquisition of real estate assets, investments in unconsolidated joint ventures, development of real estate assets, capital expenditures and other major improvements and distributions received from unconsolidated joint ventures, partially offset by an increase in issuances of notes receivable.

For the year ended December 31, 2017, *Net cash provided by/(used in) investing activities* was \$(407.4) million compared to \$(112.7) million for 2016. The increase in cash used in investing activities was primarily due to a decrease in proceeds from the sale of real estate assets, an increase in investment in unconsolidated joint ventures, and an increase in spend on consolidated development projects, capital expenditures and major renovations, partially offset by a decrease in the acquisition of real estate assets and an increase in distributions received from unconsolidated joint ventures.

Acquisitions

During the year ended December 31, 2018, the Company did not have any acquisitions of real estate.

In October 2017, the Company acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately \$141.5 million. The Company consolidated the operating community and accounted for the consolidation as a business combination. As a result of the consolidation, the Company increased its real estate assets owned by \$139.0 million, recorded approximately \$2.5 million of in-place lease intangibles and recorded a gain on consolidation of approximately \$14.8 million, which is included in *Income/(loss) from unconsolidated entities* on the Consolidated Statements of Operations. The acquisition was funded with tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986 (“Section 1031 exchanges”). Prior to acquiring the community, the Company had provided \$93.5 million as a participating loan investment to the third-party developer and was entitled to receive, in addition to repayment of principal and interest, contingent interest equal to 50% of the sum of the amount the property was sold for less construction and closing costs, which equaled approximately \$14.9 million. The Company had previously accounted for its participating loan investment as an unconsolidated joint venture.

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

In November 2016, the Company acquired an operating community in Redmond, Washington with 177 apartment homes for approximately \$70.5 million, which was funded with tax-deferred Section 1031 exchanges.

In October 2016, the Company increased its ownership from 50% to 100% in two operating communities located in Bellevue, Washington with a total of 331 apartment homes for approximately \$70.3 million in cash, which was funded with tax-deferred Section 1031 exchanges, and the assumption of an incremental \$37.9 million of secured debt with a weighted average interest rate of 3.67%. As a result, the Company consolidated the operating communities. The Company had previously accounted for its 50% ownership interest as an unconsolidated joint venture. We accounted for the consolidation as a business combination resulting in a gain on consolidation of approximately \$36.4 million.

In August 2016, the Company increased its ownership interest from 5% to 100% in a parcel of land in Dublin, California for a purchase price of approximately \$8.5 million. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 5% interest in the parcel of land as an unconsolidated joint venture. We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by \$8.9 million.

In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately \$20.1 million. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 50% interest in the parcel of land as an unconsolidated joint venture. We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by \$31.1 million. Subsequent to the acquisition, the Company entered into a triple-net operating ground lease for the parcel of land at market terms with a third-party developer. The lessee plans to construct a multi-family community on the parcel of land. The ground lease provides the ground lessee with options to buy the fee interest in the parcel of land. The lease term is 49 years plus two 25-year extension options, does not transfer ownership to the lessee, and does not include a bargain purchase option.

Dispositions

In December 2018, the Company sold an operating community in Fairfax, Virginia with a total of 604 apartment homes for gross proceeds of \$160.0 million, resulting in a gain of \$65.9 million.

In February 2018, the Company sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of \$90.5 million, resulting in a gain of \$70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

In December 2017, the Company sold two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California for gross proceeds of \$69.0 million, resulting in a gain of \$41.3 million.

In February 2017, the Company sold a parcel of land in Richmond, Virginia for gross proceeds of \$3.5 million, resulting in a gain of \$2.1 million.

In November 2016, the Company sold seven operating communities with a total of 1,402 apartment homes in Baltimore, Maryland and an operating community with 380 apartment homes in Dallas, Texas for gross proceeds of \$284.6 million, resulting in a gain, net of tax, of \$200.5 million. A portion of the proceeds was designated for tax-deferred Section 1031 exchanges.

In May 2016, the Company sold a retail center in Bellevue, Washington for gross proceeds of \$45.4 million, resulting in a gain, net of tax, of \$7.3 million. A portion of the proceeds was designated for tax-deferred Section 1031 exchanges.

In March 2016, the Company sold its 95% ownership interest in two parcels of land in Santa Monica, California for gross proceeds of \$24.0 million, resulting in a gain, net of tax, of \$3.1 million.

We plan to continue to pursue our strategy of exiting markets where long-term growth prospects are limited and redeploying capital to primary locations in markets we believe will provide the best investment returns.

Capital Expenditures

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

For the year ended December 31, 2018, total capital expenditures of \$112.6 million or \$2,857 per stabilized home, which in aggregate include recurring capital expenditures and major renovations, were spent across our portfolio, excluding development, as compared to \$105.9 million or \$2,667 per stabilized home for the prior year.

The increase in total capital expenditures was primarily due to:

- an increase of 48.2%, or \$7.4 million, in major renovations, which include major structural changes and/or architectural revisions to existing buildings; and
- an increase of 2.2%, or \$0.8 million, in asset preservation expenditures, such as building interiors, building exteriors, and landscaping and grounds.

This was partially offset by:

- a decrease of 3.5%, or \$1.6 million, in revenue-enhancing improvements, such as kitchen and bath remodels and upgrades to common areas.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, for the years ended December 31, 2018 and 2017 (*dollars in thousands*):

	Year Ended December 31,			Per Home		
	Year Ended December 31,			Year Ended December 31,		
	2018	2017	% Change	2018	2017	% Change
Turnover capital expenditures	\$ 11,009	\$ 10,905	1.0 %	\$ 279	\$ 275	1.5 %
Asset preservation expenditures	35,906	35,129	2.2 %	911	885	2.9 %
Total recurring capital expenditures	46,915	46,034	1.9 %	1,190	1,160	2.6 %
Revenue-enhancing improvements	42,905	44,467	(3.5)%	1,089	1,120	(2.8)%
Major renovations (a)	22,774	15,370	48.2 %	578	387	49.3 %
Total capital expenditures	\$ 112,594	\$ 105,871	6.4 %	\$ 2,857	\$ 2,667	7.1 %
Repair and maintenance expense	\$ 35,273	\$ 33,704	4.7 %	\$ 895	\$ 849	5.4 %
Average home count (b)	39,406	39,692	(0.7)%			

(a) Major renovations include major structural changes and/or architectural revisions to existing buildings.

(b) Average number of homes is calculated based on the number of homes outstanding at the end of each month.

The above table includes amounts capitalized during the year. Actual capital spending is impacted by the net change in capital expenditure accruals.

We intend to continue to selectively add revenue-enhancing improvements, which we believe will provide a return on investment in excess of our cost of capital. Our objective in redeveloping a community is twofold: we aim to meaningfully grow rental rates while also achieving cap rate compression through asset quality improvement.

Consolidated Real Estate Under Development

At December 31, 2018, no communities were under development. During 2018, we incurred \$150.2 million for development costs, a decrease of \$98.3 million as compared to costs incurred in 2017 of \$248.5 million.

During the year ended December 31, 2018, the Company completed the development of two communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 apartment homes.

At December 31, 2018, the Company was not redeveloping any communities.

During the year ended December 31, 2018, we incurred \$22.8 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings, an increase of \$7.4 million as compared to \$15.4 million incurred in 2017.

Unconsolidated Joint Ventures and Partnerships

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

The Company's *Investment in and advances to unconsolidated joint ventures and partnerships, net*, are accounted for under the equity method of accounting. For the year ended December 31, 2018:

- two developments held by unconsolidated joint ventures were completed in Los Angeles, California and Addison, Texas with a total of 533 apartment homes;
- we made investments totaling \$112.0 million in our unconsolidated joint ventures;
- our proportionate share of the net income/(loss) of the joint ventures and partnerships was \$(5.1) million;
- we received distributions of \$46.9 million, of which \$4.2 million were operating cash flows and \$42.7 million were investing cash flows; and

- we contributed \$120.7 million to seven unconsolidated investments under our Developer Capital Program, which earn preferred returns ranging between 8.0% to 12.5%.

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary impairments in the value of its investments in unconsolidated joint ventures or partnerships during the years ended December 31, 2018 and 2017.

Financing Activities

For the years ended December 31, 2018, 2017 and 2016, *Net cash provided by/(used in) financing activities* was \$(260.1) million, \$(111.8) million and \$(429.3) million, respectively.

The following significant financing activities occurred during the year ended December 31, 2018:

- issuance of \$300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029 (4.27% effective rate after the effect of a cash flow hedge) for net proceeds of approximately \$300.0 million;
- net repayment of \$198.9 million on our unsecured commercial paper program;
- net repayment of \$21.8 million on the Company's unsecured revolving credit facilities;
- repayment of \$279.2 million of secured debt;
- issuance of \$80.0 million of secured debt;
- sale of 7,150,000 shares of common stock for aggregate net proceeds of \$299.8 million at a price per share of \$41.98;
- repurchase of common shares for approximately \$20.0 million; and
- payment of distributions of \$342.2 million to our common stockholders.

The following significant financing activities occurred during the year ended December 31, 2017:

- issuance of \$300.0 million of 3.50% senior unsecured medium-term notes due July 1, 2027, for net proceeds of approximately \$296.9 million;
- issuance of \$300.0 million of 3.50% senior unsecured medium-term notes due January 15, 2028, for net proceeds of approximately \$296.9 million;
- net proceeds of \$300.0 million under our unsecured commercial paper program;
- repayment of \$326.3 million of secured debt;
- redemption of \$300.0 million of 4.25% unsecured medium-term notes due June 2018 prior to maturity; and
- payment of distributions of \$327.8 million to our common stockholders.

The following significant financing activities occurred during the year ended December 31, 2016:

- issuance of \$300.0 million of 2.95% senior unsecured medium-term notes due September 1, 2026;
- repayment of \$375.3 million of secured debt and \$11.8 million of unsecured debt;
- repayment of \$83.3 million of 5.25% unsecured medium-term notes due January 2016;
- issuance of \$50.0 million of secured debt;
- net repayment of \$128.7 million under the Company's unsecured revolving credit facility;

- sale of 5,000,000 shares of common stock for aggregate net proceeds of approximately \$173.2 million at a price per share of \$34.73; and
- payment of distributions of \$308.9 million to our common stockholders.

Credit Facilities and Commercial Paper Program

UDR had one secured credit facility with Fannie Mae with a commitment of \$90.0 million at December 31, 2018. The Fannie Mae credit facility matures in July 2020 and bears interest at a fixed rate of 3.95%.

During the year ended December 31, 2018, the Company prepaid \$29.0 million of its variable rate secured credit facilities with proceeds from the refinance of a mortgage note payable and prepaid \$195.8 million of its fixed rate secured credit facilities with proceeds from the issuance of senior unsecured medium-term notes.

In September 2018, the Company entered into a \$1.1 billion unsecured revolving credit facility and a \$350.0 million unsecured term loan. The Credit Agreement for these facilities allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company's prior credit agreement, which provided for: (i) a \$1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a \$350.0 million term loan scheduled to mature in January 2021. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions.

Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points and a facility fee of 15 basis points, and the Term Loan has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin under the Revolving Credit Facility ranges from 75 to 145 basis points, the facility fee ranges from 10 to 30 basis points, and the margin under the Term Loan ranges from 80 to 165 basis points.

As of December 31, 2018, we had no outstanding borrowings under the Revolving Credit Facility, leaving \$1.1 billion of unused capacity (excluding \$3.3 million of letters of credit at December 31, 2018), and \$350.0 million of outstanding borrowings under the Term Loan.

We have a working capital credit facility, which provides for a \$75 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 15, 2021. Based on the Company's current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points. Depending on the Company's credit rating, the margin ranges from 75 to 145 basis points. In February 2018, we amended the Working Capital Credit Facility to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. In September 2018, the Company further amended the Working Capital Credit Facility to lower the margin to the ranges disclosed above, which are consistent with the margins for the \$1.1 billion unsecured revolving credit facility described above.

As of December 31, 2018, we had less than \$0.1 million of outstanding borrowings under the Working Capital Credit Facility, leaving \$75.0 million of unused capacity.

The Fannie Mae credit facility, the bank revolving credit facilities and the term loan are subject to customary financial covenants and limitations, all of which we were in compliance with at December 31, 2018.

We have an unsecured commercial paper program. Under the terms of the program, we may issue unsecured commercial paper up to a maximum aggregate amount outstanding of \$500 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of our other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership. As of December 31, 2018, we had issued \$101.1 million of commercial paper, for one month terms, at a weighted average annualized rate of 2.90%, leaving \$398.9 million of unused capacity.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$230.8 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2018. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$5.4 million based on the average balance outstanding during the year.

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

The Company also utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 13, *Derivatives and Hedging Activities*, in the Notes to the UDR Consolidated Financial Statements included in this Report for additional discussion of derivative instruments.

A presentation of cash flow metrics based on GAAP is as follows (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Net cash provided by/(used in) operating activities	\$ 560,676	\$ 518,915	\$ 536,568
Net cash provided by/(used in) investing activities	(113,548)	(407,406)	(112,720)
Net cash provided by/(used in) financing activities	(260,067)	(111,785)	(429,282)

Results of Operations

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016.

Net Income/(Loss) Attributable to Common Stockholders

2018 -vs- 2017

Net income/(loss) attributable to common stockholders was \$199.2 million (\$0.74 per diluted share) for the year ended December 31, 2018, as compared to \$117.9 million (\$0.44 per diluted share) for the comparable period in the prior year. The increase resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- gains of \$136.2 million on the sale of two operating communities with a total of 868 apartment homes in Huntington Beach, California and Fairfax, Virginia, during the year ended December 31, 2018, as compared to gains of \$43.4 million on the sale of a parcel of land in Richmond, Virginia and the sale of two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California during the year ended December 31, 2017; and
- an increase in total property NOI of \$33.6 million primarily due to higher revenue per occupied home and NOI from communities acquired in 2017, redeveloped in 2017 or recently developed, partially offset by a decrease from sold communities.

This was partially offset by:

- a decrease in income from unconsolidated entities of \$36.3 million primarily due to gains on sale or consolidation of \$35.4 million from the purchase or sale of previously unconsolidated operating communities in Seattle, Washington and Anaheim, California from our West Coast Development Joint

Venture and Denver, Colorado from our Development Capital Program during the year ended December 31, 2017.

2017 -vs- 2016

Net income/(loss) attributable to common stockholders was \$117.9 million (\$0.44 per diluted share) for the year ended December 31, 2017, as compared to \$289.0 million (\$1.08 per diluted share) for the comparable period in the prior year. The decrease resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- gains of \$43.4 million on the sale of a parcel of land in Richmond, Virginia and the sale of two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California, during the year ended December 31, 2017, as compared to gains of \$226.2 million on the sale of eight operating communities with a total of 1,782 apartment homes, a retail center and the Company's 95% interest in two land parcels during the year ended December 31, 2016;
- an increase in depreciation expense of \$10.4 million primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2017 and 2016, partially offset by a decrease from sold communities and fully depreciated assets; and
- a decrease in income from unconsolidated entities of \$21.0 million primarily due to:
 - during the year ended December 31, 2017, total gains on sale or consolidation of \$35.4 million from the purchase or sale of previously unconsolidated operating communities in Seattle, Washington and Anaheim, California from our West Coast Development Joint Venture and Denver, Colorado from our Development Capital Program.

As compared to:

- during the year ended December 31, 2016, the disposition of three operating communities by the UDR/MetLife II joint venture, which resulted in gains of \$47.7 million for the Company and a casualty gain of \$3.8 million as a result of insurance proceeds related to a 2015 event.

This was partially offset by:

- an increase in total property NOI of \$25.4 million primarily due to higher revenue per occupied home and NOI from communities acquired in 2017 and 2016 or redeveloped in 2017 and 2016, partially offset by a decrease from sold communities.

Apartment Community Operations

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

Management considers NOI a useful metric for investors as it is a more meaningful representation of a community's continuing operating performance than net income as it is prior to corporate-level expense allocations, general and administrative costs, capital structure and depreciation and amortization.

Although the Company considers NOI a useful measure of operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities as determined in accordance with GAAP. NOI excludes several income and expense categories as detailed in the reconciliation of NOI to *Net income/(loss) attributable to UDR, Inc.* below.

The following table summarizes the operating performance of our total property NOI for each of the periods presented (*dollars in thousands*):

	Year Ended December 31, (a)			Year Ended December 31, (b)		
	2018	2017	% Change	2017	2016	% Change
Same-Store Communities:						
Same-Store rental income	\$ 939,726	\$ 908,361	3.5 %	\$ 850,065	\$ 819,962	3.7 %
Same-Store operating expense (c)	(267,332)	(257,919)	3.6 %	(242,522)	(234,385)	3.5 %
Same-Store NOI	<u>672,394</u>	<u>650,442</u>	3.4 %	<u>607,543</u>	<u>585,577</u>	3.8 %
Non-Mature Communities/Other NOI:						
Stabilized, non-mature communities NOI (d)						
NOI (d)	18,427	13,767	33.8 %	61,002	47,711	27.9 %
Acquired communities NOI	—	—	— %	5,783	—	— %
Redevelopment communities NOI	—	—	— %	4,021	4,270	(5.8)%
Development communities NOI	11,221	(295)	NM *	(295)	(436)	(32.3)%
Non-residential/other NOI	20,530	16,640	23.4 %	17,081	16,244	5.2 %
Sold and held for disposition communities NOI	9,543	17,949	(46.8)%	3,368	19,719	(82.9)%
Total Non-Mature Communities/Other NOI	<u>59,721</u>	<u>48,061</u>	24.3 %	<u>90,960</u>	<u>87,508</u>	3.9 %
Total property NOI	<u>\$ 732,115</u>	<u>\$ 698,503</u>	4.8 %	<u>\$ 698,503</u>	<u>\$ 673,085</u>	3.8 %

* Not meaningful

(a) Same-Store consists of 37,673 apartment homes.

(b) Same-Store consists of 35,471 apartment homes.

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

(d) Represents non-mature communities that have achieved 90% occupancy for three consecutive months but do not meet the criteria to be included in Same-Store Communities.

The following table is our reconciliation of *Net income/(loss) attributable to UDR, Inc.* to total property NOI for the periods presented (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Net income/(loss) attributable to UDR, Inc.	\$ 203,106	\$ 121,558	\$ 292,718
Joint venture management and other fees	(11,754)	(11,482)	(11,400)
Property management	28,465	27,068	26,083
Other operating expenses	12,100	9,060	7,649
Real estate depreciation and amortization	429,006	430,054	419,615
General and administrative	46,983	48,566	49,761
Casualty-related charges/(recoveries), net	2,121	4,335	732
Other depreciation and amortization	6,673	6,408	6,023
(Income)/loss from unconsolidated entities	5,055	(31,257)	(52,234)
Interest expense	134,168	128,711	123,031
Interest income and other (income)/expense, net	(6,735)	(1,971)	(1,930)
(Gain)/loss on sale of real estate owned	(136,197)	(43,404)	(226,199)
Tax provision/(benefit), net	688	(240)	11,574
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	18,215	10,933	27,282
Net income/(loss) attributable to noncontrolling interests	221	164	380
Total property NOI	<u>\$ 732,115</u>	<u>\$ 698,503</u>	<u>\$ 673,085</u>

Same-Store Communities

2018 -vs- 2017

Our *Same-Store Community* properties (those acquired, developed, and stabilized prior to January 1, 2017 and held on December 31, 2018) consisted of 37,673 apartment homes and provided 91.8% of our total NOI for the year ended December 31, 2018.

NOI for our *Same-Store Community* properties increased 3.4%, or \$22.0 million, for the year ended December 31, 2018 compared to the same period in 2017. The increase in property NOI was attributable to a 3.5%, or \$31.4 million, increase in property rental income, which was partially offset by a 3.6%, or \$9.4 million, increase in operating expenses. The increase in property income was primarily driven by a 2.1%, or \$17.6 million, increase in rental rates and an 11.5%, or \$9.6 million, increase in reimbursements and ancillary and fee income. Physical occupancy increased 0.2% to 96.9% and total monthly income per occupied home increased 3.3% to \$2,145.

The increase in operating expenses was primarily driven by a 9.1%, or \$9.1 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

The operating margin (property net operating income divided by property rental income) was 71.6% for both the years ended December 31, 2018 and 2017.

2017 -vs- 2016

Our *Same-Store Community* properties (those acquired, developed, and stabilized prior to January 1, 2016 and held on December 31, 2017) consisted of 35,471 apartment homes and provided 87.0% of our total NOI for the year ended December 31, 2017.

NOI for our *Same-Store Community* properties increased 3.8%, or \$22.0 million, for the year ended December 31, 2017 compared to the same period in 2016. The increase in property NOI was attributable to a 3.7%, or \$30.1 million, increase in property rental income, which was partially offset by a 3.5%, or \$8.1 million, increase in operating expenses. The increase in property income was primarily driven by a 2.5%, or \$19.7 million, increase in rental rates and an 11.2%, or \$7.4 million, increase in reimbursements and ancillary and fee income. Physical occupancy increased 0.2% to 96.8% and total monthly income per occupied home increased 3.5% to \$2,064.

The increase in operating expenses was primarily driven by a 7.1%, or \$6.2 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

The operating margin (property net operating income divided by property rental income) increased to 71.5% for the year ended December 31, 2017 as compared to 71.4% for 2016.

Non-Mature Communities/Other

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

2018 -vs- 2017

The remaining 8.2%, or \$59.7 million, of our total NOI during the year ended December 31, 2018 was generated from our *Non-Mature Communities/Other*. NOI from *Non-Mature Communities/Other* increased by 24.3%, or \$11.7 million, for the year ended December 31, 2018 as compared to the same period in 2017. The increase was primarily attributable to an \$11.5 million increase in NOI from development communities, a \$4.6 million increase in NOI from stabilized, non-mature communities, and a \$3.9 million increase in non-residential/other NOI, partially offset by a \$8.4 million decrease in NOI from sold and held for disposition communities.

2017 -vs- 2016

The remaining 13.0%, or \$91.0 million, of our total NOI for the year ended December 31, 2017 was generated from our *Non-Mature Communities/Other*. NOI from *Non-Mature Communities/Other* increased by 3.9%, or \$3.5 million, for the year ended December 31, 2017 as compared to the same period in 2016. The increase was primarily

attributable to a \$13.3 million increase in NOI from stabilized, non-mature communities, a \$5.8 million increase in NOI from acquired communities and a \$0.8 million increase in non-residential/other NOI, partially offset by a \$16.4 million decrease in NOI from sold and held for disposition communities.

Income/(Loss) from Unconsolidated Entities

For the years ended December 31, 2018 and 2017, we recognized income/(loss) from unconsolidated entities of \$(5.1) million and \$31.3 million, respectively. The decrease of \$36.3 million was primarily due to:

- no acquisitions or dispositions from the Company's unconsolidated entities during the year ended December 31, 2018.

As compared to:

- gains for the Company of \$35.4 million on the sale of two communities out of the West Coast Development joint venture and the purchase and consolidation of 100% interest in two previously unconsolidated operating communities during the year ended December 31, 2017.

For the years ended December 31, 2017 and 2016, we recognized income/(loss) from unconsolidated entities of \$31.3 million and \$52.2 million, respectively. The decrease of \$20.9 million was primarily due to:

- gains for the Company of \$35.4 million on the sale of two communities out of the West Coast Development joint venture and the purchase and consolidation of 100% interest in two previously unconsolidated operating communities during the year ended December 31, 2017.

As compared to:

- the sale of three operating communities by the UDR/MetLife II joint venture during the year ended December 31, 2016, which resulted in gains of \$47.7 million for the Company and a casualty gain of \$3.8 million as a result of insurance proceeds related to a 2015 event.

Gain/(Loss) on Sale of Real Estate Owned

During the year ended December 31, 2018, the Company recognized gains of \$136.2 million on the sale of two operating communities in Huntington Beach, California, and Fairfax, Virginia.

During the year ended December 31, 2017, the Company recognized gains of \$43.4 million on the sale of a parcel on land in Richmond, Virginia and two operating communities in Orange County, California and Carlsbad, California.

During the year ended December 31, 2016, the Company sold eight operating communities with a total of 1,782 apartment homes, a retail center, and its 95% interest in two land parcels, resulting in gains of \$226.2 million.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rental rates on our apartment homes. Although an extreme escalation in costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018 (*dollars in thousands*):

Contractual Obligations	Payments Due by Period				
	2019	2020-2021	2022-2023	Thereafter	Total
Long-term debt obligations	\$ 172,637	\$ 499,209	\$ 792,402	\$ 2,100,244	\$ 3,564,492
Interest on debt obligations (a)	126,439	225,993	172,969	231,334	756,735
Letters of credit	3,265	—	—	—	3,265
Operating lease obligations:					
Operating space	76	108	—	—	184
Ground leases (b)	4,901	9,802	9,802	313,918	338,423
	<u>\$ 307,318</u>	<u>\$ 735,112</u>	<u>\$ 975,173</u>	<u>\$ 2,645,496</u>	<u>\$ 4,663,099</u>

- (a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2018.
- (b) For purposes of our ground lease contracts, the Company uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a rent reset provision based on fair market value or changes in the consumer price index but does not include a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

During 2018, we incurred gross interest costs of \$144.8 million, of which \$10.6 million was capitalized.

Funds from Operations, Funds from Operations as Adjusted, and Adjusted Funds from Operations

Funds from Operations

Funds from operations ("FFO") attributable to common stockholders and unitholders is defined as *Net income/loss attributable to common stockholders* (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains or losses from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for noncontrolling interests, unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust's ("NAREIT") definition issued in April 2002. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of a REIT's operating performance. In the computation of diluted FFO, if OP Units, DownREIT Units, unvested restricted stock, unvested LTIP Units, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive, they are included in the diluted share count.

We consider FFO a useful metric for investors as we use FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with GAAP. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of funds available to fund our cash needs.

Funds from Operations as Adjusted

FFO as Adjusted ("FFOA") attributable to common stockholders and unitholders is defined as FFO excluding the impact of acquisition-related costs and other non-comparable items including, but not limited to, prepayment costs/benefits associated with early debt retirement, gains or losses on sales of non-depreciable property and marketable securities, deferred tax valuation allowance increases and decreases, casualty-related charges and recoveries, severance costs and legal costs.

Management believes that FFOA is useful supplemental information regarding our operating performance as it provides a consistent comparison of our operating performance across time periods and allows investors to more easily compare our operating results with other REITs. FFOA is not intended to represent cash flow or liquidity for the period,

and is only intended to provide an additional measure of our operating performance. We believe that *Net income/(loss) attributable to common stockholders* is the most directly comparable GAAP financial measure to FFOA. However, other REITs may use different methodologies for calculating FFOA or similar FFO measures and, accordingly, our FFOA may not always be comparable to FFOA or similar FFO measures calculated by other REITs. FFOA should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity.

Adjusted Funds from Operations

Adjusted FFO (“AFFO”) attributable to common stockholders and unitholders is defined as FFOA less recurring capital expenditures on consolidated communities that are necessary to help preserve the value of and maintain functionality at our communities. Therefore, management considers AFFO a useful supplemental performance metric for investors as it is more indicative of the Company’s operational performance than FFO or FFOA.

AFFO is not intended to represent cash flow or liquidity for the period, and is only intended to provide an additional measure of our operating performance. We believe that *Net income/(loss) attributable to common stockholders* is the most directly comparable GAAP financial measure to AFFO. Management believes that AFFO is a widely recognized measure of the operations of REITs, and presenting AFFO will enable investors to assess our performance in comparison to other REITs. However, other REITs may use different methodologies for calculating AFFO and, accordingly, our AFFO may not always be comparable to AFFO calculated by other REITs. AFFO should not be considered as an alternative to net income/(loss) (determined in accordance with GAAP) as an indication of financial performance, or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The following table outlines our reconciliation of *Net income/(loss) attributable to common stockholders* to FFO, FFOA, and AFFO for the years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Net income/(loss) attributable to common stockholders	\$ 199,238	\$ 117,850	\$ 289,001
Real estate depreciation and amortization	429,006	430,054	419,615
Noncontrolling interests	18,436	11,097	27,662
Real estate depreciation and amortization on unconsolidated joint ventures	61,871	57,102	47,832
Cumulative effect of change in accounting principle (a)	(2,100)	—	—
Net gain on the sale of unconsolidated depreciable property	—	(35,363)	(47,848)
Net gain on the sale of depreciable real estate owned	(136,197)	(41,824)	(209,166)
FFO attributable to common stockholders and unitholders, basic	\$ 570,254	\$ 538,916	\$ 527,096
Distribution to preferred stockholders — Series E (Convertible)	3,868	3,708	3,717
FFO attributable to common stockholders and unitholders, diluted	\$ 574,122	\$ 542,624	\$ 530,813
Income/(loss) per weighted average common share - diluted	\$ 0.74	\$ 0.44	\$ 1.08
FFO per weighted average common share and unit, basic	\$ 1.95	\$ 1.85	\$ 1.81
FFO per weighted average common share and unit, diluted	\$ 1.93	\$ 1.83	\$ 1.80
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	292,727	291,845	290,516
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	297,042	296,672	295,469
Impact of adjustments to FFO:			
Costs/(benefit) associated with debt extinguishment and other	\$ 3,299	\$ 9,212	\$ 1,729
Costs/(benefit) associated with debt extinguishment and other on unconsolidated joint ventures	177	—	—
Acquisition-related costs/(fees)	—	371	213
Long-term incentive plan transition costs	—	—	898
Net gain on the sale of non-depreciable real estate owned	—	(1,580)	(1,685)
Legal and other costs	1,622	—	(480)
Net loss on sale of unconsolidated land	—	—	1,016
Severance costs and other restructuring expense	114	624	871
Tax benefit associated with the conversion of certain TRS entities into REITs	—	—	(2,436)
Casualty-related charges/(recoveries), net	2,364	4,504	732
Casualty-related charges/(recoveries) on unconsolidated joint ventures, net	—	(881)	(3,752)
	\$ 7,576	\$ 12,250	\$ (2,894)
FFOA attributable to common stockholders and unitholders, diluted	\$ 581,698	\$ 554,874	\$ 527,919
FFOA per weighted average common share and unit, diluted	\$ 1.96	\$ 1.87	\$ 1.79
Recurring capital expenditures	(46,915)	(46,034)	(47,257)
AFFO attributable to common stockholders and unitholders, diluted	\$ 534,783	\$ 508,840	\$ 480,662
AFFO per weighted average common share and unit, diluted	\$ 1.80	\$ 1.72	\$ 1.63

(a) During the year ended December 31, 2018, the Company recorded a gain of \$2.1 million as a result of measuring an investment in equity securities subject to updated accounting guidance effective for the Company on January 1, 2018. As the investment does not have a readily determinable fair value, the Company elected the measurement alternative under which the investment is measured at cost, less any impairment, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer.

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the UDR Consolidated Statements of Operations for the years ended December 31, 2018, 2017, and 2016 (*shares in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	292,727	291,845	290,516
Weighted average number of OP/DownREIT Units outstanding	(24,548)	(24,821)	(25,130)
Weighted average number of common shares outstanding — basic per the Consolidated Statements of Operations	<u>268,179</u>	<u>267,024</u>	<u>265,386</u>
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	297,042	296,672	295,469
Weighted average number of OP/DownREIT Units outstanding	(24,548)	(24,821)	(25,130)
Weighted average number of Series E preferred shares outstanding	(3,011)	(3,021)	(3,028)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	<u>269,483</u>	<u>268,830</u>	<u>267,311</u>

United Dominion Realty, L.P.:

Business Overview

United Dominion Realty, L.P. (the “Operating Partnership” or “UDR, L.P.”) is a Delaware limited partnership formed in February 2004 and organized pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations on November 4, 1995. Our sole general partner is UDR, Inc., a Maryland corporation (“UDR” or the “General Partner”), which conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership. At December 31, 2018, the Operating Partnership’s real estate portfolio included 52 communities located in nine states and the District of Columbia with a total of 16,434 apartment homes.

As of December 31, 2018, UDR owned 110,883 units of our general partnership interests and 174,137,816 units of our limited partnership interests (the “OP Units”), or approximately 94.8% of our outstanding OP Units. By virtue of its ownership of our OP Units and being our sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this section of this Report to the Operating Partnership or “we,” “us” or “our” refer to UDR, L.P. together with its consolidated subsidiaries, and all references in this section to “UDR” or the “General Partner” refer solely to UDR, Inc.

UDR is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in June 2003. At December 31, 2018, the General Partner’s consolidated real estate portfolio included 127 communities located in 11 states and the District of Columbia with a total of 39,931 apartment homes. In addition, the General Partner had an ownership interest in 32 communities with 8,112 completed apartment homes through unconsolidated operating communities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (“GAAP”) requires management to use judgment in the application of accounting policies, including making estimates and assumptions. A critical accounting policy is one that is both important to our financial condition and results of operations as well as involves some degree of uncertainty. Estimates are prepared based on management’s assessment after considering all evidence available. Changes in estimates could affect our financial position or results of operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found

in Note 2, *Significant Accounting Policies*, to the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report.

Cost Capitalization

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.

In addition to construction costs, we capitalize costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion. The costs capitalized are reported on the Consolidated Balance Sheets as *Total real estate owned, net of accumulated depreciation*. Amounts capitalized during the years ended December 31, 2018, 2017, and 2016 were less than \$0.1 million, \$0.5 million, and \$0.8 million, respectively.

Investment in Unconsolidated Entities

We may enter into various joint venture agreements and/or partnerships with unrelated third parties to hold or develop real estate assets. We must determine for each of these ventures whether to consolidate the entity or account for our investment under the equity method of accounting. We determine whether to consolidate a joint venture or partnership based on our rights and obligations under the venture agreement, applying the applicable accounting guidance. The application of the rules in evaluating the accounting treatment for each joint venture or partnership is complex and requires substantial management judgment. We evaluate our accounting for investments on a regular basis including when a significant change in the design of an entity occurs. Throughout our financial statements, and in this Management's Discussion and Analysis of Financial Condition and Results of Operations, we use the term "joint venture" or "partnership" when referring to investments in entities in which we do not have a 100% ownership interest.

We continually 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. 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. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Impairment of Long-Lived Assets

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 market value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates, capitalization rates, industry trends and reference to market rates and transactions.

Real Estate Investment Properties

We purchase real estate investment properties from time to time and record the fair value to various components, such as land, buildings, and intangibles related to in-place leases, based on the fair value of each component. In making estimates of fair values for purposes of allocating purchase price, we utilize various sources, including independent appraisals, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The fair value of buildings is determined as if the buildings were vacant upon

acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease-up period. We determine the fair value of in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In addition, we consider the cost of acquiring similar leases, the foregone rents associated with the lease-up period, and the carrying costs associated with the lease-up period. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining average contractual lease period.

Summary of Real Estate Portfolio by Geographic Market

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2018

	December 31, 2018			Year Ended December 31, 2018			
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)
Same-Store Communities							
West Region							
Orange County, CA	5	3,119	19.4 %	\$ 737,372	96.4 %	\$ 2,239	\$ 62,391
San Francisco, CA	9	2,185	15.8 %	601,924	96.6 %	3,233	63,169
Seattle, WA	5	932	5.9 %	226,065	96.4 %	2,046	15,587
Los Angeles, CA	2	344	3.0 %	114,896	96.2 %	2,713	7,963
Monterey Peninsula, CA	7	1,565	4.7 %	177,689	96.8 %	1,770	24,859
Other Southern California	1	414	2.0 %	73,948	96.2 %	2,010	7,169
Portland, OR	2	476	1.3 %	49,113	96.6 %	1,576	6,526
Mid-Atlantic Region							
Metropolitan D.C.	6	2,068	14.6 %	558,399	97.5 %	2,106	35,297
Baltimore, MD	2	540	2.7 %	104,684	96.4 %	1,514	6,345
Northeast Region							
New York, NY	2	996	16.0 %	609,071	97.8 %	3,887	32,717
Boston, MA	1	387	1.9 %	72,882	97.0 %	2,070	6,739
Southeast Region							
Tampa, FL	2	942	2.8 %	106,909	97.7 %	1,473	11,058
Nashville, TN	6	1,612	3.9 %	148,339	96.3 %	1,282	17,130
Other Florida	1	636	2.2 %	85,474	96.5 %	1,595	7,760
Total/Average Same-Store Communities	51	16,216	96.2 %	3,666,765	96.8 %	\$ 2,194	\$ 304,710
Non-Mature, Commercial Properties & Other	1	218	3.8 %	145,220			12,670
Total Real Estate Owned	52	16,434	100.0 %	3,811,985			\$ 317,380
Total Accumulated Depreciation				(1,658,161)			
Total Real Estate Owned, Net of Accumulated Depreciation				\$ 2,153,824			

(a) Monthly Income per Occupied Home represents total monthly revenues divided by the average physical number of occupied apartment homes in our Same-Store portfolio.

We report in two segments: *Same-Store Communities* and *Non-Mature Communities/Other*.

Our *Same-Store Communities* segment represents those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. 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 communities are not held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Our *Non-Mature Communities/Other* segment represents those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

Liquidity and Capital Resources

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

We expect to meet our short-term liquidity requirements generally through net cash provided by property operations and borrowings owed by us under the General Partner's credit agreements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities and potential property acquisitions through net cash provided by property operations, borrowings and the disposition of properties. We believe that our net cash provided by property 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, borrowings owed by us under the General Partner's credit agreements, and the disposition of properties.

Future Capital Needs

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

As of December 31, 2018, the Operating Partnership does not have any secured debt maturing in 2019.

Statements of Cash Flows

The following discussion explains the changes in *Net cash provided by/(used in) operating activities*, *Net cash provided by/(used in) investing activities*, and *Net cash provided by/(used in) financing activities* that are presented in our Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016.

