

UDR, Inc.
Form 10-K
February 24, 2015

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, 2014
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.) 54-0857512
Delaware (United Dominion Realty, L.P.) 54-1776887
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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	Name of Each Exchange on Which Registered
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Common Stock, \$0.01 par value (UDR, Inc.)	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 ☒	No ☐
United Dominion Realty, L.P.	Yes ☐	No ☒

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 ☐	No ☒
United Dominion Realty, L.P.	Yes ☐	No ☒

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.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

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

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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

The aggregate market value of the shares of common stock of UDR, Inc. held by non-affiliates on June 30, 2014 was approximately \$3.0 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 19, 2015, there were 258,765,713 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 2015 Annual Meeting of Stockholders.

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EXPLANATORY NOTE

This Report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2014 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. 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 are referred to as “OP Units” and the holders of the OP 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 disclosure in this Report. UDR is a real estate investment trust (“REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiary (“TRS”) whose activities include development of land and land entitlement. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding debt of UDR. As of December 31, 2014, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,002,342 units (or approximately 95.0%) of the limited partnership interests of 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 being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities” and “Control and Procedures” are provided 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 Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as “expects,” “anticipates,” “intends,” “plans,” “likely,” “will,” “believes,” “seeks,” “estimates,” and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unfavorable changes in the apartment market, changing economic conditions, the impact of inflation/deflation on rental rates and property operating expenses, expectations concerning availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income. 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 Annual 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. For a further discussion of these and other factors that could impact future results, performance or transactions, see “Item 1A. Risk Factors” elsewhere in this Annual Report.

Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual 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, and manages multifamily apartment communities generally located in high barrier-to-entry markets located 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, 2014, our consolidated real estate portfolio included 139 communities located in 20 markets, with a total of 39,851 completed apartment homes, which are held through our subsidiaries, including the Operating Partnership, and consolidated joint ventures. In addition, we have an ownership interest in 36 communities containing 10,055 apartment homes through unconsolidated joint ventures or partnerships. As of December 31, 2014, the Company was developing one wholly-owned community with 369 apartment homes and three unconsolidated joint venture communities with 1,018 apartment homes, none of which have been completed.

At December 31, 2014, the Operating Partnership's consolidated real estate portfolio included 68 communities located in 17 markets, with a total of 20,814 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, 2014, revenues of the Operating Partnership represented approximately 52% 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 2014, we declared total distributions of \$1.04 per common share and paid dividends of \$1.015 per common share.

	Dividends Declared in 2014	Dividends Paid in 2014
First Quarter	\$0.260	\$0.235
Second Quarter	0.260	0.260
Third Quarter	0.260	0.260
Fourth Quarter	0.260	0.260
Total	\$1.040	\$1.015

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 19, 2015, we had 1,523 full-time associates and 59 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 includes those communities acquired, developed, and stabilized prior to January 1, 2013, and held as of December 31, 2014. 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 classified as held for sale 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 12, 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 earnings and dividends.

2014 Highlights

In July 2014, the Company marked its 42nd year as a REIT and paid its 168th consecutive quarterly dividend in October. The Company's annualized declared 2014 dividend of \$1.04 represented a 10.6% increase over the previous year.

• We achieved Same-Store revenue growth of 4.3% and Same-Store net operating income ("NOI") growth of 5.2%. During the year ended December, 31, 2014, we invested approximately \$251.5 million in wholly-owned development projects and \$31.5 million in redevelopment projects and major renovations, including completion of 980 development apartment homes and 401 redevelopment apartment homes in primary markets.

- We expanded our relationship with the Metropolitan Life Insurance Company ("MetLife"):

We increased our ownership interest in the remaining six operating communities in the UDR/MetLife I Joint Venture from 12% to 50%, and MetLife and the Company contributed the communities to the UDR/MetLife II Joint Venture. We paid MetLife \$82.5 million for the additional ownership interests.

We increased our ownership interest in four land sites in the UDR/MetLife I Joint Venture from approximately 3% to 50%. The remaining interest continues to be held by our joint venture partner MetLife. We paid MetLife approximately \$36.8 million for the additional ownership interests.

• We sold 50% of our interest in 3033 Wilshire and 49% of our interest in 13th and Market to MetLife for gross proceeds of approximately \$62.5 million, resulting in the assets being held by unconsolidated joint ventures.

• We issued \$300 million of 3.75%, 10-year senior unsecured medium-term notes in June. Net proceeds were used to pay down borrowings outstanding on our unsecured revolving credit facility and for general corporate purposes.

• We completed five developments containing 1,396 homes for an estimated aggregate cost of \$480.0 million.

• We acquired land parcels for future development located in Huntington Beach, California for \$77.8 million and Boston, Massachusetts for \$32.2 million.

• We acquired two communities located in Seattle, Washington and Kirkland, Washington with a total of 358 apartment homes for \$45.5 million and \$75.2 million, respectively.

• We recognized gains on the sale of real estate of \$143.6 million, net of tax, which consisted of:

the sale of nine communities with a total of 2,500 apartment homes, an adjacent parcel of land, and one operating property for gross proceeds of \$328.4 million, resulting in a gain, net of tax, of approximately \$138.6 million; and the sale of our 49% interest in a recently completed development for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million and our 50% interest in a land parcel for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million.

We sold common stock under our amended equity distribution agreement for net proceeds of approximately \$99.8 million, which was primarily used to fund the Company's Steele Creek participating loan investment.

Other than the following, there were no significant changes to the Operating Partnership's business during 2014 (the above 2014 highlights relate to UDR or other subsidiaries of UDR):

The Operating Partnership sold one operating community and an adjacent parcel of land in San Diego, California for gross proceeds of \$48.7 million, resulting in a gain of approximately \$24.4 million and net proceeds of \$47.9 million. The Operating Partnership also recorded gains of \$39.2 million in connection with UDR's sale of two communities in Tampa, Florida and Los Angeles, California, which were previously deferred.

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 2014.

Our Strategies and Vision

Our vision is to be the innovative multifamily public REIT of choice. Our strategic priorities are:

1. Strengthen the Quality of Our Portfolio
2. Flexible/Strong Balance Sheet
3. Increase Cash Flow to Support Dividend Growth
4. A Great Place to Work and Live

Capital Allocation

Acquisitions and Dispositions

When evaluating potential acquisitions, we consider:

- 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;
- potential for capital appreciation of the property;
- ability to increase the value and profitability of the property through operations and redevelopment;
 - whether it is located in a high barrier-to-entry market;
- 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):

	2014	2013	2012	2011	2010
Homes acquired	358	—	633	3,161	1,374
Homes disposed	2,500	914	6,507	4,488	149
Homes owned at December 31,	39,851	41,250	41,571	47,343	48,553
Total real estate owned, at cost	\$8,383,259	\$8,207,977	\$8,055,828	\$8,074,471	\$6,881,347

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

	2014	2013	2012	2011	2010
Homes acquired	—	—	—	1,833	—
Homes disposed	264	914	1,314	2,024	—
Homes owned at December 31,	20,814	20,746	21,660	23,160	23,351
Total real estate owned, at cost	\$4,238,770	\$4,188,480	\$4,182,920	\$4,205,298	\$3,706,184

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/valuations have trended over the long-term govern our review process on where to allocate development capital. At December 31, 2014, our development pipeline included one wholly-owned community located in Boston, Massachusetts with 369 homes and a budget of \$217.7 million, in which we have a carrying value of \$177.6 million.

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 2014, we continued to redevelop properties in primary markets where we concluded there was an opportunity to add value. At December 31, 2014, the Company was redeveloping 708 apartment homes, 694 of which have been completed, at one wholly-owned community with 739 apartment homes located in New York, New York. During the year ended December 31, 2014, we incurred \$31.5 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings.

Joint Venture 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.

The Operating Partnership is not a party to any of the joint venture activities described above.

Balance Sheet Management

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.

Operational Excellence, Cash Flow and Dividend Growth

Investment in new technologies continues to drive operating efficiencies in our business and help us to better meet the changing needs of our residents. Since its launch in January 2009, our residents have been utilizing our web-based resident internet portal on our website. 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.

We launched a new website at the end of 2014. This is the third major revision of UDR.com, and represents a complete rebuild of our on-line presence. It was completed after several months of research with customer focus groups that told us what they wanted to see in an on-line shopping experience. The new website features elements such as on-line appointment scheduling, enhanced neighborhood information, and comparison shopping tools, all of which are available via any device the customer may choose. To date, we are exceeding our initial targets for the site by converting a higher than expected amount of traffic to community visits.

As a result of transforming our operations through technology, residents' satisfaction 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.

Portfolio Improvement

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.

For the year ended December 31, 2014, approximately 65.0% of our same-store NOI was generated by communities located in our primary markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; Austin, Texas; Dallas, Texas; Boston, Massachusetts; New York, New York; and Metropolitan D.C.

Operating Partnership Strategies and Vision

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

Markets and Competitive Conditions

During the year ended December 31, 2014, 65.0% of our consolidated same-store NOI was generated from apartment homes located in our primary markets. At December 31, 2014, the Company held 70.7% of its same-store carrying value of its real estate portfolio in our primary markets. During the year ended December 31, 2014, 72.9% of the Operating Partnership's same-store NOI was generated from apartment homes located in our primary markets. At December 31, 2014, the Operating Partnership held 76.1% of its same-store carrying value of its real estate portfolio in its primary markets. We believe that this diversification increases investment opportunity and decreases the risk associated with cyclical local real estate markets and economies, thereby increasing the stability and predictability of our earnings.

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 20 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, 2014, our consolidated real estate portfolio included 139 communities with a total of 39,851 completed apartment homes, which included the Operating Partnership's consolidated real estate portfolio of 68 communities with a total of 20,814 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, 2014, the Company was developing one wholly-owned community with 369 apartment homes, none of which have been completed. In addition, at December 31, 2014, the Company had three communities with 825 apartment homes which were completed but not yet stabilized.

At December 31, 2014, the Company was redeveloping 708 apartment homes, 694 of which have been completed, at one wholly-owned community with 739 apartment homes.

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 expenses excluding property management and other operating expenses. 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.

For the year ended December 31, 2014, our same-store NOI increased by \$21.6 million or 5.2% compared to the prior year. Our same-store community properties provided 79.2% of our total NOI for the year ended December 31, 2014. The increase in NOI for the 34,581 same-store apartment homes, or 86.8% of our portfolio, was driven by an increase in rental rates, fee and reimbursement income, and increased occupancy, partially offset by an increase in real estate taxes and insurance expenses.

For the year ended December 31, 2014, the Operating Partnership's same-store NOI increased by \$15.2 million or 6.1% compared to the prior year. Our same-store community properties provided 88.1% of our total NOI for the year ended December 31, 2014. The increase in NOI for the 19,010 same-store apartment homes, or 91.3% of the Operating Partnership's portfolio, was driven by an increase in rental rates, fee and reimbursement income, and increased occupancy, partially offset by an increase in operating expenses.

Revenue growth in 2015 may be impacted by adverse developments affecting the economy generally, 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 through wage pressures, property taxes, utilities and material costs, substantially all of our leases are for a term of 14 months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2014.

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

- downturns in the national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates, making alternative housing more affordable;
- government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing options more attractive;
- local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- changes in market rental rates;
- our ability to renew leases or re-lease space on favorable terms;

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

We May Be Unable to Renew Leases or Relet Apartment Units as Leases Expire. 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. 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.

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

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. 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 results of operations, cash flow and ability to make distributions to UDR's stockholders. The predominant effects of deflation include high unemployment and credit contraction. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties.

We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities:

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

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

• we may be unable to obtain financing for acquisitions on favorable terms or at all;
• even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the acquisition;
• even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;
• we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;
• when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability;
• 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 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 pursue 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:

- we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all which could cause us to delay or even abandon potential developments;
- we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;
- yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than expected;
- if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;
- we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities;
- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;
- occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; and
- when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

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

Bankruptcy 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 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 business and results of operations.

Property Ownership Through Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and/or acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. We currently have 15 active joint ventures and partnerships, excluding our participating loan investment, with a total equity investment of \$655.5 million. We could become engaged in a dispute with one or more of our joint venture partners which might affect our ability to operate a jointly-owned property. Moreover, joint venture partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest. Also, our joint venture 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 joint venture (if we are the seller) or of the other partner's interest in the 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.