Operating Activities

For the year ended December 31, 2018, *Net cash provided by/(used in) operating activities* was \$255.7 million compared to \$235.3 million for 2017. The increase in cash flow from operating activities was primarily due to improved operating income, primarily driven by revenue growth at communities, and changes in operating assets and liabilities.

For the year ended December 31, 2017, *Net cash provided by/(used in) operating activities* was \$235.3 million compared to \$228.9 million for 2016. The increase in cash flow from operating activities was primarily due to improved operating income, primarily driven by revenue growth at communities, and changes in operating assets and liabilities.

Investing Activities

For the year ended December 31, 2018, *Net cash provided by/(used in) investing activities* was \$71.7 million compared to \$(106.0) million for 2017. The increase in cash provided by investing activities was primarily due to increased proceeds received from the sale of an operating community and a commercial office building and decreased cash used for the acquisition of real estate in 2018.

For the year ended December 31, 2017, *Net cash provided by/(used in) investing activities* was \$(106.0) million compared to \$(9.5) million for 2016. The increase in cash used in investing activities was primarily due to the acquisition of an operating community, partially offset by the disposition of two operating communities in 2017.

Acquisitions

During the year ended December 31, 2018, the Operating Partnership did not have any acquisitions of real estate.

During the year ended December 31, 2017, the Operating Partnership acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately \$141.5 million. The acquisition was funded with Section 1031 exchanges.

The Operating Partnership did not have any acquisitions during the year ended December 31, 2016.

Dispositions

In December 2018, the Operating Partnership sold a commercial office building in Fairfax, Virginia for gross proceeds of \$9.3 million, resulting in a gain of \$5.2 million.

In February 2018, the Operating Partnership sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of \$90.5 million, resulting in a gain of \$70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

During the year ended December 31, 2017, the Operating Partnership sold two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California for gross proceeds of \$69.0 million, resulting in a gain of \$41.3 million.

During the year ended December 31, 2016, the Operating Partnership sold two operating communities in the Baltimore, Maryland market with a total of 276 apartment homes for gross proceeds of \$45.3 million, resulting in a gain, net of tax, of \$33.2 million.

Financing Activities

For the year ended December 31, 2018, *Net cash provided by/(used in) financing activities* was \$(326.5) million compared to \$(128.8) million for 2017. The increase in cash used in financing activities was primarily due to an increase in advances to the General Partner, partially offset by a decrease in payments on secured debt and an increase in issuance of notes payable to the General Partner.

For the year ended December 31, 2017, *Net cash provided by/(used in) financing activities* was \$(128.8) million compared to \$(221.5) million for 2016. The decrease in cash used in financing activities was primarily due to an increase in advances from the General Partner, partially offset by the early repayment of debt maturing in December 2018, July 2020, and July 2023.

Credit Facilities

During the year ended December 31, 2018, \$133.2 million of funds borrowed under the Fannie Mae credit facilities and owed by the Operating Partnership were prepaid. The Operating Partnership incurred prepayment costs of \$1.8 million during the year ended December 31, 2018, which were included in *Interest expense* on the Consolidated Statements of Operations.

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of \$1.1 billion, an unsecured commercial paper program with an aggregate borrowing capacity of \$500 million, \$300 million of medium-term notes due October 2020, \$400 million of medium-term notes due January 2022, a \$350 million term loan due September 2023, \$300 million of medium-term notes due July 2024, \$300 million of medium-term notes due October 2025, \$300 million of medium-term notes due September 2026, \$300 million of medium-term notes due July 2027, \$300 million of medium-term notes due January 2028, and \$300 million of medium-term notes due January 2029. As of December 31, 2018 and 2017, the General Partner did not have an outstanding balance under the unsecured revolving credit facility and had \$101.1 million and \$300.0 million, respectively, outstanding under its unsecured commercial paper program.

On October 26, 2018, the General Partner issued \$300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029 (4.27% effective rate after the effect of a cash flow hedge). The General Partner used the net

proceeds for the repayment of debt, including all of the Fannie Mae credit facilities allocated to the Operating Partnership, and for general corporate purposes. The Operating Partnership is a guarantor of this debt.

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

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$27.0 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2018. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$0.3 million based on the average balance at December 31, 2018.

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

The General Partner also utilizes derivative financial instruments owed by the Operating Partnership to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 8, *Derivatives and Hedging Activities*, in the Notes to the Operating Partnership's Consolidated Financial Statements for additional discussion of derivative instruments.

A presentation of cash flow metrics based on GAAP is as follows (*dollars in thousands*):

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by/(used in) operating activities	\$ 255,668	\$ 235,257	\$ 228,941
Net cash provided by/(used in) investing activities	71,683	(105,989)	(9,455)
Net cash provided by/(used in) financing activities	(326,535)	(128,846)	(221,483)

Results of Operations

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the years ended December 31, 2018, 2017, and 2016.

Net Income/(Loss) Attributable to OP Unitholders

2018 -vs- 2017

Net income/(loss) attributable to OP unitholders was \$229.8 million (\$1.25 per diluted OP Unit) for the year ended December 31, 2018 as compared to net income of \$106.3 million (\$0.58 per diluted OP Unit) for the comparable period in the prior year. The increase in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- gains of \$75.5 million on the sale of an operating community in Orange County, California with a total of 264 apartment homes and a commercial office building in Fairfax, Virginia, as compared to gains of \$41.3 million on the sale of two operating communities with a total of 218 homes during the year ended December 31, 2017;
- income from unconsolidated entities of \$43.5 million for the year ended December 31, 2018 as compared to losses of \$19.3 million for the year ended December 31, 2017, primarily due to the sale of an operating community held in the DownREIT Partnership;
- an increase in total property NOI of \$10.5 million primarily due to higher revenue per occupied home, partially offset by a decrease from sold communities;

- a decrease in real estate depreciation and amortization expense of \$9.0 million primarily due to the sale of an operating community and a commercial office building in 2018 and fully depreciated assets; and
- a decrease in interest expense of \$7.5 million due to lower debt balances as a result of the prepayment of debt during the year ended December 31, 2018 and higher prepayment penalties incurred during the year ended December 31, 2017.

2017 -vs- 2016

Net income/(loss) attributable to OP unitholders was \$106.3 million (\$0.58 per diluted OP Unit) for the year ended December 31, 2017 as compared to net income of \$77.8 million (\$0.42 per diluted OP Unit) for the comparable period in the prior year. The increase in net income attributable to OP unitholders resulted primarily from the following items, which are discussed in further detail elsewhere within this Report:

- an increase of \$9.7 million in total property NOI primarily due to higher revenue per occupied home;
- during the year ended December 31, 2017, the Operating Partnership sold two operating communities in Orange County, California and Carlsbad, California with a total of 218 apartment homes, resulting in gains of \$41.3 million, as compared to gains on the sale of real estate owned of \$33.2 million during the year ended December 31, 2016; and
- losses from unconsolidated entities of \$19.3 million for the year ended December 31, 2017 as compared to \$37.4 million for the year ended December 31, 2016, primarily due to a reduction in depreciation and amortization at the DownREIT Partnership.

This was partially offset by:

- an increase in real estate depreciation and amortization expense of \$5.4 million primarily due to acquisitions in 2017 and homes delivered from our redevelopment property.

Apartment Community Operations

Our net income results primarily from NOI generated from the operation of our apartment communities. The Operating Partnership defines NOI, which is a non-GAAP financial measure, as rental income less direct property rental expenses. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI are property management costs, which are the Operating Partnership's allocable share of costs incurred by the General Partner for shared services of corporate level property management employees and related support functions and costs.

Management considers NOI a useful metric for investors as it is a more meaningful representation of a community's continuing operating performance than net income as it is prior to corporate-level expense allocations, general and administrative costs, capital structure and depreciation and amortization.

Although we consider NOI a useful measure of operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities as determined in accordance with GAAP. NOI excludes several income and expense categories as detailed in the reconciliation of NOI to *Net income/(loss) attributable to OP unitholders* below.

The following table summarizes the operating performance of our total property NOI for each of the periods presented:

	Year Ended		%	Year Ended		%
	December 31, (a)			December 31, (b)		
	2018	2017	Change	2017	2016	Change
Same-Store Communities:						
Same-Store rental income	\$ 413,081	\$ 398,144	3.8 %	\$ 364,158	\$ 349,425	4.2 %
Same-Store operating expense (c)	(108,371)	(105,917)	2.3 %	(96,589)	(92,542)	4.4 %
Same-Store NOI	<u>304,710</u>	<u>292,227</u>	4.3 %	<u>267,569</u>	<u>256,883</u>	4.2 %
Non-Mature Communities/Other NOI:						
Stabilized, non-mature communities NOI (d)	11,759	9,219	27.6 %	29,566	28,312	4.4 %
Acquired communities NOI	—	—	— %	1,180	—	—
Non-residential/other NOI	—	—	— %	5,153	6,052	(14.9)%
Sold and held for disposition communities NOI	911	5,395	(83.1)%	3,373	5,874	(42.6)%
Total Non-Mature Communities/Other NOI	<u>12,670</u>	<u>14,614</u>	(13.3)%	<u>39,272</u>	<u>40,238</u>	(2.4)%
Total property NOI	<u>\$ 317,380</u>	<u>\$ 306,841</u>	3.4 %	<u>\$ 306,841</u>	<u>\$ 297,121</u>	3.3 %

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

(b) Same-Store consists of 14,840 apartment homes.

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

(d) Represents non-mature communities that have achieved 90% occupancy for three consecutive months but do not meet the criteria to be included in Same-Store Communities.

The following table is our reconciliation of *Net income/(loss) attributable to OP unitholders* to total property NOI for the years ended December 31, 2018, 2017 and 2016 (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Net income/(loss) attributable to OP unitholders	\$ 229,763	\$ 106,307	\$ 77,818
Property management	11,878	11,533	11,122
Other operating expenses	8,864	6,833	6,059
Real estate depreciation and amortization	143,481	152,473	147,074
General and administrative	16,889	17,875	18,808
Casualty-related charges/(recoveries), net	951	1,922	484
(Income)/loss from unconsolidated entities	(43,496)	19,256	37,425
Interest expense	22,835	30,366	30,067
(Gain)/loss on sale of real estate owned	(75,507)	(41,272)	(33,180)
Net income/(loss) attributable to noncontrolling interests	1,722	1,548	1,444
Total property NOI	<u>\$ 317,380</u>	<u>\$ 306,841</u>	<u>\$ 297,121</u>

Same-Store Communities

2018 -vs- 2017

Our *Same-Store Community* properties (those acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018) consisted of 16,216 apartment homes and provided 96.0% of our total NOI for the year ended December 31, 2018.

NOI for our *Same-Store Community* properties increased 4.3%, or \$12.5 million, for the year ended December 31, 2018 compared to 2017. The increase in property NOI was primarily attributable to a 3.8%, or \$14.9 million, increase in property rental income, which was partially offset by a 2.3%, or \$2.5 million, increase in operating expenses. The increase in property income was primarily driven by a 2.3%, or \$8.7 million, increase in rental rates and an 11.1%, or \$4.2 million, increase in reimbursements and ancillary and fee income. Physical occupancy increased 0.2% to 96.8% and total income per occupied home increased 3.5 % to \$2,194.

The increase in operating expenses was primarily driven by a 6.6%, or \$2.5 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

The operating margin (property net operating income divided by property rental income) was 73.8% and 73.4% for the years ended December 31, 2018 and 2017, respectively.

2017 -vs- 2016

Our *Same-Store Community* properties (those acquired, developed, and stabilized prior to January 1, 2016 and held as of December 31, 2017) consisted of 14,840 apartment homes and provided 87.2% of our total NOI for the year ended December 31, 2017.

NOI for our *Same-Store Community* properties increased 4.2%, or \$10.7 million, for the year ended December 31, 2017 compared to the same period in 2016. The increase in property NOI was primarily attributable to a 4.2%, or \$14.7 million, increase in property rental income, which was partially offset by a 4.4%, or \$4.0 million, increase in operating expenses. The increase in property income was primarily driven by a 3.0%, or \$9.9 million, increase in rental rates and a 11.6%, or \$3.3 million, increase in reimbursements and ancillary and fee income. Physical occupancy increased 0.1% to 96.7% and total income per occupied home increased 4.1% to \$2,114.

The increase in operating expenses was primarily driven by a 10.0%, or \$3.1 million, increase in real estate taxes, which was primarily due to higher assessed valuations.

The operating margin (property net operating income divided by property rental income) was 73.5% for both years ended December 31, 2017 and 2016.

Non-Mature Communities/Other

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

2018 -vs- 2017

The remaining 4.0%, or \$12.7 million, of our total NOI during the year ended December 31, 2018 was generated from our *Non-Mature Communities/Other*. NOI from *Non-Mature Communities/Other* decreased 13.3%, or \$1.9 million, for the year ended December 31, 2018 as compared to the same period in 2017. The decrease was primarily driven by a decrease in NOI of \$4.5 million from sold communities, which was partially offset by an increase in NOI of \$2.5 million from stabilized, nonmature communities.

2017 -vs- 2016

The remaining 12.8%, or \$39.3 million, of our total NOI during the year ended December 31, 2017 was generated from our *Non-Mature Communities/Other*. NOI from *Non-Mature Communities/Other* decreased 2.4%, or \$1.0 million, for the year ended December 31, 2017 as compared to the same period in 2016. The decrease was primarily driven by a decrease in NOI of \$2.5 million from sold communities, which was partially offset by an increase in NOI of \$1.2 million from acquired communities.

Real Estate Depreciation and Amortization

For the year ended December 31, 2018, real estate depreciation and amortization decreased by 5.9% or \$9.0 million as compared to the same period in 2017. The decrease was primarily due to the sale of an operating community and a commercial office building in 2018 and fully depreciated assets.

For the year ended December 31, 2017, real estate depreciation and amortization increased by 3.7% or \$5.4 million as compared to 2016. The increase was primarily due to acquisitions during 2017 and homes delivered from our redevelopment property.

Income/(Loss) in Unconsolidated Entities

For the years ended December 31, 2018 and 2017, we recognized income/(loss) from unconsolidated entities of \$43.5 million and \$(19.3) million, respectively. The increase in income from unconsolidated entities as compared to the prior year was primarily attributable to the sale of an operating community held in the DownREIT Partnership.

For the years ended December 31, 2017 and 2016, we recognized income/(loss) from unconsolidated entities of \$(19.3) million and \$(37.4) million, respectively. The decrease in loss from unconsolidated entities as compared to the prior year was primarily attributable to a reduction in depreciation and amortization at the DownREIT Partnership as a result of fully depreciated assets.

Interest Expense

For the year ended December 31, 2018, interest expense decreased by 24.8% or \$7.5 million as compared to 2017, which was primarily due to lower debt balances as a result of the prepayment of debt during the year ended December 31, 2018 and higher prepayment penalties incurred during the year ended December 31, 2017.

Gain/(Loss) on Sale of Real Estate Owned

During the year ended December 31, 2018, the Operating Partnership recognized total gains of \$75.5 million on the sale of an operating community in Orange County, California with a total of 264 apartment homes and a commercial office building in Fairfax, Virginia.

During the year ended December 31, 2017, the Operating Partnership sold two operating communities in Orange County, California and Carlsbad, California with a total of 218 apartment homes, resulting in a gain of \$41.3 million.

During the year ended December 31, 2016, the Operating Partnership sold two operating communities in Baltimore, Maryland with a total of 276 apartment homes, resulting in a gain of \$33.2 million.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rental rates on our apartment homes. Although an extreme escalation in costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018 (*dollars in thousands*):

Contractual Obligations	Payments Due by Period				
	2019	2020-2021	2022-2023	Thereafter	Total
Long-term debt obligations	\$ —	\$ —	\$ —	\$ 27,000	\$ 27,000
Interest on debt obligations (a)	655	1,310	1,310	5,385	8,660
Operating lease obligations — ground leases (b)	4,901	9,802	9,802	313,918	338,423
	<u>\$ 5,556</u>	<u>\$ 11,112</u>	<u>\$ 11,112</u>	<u>\$ 346,303</u>	<u>\$ 374,083</u>

(a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2018.

(b) For purposes of our ground lease contracts, the Operating Partnership uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a rent reset provision based on fair market value or changes in the consumer price index but does not include a specified minimum lease payment, the Operating Partnership uses the current rent over the remainder of the lease term.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is included in and incorporated by reference from Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and related financial information required to be filed are attached to this Report. Reference is made to page F-1 of this Report for the Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

As of December 31, 2018, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, which is the sole general partner of the Operating Partnership, of the effectiveness of the design and operation of the disclosure controls and procedures of the Company and the Operating Partnership. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the disclosure controls and procedures of the Company and the Operating Partnership are effective at the reasonable assurance level described above.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 for the Company and the Operating Partnership. Under the supervision and with the participation of the management, the Chief Executive Officer and Chief Financial Officer of the Company, which is the sole general partner of the Operating Partnership, conducted an assessment of the effectiveness of the internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations (2013 Framework) (COSO). Based on such evaluation, management concluded that the Company's and the Operating Partnership's internal control over financial reporting was effective as of December 31, 2018.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Report, has audited UDR, Inc.'s internal control over financial reporting as of December 31, 2018. The report of Ernst & Young LLP, which expresses an unqualified opinion on UDR, Inc.'s internal control over financial reporting as of December 31, 2018, is included under the heading "Report of Independent Registered Public Accounting Firm" of UDR, Inc. contained in this Report. Further, an attestation report of the registered public accounting firm of United Dominion Realty, L.P. will not be required as long as United Dominion Realty, L.P. is a non-accelerated filer.

Changes in Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information set forth under the headings “Proposal No. 1 Election of Directors,” “Corporate Governance Matters,” “Audit Committee Report,” “Corporate Governance Matters-Board Leadership Structure and Committees-Audit Committee Financial Expert,” “Corporate Governance Matters-Identification and Selection of Nominees for Directors,” “Corporate Governance Matters-Board of Directors and Committee Meetings,” “Executive Officers” and “Other Matters-Section 16(a) Beneficial Ownership Reporting Compliance” in UDR, Inc.’s definitive proxy statement (our “definitive proxy statement”) for its 2019 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

We have a code of ethics for senior financial officers that applies to our principal executive officer, all members of our finance staff, including the principal financial officer, the principal accounting officer, the treasurer and the controller, our director of investor relations, our corporate secretary, and all other Company officers. We also have a code of business conduct and ethics that applies to all of our employees. Information regarding our codes is available on our website, www.udr.com, and is incorporated by reference to the information set forth under the heading “Corporate Governance Matters” in our definitive proxy statement for UDR’s 2019 Annual Meeting of Stockholders. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or a waiver from, a provision of our codes by posting such amendment or waiver on our website.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information set forth under the headings “Security Ownership of Certain Beneficial Owners and Management,” “Corporate Governance Matters-Board Leadership Structure and Committees-Compensation Committee Interlocks and Insider Participation,” “Executive Compensation,” “Compensation of Directors” and “Executive Compensation-Compensation Committee Report” in the definitive proxy statement for UDR’s 2019 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information set forth under the headings “Security Ownership of Certain Beneficial Owners and Management,” “Executive Compensation” and “Executive Compensation-Equity Compensation Plan Information” in the definitive proxy statement for UDR’s 2019 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information set forth under the heading “Security Ownership of Certain Beneficial Owners and Management,” “Corporate Governance Matters-Corporate Governance Overview,” “Corporate Governance Matters-Director Independence,” “Corporate Governance Matters-Board Leadership Structure and Committees-Independence of the Audit, Compensation, Governance and Nominating Committees,” and “Executive Compensation” in the definitive proxy statement for UDR’s 2019 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership. Information regarding related party transactions between UDR and the Operating Partnership is presented in Note 6, *Related Party Transactions*, of the Consolidated Financial Statements of United Dominion Realty, L.P. referenced in Part IV, Item 15(a) of this Report.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information set forth under the headings “Audit Matters-Audit Fees” and “Audit Matters-Pre-Approval Policies and Procedures” in the definitive proxy statement for UDR’s 2019 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. *Financial Statements*. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page F-1 of this Report.

2. *Financial Statement Schedules*. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page S-1 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.

3. *Exhibits*. The exhibits filed with this Report are set forth in the Exhibit Index appearing immediately below, including the financial statements required under Rule 3-09 of Regulation S-X for UDR Lighthouse DownREIT L.P.

EXHIBIT INDEX

The exhibits listed below are filed as part of this Report. References under the caption "Location" to exhibits or other filings indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. Management contracts and compensatory plans or arrangements filed as exhibits to this Report are identified by an asterisk. The Commission file number for UDR, Inc.'s Exchange Act filings referenced below is 1-10524. The Commission file number for United Dominion Realty, L.P.'s Exchange Act filings is 333-156002-01.

Exhibit	Description	Location
2.01	Partnership Interest Purchase and Exchange Agreement dated as of September 10, 1998, by and between UDR, Inc., United Dominion Realty, L.P., American Apartment Communities Operating Partnership, L.P., AAC Management LLC, Schnitzer Investment Corp., Fox Point Ltd. and James D. Klingbeil including as an exhibit thereto the proposed form of the Third Amended and Restated Limited Partnership Agreement of United Dominion Realty, L.P.	Exhibit 2(d) to UDR, Inc.'s Form S-3 Registration Statement (Registration No. 333-64281) filed with the Commission on September 25, 1998.
2.02	Agreement of Purchase and Sale dated as of August 13, 2004, by and between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	Exhibit 2.1 to UDR, Inc.'s Current Report on Form 8-K dated September 28, 2004 and filed with the Commission on September 29, 2004.
2.03	First Amendment to Agreement of Purchase and Sale dated as of September 29, 2004, by and between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	Exhibit 2.2 to UDR, Inc.'s Current Report on Form 8-K dated September 29, 2004 and filed with the Commission on October 5, 2004.

Exhibit	Description	Location
2.04	Second Amendment to Agreement of Purchase and Sale dated as of October 26, 2004, by and between United Dominion Realty, L.P., a Delaware limited partnership, as Buyer, and Essex The Crest, L.P., a California limited partnership, Essex El Encanto Apartments, L.P., a California limited partnership, Essex Hunt Club Apartments, L.P., a California limited partnership, and the other signatories named as Sellers therein.	Exhibit 2.3 to UDR, Inc.'s Current Report on Form 8-K/A dated September 29, 2004 and filed with the Commission on November 1, 2004.
2.05	Agreement of Purchase and Sale dated as of January 23, 2008, by and between UDR, Inc., United Dominion Realty, L.P., UDR Texas Properties LLC, UDR Western Residential, Inc., UDR South Carolina Trust, UDR Ohio Properties, LLC, UDR of Tennessee, L.P., UDR of NC, Limited Partnership, Heritage Communities L.P., Governour's Square of Columbus Co., Fountainhead Apartments Limited Partnership, AAC Vancouver I, L.P., AAC Funding Partnership III, AAC Funding Partnership II and DRA Fund VI LLC.	Exhibit 2.1 to UDR, Inc.'s Current Report on Form 8-K dated January 23, 2008 and filed with the Commission on January 29, 2008.
2.06	First Amendment to Agreement of Purchase and Sale dated as of February 14, 2008, by and between UDR, Inc., United Dominion Realty, L.P., UDR Texas Properties LLC, UDR Western Residential, Inc., UDR South Carolina Trust, UDR Ohio Properties, LLC, UDR of Tennessee, L.P., UDR of NC, Limited Partnership, Heritage Communities L.P., Governour's Square of Columbus Co., Fountainhead Apartments Limited Partnership, AAC Vancouver I, L.P., AAC Funding Partnership III, AAC Funding Partnership II and DRA Fund VI LLC.	Exhibit 2.2 to UDR, Inc.'s Current Report on Form 8-K/A dated March 3, 2008 and filed with the Commission on May 2, 2008.
2.07	Contribution Agreement by and among Home Properties, L.P., UDR, Inc., United Dominion Realty, L.P. and LSREF 4 Lighthouse Acquisitions, LLC, dated June 22, 2015 (UDR, Inc. and United Dominion Realty, L.P. have omitted certain schedules and exhibits pursuant to Item 601(b)(2) of Regulation S-K and shall furnish supplementally to the Commission copies of any of the omitted schedules and exhibits upon request by the Commission.)	Exhibit 2.1 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the Commission on June 22, 2015.
2.08	Amendment Agreement, dated as of August 27, 2015, by and among UDR, Inc., United Dominion Realty, L.P., Home Properties, Inc., Home Properties, L.P., LSREF4 Lighthouse Acquisitions, LLC LSREF4 Lighthouse Corporate Acquisitions, LLC and LSREF4 Lighthouse Operating Acquisitions, LLC.	Exhibit 2.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
3.01	Articles of Restatement of UDR, Inc.	Exhibit 3.09 to UDR, Inc.'s Current Report on Form 8-K dated July 27, 2005 and filed with the Commission on August 1, 2005.

Exhibit	Description	Location
3.02	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.	Exhibit 3.2 to UDR, Inc.'s Current Report on Form 8-K dated March 14, 2007 and filed with the Commission on March 15, 2007.
3.03	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated August 30, 2011 and filed with the State Department of Assessments and Taxation of the State of Maryland on August 31, 2011.	Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated August 29, 2011 and filed with the Commission on September 1, 2011.
3.04	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 24, 2018.	Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated May 24, 2018 and filed with the SEC on May 29, 2018.
3.05	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.	Exhibit 3.4 to UDR, Inc.'s Form 8-A Registration Statement dated and filed with the Commission on May 30, 2007.
3.06	Amended and Restated Bylaws of UDR, Inc. (as amended through May 24, 2018).	Exhibit 3.6 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
3.07	Certificate of Limited Partnership of United Dominion Realty, L.P. dated as of February 19, 2004.	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 Commission on October 15, 2010.
3.08	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004.	Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003.
3.09	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of June 24, 2005.	Exhibit 10.06 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
3.10	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2006.	Exhibit 10.6 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.
3.11	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 2, 2007.	Exhibit 99.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.
3.12	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of December 27, 2007.	Exhibit 10.25 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.
3.13	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of March 7, 2008.	Exhibit 10.53 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008.

Exhibit	Description	Location
3.14	Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of December 9, 2008.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated December 9, 2008 and filed with the Commission on December 10, 2008.
3.15	Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of March 13, 2009.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated March 18, 2009 and filed with the Commission on March 19, 2009.
3.16	Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of November 17, 2010.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the Commission on November 18, 2010.
3.17	Ninth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of December 4, 2015.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated December 4, 2015 and filed with the Commission on December 10, 2015.
3.18	Tenth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of October 29, 2018.	Exhibit 3.18 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
4.01	Form of UDR, Inc. Common Stock Certificate.	Exhibit 4.1 to UDR, Inc.'s Current Report on Form 8-K dated March 14, 2007 and filed with the Commission on March 15, 2007.
4.02	Senior Indenture dated as of November 1, 1995, by and between UDR, Inc. and First Union National Bank of Virginia, N.A., as trustee.	Exhibit 4(ii)(h)(1) to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
4.03	Supplemental Indenture dated as of June 11, 2003, by and between UDR, Inc. and Wachovia Bank, National Association, as trustee.	Exhibit 4.03 to UDR, Inc.'s Current Report on Form 8-K dated June 17, 2004 and filed with the Commission on June 18, 2004.
4.04	Subordinated Indenture dated as of August 1, 1994 by and between UDR, Inc. and Crestar Bank, as trustee.	Exhibit 4(i)(m) to UDR, Inc.'s Form S-3 Registration Statement (Registration No. 33-64725) filed with the Commission on November 15, 1995.
4.05	Form of UDR, Inc. Senior Debt Security.	Exhibit 4(i)(n) to UDR, Inc.'s Form S-3 Registration Statement (Registration No. 33-64725) filed with the Commission on November 15, 1995.
4.06	Form of UDR, Inc. Subordinated Debt Security.	Exhibit 4(i)(p) to UDR, Inc.'s Form S-3 Registration Statement (Registration No. 33-55159) filed with the Commission on August 19, 1994.
4.07	Form of UDR, Inc. Fixed Rate Medium-Term Note, Series A.	Exhibit 4.01 to UDR, Inc.'s Current Report on Form 8-K dated March 20, 2007 and filed with the Commission on March 22, 2007.
4.08	Form of UDR, Inc. Floating Rate Medium-Term Note, Series A.	Exhibit 4.02 to UDR, Inc.'s Current Report on Form 8-K dated March 20, 2007 and filed with the Commission on March 22, 2007.

Exhibit	Description	Location
4.09	UDR, Inc. 4.625% Medium-Term Note, Series A due January 2022, issued January 10, 2012.	Exhibit 4.17 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.
4.10	UDR, Inc. 3.70% Medium-Term Note, Series A due October 2020, issued September 26, 2013.	Exhibit 4.18 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.
4.11	Indenture dated as of April 1, 1994, by and between UDR, Inc. and Nationsbank of Virginia, N.A., as trustee.	Exhibit 4(ii)(f)(1) to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1994.
4.12	Supplemental Indenture dated as of August 20, 2009, by and between UDR, Inc. and U.S. Bank National Association, as trustee, to UDR, Inc.'s Indenture dated as of April 1, 1994.	Exhibit 4.1 to UDR, Inc.'s Current Report on Form 8-K dated August 20, 2009 and filed with the Commission on August 21, 2009.
4.13	Guaranty of United Dominion Realty, L.P. with respect to UDR, Inc.'s Indenture dated as of November 1, 1995.	Exhibit 99.1 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the Commission on September 30, 2010.
4.14	Guaranty of United Dominion Realty, L.P. with respect to UDR, Inc.'s Indenture dated as of October 12, 2006.	Exhibit 99.2 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the Commission on September 30, 2010.
4.15	First Supplemental Indenture among UDR, Inc., United Dominion Realty, L.P. and U.S. Bank National Association, as Trustee, dated as of May 3, 2011, relating to UDR, Inc.'s Medium-Term Notes, Series A, due Nine Months or More from Date of Issue.	Exhibit 4.1 to UDR, Inc.'s Current Report on Form 8-K filed with the Commission on May 4, 2011.
4.16	UDR, Inc. 3.75% Medium-Term Note, Series A due October 2024, issued June 26, 2014.	Exhibit 4.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.
4.17	UDR, Inc. 4.00% Medium-Term Note, Series A due October 2025, issued September 22, 2015.	Exhibit 4.23 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.
4.18	UDR, Inc. 2.950% Medium-Term Note, Series A due September 2026, issued August 23, 2016.	Exhibit 4.1 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
4.19	UDR, Inc. 3.500% Medium-Term Note, Series A due July 2027, issued June 16, 2017.	Exhibit 10.2 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.
4.20	UDR, Inc. 3.500% Medium-Term Note, Series A due January 2028, issued December 13, 2017.	Exhibit 4.21 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017.
4.21	UDR, Inc. 4.400% Medium-Term Note, Series A due January 2029, issued October 26, 2018.	Filed herewith.
10.01*	UDR, Inc. 1999 Long-Term Incentive Plan (as amended and restated February 2, 2017).	Exhibit 10.1 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.

Exhibit	Description	Location
10.02*	Form of UDR, Inc. Restricted Stock Award Agreement under the 1999 Long-Term Incentive Plan.	Exhibit 10.2 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.
10.03*	Form of UDR, Inc. Restricted Stock Award Agreement for awards outside of the 1999 Long-Term Incentive Plan.	Exhibit 99.3 to UDR, Inc.'s Current Report on Form 8-K dated March 19, 2007 and filed with the Commission on March 19, 2007.
10.04*	Form of UDR, Inc. Notice of Performance Contingent Restricted Stock Award.	Exhibit 10.2 to UDR, Inc.'s Current Report on Form 8-K dated May 2, 2006 and filed with the Commission on May 8, 2006.
10.05*	Description of UDR, Inc. Shareholder Value Plan.	Exhibit 10(x) to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.
10.06*	Description of UDR, Inc. Executive Deferral Plan.	Exhibit 10(xi) to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.
10.07*	Indemnification Agreement by and between UDR, Inc. and each of its directors and officers listed on Schedule A thereto.	Exhibit 10.7 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.
10.08	Amended and Restated Master Credit Facility Agreement dated as of June 24, 2002 by and between UDR, Inc. and Green Park Financial Limited Partnership, as amended through February 14, 2007.	Exhibit 10.41 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006.
10.09	Limited Liability Company Agreement of UDR Texas Ventures LLC, a Delaware limited liability company, dated as of November 5, 2007.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated November 5, 2007 and filed with the Commission on November 9, 2007.
10.10*	Letter Agreement between UDR, Inc. and Thomas M. Herzog, dated May 12, 2016.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated May 12, 2016 and filed with the Commission on May 18, 2016.
10.11	Subordination Agreement dated as of April 16, 1998, by and between UDR, Inc. and United Dominion Realty, L.P.	Exhibit 10(vi)(a) to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
10.12	Third Amended and Restated Distribution Agreement among UDR, Inc., United Dominion Realty, L.P., as Guarantor, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Wells Fargo Securities, LLC, as Agents, dated September 1, 2011, with respect to the issue and sale by UDR, Inc. of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue.	Exhibit 1.2 to UDR, Inc.'s Current Report on Form 8-K dated and filed with the Commission on September 1, 2011.
10.13	First Amended and Restated Credit Agreement, dated as of September 27, 2018, by and among UDR, Inc., as borrower, and the lenders and agents party thereto.	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8-K dated September 27, 2018 and filed with the Commission on October 1, 2018.

Exhibit	Description	Location
10.14	Guaranty of United Dominion Realty, L.P., dated as of September 27, 2018, with respect to the Credit Agreement, dated as of September 27, 2018.	Exhibit 10.2 to UDR, Inc.'s Current Report on Form 8-K dated September 27, 2018 and filed with the Commission on October 1, 2018.
10.15	Amended and Restated Aircraft Time Sharing Agreement dated as of February 18, 2019, by and between UDR, Inc. and Thomas W. Toomey.	Filed herewith.
10.16	Amended and Restated Aircraft Time Sharing Agreement dated as of February 18, 2019, by and between UDR, Inc. and Warren L. Troupe.	Filed herewith.
10.17	Amendment No. 1, dated July 29, 2014, to the Third Amended and Restated Distribution Agreement among UDR, Inc., United Dominion Realty, L.P., as Guarantor, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Wells Fargo Securities, LLC, as Agents, dated September 1, 2011, with respect to the issue and sale by UDR, Inc. of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue.	Exhibit 1.2 to UDR, Inc.'s Current Report on Form 8-K dated July 29, 2014 and filed with the Commission on July 31, 2014.
10.18	Agreement of Limited Partnership of UDR Lighthouse DownREIT L.P., dated as of October 5, 2015, as amended.	Exhibit 10.21 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.
10.19*	Class 1 LTIP Unit Award Agreement	Exhibit 10.22 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.
10.20*	Notice of Class 2 LTIP Unit Award	Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.
10.21	Amendment No. 2, dated April 27, 2017, to the Third Amended and Restated Distribution Agreement, dated September 1, 2011 and as amended July 29, 2014, among the Company and Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, and Wells Fargo Securities, LLC, as Agents, with respect to the issue and sale by UDR, Inc. of its Medium Term Notes, Series A Due Nine Months or More From Date of Issue.	Exhibit 1.2 to UDR, Inc.'s Current Report on Form 8-K dated April 27, 2017 and filed with the commission on April 27, 2017.
21	Subsidiaries of UDR, Inc. and United Dominion Realty, L.P.	Filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm for UDR, Inc.	Filed herewith.
23.2	Consent of Independent Registered Public Accounting Firm for United Dominion Realty, L.P.	Filed herewith.

Exhibit	Description	Location
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR, Inc.	Filed herewith.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer of UDR, Inc.	Filed herewith.
31.3	Rule 13a-14(a) Certification of the Chief Executive Officer of United Dominion Realty, L.P.	Filed herewith.
31.4	Rule 13a-14(a) Certification of the Chief Financial Officer of United Dominion Realty, L.P.	Filed herewith.
32.1	Section 1350 Certification of the Chief Executive Officer of UDR, Inc.	Filed herewith.
32.2	Section 1350 Certification of the Chief Financial Officer of UDR, Inc.	Filed herewith.
32.3	Section 1350 Certification of the Chief Executive Officer of United Dominion Realty, L.P.	Filed herewith.
32.4	Section 1350 Certification of the Chief Financial Officer of United Dominion Realty, L.P.	Filed herewith.
99.1	UDR Lighthouse DownREIT L.P. financial statements as required under Rule 3-09 of Regulation S-X.	Filed herewith.
101	XBRL (Extensible Business Reporting Language). The following materials from this Annual Report on Form 10-K for the period ended December 31, 2018, formatted in XBRL: (i) consolidated balance sheets of UDR, Inc., (ii) consolidated statements of operations of UDR, Inc., (iii) consolidated statements of comprehensive income/(loss) of UDR, Inc., (iv) consolidated statements of changes in equity of UDR, Inc., (v) consolidated statements of cash flows of UDR, Inc., (vi) notes to consolidated financial statements of UDR, Inc., (vii) consolidated balance sheets of United Dominion Realty, L.P., (viii) consolidated statements of operations of United Dominion Realty, L.P., (ix) consolidated statements of comprehensive income/(loss) of United Dominion Realty, L.P.; (x) consolidated statements of changes in capital of United Dominion Realty, L.P., (xi) consolidated statements of cash flows of United Dominion Realty, L.P. and (xii) notes to consolidated financial statements of United Dominion Realty, L.P.	

* *Management Contract or Compensatory Plan or Arrangement*

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UDR, Inc.

Date: February 19, 2019

By: /s/ Thomas W. Toomey

Thomas W. Toomey
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 19, 2019 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director

/s/ Joseph D. Fisher

Joseph D. Fisher
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Mary Ann King

Mary Ann King
Director

/s/ Tracy L. Hofmeister

Tracy L. Hofmeister
Vice President – Chief Accounting Officer
(Principal Accounting Officer)

/s/ Robert P. Freeman

Robert P. Freeman
Director

/s/ James D. Klingbeil

James D. Klingbeil
Lead Independent Director

/s/ Jon A. Grove

Jon A. Grove
Director

/s/ Clint D. McDonnough

Clint D. McDonnough
Director

/s/ Robert A. McNamara

Robert A. McNamara
Director

/s/ Mark R. Patterson

Mark R. Patterson
Director

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Director

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED DOMINION REALTY, L.P.

By: UDR, Inc., its sole general partner

Date: February 19, 2019

By: /s/ Thomas W. Toomey

Thomas W. Toomey
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 19, 2019 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey
Chairman of the Board and Chief Executive Officer
of the General Partner
(Principal Executive Officer)

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director of the General Partner

/s/ Joseph D. Fisher

Joseph D. Fisher
Senior Vice President and Chief Financial Officer
of the General Partner (Principal Financial Officer)

/s/ Mary Ann King

Mary Ann King
Director of the General Partner

/s/ Tracy L. Hofmeister

Tracy L. Hofmeister
Vice President – Chief Accounting Officer
of the General Partner
(Principal Accounting Officer)

/s/ Robert P. Freeman

Robert P. Freeman
Director of the General Partner

/s/ James D. Klingbeil

James D. Klingbeil
Lead Independent Director of the General Partner

/s/ Jon A. Grove

Jon A. Grove
Director of the General Partner

/s/ Clint D. McDonnough

Clint D. McDonnough
Director of the General Partner

/s/ Robert A. McNamara

Robert A. McNamara
Director of the General Partner

/s/ Mark R. Patterson

Mark R. Patterson
Director of the General Partner

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Director of the General Partner

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All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of UDR, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of UDR, Inc. (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since at least 1984, but we are unable to determine the specific year.

Denver, Colorado
February 19, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of UDR, Inc.

Opinion on Internal Control over Financial Reporting

We have audited UDR, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, UDR, Inc. (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Denver, Colorado
February 19, 2019

UDR, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2018	December 31, 2017
ASSETS		
Real estate owned:		
Real estate held for investment	\$ 10,196,159	\$ 9,584,716
Less: accumulated depreciation	(3,654,160)	(3,326,312)
Real estate held for investment, net	6,541,999	6,258,404
Real estate under development (net of accumulated depreciation of \$0 and \$3,854, respectively)	—	588,636
Total real estate owned, net of accumulated depreciation	6,541,999	6,847,040
Cash and cash equivalents	185,216	2,038
Restricted cash	23,675	19,792
Notes receivable, net	42,259	19,469
Investment in and advances to unconsolidated joint ventures, net	780,869	720,830
Other assets	137,710	124,104
Total assets	\$ 7,711,728	\$ 7,733,273
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	\$ 601,227	\$ 803,269
Unsecured debt, net	2,946,560	2,868,394
Real estate taxes payable	20,608	18,349
Accrued interest payable	38,747	33,432
Security deposits and prepaid rent	35,060	31,916
Distributions payable	97,666	91,455
Accounts payable, accrued expenses, and other liabilities	76,343	102,956
Total liabilities	3,816,211	3,949,771
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	972,740	948,138
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,780,994 shares issued and outstanding at December 31, 2018 and December 31, 2017	46,200	46,200
Series F; 15,802,393 and 15,852,721 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	1	1
Common stock, \$0.01 par value; 350,000,000 shares authorized:		
275,545,900 and 267,822,069 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	2,755	2,678
Additional paid-in capital	4,920,732	4,651,205
Distributions in excess of net income	(2,063,996)	(1,871,603)
Accumulated other comprehensive income/(loss), net	(67)	(2,681)
Total stockholders' equity	2,905,625	2,825,800
Noncontrolling interests	17,152	9,564
Total equity	2,922,777	2,835,364
Total liabilities and equity	\$ 7,711,728	\$ 7,733,273

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
REVENUES:			
Rental income	\$ 1,035,105	\$ 984,309	\$ 948,461
Joint venture management and other fees	11,754	11,482	11,400
Total revenues	<u>1,046,859</u>	<u>995,791</u>	<u>959,861</u>
OPERATING EXPENSES:			
Property operating and maintenance	169,078	164,660	159,947
Real estate taxes and insurance	133,912	121,146	115,429
Property management	28,465	27,068	26,083
Other operating expenses	12,100	9,060	7,649
Real estate depreciation and amortization	429,006	430,054	419,615
General and administrative	46,983	48,566	49,761
Casualty-related charges/(recoveries), net	2,121	4,335	732
Other depreciation and amortization	6,673	6,408	6,023
Total operating expenses	<u>828,338</u>	<u>811,297</u>	<u>785,239</u>
Gain/(loss) on sale of real estate owned	136,197	43,404	226,199
Operating income	<u>354,718</u>	<u>227,898</u>	<u>400,821</u>
Income/(loss) from unconsolidated entities	(5,055)	31,257	52,234
Interest expense	(134,168)	(128,711)	(123,031)
Interest income and other income/(expense), net	6,735	1,971	1,930
Income/(loss) before income taxes	<u>222,230</u>	<u>132,415</u>	<u>331,954</u>
Tax (provision)/benefit, net	(688)	240	(11,574)
Net income/(loss)	<u>221,542</u>	<u>132,655</u>	<u>320,380</u>
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(18,215)	(10,933)	(27,282)
Net (income)/loss attributable to noncontrolling interests	(221)	(164)	(380)
Net income/(loss) attributable to UDR, Inc.	<u>203,106</u>	<u>121,558</u>	<u>292,718</u>
Distributions to preferred stockholders — Series E (Convertible)	(3,868)	(3,708)	(3,717)
Net income/(loss) attributable to common stockholders	<u>\$ 199,238</u>	<u>\$ 117,850</u>	<u>\$ 289,001</u>
Income/(loss) per weighted average common share:			
Basic	\$ 0.74	\$ 0.44	\$ 1.09
Diluted	\$ 0.74	\$ 0.44	\$ 1.08
Weighted average number of common shares outstanding:			
Basic	268,179	267,024	265,386
Diluted	269,483	268,830	267,311

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income/(loss)	\$ 221,542	\$ 132,655	\$ 320,380
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:			
Other comprehensive income/(loss) - derivative instruments:			
Unrealized holding gain/(loss)	4,806	1,802	3,514
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	(1,948)	1,407	3,657
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	2,858	3,209	7,171
Comprehensive income/(loss)	224,400	135,864	327,551
Comprehensive (income)/loss attributable to noncontrolling interests	(18,680)	(11,378)	(27,764)
Comprehensive income/(loss) attributable to UDR, Inc.	\$ 205,720	\$ 124,486	\$ 299,787

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands, except per share data)

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2015	\$ 46,458	\$ 2,618	\$ 4,447,816	\$ (1,584,459)	\$ (12,678)	\$ 856	\$ 2,900,611
Net income/(loss) attributable to UDR, Inc.	—	—	—	292,718	—	—	292,718
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	322	322
Disposition of noncontrolling interest of consolidated real estate	—	—	—	—	—	(1,155)	(1,155)
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	102	102
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	3,735	3,735
Other comprehensive income/(loss)	—	—	—	—	7,069	—	7,069
Issuance/(forfeiture) of common and restricted shares, net	—	2	4,973	—	—	—	4,975
Issuance of common shares through public offering	—	50	173,161	—	—	—	173,211
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership	—	3	9,463	—	—	—	9,466
Common stock distributions declared (\$1.18 per share)	—	—	—	(315,102)	—	—	(315,102)
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	(3,717)	—	—	(3,717)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	24,735	—	—	24,735
Balance at December 31, 2016	46,458	2,673	4,635,413	(1,585,825)	(5,609)	3,860	3,096,970
Net income/(loss) attributable to UDR, Inc.	—	—	—	121,558	—	—	121,558
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	147	147
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	125	125
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	5,432	5,432
Other comprehensive income/(loss)	—	—	—	—	2,928	—	2,928
Issuance/(forfeiture) of common and restricted shares, net	—	1	437	—	—	—	438
Cumulative effect upon adoption of ASU 2016-09	—	—	558	(558)	—	—	—
Conversion of Series E Cumulative Convertible Shares	(257)	—	257	—	—	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership	—	4	14,540	—	—	—	14,544
Common stock distributions declared (\$1.24 per share)	—	—	—	(331,974)	—	—	(331,974)
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	(3,708)	—	—	(3,708)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(71,096)	—	—	(71,096)
Balance at December 31, 2017	46,201	2,678	4,651,205	(1,871,603)	(2,681)	9,564	2,835,364
Net income/(loss) attributable to UDR, Inc.	—	—	—	203,106	—	—	203,106
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	175	175
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	108	108
Repurchase of common shares	—	(6)	(19,982)	—	—	—	(19,988)
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	7,305	7,305
Other comprehensive income/(loss)	—	—	—	—	2,614	—	2,614
Exercise of stock options, net	—	8	(23,061)	—	—	—	(23,053)
Issuance/(forfeiture) of common and restricted shares, net	—	(1)	(507)	—	—	—	(508)
Issuance of common shares through public offering	—	72	299,753	—	—	—	299,825
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership	—	4	13,324	—	—	—	13,328
Common stock distributions declared (\$1.29 per share)	—	—	—	(348,079)	—	—	(348,079)
Preferred stock distributions declared-Series E (\$1.3968 per share)	—	—	—	(3,868)	—	—	(3,868)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(43,552)	—	—	(43,552)
Balance at December 31, 2018	\$ 46,201	\$ 2,755	\$ 4,920,732	\$ (2,063,996)	\$ (67)	\$ 17,152	\$ 2,922,777

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Operating Activities			
Net income/(loss)	\$ 221,542	\$ 132,655	\$ 320,380
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	435,679	436,462	425,638
(Gain)/loss on sale of real estate owned	(136,197)	(43,404)	(226,199)
(Income)/loss from unconsolidated entities	5,055	(31,257)	(52,234)
Return on investment in unconsolidated joint ventures	4,248	4,416	57,578
Amortization of share-based compensation	14,244	12,862	13,398
Other	4,998	20,467	39,490
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	(13,880)	(9,008)	(29,399)
Increase/(decrease) in operating liabilities	24,987	(4,278)	(12,084)
Net cash provided by/(used in) operating activities	<u>560,676</u>	<u>518,915</u>	<u>536,568</u>
Investing Activities			
Acquisition of real estate assets	—	(96,791)	(163,015)
Proceeds from sales of real estate investments, net	247,031	71,235	301,799
Development of real estate assets	(150,238)	(248,546)	(178,279)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(112,359)	(124,728)	(91,740)
Capital expenditures — non-real estate assets	(4,850)	(1,384)	(4,439)
Investment in unconsolidated joint ventures	(112,025)	(123,842)	(40,162)
Distributions received from unconsolidated joint ventures	42,683	116,329	66,116
Purchase deposits on pending acquisitions	(1,000)	—	—
Repayment/(issuance) of notes receivable, net	(22,790)	321	(3,000)
Net cash provided by/(used in) investing activities	<u>(113,548)</u>	<u>(407,406)</u>	<u>(112,720)</u>
Financing Activities			
Payments on secured debt	(279,243)	(326,346)	(375,308)
Proceeds from the issuance of secured debt	80,000	—	50,000
Payments on unsecured debt	—	(300,000)	(95,053)
Net proceeds from the issuance of unsecured debt	299,994	598,095	300,000
Net proceeds/(repayment) of commercial paper	(198,885)	300,000	—
Net proceeds/(repayment) of revolving bank debt	(21,751)	417	(128,650)
Proceeds from the issuance of common shares through public offering, net	299,825	—	173,211
Repurchase of common shares	(19,988)	—	—
Distributions paid to redeemable noncontrolling interests	(32,457)	(31,089)	(29,688)
Distributions paid to preferred stockholders	(3,836)	(3,708)	(3,717)
Distributions paid to common stockholders	(342,241)	(327,793)	(308,923)
Other	(41,485)	(21,361)	(11,154)
Net cash provided by/(used in) financing activities	<u>(260,067)</u>	<u>(111,785)</u>	<u>(429,282)</u>
Net increase/(decrease) in cash, cash equivalents, and restricted cash	187,061	(276)	(5,434)
Cash, cash equivalents, and restricted cash, beginning of year	21,830	22,106	27,540
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 208,891</u>	<u>\$ 21,830</u>	<u>\$ 22,106</u>
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	\$ 132,466	\$ 126,348	\$ 124,635
Cash paid/(refunds received) for income taxes	625	1,660	693
Non-cash transactions:			
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	\$ —	\$ 140,549	\$ 80,583
Secured debt assumed in the consolidation of unconsolidated joint ventures	—	—	75,796
Fair value adjustment of secured debt assumed in the consolidation of unconsolidated joint ventures	—	—	4,228
Vesting of LTIP Units	4,397	2,317	—
Development costs and capital expenditures incurred but not yet paid	10,304	43,930	46,285
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (348,057 shares in 2018; 389,033 shares in 2017; and 260,292 shares in 2016)	13,328	14,544	9,466
Dividends declared but not yet paid	97,666	91,455	86,936

UDR, INC.
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	Year Ended December 31,		
	2018	2017	2016
The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:			
Cash, cash equivalents, and restricted cash, beginning of year:			
Cash and cash equivalents	\$ 2,038	\$ 2,112	\$ 6,742
Restricted cash	19,792	19,994	20,798
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 21,830</u>	<u>\$ 22,106</u>	<u>\$ 27,540</u>
Cash, cash equivalents, and restricted cash, end of year:			
Cash and cash equivalents	\$ 185,216	\$ 2,038	\$ 2,112
Restricted cash	23,675	19,792	19,994
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 208,891</u>	<u>\$ 21,830</u>	<u>\$ 22,106</u>

See accompanying notes to consolidated financial statements.

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1. CONSOLIDATION AND BASIS OF PRESENTATION

Organization and Formation

UDR, Inc. (“UDR,” the “Company,” “we,” or “our”) is a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities generally 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. At December 31, 2018, our consolidated apartment portfolio consisted of 127 consolidated communities located in 19 markets consisting of 39,931 apartment homes. In addition, the Company has an ownership interest in 8,112 apartment homes through unconsolidated joint ventures.

Basis of Presentation

The accompanying consolidated financial statements of UDR include its wholly-owned and/or controlled subsidiaries (see the “Consolidated Joint Ventures” section of Note 5, *Joint Ventures and Partnerships*, for further discussion). 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 accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the “Operating Partnership” or the “OP”) and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”). As of December 31, 2018 and 2017, there were 183,636,543 and 183,350,924 units, respectively, in the Operating Partnership (“OP Units”) outstanding, of which 174,248,699, or 94.9% and 174,237,688, or 95.0%, respectively, were owned by UDR and 9,387,844, or 5.1% and 9,113,236, or 5.0%, respectively, were owned by outside limited partners. As of December 31, 2018 and 2017, there were 32,367,380 units in the DownREIT Partnership (“DownREIT Units”) outstanding, of which 17,203,489, or 53.2% and 16,866,443, or 52.1%, respectively, were owned by UDR (of which, 13,470,651, or 41.6%, were held by the Operating Partnership for both periods) and 15,163,891, or 46.8% and 15,500,937, or 47.9%, respectively, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted other than those in Note 2, *Significant Accounting Policies*, Note 3, *Real Estate Owned*, Note 5, *Joint Ventures and Partnerships* and Note 14, *Commitments and Contingencies*.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2018, the Securities and Exchange Commission (“SEC”) adopted amendments to update and simplify disclosure requirements as well as eliminate outdated, superseded and/or redundant requirements with United States generally accepted accounting principles, or GAAP, (“SEC Simplification”). The amendments are effective for all SEC filings made on or after November 5, 2018. As a result of the amendments, the Company will no longer provide ratios of earnings to fixed charges in our exhibits to our annual and quarterly filings with the SEC. Additionally, the amendments removed certain SEC guidance that conflicted with GAAP guidance, under which the Company previously followed SEC guidance and recorded *Gain/(loss) on the sale of real estate owned, net of tax, after Operating income*. The Company has reclassified *Gain/(loss) on the sale of real estate owned* within *Operating income*, with any income tax impact recorded within *Tax (provision)/benefit, net per GAAP* for all periods presented.

UDR, INC.
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Additionally, as a result of the SEC Simplification, for the year ended December 31, 2016, the following retrospective changes were made to the Consolidated Statement of Operations:

<i>Gain/(loss) on the sale of real estate owned, net of tax</i> – as previously reported	\$ 210,851
Tax impact of sales of real estate owned	15,348
<i>Gain/(loss) on the sale of real estate owned</i> – as reported herein	<u>\$ 226,199</u>
<i>Tax (provision)/benefit, net</i> – as previously reported	\$ 3,774
Tax impact of sales of real estate owned	(15,348)
<i>Tax (provision)/benefit, net</i> – as reported herein	<u>\$ (11,574)</u>

Other than as presented above, no retrospective changes were required for the year ended December 31, 2017.

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, *Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities*. The ASU aimed to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. The updated standard would have been effective for the Company on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU is permitted. The Company early adopted the guidance on January 1, 2018; however, the updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The ASU addressed the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard was effective for the Company on January 1, 2018, and was applied retrospectively to all periods presented. The updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

As a result of the adoption of ASU 2016-18, for the years ended December 31, 2017 and 2016, the following line items in the following amounts were reclassified on the Consolidated Statements of Cash Flows (*in thousands*):

	Year ended December 31,	
	2017	2016
<i>(Increase)/decrease in operating assets</i>	\$ (237)	\$ (361)
<i>Net cash provided by /(used in) operating activities</i>	<u>\$ (237)</u>	<u>\$ (361)</u>
<i>Proceeds from sales of real estate investments, net</i>	\$ -	\$ (555)
<i>Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement</i>	35	112
<i>Net cash provided by /(used in) investing activities</i>	<u>\$ 35</u>	<u>\$ (443)</u>
<i>Net increase/(decrease) in cash, cash equivalents, and restricted cash</i>	\$ (202)	\$ (804)

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

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2019. In November 2016, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which amends the transition requirements and scope of ASU 2016-13 and clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases on their balance sheets. Lessees of operating leases will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. The standard became effective for the Company on January 1, 2019.

The Company is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures. The Company intends to elect the following package of practical expedients provided by the standard which includes: (i) an entity need not reassess whether any expired or existing contract is a lease or contains a lease, (ii) an entity need not reassess the lease classification of any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases. The Company also plans to elect the short-term lease exception provided for in the standard and therefore will only recognize right-of-use assets and lease liabilities for leases with a term greater than one year.

The Company anticipates recognizing right-of-use assets and related lease liabilities between \$85.0 million and \$150.0 million on our consolidated opening balance sheets as of January 1, 2019 upon adoption of the standard. Our anticipated range of right-of-use assets and related lease liabilities to be recognized as disclosed above may change as a result of updates to the projected future minimum lease payments. The lease liabilities represent the present value of the remaining minimum lease payments related to ground leases for communities where we are the lessee. The right-of-use assets represent the lease liabilities plus any prepaid lease payments and intangible assets for ground leases acquired in the purchase of real estate. The Company plans to continue recognizing lease expense for these leases in a manner similar to current accounting upon adoption of the standard based on our election of the package of practical expedients. However, in the event we modify existing ground leases and/or enter into new ground leases subsequent to the adoption of the standard, such leases would likely be classified as finance leases under the standard and require expense recognition based on the effective interest method. Under the standard, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, subsequent to the adoption of the standard, we will expense internal leasing costs as incurred.

In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, *Leases*. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Company intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The Company also intends to elect the transition option.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated standard required certain equity securities to be measured at fair value on the balance sheet, with changes in fair value recognized in net income. The standard was effective for the Company on January 1, 2018. The Company holds one investment in equity securities subject to the updated guidance. As the investment does not have a readily determinable fair value, the Company elected the measurement alternative under which the investment is measured at cost, less any impairment, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. During the year ended December 31, 2018, the Company recorded gains of \$2.1 million, in *Interest income and other income/(expense), net* on the Consolidated Statements of Operations as a result of measuring the investment using this measurement alternative.

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The Company does not view the impact, as a result of the adoption of the updated standard, to be material to the consolidated financial statements. Disclosures were updated pursuant to the requirements of the ASU.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 amended the FASB Accounting Standards Codification (“ASC”) by creating ASC Topic 606, *Revenue from Contracts with Customers*. The standard provided companies with a single model for use in accounting for revenue arising from contracts with customers and replaced most existing revenue recognition guidance in U.S. GAAP, including industry-specific revenue guidance. The standard specifically excluded lease contracts. The ASU allowed for the use of either the full or modified retrospective transition method. ASC Topic 606 was effective for the Company on January 1, 2018, at which time the Company adopted it using the modified retrospective approach. However, as the majority of the Company’s revenue is from rental income related to leases, the ASU did not have a material impact on the consolidated financial statements. Related disclosures have been provided and/or updated pursuant to the requirements of the ASU.

Real Estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and other costs incurred during their development, acquisition and redevelopment.

Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

UDR purchases real estate investment properties and records the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. When recording the acquisition of a community, we first assign 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 Company estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up. Depreciation on the building is based on the expected useful life of the asset and the in-place leases are amortized over their remaining average contractual life. Property acquisition costs are capitalized as incurred if the acquisition does not meet the definition of a business.

Quarterly or when changes in circumstances warrant, UDR will assess our real estate properties for indicators of impairment. In determining whether the Company has indicators of impairment in our real estate assets, we assess whether the long-lived asset’s carrying value exceeds the community’s undiscounted future cash flows, which is representative of projected net operating income (“NOI”) plus the residual value of the community. Our future 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. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the carrying amount of the asset over its estimated fair value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates, capitalization rates, industry trends and reference to market rates and transactions.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the asset less estimated cost to sell is less than the carrying value of the asset. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale with the closing expected to occur within the next twelve months. Real estate held for disposition is carried at the lower of cost, net of accumulated depreciation, or fair value, less the cost to sell, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for disposition properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for disposition properties are capitalized at cost. Depreciation is not recorded on real estate held for disposition.

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Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which are 35 to 55 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as *Total real estate owned, net of accumulated depreciation*. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, for the years ended December 31, 2018, 2017, and 2016 were \$7.5 million, \$8.8 million and \$7.9 million, respectively. During the years ended December 31, 2018, 2017, and 2016, total interest capitalized was \$10.6 million, \$18.6 million, and \$16.5 million, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The majority of the Company's cash and cash equivalents are held at major commercial banks.

Restricted Cash

Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

Revenue

On January 1, 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers*, utilizing the modified retrospective method, under which only contracts entered into after the effective date or not complete as of the effective date are subject to the new standard and an adjustment to the opening balance of retained earnings is made to recognize any required adjustments. As a result of the adoption, the Company did not make an adjustment to retained earnings because no open contracts required different treatment under the new standard.

Revenue is measured based on consideration specified in contracts with customers. The Company recognizes revenue when it satisfies a performance obligation by providing the services specified in a contract to the customer.

The following is a description of the principal streams from which the Company generates its revenue:

Lease Revenue

Lease revenue related to leases is recognized on an accrual basis when due from residents or tenants in accordance with ASC 840, *Leases*. Rental payments are generally due on a monthly basis and recognized on a straight-line basis over the reasonably assured lease term. In addition, in circumstances where a lease incentive is provided to tenants, the incentive is recognized as a reduction of lease revenue on a straight-line basis over the reasonably assured lease term.

Reimbursements Revenue

Reimbursements revenue includes all pass-through revenue from retail and residential leases and common area maintenance reimbursements from retail leases. Reimbursements revenue is recognized on a gross basis as earned as the Company has determined it is the principal provider of the services.

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Other Revenue

Other revenue is generated by services provided by the Company to its retail and residential tenants and other unrelated third parties. These fees are generally recognized as earned.

Joint venture management and other fees

The *Joint venture management and other fees* revenue consists of management fees charged to our equity method joint ventures per the terms of contractual agreements and other fees. Joint venture fee revenue is recognized monthly as the management services are provided and the fees are earned or upon a transaction whereby the Company earns a fee.

Real Estate Sales Gain Recognition

For sale transactions resulting in a transfer of a controlling financial interest of a property, the Company generally derecognizes the related assets and liabilities from its Consolidated Balance Sheets and records the gain or loss in the period in which the transfer of control occurs. If control of the property has not transferred to the counterparty, the criteria for derecognition are not met and the Company will continue to recognize the related assets and liabilities on its Consolidated Balance Sheets.

Sale transactions to entities in which the Company sells a controlling financial interest in a property but retains a noncontrolling interest are accounted for as partial sales. Partial sales resulting in a change in control are accounted for at fair value and a full gain or loss is recognized. Therefore, the Company will record a gain or loss on the partial interest sold, and the initial measurement of our retained interest will be accounted for at fair value.

Sales of real estate to joint ventures or other noncontrolled investees are also accounted for at fair value and the Company will record a full gain or loss in the period the property is contributed.

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Disaggregation of Revenue

Rental income, as disclosed on the Consolidated Statements of Operations, is disaggregated by principal revenue stream and by reportable segment in the following tables (*dollars in thousands*). *Joint venture management and other fees* are not included in the tables as they are not allocable to a specific reportable segment or segments.

	December 31, (a)		
	2018	2017	2016
Lease Revenue (b)			
Same-Store Communities			
West Region	\$ 371,366	\$ 355,904	\$ 328,693
Mid-Atlantic Region	204,733	199,207	194,367
Northeast Region	148,057	146,105	142,249
Southeast Region	109,190	104,106	99,451
Southwest Region	39,567	38,978	37,529
Non-Mature Communities/Other	82,986	65,474	75,478
Total segment and consolidated lease revenue	<u>\$ 955,899</u>	<u>\$ 909,774</u>	<u>\$ 877,767</u>

Reimbursements Revenue

Same-Store Communities			
West Region	\$ 17,159	\$ 16,377	\$ 14,797
Mid-Atlantic Region	9,084	8,715	8,123
Northeast Region	2,721	2,775	2,434
Southeast Region	6,821	6,509	6,413
Southwest Region	2,197	2,098	1,930
Non-Mature Communities/Other	8,768	7,781	7,859
Total segment and consolidated reimbursements revenue	<u>\$ 46,750</u>	<u>\$ 44,255</u>	<u>\$ 41,556</u>

Other Revenue

Same-Store Communities			
West Region	\$ 10,789	\$ 10,728	\$ 9,831
Mid-Atlantic Region	6,633	6,235	5,733
Northeast Region	3,241	2,856	2,890
Southeast Region	6,223	5,852	5,454
Southwest Region	1,945	1,916	1,814
Non-Mature Communities/Other	3,625	2,693	3,416
Total segment and consolidated other revenue	<u>\$ 32,456</u>	<u>\$ 30,280</u>	<u>\$ 29,138</u>

Total Revenue

Same-Store Communities			
West Region	\$ 399,314	\$ 383,009	\$ 353,321
Mid-Atlantic Region	220,450	214,157	208,223
Northeast Region	154,019	151,736	147,573
Southeast Region	122,234	116,467	111,318
Southwest Region	43,709	42,992	41,273
Non-Mature Communities/Other	95,379	75,948	86,753
Total segment and consolidated total revenue	<u>\$ 1,035,105</u>	<u>\$ 984,309</u>	<u>\$ 948,461</u>

(a) *Same-Store Community* population consisted of 37,673 apartment homes. *Same-Store Community* is defined in Note 15, *Reportable Segments*.

(b) Lease Revenue is subject to recognition under ASC 840, *Leases*.

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Notes Receivable

The following table summarizes our Notes receivable, net as of December 31, 2018 and 2017 (*dollars in thousands*):

	Interest rate at December 31, 2018	Balance Outstanding	
		December 31, 2018	December 31, 2017
Note due March 2019 (a)	12.00 %	\$ 20,000	\$ —
Note due February 2020 (b)	10.00 %	14,659	13,669
Note due October 2020 (c)	8.00 %	2,000	2,000
Note due August 2022 (d)	10.00 %	5,600	3,800
Total notes receivable, net		\$ 42,259	\$ 19,469

- (a) In March 2018, the Company entered into a secured note receivable with an unaffiliated third party with an aggregate commitment of \$20.0 million, of which \$20.0 million has been funded. Interest payments are due when the loan matures. The note matures in March 2019 and is secured by a parcel of land.
- (b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$16.4 million, of which \$14.7 million has been funded, including \$1.0 million during the year ended December 31, 2018. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).
- (c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$2.0 million, of which \$2.0 million has been funded. Interest payments are due when the loan matures. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$10.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (October 2020).
- (d) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$10.0 million, of which \$5.6 million has been funded, including \$1.8 million during the year ended December 31, 2018. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) August 2022.

In January 2019, the \$5.6 million note was repaid in full along with contractual accrued interest of \$0.2 million and \$8.5 million of promoted interest in conjunction with the unaffiliated third party being acquired.

During the years ended December 31, 2018, 2017, and 2016, the Company recognized \$4.1 million, \$1.8 million and \$1.8 million, respectively, of interest income from notes receivable, none of which was related party interest income. Interest income is included in *Interest income and other income/(expense), net* on the Consolidated Statements of Operations.

Investment in Joint Ventures and Partnerships

We use the equity method to account for investments in joint ventures and partnerships that qualify as variable interest entities where we are not the primary beneficiary and other entities that we do not control or where we do not own a majority of the economic interest but have the ability to exercise significant influence over the operating and financial policies of the investee. Throughout these financial statements we use the term “joint venture” or “partnership” when referring to investments in entities in which we do not have a 100% ownership interest. The Company also uses the equity method when we function as the managing partner and our venture partner has substantive participating rights or where we can be replaced by our venture partner as managing partner without cause. For a joint venture or partnership accounted for under the equity method, our share of net earnings or losses is reflected as income/loss when earned/incurred and distributions are credited against our investment in the joint venture or partnership as received.

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In determining whether a joint venture or partnership is a variable interest entity, the Company considers: the form of our ownership interest and legal structure; the size of our investment; the financing structure of the entity, including necessity of subordinated debt; estimates of future cash flows; ours and our partner's ability to participate in the decision making related to acquisitions, disposition, budgeting and financing of the entity; obligation to absorb losses and preferential returns; nature of our partner's primary operations; and the degree, if any, of disproportionality between the economic and voting interests of the entity. As of December 31, 2018, the Company did not determine any of our joint ventures or partnerships to be variable interest entities.

We evaluate our investments in unconsolidated joint ventures for events or changes in circumstances that indicate 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. 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, the fair value of the property of the joint venture, and the relationships with the other joint venture partners and its lenders. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken into consideration as a whole by management in determining the valuation of our equity method investments. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Derivative Financial Instruments

The Company utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. Derivative financial instruments are recorded on our Consolidated Balance Sheets as either an asset or liability and measured quarterly at their fair value. The changes in fair value for cash flow hedges that are deemed effective are reflected in other comprehensive income/(loss) and for non-designated derivative financial instruments in earnings. The ineffective component of cash flow hedges, if any, is recorded in earnings.

Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership

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

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

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").

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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 December 31, 2018 and 2017, UDR's net deferred tax asset/(liability) was less than \$(0.1) million and \$0.1 million, respectively.

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

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

UDR had no material unrecognized tax benefit, accrued interest or penalties at December 31, 2018. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2015 through 2017 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in *Tax (provision)/benefit, net* on the Consolidated Statements of Operations.

As of December 31, 2017, management of the Company had completed its review of the effects of the Tax Cuts and Jobs Act, under which it recognized a one-time tax benefit of \$1.1 million related to the recording of previously reserved receivables for REIT AMT credits that became refundable.

Principles of Consolidation

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

Discontinued Operations

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

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

Stock-Based Employee Compensation Plans

The Company measures the cost of employee services received in exchange for an award of an equity instrument based on the award's fair value on the grant date and recognizes the cost over the period during which the employee is required to provide service in exchange for the award, which is generally the vesting period. The fair value for stock options issued by the Company is calculated utilizing the Black-Scholes-Merton formula. For performance

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based awards, the Company remeasures the fair value each balance sheet date with adjustments made on a cumulative basis until the award is settled and the final compensation is known. The fair value for market based awards issued by the Company is calculated utilizing a Monte Carlo simulation. For further discussion, see Note 9, *Employee Benefit Plans*.

Advertising Costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item *Property operating and maintenance*. During the years ended December 31, 2018, 2017, and 2016, total advertising expense was \$6.7 million, \$6.2 million, and \$6.4 million, respectively.

Cost of Raising Capital

Costs incurred in connection with the issuance of equity securities are deducted from stockholders' equity. Costs incurred in connection with the issuance or renewal of debt are recorded based on the terms of the debt issuance or renewal. Accordingly, if the terms of the renewed or modified debt instrument are deemed to be substantially different (i.e. a 10 percent or greater difference in the cash flows between instruments), all unamortized financing costs associated with the extinguished debt are charged to earnings in the current period and certain costs of new debt issuances are capitalized and amortized over the term of the debt. When the cash flows are not substantially different, the lender costs associated with the renewal or modification are capitalized and amortized into interest expense over the remaining term of the related debt instrument and other related costs are expensed. The balance of any unamortized financing costs associated with retired debt is expensed upon retirement. Deferred financing costs for new debt instruments include fees and costs incurred by the Company to obtain financing. Deferred financing costs are generally amortized on a straight-line basis, which approximates the effective interest method, over a period not to exceed the term of the related debt.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the years ended December 31, 2018, 2017, and 2016, the Company's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in *Interest expense* on the Consolidated Statements of Operations. See Note 13, *Derivatives and Hedging Activity*, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the years ended December 31, 2018, 2017, and 2016 was \$0.2 million, \$0.3 million, and \$0.1 million, respectively.

Use of Estimates

The preparation of these financial statements in accordance with 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 financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Market Concentration Risk

The Company is subject to increased exposure from economic and other competitive factors specific to markets where the Company holds a significant percentage of the carrying value of its real estate portfolio. At December 31, 2018, the Company held greater than 10% of the carrying value of its real estate portfolio in each of the Orange County, California; Metropolitan D.C. and New York, New York markets.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and held for disposition properties. As of December 31, 2018, the

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Company owned and consolidated 127 communities in 11 states plus the District of Columbia totaling 39,931 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Land	\$ 1,849,799	\$ 1,780,229
Depreciable property — held and used:		
Land improvements	213,224	189,919
Building, improvements, and furniture, fixtures and equipment	8,133,136	7,614,568
Under development:		
Land and land improvements	—	109,468
Building, improvements, and furniture, fixtures and equipment	—	483,022
Real estate owned	10,196,159	10,177,206
Accumulated depreciation	(3,654,160)	(3,330,166)
Real estate owned, net	<u>\$ 6,541,999</u>	<u>\$ 6,847,040</u>

Acquisitions

The Company did not have any acquisitions during the year ended December 31, 2018.

In October 2017, the Company acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately \$141.5 million. The Company consolidated the operating community and accounted for the consolidation as a business combination. As a result of the consolidation, the Company increased its real estate owned by approximately \$139.0 million, recorded approximately \$2.5 million of in-place lease intangibles and recorded a gain on consolidation of approximately \$14.8 million, which is included in *Income/(loss) from unconsolidated entities* on the Consolidated Statements of Operations. The acquisition was funded with tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986 (“Section 1031 exchanges”). Prior to acquiring the community, the Company had provided \$93.5 million as a participating loan investment to the third-party developer and was entitled to receive, in addition to repayment of principal and interest, contingent interest equal to 50% of the sum of the amount the property was sold for less construction and closing costs, which equaled approximately \$14.9 million. The Company had previously accounted for its participating loan investment as an unconsolidated joint venture (see Note 5, *Joint Ventures and Partnerships*).

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

In January 2019, the Company exercised its fixed-price option to purchase its joint venture partner’s ownership interest in a 386 home operating community in Anaheim, California, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately \$33.5 million. As a result, in January 2019, the Company consolidated the operating community. The Company had previously accounted for its 49% ownership interest as a preferred equity investment in an unconsolidated joint venture (see Note 5, *Joint Ventures and Partnerships*). As a result of the consolidation, the Company increased its real estate owned by approximately \$118.1 million.

In January 2019, the Company exercised its fixed-price option to purchase its joint venture partner’s ownership interest in a 155 home operating community located in Seattle, Washington, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately \$20.0 million. As a result, in January 2019, the Company consolidated the operating community. The Company had previously accounted for its 49% ownership interest as a preferred equity investment in an unconsolidated joint venture (see Note 5, *Joint Ventures and Partnerships*). As a result of the consolidation, the Company increased its real estate owned by approximately \$61.1 million.

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In January 2019, the Company acquired a to-be-developed parcel of land located in Washington D.C. for approximately \$27.2 million.

In February 2019, the Company acquired a to-be-developed parcel of land located in Denver, Colorado for approximately \$13.7 million.

In February 2019, the Company acquired a 188 home operating community located in Brooklyn, New York for approximately \$132.3 million.

In February 2019, the Company acquired a 381 home operating community located in St. Petersburg, Florida for approximately \$98.7 million.

The Company incurred zero, \$0.4 million and \$0.2 million of acquisition-related costs during the years ended December 31, 2018, 2017, and 2016, respectively. These expenses are reported within the line item *General and administrative* on the Consolidated Statements of Operations.

Dispositions

In December 2018, the Company sold an operating community in Fairfax, Virginia with a total of 604 apartment homes for gross proceeds of \$160.0 million, resulting in a gain of \$65.9 million.

In February 2018, the Company sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of \$90.5 million, resulting in a gain of \$70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

In December 2017, the Company sold two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California for gross proceeds of \$69.0 million, resulting in a gain of \$41.3 million.