We are also subject to risk in cases where an institutional owner is our joint venture partner, including (i) a deadlock if we and our joint venture partner are unable to agree upon certain major and other decisions, (ii) the limitation of our ability to liquidate our position in the joint venture without the consent of the other joint venture partner, and (iii) the requirement to provide guarantees in favor of lenders with respect to the indebtedness of the joint venture.

We Could Incur Significant Insurance Costs and Some Potential Losses May Not Be Adequately Covered by Insurance. We have a comprehensive insurance program covering our property and operating activities with limits of liability customary within the multi-family 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 occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. If one or more of our significant properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions to UDR's stockholders.

As a result of our substantial real estate holdings, the cost of insuring our apartment communities is a significant component of expense. Insurance premiums are subject to significant increases and fluctuations, which 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 of our 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 of one or more insurance companies may increase the costs to renew our insurance policies or increase the cost of insuring additional properties and recently developed or redeveloped properties.

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

These risks include, among others:

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

- inability to hire and retain key personnel;
- lack of familiarity with local governmental and permitting procedures; and
- inability to achieve budgeted financial results.

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

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

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

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

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

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

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

know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

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

Risk of Damage from Catastrophic Weather and Natural Events and Potential Climate Change. Certain of our communities are located in areas that may experience catastrophic weather and other natural events from time to time, including mudslides, fires, hurricanes, tornadoes, 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 materially and adversely affect our business and 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 may be adversely affected.

Risk of Earthquake Damage. Some of our communities are located in the general vicinity of active 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 would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business, 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 Due to Fire, Natural Disasters or Other Hazards. The accidental death of persons living in our communities due to fire, natural disasters or other hazards could have a material 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 such any such events have occurred, which could have a material adverse effect on our business 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 a material adverse effect on our business and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our ability to achieve our expected results. Further, our insurance coverage may not cover all losses caused by a terrorist attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations.

Mezzanine Loan Assets Involve Greater Risks of Loss than Senior Loans Secured by Income-producing Properties. We may acquire 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 long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured 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 initial expenditure. In addition, mezzanine loans may 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.

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Materially and Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR's Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under 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 materially and adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR's common stock. **Any Material Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on UDR's Stock Price.** Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on UDR's stock price.

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

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

We May be Adversely Affected by New Federal Laws and Regulations. The United States Administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate change, executive compensation and others. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us.

Federal rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the most recent economic recession. These initiatives have created a

degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area culminated in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and continue to require extensive rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are

proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

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

We May be Adversely Affected by New State and Local Laws and Regulations. We are subject to state and local laws, regulations and ordinances at locations where we operate and to the rules and regulations of various local authorities regarding a wide variety of matters that could affect, directly or indirectly, our operations. We cannot predict what matters might be considered in the future by these state and local authorities, nor can we judge what impact, if any, the implementation of new legislation might have on our business.

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

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

- the national and local economies;
- local real estate market conditions, such as an oversupply of apartment homes;
- tenants’ perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;
- our ability to provide adequate management, maintenance and insurance;
- rental expenses, including real estate taxes and utilities;

•competition from other apartment communities;

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- changes in interest rates and the availability of financing;
- changes in governmental regulations and the related costs of compliance; and
- changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multi-family housing.

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

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

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

Failure To Maintain Our Current Credit Ratings Could Adversely Affect Our Cost of Funds, Related Margins, Liquidity, and Access to Capital Markets. Moody's and Standard & Poor's, the major debt rating agencies, routinely evaluate our debt and have given us ratings on our senior unsecured debt 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.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR's Stock. Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the 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. 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 Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. Fannie Mae and Freddie Mac are a major source of financing for secured multifamily rental real estate. We and other multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guaranteeing apartment loans. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance

Agency. The Administration and lawmakers have proposed potential options for the future of mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, it would significantly reduce our access to debt capital and adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. Uncertainty in the future activity and involvement of Fannie Mae and Freddie Mac as a source of financing could negatively impact our ability to make acquisitions and make it more difficult or not possible for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

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

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of December 31, 2014, UDR had approximately \$579.7 million of variable rate indebtedness outstanding, which constitutes approximately 16.1% of total outstanding indebtedness as of such date. As of December 31, 2014, the Operating Partnership had approximately \$219.8 million of variable rate indebtedness outstanding, which constitutes approximately 23.6% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of UDR's common and preferred stock and debt securities.

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

Risks Related to Tax Laws

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

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to UDR's stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until the fifth calendar

year after the year in which we first failed to qualify as a REIT. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to UDR's stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to UDR's stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

Certain of our subsidiaries have also elected to be taxed as a REIT under the Code, and are therefore subject to the same risks in the event that they fail 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 distributions to individual stockholders generally are not eligible for the reduced rates.

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

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

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

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

The Operating Partnership Intends to Qualify as a Partnership, But Cannot Guarantee That It Will Qualify. The Operating Partnership intends to qualify as a partnership for federal income tax purposes at any such time that the Operating Partnership admits additional limited partners other than UDR. If classified as a partnership, the Operating Partnership generally will not be a taxable entity and will not incur federal income tax liability. However, the Operating Partnership would be treated as a corporation for federal income tax purposes if it were a "publicly traded

partnership,” unless at least 90% of the Operating Partnership’s income was qualifying income as defined in the Code. A “publicly traded partnership” is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although the Operating Partnership’s partnership units are not traded on an established securities market, because of the redemption right, the Operating Partnership’s units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and the Operating Partnership may not qualify for one of the “safe harbors” under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. The Operating Partnership may not meet this qualifying income test. If the Operating Partnership were to be taxed as a corporation, it would incur substantial tax

liabilities, and UDR would then fail to qualify as a REIT for tax purposes, unless it qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

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

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

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

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

failure to satisfy listing requirements of the NYSE;

governmental regulatory action and changes in tax laws; and

the issuance of additional shares of UDR's common stock, or the perception that such sales might occur, including under UDR's at-the-market equity distribution program.

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

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR's Stockholders' Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR's stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR's stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights 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, 2014, our consolidated apartment portfolio included 139 communities located in 20 markets, with a total of 39,851 completed apartment homes.

As of December 31, 2014, we leased approximately 44,000 square feet of office space in Highlands Ranch, Colorado for our corporate headquarters. We also leased an aggregate of approximately 9,000 square feet of office space in Dallas, Texas, Richmond, Virginia and Alexandria, Virginia.