In February 2017, the Company sold a parcel of land in Richmond, Virginia for gross proceeds of \$3.5 million, resulting in a gain of \$2.1 million.

Developments

During the year ended December 31, 2018, the Company completed the development of two communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 apartment homes.

Other Activity

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

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

4. VARIABLE INTEREST ENTITIES

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

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economic performance and the obligation to absorb potentially significant losses or the right to receive potentially significant benefits of the Operating Partnership and DownREIT Partnership.

See the consolidated financial statements of the Operating Partnership presented within this Report and the financial statements required under Rule 3-09 of Regulation S-X for the DownREIT Partnership included as Exhibit 99.1 to this Report.

5. JOINT VENTURES AND PARTNERSHIPS

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

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

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

The following table summarizes the Company's investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of December 31, 2018 and 2017 (*dollars in thousands*):

Joint Venture	Location of Properties	Number of Properties December 31, 2018	Number of Apartment Homes December 31, 2018	Investment at		UDR's Ownership Interest	
				December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Operating and development:							
UDR/MetLife I	Los Angeles, CA	1 operating community	150	\$ 30,839	\$ 34,653	50.0 %	50.0 %
UDR/MetLife II	Various	18 operating communities	4,059	296,807	303,702	50.0 %	50.0 %
Other UDR/MetLife Joint Ventures	Various	5 operating communities	1,437	115,668	135,563	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	4 operating communities; 5 land parcels	1,513	71,730	78,404	50.0 %	50.0 %
UDR/KFH	Washington, D.C.	3 operating communities	660	5,507	8,958	30.0 %	30.0 %
West Coast Development Joint Ventures (c)	Los Angeles, CA	1 operating community	293	36,143	37,916	47.0 %	47.0 %
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment, preferred equity investments and other investments				\$ 556,694	\$ 599,196		

Developer Capital Program (a)	Location	Rate	Years To Maturity	UDR Commitment (b)	Investment at		Income from investments		
					December 31, 2018	December 31, 2017	Year Ended December 31,		
Preferred equity investments:									
West Coast Development Joint Ventures (c)	Various	6.5 %	N/A	\$ —	\$ 65,417	\$ 64,226	\$ 865	\$ 23,230	\$ 2,350
1532 Harrison (d)	San Francisco, CA	11.0 %	3.5	24,645	24,986	11,346	2,228	511	—
1200 Broadway (e)	Nashville, TN	8.0 %	3.8	55,558	58,982	18,011	2,970	370	—
Junction (f)	Santa Monica, CA	12.0 %	3.6	8,800	9,211	—	406	—	—
1300 Fairmount (g)	Philadelphia, PA	9.0 %	4.6	51,393	8,318	—	159	—	—
Essex (h)	Orlando, FL	12.5 %	4.7	12,886	9,940	—	258	—	—
Other investments:									
The Portals (i)	Washington, D.C.	11.0 %	2.4	38,559	43,167	26,535	3,692	839	—
Other investment ventures	N/A	N/A	N/A	\$ 18,000	4,154	1,516	\$ (267)	\$ (30)	\$ —
Total Developer Capital Program					224,175	121,634			
Total investment in and advances to unconsolidated joint ventures, net					\$ 780,869	\$ 720,830			

(a) The Developer Capital Program is the program through which the Company makes investments, including preferred equity investments, mezzanine loans or other structured investments that may receive a fixed yield on the

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investment and may include provisions pursuant to which the Company participates in the increase in value of the property upon monetization of the applicable property and/or holds fixed price purchase options.

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

At inception of the agreement, the Company had a fixed-price option to acquire the remaining interest in each community commencing one year after completion. The unaffiliated joint venture partner is providing certain guaranties.

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

During 2017, the joint venture sold two of the four remaining communities, a 211 home operating community in Seattle, Washington for a sales price of approximately \$101.3 million and a 399 home operating community in Anaheim, California for a sales price of approximately \$148.0 million.

During the year ended December 31, 2018, the fixed-price option to acquire one of the two remaining communities held by the West Coast Development Joint Ventures (as defined below) expired. The community achieved stabilization during 2017, at which time the Company and its joint venture partner began allocating income and expenses based on their ownership percentages. The Company and its joint venture partner plan to continue operating the community.

As of December 31, 2018, construction was completed on the remaining community subject to the fixed-price acquisition option. During the year ended December 31, 2018, the community achieved stabilization, at which time the Company and its joint venture partner began allocating income and expenses based on their ownership percentages.

In January 2019, the Company exercised its fixed-price option to purchase its joint venture partner's ownership interest in the 386 home operating community in Anaheim, California, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately \$33.5 million. As a result, in January 2019, the Company consolidated the operating community and it will no longer be accounted for as a preferred equity investment in an unconsolidated joint venture (see Note 3, *Real Estate Owned*). In connection with the purchase, the construction loan on the community was paid in full.

In March 2017 and May 2017, the Company entered into two additional joint venture agreements with the unaffiliated joint venture partner and paid \$15.5 million for a 49% ownership interest in a 155 home community in Seattle, Washington, for which construction was complete as of December 31, 2018, and \$16.1 million for a 49% ownership interest in a 276 home community in Hillsboro, Oregon, for which construction was complete as of December 31, 2018 (together with the May 2015 joint venture described above, the "West Coast Development Joint Ventures"). UDR earns a 6.5% preferred return on its investments through the communities' date of stabilization, as

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

During the year ended December 31, 2018, the community in Seattle, Washington achieved stabilization, at which time the Company and its joint venture partner began allocating income and expenses based on their ownership percentages.

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

In January 2019, the Company exercised its fixed-price option to purchase its joint venture partner's ownership interest in one of the two communities, a 155 home operating community in Seattle, Washington, thereby increasing its ownership interest from 49% to 100%, for a cash purchase price of approximately \$20.0 million. As a result, in January 2019, the Company consolidated the operating community and it will no longer be accounted for as a preferred equity investment in an unconsolidated joint venture (see Note 3, *Real Estate Owned*). In connection with the purchase, the construction loan on the community was paid in full.

The Company's recorded equity investment in the West Coast Development Joint Ventures at December 31, 2018 and 2017 of \$101.6 million and \$102.1 million, respectively, is inclusive of outside basis costs and our accrued but unpaid preferred return.

- (d) In June 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 136 apartment home community in San Francisco, California. The Company's preferred equity investment of up to \$24.6 million earns a preferred return of 11.0% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.
- (e) In September 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 313 apartment home community in Nashville, Tennessee. The Company's preferred equity investment of up to \$55.6 million earns a preferred return of 8.0% per annum and receives a variable percentage of the value created from the project upon a capital or liquidating event. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.
- (f) In August 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 66 apartment home community in Santa Monica, CA. The Company's preferred equity investment of \$8.8 million earns a preferred return of 12.0% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.
- (g) In August 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 471 apartment home community in Philadelphia, PA. The Company's preferred equity investment of up to \$51.4 million earns a preferred return of 9.0% per annum and receives a variable percentage of the value created from the project upon a capital or liquidating event. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.
- (h) In September 2018, the Company entered into a joint venture agreement with an unaffiliated joint venture partner to develop and operate a 330 apartment home community in Orlando, FL. The Company's preferred equity investment of up to \$12.9 million earns a preferred return of 12.5% per annum. The unaffiliated joint venture partner is the managing member of the joint venture and the developer of the community. The Company has concluded that it does not control the joint venture and accounts for it under the equity method of accounting.
- (i) In May 2017, the Company entered into a joint venture agreement with an unaffiliated joint venture partner. The

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

As of December 31, 2018 and 2017, the Company had deferred fees of \$11.0 million and \$10.9 million, respectively, which will be recognized through earnings over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees of \$11.6 million, \$11.4 million, and \$11.3 million during the years ended December 31, 2018, 2017, and 2016, respectively, for our management of the communities held by the joint ventures and partnerships. The management fees are included in *Joint venture management and other fees* on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary impairments in the value of its investments in unconsolidated joint ventures or partnerships during the years ended December 31, 2018, 2017, and 2016.

Condensed summary financial information relating to the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

As of and For the Year Ended December 31, 2018	UDR/ MetLife I	UDR/ MetLife II	Other UDR/MetLife Joint Ventures	UDR/ MetLife Vitruvian Park®	West Coast Development UDR/KFH Joint Ventures	Total
Condensed Statements of Operations:						
Total revenues	\$ 3,187	\$ 158,738	\$ 61,967	\$ 26,096	\$ 20,703	\$ 287,083
Property operating expenses	3,066	56,403	21,998	13,732	8,318	112,347
Real estate depreciation and amortization	3,392	44,721	35,437	9,495	14,487	115,211
Operating income/(loss)	(3,271)	57,614	4,532	2,869	(2,102)	59,525
Interest expense	(1,872)	(49,118)	(17,408)	(6,051)	(6,739)	(87,363)
Other income/(loss)	—	—	—	—	148	148
Net income/(loss)	<u>\$ (5,143)</u>	<u>\$ 8,496</u>	<u>\$ (12,876)</u>	<u>\$ (3,182)</u>	<u>\$ (8,841)</u>	<u>\$ (27,690)</u>
Condensed Balance Sheets:						
Total real estate, net	\$ 124,112	\$ 1,609,903	\$ 653,729	\$ 315,541	\$ 182,970	\$ 3,167,984
Cash and cash equivalents	698	11,192	8,242	8,865	1,794	39,405
Other assets	1,074	18,670	4,904	2,241	1,320	29,819
Total assets	125,884	1,639,765	666,875	326,647	186,084	3,237,208
Third party debt, net	70,833	1,089,231	454,647	162,131	165,699	2,114,420
Accounts payable and accrued liabilities	1,935	21,258	9,753	14,968	1,860	59,717
Total liabilities	72,768	1,110,489	464,400	177,099	167,559	2,174,137
Total equity	<u>\$ 53,116</u>	<u>\$ 529,276</u>	<u>\$ 202,475</u>	<u>\$ 149,548</u>	<u>\$ 18,525</u>	<u>\$ 1,063,071</u>

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As of and For the Year Ended December 31, 2017	UDR/ MetLife I	UDR/ MetLife II	Other UDR/MetLife Joint Ventures	UDR/ MetLife Vitruvian Park®	UDR/KFH	West Coast Development Joint Ventures	Total
Condensed Statements of Operations:							
Total revenues	\$ —	\$ 156,920	\$ 48,032	\$ 23,025	\$ 20,327	\$ 18,812	\$ 267,116
Property operating expenses	93	52,450	21,908	11,839	8,159	9,520	103,969
Real estate depreciation and amortization	—	45,144	32,625	7,169	14,480	7,387	106,805
Gain/(loss) on the sale of real estate	(17)	(609)	—	—	—	72,216	71,590
Operating income/(loss)	(110)	58,717	(6,501)	4,017	(2,312)	74,121	127,932
Interest expense	—	(50,603)	(13,894)	(5,030)	(5,264)	(4,038)	(78,829)
Net income attributable to noncontrolling interest	—	—	—	—	—	439	439
Net income/(loss)	<u>\$ (110)</u>	<u>\$ 8,114</u>	<u>\$ (20,395)</u>	<u>\$ (1,013)</u>	<u>\$ (7,576)</u>	<u>\$ 69,644</u>	<u>\$ 48,664</u>

Condensed Balance Sheets:							
Total real estate, net	\$ 108,958	\$ 1,641,338	\$ 687,492	\$ 299,420	\$ 195,625	\$ 252,352	\$ 3,185,185
Cash and cash equivalents	514	11,947	8,596	7,612	829	4,214	33,712
Other assets	2	15,037	4,290	1,972	905	979	23,185
Total assets	109,474	1,668,322	700,378	309,004	197,359	257,545	3,242,082
Third party debt, net	30,555	1,108,156	443,147	131,281	165,801	126,626	2,005,566
Accounts payable and accrued liabilities	12,700	19,477	15,003	16,931	1,745	17,389	83,245
Total liabilities	43,255	1,127,633	458,150	148,212	167,546	144,015	2,088,811
Total equity	<u>\$ 66,219</u>	<u>\$ 540,689</u>	<u>\$ 242,228</u>	<u>\$ 160,792</u>	<u>\$ 29,813</u>	<u>\$ 113,530</u>	<u>\$ 1,153,271</u>

For the Year Ended December 31, 2016	UDR/ MetLife I	UDR/ MetLife II	Other UDR/MetLife Joint Ventures	UDR/ MetLife Vitruvian Park®	UDR/KFH	West Coast Development Joint Ventures	Total
Condensed Statements of Operations:							
Total revenues	\$ 278	\$ 169,175	\$ 18,090	\$ 22,916	\$ 19,997	\$ 12,174	\$ 242,630
Property operating expenses	552	52,322	11,655	11,730	7,828	7,117	91,204
Real estate depreciation and amortization	52	46,135	16,353	6,835	14,444	6,218	90,037
Operating income/(loss)	(326)	70,718	(9,918)	4,351	(2,275)	(1,161)	61,389
Interest expense	—	(51,173)	(6,164)	(5,095)	(5,369)	(2,166)	(69,967)
Income/(loss) from discontinued operations	(375)	34,201	—	—	—	—	33,826
Net income attributable to noncontrolling interest	—	—	—	—	—	(62)	(62)
Net income/(loss)	<u>\$ (701)</u>	<u>\$ 53,746</u>	<u>\$ (16,082)</u>	<u>\$ (744)</u>	<u>\$ (7,644)</u>	<u>\$ (3,265)</u>	<u>\$ 25,310</u>

Other than the West Coast Development Joint Ventures, the condensed summary financial information relating to the entities in which we have an interest through the Developer Capital Program is not included in the tables above. As of and for the year ended December 31, 2018, combined total assets, liabilities, equity, revenues, and expenses for such entities were \$248.1 million, \$22.5 million, \$225.6 million, \$6.0 million, and \$1.8 million, respectively. As of and for the year ended December 31, 2017, combined total assets, liabilities, equity, revenues, and expenses for such entities were \$79.1 million, \$0.8 million, \$78.3 million, \$7.8 million, and \$9.5 million, respectively. For the year ended December 31, 2016, combined total revenues and expenses for such entities were \$8.5 million, and \$12.2 million, respectively.

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6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at December 31, 2018 and 2017 (*dollars in thousands*):

	<u>Principal Outstanding</u>		<u>As of December 31, 2018</u>		
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Years to Maturity</u>	<u>Number of Communities Encumbered</u>
Secured Debt:					
Fixed Rate Debt					
Mortgage notes payable (a)	\$ 417,989	\$ 395,611	3.82 %	5.9	7
Fannie Mae credit facilities (b)	90,000	285,836	3.95 %	1.5	1
Deferred financing costs	(1,343)	(1,670)			
Total fixed rate secured debt, net	<u>506,646</u>	<u>679,777</u>	3.85 %	5.1	8
Variable Rate Debt					
Tax-exempt secured notes payable (c)	94,700	94,700	2.33 %	4.2	2
Fannie Mae credit facilities (b)	—	29,034	— %	—	—
Deferred financing costs	(119)	(242)			
Total variable rate secured debt, net	<u>94,581</u>	<u>123,492</u>	2.33 %	4.2	2
Total Secured Debt, net	<u>601,227</u>	<u>803,269</u>	3.61 %	5.0	10
Unsecured Debt:					
Variable Rate Debt					
Borrowings outstanding under unsecured credit facility due January 2023 (d) (j)	—	—	— %	4.1	
Borrowings outstanding under unsecured commercial paper program due January 2019 (e) (j)	101,115	300,000	2.90 %	0.1	
Borrowings outstanding under unsecured working capital credit facility due January 2021 (f)	16	21,767	3.33 %	2.0	
Term Loan due September 2023 (d) (j)	35,000	35,000	3.25 %	4.8	
Fixed Rate Debt					
3.70% Medium-Term Notes due October 2020 (net of discounts of \$14 and \$22, respectively) (j)	299,986	299,978	3.70 %	1.8	
4.63% Medium-Term Notes due January 2022 (net of discounts of \$1,087 and \$1,446, respectively) (j)	398,913	398,554	4.63 %	3.0	
1.93% Term Loan due September 2023 (d) (j)	315,000	315,000	1.93 %	4.8	
3.75% Medium-Term Notes due July 2024 (net of discounts of \$574 and \$678, respectively) (g) (j)	299,426	299,322	3.75 %	5.5	
8.50% Debentures due September 2024	15,644	15,644	8.50 %	5.7	
4.00% Medium-Term Notes due October 2025 (net of discounts of \$465 and \$534, respectively) (h) (j)	299,535	299,466	4.00 %	6.8	
2.95% Medium-Term Notes due September 2026 (j)	300,000	300,000	2.95 %	7.7	
3.50% Medium-Term Notes due July 2027 (net of discounts of \$600 and \$670, respectively) (j)	299,400	299,330	3.50 %	8.5	
3.50% Medium-Term Notes due January 2028 (net of discounts of \$1,072 and \$1,191, respectively) (j)	298,928	298,809	3.50 %	9.0	
4.40% Medium-Term Notes due January 2029 (net of discounts of \$6 and \$0, respectively) (i) (j)	299,994	—	4.40 %	10.1	
Other	16	19			
Deferred financing costs	(16,413)	(14,495)			
Total Unsecured Debt, net	<u>2,946,560</u>	<u>2,868,394</u>	3.65 %	6.0	
Total Debt, net	<u>\$ 3,547,787</u>	<u>\$ 3,671,663</u>	3.72 %	5.8	

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

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. As of December 31, 2018, secured debt encumbered \$1.3 billion or

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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12.8% of UDR’s total real estate owned based upon gross book value (\$8.9 billion or 87.2% of UDR’s real estate owned based on gross book value is unencumbered).

(a) At December 31, 2018, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from August 2020 through September 2028 and carry interest rates ranging from 3.15% to 4.35%.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par value to interest expense over the life of the underlying debt instrument.

During the year ended December 31, 2018, the Company prepaid \$50.1 million of its fixed rate mortgage notes payable with proceeds from the issuance of senior unsecured medium-term notes and entered into an \$80.0 million fixed rate mortgage note payable.

During the years ended December 31, 2018, 2017, and 2016, the Company had \$3.0 million, \$3.0 million, and \$2.9 million, respectively, of amortization of the fair market adjustment of debt assumed in the acquisition of properties, which was included in *Interest expense* on the Consolidated Statements of Operations. The unamortized fair market adjustment was a net premium of \$5.0 million and \$8.2 million at December 31, 2018 and 2017, respectively.

(b) UDR had one secured credit facility with Fannie Mae with a commitment of \$90.0 million at December 31, 2018. The Fannie Mae credit facility matures in July 2020 and bears interest at a fixed rate of 3.95%.

During the year ended December 31, 2018, the Company prepaid \$29.0 million of its variable rate secured credit facilities with proceeds from the refinance of a mortgage note payable and prepaid \$195.8 million of its fixed rate secured credit facilities with proceeds from the issuance of senior unsecured medium-term notes.

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

	December 31, 2018	December 31, 2017
Borrowings outstanding	\$ 90,000	\$ 314,870
Weighted average borrowings during the period ended	253,813	416,653
Maximum daily borrowings during the period ended	314,869	636,782
Weighted average interest rate during the period ended	4.7 %	4.3 %
Weighted average interest rate at the end of the period	4.0 %	4.7 %

(c) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates ranging from 2.29% to 2.43% as of December 31, 2018.

(d) In September 2018, the Company entered into a \$1.1 billion unsecured revolving credit facility (the “Revolving Credit Facility”) and a \$350.0 million unsecured term loan (the “Term Loan”). The credit agreement for these facilities (the “Credit Agreement”) allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions, including obtaining commitments from one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2023, with two six-month extension options, subject to certain conditions. The Term Loan has a scheduled maturity date of September 30, 2023.

The Credit Agreement amended and restated the Company’s prior credit agreement, which provided for: (i) a \$1.1 billion revolving credit facility scheduled to mature in January 2020 and (ii) a \$350.0 million term loan scheduled to mature in January 2021. The prior credit agreement allowed the total commitments under the revolving credit facility and total borrowings under the term loan to be increased to an aggregate maximum amount of up to \$2.0 billion, subject to certain conditions.

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Based on the Company's current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points and a facility fee of 15 basis points, and the Term Loan has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin under the Revolving Credit Facility ranges from 75 to 145 basis points, the facility fee ranges from 10 to 30 basis points, and the margin under the Term Loan ranges from 80 to 165 basis points.

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

The following is a summary of short-term bank borrowings under the Revolving Credit Facility at December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Total revolving credit facility	\$ 1,100,000	\$ 1,100,000
Borrowings outstanding at end of period (1)	—	—
Weighted average daily borrowings during the period ended	—	2,274
Maximum daily borrowings during the period ended	—	120,000
Weighted average interest rate during the period ended	— %	1.6 %
Interest rate at end of the period	— %	— %

(1) Excludes \$3.3 million and \$3.3 million of letters of credit at December 31, 2018 and 2017, respectively.

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

The following is a summary of short-term bank borrowings under the unsecured commercial paper program at December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Total unsecured commercial paper program	\$ 500,000	\$ 500,000
Borrowings outstanding at end of period	101,115	300,000
Weighted average daily borrowings during the period ended	344,235	238,810
Maximum daily borrowings during the period ended	440,000	390,000
Weighted average interest rate during the period ended	2.4 %	1.4 %
Interest rate at end of the period	2.9 %	2.0 %

(f) The Company has a working capital credit facility, which provides for a \$75.0 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 15, 2021. Based on the Company's current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 82.5 basis points. Depending on the Company's credit rating, the margin ranges from 75 to 145 basis points. In February 2018, the Company amended the Working Capital Credit Facility to extend the scheduled maturity date from January 1, 2019 to January 15, 2021. In September 2018, the Company further amended the Working Capital Credit Facility to lower the margin to the ranges disclosed above, which are consistent with the margins for the \$1.1 billion unsecured revolving credit facility described above.

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The following is a summary of short-term bank borrowings under the Working Capital Credit Facility at December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Total working capital credit facility	\$ 75,000	\$ 75,000
Borrowings outstanding at end of period	16	21,767
Weighted average daily borrowings during the period ended	26,101	26,993
Maximum daily borrowings during the period ended	64,633	68,207
Weighted average interest rate during the period ended	2.9 %	2.0 %
Interest rate at end of the period	3.3 %	2.5 %

(g) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on \$100.0 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 3.69%.

(h) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on \$200.0 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.53%.

(i) In October 2018, the Company issued \$300.0 million of 4.40% senior unsecured medium-term notes due January 26, 2029. Interest is payable semiannually on January 26 and July 26 of each year, beginning on January 26, 2019. The notes were priced at 99.998% of the principal amount at issuance. The Company used the net proceeds for the repayment of debt, including \$195.8 million of the outstanding balance under the Fannie Mae credit facilities, and for general corporate purposes.

The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on \$150.0 million of this debt. The all in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.27%.

(j) The Operating Partnership is a guarantor of this debt.

The aggregate maturities, including amortizing principal payments on secured and unsecured debt, of total debt for the next ten years subsequent to December 31, 2018 are as follows (*dollars in thousands*):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2019	\$ 3,822	\$ 67,700	\$ 71,522	\$ 101,115	\$ 172,637
2020	198,076	—	198,076	300,000	498,076
2021	1,117	—	1,117	16	1,133
2022	1,157	—	1,157	400,000	401,157
2023	41,245	—	41,245	350,000	391,245
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
2026	50,000	—	50,000	300,000	350,000
2027	—	—	—	300,000	300,000
2028	80,000	—	80,000	300,000	380,000
Thereafter	—	27,000	27,000	300,000	327,000
Subtotal	503,017	94,700	597,717	2,966,775	3,564,492
Non-cash (a)	3,629	(119)	3,510	(20,215)	(16,705)
Total	\$ 506,646	\$ 94,581	\$ 601,227	\$ 2,946,560	\$ 3,547,787

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, and deferred financing costs. For the years ended December 31, 2018 and 2017, the Company amortized \$4.2 million and \$4.3 million, respectively, of deferred financing costs into *Interest expense*.

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We were in compliance with the covenants of our debt instruments at December 31, 2018.

7. INCOME/(LOSS) PER SHARE

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

	Year Ended December 31,		
	2018	2017	2016
Numerator for income/(loss) per share:			
Net income/(loss)	\$ 221,542	\$ 132,655	\$ 320,380
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(18,215)	(10,933)	(27,282)
Net (income)/loss attributable to noncontrolling interests	(221)	(164)	(380)
Net income/(loss) attributable to UDR, Inc.	203,106	121,558	292,718
Distributions to preferred stockholders — Series E (Convertible)	(3,868)	(3,708)	(3,717)
Income/(loss) attributable to common stockholders - basic and diluted	<u>\$ 199,238</u>	<u>\$ 117,850</u>	<u>\$ 289,001</u>
Denominator for income/(loss) per share:			
Weighted average common shares outstanding	268,513	267,567	266,211
Non-vested restricted stock awards	(334)	(543)	(825)
Denominator for basic income/(loss) per share	268,179	267,024	265,386
Incremental shares issuable from assumed conversion of stock options, unvested LTIP Units and unvested restricted stock	1,304	1,806	1,925
Denominator for diluted income/(loss) per share	<u>269,483</u>	<u>268,830</u>	<u>267,311</u>
Income/(loss) per weighted average common share:			
Basic	\$ 0.74	\$ 0.44	\$ 1.09
Diluted	\$ 0.74	\$ 0.44	\$ 1.08

Basic income/(loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income/(loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of the OP Units and DownREIT Units, convertible preferred stock, stock options, unvested long-term incentive plan units (“LTIP Units”), unvested restricted stock and continuous equity program forward sales agreements. Only those instruments having a dilutive impact on our basic income/(loss) per share are included in diluted income/(loss) per share during the periods. For the years ended December 31, 2018, 2017, and 2016, the effect of the conversion of the OP Units, DownREIT Units and the Company’s Series E preferred stock was not dilutive, and therefore not included in the above calculation.

For the year ended December 31, 2018, the Company did not enter into any forward purchase agreements under its continuous equity program.

The following table sets forth the additional shares of common stock outstanding by equity instrument if converted to common stock for each of the years ended December 31, 2018, 2017, and 2016 (*shares in thousands*):

	Year Ended December 31,		
	2018	2017	2016
OP/DownREIT Units	24,548	24,821	25,130
Convertible preferred stock	3,011	3,021	3,028
Stock options, unvested LTIP Units and unvested restricted stock	1,304	1,806	1,925

8. STOCKHOLDERS’ EQUITY

UDR has an effective registration statement that allows the Company to sell an undetermined number of debt and equity securities as defined in the prospectus. The Company had the ability to issue 350,000,000 shares of common stock and 50,000,000 shares of preferred shares as of December 31, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The following table presents the changes in the Company’s issued and outstanding shares of common and preferred stock for the years ended December 31, 2018, 2017 and 2016

	Common Stock	Preferred Stock	
		Series E	Series F
Balance at December 31, 2015	261,844,521	2,796,903	16,452,496
Issuance/(forfeiture) of common and restricted shares, net	154,656	—	—
Issuance of common shares through public offering	5,000,000	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	4,685	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the DownREIT Partnership	255,607	—	—
Forfeiture of Series F shares	—	—	(255,607)
Balance at December 31, 2016	267,259,469	2,796,903	16,196,889
Issuance/(forfeiture) of common and restricted shares, net	69,788	—	—
Issuance of common shares upon exercise of stock options	86,554	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	7,604	—	—
Conversion of Series E Cumulative Convertible shares	17,225	(15,909)	—
Adjustment for conversion of noncontrolling interest of unitholders in the DownREIT Partnership	381,429	—	—
Forfeiture of Series F shares	—	—	(344,168)
Balance at December 31, 2017	267,822,069	2,780,994	15,852,721
Issuance/(forfeiture) of common and restricted shares, net	47,432	—	—
Issuance of common shares upon exercise of stock options	771,715	—	—
Issuance of common shares through public offering	7,150,000	—	—
Repurchase of common shares	(593,373)	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	11,011	—	—
Adjustment for conversion of noncontrolling interest of unitholders in the DownREIT Partnership	337,046	—	—
Forfeiture of Series F shares	—	—	(50,328)
Balance at December 31, 2018	275,545,900	2,780,994	15,802,393

Common Stock

The Company has an equity distribution agreement which allows it from time to time, through its sales agents, to offer and sell up to 20,000,000 shares of its common stock. Sales of such shares will be made by means of ordinary brokers’ transactions on the NYSE at market prices. In July 2017, the Company updated its equity distribution agreement to also permit the entry into separate forward sales agreements to or through its forward purchasers. As of December 31, 2018, 13,078,931 shares were available for sale under the continuous equity program.

During the year ended December 31, 2018, the Company entered into the following equity transactions for our common stock:

- Issued 7,150,000 shares of common stock through a public offering at a price per share of \$41.98, for aggregate gross proceeds of approximately \$300.2 million;
- Repurchased 593,373 shares of common stock at a weighted average price per share of \$33.69, for total consideration of approximately \$20.0 million;
- Issued 212,411 shares of common stock through the Company’s 1999 Long-Term Incentive Plan (the “LTIP”);
- Issued 11,011 shares of common stock upon redemption of OP Units; and

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- Issued 337,046 shares of common stock upon redemption of DownREIT Units, resulting in the forfeiture of 50,328 Series F Preferred Shares.

Distributions are subject to the approval of the Board of Directors and are dependent upon our strategy, financial condition and operating results. UDR's common distributions for the years ended December 31, 2018, 2017, and 2016 totaled \$1.29, \$1.24, and \$1.18 per share, respectively.

Preferred Stock

The Series E Cumulative Convertible Preferred Stock ("Series E") has no stated par value and a liquidation preference of \$16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder's option into one share of our common stock prior to a "Special Dividend" declared in 2008 (1.083 shares after the Special Dividend). The holders of the Series E are entitled to vote on an as-converted basis as a single class in combination with the holders of common stock at any meeting of our stockholders for the election of directors or for any other purpose on which the holders of common stock are entitled to vote. The Series E has no stated maturity and is not subject to any sinking fund or any mandatory redemption.

Distributions declared on the Series E for the years ended December 31, 2018, 2017, and 2016 were \$1.40, \$1.33, and \$1.33 per share, respectively. The Series E is not listed on any exchange. At December 31, 2018 and 2017, a total of 2,780,994 shares of the Series E were outstanding.

UDR is authorized to issue up to 20,000,000 shares of the Series F Preferred Stock ("Series F"). The Series F may be purchased by holders of OP Units and DownREIT Units, at a purchase price of \$0.0001 per share. OP/DownREIT Unitholders are entitled to subscribe for and purchase one share of UDR's Series F for each OP/DownREIT Unit held. During the years ended December 31, 2018 and 2017, 50,328 and 344,168 of the Series F shares were forfeited upon the conversion of DownREIT Units into Company common stock, respectively.

At December 31, 2018 and 2017, a total of 15,802,393 and 15,852,721 shares, respectively, of the Series F were outstanding with an aggregate purchase value of \$1,580 and \$1,585, respectively. Holders of the Series F are entitled to one vote for each share of the Series F they hold, voting together with the holders of our common stock, on each matter submitted to a vote of security holders at a meeting of our stockholders. The Series F does not entitle its holders to dividends or any other rights, privileges or preferences.

Distribution Reinvestment and Stock Purchase Plan

UDR's Distribution Reinvestment and Stock Purchase Plan (the "Stock Purchase Plan") allows common and preferred stockholders the opportunity to purchase, through the reinvestment of cash dividends and by making additional cash payments, additional shares of UDR's common stock. From inception through December 31, 2008, shareholders have elected to utilize the Stock Purchase Plan to reinvest their distribution for the equivalent of 9,957,233 shares of Company common stock. Shares in the amount of 10,963,730 were reserved for issuance under the Stock Purchase Plan as of December 31, 2018. During the year ended December 31, 2018, UDR acquired all shares issued through the open market.

9. EMPLOYEE BENEFIT PLANS

In May 2001, the stockholders of UDR approved the long term incentive plan ("LTIP"), which supersedes the 1985 Stock Option Plan. The LTIP authorizes the granting of awards which may take the form of options to purchase shares of common stock, stock appreciation rights, restricted stock, dividend equivalents, other stock-based awards, and any other right or interest relating to common stock or cash incentive awards to Company directors, employees and outside trustees to promote the success of the Company by linking individual's compensation via grants of share based payment.

During the year ended December 31, 2015, the LTIP was amended to set forth the terms of new classes of partnership interests in the Operating Partnership designated as LTIP Units. LTIP Units are designed to qualify as "profits interests" in the Operating Partnership for federal income tax purposes, meaning that initially they are not economically equivalent in value to a share of our common stock, but over time can increase in value to one-for-one

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parity with common stock by operation of special tax rules applicable to profits interests. Until and unless such parity is reached, the value that an executive will realize for a given number of vested LTIP units is less than the value of an equal number of shares of our common stock.

As of December 31, 2018, 19,000,000 shares were reserved on an unadjusted basis for issuance upon the grant or exercise of awards under the LTIP. As of December 31, 2018, there were 7,269,166 common shares available for issuance under the LTIP.

The LTIP contains change of control provisions allowing for the immediate vesting of an award upon certain events such as a merger where UDR is not the surviving entity. Upon the death or disability of an award recipient all outstanding instruments will vest and all restrictions will lapse. The LTIP specifies that in the event of a capital transaction, which includes but is not limited to stock dividends, stock splits, extraordinary cash dividends and spin-offs, the number of shares available for grant in totality or to a single individual is to be adjusted proportionately. The LTIP specifies that when a capital transaction occurs that would dilute the holder of the stock award, prior grants are to be adjusted such that the recipient is no worse as a result of the capital transaction.

A summary of UDR's stock option and restricted stock activities during the year ended December 31, 2018 is as follows:

	Option Outstanding		Option Exercisable		Restricted Stock	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of shares	Weighted Average Fair Value Per Restricted Stock
Balance, December 31, 2017	1,830,672	\$ 10.06	1,830,672	\$ 10.06	512,516	\$ 36.82
Granted	—	—	—	—	212,358	34.16
Exercised	(1,830,672)	10.06	(1,830,672)	10.06	—	—
Vested	—	—	—	—	(409,839)	32.57
Forfeited	—	—	—	—	(8,208)	36.75
Balance, December 31, 2018	—	\$ —	—	\$ —	306,827	\$ 36.58

As of December 31, 2018, the Company had granted 6,141,613 shares of restricted stock and 1,766,550 LTIP Units under the LTIP.

Stock Option Plan

UDR has granted stock options to our employees, subject to certain conditions. Each stock option is exercisable into one common share.

There is no remaining compensation cost related to unvested stock options as of December 31, 2018.

During the year ended December 31, 2018, 1,830,672 stock options were exercised.

During the years ended December 31, 2018, 2017, and 2016, respectively, we did not recognize any net compensation expense related to outstanding stock options.

Restricted Stock Awards

Restricted stock awards are granted to Company employees, officers, and directors. The restricted stock awards are valued based upon the closing sales price of UDR common stock on the date of grant. Compensation expense is recorded under the straight-line method over the vesting period, which is generally three to four years. Restricted stock awards earn dividends payable in cash. Some of the restricted stock grants are based on the Company's performance and are subject to adjustment during the initial one year performance period. For the years ended December 31, 2018, 2017, and 2016, we recognized \$4.3 million, \$4.0 million, and \$3.4 million of compensation expense, net of capitalization, related to the amortization of restricted stock awards, respectively. The total remaining compensation cost on unvested

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restricted stock awards was \$4.8 million and had a weighted average remaining contractual life of 1.9 years as of December 31, 2018.

Long-Term Incentive Compensation

In January 2018, certain officers of the Company were awarded either a restricted stock grant or an LTIP Unit grant, or a combination of both, under the 2018 Long-Term Incentive Program (“2018 LTI”). For both restricted stock grants and LTIP Unit grants, thirty percent of the 2018 LTI award is based upon FFO as Adjusted over a one-year period and will vest fifty percent on the one-year anniversary and fifty percent on the two-year anniversary. Fifteen percent of the 2018 LTI award is based upon relative FFO as Adjusted over a three-year period and will vest 100% at the end of the three-year performance period. The remaining fifty-five percent of the 2018 LTI award is based on Total Shareholder Return (“TSR”) as measured relative to comparable apartment REITs over a three-year period and as measured relative to the NAREIT Equity REITs Total Return Index over a three-year period whereby both will vest 100% at the end of the three-year performance periods. The portion of the restricted stock grant based upon FFO as Adjusted was valued based upon the closing sales price of UDR common stock on the date of grant or \$38.06 per share. Because LTIP Units are granted at the maximum potential payout and there is uncertainty associated with an LTIP Unit reaching parity with the value of a share of UDR common stock, the portion of the LTIP Unit grant based upon the one-year FFO as Adjusted was valued at \$17.13 per unit on the grant date, inclusive of a 10% discount, and the portion of the LTIP Unit grant based upon the three-year FFO as Adjusted was valued at \$18.08 per unit on the grant date, inclusive of a 5% discount. The portion of the restricted stock grant based upon relative TSR was valued at \$42.18 per share for the comparable apartment REITs component and \$40.49 per share for the NAREIT Equity REITs Total Return Index component on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 17.0%. The portion of the LTIP Unit grant based upon relative TSR was valued at \$20.12 per unit, inclusive of a 5% discount, for the comparable apartment REITs component and \$19.35 per unit, inclusive of a 5% discount, for the NAREIT Equity REITs Total Return Index component on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 17.0%.

In January 2017, certain officers of the Company were awarded either a restricted stock grant or an LTIP Unit grant, or a combination of both, under the 2017 Long-Term Incentive Program (“2017 LTI”). For both restricted stock grants and LTIP Unit grants, thirty percent of the 2017 LTI award is based upon FFO as Adjusted over a one-year period and will vest fifty percent on the one-year anniversary and fifty percent on the two-year anniversary. Ten percent of the 2017 LTI award is based upon FFO as Adjusted over a three-year period and will vest 100% at the end of the three-year performance period. The remaining sixty percent of the 2017 LTI award is based on Total Shareholder Return (“TSR”) as measured relative to comparable apartment REITs over a three-year period and on an absolute basis over a three-year period whereby both will vest 100% at the end of the three-year performance periods. The portion of the restricted stock grant based upon FFO as Adjusted was valued based upon the closing sales price of UDR common stock on the date of grant or \$35.95 per share. Because LTIP Units are granted at the maximum potential payout and there is uncertainty associated with an LTIP Unit reaching parity with the value of a share of UDR common stock, the portion of the LTIP Unit grant based upon the one-year FFO as Adjusted was valued at \$16.18 per unit on the grant date, inclusive of a 10% discount, and the portion of the LTIP Unit grant based upon the three-year FFO as Adjusted was valued at \$16.63 per unit on the grant date, inclusive of a 7.5% discount. The portion of the restricted stock grant based upon TSR was valued at \$44.26 per share for the relative component and \$31.40 per share for the absolute component on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 23.0%. The portion of the LTIP Unit grant based upon TSR was valued at \$20.54 per unit, inclusive of a 7.5% discount, for the relative component and \$14.71 per unit, inclusive of a 7.5% discount, for the absolute component on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 23.0%.

In January 2016, certain officers of the Company were awarded either a restricted stock grant or an LTIP Unit grant, or a combination of both, under the 2016 Long-Term Incentive Program (“2016 LTI”). For both restricted stock grants and LTIP Unit grants, one-third of the 2016 LTI award is based upon FFO as Adjusted over a one-year period and will vest fifty percent on the one-year anniversary and fifty percent on the two-year anniversary. The remaining two-thirds of the 2016 LTI award is based on TSR as measured relative to comparable apartment REITs over a three-year period and will vest 100% at the end of the three-year performance period. The portion of the restricted stock grant based upon FFO as Adjusted was valued based upon the closing sales price of UDR common stock on the date of grant or \$36.97 per share. Because LTIP Units are granted at the maximum potential payout and there is uncertainty associated

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with an LTIP Unit reaching parity with the value of a share of UDR common stock, the portion of the LTIP Unit grant based upon FFO as Adjusted was valued at \$16.64 per unit on the grant date, inclusive of a 10% discount. The portion of the restricted stock grant based upon TSR was valued at \$41.22 per share on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 21.8%. The portion of the LTIP Unit grant based upon TSR was valued at \$19.15 per unit on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a volatility factor of 21.8%.

For the years ended December 31, 2018, 2017, and 2016, we recognized \$9.9 million, \$8.9 million and \$10.0 million, respectively, of compensation expense, net of capitalization, related to the amortization of the awards. The total remaining compensation cost on unvested LTI awards was \$8.2 million and had a weighted average remaining contractual life of 1.7 years as of December 31, 2018.

Profit Sharing Plan

Our profit sharing plan (the “Plan”) is a defined contribution plan covering all eligible full-time employees. Under the Plan, UDR makes discretionary profit sharing and matching contributions to the Plan as determined by the Compensation Committee of the Board of Directors. Aggregate provisions for contributions, both matching and discretionary, which are included in UDR’s Consolidated Statements of Operations for the years ended December 31, 2018, 2017, and 2016, was \$1.3 million, \$1.3 million, and \$1.3 million, respectively.

10. INCOME TAXES

For 2018, 2017, and 2016, UDR believes that we have complied with the REIT requirements specified in the Code. As such, the REIT would generally not be subject to federal income taxes.

For income tax purposes, distributions paid to common stockholders may consist of ordinary income, qualified dividends, capital gains, unrecaptured section 1250 gains, return of capital, or a combination thereof. Distributions that exceed our current and accumulated earnings and profits constitute a return of capital rather than taxable income and reduce the stockholder’s basis in their common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholder’s basis in the common shares, it generally will be treated as a gain from the sale or exchange of that stockholder’s common shares. Taxable distributions paid per common share were taxable as follows for the years ended December 31, 2018, 2017 and 2016 (*unaudited*):

	Year Ended December 31,		
	2018	2017	2016
Ordinary income	\$ 0.774	\$ 1.018	\$ 0.708
Qualified ordinary income	0.006	0.011	—
Long-term capital gain	0.058	0.133	0.309
Unrecaptured section 1250 gain	0.233	0.063	0.145
Nondividend distributions	0.207	—	—
Total	<u>\$ 1.278</u>	<u>\$ 1.225</u>	<u>\$ 1.162</u>

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We have a TRS that is subject to federal and state income taxes. A TRS is a C-corporation which has not elected REIT status and as such is subject to United States federal and state income tax. The components of the provision for income taxes are as follows for the years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Income tax (benefit)/provision			
Current			
Federal	\$ 220	\$ (1,205)	\$ 69
State	396	407	372
Total current	<u>616</u>	<u>(798)</u>	<u>441</u>
Deferred			
Federal	66	568	9,814
State	6	(10)	1,319
Total deferred	<u>72</u>	<u>558</u>	<u>11,133</u>
Total income tax (benefit)/provision	<u>\$ 688</u>	<u>\$ (240)</u>	<u>\$ 11,574</u>
Classification of income tax (benefit)/provision:			
Continuing operations	\$ 688	\$ (240)	\$ 11,574

As a result of the SEC Simplification, for the year ended December 31, 2016, the following retrospective changes were made (*dollars in thousands*):

<i>Gain/(loss) on the sale of real estate owned, net of tax</i> – as previously reported	\$ 15,348
Tax impact of sales of real estate owned	(15,348)
<i>Gain/(loss) on the sale of real estate owned</i> – as reported herein	<u>\$ —</u>
<i>Continuing operations</i> – as previously reported	\$ (3,774)
Tax impact of sales of real estate owned	15,348
<i>Continuing operations</i> – as reported herein	<u>\$ 11,574</u>

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting purposes and income tax reporting purposes. The expected future tax rates are based upon enacted tax laws. The components of our TRS deferred tax assets and liabilities are as follows for the years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Deferred tax assets:			
Federal and state tax attributes	\$ 28	\$ 8	\$ 536
Other	70	139	190
Total deferred tax assets	<u>98</u>	<u>147</u>	<u>726</u>
Valuation allowance	(16)	(9)	(6)
Net deferred tax assets	<u>82</u>	<u>138</u>	<u>720</u>
Deferred tax liabilities:			
Other	(84)	(67)	(92)
Total deferred tax liabilities	<u>(84)</u>	<u>(67)</u>	<u>(92)</u>
Net deferred tax asset	<u>\$ (2)</u>	<u>\$ 71</u>	<u>\$ 628</u>

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Income tax provision/(benefit), net from our TRS differed from the amounts computed by applying the U.S. statutory rate of 21% to pretax income/(loss) for the year ended December 31, 2018, and 35% for the years ended December 31, 2017, and 2016 as follows (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Income tax provision/(benefit)			
U.S. federal income tax provision/(benefit)	\$ 321	\$ 581	\$ 12,577
State income tax provision	527	493	1,370
Other items	(167)	(188)	134
New tax law benefit	—	(1,129)	—
Conversion of certain TRS entities to REITs	—	—	(2,436)
Valuation allowance	7	3	(71)
Total income tax provision/(benefit)	<u>\$ 688</u>	<u>\$ (240)</u>	<u>\$ 11,574</u>

As of December 31, 2018, the Company had federal net operating loss carryovers (“NOL”) of \$24.0 million expiring in 2032 through 2035 and state NOLs of \$69.7 million expiring in 2020 through 2032. A portion of these attributes are still available to the subsidiary REITs, but are carried at a zero effective tax rate.

For the year ended December 31, 2018, *Tax benefit/(provision), net* decreased \$0.9 million as compared to 2017. The decrease was primarily attributable to a one-time benefit of \$1.1 million related to the recording of previously reserved receivables for REIT AMT credits available that became refundable under the Tax Cuts and Jobs Act of 2017. GAAP defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The financial statements reflect expected future tax consequences of income tax positions presuming the taxing authorities’ full knowledge of the tax position and all relevant facts, but without considering time values. GAAP also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

The Company evaluates our tax position 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 then determine the amount of benefit to recognize and record the amount of the benefit that is more likely than not to be realized upon ultimate settlement. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in *Tax benefit/(provision), net*. As of December 31, 2018 and 2017, UDR has no material unrecognized income tax benefits/(provisions).

The Company files income tax returns in federal and various state and local jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local income tax examination by tax authorities for years prior to 2013. The tax years 2015 through 2017 remain open to examination by the major taxing jurisdictions to which the Company is subject.

As of December 31, 2017, management of the Company had completed its review of the effects of the Tax Cuts and Jobs Act, under which it recognized a one-time tax benefit of \$1.1 million related to the recording of previously reserved receivables for REIT AMT credits that became refundable.

11. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership

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

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

The following table sets forth redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership for the years ended December 31, 2018 and 2017 (*dollars in thousands*):

	Year Ended December 31,	
	2018	2017
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, beginning of year	\$ 948,138	\$ 909,482
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	43,552	71,096
Conversion of OP Units/DownREIT Units to Common Stock	(13,328)	(14,544)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	18,215	10,933
Distributions to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(32,798)	(31,427)
OP Units Issued	4,320	—
Vesting of Long-Term Incentive Plan Units	4,397	2,317
Allocation of other comprehensive income/(loss)	244	281
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, end of year	\$ 972,740	\$ 948,138

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners and unvested LTIP Units in certain consolidated affiliates, and are presented as part of equity on the Consolidated Balance Sheets since these interests are not redeemable. *Net (income)/loss attributable to noncontrolling interests* was \$(0.2) million, \$(0.2) million, and \$(0.4) million during the years ended December 31, 2018, 2017, and 2016, respectively.

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

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

12. 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

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hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

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

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of December 31, 2018 and 2017 are summarized as follows (*dollars in thousands*):

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2018	Fair Value Estimate at December 31, 2018	Fair Value at December 31, 2018, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Notes receivable (a)	\$ 42,259	\$ 45,026	\$ —	\$ —	\$ 45,026
Derivatives - Interest rate contracts (b)	4,757	4,757	—	4,757	—
Total assets	\$ 47,016	\$ 49,783	\$ —	\$ 4,757	\$ 45,026
Derivatives - Interest rate contracts (b)	\$ 356	\$ 356	\$ —	\$ 356	\$ —
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	417,989	416,314	—	—	416,314
Fannie Mae credit facilities	90,000	90,213	—	—	90,213
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Unsecured debt instruments: (c)					
Working capital credit facility	16	16	—	—	16
Commercial paper program	101,115	101,115	—	—	101,115
Unsecured notes	2,861,842	2,829,390	—	—	2,829,390
Total liabilities	\$ 3,566,018	\$ 3,532,104	\$ —	\$ 356	\$ 3,531,748
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	\$ 972,740	\$ 972,740	\$ —	\$ 972,740	\$ —

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Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2017	Fair Value Estimate at December 31, 2017	Fair Value at December 31, 2017, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Notes receivable (a)	\$ 19,469	\$ 19,567	\$ —	\$ —	\$ 19,567
Derivatives - Interest rate contracts (b)	5,743	5,743	—	5,743	—
Total assets	<u>\$ 25,212</u>	<u>\$ 25,310</u>	<u>\$ —</u>	<u>\$ 5,743</u>	<u>\$ 19,567</u>
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	\$ 395,611	\$ 397,386	\$ —	\$ —	\$ 397,386
Fannie Mae credit facilities	285,836	292,227	—	—	292,227
Secured debt instruments - variable rate: (c)					
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	29,034	29,034	—	—	29,034
Unsecured debt instruments: (c)					
Working capital credit facility	21,767	21,767	—	—	21,767
Commercial paper program	300,000	300,000	—	—	300,000
Unsecured notes	2,561,122	2,611,458	—	—	2,611,458
Total liabilities	<u>\$ 3,688,070</u>	<u>\$ 3,746,572</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,746,572</u>
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)					
	<u>\$ 948,138</u>	<u>\$ 948,138</u>	<u>\$ —</u>	<u>\$ 948,138</u>	<u>\$ —</u>

(a) See Note 2, *Significant Accounting Policies*.

(b) See Note 13, *Derivatives and Hedging Activity*.

(c) See Note 6, *Secured and Unsecured Debt, Net*.

(d) See Note 11, *Noncontrolling Interests*.

There were no transfers into or out of any of the levels of the fair value hierarchy during the year ended December 31, 2018.

Financial Instruments Carried at Fair Value

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

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2018 and 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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

Financial Instruments Not Carried at Fair Value

At December 31, 2018, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments, which includes notes receivable and debt instruments, are classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations.

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

We consider various factors to determine if a decrease in the value of our *Investment in and advances to unconsolidated joint ventures, net* is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary impairments in the value of its investments in unconsolidated joint ventures during the years ended December 31, 2018, 2017, and 2016.

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

13. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in *Accumulated other comprehensive income/(loss), net* on the Consolidated Balance Sheets and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2018, 2017, and 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

During the year ended December 31, 2017, the Company recognized a loss of \$0.1 million, reclassified from *Accumulated other comprehensive income/(loss), net* to *Interest expense* due to the de-designation of a cash flow hedge. No amounts were de-designated during the years ended December 31, 2018 and 2016.

Amounts reported in *Accumulated other comprehensive income/(loss), net* on the Consolidated Balance Sheets related to derivatives that will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through December 31, 2019, the Company estimates that an additional \$3.9 million will be reclassified as a decrease to *Interest expense*.

As of December 31, 2018, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (*dollars in thousands*):

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

- (a) In addition to the interest rate swaps summarized above, the Company entered into an additional interest rate swap during the year ended December 31, 2018 with a notional value of \$50.0 million that will become effective in December 2019.

The Company also entered into two additional interest rate swaps during the year ended December 31, 2018 with a notional value totaling \$150.0 million that were terminated and settled in conjunction with the October 2018 issuance of \$300.0 million of senior unsecured medium-term notes as disclosed in Note 6, *Secured and Unsecured Debt, Net*. The Company received \$3.1 million to settle the swaps. The entire \$3.1

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

million was initially deferred as a component of *Accumulated other comprehensive income (loss), net* and will be recognized as a decrease to *Interest expense* over the ten-year term of the notes.

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in no gain or loss for year ended December 31, 2018 and a loss of less than \$0.1 million for the years ended December 31, 2017, and 2016.

As of December 31, 2018, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (*dollars in thousands*):

Product	Number of Instruments	Notional
Interest rate caps	1	\$ 19,880

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2018 and 2017 (*dollars in thousands*):

	<u>Asset Derivatives (included in <i>Other assets</i>)</u>		<u>Liability Derivatives (included in <i>Other liabilities</i>)</u>	
	<u>Fair Value at:</u>			
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Derivatives designated as hedging instruments:				
Interest rate products	\$ 4,757	\$ 5,743	\$ 356	\$ —

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 years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

	<u>Unrealized holding gain/(loss) Recognized in OCI</u>			<u>Gain/(Loss) Reclassified from Accumulated OCI into <i>Interest expense</i></u>			<u>Gain/(Loss) Recognized in <i>Interest expense</i> (Amount Excluded from Effectiveness Testing)</u>		
	<u>Year Ended December 31,</u>								
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Derivatives in Cash Flow Hedging Relationships									
Interest rate products	\$ 4,806	\$ 1,802	\$ 3,514	\$ 1,948	\$ (1,271)	\$ (3,657)	\$ —	\$ (136)	\$ —

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Total amount of <i>Interest expense</i> presented on the Consolidated Statements of Operations	\$ 134,168	\$ 128,711	\$ 123,031

	<u>Gain/(Loss) Recognized in <i>Interest income and other income/(expense), net</i></u>		
	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Derivatives Not Designated as Hedging Instruments			
Interest rate products	\$ —	\$ (1)	\$ (3)

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

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

As of December 31, 2018, the fair value of derivatives was in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, of \$4.7 million.

Tabular Disclosure of Offsetting Derivatives

The Company has elected not to offset derivative positions on the consolidated financial statements. The tables below present the effect on its financial position had the Company made the election to offset its derivative positions as of December 31, 2018 and 2017 (*dollars in thousands*):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Offsetting of Derivative Assets						
December 31, 2018	\$ 4,757	\$ —	\$ 4,757	\$ —	\$ —	\$ 4,757
December 31, 2017	\$ 5,743	\$ —	\$ 5,743	\$ —	\$ —	\$ 5,743

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

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Posted	
Offsetting of Derivative Liabilities						
December 31, 2018	\$ 356	\$ —	\$ 356	\$ —	\$ —	\$ 356
December 31, 2017	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

14. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Commitments

The following summarizes the Company's real estate commitments at December 31, 2018 (*dollars in thousands*):

	Number Properties	Investment	UDR's Remaining Commitment
Joint ventures:			
Preferred equity investments	3	\$ 43,244 (a)	\$ 48,892 (b)
Other investments	-	4,154	13,500 (c)
Total		<u>\$ 47,398</u>	<u>\$ 62,392</u>

(a) Represents UDR's investment in 1532 Harrison, 1300 Fairmount and Essex for the properties under development as of December 31, 2018.

(b) Represents UDR's remaining commitment for 1532 Harrison, 1300 Fairmount and Essex.

(c) Represents UDR's remaining commitment for other investment ventures.

Purchase Commitments

During the year ended December 31, 2018, the Company entered into a contract to purchase a \$13.7 million development land parcel located in Denver, Colorado. The Company made a \$1.0 million deposit on the purchase which, as of December 31, 2018, is generally non-refundable other than due to a failure of closing conditions pursuant to the terms of the agreement. The acquisition closed in February 2019.

Ground and Other Leases

UDR owns six communities which are subject to ground leases expiring between 2043 and 2103, including extension options. In addition, UDR is a lessee to various operating leases related to office space rented by the Company with expiration dates through 2021. Future minimum lease payments as of December 31, 2018 are as follows (*dollars in thousands*):

	Ground Leases (a)	Office Space
2019	\$ 4,901	\$ 76
2020	4,901	76
2021	4,901	32
2022	4,901	—
2023	4,901	—
Thereafter	313,918	—
Total	<u>\$ 338,423</u>	<u>\$ 184</u>

For purposes of our ground lease contracts, the Company uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a rent reset provision based on fair market value or changes in the consumer price index but does not include a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

UDR incurred \$7.3 million, \$6.2 million, and \$5.5 million of ground rent expense for the years ended December 31, 2018, 2017, and 2016, respectively. These costs are reported within the line item *Other Operating Expenses* on the Consolidated Statements of Operations. The Company incurred \$0.2 million, \$0.2 million, and \$0.3

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

million of rent expense related to office space for the years ended December 31, 2018, 2017, and 2016, respectively. These costs are included in *General and Administrative* on the Consolidated Statements of Operations.

Contingencies

Litigation and Legal Matters

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

15. REPORTABLE SEGMENTS

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

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

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

- *Same-Store Communities* represent those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.
- *Non-Mature Communities/Other* represent those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the years ended December 31, 2018, 2017, and 2016.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

The following table details rental income and NOI for UDR's reportable segments for the years ended December 31, 2018, 2017, and 2016, and reconciles NOI to *Net income/(loss) attributable to UDR, Inc.* on the Consolidated Statements of Operations (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Reportable apartment home segment rental income			
Same-Store Communities			
West Region	\$ 399,314	\$ 383,009	\$ 353,321
Mid-Atlantic Region	220,450	214,157	208,223
Northeast Region	154,019	151,736	147,573
Southeast Region	122,234	116,467	111,318
Southwest Region	43,709	42,992	41,273
Non-Mature Communities/Other	95,379	75,948	86,753
Total segment and consolidated rental income	<u>\$ 1,035,105</u>	<u>\$ 984,309</u>	<u>\$ 948,461</u>
Reportable apartment home segment NOI			
Same-Store Communities			
West Region	\$ 301,098	\$ 286,662	\$ 264,475
Mid-Atlantic Region	153,670	150,126	144,508
Northeast Region	105,998	106,473	106,005
Southeast Region	85,220	80,726	76,359
Southwest Region	26,408	26,455	25,600
Non-Mature Communities/Other	59,721	48,061	56,138
Total segment and consolidated NOI	<u>732,115</u>	<u>698,503</u>	<u>673,085</u>
Reconciling items:			
Joint venture management and other fees	11,754	11,482	11,400
Property management	(28,465)	(27,068)	(26,083)
Other operating expenses	(12,100)	(9,060)	(7,649)
Real estate depreciation and amortization	(429,006)	(430,054)	(419,615)
General and administrative	(46,983)	(48,566)	(49,761)
Casualty-related (charges)/recoveries, net	(2,121)	(4,335)	(732)
Other depreciation and amortization	(6,673)	(6,408)	(6,023)
Income/(loss) from unconsolidated entities	(5,055)	31,257	52,234
Interest expense	(134,168)	(128,711)	(123,031)
Interest income and other income/(expense), net	6,735	1,971	1,930
Gain/(loss) on sale of real estate owned	136,197	43,404	226,199
Tax (provision)/benefit, net	(688)	240	(11,574)
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(18,215)	(10,933)	(27,282)
Net (income)/loss attributable to noncontrolling interests	(221)	(164)	(380)
Net income/(loss) attributable to UDR, Inc.	<u>\$ 203,106</u>	<u>\$ 121,558</u>	<u>\$ 292,718</u>

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

The following table details the assets of UDR’s reportable segments as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	\$ 3,666,169	\$ 3,630,164
Mid-Atlantic Region	2,317,369	2,290,241
Northeast Region	1,874,616	1,865,762
Southeast Region	779,310	762,102
Southwest Region	297,681	292,074
Non-Mature Communities/Other	1,261,014	1,336,863
Total segment assets	10,196,159	10,177,206
Accumulated depreciation	(3,654,160)	(3,330,166)
Total segment assets — net book value	6,541,999	6,847,040
Reconciling items:		
Cash and cash equivalents	185,216	2,038
Restricted cash	23,675	19,792
Notes receivable, net	42,259	19,469
Investment in and advances to unconsolidated joint ventures, net	780,869	720,830
Other assets	137,710	124,104
Total consolidated assets	\$ 7,711,728	\$ 7,733,273

Capital expenditures related to our *Same-Store Communities* totaled \$86.2 million, \$86.2 million, and \$82.9 million for the years ended December 31, 2018, 2017, and 2016, respectively. Capital expenditures related to our *Non-Mature Communities/Other* totaled \$5.8 million, \$5.7 million, and \$13.4 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Markets included in the above geographic segments are as follows:

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
DECEMBER 31, 2018

16. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY FINANCIAL DATA

Selected consolidated quarterly financial data for the years ended December 31, 2018 and 2017 is summarized in the table below (*dollars in thousands, except per share amounts*):

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2018				
Rental income	\$ 250,483	\$ 256,634	\$ 263,256	\$ 264,732
Net income/(loss)	89,225	22,444	20,258	89,615
Net income/(loss) attributable to common stockholders (a)	80,801	19,630	17,639	81,168
Income/(loss) attributable to common stockholders per weighted average common share (a):				
Basic	\$ 0.30	\$ 0.07	\$ 0.07	\$ 0.30
Diluted	\$ 0.30	\$ 0.07	\$ 0.07	\$ 0.30
Weighted average number of common shares outstanding:				
Basic	267,546	267,311	267,727	270,107
Diluted	269,208	268,890	268,861	270,755
2017				
Rental income	\$ 241,271	\$ 244,658	\$ 248,264	\$ 250,116
Net income/(loss)	28,396	11,062	17,570	75,627
Net income/(loss) attributable to common stockholders (a)	25,038	9,228	15,264	68,356
Income/(loss) attributable to common stockholders per weighted average common share (a):				
Basic	\$ 0.09	\$ 0.03	\$ 0.06	\$ 0.26
Diluted	\$ 0.09	\$ 0.03	\$ 0.06	\$ 0.25
Weighted average number of common shares outstanding:				
Basic	266,790	266,972	267,056	267,270
Diluted	268,688	268,859	269,062	269,221

(a) Due to the quarterly pro-rata calculation of noncontrolling interest and rounding, the sum of the quarterly per share and/or dollar amounts may not equal the annual totals.

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Report of Independent Registered Public Accounting Firm

The Partners
United Dominion Realty, L.P.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of United Dominion Realty, L.P. (the “Partnership”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income/loss, changes in capital, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor since 2010.

Denver, Colorado
February 19, 2019

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

	December 31, 2018	December 31, 2017
ASSETS		
Real estate owned:		
Real estate held for investment	\$ 3,811,985	\$ 3,816,956
Less: accumulated depreciation	(1,658,161)	(1,543,652)
Total real estate owned, net of accumulated depreciation	2,153,824	2,273,304
Cash and cash equivalents	125	293
Restricted cash	13,563	12,579
Investment in unconsolidated entities	103,026	76,907
Other assets	34,052	32,490
Total assets	\$ 2,304,590	\$ 2,395,573
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	\$ 26,929	\$ 159,845
Notes payable due to the General Partner	700,115	273,334
Real estate taxes payable	2,699	2,683
Accrued interest payable	32	629
Security deposits and prepaid rent	15,250	13,949
Distributions payable	59,461	57,025
Accounts payable, accrued expenses, and other liabilities	14,215	12,978
Total liabilities	818,701	520,443
Commitments and contingencies (Note 10)		
Capital:		
Partners' capital:		
General partner:		
110,883 OP Units outstanding at December 31, 2018 and December 31, 2017	950	955
Limited partners:		
183,525,660 and 183,240,041 OP Units outstanding at December 31, 2018 and December 31, 2017, respectively	1,471,120	1,463,340
Total partners' capital	1,472,070	1,464,295
Advances (to)/from the General Partner	—	397,899
Noncontrolling interests	13,819	12,936
Total capital	1,485,889	1,875,130
Total liabilities and capital	\$ 2,304,590	\$ 2,395,573

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
REVENUES:			
Rental income	\$ 431,920	\$ 419,377	\$ 404,415
OPERATING EXPENSES:			
Property operating and maintenance	67,400	67,493	65,562
Real estate taxes and insurance	47,140	45,043	41,732
Property management	11,878	11,533	11,122
Other operating expenses	8,864	6,833	6,059
Real estate depreciation and amortization	143,481	152,473	147,074
General and administrative	16,889	17,875	18,808
Casualty-related charges/(recoveries), net	951	1,922	484
Total operating expenses	296,603	303,172	290,841
Gain/(loss) on sale of real estate owned	75,507	41,272	33,180
Operating income	210,824	157,477	146,754
Income/(loss) from unconsolidated entities	43,496	(19,256)	(37,425)
Interest expense	(8,733)	(18,156)	(17,855)
Interest expense on notes payable due to the General Partner	(14,102)	(12,210)	(12,212)
Net income/(loss)	231,485	107,855	79,262
Net (income)/loss attributable to noncontrolling interests	(1,722)	(1,548)	(1,444)
Net income/(loss) attributable to OP unitholders	\$ 229,763	\$ 106,307	\$ 77,818
Net income/(loss) per weighted average OP Unit - basic and diluted	\$ 1.25	\$ 0.58	\$ 0.42
Weighted average OP Units outstanding - basic and diluted	183,609	183,344	183,279

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Net income/(loss)	\$ 231,485	\$ 107,855	\$ 79,262
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:			
Other comprehensive income/(loss) - derivative instruments:			
Unrealized holding gain/(loss)	—	—	(4)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	—	106	12
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	—	106	8
Comprehensive income/(loss)	231,485	107,961	79,270
Comprehensive (income)/loss attributable to noncontrolling interests	(1,722)	(1,548)	(1,444)
Comprehensive income/(loss) attributable to OP unitholders	<u>\$ 229,763</u>	<u>\$ 106,413</u>	<u>\$ 77,826</u>

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partner	Limited Partners and LTIP Units	UDR, Inc		Accumulated Other Comprehensive Income/(Loss), net	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
			Limited Partner	General Partner					
Balance at December 31, 2015	\$ 64,409	\$ 268,481	\$ 1,379,525	\$ 1,110	\$ (113)	\$ 1,713,412	\$ (11,270)	\$ 19,188	\$ 1,721,330
Net income/(loss)	743	3,099	73,928	48	—	77,818	—	1,444	79,262
Distributions	(2,328)	(8,831)	(205,472)	(132)	—	(216,763)	—	—	(216,763)
OP Unit redemptions for common shares of UDR	—	(175)	175	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	1,077	3,619	(4,696)	—	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	3,735	—	—	—	3,735	—	—	3,735
Unrealized gain/(loss) on derivative financial investments	—	—	—	—	—	—	—	6	6
Net change in advances (to)/from the General Partner	—	—	—	—	—	—	30,929	—	30,929
Balance at December 31, 2016	63,901	269,928	1,243,460	1,026	(113)	1,578,202	19,659	20,638	1,618,499
Net income/(loss)	1,015	4,270	100,957	65	—	106,307	—	1,548	107,855
Distributions	(2,328)	(9,704)	(215,922)	(136)	—	(228,090)	—	—	(228,090)
OP Unit redemptions for common shares of UDR	—	(288)	288	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	4,886	11,599	(16,485)	—	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	7,763	—	—	—	7,763	—	—	7,763
Unrealized gain/(loss) on derivative financial investments	—	—	—	—	113	113	—	(6)	107
Net change in advances (to)/from the General Partner	—	—	—	—	—	—	378,240	(9,244)	368,996
Balance at December 31, 2017	\$ 67,474	\$ 283,568	\$ 1,112,298	\$ 955	\$ —	\$ 1,464,295	\$ 397,899	\$ 12,936	\$ 1,875,130
Net income/(loss)	2,221	9,977	217,426	139	—	229,763	—	1,722	231,485
Distributions	(2,328)	(10,718)	(224,637)	(144)	—	(237,827)	—	—	(237,827)
OP Unit redemptions for common shares of UDR	—	(416)	416	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	2,034	4,295	(6,329)	—	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	15,839	—	—	—	15,839	—	—	15,839
Conversion of Advances (to)/from the General Partner to notes payable	—	—	—	—	—	—	(257,204)	—	(257,204)
Net change in advances (to)/from the General Partner	—	—	—	—	—	—	(140,695)	(839)	(141,534)
Balance at December 31, 2018	\$ 69,401	\$ 302,545	\$ 1,099,174	\$ 950	\$ —	\$ 1,472,070	\$ —	\$ 13,819	\$ 1,485,889

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Operating Activities			
Net income/(loss)	\$ 231,485	\$ 107,855	\$ 79,262
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	143,481	152,473	147,074
(Gain)/loss on sale of real estate owned	(75,507)	(41,272)	(33,180)
(Income)/loss from unconsolidated entities	(43,496)	19,256	37,425
Other	1,771	5,642	1,769
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	(3,260)	(3,992)	(3,251)
Increase/(decrease) in operating liabilities	1,194	(4,705)	(158)
Net cash provided by/(used in) operating activities	<u>255,668</u>	<u>235,257</u>	<u>228,941</u>
Investing Activities			
Acquisition of real estate assets	—	(137,332)	—
Proceeds from sales of real estate investments, net	98,533	67,985	44,553
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(44,227)	(53,346)	(69,902)
Distributions received from unconsolidated entities	17,377	16,704	15,894
Net cash provided by/(used in) investing activities	<u>71,683</u>	<u>(105,989)</u>	<u>(9,455)</u>
Financing Activities			
Advances (to)/from the General Partner, net	(348,381)	163,196	(180,391)
Payments on secured debt	(133,205)	(275,345)	(30,322)
Issuance of notes payable to the General Partner	169,577	—	—
Distributions paid to partnership unitholders	(12,705)	(11,694)	(10,770)
Other	(1,821)	(5,003)	—
Net cash provided by/(used in) financing activities	<u>(326,535)</u>	<u>(128,846)</u>	<u>(221,483)</u>
Net increase/(decrease) in cash, cash equivalents, and restricted cash	816	422	(1,997)
Cash, cash equivalents, and restricted cash, beginning of year	12,872	12,450	14,447
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 13,688</u>	<u>\$ 12,872</u>	<u>\$ 12,450</u>
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	\$ 17,173	\$ 24,331	\$ 22,922
Non-cash transactions:			
Reallocation of credit facilities debt from the General Partner	—	—	12,292
Development costs and capital expenditures incurred but not yet paid	2,056	2,032	5,098
LTIP Unit grants	15,839	7,763	3,735
Distributions declared but not yet paid	59,461	57,025	54,192
Conversion of Advances (to)/from the General Partner to notes payable	257,204	—	—
The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:			
Cash, cash equivalents, and restricted cash, beginning of year			
Cash and cash equivalents	\$ 293	\$ 756	\$ 3,103
Restricted cash	12,579	11,694	11,344
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 12,872</u>	<u>\$ 12,450</u>	<u>\$ 14,447</u>
Cash, cash equivalents, and restricted cash, end of year			
Cash and cash equivalents	\$ 125	\$ 293	\$ 756
Restricted cash	13,563	12,579	11,694
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 13,688</u>	<u>\$ 12,872</u>	<u>\$ 12,450</u>

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 years ended December 31, 2018, 2017, and 2016, rental revenues of the Operating Partnership represented 42%, 43%, and 43%, respectively, of the General Partner’s consolidated rental revenues. As of December 31, 2018, the Operating Partnership’s apartment portfolio consisted of 52 communities located in 15 markets consisting of 16,434 apartment homes.

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

As of December 31, 2018, there were 183,636,543 OP Units outstanding, of which 174,248,699, or 94.9%, were owned by UDR and affiliated entities and 9,387,844, or 5.1%, were owned by non-affiliated limited partners. There were 183,350,924 OP Units outstanding as of December 31, 2017, of which 174,237,688, or 95.0%, were owned by UDR and affiliated entities and 9,113,236, or 5.0%, were owned by non-affiliated limited partners. See Note 9, *Capital Structure*.

As sole general partner of the Operating Partnership, UDR owned all 110,883 general partner OP units, or 0.1%, of the total OP Units outstanding as of December 31, 2018 and 2017. At December 31, 2018 and 2017, there were 183,525,660 and 183,240,041, respectively, of limited partner OP Units outstanding, of which 1,873,332 were Class A Limited Partnership Units as of both periods. Of the limited partner OP Units outstanding, UDR owned 174,137,816, or 94.8%, and 174,126,805, or 95.0%, at December 31, 2018 and 2017, respectively. The remaining 9,387,844, or 5.1%, and 9,113,236, or 5.0%, of the limited partner OP Units outstanding were held by non-affiliated partners at December 31, 2018 and 2017, respectively, of which 1,751,671 were Class A Limited Partnership units as of both periods. See Note 9, *Capital Structure*.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2018, the Securities and Exchange Commission (“SEC”) adopted amendments to update and simplify disclosure requirements as well as eliminate outdated, superseded and/or redundant requirements with US GAAP (“SEC Simplification”). The amendments are effective for all SEC filings made on or after November 5, 2018. As a result of the amendments, the Operating Partnership will no longer provide ratios of earnings to fixed charges in our exhibits to our annual and quarterly filings with the SEC. Additionally, the amendments removed certain SEC guidance that conflicted with GAAP guidance, under which the Operating Partnership previously followed SEC guidance and recorded *Gain/(loss) on the sale of real estate owned after Income from continuing operations*. The Operating Partnership has reclassified *Gain/(loss) on the sale of real estate owned* within *Operating income*.

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, *Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities*. The ASU aimed to better align a company’s financial reporting for hedging activities with the economic objectives of those

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2018

activities. The updated standard would have been effective for the Operating Partnership on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU is permitted. The Operating Partnership early adopted the guidance on January 1, 2018; however, the updated standard did not have a material impact on the consolidated financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The ASU addressed the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard was effective for the Operating Partnership on January 1, 2018, and was applied retrospectively to all periods presented. The updated standard did not have a material impact on the consolidated financial statements of the Operating Partnership. Related disclosures were updated pursuant to the requirements of the ASU.

As a result of the adoption of ASU 2016-18, for the years ended December 31, 2017 and 2016, the following line items in the following amounts were reclassified on the Consolidated Statements of Cash Flows (*in thousands*):

	Year ended December 31,	
	2017	2016
<i>(Increase)/decrease in operating assets</i>	\$ 794	\$ 259
<i>Net cash provided by / (used in) operating activities</i>	\$ 794	\$ 259
<i>Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement</i>	\$ 91	\$ 91
<i>Net cash provided by / (used in) investing activities</i>	\$ 91	\$ 91
<i>Net increase/(decrease) in cash, cash equivalents, and restricted cash</i>	\$ 885	\$ 350

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the Operating Partnership on January 1, 2020; however, early adoption of the ASU is permitted on January 1, 2019. In November 2016, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which amends the transition requirements and scope of ASU 2016-13 and clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. The Operating Partnership is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases on their balance sheets. Lessees of operating leases will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. The standard became effective for the Operating Partnership on January 1, 2019.

The Operating Partnership is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures. The Operating Partnership intends to elect the following package of practical expedients provided by the standard which includes: (i) an entity need not reassess whether any expired or existing contract is a lease or contains a lease, (ii) an entity need not reassess the lease classification of any

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2018

expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases. The Operating Partnership also plans to elect the short-term lease exception provided for in the standard and therefore will only recognize right-of-use assets and lease liabilities for leases with a term greater than one year.