In February 2015, the Company acquired the office building in Highlands Ranch, Colorado housing its corporate offices, as well as other leased office space, for total consideration of approximately \$24.0 million, which was comprised of assumed debt. The building consists of approximately 120,000 square feet, of which UDR occupies approximately 44,000 square feet. All existing leases were assumed by the Company at the time of the acquisition.

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, 2014.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2014
UDR, INC.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Gross Amount (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (in square feet)
WEST REGION								
San Francisco, CA	12	2,751	9.7	% \$815,153	\$66,310	\$296,312	94.6	% 836
Orange County, CA	14	5,214	14.3	% 1,202,995	193,873	230,724	89.2	% 804
Seattle, WA	11	2,085	6.9	% 575,008	58,457	275,783	85.6	% 849
Los Angeles, CA	4	1,225	5.3	% 440,329	100,335	359,452	95.2	% 967
Monterey Peninsula, CA	7	1,565	1.9	% 161,633	—	103,280	95.8	% 728
Other Southern California	4	875	1.7	% 141,660	46,471	161,897	96.1	% 928
Portland, OR	3	716	0.9	% 73,811	35,141	103,088	97.6	% 918
MID-ATLANTIC REGION								
Metropolitan D.C.	16	5,156	14.4	% 1,211,295	184,172	234,929	90.7	% 834
Baltimore, MD	11	2,301	3.7	% 309,894	66,711	134,678	96.6	% 957
Richmond, VA	4	1,358	1.7	% 139,538	34,567	102,753	96.5	% 1,018
Norfolk, VA	4	846	0.6	% 54,077	—	63,921	94.6	% 1,023
Other Mid-Atlantic	1	168	0.2	% 12,971	—	77,208	95.4	% 1,002
SOUTHEAST REGION								
Tampa, FL	9	2,775	3.3	% 275,355	31,239	99,227	96.6	% 955
Orlando, FL	10	2,796	2.8	% 238,375	63,394	85,256	96.7	% 961
Nashville, TN	8	2,260	2.3	% 191,393	38,834	84,687	97.5	% 933
Other Florida	1	636	0.9	% 81,316	39,179	127,855	96.5	% 1,130
NORTHEAST REGION								
New York, NY	4	1,947	15.2	% 1,278,432	190,462	656,616	95.0	% 740
Boston, MA	4	1,179	3.9	% 323,419	79,286	274,316	96.3	% 1,097
SOUTHWEST REGION								
Dallas, TX	8	2,725	3.5	% 292,848	102,438	107,467	97.2	% 846
Austin, TX	4	1,273	1.8	% 147,873	30,660	116,161	97.1	% 913
Total Operating Communities	139	39,851	95.0	% 7,967,375	1,361,529	\$199,929	94.1	% 887
Real Estate Under Development (a)	—	—	2.1	% 177,632	—			
Land	—	—	2.1	% 171,253	—			
Other	—	—	0.8	% 66,999	—			
	139	39,851	100.0	% \$8,383,259	\$1,361,529			

Total Real Estate
Owned

(a) As of December 31, 2014, the Company was developing one wholly-owned community with 369 apartment homes, which has not been completed.

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SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2014
UNITED DOMINION REALTY, L.P.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Gross Amount (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (in square feet)
WEST REGION								
San Francisco, CA	9	2,185	13.2	% \$560,868	\$ 66,310	\$256,690	97.2	% 821
Orange County, CA	9	3,899	19.5	% 823,931	193,874	211,319	93.8	% 764
Seattle, WA	5	932	5.0	% 213,238	22,957	228,796	97.3	% 869
Los Angeles, CA	2	344	2.5	% 108,081	32,635	314,189	95.6	% 976
Monterey Peninsula, CA	7	1,565	3.8	% 161,633	—	103,280	95.8	% 728
Other Southern California	3	635	2.6	% 109,744	46,471	172,825	96.1	% 939
Portland, OR	3	716	1.7	% 73,811	35,141	103,088	97.6	% 918
MID-ATLANTIC REGION								
Metropolitan D.C.	8	2,710	16.3	% 686,019	102,643	253,144	86.4	% 901
Baltimore, MD	5	994	3.6	% 152,040	43,403	152,958	96.3	% 1,064
SOUTHEAST REGION								
Tampa, FL	3	1,154	2.8	% 117,261	—	101,613	96.8	% 1,003
Nashville, TN	6	1,612	3.2	% 134,852	—	83,655	97.5	% 925
Other Florida	1	636	1.9	% 81,316	39,179	127,855	96.5	% 1,130
NORTHEAST REGION								
New York, NY	2	1,001	14.1	% 598,999	190,462	598,401	97.4	% 685
Boston, MA	2	833	4.2	% 178,607	56,447	214,414	96.5	% 1,120
SOUTHWEST REGION								
Dallas, TX	2	1,348	4.5	% 189,458	102,437	140,547	97.0	% 910
Austin, TX	1	250	0.9	% 39,538	—	158,152	96.2	% 883
Total Operating Communities	68	20,814	99.8	% 4,229,396	931,959	\$203,200	94.9	% 876
Other	—	—	0.2	% 9,374	—			
Total Real Estate Owned	68	20,814	100.0	% \$4,238,770	\$ 931,959			

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, or "NYSE", under the symbol "UDR" since May 7, 1990. The following tables set forth the quarterly high and low sale prices per common share reported on the NYSE for each quarter of the last two fiscal years. Distribution information for common stock reflects distributions declared per share for each calendar quarter and paid at the end of the following month.

	2014			2013		
	High	Low	Distributions Declared	High	Low	Distributions Declared
Quarter ended March 31,	\$26.63	\$23.27	\$0.260	\$25.18	\$24.83	\$0.235
Quarter ended June 30,	\$28.64	\$25.28	\$0.260	\$27.04	\$26.59	\$0.235
Quarter ended September 30,	\$30.30	\$27.18	\$0.260	\$26.35	\$26.00	\$0.235
Quarter ended December 31,	\$31.74	\$27.27	\$0.260	\$25.42	\$25.03	\$0.235

On February 19, 2015, the closing sale price of our common stock was \$31.83 per share on the NYSE, and there were 4,306 holders of record of the 258,765,713 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 68% of the distributions for 2014 represented ordinary income, 14% represented qualified ordinary income, 10% represented long-term capital gain, and 8% represented unrecaptured section 1250 gain.