The Operating Partnership anticipates recognizing right-of-use assets and related lease liabilities between \$85.0 million and \$150.0 million on our consolidated opening balance sheets as of January 1, 2019 upon adoption of the standard. Our anticipated range of right-of-use assets and related lease liabilities to be recognized as disclosed above may change as a result of updates to the projected future minimum lease payments. The lease liabilities represent the present value of the remaining minimum lease payments related to ground leases for communities where we are the lessee. The right-of-use assets represent the lease liabilities plus any prepaid lease payments and intangible assets for ground leases acquired in the purchase of real estate. The Operating Partnership plans to continue recognizing lease expense for these leases in a manner similar to current accounting upon adoption of the standard based on our election of the package of practical expedients. However, in the event we modify existing ground leases and/or enter into new ground leases subsequent to the adoption of the standard, such leases would likely be classified as finance leases under the standard and require expense recognition based on the effective interest method. Under the standard, initial direct costs for both lessees and lessors would include only those costs that are incremental to the arrangement and would not have been incurred if the lease had not been obtained. As a result, subsequent to the adoption of the standard, we will be required to expense internal leasing costs as incurred.

In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, *Leases*. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Operating Partnership intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The Operating Partnership also intends to elect the transition option.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 amended the FASB Accounting Standards Codification (“ASC”) by creating ASC Topic 606, *Revenue from Contracts with Customers*. The standard provided companies with a single model for use in accounting for revenue arising from contracts with customers and replaced most existing revenue recognition guidance in U.S. GAAP, including industry-specific revenue guidance. The standard specifically excluded lease contracts. The ASU allowed for the use of either the full or modified retrospective transition method. ASC Topic 606 was effective for the Operating Partnership on January 1, 2018, at which time the Operating Partnership adopted it using the modified retrospective approach. However, as the majority of the Operating Partnership’s revenue is from rental income related to leases, the ASU did not have a material impact on the consolidated financial statements. Related disclosures have been provided and/or updated pursuant to the requirements of the ASU.

Real Estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and other costs incurred during their development, acquisition and redevelopment.

Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

The Operating Partnership purchases real estate investment properties and records the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. When recording the acquisition of a community, we first assign fair value to the estimated intangible value of the existing lease agreements and then to the

UNITED DOMINION REALTY, L.P.
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DECEMBER 31, 2018

estimated value of the land, building and fixtures assuming the community is vacant. The Operating Partnership estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up. Depreciation on the building is based on the expected useful life of the asset and the in-place leases are amortized over their remaining average contractual life. Property acquisition costs are capitalized as incurred if the acquisition does not meet the definition of a business.

Quarterly or when changes in circumstances warrant, the Operating Partnership will assess our real estate properties for indicators of impairment. In determining whether the Operating Partnership has indicators of impairment in our real estate assets, we assess whether the long-lived asset's carrying value exceeds the community's undiscounted future cash flows, which is representative of projected net operating income ("NOI") plus the residual value of the community. Our future 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. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the carrying amount of the asset over its estimated fair value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates and capitalization rates, industry trends and reference to market rates and transactions.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the asset less estimated cost to sell is less than the carrying value of the asset. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale with the closing expected to occur within the next twelve months. Real estate held for disposition is carried at the lower of cost, net of accumulated depreciation, or fair value, less the cost to sell, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for disposition properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for disposition properties are capitalized at cost. Depreciation is not recorded on real estate held for disposition.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which are 35 to 55 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as *Total real estate owned, net of accumulated depreciation*. The Operating Partnership capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, for the years ended December 31, 2018, 2017, and 2016 were less than \$0.1 million, \$0.5 million, and \$0.6 million, respectively. During the years ended December 31, 2018, 2017, and 2016, total interest capitalized was less than \$0.1 million, less than \$0.1 million, and \$0.2 million, respectively. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The majority of the Operating Partnership's cash and cash equivalents are held at major commercial banks.

Restricted Cash

Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

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DECEMBER 31, 2018

Revenue

On January 1, 2018, the Operating Partnership adopted ASC Topic 606, *Revenue from Contracts with Customers*, utilizing the modified retrospective method, under which only contracts entered into after the effective date or not complete as of the effective date are subject to the new standard and an adjustment to the opening balance of partners' capital is made to recognize any required adjustments. As a result of the adoption, the Operating Partnership did not make an adjustment to partners' capital because no open contracts required different treatment under the new standard.

Revenue is measured based on consideration specified in contracts with customers. The Operating Partnership recognizes revenue when it satisfies a performance obligation by providing the services specified in a contract to the customer.

The following is a description of the principal streams from which the Operating Partnership generates its revenue:

Lease Revenue

Lease revenue related to leases is recognized on an accrual basis when due from residents or tenants in accordance with ASC 840, *Leases*. Rental payments are generally due on a monthly basis and recognized on a straight-line basis over the reasonably assured lease term. In addition, in circumstances where a lease incentive is provided to tenants, the incentive is recognized as a reduction of lease revenue on a straight-line basis over the reasonably assured lease term.

Reimbursements Revenue

Reimbursements revenue includes all pass-through revenue from retail and residential leases and common area maintenance reimbursements from retail leases. Reimbursements revenue is recognized on a gross basis as earned as the Operating Partnership has determined it is the principal provider of the services.

Other Revenue

Other revenue is generated by services provided by the Operating Partnership to its retail and residential tenants and other unrelated third parties. These fees are generally recognized as earned.

Real Estate Sales Gain Recognition

For sale transactions resulting in a transfer of a controlling financial interest of a property, the Operating Partnership generally derecognizes the related assets and liabilities from its Consolidated Balance Sheets and records the gain or loss in the period in which the transfer of control occurs. If control of the property has not transferred to the counterparty, the criteria for derecognition are not met and the Operating Partnership will continue to recognize the related assets and liabilities on its Consolidated Balance Sheets.

Sale transactions to entities in which the Operating Partnership sells a controlling financial interest in a property but retains a noncontrolling interest are accounted for as partial sales. Partial sales resulting in a change in control are accounted for at fair value and a full gain or loss is recognized. Therefore, the Operating Partnership will record a gain or loss on the partial interest sold, and the initial measurement of our retained interest will be accounted for at fair value.

Sales of real estate to joint ventures or other noncontrolled investees are also accounted for at fair value and the Operating Partnership will record a full gain or loss in the period the property is contributed.

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Disaggregation of Revenue

Rental income, as disclosed on the Consolidated Statements of Operations, is disaggregated by principal revenue stream and by reportable segment in the following tables (*dollars in thousands*):

	December 31, (a)		
	2018	2017	2016
Lease Revenue (b)			
Same-Store Communities			
West Region	\$ 227,233	\$ 217,033	\$ 206,660
Mid-Atlantic Region	56,168	54,891	53,588
Northeast Region	52,039	51,716	50,314
Southeast Region	46,075	43,993	42,342
Non-Mature Communities/Other	16,421	18,912	20,029
Total segment and consolidated lease revenue	<u>\$ 397,936</u>	<u>\$ 386,545</u>	<u>\$ 372,933</u>
Reimbursements Revenue			
Same-Store Communities			
West Region	\$ 11,652	\$ 10,994	\$ 10,284
Mid-Atlantic Region	2,456	2,384	2,227
Northeast Region	1,697	1,867	1,682
Southeast Region	3,057	2,953	2,907
Non-Mature Communities/Other	2,084	2,019	1,992
Total segment and consolidated reimbursements revenue	<u>\$ 20,946</u>	<u>\$ 20,217</u>	<u>\$ 19,092</u>
Other Revenue			
Same-Store Communities			
West Region	\$ 7,162	\$ 6,995	\$ 6,595
Mid-Atlantic Region	1,765	1,731	1,748
Northeast Region	1,013	947	1,040
Southeast Region	2,764	2,640	2,543
Non-Mature Communities/Other	334	302	464
Total segment and consolidated other revenue	<u>\$ 13,038</u>	<u>\$ 12,615</u>	<u>\$ 12,390</u>
Total Revenue			
Same-Store Communities			
West Region	\$ 246,047	\$ 235,022	\$ 223,539
Mid-Atlantic Region	60,389	59,006	57,563
Northeast Region	54,749	54,530	53,036
Southeast Region	51,896	49,586	47,792
Non-Mature Communities/Other	18,839	21,233	22,485
Total segment and consolidated total revenue	<u>\$ 431,920</u>	<u>\$ 419,377</u>	<u>\$ 404,415</u>

(a) Same-Store Community population consisted of 16,216 apartment homes. *Same-Store Community* is defined in Note 11, *Reportable Segments*.

(b) Lease Revenue is subject to recognition under ASC 840, *Leases*.

Derivative Financial Instruments

The General Partner utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. Derivative financial instruments associated with the Operating Partnership's allocation of the General Partner's debt are recorded on our Consolidated Balance Sheets as either an asset or liability and measured quarterly at their fair value. The changes in fair value for the General Partner's cash flow hedges allocated to the Operating Partnership that are deemed effective are reflected in other comprehensive income/(loss) and for non-designated derivative financial instruments in earnings. The ineffective component of cash flow hedges, if any, is recorded in earnings.

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Noncontrolling Interests

The noncontrolling interests represent the General Partner's interests in certain consolidated subsidiaries and are presented in the capital section of the Consolidated Balance Sheets since these interests are not convertible or redeemable into any other ownership interests of the Operating Partnership.

Income Taxes

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

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

Management of the Operating Partnership has reviewed all open tax years (2015 through 2017) of tax jurisdictions and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

As of December 31, 2017, management of the Operating Partnership had completed its review of the effects of the Tax Cuts and Jobs Act and had determined that the impact to the Operating Partnership was not material.

Discontinued Operations

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

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

Allocation of General and Administrative Expenses

The Operating Partnership is charged directly for general and administrative expenses it incurs. The Operating Partnership is also charged with other general and administrative expenses that have been allocated by the General Partner to each of its subsidiaries, including the Operating Partnership, based on reasonably anticipated benefits to the parties. (See Note 6, *Related Party Transactions*.)

Advertising Costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item *Property operating and maintenance*. During the years ended December 31, 2018, 2017, and 2016, total advertising expense from continuing operations was \$1.9 million, \$2.1 million, and \$2.2 million, respectively.

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Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in capital during each period from transactions and other events and circumstances from nonowner sources, including all changes in capital during a period except for those resulting from investments by or distributions to unitholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the years ended December 31, 2018, 2017, and 2016, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in *Interest expense* on the Consolidated Statements of Operations. See Note 8, *Derivatives and Hedging Activity*, for further discussion.

Use of Estimates

The preparation of these financial statements in accordance with 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 financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Market Concentration Risk

The Operating Partnership is subject to increased exposure from economic and other competitive factors specific to those markets where it holds a significant percentage of the carrying value of its real estate portfolio at December 31, 2018, the Operating Partnership held greater than 10% of the carrying value of its real estate portfolio in each of the Orange County, California, San Francisco, California; Metropolitan D.C. and New York, New York markets.

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. At December 31, 2018, the Operating Partnership owned and consolidated 52 communities in nine states plus the District of Columbia totaling 16,434 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Land	\$ 711,256	\$ 719,410
Depreciable property — held and used:		
Land improvements	92,000	89,331
Buildings, improvements, and furniture, fixtures and equipment	3,008,729	3,008,215
Real estate owned	3,811,985	3,816,956
Accumulated depreciation	(1,658,161)	(1,543,652)
Real estate owned, net	<u>\$ 2,153,824</u>	<u>\$ 2,273,304</u>

Acquisitions

The Operating Partnership did not have any acquisitions of real estate during the year ended December 31, 2018.

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During the year ended December 31, 2017, the Operating Partnership acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately \$141.5 million. As a result of the acquisition, the Operating Partnership increased its real estate owned by approximately \$139.0 million and recorded approximately \$2.5 million of in-place lease intangibles. The acquisition was partially funded with tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986 (“Section 1031 exchanges”).

Dispositions

In December 2018, the Operating Partnership sold a commercial office building in Fairfax, Virginia for gross proceeds of \$9.3 million, resulting in a gain of \$5.2 million.

In February 2018, the Operating Partnership sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of \$90.5 million, resulting in a gain of \$70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

During the year ended December 31, 2017, the Operating Partnership sold two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California for gross proceeds of \$69.0 million, resulting in a gain of \$41.3 million.

Other Activity

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

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

4. UNCONSOLIDATED ENTITIES

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

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

As of December 31, 2018, the DownREIT Partnership owned 12 communities with 5,657 apartment homes. The Operating Partnership’s investment in the DownREIT Partnership was \$103.0 million and \$76.9 million as of December 31, 2018 and 2017, respectively.

In December 2018, the DownREIT Partnership sold an operating community in Fairfax, Virginia with a total of 604 apartment homes for gross proceeds of \$150.7 million. As a result, the Operating Partnership recorded a gain of \$51.1 million, which is included in *Income/(loss) from unconsolidated entities* on the Consolidated Statement of Operations.

Financial statements required under Rule 3-09 of Regulation S-X for the DownREIT Partnership are included as Exhibit 99.1 to this report.

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5. DEBT, NET

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of December 31, 2018 and 2017 (*dollars in thousands*):

	Principal Outstanding		As of December 31, 2018		
	December 31, 2018	December 31, 2017	Weighted Average Interest Rate	Weighted Average Years to Maturity	Communities Encumbered
Fixed Rate Debt					
Fannie Mae credit facilities	\$ —	\$ 133,205	— %	—	—
Deferred financing costs	—	(282)			
Total fixed rate secured debt, net	—	132,923	— %	—	—
Variable Rate Debt					
Tax-exempt secured note payable	27,000	27,000	2.43 %	13.2	1
Deferred financing costs	(71)	(78)			
Total variable rate secured debt, net	26,929	26,922	3.03 %	13.2	1
Total Secured Debt, Net	\$ 26,929	\$ 159,845	3.03 %	13.2	1

During the year ended December 31, 2018, \$133.2 million of funds borrowed under the Fannie Mae credit facilities and owed by the Operating Partnership were prepaid. The Operating Partnership incurred prepayment costs of \$1.8 million during the year ended December 31, 2018, which were included in *Interest expense* on the Consolidated Statements of Operations.

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

	December 31, 2018	December 31, 2017
Borrowings outstanding	\$ —	\$ 133,205
Weighted average borrowings during the period ended	99,904	223,347
Maximum daily borrowings during the period ended	133,205	408,549
Weighted average interest rate during the period ended	5.3 %	4.6 %
Interest rate at the end of the period	— %	5.3 %

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Operating Partnership did not have any unamortized fair value adjustments associated with the fixed rate debt instruments on the Operating Partnership's properties.

Variable Rate Debt

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures March 2032. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 2.43% as of December 31, 2018.

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of \$1.1 billion, an unsecured commercial paper program with an aggregate borrowing capacity of \$500 million, \$300 million of medium-term notes due October 2020, \$400 million of medium-term notes due January 2022, a \$350 million term loan due September 2023, \$300 million of medium-term notes due July 2024, \$300

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million of medium-term notes due October 2025, \$300 million of medium-term notes due September 2026, \$300 million of medium-term notes due July 2027, \$300 million of medium-term notes due January 2028, and \$300 million of medium-term notes due January 2029. As of December 31, 2018 and 2017, the General Partner did not have an outstanding balance under the unsecured revolving credit facility and had \$101.1 million and \$300.0 million, respectively, outstanding under its unsecured commercial paper program.

6. RELATED PARTY TRANSACTIONS

Advances (To)/From the General Partner

The Operating Partnership participates in the General Partner's central cash management program, wherein all the Operating Partnership's cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. Prior to December 2018, the net *Advances (to)/from the General Partner* were reflected as increases/(decreases) of capital on the Consolidated Balance Sheets.

In December 2018, the Operating Partnership converted the net balance of *Advances(to)/from the General Partner* into a revolving note payable with the General Partner. (See "Notes Payable to the General Partner" section below for further detail).

As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net *Advances (to)/from the General Partner* of zero and \$397.9 million as of December 31, 2018 and 2017, respectively.

Allocation of General and Administrative Expenses

The General Partner shares various general and administrative costs, employees and other overhead costs with the Operating Partnership including legal assistance, acquisitions analysis, marketing, human resources, IT, accounting, rent, supplies and advertising, and allocates these costs to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on the reasonably anticipated benefits to the parties. The general and administrative expenses allocated to the Operating Partnership by UDR were \$13.5 million, \$14.0 million, and \$15.4 million during the years ended December 31, 2018, 2017 and 2016, respectively, and are included in *General and administrative* on the Consolidated Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the years ended December 31, 2018, 2017 and 2016, the Operating Partnership reimbursed the General Partner \$15.2 million, \$15.4 million, and \$14.5 million, respectively, for shared services related to corporate level property management costs incurred by the General Partner. These shared cost reimbursements are initially recorded within the line item *General and administrative* on the Consolidated Statements of Operations, and a portion related to management costs is reclassified to *Property management* on the Consolidated Statements of Operations. (See further discussion below.)

Shared Services

The Operating Partnership self-manages its own properties and is party to an Inter-Company Employee and Cost Sharing Agreement with the General Partner. This agreement provides for reimbursements to the General Partner for the Operating Partnership's allocable share of costs incurred by the General Partner for (a) shared services of corporate level property management employees and related support functions and costs, and (b) general and administrative costs. As discussed above, the reimbursement for shared services is classified in *Property management* on the Consolidated Statements of Operations.

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Notes Payable to the General Partner

The following table summarizes the Operating Partnership's Notes payable due to General Partner as of December 31, 2018 and 2017 (*dollars in thousands*):

	Interest rate at December 31, 2018	Balance Outstanding	
		December 31, 2018	December 31, 2017
Note due August 2021	5.34 %	\$ 5,500	\$ 5,500
Note due December 2023	5.18 %	83,196	83,196
Note due April 2026	4.12 %	184,638	184,638
Note due November 2028 (a)	4.69 %	133,205	—
Note due December 2028 (b)	3.72 %	293,576	—
Total notes payable due to General Partner		\$ 700,115	\$ 273,334

- (a) On October 31, 2018, the Operating Partnership entered into an unsecured note payable with the General Partner with an aggregate commitment of \$133.2 million. Interest is incurred at a rate of 4.69% and is paid monthly. The note matures on November 1, 2028.
- (b) In December 2018, the Operating Partnership converted the remaining outstanding portion of the *Advances (to)/from the General Partner* capital balance in connection with entering into an unsecured revolving note payable with the General Partner. There is no limit on the total commitments under this note. The initial balance upon conversion of the note was \$257.2 million and the balance as of December 31, 2018 was \$293.6 million. Interest is incurred on the unpaid principal balance at a variable interest rate equivalent to the General Partner's weighted average interest rate on borrowings, or 3.72% as of December 31, 2018. The note matures on December 1, 2028. To the extent there is an outstanding principal balance on the revolving note payable, the General Partner, at its discretion, can demand payment at any time prior to the stated maturity date of the note.

Certain limited partners of the Operating Partnership have provided guarantees or reimbursement agreements related to these notes payable. The guarantees were provided by the limited partners in conjunction with their contribution of properties to the Operating Partnership. The Operating Partnership recognized interest expense on the notes payable of \$14.1 million, \$12.2 million and \$12.2 million for the years ended December 31, 2018, 2017, and 2016, respectively.

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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The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of December 31, 2018 and 2017 are summarized as follows (*dollars in thousands*):

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2018	Fair Value Estimate at December 31, 2018	Fair Value at December 31, 2018, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Secured debt instruments - variable rate: (a)					
Tax-exempt secured notes payable	\$ 27,000	\$ 27,000	\$ —	\$ —	\$ 27,000
Total liabilities	\$ 27,000	\$ 27,000	\$ —	\$ —	\$ 27,000

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2017	Fair Value Estimate at December 31, 2017	Fair Value at December 31, 2017, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Secured debt instruments - fixed rate: (a)					
Fannie Mae credit facilities	\$ 133,205	\$ 137,150	\$ —	\$ —	\$ 137,150
Secured debt instruments - variable rate: (a)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Total liabilities	\$ 160,205	\$ 164,150	\$ —	\$ —	\$ 164,150

(a) See Note 5, *Debt, Net*.

There were no transfers into or out of each of the levels of the fair value hierarchy during the year ended December 31, 2018.

Financial Instruments Carried at Fair Value

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

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

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Although the General Partner, on behalf of the Operating Partnership, has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2018 and 2017, the Operating Partnership has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Operating Partnership has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Operating Partnership made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Financial Instruments Not Carried at Fair Value

As of December 31, 2018, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments, which includes debt instruments, are classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations.

The Operating Partnership records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by the future operation and disposition of those assets are less than the net book value of those assets. Cash flow estimates are based upon historical results adjusted to reflect management's best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair value. The General Partner's estimates of fair value represent management's estimates based upon Level 3 inputs such as industry trends and reference to market rates and transactions. The Operating Partnership did not incur any other-than-temporary impairments in the value of its investments in unconsolidated entities during the years ended December 31, 2018 and 2017.

8. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

A portion of the General Partner's interest rate derivatives are owed by the Operating Partnership based on the General Partner's underlying debt instruments owed by the Operating Partnership. (See Note 5, *Debt, Net.*)

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The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in *Accumulated other comprehensive income/(loss), net* on the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2017 and 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of and during the year ended December 31, 2018, no derivatives designated as cash flow hedges were held by the Operating Partnership.

During the year ended December 31, 2017, the Operating Partnership recognized a loss of \$0.1 million reclassified from *Accumulated other comprehensive income/(loss), net* to *Interest expense* due to the de-designation of a cash flow hedge. No amounts were de-designated during the years ended December 31, 2018 and 2016.

Amounts reported in *Accumulated other comprehensive income/(loss), net* related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner's variable-rate debt that is owed by the Operating Partnership. As of December 31, 2018, no derivatives designated as cash flow hedges were held by the Operating Partnership and, as a result, no amounts are anticipated to be reclassified as an increase to interest expense through December 31, 2019.

Derivatives not designated as hedges are not speculative and are used to manage the Operating Partnership's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted no gain or loss for the year ended December 31, 2018 and a loss of less than \$0.1 million for each of the years ended December 31, 2017 and 2016.

As of December 31, 2018, we had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (*dollars in thousands*):

Product	Number of Instruments	Notional
Interest rate caps	1	\$ 19,880

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

As of December 31, 2018 and December 31, 2017, the fair value of the Operating Partnership's derivative financial instruments was zero.

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 years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

Derivatives in Cash Flow Hedging Relationships	<i>Unrealized holding gain/(loss) Recognized in OCI</i>			Gain/(Loss) Reclassified from Accumulated OCI into <i>Interest expense</i>			Gain/(Loss) Recognized in <i>Interest expense</i> (Amount Excluded from Effectiveness Testing)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Interest rate products	\$ —	\$ —	\$ (4)	\$ —	\$ —	\$ (12)	\$ —	\$ (106)	\$ —
							Year Ended December 31,		
							2018	2017	2016
Total amount of <i>Interest expense</i> presented on the Consolidated Statements of Operations							\$ 8,733	\$ 18,156	17,855

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Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net		
	2018	2017	2016
Interest rate products	\$ —	\$ (1)	\$ (3)

Credit-risk-related Contingent Features

The General Partner has agreements with its derivative counterparties that contain a provision where the General Partner could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the General Partner's default on the indebtedness.

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

9. CAPITAL STRUCTURE

General Partnership Units

The General Partner has complete discretion to manage and control the operations and business of the Operating Partnership, which includes but is not limited to the acquisition and disposition of real property, construction of buildings and making capital improvements, and the borrowing of funds from outside lenders or UDR and its subsidiaries to finance such activities. The General Partner can generally authorize, issue, sell, redeem or purchase any OP Unit or securities of the Operating Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of OP Units, the class or one or more series of classes, with designations, preferences, participating, optional or other special rights, powers and duties including rights, powers and duties senior to limited partnership interests without approval of any limited partners except holders of Class A Limited Partnership Units. There were 110,883 General Partnership units outstanding at December 31, 2018 and 2017, all of which were held by UDR.

Limited Partnership Units

As of December 31, 2018 and 2017, there were 183,525,660 and 183,240,041, respectively, of limited partnership units outstanding, of which 1,873,332 were Class A Limited Partnership Units for both periods. UDR owned 174,137,816, or 94.8%, and 174,126,805, or 95.0%, of OP Units outstanding at December 31, 2018 and 2017, respectively, of which 121,661 were Class A Limited Partnership Units for both periods. The remaining 9,387,844, or 5.1%, and 9,113,236, or 5.0%, of OP Units outstanding were held by non-affiliated partners at December 31, 2018 and 2017, respectively, of which 1,751,671 were Class A Limited Partnership Units for both periods.

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

The non-affiliated limited partners' capital is adjusted to redemption value at the end of each reporting period with the corresponding offset against UDR's limited partner capital account based on the redemption rights noted above. The aggregate value upon redemption of the then-outstanding OP Units held by limited partners was \$371.9 million and \$351.0 million as of December 31, 2018 and 2017, respectively, based on the value of UDR's common stock at each

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period end. A limited partner has no right to receive any distributions from the Operating Partnership on or after the date of redemption of its OP Units.

Class A Limited Partnership Units

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

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

The following table shows OP Units outstanding and OP Unit activity as of and for the years ended December 31, 2018, 2017, and 2016:

			<u>UDR, Inc.</u>			<u>Total</u>
	<u>Class A Limited Partners</u>	<u>Limited Partners</u>	<u>Limited Partner</u>	<u>Class A Limited Partner</u>	<u>General Partner</u>	
Ending balance at December 31, 2015	1,751,671	7,301,628	173,992,855	121,661	110,883	183,278,698
OP redemptions for UDR stock	—	(4,685)	4,685	—	—	—
Ending balance at December 31, 2016	1,751,671	7,296,943	173,997,540	121,661	110,883	183,278,698
Vesting of LTIP Units	—	72,226	—	—	—	72,226
OP redemptions for UDR stock	—	(7,604)	7,604	—	—	—
Ending balance at December 31, 2017	1,751,671	7,361,565	174,005,144	121,661	110,883	183,350,924
Vesting of LTIP Units	—	285,619	—	—	—	285,619
OP redemptions for UDR stock	—	(11,011)	11,011	—	—	—
Ending balance at December 31, 2018	<u>1,751,671</u>	<u>7,636,173</u>	<u>174,016,155</u>	<u>121,661</u>	<u>110,883</u>	<u>183,636,543</u>

LTIP Units

UDR grants long-term incentive plan units (“LTIP Units”) to certain employees and non-employee directors. The LTIP Units represent an ownership interest in the Operating Partnership and have voting and distribution rights consistent with OP Units. The LTIP Units are subject to the terms of UDR’s long-term incentive plan.

Two classes of LTIP Units are granted, Class 1 LTIP Units and Class 2 LTIP Units. Class 1 LTIP Units are granted to certain employees and non-employee directors and vest over a period of up to four years. Class 2 LTIP Units are granted to certain employees and vest over a period from one to three years subject to certain performance and market conditions being achieved. Vested LTIP Units may be converted into OP Units provided that such LTIP Units have been outstanding for at least two years from the date of grant.

Allocation of Profits and Losses

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

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10. COMMITMENTS AND CONTINGENCIES

Commitments

Ground Leases

The Operating Partnership owns six communities which are subject to ground leases expiring between 2043 and 2103, including extension options. Future minimum lease payments as of December 31, 2018 are \$4.9 million for each of the years ending December 31, 2019 to 2023 and a total of \$313.9 million for years thereafter. For purposes of our ground lease contracts, the Operating Partnership uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a rent reset provision based on fair market value or changes in the consumer price index but does not include a specified minimum lease payment, the Operating Partnership uses the current rent over the remainder of the lease term.

The Operating Partnership incurred \$7.3 million, \$6.2 million, and \$5.5 million of ground rent expense for the years ended December 31, 2018, 2017, and 2016, respectively.

Contingencies

Litigation and Legal Matters

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

11. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the Chief Operating Decision Maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same Chief Operating Decision Maker as that of its parent, the General Partner. The Chief Operating Decision Maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

The Operating Partnership owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures of the Operating Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the Chief Operating Decision Maker's assessment of the Operating Partnership's performance on a consolidated basis. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI are property management costs, which are the Operating Partnership's allocable share of costs incurred by the General Partner for shared services of corporate level property management employees and related support functions and costs. The Chief Operating Decision Maker of the General Partner utilizes NOI as the key measure of segment profit or loss.

The Operating Partnership's two reportable segments are *Same-Store Communities* and *Non-Mature Communities/Other*:

- *Same-Store Communities* represent those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior 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.

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- *Non-Mature Communities/Other* represent those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the Operating Partnership's total revenues during the years ended December 31, 2018, 2017, and 2016.

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The following table details rental income and NOI for the Operating Partnership's reportable segments for the years ended December 31, 2018, 2017, and 2016, and reconciles NOI to *Net income/(loss) attributable to OP unitholders* on the Consolidated Statements of Operations (*dollars in thousands*):

	Year Ended December 31,		
	2018	2017	2016
Reportable apartment home segment rental income			
Same-Store Communities			
West Region	\$ 246,047	\$ 235,022	\$ 223,539
Mid-Atlantic Region	60,389	59,006	57,563
Northeast Region	54,749	54,530	53,036
Southeast Region	51,896	49,586	47,792
Non-Mature Communities/Other	18,839	21,233	22,485
Total segment and consolidated rental income	<u>\$ 431,920</u>	<u>419,377</u>	<u>\$ 404,415</u>
Reportable apartment home segment NOI			
Same-Store Communities			
West Region	\$ 187,664	\$ 177,229	\$ 168,762
Mid-Atlantic Region	41,642	40,292	38,711
Northeast Region	39,456	40,524	40,704
Southeast Region	35,948	34,182	32,519
Non-Mature Communities/Other	12,670	14,614	16,425
Total segment and consolidated NOI	<u>317,380</u>	<u>306,841</u>	<u>297,121</u>
Reconciling items:			
Property management	(11,878)	(11,533)	(11,122)
Other operating expenses	(8,864)	(6,833)	(6,059)
Real estate depreciation and amortization	(143,481)	(152,473)	(147,074)
General and administrative	(16,889)	(17,875)	(18,808)
Casualty-related (charges)/recoveries, net	(951)	(1,922)	(484)
Income/(loss) from unconsolidated entities	43,496	(19,256)	(37,425)
Interest expense	(22,835)	(30,366)	(30,067)
Gain/(loss) on sale of real estate owned	75,507	41,272	33,180
Net (income)/loss attributable to noncontrolling interests	(1,722)	(1,548)	(1,444)
Net income/(loss) attributable to OP unitholders	<u>\$ 229,763</u>	<u>\$ 106,307</u>	<u>\$ 77,818</u>

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The following table details the assets of the Operating Partnership's reportable segments as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
Reportable apartment home segment assets		
Same-Store Communities		
West Region	\$ 1,981,007	\$ 1,955,962
Mid-Atlantic Region	663,083	655,850
Northeast Region	681,953	677,767
Southeast Region	340,722	334,811
Non-Mature Communities/Other	145,220	192,566
Total segment assets	3,811,985	3,816,956
Accumulated depreciation	(1,658,161)	(1,543,652)
Total segment assets - net book value	2,153,824	2,273,304
Reconciling items:		
Cash and cash equivalents	125	293
Restricted cash	13,563	12,579
Investment in unconsolidated entities	103,026	76,907
Other assets	34,052	32,490
Total consolidated assets	\$ 2,304,590	\$ 2,395,573

Capital expenditures related to the Operating Partnership's *Same-Store Communities* totaled \$41.0 million, \$41.8 million and \$41.5 million for the years ended December 31, 2018, 2017, and 2016, respectively. Capital expenditures related to the Operating Partnership's *Non-Mature Communities/Other* totaled \$0.9 million, \$1.8 million, and \$2.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Markets included in the above geographic segments are as follows:

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

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12. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY FINANCIAL DATA

Selected consolidated quarterly financial data for the years ended December 31, 2018 and 2017 is summarized in the table below (*dollars in thousands, except per share amounts*):

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2018				
Rental income	\$ 106,592	\$ 107,266	\$ 109,539	\$ 108,523
Income/(loss)	91,845	25,181	28,135	86,324
Income/(loss) attributable to OP unitholders	91,427	24,761	27,695	85,880
Income/(loss) attributable to OP unitholders per weighted average OP Unit — basic and diluted (a)	\$ 0.50	\$ 0.13	\$ 0.15	\$ 0.47
2017				
Rental income	\$ 102,605	\$ 104,088	\$ 105,253	\$ 107,431
Income/(loss)	14,007	11,192	21,110	61,546
Income/(loss) attributable to OP unitholders	13,657	10,849	20,736	61,065
Income/(loss) attributable to OP unitholders per weighted average OP Unit — basic and diluted (a)	\$ 0.07	\$ 0.06	\$ 0.11	\$ 0.33

(a) Quarterly net income/(loss) per weighted average OP Unit amounts may not total to the annual amounts.

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UDR, INC.
SCHEDULE III — REAL ESTATE OWNED
DECEMBER 31, 2018
(In thousands)

	Initial Costs				Costs of Improvements Capitalized Subsequent to Acquisition Costs	Gross Amount at Which Carried at Close of Period						
	Encumbrances	Land and Improvements	Buildings and Improvements	Total Initial Acquisition Costs		Land and Improvements	Buildings & Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction(a)	Date Acquired	
WEST REGION												
Harbor at Mesa Verde	\$ —	20,476	28,538	49,014	20,382	22,134	47,262	69,396	33,329	1965/2003	Jun-03	
27 Seventy Five Mesa Verde	—	99,329	110,644	209,973	100,725	114,336	196,362	310,698	128,098	1979/2013	Oct-04	
Huntington Vista	—	8,055	22,486	30,541	14,690	9,223	36,008	45,231	24,328	1970	Jun-03	
Missions at Back Bay	—	229	14,129	14,358	3,589	10,988	6,959	17,947	5,136	1969	Dec-03	
Eight 80 Newport Beach — North	—	62,516	46,082	108,598	42,316	68,320	82,594	150,914	55,777	1968/2000/2016	Oct-04	
Eight 80 Newport Beach — South	—	58,785	50,067	108,852	34,335	60,914	82,273	143,187	52,441	1968/2000/2016	Mar-05	
Foxborough	—	12,071	6,187	18,258	4,278	12,479	10,057	22,536	6,819	1969	Sep-04	
1818 Platinum Triangle	—	16,663	51,905	68,568	2,949	16,962	54,555	71,517	27,099	2009	Aug-10	
Beach & Ocean	—	12,878	—	12,878	39,084	13,094	38,868	51,962	10,373	2014	Aug-11	
The Residences at Bella Terra	—	25,000	—	25,000	127,395	25,460	126,935	152,395	43,541	2013	Oct-11	
Los Alisos at Mission Viejo	—	17,298	—	17,298	70,730	16,525	71,503	88,028	22,756	2014	Jun-04	
The Residences at Pacific City	—	78,085	—	78,085	274,002	78,140	273,947	352,087	19,772	2018	Jan-14	
ORANGE COUNTY, CA		411,385	330,038	741,423	734,475	448,575	1,027,323	1,475,898	429,469			
2000 Post Street	—	9,861	44,578	54,439	35,069	14,363	75,145	89,508	40,523	1987/2016	Dec-98	
Birch Creek	—	4,365	16,696	21,061	8,868	1,178	28,751	29,929	16,687	1968	Dec-98	
Highlands Of Marin	—	5,996	24,868	30,864	28,149	7,889	51,124	59,013	35,474	1991/2010	Dec-98	
Marina Playa	—	6,224	23,916	30,140	13,136	1,202	42,074	43,276	23,280	1971	Dec-98	
River Terrace	—	22,161	40,137	62,298	6,496	22,839	45,955	68,794	30,364	2005	Aug-05	
CitySouth	—	14,031	30,537	44,568	37,297	16,422	65,443	81,865	45,864	1972/2012	Nov-05	
Bay Terrace	—	8,545	14,458	23,003	6,139	11,580	17,562	29,142	11,590	1962	Oct-05	
Highlands of Marin Phase II	—	5,353	18,559	23,912	11,243	5,772	29,383	35,155	19,339	1968/2010	Oct-07	
Edgewater	—	30,657	83,872	114,529	12,097	30,753	95,873	126,626	54,012	2007	Mar-08	
Almaden Lake Village	27,000	594	42,515	43,109	8,134	923	50,320	51,243	30,153	1999	Jul-08	
388 Beale	—	14,253	74,104	88,357	11,524	14,588	85,293	99,881	37,183	1999	Apr-11	
Channel @ Mission Bay	—	23,625	—	23,625	130,550	23,858	130,317	154,175	41,078	2014	Sep-10	
SAN FRANCISCO, CA	27,000	145,665	414,240	559,905	308,702	151,367	717,240	868,607	385,547			
Crowne Pointe	—	2,486	6,437	8,923	8,830	3,134	14,619	17,753	9,884	1987	Dec-98	
Hilltop	—	2,174	7,408	9,582	5,908	2,999	12,491	15,490	8,574	1985	Dec-98	
The Hawthorne	—	6,474	30,226	36,700	7,087	7,087	36,980	44,067	24,741	2003	Jul-05	
The Kennedy	—	6,179	22,307	28,486	2,996	6,287	25,195	31,482	16,222	2005	Nov-05	
Hearthstone at Merrill Creek	—	6,848	30,922	37,770	6,339	7,264	36,845	44,109	21,884	2000	May-08	
Island Square	—	21,284	89,389	110,673	6,929	21,660	95,942	117,602	55,430	2007	Jul-08	
Borgata	—	6,379	24,569	30,948	5,244	6,443	29,749	36,192	17,528	2001/2016	May-07	
elements too	—	27,468	72,036	99,504	18,495	30,301	87,698	117,999	58,588	2010	Feb-10	
98elements	—	8,541	45,990	54,531	3,901	8,657	49,775	58,432	25,129	2006	Dec-09	
Lightbox	—	6,449	38,884	45,333	962	6,473	39,822	46,295	11,163	2014	Aug-14	
Waterscape	—	9,693	65,176	74,869	2,950	9,771	68,048	77,819	16,832	2014	Sep-14	
Ashton Bellevue	47,320	8,287	124,939	133,226	2,226	8,380	127,072	135,452	15,831	2009	Oct-16	
TEN20	27,590	5,247	76,587	81,834	2,248	5,292	78,790	84,082	9,850	2009	Oct-16	
Milehouse	—	5,976	63,041	69,017	298	5,995	63,320	69,315	8,734	2016	Nov-16	
CityLine	—	11,220	85,787	97,007	191	11,228	85,970	97,198	10,681	2016	Jan-17	
SEATTLE, WA	74,910	134,705	783,698	918,403	74,884	140,971	852,316	993,287	311,071			
Rosebeach	—	8,414	17,449	25,863	5,140	8,807	22,196	31,003	15,645	1970	Sep-04	
Tierra Del Rey	—	39,586	36,679	76,265	7,627	39,769	44,123	83,892	25,461	1998	Dec-07	
The Westerly	67,700	48,182	102,364	150,546	40,209	50,875	139,880	190,755	76,018	1993/2013	Sep-10	
Jefferson at Marina del Rey	—	55,651	—	55,651	—	61,568	87,085	148,653	47,841	2008	Sep-07	
LOS ANGELES, CA	67,700	151,833	156,492	308,325	145,978	161,019	293,284	454,303	164,965			
Boronda Manor	—	1,946	8,982	10,928	10,652	3,310	18,270	21,580	11,146	1979	Dec-98	
Garden Court	—	888	4,188	5,076	6,189	1,601	9,664	11,265	6,023	1973	Dec-98	
Cambridge Court	—	3,039	12,883	15,922	17,695	5,648	27,969	33,617	17,036	1974	Dec-98	
Laurel Tree	—	1,304	5,115	6,419	7,147	2,373	11,193	13,566	6,852	1977	Dec-98	
The Pointe At Harden Ranch	—	6,388	23,854	30,242	31,779	10,280	51,741	62,021	30,646	1986	Dec-98	
The Pointe At Northridge	—	2,044	8,028	10,072	11,449	3,484	18,037	21,521	11,140	1979	Dec-98	
The Pointe At Westlake	—	1,329	5,334	6,663	7,454	2,333	11,784	14,117	7,053	1975	Dec-98	
MONTEREY PENINSULA, CA	—	16,938	68,384	85,322	92,365	29,029	148,658	177,687	89,896			
Verano at Rancho Cucamonga Town Square	—	13,557	3,645	17,202	56,760	23,553	50,409	73,962	40,173	2006	Oct-02	

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
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(In thousands)

	Initial Costs			Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction(a)	Date Acquired
	Encumbrances	Land and Land Improvements	Buildings and Improvements			Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value			
Windemere at Sycamore Highland	—	5,810	23,450	29,260	3,937	6,214	26,983	33,197	20,170	2001	Nov-02
OTHER SOUTHERN CA	—	19,367	27,095	46,462	60,697	29,767	77,392	107,159	60,343		
Tualatin Heights	—	3,273	9,134	12,407	8,197	3,983	16,621	20,604	11,989	1989	Dec-98
Hunt Club	—	6,014	14,870	20,884	7,625	6,489	22,020	28,509	16,786	1985	Sep-04
PORTLAND, OR	—	9,287	24,004	33,291	15,822	10,472	38,641	49,113	28,775		
TOTAL WEST REGION	169,610	889,180	1,803,951	2,693,131	1,432,923	971,200	3,154,854	4,126,054	1,470,066		
MID-ATLANTIC REGION											
Dominion Middle Ridge	—	3,311	13,283	16,594	8,928	4,042	21,480	25,522	15,425	1990	Jun-96
Dominion Lake Ridge	—	2,366	8,387	10,753	8,919	3,125	16,547	19,672	12,160	1987	Feb-96
Presidential Greens	—	11,238	18,790	30,028	12,132	11,795	30,365	42,160	23,380	1938	May-02
The Whitmore	—	6,418	13,411	19,829	23,341	7,529	35,641	43,170	27,450	1962/2008	Apr-02
Ridgewood	—	5,612	20,086	25,698	10,764	6,256	30,206	36,462	23,273	1988	Aug-02
DelRay Tower	—	297	12,786	13,083	115,383	9,587	118,879	128,466	32,915	2014	Jan-08
Waterside Towers	—	13,001	49,657	62,658	28,272	49,907	41,023	90,930	26,761	1971	Dec-03
Wellington Place at Olde Town	—	13,753	36,059	49,812	19,895	14,819	54,888	69,707	40,260	1987/2008	Sep-05
Andover House	—	183	59,948	60,131	6,038	316	65,853	66,169	37,742	2004	Mar-07
Sullivan Place	—	1,137	103,676	104,813	10,580	1,708	113,685	115,393	68,821	2007	Dec-07
Delancey at Shirlington	—	21,606	66,765	88,371	4,620	21,713	71,278	92,991	41,618	2006/2007	Mar-08
View 14	—	5,710	97,941	103,651	4,823	5,780	102,694	108,474	43,653	2009	Jun-11
Signal Hill	—	13,290	—	13,290	71,334	25,543	59,081	84,624	37,194	2010	Mar-07
Capitol View on 14th	—	31,393	—	31,393	95,663	31,442	95,614	127,056	35,431	2013	Sep-07
Domain College Park	—	7,300	—	7,300	59,421	7,460	59,261	66,721	19,360	2014	Jun-11
1200 East West	—	9,748	68,022	77,770	2,734	9,880	70,624	80,504	12,693	2010	Oct-15
Courts at Huntington Station	—	27,749	111,878	139,627	3,931	28,067	115,491	143,558	24,125	2011	Oct-15
Eleven55 Ripley	—	15,566	107,539	123,105	2,962	15,820	110,247	126,067	19,818	2014	Oct-15
Arbor Park of Alexandria	85,479	50,881	159,728	210,609	2,824	51,197	162,236	213,433	33,731	1969/2015	Oct-15
Courts at Dulles	—	14,697	83,834	98,531	9,008	14,728	92,811	107,539	19,955	2000	Oct-15
Newport Village	127,600	55,283	177,454	232,737	15,149	55,577	192,309	247,886	41,075	1968	Oct-15
METROPOLITAN, D.C.	213,078	310,539	1,209,244	1,519,783	516,721	376,291	1,660,213	2,036,504	636,840		
Gayton Pointe Townhomes	—	826	5,148	5,974	30,746	3,554	33,166	36,720	30,235	1973/2007	Sep-95
Waterside At Ironbridge	—	1,844	13,239	15,083	9,193	2,472	21,804	24,276	15,985	1987	Sep-97
Carriage Homes at Wyndham	—	474	30,997	31,471	9,713	3,997	37,187	41,184	27,445	1998	Nov-03
Legacy at Mayland	—	1,979	11,524	13,503	32,548	5,259	40,792	46,051	36,274	1973/2007	Dec-91
RICHMOND, VA	—	5,123	60,908	66,031	82,200	15,282	132,949	148,231	109,939		
Calvert's Walk	—	4,408	24,692	29,100	8,606	4,973	32,733	37,706	23,955	1988	Mar-04
20 Lambourne	—	11,750	45,590	57,340	9,638	12,334	54,644	66,978	32,912	2003	Mar-08
Domain Brewers Hill	—	4,669	40,630	45,299	2,040	4,784	42,555	47,339	20,177	2009	Aug-10
BALTIMORE, MD	—	20,827	110,912	131,739	20,284	22,091	129,932	152,023	77,044		
TOTAL MID-ATLANTIC REGION	213,078	336,489	1,381,064	1,717,553	619,205	413,664	1,923,094	2,336,758	823,823		
NORTHEAST REGION											
10 Hanover Square	—	41,432	218,983	260,415	15,597	41,764	234,248	276,012	90,792	2005	Apr-11
21 Chelsea	—	36,399	107,154	143,553	14,312	36,522	121,343	157,865	49,240	2001	Aug-11
View 34	—	114,410	324,920	439,330	107,401	115,083	431,648	546,731	179,020	1985/2013	Jul-11
95 Wall Street	—	57,637	266,255	323,892	9,794	58,031	275,655	333,686	122,770	2008	Aug-11
NEW YORK, NY	—	249,878	917,312	1,167,190	147,104	251,400	1,062,894	1,314,294	441,822		
Garrison Square	—	5,591	91,027	96,618	10,200	5,775	101,043	106,818	47,908	1887/1990	Sep-10
Ridge at Blue Hills	25,000	6,039	34,869	40,908	3,878	6,363	38,423	44,786	18,350	2007	Sep-10
Inwood West	80,000	20,778	88,096	108,874	11,100	19,607	100,367	119,974	45,446	2006	Apr-11
14 North	—	10,961	51,175	62,136	10,746	11,331	61,551	72,882	29,311	2005	Apr-11
100 Pier 4	—	24,584	—	24,584	201,721	24,688	201,617	226,305	40,301	2015	Dec-15
345 Harrison	—	32,938	—	32,938	320,927	44,889	308,976	353,865	7,980	2018	Nov-11
BOSTON, MA	105,000	100,891	265,167	366,058	558,572	112,653	811,977	924,630	189,296		
TOTAL NORTHEAST REGION	105,000	350,769	1,182,479	1,533,248	705,676	364,053	1,874,871	2,238,924	631,118		
SOUTHEAST REGION											
Seabrook	—	1,846	4,155	6,001	9,659	2,977	12,683	15,660	10,891	1984/2004	Feb-96

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2018
(In thousands)

	Initial Costs			Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Gross Amount at Which Carried at Close of Period			Date of Construction(a)	Date Acquired	
	Encumbrances	Land and Land Improvements	Buildings and Improvements			Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value			Accumulated Depreciation
Altamira Place	—	1,533	11,076	12,609	21,993	3,879	30,723	34,602	28,109	1984/2007	Apr-94
Regatta Shore	—	757	6,608	7,365	17,515	2,235	22,645	24,880	19,641	1988/2007	Jun-94
Alafaya Woods	—	1,653	9,042	10,695	11,258	2,735	19,218	21,953	15,417	1989/2006	Oct-94
Los Altos	—	2,804	12,349	15,153	13,251	4,632	23,772	28,404	18,310	1990/2004	Oct-96
Lotus Landing	—	2,185	8,639	10,824	11,448	3,006	19,266	22,272	14,310	1985/2006	Jul-97
Seville On The Green	—	1,282	6,498	7,780	8,165	1,819	14,126	15,945	10,703	1986/2004	Oct-97
Ashton @ Waterford	—	3,872	17,538	21,410	6,044	4,411	23,043	27,454	15,807	2000	May-98
Arbors at Lee Vista	—	6,692	12,860	19,552	15,000	7,653	26,899	34,552	21,284	1992/2007	Aug-06
ORLANDO, FL	—	22,624	88,765	111,389	114,333	33,347	192,375	225,722	154,472		
Summit West	—	2,176	4,710	6,886	11,204	3,664	14,426	18,090	12,677	1972	Dec-92
The Breyley	—	1,780	2,458	4,238	18,397	3,742	18,893	22,635	18,639	1977/2007	Sep-93
Lakewood Place	—	1,395	10,647	12,042	12,198	3,009	21,231	24,240	16,930	1986	Mar-94
Cambridge Woods	—	1,791	7,166	8,957	11,674	3,401	17,230	20,631	13,378	1985	Jun-97
Inlet Bay	—	7,702	23,150	30,852	18,288	10,294	38,846	49,140	31,488	1988/1989	Jun-03
MacAlpine Place	—	10,869	36,858	47,727	10,042	11,836	45,933	57,769	33,490	2001	Dec-04
The Vintage Lofts at West End	—	6,611	37,663	44,274	19,970	15,421	48,823	64,244	31,560	2009	Jul-09
TAMPA, FL	—	32,324	122,652	154,976	101,773	51,367	205,382	256,749	158,162		
Legacy Hill	—	1,148	5,867	7,015	10,278	1,890	15,403	17,293	12,627	1977	Nov-95
Hickory Run	—	1,469	11,584	13,053	11,372	2,465	21,960	24,425	16,052	1989	Dec-95
Carrington Hills	—	2,117	—	2,117	37,947	4,753	35,311	40,064	25,412	1999	Dec-95
Brookridge	—	708	5,461	6,169	6,920	1,477	11,612	13,089	8,555	1986	Mar-96
Breckenridge	—	766	7,714	8,480	6,359	1,484	13,355	14,839	9,644	1986	Mar-97
Colonade	—	1,460	16,015	17,475	8,022	2,109	23,388	25,497	15,205	1998	Jan-99
The Preserve at Brentwood	—	3,182	24,674	27,856	9,673	3,853	33,676	37,529	24,873	1998	Jun-04
Polo Park	—	4,583	16,293	20,876	17,752	5,958	32,670	38,628	26,083	1987/2008	May-06
NASHVILLE, TN	—	15,433	87,608	103,041	108,323	23,989	187,375	211,364	138,451		
The Reserve and Park at Riverbridge	—	15,968	56,401	72,369	13,106	16,787	68,688	85,475	47,623	1999/2001	Dec-04
OTHER FLORIDA	—	15,968	56,401	72,369	13,106	16,787	68,688	85,475	47,623		
TOTAL SOUTHEAST REGION	—	86,349	355,426	441,775	337,535	125,490	653,820	779,310	498,708		
SOUTHWEST REGION											
Thirty377	25,000	24,036	32,951	56,987	19,849	26,184	50,652	76,836	30,721	1999/2007	Aug-06
Legacy Village	90,000	16,882	100,102	116,984	19,602	20,652	115,934	136,586	70,195	2005/06/07	Mar-08
Addison Apts at The Park	—	22,041	11,228	33,269	9,723	30,790	12,202	42,992	9,782	1977/78/79	May-07
Addison Apts at The Park II	—	7,903	554	8,457	3,490	8,415	3,532	11,947	2,359	1970	May-07
Addison Apts at The Park I	—	10,440	634	11,074	3,916	11,024	3,966	14,990	2,912	1975	May-07
DALLAS, TX	115,000	81,302	145,469	226,771	56,580	97,065	186,286	283,351	115,969		
Barton Creek Landing	—	3,151	14,269	17,420	23,987	5,279	36,128	41,407	28,115	1986/2012	Mar-02
Residences at the Domain	—	4,034	55,256	59,290	13,497	4,515	68,272	72,787	38,447	2007	Aug-08
Red Stone Ranch	—	5,084	17,646	22,730	3,519	5,512	20,737	26,249	10,112	2000	Apr-12
Lakeline Villas	—	4,148	16,869	21,017	2,542	4,507	19,052	23,559	9,001	2002	Apr-12
AUSTIN, TX	—	16,417	104,040	120,457	43,545	19,813	144,189	164,002	85,675		
Steele Creek	—	8,586	130,400	138,986	2,932	8,604	133,314	141,918	9,204	2015	Oct-17
DENVER, CO	—	8,586	130,400	138,986	2,932	8,604	133,314	141,918	9,204		
TOTAL SOUTHWEST REGION	115,000	106,305	379,909	486,214	103,057	125,482	463,789	589,271	210,848		
TOTAL OPERATING COMMUNITIES	602,689	1,769,092	5,102,829	6,871,921	3,198,396	1,999,889	8,070,428	10,070,317	3,634,563		
LAND											
7 Harcourt	—	884	—	884	5,858	804	5,938	6,742	268		
Vitruvian Park®	—	4,325	—	4,325	9,322	11,373	2,274	13,647	2,370		
Wilshire at LaJolla	—	31,105	—	31,105	97	31,202	—	31,202	—		
Dublin Land	—	8,922	—	8,922	7,221	8,922	7,221	16,143	—		
TOTAL LAND	—	45,236	—	45,236	22,498	52,301	15,433	67,734	2,638		
COMMERCIAL											
Brookhaven Shopping Center	—	—	—	—	28,604	7,798	20,806	28,604	14,052		
TOTAL COMMERCIAL	—	—	—	—	28,604	7,798	20,806	28,604	14,052		
Other (b)	—	—	—	—	4,604	—	4,604	4,604	—		

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2018
(In thousands)

	<u>Initial Costs</u>				Costs of Improvements Capitalized Subsequent to Acquisition Costs	<u>Gross Amount at Which Carried at Close of Period</u>				Date of Construction(a)	Date Acquired
	<u>Encumbrances</u>	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total Initial Acquisition Costs</u>		<u>Land and Land Improvements</u>	<u>Buildings & Buildings Improvements</u>	<u>Total Carrying Value</u>	<u>Accumulated Depreciation</u>		
1745 Shea Center I	—	3,034	20,534	23,568	1,332	3,035	21,865	24,900	2,907		
TOTAL CORPORATE	—	3,034	20,534	23,568	5,936	3,035	26,469	29,504	2,907		
TOTAL COMMERCIAL & CORPORATE	—	3,034	20,534	23,568	34,540	10,833	47,275	58,108	16,959		
Deferred Financing Costs	(1,462)										
TOTAL REAL ESTATE OWNED	\$ 601,227	\$ 1,817,362	\$ 5,123,363	\$ 6,940,725	\$ 3,255,434	\$ 2,063,023	\$ 8,133,136	\$ 10,196,159	\$ 3,654,160		

- (a) Date of original construction/date of last major renovation, if applicable.
(b) Includes unallocated accruals and capital expenditures.

The aggregate cost for federal income tax purposes was approximately \$9.2 billion at December 31, 2018 (*unaudited*).

The estimated depreciable lives for all buildings in the latest Consolidated Statements of Operations are 35 to 55 years.

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2018
(In thousands)

3-YEAR ROLLFORWARD OF REAL ESTATE OWNED AND ACCUMULATED DEPRECIATION

The following is a reconciliation of the carrying amount of total real estate owned at December 31, (*in thousands*):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	\$ 10,177,206	\$ 9,615,753	\$ 9,190,276
Real estate acquired	—	235,993	324,104
Capital expenditures and development	214,898	369,029	339,813
Real estate sold	(195,945)	(43,569)	(238,440)
Balance at end of the year	<u>\$ 10,196,159</u>	<u>\$ 10,177,206</u>	<u>\$ 9,615,753</u>

The following is a reconciliation of total accumulated depreciation for real estate owned at December 31, (*in thousands*):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	\$ 3,330,166	\$ 2,923,625	\$ 2,646,874
Depreciation expense for the year	426,006	424,772	398,904
Accumulated depreciation on sales	(102,012)	(18,231)	(122,153)
Balance at end of year	<u>\$ 3,654,160</u>	<u>\$ 3,330,166</u>	<u>\$ 2,923,625</u>

UNITED DOMINION REALTY, L.P.
SCHEDULE III — REAL ESTATE OWNED
DECEMBER 31, 2018
(In thousands)

	Initial Costs			Total Initial Acquisition Costs	Cost of Improvements Capitalized Subsequent to Acquisition Costs	Gross Amount at Which Carried at Close of Period			Total Carrying Value	Accumulated Depreciation	Date of Construction (a)	Date Acquired
	Encumbrances	Land and Land Improvements	Building and Improvements			Land and Land Improvements	Buildings & Buildings Improvements					
WEST REGION												
Harbor at Mesa Verde	\$ —	\$ 20,476	\$ 28,538	\$ 49,014	\$ 20,382	\$ 22,134	\$ 47,262	\$ 69,396	\$ 33,329	1965/2003	Jun-03	
27 Seventy Five Mesa Verde	—	99,329	110,644	209,973	100,725	114,336	196,362	310,698	128,098	1979/2013	Oct-04	
Huntington Vista	—	8,055	22,486	30,541	14,690	9,223	36,008	45,231	24,328	1970	Jun-03	
Missions at Back Bay	—	229	14,129	14,358	3,589	10,988	6,959	17,947	5,136	1969	Dec-03	
Eight 80 Newport Beach - North	—	62,516	46,082	108,598	42,316	68,320	82,594	150,914	55,777	1968/2000/2016	Oct-04	
Eight 80 Newport Beach - South	—	58,785	50,067	108,852	34,335	60,914	82,273	143,187	52,441	1968/2000/2016	Mar-05	
ORANGE COUNTY, CA		249,390	271,946	521,336	216,037	285,915	451,458	737,373	299,109			
2000 Post Street	—	9,861	44,578	54,439	22,507	11,075	65,871	76,946	33,355	1987/2016	Dec-98	
Birch Creek	—	4,365	16,696	21,061	8,868	1,178	28,751	29,929	16,687	1968	Dec-98	
Highlands Of Marin	—	5,996	24,868	30,864	28,149	7,889	51,124	59,013	35,474	1991/2010	Dec-98	
Marina Playa	—	6,224	23,916	30,140	13,136	1,202	42,074	43,276	23,280	1971	Dec-98	
River Terrace	—	22,161	40,137	62,298	6,496	22,839	45,955	68,794	30,364	2005	Aug-05	
CitySouth	—	14,031	30,537	44,568	37,297	16,422	65,443	81,865	45,864	1972/2012	Nov-05	
Bay Terrace	—	8,545	14,458	23,003	6,139	11,580	17,562	29,142	11,590	1962	Oct-05	
Highlands of Marin Phase II	—	5,353	18,559	23,912	11,243	5,772	29,383	35,155	19,339	1968/2010	Oct-07	
Edgewater	—	30,657	83,872	114,529	12,097	30,753	95,873	126,626	54,012	2007	Mar-08	
Almaden Lake Village	27,000	594	42,515	43,109	8,134	923	50,320	51,243	30,153	1999	Jul-08	
SAN FRANCISCO, CA	27,000	107,787	340,136	447,923	154,066	109,633	492,356	601,989	300,118			
Crowne Pointe	—	2,486	6,437	8,923	8,830	3,134	14,619	17,753	9,884	1987	Dec-98	
Hilltop	—	2,174	7,408	9,582	5,908	2,999	12,491	15,490	8,574	1985	Dec-98	
The Kennedy	—	6,179	22,307	28,486	2,996	6,287	25,195	31,482	16,222	2005	Nov-05	
Hearthstone at Merrill Creek	—	6,848	30,922	37,770	6,339	7,264	36,845	44,109	21,884	2000	May-08	
Island Square	—	21,284	89,389	110,673	6,929	21,660	95,942	117,602	55,430	2007	Jul-08	
SEATTLE, WA		38,971	156,463	195,434	31,002	41,344	185,092	226,436	111,994			
Rosebeach	—	8,414	17,449	25,863	5,140	8,807	22,196	31,003	15,645	1970	Sep-04	
Tierra Del Rey	—	39,586	36,679	76,265	7,627	39,769	44,123	83,892	25,461	1998	Dec-07	
LOS ANGELES, CA		48,000	54,128	102,128	12,767	48,576	66,319	114,895	41,106			
Boronda Manor	—	1,946	8,982	10,928	10,652	3,310	18,270	21,580	11,146	1979	Dec-98	
Garden Court	—	888	4,188	5,076	6,189	1,601	9,664	11,265	6,023	1973	Dec-98	
Cambridge Court	—	3,039	12,883	15,922	17,695	5,648	27,969	33,617	17,036	1974	Dec-98	
Laurel Tree	—	1,304	5,115	6,419	7,147	2,373	11,193	13,566	6,852	1977	Dec-98	
The Pointe At Harden Ranch	—	6,388	23,854	30,242	31,779	10,280	51,741	62,021	30,646	1986	Dec-98	
The Pointe At Northridge	—	2,044	8,028	10,072	11,449	3,484	18,037	21,521	11,140	1979	Dec-98	
The Pointe At Westlake	—	1,329	5,334	6,663	7,454	2,333	11,784	14,117	7,053	1975	Dec-98	
MONTEREY PENINSULA, CA		16,938	68,384	85,322	92,365	29,029	148,658	177,687	89,896			
Verano at Rancho Cucamonga Town Square	—	13,557	3,645	17,202	56,760	23,553	50,409	73,962	40,173	2006	Oct-02	
OTHER SOUTHERN CA		13,557	3,645	17,202	56,760	23,553	50,409	73,962	40,173			
Tualatin Heights	—	3,273	9,134	12,407	8,197	3,983	16,621	20,604	11,989	1989	Dec-98	
Hunt Club	—	6,014	14,870	20,884	7,625	6,489	22,020	28,509	16,786	1985	Sep-04	
PORTLAND, OR		9,287	24,004	33,291	15,822	10,472	38,641	49,113	28,775			
TOTAL WEST REGION	27,000	483,930	918,706	1,402,636	578,819	548,522	1,432,933	1,981,455	911,171			
MID-ATLANTIC REGION												
Ridgewood	—	5,612	20,086	25,698	10,764	6,256	30,206	36,462	23,273	1988	Aug-02	
DelRay Tower	—	297	12,786	13,083	115,383	9,587	118,879	128,466	32,915	2014	Jan-08	
Wellington Place at Olde Town	—	13,753	36,059	49,812	19,895	14,819	54,888	69,707	40,260	1987/2008	Sep-05	
Andover House	—	183	59,948	60,131	6,038	316	65,853	66,169	37,742	2004	Mar-07	
Sullivan Place	—	1,137	103,676	104,813	10,516	1,708	113,621	115,329	68,757	2007	Dec-07	
Courts at Huntington Station	—	27,749	111,878	139,627	3,931	28,067	115,491	143,558	24,125	2011	Oct-15	
METROPOLITAN D.C.		48,731	344,433	393,164	166,527	60,753	498,938	559,691	227,072			
Calvert's Walk	—	4,408	24,692	29,100	8,606	4,973	32,733	37,706	23,955	1988	Mar-04	
20 Lambourne	—	11,750	45,590	57,340	9,638	12,334	54,644	66,978	32,912	2003	Mar-08	
BALTIMORE, MD		16,158	70,282	86,440	18,244	17,307	87,377	104,684	56,867			
TOTAL MID-ATLANTIC REGION		64,889	414,715	479,604	184,771	78,060	586,315	664,375	283,939			
NORTHEAST REGION												

UNITED DOMINION REALTY, L.P.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2018
(In thousands)

	Initial Costs			Total Initial Acquisition Costs	Cost of Improvements Capitalized Subsequent to Acquisition Costs	Gross Amount at Which Carried at Close of Period			Total Carrying Value	Accumulated Depreciation	Date of Construction (a)	Date Acquired
	Encumbrances	Land and Land Improvements	Building and Improvements			Land and Land Improvements	Buildings & Buildings Improvements					
10 Hanover Square	—	41,432	218,983	260,415	15,597	41,764	234,248	276,012	90,792	2005	Apr-11	
95 Wall Street	—	57,637	266,255	323,892	9,794	58,031	275,655	333,686	122,770	2008	Aug-11	
NEW YORK, NY	—	99,069	485,238	584,307	25,391	99,795	509,903	609,698	213,562			
14 North	—	10,961	51,175	62,136	10,746	11,331	61,551	72,882	29,311	2005	Apr-11	
BOSTON, MA	—	10,961	51,175	62,136	10,746	11,331	61,551	72,882	29,311			
TOTAL NORTHEAST REGION	—	110,030	536,413	646,443	36,137	111,126	571,454	682,580	242,873			
SOUTHEAST REGION												
Inlet Bay	—	7,702	23,150	30,852	18,288	10,294	38,846	49,140	31,488	1988/1989	Jun-03	
MacAlpine Place	—	10,869	36,858	47,727	10,042	11,836	45,933	57,769	33,490	2001	Dec-04	
TAMPA, FL	—	18,571	60,008	78,579	28,330	22,130	84,779	106,909	64,978			
Legacy Hill	—	1,148	5,867	7,015	10,278	1,890	15,403	17,293	12,627	1977	Nov-95	
Hickory Run	—	1,469	11,584	13,053	11,372	2,465	21,960	24,425	16,052	1989	Dec-95	
Carrington Hills	—	2,117	—	2,117	37,947	4,753	35,311	40,064	25,412	1999	Dec-95	
Brookridge	—	708	5,461	6,169	6,920	1,477	11,612	13,089	8,555	1986	Mar-96	
Breckenridge	—	766	7,714	8,480	6,359	1,484	13,355	14,839	9,644	1986	Mar-97	
Polo Park	—	4,583	16,293	20,876	17,752	5,958	32,670	38,628	26,083	1987/2008	May-06	
NASHVILLE, TN	—	10,791	46,919	57,710	90,628	18,027	130,311	148,338	98,373			
The Reserve and Park at Riverbridge	—	15,968	56,401	72,369	13,106	16,787	68,688	85,475	47,623	1999/2001	Dec-04	
OTHER FLORIDA	—	15,968	56,401	72,369	13,106	16,787	68,688	85,475	47,623			
TOTAL SOUTHEAST REGION	—	45,330	163,328	208,658	132,064	56,944	283,778	340,722	210,974			
SOUTHWEST REGION												
Steele Creek	—	8,586	130,400	138,986	2,932	8,604	133,314	141,918	9,204	2015	Oct-17	
DENVER, CO	—	8,586	130,400	138,986	2,932	8,604	133,314	141,918	9,204			
TOTAL SOUTHWEST REGION	—	8,586	130,400	138,986	2,932	8,604	133,314	141,918	9,204			
TOTAL OPERATING COMMUNITIES	27,000	712,765	2,163,562	2,876,327	934,723	803,256	3,007,794	3,811,050	1,658,161			
Other (b)	—	—	—	—	935	—	935	935	—			
TOTAL CORPORATE	—	—	—	—	935	—	935	935	—			
Deferred Financing Costs	(71)	—	—	—	—	—	—	—	—			
TOTAL REAL ESTATE OWNED	\$ 26,929	\$ 712,765	\$ 2,163,562	\$ 2,876,327	\$ 935,658	\$ 803,256	\$ 3,008,729	\$ 3,811,985	\$ 1,658,161			

(a) Date of original construction/date of last major renovation, if applicable.

(b) Includes unallocated accruals and capital expenditures.

The aggregate cost for federal income tax purpose was approximately \$3.2 billion at December 31, 2018 (*unaudited*).

The estimated depreciable lives for all buildings in the latest Consolidated Statements of Operations are 35 to 55 years.

3-YEAR ROLLFORWARD OF REAL ESTATE OWNED AND ACCUMULATED DEPRECIATION

The following is a reconciliation of the carrying amount of total real estate owned at December 31, (*in thousands*):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	\$ 3,816,956	\$ 3,674,704	\$ 3,630,905
Real estate acquired	—	138,986	—
Capital expenditures and development	44,353	45,211	71,720
Real estate sold	(49,324)	(41,945)	(27,921)
Balance at end of year	<u>\$ 3,811,985</u>	<u>\$ 3,816,956</u>	<u>\$ 3,674,704</u>

The following is a reconciliation of total accumulated depreciation for real estate owned at December 31, (*in thousands*):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	\$ 1,543,652	\$ 1,408,815	\$ 1,281,258
Depreciation expense for the year	141,683	153,068	144,942
Accumulated depreciation on sales	(27,174)	(18,231)	(17,385)
Balance at end of year	<u>\$ 1,658,161</u>	<u>\$ 1,543,652</u>	<u>\$ 1,408,815</u>

UDR LIGHTHOUSE DOWNREIT L.P.

Financial Statements as of December 31, 2018 (unaudited) and 2017 (unaudited) and
for the years ended December 31, 2018 (unaudited), 2017 (unaudited), and 2016 (audited)
and Independent Auditors' Report

UDR LIGHTHOUSE DOWNREIT L.P.

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Report of Independent Auditors

The Partners
UDR Lighthouse DownREIT L.P.

We have audited the accompanying combined statements of operations, comprehensive income/(loss) and changes in capital and cash flows of UDR Lighthouse DownREIT L.P. for the year ended December 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined results of operations and cash flows of UDR Lighthouse DownREIT L.P. for the year ended December 31, 2016 in conformity with U.S. generally accepted accounting principles.

Report on summarized comparative information

We have not audited, reviewed or compiled the summarized combined comparative information presented herein as of December 31, 2018, December 31, 2017 or for the years then ended and, accordingly, we express no opinion on it.

/s/ Ernst & Young LLP
Denver, Colorado
February 21, 2017

UDR LIGHTHOUSE DOWNREIT L.P.
COMBINED BALANCE SHEETS
(In thousands, except for unit data)

	<u>December 31,</u> 2018	<u>December 31,</u> 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
ASSETS		
Real estate owned:		
Real estate held for investment	\$ 1,411,773	\$ 1,540,781
Less: accumulated depreciation	(244,053)	(181,611)
Total real estate owned, net of accumulated depreciation	<u>1,167,720</u>	<u>1,359,170</u>
Cash and cash equivalents	39	39
Restricted cash	350	316
Notes receivable from the General Partner	221,022	126,500
Other assets	5,211	4,621
Total assets	<u>\$ 1,394,342</u>	<u>\$ 1,490,646</u>
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	\$ 431,735	\$ 437,510
Real estate taxes payable	7,901	7,347
Accrued interest payable	1,414	1,470
Security deposits and prepaid rent	2,822	3,151
Distributions payable	10,438	10,034
Accounts payable, accrued expenses, and other liabilities	4,022	5,572
Total liabilities	<u>458,332</u>	<u>465,084</u>
Commitments and contingencies (Note 9)		
Capital:		
Limited partners:		
32,367,380 DownREIT Units outstanding at December 31, 2018 and December 31, 2017	936,010	968,175
Accumulated other comprehensive income/(loss), net	—	(1)
Total partners' capital	<u>936,010</u>	<u>968,174</u>
Advances (to)/from the General Partner	—	57,388
Total capital	<u>936,010</u>	<u>1,025,562</u>
Total liabilities and capital	<u>\$ 1,394,342</u>	<u>\$ 1,490,646</u>

See accompanying notes to the combined financial statements.

UDR LIGHTHOUSE DOWNREIT L.P.
COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per unit data)

	Year Ended December 31,		
	2018 <i>(unaudited)</i>	2017 <i>(unaudited)</i>	2016 <i>(audited)</i>
REVENUES:			
Rental income	\$ 138,121	\$ 134,669	\$ 130,121
OPERATING EXPENSES:			
Property operating and maintenance	24,820	24,666	24,849
Real estate taxes and insurance	20,679	19,353	18,603
Property management	3,798	3,703	3,578
Other operating expenses	225	251	195
Real estate depreciation and amortization	85,872	84,000	111,453
General and administrative	7,046	7,305	7,503
Casualty-related charges/(recoveries), net	430	209	271
Total operating expenses	142,870	139,487	166,452
Gain/(loss) on sale of real estate owned	24,053	—	—
Operating income/(loss)	19,304	(4,818)	(36,331)
Interest expense	(14,456)	(14,483)	(14,208)
Interest income on notes receivable from the General Partner, net	4,884	4,718	4,743
Net income/(loss) attributable to DownREIT unitholders	\$ 9,732	\$ (14,583)	\$ (45,796)
Net income/(loss) per weighted average DownREIT Unit - basic and diluted:	\$ 0.30	\$ (0.45)	\$ (1.41)
Weighted average DownREIT Units outstanding - basic and diluted	32,367	32,367	32,367

See accompanying notes to the combined financial statements.

UDR LIGHTHOUSE DOWNREIT L.P.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Net income/(loss) attributable to DownREIT unitholders	\$ 9,732	\$ (14,583)	\$ (45,796)
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:			
Other comprehensive income/(loss) - derivative instruments:			
Unrealized holding gain/(loss)	—	—	(2)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	—	46	5
Other comprehensive income/(loss)	—	46	3
Comprehensive income/(loss) attributable to DownREIT unitholders	<u>\$ 9,732</u>	<u>\$ (14,537)</u>	<u>\$ (45,793)</u>

UDR LIGHTHOUSE DOWNREIT L.P.
COMBINED STATEMENTS OF CHANGES IN CAPITAL
(In thousands)

	Limited Partners	UDR, Inc Limited Partner	Accumulated Other Comprehensive Income/(Loss), net	Total Partners' Capital	Advances (to)/from the General Partner	Total
Balance at December 31, 2015	\$ 606,304	\$ 500,560	\$ (49)	\$ 1,106,815	\$ (35,293)	\$ 1,071,522
Net income/(loss)	18,081	(63,877)	—	(45,796)	—	(45,796)
Distributions	(18,921)	(19,257)	—	(38,178)	—	(38,178)
DownREIT Unit redemptions for common shares of UDR	(8,939)	8,939	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	(17,136)	17,136	—	—	—	—
Unrealized gain on derivative financial investments	—	—	3	3	—	3
Net change in advances (to)/from the General Partner	—	—	—	—	86,663	86,663
Balance at December 31, 2016	579,389	443,501	(46)	1,022,844	51,370	1,074,214
Net income/(loss)	18,854	(33,437)	—	(14,583)	—	(14,583)
Distributions	(19,401)	(20,731)	—	(40,132)	—	(40,132)
DownREIT Unit redemptions for common shares of UDR	(14,255)	14,255	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	32,509	(32,509)	—	—	—	—
Unrealized gain on derivative financial investments	—	—	45	45	—	45
Net change in advances (to)/from the General Partner	—	—	—	—	6,018	6,018
Balance at December 31, 2017	597,096	371,079	(1)	968,174	57,388	1,025,562
Net income/(loss)	19,248	(9,516)	—	9,732	—	9,732
Distributions	(19,569)	(22,328)	—	(41,897)	—	(41,897)
DownREIT Unit redemptions for common shares of UDR	12,911	(12,911)	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	(8,892)	8,892	—	—	—	—
Unrealized gain on derivative financial investments	—	—	1	1	—	1
Conversion of Advances (to)/from the General Partner to notes payable	—	—	—	—	(52,216)	(52,216)
Net change in advances (to)/from the General Partner	—	—	—	—	(5,172)	(5,172)
Balance at December 31, 2018	\$ 600,794	\$ 335,216	\$ —	\$ 936,010	\$ —	\$ 936,010

See accompanying notes to the combined financial statements.