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, 2014 and December 31, 2013 were \$1.33 per share or \$0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2014, a total of 2,803,812 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," at a purchase price of \$0.0001 per share. OP Unitholders are entitled to subscribe for and purchase one share of the Series F for each OP Unit held. As of December 31, 2014, a total of 2,464,183 shares of the Series F were outstanding with an aggregate purchase value of \$246. 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 19, 2015, there were approximately 2,289 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, 2014, there were 183,278,698 OP Units outstanding in the Operating Partnership, of which 174,113,225 OP Units or 95.0% were owned by UDR and 9,165,473 OP Units or 5.0% were owned by 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 2014, we issued a total of 153,451 shares of common stock upon redemption of OP Units. On October 20, 2014, we issued 1,998 shares of our common stock upon redemption of OP Units. Because these shares of common stock were issued to accredited investors in transactions not involving a public offering, the transaction is exempt from registration under the Securities Act of 1933 in accordance with Section 4(a)(2) of the Securities Act.

We did not issue any other shares of our common stock upon redemption of OP Units during the three months ended December 31, 2014.

Purchases of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10,000,000 share repurchase program. In January 2008, UDR's Board of Directors authorized a new 15,000,000 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. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended December 31, 2014.

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
Beginning Balance	9,967,490	\$22.00	9,967,490	15,032,510
October 1, 2014 through October 31, 2014	—	—	—	15,032,510
November 1, 2014 through November 30, 2014	—	—	—	15,032,510
December 1, 2014 through December 31, 2014	—	—	—	15,032,510
Balance as of December 31, 2014	9,967,490	\$22.00	9,967,490	15,032,510

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

During the three months ended December 31, 2014, certain of our employees surrendered shares of common stock owned by them to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted shares of common stock issued under our 1999 Long-Term Incentive Plan (the "LTIP"). The following table

summarizes all of these repurchases during the three months ended December 31, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share(a)	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
October 1, 2014 through October 31, 2014	—	\$—	N/A	N/A
November 1, 2014 through November 30, 2014	—	—	N/A	N/A
December 1, 2014 through December 31, 2014	107,113	30.82	N/A	N/A
Total	107,113	\$30.82		

(a) The price paid per share is based on the closing price of our common stock as of the date of the determination of the statutory minimum for federal and state tax obligations.

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 US REIT Index. The graph assumes that \$100 was invested on December 31, 2009, 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					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
UDR, Inc.	100.00	148.70	163.91	160.75	163.92	224.86
NAREIT Equity Apartment Index	100.00	147.04	169.23	180.97	169.76	237.02
US MSCI REITS	100.00	128.48	139.65	164.46	168.52	219.72
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
NAREIT Equity REIT Index	100.00	127.96	138.57	163.60	167.63	218.16

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, 2014. The table 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)				
	2014	2013	2012	2011	2010
OPERATING DATA:					
Rental income	\$805,002	\$746,484	\$704,701	\$613,689	\$503,097
Income/(loss) from continuing operations	16,260	2,340	(46,305)	(126,869)	(121,117)
Income/(loss) from discontinued operations, net of tax	10	43,942	266,608	147,454	14,529
Net income/(loss)	159,842	46,282	220,303	20,585	(106,588)
Distributions to preferred stockholders	3,724	3,724	6,010	9,311	9,488
Net income/(loss) attributable to common stockholders	150,610	41,088	203,376	10,537	(112,362)
Common distributions declared	263,503	235,721	215,654	165,590	126,086
Income/(loss) per weighted average common share — basic:					
Income/(loss) from continuing operations attributable to common stockholders	\$0.60	\$(0.01)	\$(0.22)	\$(0.65)	\$(0.77)
Income/(loss) from discontinued operations attributable to common stockholders	—	0.17	1.07	0.71	0.09
Net income/(loss) attributable to common stockholders	\$0.60	\$0.16	\$0.85	\$0.05	\$(0.68)
Income/(loss) per weighted average common share — diluted:					
Income/(loss) from continuing operations attributable to common stockholders	\$0.59	\$(0.01)	\$(0.22)	\$(0.65)	\$(0.77)
Income/(loss) from discontinued operations attributable to common stockholders	—	0.17	1.07	0.71	0.09
Net income/(loss) attributable to common stockholders	\$0.59	\$0.16	\$0.85	\$0.05	\$(0.68)
Weighted average number of Common Shares outstanding — basic	251,528	249,969	238,851	201,294	165,857
Weighted average number of Common Shares outstanding — diluted	253,445	249,969	238,851	201,294	165,857
Weighted average number of Common Shares outstanding, OP Units and Common Stock equivalents outstanding — diluted	265,728	263,926	252,659	214,086	176,900
Common distributions declared	\$1.04	\$0.94	\$0.88	\$0.80	\$0.73
Balance Sheet Data:					
Real estate owned, at cost (a)	\$8,383,259	\$8,207,977	\$8,055,828	\$8,074,471	\$6,881,347
Accumulated depreciation (a)	2,434,772	2,208,794	1,924,682	1,831,727	1,638,326

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Total real estate owned, net of accumulated depreciation (a)	5,948,487	5,999,183	6,131,146	6,242,744	5,243,021
Total assets	6,846,534	6,807,722	6,859,103	6,692,254	5,500,597
Secured debt (a)	1,361,529	1,442,077	1,430,135	1,891,553	1,963,670
Unsecured debt	2,221,576	2,081,626	1,979,198	2,026,817	1,603,834
Total debt	3,583,105	3,523,703	3,409,333	3,918,370	3,567,504
Total stockholders' equity	2,735,097	2,811,648	2,992,916	2,314,050	1,606,343
Number of Common Shares outstanding	255,115	250,750	250,139	219,650	182,496

	UDR, Inc. Year Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2014	2013	2012	2011	2010
OPERATING DATA (continued):					
Other Data (a)					
Total consolidated apartment homes owned (at end of year) (a)	39,851	41,250	41,571	47,343	48,553
Weighted average number of consolidated apartment homes owned during the year	40,644	41,392	42,747	48,531	47,571
Cash Flow Data:					
Cash provided by/(used in) operating activities	\$392,360	\$339,902	\$327,187	\$251,411	\$214,180
Cash provided by/(used in) investing activities	(293,660)	(123,209)	(211,582)	(1,054,683)	(583,754)
Cash provided by/(used in) financing activities	(113,725)	(198,559)	(115,993)	806,289	373,075
Funds from Operations (b):					
Funds from operations — basic	\$411,702	\$376,778	\$350,628	\$269,856	\$189,045
Funds from operations — diluted	415,426	380,502	354,532	273,580	192,771

(a) Includes amounts classified as Held for Sale, where applicable.

Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles, or “GAAP”), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms with the (b) National Association of Real Estate Investment Trust’s definition issued in April 2002. 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 flows 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.

Activities of our TRS include development and land entitlement. From time to time, we develop and subsequently sell a TRS property which results in a short-term use of funds that produces a profit that differs from the traditional long-term investment in real estate for REITs. We believe that the inclusion of these TRS gains in FFO is consistent with the standards established by NAREIT as the short-term investment is incidental to our main business. TRS gains on sales, net of taxes, are defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation.

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

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

	2014	2013	2012	2011	2010
OPERATING DATA:					
Rental income	\$422,634	\$401,853	\$384,946	\$344,937	\$297,380
Income/(loss) from continuing operations	33,544	32,766	(13,309)	(40,744)	(30,937)
Income/(loss) from discontinued operations	—	45,176	57,643	70,973	10,243
Net income/(loss)	97,179	77,942	44,334	30,229	(20,694)
Net income/(loss) attributable to OP unitholders	96,227	73,376	43,982	30,159	(20,735)
Income/(loss) per weighted average OP Unit - basic and diluted:					
Income/(loss) from continuing operations attributable to OP unitholder	\$0.53	\$0.16	\$(0.07)	\$(0.22)	\$(0.18)
Income/(loss) from discontinued operations attributable to OP unitholder	—	0.24	0.31	0.39	0.06
Net income/(loss) attributable to OP unitholders	0.53	0.40	0.24	0.17	(0.12)
Weighted average number of OP Units outstanding — basic and diluted	183,279	184,196	184,281	182,448	179,909
Balance Sheet Data:					
Real estate owned, at cost (a)	\$4,238,770	\$4,188,480	\$4,182,920	\$4,205,298	\$3,706,184
Accumulated depreciation (a)	1,403,303	1,241,574	1,097,133	976,358	884,083
Total real estate owned, net of accumulated depreciation (a)	2,835,467	2,946,906	3,085,787	3,228,940	2,822,101
Total assets	2,878,284	2,993,241	3,136,254	3,292,167	2,861,395
Secured debt (a)	931,959	934,865	967,239	1,189,645	1,070,061
Total liabilities	1,144,233	1,190,144	1,217,498	1,438,798	1,299,772
Total partners' capital	1,703,001	1,795,934	1,917,299	2,034,792	2,042,241
Advances to/(from) General Partner	(13,624)	9,916	11,056	193,584	492,709
Number of OP units outstanding	183,279	183,279	184,281	184,281	179,909
Other Data:					
Total consolidated apartment homes owned (at end of year) (a)	20,814	20,746	21,660	23,160	23,351
Cash Flow Data:					
Cash provided by/(used in) operating activities	\$208,032	\$208,346	\$201,095	\$156,071	\$146,604
Cash provided by/(used in) investing activities	(46,650)	(63,954)	4,273	(226,980)	(59,458)
Cash provided by/(used in) financing activities	(162,777)	(145,299)	(203,268)	70,693	(86,668)

(a) Includes amounts classified as Held for Sale, where applicable.

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 availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income.

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

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

- our failure to succeed in new markets;
- changing interest rates, which could increase interest costs and affect the market price of our securities;
- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;

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

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

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

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

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

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 and the accompanying notes for the years ended December 31, 2014, 2013 and 2012 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, acquires, renovates, develops, and manages 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. 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, 2014, our consolidated real estate portfolio included 139 communities in 10 states plus the District of Columbia totaling 39,851 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 36 communities with 10,055 apartment homes.

At December 31, 2014, the Company was developing one wholly-owned community with 369 apartment homes and three unconsolidated joint venture communities with 1,018 apartment homes, none of which have been completed. In addition, the Company was redeveloping 708 apartment homes, 694 of which have been completed, at one wholly-owned community with 739 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 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, 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, 2014, 2013, and 2012 were \$29.2 million, \$40.5 million, and \$36.4 million, respectively.

Investment in Unconsolidated Joint Ventures

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, 2014 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, 2014.

	As of December 31, 2014				Year Ended December 31, 2014			
Same-Store Communities	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)	
West Region								
San Francisco, CA	11	2,436	7.9	% \$666,210	97.2	% \$2,804	\$60,730	
Orange County, CA	10	3,290	7.3	% 612,309	95.5	% 1,752	47,990	
Seattle, WA	9	1,727	5.4	% 449,375	97.1	% 1,732	24,812	
Los Angeles, CA	3	642	3.0	% 253,448	95.3	% 2,409	12,159	
Monterey Peninsula, CA	7	1,565	1.9	% 161,635	95.8	% 1,216	15,326	
Other Southern California	4	875	1.7	% 141,656	96.1	% 1,550	10,938	
Portland, OR	3	716	0.9	% 73,811	97.6	% 1,195	6,971	
Mid-Atlantic Region								
Metropolitan D.C.	13	4,313	10.6	% 893,677	97.1	% 1,818	62,261	
Baltimore, MD	11	2,301	3.7	% 309,894	96.6	% 1,462	27,431	
Richmond, VA	4	1,358	1.7	% 139,538	96.5	% 1,220	14,309	
Norfolk, VA	4	846	0.6	% 54,076	94.6	% 1,047	6,520	
Other Mid-Atlantic	1	168	0.2	% 12,972	95.4	% 1,021	1,241	
Southeast Region								
Tampa, FL	9	2,775	3.3	% 275,354	96.6	% 1,126	23,276	
Orlando, FL	10	2,796	2.8	% 238,375	96.7	% 1,045	22,839	
Nashville, TN	8	2,260	2.3	% 191,393	97.5	% 1,053	18,922	
Other Florida	1	636	1.0	% 81,316	96.5	% 1,362	6,491	
Northeast Region								
New York, NY	2	700	5.0	% 423,130	97.8	% 3,711	23,280	
Boston, MA	4	1,179	3.9	% 323,420	96.3	% 2,225	21,617	
Southwest Region								
Dallas, TX	8	2,725	3.5	% 292,847	97.2	% 1,130	22,657	
Austin, TX	4	1,273	1.8	% 147,873	97.1	% 1,274	11,068	
Total/Average Same-Store Communities	126	34,581	68.5	% 5,742,309	96.7	% \$1,573	440,838	
Non Matures, Commercial Properties & Other	13	5,270	29.4	% 2,463,318			115,580	

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Total Real Estate Held for Investment	139	39,851	97.9	%	8,205,627	556,418
Real Estate Under Development (b)	—	—	2.1	%	177,632	(97)
Total Real Estate Owned	139	39,851	100.0	%	8,383,259	\$556,321
Total Accumulated Depreciation					(2,434,772)	
Total Real Estate Owned, Net of Accumulated Depreciation					\$5,948,487	

- (a) Monthly Income per Occupied Home represents total monthly revenues divided by the product of occupancy and the number of mature apartment homes.
- (b) As of December 31, 2014, the Company was developing one wholly-owned community with 369 apartment homes, which has not been completed.

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, 2013 and held as of December 31, 2014. 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 sale 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 repositioned our portfolio.

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

We have a shelf registration statement filed with the Securities and Exchange Commission, or “SEC,” which provides for the issuance of an indeterminate amount of common stock, preferred stock, 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.

During 2014, the Company issued \$300 million of 3.750% senior unsecured medium-term notes due July 1, 2024. Interest is payable semi-annually beginning on January 1, 2015. The notes were priced at 99.652% of the principal amount at issuance. We used the net proceeds to pay down borrowings outstanding on our \$900 million unsecured credit facility and for general corporate purposes. The notes are fully and unconditionally guaranteed by the Operating Partnership.

In April 2012, the Company entered into a new equity distribution agreement, which was amended in July 2014, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2014, the Company sold 3,410,433 shares of common stock through this program for aggregate gross proceeds of approximately \$102.1 million at a weighted average price per share of \$29.95. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$2.3 million, were approximately \$99.8 million, which was primarily used to fund the Company's Steele Creek participating loan investment. As of December 31, 2014, we had 16,518,567 shares of common stock available for sale under the April 2012 program.

Future Capital Needs

Future development and redevelopment expenditures may be funded through unsecured or secured credit facilities, proceeds from the issuance of equity or debt securities, 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 2015, we have approximately \$196.6 million of secured debt maturing, inclusive of principal amortization, and \$324.3 million of unsecured debt maturing. In January 2015, we paid off \$325.2 million of 5.25% medium-term notes due January 2015 with borrowings under the Company's \$900 million unsecured revolving credit facility. We anticipate repaying the remaining debt with cash flow from our operations, proceeds from debt or equity offerings, proceeds from the dispositions of properties, or from borrowings under our credit agreements.

Statements of Cash Flow

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, 2014, 2013, and 2012.

Operating Activities

For the year ended December 31, 2014, Net cash provided by/(used in) operating activities was \$392.4 million compared to \$339.9 million for 2013. The increase in cash flow from operating activities was primarily due to improved income from continuing operations and changes in operating assets and liabilities.

For the year ended December 31, 2013, Net cash provided by/(used in) operating activities was \$339.9 million compared to \$327.2 million for 2012. The increase in cash flow from operating activities is primarily due to improved income from continuing operations, partially offset by changes in operating assets and operating liabilities.

Investing Activities

For the year ended December 31, 2014, Net cash provided by/(used in) investing activities was \$(293.7) million compared to \$(123.2) million for 2013. The increase in cash used in investing activities is primarily related to increased acquisitions of real estate and investments in unconsolidated joint ventures, partially offset by increased proceeds from sales of real estate, lower spend on development and redevelopment, and repayment of notes receivable.

For the year ended December 31, 2013, Net cash provided by/(used in) investing activities was \$(123.2) million compared to \$(211.6) million in 2012. The change in investing activities was due to changes in the level of investment activities, which reflect our strategy as it relates to our investments in unconsolidated joint ventures and partnerships, acquisitions, dispositions, capital expenditures, and development activities, all of which are discussed in further detail throughout this Report.

Acquisitions

In 2014, the Company acquired a fully-entitled land parcel for future development located in Huntington Beach, California for \$77.8 million, two communities located in Seattle, Washington and Kirkland, Washington with a total of 358 apartment homes for \$45.5 million and \$75.2 million, respectively, and a land parcel for future development located in Boston, Massachusetts for \$32.2 million. The four acquisitions during the year ended December 31, 2014 were accomplished through tax-deferred exchanges under Section 1031 of the Internal Revenue Code.

The Company did not acquire any real estate assets in 2013. During 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) located in Austin, Texas for \$11.7 million from its joint venture partner. In addition, the Company also acquired two parcels of land for development in San Francisco, California and Boston, Massachusetts for a total purchase price of \$77.2 million.

Capital Expenditures

Total capital expenditures, which in aggregate include recurring capital expenditures and major renovations, of \$90.1 million or \$2,274 per stabilized home were spent on all of our communities, excluding development and commercial properties, for the year ended December 31, 2014 as compared to \$145.2 million or \$3,537 per stabilized home for the prior year.

The decrease in total capital expenditures was primarily due to a decrease in major renovations of 65.8% or \$60.6 million. Major renovations of \$31.5 million or \$796 per home were spent for the year ended December 31, 2014 as compared to \$92.1 million or \$2,244 per home for the prior year. The decrease is primarily attributable to our 27 Seventy Five Mesa

Verde project in Orange County, which incurred a full year of major renovation costs in 2013. The renovation project was completed in the second quarter of 2014.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under developments and commercial properties, for the years ended December 31, 2014 and 2013 (dollars in thousands):

	Year Ended December 31,			Per Home			
	2014	2013	% Change	2014	2013	% Change	
Turnover capital expenditures	\$12,160	\$11,850	2.6	% \$307	\$288	6.6	%
Asset preservation expenditures	31,761	30,857	2.9	% 801	752	6.5	%
Total recurring capital expenditures	43,921	42,707	2.8	% 1,108	1,040	6.5	%
Revenue-enhancing improvements	14,647	10,364	41.3	% 370	253	46.2	%
Major renovations	31,547	92,141	(65.8)	)% 796	2,244	(64.5)	)%
Total capital expenditures	\$90,115	\$145,212	(37.9)	)% \$2,274	\$3,537	(35.7)	)%
Repair and maintenance expense	\$31,288	\$32,692	(4.3)	)% \$789	\$796	(0.9)	)%
Average stabilized home count (a)	39,637	41,052					

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

This table reports amounts capitalized during the year. Actual capital spending is impacted by the net change in capital expenditure accruals.