UDR LIGHTHOUSE DOWNREIT L.P.
COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018 <i>(unaudited)</i>	2017 <i>(unaudited)</i>	2016 <i>(audited)</i>
Operating Activities			
Net income/(loss) attributable to DownREIT unitholders	\$ 9,732	\$ (14,583)	\$ (45,796)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	85,872	84,000	111,453
Gain on the sale of real estate owned	(24,053)	—	—
Other	(2,707)	(2,809)	(4,978)
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	(1,073)	(224)	(1,259)
Increase/(decrease) in operating liabilities	(2,451)	(394)	1,549
Net cash provided by/(used in) operating activities	<u>65,320</u>	<u>65,990</u>	<u>60,969</u>
Investing Activities			
Proceeds from sales of real estate investments, net	148,497	—	—
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(18,089)	(29,458)	(35,190)
Net cash provided by/(used in) investing activities	<u>130,408</u>	<u>(29,458)</u>	<u>(35,190)</u>
Financing Activities			
Advances (to)/from the General Partner, net	(27,096)	(14,227)	67,972
Proceeds from the issuance of secured debt	80,000	—	50,000
Payments on secured debt	(81,866)	(2,949)	(124,998)
Distributions paid to partnership unitholders	(19,569)	(19,401)	(18,921)
Issuance of notes receivable to the General Partner	(146,738)	—	—
Payments of financing costs	(425)	—	(39)
Net cash provided by/(used in) financing activities	<u>(195,694)</u>	<u>(36,577)</u>	<u>(25,986)</u>
Net increase/(decrease) in cash and cash equivalents	34	(45)	(207)
Cash and cash equivalents, beginning of year	355	400	607
Cash and cash equivalents, end of year	<u>\$ 389</u>	<u>\$ 355</u>	<u>\$ 400</u>
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	\$ 17,176	\$ 17,603	\$ 19,480
Non-cash transactions:			
Development costs and capital expenditures incurred but not yet paid	839	1,217	1,535
Distributions declared but not yet paid	10,438	10,034	9,548
Conversion of Advances (to)/from the General Partner to notes payable	52,216	—	—
The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:			
Cash, cash equivalents, and restricted cash, beginning of year:			
Cash and cash equivalents	\$ 39	\$ 66	\$ 89
Restricted cash	316	334	518
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 355</u>	<u>\$ 400</u>	<u>\$ 607</u>
Cash, cash equivalents, and restricted cash, end of year:			
Cash and cash equivalents	\$ 39	\$ 39	\$ 66
Restricted cash	350	316	334
Total cash, cash equivalents, and restricted cash as shown above	<u>\$ 389</u>	<u>\$ 355</u>	<u>\$ 400</u>

See accompanying notes to the combined financial statements.

UDR LIGHTHOUSE DOWNREIT L.P.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. CONSOLIDATION AND BASIS OF PRESENTATION

Basis of Presentation

UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership," "we" or "our"), a Delaware limited partnership, was formed on October 5, 2015 to own, acquire, renovate, redevelop, manage and dispose of multifamily apartment communities. The DownREIT Partnership is a subsidiary of UDR, Inc. ("UDR" or the "General Partner"), a self-administered real estate investment trust, or REIT. At December 31, 2018, the DownREIT Partnership's apartment portfolio consisted of 12 communities located in four markets consisting of 5,657 apartment homes.

Interests in the DownREIT Partnership are represented by units of limited partnership interest ("DownREIT Units"). The DownREIT Partnership's net income (or individual items thereof) is allocated to the partners in accordance with the terms of the Agreement of Limited Partnership of UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership Agreement"), which is generally first based on their respective distributions made during the year and secondly, 99% to UDR and 1% to the outside partners. Distributions are made in accordance with the terms of the DownREIT Partnership Agreement first 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," and secondly, 99% to UDR and 1% to the outside partners.

UDR is the sole general partner and a limited partner of the DownREIT Partnership. As the sole general partner of the DownREIT Partnership, UDR has full, complete and exclusive discretion to manage and control the business of the DownREIT Partnership and to make all decisions affecting the business and assets of the DownREIT Partnership, subject to certain limitations. United Dominion Realty, L.P., a Delaware limited partnership (the "Operating Partnership"), a subsidiary of UDR, is also a limited partner in the DownREIT Partnership. UDR and the Operating Partnership received their limited partnership interests in exchange for their contribution of the properties to the DownREIT Partnership. As of December 31, 2018, UDR and the Operating Partnership owned approximately 11.6% and 41.6%, respectively, of the DownREIT Units.

The Operating Partnership accounts for its ownership interest in the DownREIT Partnership as an equity method investment.

These financial statements are being presented pursuant to Rule 3-09 of Regulation S-X as the DownREIT Partnership was a significant subsidiary of the Operating Partnership for the year ended December 31, 2016. The DownREIT Partnership was not a significant subsidiary of the Operating Partnership for the year ended December 31, 2018 and 2017.

As of December 31, 2018, there were 32,367,380 DownREIT Units outstanding, of which 17,203,489, or 53.2%, were owned by UDR and affiliated entities, of which 13,470,651, or 41.6%, were held by the Operating Partnership, and 15,163,891, or 46.8%, were owned by non-affiliated limited partners. See Note 8, *Capital Structure*.

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

2. SIGNIFICANT ACCOUNT POLICIES

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, *Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities*. The ASU aims to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The updated standard would have been effective for the DownREIT Partnership on January 1, 2019 and must be applied using a modified retrospective approach; however, early adoption of the ASU was permitted. The DownREIT Partnership early adopted the guidance on January 1, 2018; however, the updated standard did not have a material impact on the combined financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

UDR LIGHTHOUSE DOWNREIT L.P.
NOTES TO COMBINED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2018

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The ASU addressed the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The updated standard was effective for the DownREIT Partnership on January 1, 2018 and was applied retrospectively to all periods presented. The updated standard did not have a material impact on the combined financial statements. Related disclosures were updated pursuant to the requirements of the ASU.

As a result of the adoption of ASU 2016-18, for the years ended December 31, 2018, 2017 and 2016, the following line items in the following amounts were reclassified on the Combined Statements of Cash Flows (*in thousands*):

	Year ended December 31,	
	2017	2016
	<i>(unaudited)</i>	<i>(audited)</i>
<i>(Increase)/decrease in operating assets</i>	\$ (18)	\$ (184)
<i>Net cash provided by / (used in) operating activities</i>	\$ (18)	\$ (184)
<i>Net increase/(decrease) in cash, cash equivalents, and restricted cash</i>	\$ (18)	\$ (184)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the DownREIT Partnership on January 1, 2020; however, early adoption of the ASU is permitted on January 1, 2019. In November 2016, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which amends the transition requirements and scope of ASU 2016-13 and clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. The DownREIT Partnership is currently evaluating the effect that the updated standard will have on the combined financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases on their balance sheets. Lessees of operating leases will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. The standard became effective for the DownREIT Partnership on January 1, 2019. The updated standard did not have a material impact on the combined financial statements.

In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, *Leases*. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The DownREIT Partnership intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The DownREIT Partnership also intends to elect the transition option.

UDR LIGHTHOUSE DOWNREIT L.P.
NOTES TO COMBINED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2018

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 amended the FASB Accounting Standards Codification (“ASC”) by creating ASC Topic 606, *Revenue from Contracts with Customers*. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, including industry-specific revenue guidance. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method. ASC Topic 606 was effective for the DownREIT Partnership on January 1, 2018, at which time the DownREIT Partnership adopted it using the modified retrospective approach. However, as the majority of the DownREIT Partnership’s revenue is from rental income related to leases, the ASU did not have a material impact on the combined financial statements. Related disclosures have been provided and/or updated pursuant to the requirements of the ASU.

Real Estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and other costs incurred during their development, acquisition and redevelopment.

Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

The DownREIT Partnership purchases real estate investment properties and records the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. When recording the acquisition of a community, we first assign 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 DownREIT Partnership estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up. Depreciation on the building is based on the expected useful life of the asset and the in-place leases are amortized over their remaining average contractual life. Property acquisition costs are capitalized as incurred if the acquisition does not meet the definition of a business.

Quarterly or when changes in circumstances warrant, the DownREIT Partnership will assess our real estate properties for indicators of impairment. In determining whether the DownREIT Partnership has indicators of impairment in our real estate assets, we assess whether the long-lived asset’s carrying value exceeds the community’s undiscounted future cash flows, which is representative of projected net operating income (“NOI”) plus the residual value of the community. Our future 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. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the carrying amount of the asset over its estimated fair value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates and capitalization rates, industry trends and reference to market rates and transactions.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the asset less estimated cost to sell is less than the carrying value of the asset. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale with the closing expected to occur within the next twelve months. Real estate held for disposition is carried at the lower of cost, net of accumulated depreciation, or fair value, less the cost to sell, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for disposition properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for disposition properties are capitalized at cost. Depreciation is not recorded on real estate held for disposition.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which are 35 to 55 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets.

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Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Combined Balance Sheets as *Total real estate owned, net of accumulated depreciation*. The DownREIT Partnership capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of redevelopment and capitalized interest, for the years ended December 31, 2018, 2017 and 2016 were \$0.3 million (*unaudited*), \$0.4 million (*unaudited*), and \$0.3 million (*audited*), respectively. During the years ended December 31, 2018, 2017, and 2016, total interest capitalized was less than \$0.1 million (*unaudited*), less than \$0.1 million (*unaudited*), and \$0.1 million (*audited*), respectively. As each home in a capital project is completed and becomes available for lease-up, the DownREIT Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The majority of the DownREIT Partnership's cash and cash equivalents are held at major commercial banks.

Restricted Cash

Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

Revenue

On January 1, 2018, the DownREIT Partnership adopted ASC Topic 606, *Revenue from Contracts with Customers*, utilizing the modified retrospective method, under which only contracts entered into after the effective date or not complete as of the effective date are subject to the new standard and an adjustment to the opening balance of retained earnings is made to recognize any required adjustments. As a result of the adoption, the DownREIT Partnership did not make an adjustment to retained earnings because no open contracts required different treatment under the new standard.

Revenue is measured based on consideration specified in contracts with customers. The DownREIT Partnership recognizes revenue when it satisfies a performance obligation by providing the services specified in a contract to the customer.

The following is a description of the principal streams from which the DownREIT Partnership generates its revenue:

Lease Revenue

Lease revenue related to leases is recognized on an accrual basis when due from residents or tenants in accordance with ASC 840, *Leases*. Rental payments are generally due on a monthly basis and recognized on a straight-line basis over the reasonably assured lease term. In addition, in circumstances where a lease incentive is provided to tenants, the incentive is recognized as a reduction of lease revenue on a straight-line basis over the reasonably assured lease term.

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Reimbursements Revenue

Reimbursements revenue includes all pass-through revenue from retail and residential leases and common area maintenance reimbursements from retail leases. Reimbursements revenue is recognized on a gross basis as earned as the DownREIT Partnership has determined it is the principal provider of the services.

Other Revenue

Other revenue is generated by services provided by the DownREIT Partnership to its retail and residential tenants and other unrelated third parties. These fees are generally recognized as earned.

Real Estate Sales Gain Recognition

For sale transactions resulting in a transfer of a controlling financial interest of a property, the DownREIT Partnership generally derecognizes the related assets and liabilities from its Combined Balance Sheets and records the gain or loss in the period in which the transfer of control occurs. If control of the property has not transferred to the counterparty, the criteria for derecognition are not met and the DownREIT Partnership will continue to recognize the related assets and liabilities on its Combined Balance Sheets.

Sale transactions to entities in which the DownREIT Partnership sells a controlling financial interest in a property but retains a noncontrolling interest are accounted for as partial sales. Partial sales resulting in a change in control are accounted for at fair value and a full gain or loss is recognized. Therefore, the DownREIT Partnership will record a gain or loss on the partial interest sold, and the initial measurement of our retained interest will be accounted for at fair value.

Sales of real estate to joint ventures or other noncontrolled investees are also accounted for at fair value and the DownREIT Partnership will record a full gain or loss in the period the property is contributed.

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Disaggregation of Revenue

Rental income, as disclosed on the Combined Statements of Operations, is disaggregated by principal revenue stream and by reportable segment in the following tables (*dollars in thousands*). *Joint venture management and other fees* are not included in the tables as they are not allocable to a specific reportable segment or segments.

	December 31, (a)		
	2018	2017	2016
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Lease Revenue (b)			
Same-Store Communities			
Mid-Atlantic Region	\$ 65,051	\$ 63,085	\$ 60,947
Northeast Region	16,600	16,033	15,660
Southwest Region	20,082	20,155	19,649
Non-Mature Communities/Other	25,565	25,123	24,017
Total segment and combined lease revenue	<u>\$ 127,298</u>	<u>\$ 124,396</u>	<u>\$ 120,273</u>

Reimbursements Revenue

Same-Store Communities			
Mid-Atlantic Region	\$ 2,964	\$ 2,789	\$ 2,517
Northeast Region	228	116	101
Southwest Region	736	853	820
Non-Mature Communities/Other	2,204	2,152	2,204
Total segment and combined reimbursements revenue	<u>\$ 6,132</u>	<u>\$ 5,910</u>	<u>\$ 5,642</u>

Other Revenue

Same-Store Communities			
Mid-Atlantic Region	\$ 2,007	\$ 1,729	\$ 1,438
Northeast Region	455	457	501
Southwest Region	945	932	872
Non-Mature Communities/Other	1,284	1,245	1,395
Total segment and combined other revenue	<u>\$ 4,691</u>	<u>\$ 4,363</u>	<u>\$ 4,206</u>

Total Revenue

Same-Store Communities			
Mid-Atlantic Region	\$ 70,022	\$ 67,603	\$ 64,902
Northeast Region	17,283	16,606	16,262
Southwest Region	21,763	21,940	21,341
Non-Mature Communities/Other	29,053	28,520	27,616
Total segment and combined total revenue	<u>\$ 138,121</u>	<u>\$ 134,669</u>	<u>\$ 130,121</u>

- (a) *Same-Store Community* population consisted of 4,962 apartment homes. *Same-Store Community* is defined in Note 10, *Reportable Segments*.
- (b) Lease Revenue is subject to recognition under ASC 840, *Leases*.

Derivative Financial Instruments

The General Partner utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. Derivative financial instruments associated with the DownREIT Partnership's allocation of the General Partner's debt are recorded on our Combined Balance Sheets as either an asset or liability and measured quarterly at their fair value. The changes in fair value for the General Partner's cash flow hedges allocated to the DownREIT Partnership that are deemed effective are reflected in other comprehensive income/(loss) and for non-designated derivative financial instruments in earnings. The ineffective component of cash flow hedges, if any, is recorded in earnings.

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Income Taxes

The taxable income or loss of the DownREIT 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 DownREIT Partnership are recorded at the entity level. The DownREIT 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 DownREIT Partnership evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the DownREIT 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 DownREIT 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 DownREIT Partnership has no examinations in progress and none are expected at this time.

Management of the DownREIT Partnership has reviewed all open tax years (2015 through 2017) of tax jurisdictions and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

As of December 31, 2017, management of the DownREIT Partnership had completed its review of the effects of the Tax Cuts and Jobs Act and had determined that the impact was not material.

Allocation of General and Administrative Expenses

The DownREIT Partnership is charged directly for general and administrative expenses it incurs. The DownREIT Partnership is also charged with other general and administrative expenses that have been allocated by the General Partner to each of its subsidiaries, including the DownREIT Partnership, based on reasonably anticipated benefits to the parties. (See Note 5, *Related Party Transactions*.)

Advertising Costs

All advertising costs are expensed as incurred and reported on the Combined Statements of Operations within the line item *Property operating and maintenance*. During the years ended December 31, 2018, 2017, and 2016, total advertising expense was \$1.0 million (*unaudited*), \$1.1 million (*unaudited*), and \$1.3 million (*audited*), respectively.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in capital during each period from transactions and other events and circumstances from nonowner sources, including all changes in capital during a period except for those resulting from investments by or distributions to partners, is displayed in the accompanying Combined Statements of Comprehensive Income/(Loss). For the years ended December 31, 2018, 2017, and 2016, the DownREIT Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in *Interest expense* on the Combined Statements of Operations. See Note 7, *Derivatives and Hedging Activity*, for further discussion.

Use of Estimates

The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent

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liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Market Concentration Risk

The DownREIT Partnership is subject to increased exposure from economic and other competitive factors specific to those markets where it holds a significant percentage of the carrying value of its real estate portfolio at December 31, 2018, the DownREIT Partnership held greater than 10% of the carrying value of its real estate portfolio in the Metropolitan D.C., Boston, Massachusetts and Dallas, Texas markets.

3. REAL ESTATE OWNED

Real estate assets owned by the DownREIT Partnership consist of income producing operating properties. At December 31, 2018, the DownREIT Partnership owned and combined 12 operating communities in two states plus the District of Columbia totaling 5,657 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(unaudited)</i>
Land	\$ 238,218	\$ 265,520
Depreciable property — held and used:		
Land improvements	7,306	3,664
Buildings, improvements, and furniture, fixtures and equipment	1,166,249	1,271,597
Real estate owned	1,411,773	1,540,781
Accumulated depreciation	(244,053)	(181,611)
Real estate owned, net	<u>\$ 1,167,720</u>	<u>\$ 1,359,170</u>

During the years ended December 31, 2018 and 2017, the DownREIT Partnership did not have any acquisitions.

In December 2018, the DownREIT Partnership sold an operating community in Fairfax, Virginia with a total of 604 apartment homes for gross proceeds of \$150.7 million, resulting in a gain of \$24.1 million.

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4. DEBT, NET

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the DownREIT Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of December 31, 2018 and 2017 (*dollars in thousands*):

	Principal Outstanding		For the Year Ended December 31, 2018		
	December 31,		Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
	2018	2017			
Fixed Rate Debt					
Mortgage notes payable	\$ 343,078	\$ 319,671	3.86 %	6.4	5
Fannie Mae credit facilities	90,000	90,000	3.95 %	1.5	1
Deferred financing costs	(1,343)	(1,192)			
Total fixed rate secured debt, net	431,735	408,479	3.16 %	5.4	6
Variable Rate Debt					
Fannie Mae credit facilities	—	29,034	— %	—	—
Deferred financing costs	—	(3)			
Total variable rate secured debt, net	—	29,031	— %	—	—
Total secured debt, net	\$ 431,735	\$ 437,510	3.16 %	5.4	6

As of December 31, 2018, a commitment of \$90.0 million of the General Partner's secured credit facility with Fannie Mae was allocated to the DownREIT Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at December 31, 2018. The Fannie Mae credit facility allocated to the DownREIT Partnership matures in July 2020 and bears interest at a fixed rate of 3.95%. The following information relates to the credit facilities owed by the DownREIT Partnership (*dollars in thousands*):

	December 31, 2018	December 31, 2017
	(unaudited)	(unaudited)
Borrowings outstanding	\$ 90,000	\$ 119,034
Weighted average borrowings during the period ended	106,936	119,034
Maximum daily borrowings during the period ended	119,034	119,034
Weighted average interest rate during the period ended	3.9 %	3.6 %
Interest rate at the end of the period	4.0 %	3.7 %

Upon the contribution of communities to the DownREIT Partnership, contributed secured debt was recorded at its estimated fair value and the difference between the fair value and par is amortized to interest expense over the life of the underlying debt instrument. As of December 31, 2018 and 2017, the DownREIT Partnership had \$2.6 million (*unaudited*) and \$6.4 million (*unaudited*), respectively, of unamortized fair value adjustments associated with the fixed rate debt instruments on the DownREIT Partnership's properties.

Fixed Rate Debt

During the year ended December 31, 2018, \$50.1 million of fixed rate mortgage notes payable owed by the DownREIT Partnership were prepaid with proceeds from the General Partner's issuance of senior unsecured medium-term notes and the DownREIT Partnership entered into an \$80.0 million fixed rate mortgage note payable.

At December 31, 2018, the General Partner had borrowings against its fixed rate facilities of \$90.0 million, all of which was owed by the DownREIT Partnership based on the ownership of the assets securing the debt. As of December 31, 2018, the fixed rate Fannie Mae credit facilities allocated to the DownREIT Partnership had a fixed interest rate of 3.95%.

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Variable Rate Debt

During the year ended December 31, 2018, \$29.0 million of funds borrowed under the Fannie Mae credit facilities and owed by the DownREIT Partnership were prepaid with proceeds from the General Partner's issuance of senior unsecured medium-term notes.

The aggregate maturities of the DownREIT Partnership's secured debt due during each of the next ten calendar years subsequent to December 31, 2018 are as follows (*dollars in thousands, unaudited*):

	<u>Fixed</u>		<u>Total</u>
	<u>Mortgage Notes Payable</u>	<u>Secured Credit Facilities</u>	
2019	\$ —	\$ —	\$ —
2020	82,887	90,000	172,887
2021	—	—	—
2022	—	—	—
2023	—	—	—
2024	—	—	—
2025	127,600	—	127,600
2026	50,000	—	50,000
2027	—	—	—
2028	80,000	—	80,000
Thereafter	—	—	—
Subtotal	<u>340,487</u>	<u>90,000</u>	<u>430,487</u>
Non-cash (a)	1,431	(183)	1,248
Total	<u>\$ 341,918</u>	<u>\$ 89,817</u>	<u>\$ 431,735</u>

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts and deferred financing costs. During the years ended December 31, 2018 and 2017, the DownREIT Partnership amortized \$0.3 million (*unaudited*) and \$0.3 million (*unaudited*) of deferred financing costs into *Interest expense*.

5. RELATED PARTY TRANSACTIONS

Advances (To)/From the General Partner

The DownREIT Partnership participates in the General Partner's central cash management program, wherein all the DownREIT 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 DownREIT Partnership. Prior to December 2018, the net *Advances (to)/from the General Partner* were reflected as increases/(decreases) of capital on the Combined Balance Sheets.

In December 2018, the DownREIT Partnership converted the balance of *Advances(to)/from the General Partner* into a revolving note payable with the General Partner. (See "Notes Receivable to the General Partner" section below for further detail).

As a result of these various transactions between the DownREIT Partnership and the General Partner, the DownREIT Partnership had net *Advances (to)/from the General Partner* of zero and \$57.4 million as of December 31, 2018 and 2017, respectively.

Notes Receivable from the General Partner

On October 6, 2015, the DownREIT Partnership entered into a note receivable with the General Partner with an aggregate commitment of \$126.5 million. As of December 31, 2018 and 2017, the note had a balance of \$126.5 million. Interest is incurred at a rate of 3.75% per annum and is paid monthly. The note matures on October 6, 2025.

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In December 2018, the DownREIT Partnership converted the remaining outstanding portion of the Advances (to)/from the General Partner capital balance in connection with entering into an unsecured revolving note payable with the General Partner. There is no limit on the total commitments under this note. The initial balance of the note was a payable balance of \$52.2 million and increased to a \$94.5 million receivable balance as of December 31, 2018. The change in the balance of the note from a payable to a receivable position as of December 31, 2018 is primarily driven by the DownREIT Partnership loaning the proceeds of the sale of an operating community in December 2018 to the General Partner under the revolving note agreement. Interest is incurred on the unpaid principal balance at a variable interest rate equivalent to the General Partner's weighted average interest rate on borrowings, or 3.72% as of December 31, 2018. The note matures on December 1, 2028. To the extent there is an outstanding principal balance on the revolving note payable, the General Partner, at its discretion, can demand payment at any time prior to the stated maturity date of the note.

For the years ended December 31, 2018, 2017, and 2016, the DownREIT Partnership recognized \$4.9 million (*unaudited*), \$4.7 million (*unaudited*) and \$4.7 million (*audited*), respectively, of interest income, net from these notes.

Allocation of General and Administrative Expenses

The General Partner shares various general and administrative costs, employees and other overhead costs with the DownREIT Partnership including legal assistance, acquisitions analysis, marketing, human resources, IT, accounting, rent, supplies and advertising, and allocates these costs to the DownREIT Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on the reasonably anticipated benefits to the parties. During the years ended December 31, 2018, 2017, and 2016, the general and administrative expenses allocated to the DownREIT Partnership by UDR were \$5.0 million (*unaudited*), \$5.3 million (*unaudited*) and \$5.7 million (*audited*), respectively, and are included in *General and administrative* on the Combined Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the DownREIT Partnership from the General Partner.

During the years ended December 31, 2018, 2017, and 2016, the DownREIT Partnership reimbursed the General Partner \$5.8 million (*unaudited*), \$5.8 million (*unaudited*) and \$5.4 million (*audited*), respectively, for shared services related to corporate level property management costs incurred by the General Partner. These shared cost reimbursements are initially recorded within the line item *General and administrative* on the Combined Statements of Operations, and a portion related to management costs is reclassified to *Property management* on the Combined Statements of Operations. (See further discussion below.)

Shared Services

At inception, the DownREIT Partnership self-managed its own properties and entered into an Inter-Company Employee and Cost Sharing Agreement with the General Partner. This agreement provides for reimbursements to the General Partner for the DownREIT Partnership's allocable share of costs incurred by the General Partner for (a) Shared Services of corporate level property management employees and related support functions and costs, and (b) general and administrative costs. As discussed above, the reimbursement for shared services is classified in *Property management* on the Combined Statements of Operations.

6. 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.

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- 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 DownREIT Partnership's financial instruments either recorded or disclosed on a recurring basis as of December 31, 2018 and 2017 are summarized as follows (*dollars in thousands*):

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2018	Fair Value Estimate at December 31, 2018	Fair Value at December 31, 2018, Using (unaudited)		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Secured debt instruments - fixed rate: (a)					
Mortgage notes payable	\$ 343,078	\$ 339,312	\$ —	\$ —	\$ 339,312
Fannie Mae credit facilities	90,000	90,213	—	—	90,213
Total liabilities	\$ 433,078	\$ 429,525	\$ —	\$ —	\$ 429,525

Description:	Total Carrying Amount in Statement of Financial Position at December 31, 2017	Fair Value Estimate at December 31, 2017	Fair Value at December 31, 2017, Using (unaudited)		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Secured debt instruments - fixed rate: (a)					
Mortgage notes payable	\$ 319,671	\$ 315,348	\$ —	\$ —	\$ 315,348
Fannie Mae credit facilities	90,000	90,591	—	—	90,591
Secured debt instruments - variable rate: (a)					
Fannie Mae credit facilities	29,034	29,034	—	—	29,034
Total liabilities	\$ 438,705	\$ 434,973	\$ —	\$ —	\$ 434,973

(a) See Note 4, *Debt, Net*.

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

Financial Instruments Carried at Fair Value

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

The General Partner, on behalf of the DownREIT 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

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DownREIT Partnership has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the General Partner, on behalf of the DownREIT 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 December 31, 2018 and December 31, 2017, the DownREIT 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 DownREIT 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 DownREIT 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 December 31, 2018, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments, which includes notes receivable and debt instruments, are classified in Level 3 of the fair value hierarchy due to the significant unobservable inputs that are utilized in their respective valuations.

The DownREIT 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.

7. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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A portion of the General Partner's interest rate derivatives has been allocated to the DownREIT Partnership based on the General Partner's underlying debt instruments owed by the DownREIT Partnership. (See Note 4, *Debt, Net.*)

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in *Accumulated other comprehensive income/(loss), net* on the Combined Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. As of and during the year ended December 31, 2018, no derivatives designated as cash flow hedges were held by the DownREIT Partnership. During the years ended December 31, 2017 and 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

During the years ended December 31, 2017 and 2016, the DownREIT Partnership recognized a loss of \$0.1 million (*unaudited*) and zero (*audited*) reclassified from *Accumulated other comprehensive income/(loss), net* to *Interest expense* due to the de-designation of a cash flow hedge recognized, respectively. No amounts were de-designated during the year ended December 31, 2018.

Amounts reported in *Accumulated other comprehensive income/(loss), net* related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner's variable-rate debt that is allocated to the DownREIT Partnership. As of December 31, 2018, no derivatives designated as cash flow hedges were held by the DownREIT Partnership and, as a result, no amounts are anticipated to be reclassified as an increase to interest expense through December 31, 2019.

Derivatives not designated as hedges are not speculative and are used to manage the DownREIT Partnership's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in no gain or loss for the year ended December 31, 2018, and resulted in an adjustment to earnings of less than \$0.1 million for each of the years ended December 31, 2017 and 2016.

Tabular Disclosure of Fair Values of Derivative Instruments on the Combined Balance Sheets

The fair value of the DownREIT Partnership's derivative financial instruments as of December 31, 2018 and 2017 was zero and had no impact on the combined balance sheets.

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

The tables below present the effect of the derivative financial instruments on the Combined Statements of Operations for the years ended December 31, 2018, 2017, and 2016 (*dollars in thousands*):

Derivatives in Cash Flow Hedging Relationships

	<i>Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)</i>			<i>Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)</i>			<i>Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)</i>		
	<i>Year Ended December 31,</i>			<i>Year Ended December 31,</i>			<i>Year Ended December 31,</i>		
	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
Derivatives in Cash Flow Hedging Relationships	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Interest rate products	\$ —	\$ —	\$ (2)	\$ —	\$ —	\$ (5)	\$ —	\$ (46)	\$ —
							Year Ended December 31,		
							2018	2017	2016
							<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Total amount of <i>Interest expense</i> presented on the Combined Statements of Operations							\$ 14,456	\$ 14,483	\$ 14,208

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Derivatives Not Designated as Hedging Instruments

	Gain/(Loss) Recognized in Interest income and other income/(expense), net		
	Year Ended December 31,		
	2018	2017	2016
Derivatives Not Designated as Hedging Instruments	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Interest rate products	\$ —	\$ —	\$ (1)

Credit-risk-related Contingent Features

The General Partner has agreements with its derivative counterparties that contain a provision where the General Partner could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the General Partner's default on the indebtedness.

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

8. CAPITAL STRUCTURE

General Partner

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 DownREIT Unit or securities of the DownREIT Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of DownREIT 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.

UDR, Inc. is the sole general partner of the DownREIT Partnership. Limited partners have no power to remove the general partner. No general partner DownREIT Units have been issued.

Limited Partnership Units

At December 31, 2018 and 2017, there were 32,367,380 limited partnership units outstanding. UDR owned 17,203,489 limited partnership units, or 53.2%, and 16,866,443 limited partnership units, or 52.1%, at December 31, 2018 and 2017, respectively, of which, 13,470,651 limited partnership units, or 41.6%, of all units outstanding were held by the Operating Partnership at December 31, 2018 and 2017. The remaining 15,163,891, or 46.8%, and 15,500,937, or 47.9%, limited partnership units outstanding were held by non-affiliated partners at December 31, 2018 and 2017, respectively.

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

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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 DownREIT Units held by limited partners was \$600.8 million and \$597.1 million as of December 31, 2018 and 2017, respectively, based on the value of UDR's common stock at each period end. A limited partner has no right to receive any distributions from the DownREIT Partnership on or after the date of redemption of its DownREIT Units.

The following table shows DownREIT Units outstanding and DownREIT Unit activity as of and for the years ended December 31, 2018, 2017, and 2016:

	UDR, Inc.			Total
	Limited Partners	Limited Partner	UDR, L.P. Limited Partner	
Ending balance at December 31, 2015 (unaudited)	16,137,973	2,758,756	13,470,651	32,367,380
DownREIT redemptions for UDR stock	(255,607)	255,607	—	—
Ending balance at December 31, 2016 (audited)	15,882,366	3,014,363	13,470,651	32,367,380
DownREIT redemptions for UDR stock	(381,429)	381,429	—	—
Ending balance at December 31, 2017 (unaudited)	15,500,937	3,395,792	13,470,651	32,367,380
DownREIT redemptions for UDR stock	(337,046)	337,046	—	—
Ending balance at December 31, 2018 (unaudited)	15,163,891	3,732,838	13,470,651	32,367,380

Allocation of Profits and Losses

The DownREIT Partnership's net income is allocated to the partners in accordance with the terms of the DownREIT Partnership Agreement, which is generally first based on their respective distributions made during the year and secondly, 99% to UDR and 1% to the Outside Partners. Distributions are made in accordance with the terms of the DownREIT Partnership Agreement first 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 NYSE under the ticker symbol "UDR," and secondly, 99% to UDR and 1% to the Outside Partners.

9. COMMITMENTS AND CONTINGENCIES

Contingencies

Litigation and Legal Matters

The DownREIT Partnership is subject to various legal proceedings and claims arising in the ordinary course of business. The DownREIT 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 DownREIT Partnership's financial condition, results of operations or cash flow.

10. 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 DownREIT Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

The DownREIT 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 DownREIT Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the chief operating decision maker's assessment of the DownREIT Partnership's performance on a combined basis. Rental income represents gross market rent less adjustments for

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concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI are property management costs, which are the DownREIT Partnership's allocable share of costs incurred by the General Partner for shared services of corporate level property management employees and related support functions and costs. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.

The DownREIT Partnership's two reportable segments are *Same-Store Communities* and *Non-Mature Communities/Other*:

- *Same-Store Communities* represent those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.
- *Non-Mature Communities/Other* represent those communities that do not meet the criteria to be included in *Same-Store Communities*, including, but not limited to, recently acquired, developed and redeveloped communities, and the non-apartment components of mixed use properties.

Management of the General Partner evaluates the performance of each of the DownREIT Partnership's apartment communities on a *Same-Store Community* and *Non-Mature Community/Other* basis, as well as individually and geographically. This is consistent with the aggregation criteria under GAAP as each of our apartment communities generally has similar economic characteristics, facilities, services, and tenants.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the DownREIT Partnership's total revenues during the years ended December 31, 2018, 2017, and 2016.

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The following table details rental income and NOI for the DownREIT Partnership's reportable segments during the years ended December 31, 2018, 2017, and 2016, and reconciles NOI to *Net income/(loss) attributable to DownREIT unitholders* in the Combined Statements of Operations (*dollars in thousands*):

	Year Ended December 31,		
	2018 <i>(unaudited)</i>	2017 <i>(unaudited)</i>	2016 <i>(audited)</i>
Reportable apartment home segment rental income			
Same-Store Communities			
Mid-Atlantic Region	\$ 70,022	\$ 67,603	\$ 64,902
Northeast Region	17,283	16,606	16,262
Southwest Region	21,763	21,940	21,341
Non-Mature Communities/Other	29,053	28,520	27,616
Total segment and combined rental income	<u>\$ 138,121</u>	<u>\$ 134,669</u>	<u>\$ 130,121</u>
Reportable apartment home segment NOI			
Same-Store Communities			
Mid-Atlantic Region	\$ 48,974	\$ 47,484	\$ 44,772
Northeast Region	13,031	12,298	12,062
Southwest Region	13,213	13,709	13,440
Non-Mature Communities/Other	17,404	17,159	16,395
Total segment and combined NOI	<u>92,622</u>	<u>90,650</u>	<u>86,669</u>
Reconciling items:			
Property management	(3,798)	(3,703)	(3,578)
Other operating expenses	(225)	(251)	(195)
Real estate depreciation and amortization	(85,872)	(84,000)	(111,453)
General and administrative	(7,046)	(7,305)	(7,503)
Casualty-related recoveries/(charges), net	(430)	(209)	(271)
Interest expense	(14,456)	(14,483)	(14,208)
Interest income on notes receivable from the General Partner, net	4,884	4,718	4,743
Gain/(loss) on sale of real estate owned	24,053	—	—
Net income/(loss) attributable to DownREIT unitholders	<u>\$ 9,732</u>	<u>\$ (14,583)</u>	<u>\$ (45,796)</u>

The following table details the assets of the DownREIT Partnership's reportable segments as of December 31, 2018 and 2017 (*dollars in thousands*):

	December 31, 2018	December 31, 2017
	<i>(unaudited)</i>	<i>(unaudited)</i>
Reportable apartment home segment assets		
Same-Store Communities		
Mid-Atlantic Region	\$ 837,954	\$ 829,207
Northeast Region	212,055	209,903
Southwest Region	200,670	197,679
Non-Mature Communities/Other	161,094	303,992
Total Segments assets	<u>1,411,773</u>	<u>1,540,781</u>
Accumulated depreciation	(244,053)	(181,611)
Total segment assets - net book value	<u>1,167,720</u>	<u>1,359,170</u>
Reconciling items:		
Cash and cash equivalents	39	39
Restricted cash	350	316
Notes receivable from the General Partner	221,022	126,500
Other assets	5,211	4,621
Total combined assets	<u>\$ 1,394,342</u>	<u>\$ 1,490,646</u>

Capital expenditures related to the DownREIT Partnership's *Same-Store Communities* totaled \$10.2 million (*unaudited*), \$11.4 million (*unaudited*), and \$10.0 million (*audited*) for the years ended December 31, 2018, 2017, and

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2016. Capital expenditures related to the DownREIT Partnership's *Non-Mature Communities/Other* totaled \$2.8 million (*unaudited*), \$2.9 million (*unaudited*), and \$4.9 million (*audited*) for the years ended December 31, 2018, 2017, and 2016, respectively.

11. UNAUDITED SUMMARIZED COMBINED QUARTERLY FINANCIAL DATA

Selected combined quarterly financial data for the years ended December 31, 2018 and 2017 is summarized in the table below (*dollars in thousands, except per unit amounts*):

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2018				
Rental income	\$ 34,012	\$ 34,761	\$ 35,068	\$ 34,280
Net income/(loss) attributable to DownREIT unitholders	(4,348)	(4,182)	(3,478)	21,740
Net income/(loss) attributable to DownREIT unitholders per weighted average DownREIT Unit — basic and diluted (a)	\$ (0.13)	\$ (0.13)	\$ (0.11)	\$ 0.67
2017				
Rental income	\$ 33,298	\$ 33,628	\$ 33,883	\$ 33,860
Net income/(loss) attributable to DownREIT unitholders	(3,980)	(3,064)	(3,691)	(3,848)
Net income/(loss) attributable to DownREIT unitholders per weighted average DownREIT Unit — basic and diluted (a)	\$ (0.12)	\$ (0.09)	\$ (0.11)	\$ (0.12)

(a) Quarterly net income/(loss) per weighted average DownREIT Unit amounts may not total to the annual amounts.