We will 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. Recurring capital expenditures during 2015 are projected to be approximately \$1,150 per home.

Real Estate Under Development and Redevelopment

At December 31, 2014, our development pipeline for one wholly-owned community totaled 369 homes with a budget of \$217.7 million, in which we have a carrying value of \$177.6 million. The estimated completion date for this community is in the second quarter of 2015. During 2014, we incurred \$251.5 million for development costs, a decrease of \$29.1 million from our 2013 level of \$280.6 million.

The following wholly-owned projects were under development or recently completed as of December 31, 2014 (dollars in thousands):

	Location	Number of Apartment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
Projects Under Construction:							
Pier 4	Boston, MA	369	—	\$177,632	\$217,700	\$590	2Q2015
Completed Projects, Non-Stabilized:							
DelRay Tower (a)(b)	Alexandria, VA	332	332	124,873	132,000	398	4Q2014
Beach & Ocean (c)	Huntington Beach, CA	173	173	51,038	51,900	300	4Q2014
Los Alisos	Mission Viejo, CA	320	320	87,180	87,500	273	1Q2014
Total completed projects		825	825	263,091	271,400	329	
Total Projects		1,194	825	\$440,723	\$489,100	\$410	

(a) This project is held by the Operating Partnership.

(b) Formerly known as The Calvert.

(c) Formerly known as Beach Walk.

At December 31, 2014, the Company was redeveloping 708 apartment homes, 694 of which have been completed, at one wholly-owned community with 739 total apartment homes. During the year ended December 31, 2014, we incurred \$31.5 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings, a decrease of \$60.6 million from our 2013 level of \$92.1 million. The estimated completion date for this community is the second quarter of 2015.

At December 31, 2014, the following community was in redevelopment (dollars in thousands):

	Location	Number of Apartment Homes	Scheduled Redevelopment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
View 34 (a)	New York, NY	739	708	694	\$83,778	\$98,000	\$138	2Q2015

(a) Formerly known as Rivergate.

Consolidated Joint Ventures

In December 2013, the Company consolidated its 95%/5% development joint ventures 13th and Market in San Diego, California and Domain College Park in Metropolitan, D.C. The consolidation was due to the Company becoming the managing partner of each of the joint ventures pursuant to amendments to the LLC Agreements. In connection with the amendments, our partner received equity distributions reducing its capital account balances to zero, the Company replaced our partner as the managing partner, and our partner no longer has the ability to substantively participate in the decision-making process, with only protective rights remaining. We accounted for the consolidations as asset acquisitions since the joint ventures were under development and not complete at the time of consolidation resulting in no gain or loss upon consolidation and increasing our real estate owned by \$129.4 million and our debt owed by \$63.6 million. In addition pursuant to the amendments, the Company paid a non-refundable deposit to our partner in January 2014 of \$2.0 million for each joint venture, or \$4.0 million in total, for the right to exercise options in 2014 to acquire our partner's upside participation in the joint ventures. The non-refundable deposits were applied towards the total purchase price of approximately \$24.7 million when the Company acquired 100% of the interest in the joint ventures in November 2014.

In December 2014, the Company sold a 49% interest in 13th and Market to MetLife for \$54.2 million, resulting in a gain, net of tax, of \$7.2 million. Additionally, the Company sold a 50% interest in a wholly owned land parcel to MetLife for \$8.3 million, resulting in a loss, net of tax, of \$2.2 million. As a result, the Company no longer controls these two joint ventures and they were deconsolidated by the Company in December 2014.

Unconsolidated 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.

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, 2014 and 2013 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR's Ownership Interest		
		2014	2014	2014	2013	2014	2013	
Operating and development:								
UDR/MetLife I (a)	Various	4 land parcels	—	\$ 13,306	\$ 47,497	15.7	% 4.5	%
UDR/MetLife II (a)	Various	21 operating communities	4,642	431,277	327,926	50.0	% 50.0	%
Other UDR/MetLife Joint Ventures (a)	Various	1 operating community, 3 development communities (b), 2 land parcels	1,282	134,939	36,313	50.6	% 35.8	%
UDR/MetLife Vitruvian Park® (c)	Addison, TX	3 operating communities, 6 land parcels	1,394	80,302	79,318	50.0	% 50.0	%
UDR/KFH (d)	Washington, D.C.	3 operating communities	660	21,596	25,919	30.0	% 30.0	%
Texas (e)	Texas	8 operating communities	3,359	(25,901)	(23,591)	20.0	% 20.0	%
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment				655,519	493,382			

	Location	Preferred Return	Years To Maturity	Investment at		Income From Participating Loan Investment For The Year Ended		
				2014	2013	2014	2013	
Participating loan investment:								
Steele Creek (f)	Denver, CO	6.5%	2.8	62,707	14,273	\$2,350	\$156	\$—

Total investment in and advances to unconsolidated joint ventures, net

\$ 718,226 \$ 507,655

(a) In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California, which is included in Other UDR/MetLife Joint Ventures in the table above. At closing, UDR owned a noncontrolling interest of 92.5% in the joint venture. The Company's total investment was \$55.5 million, which consisted of its initial investment of \$37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid \$13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for \$4.7 million. In December 2013, the Company sold a 49% ownership interest to MetLife in the fully-entitled 399 Fremont land parcel for approximately \$29.9 million. In conjunction with the sale, the Company formed a new unconsolidated real estate joint venture with MetLife, UDR/MetLife 399 Fremont, to develop a \$318 million, 447-home, luxury high-rise tower on the site. Construction commenced in the first quarter 2014. As the Company recently acquired the 399 Fremont land parcel, the sale price was equivalent to the cost

basis resulting in no gain or loss on the transaction. Under the terms of the partnership, the Company serves as the general partner with significant participating rights held by our partner, and has the ability to earn fees for development management, property management, asset management, and financing transactions. The UDR/MetLife 399 Fremont Joint Venture is accounted for under the equity method of accounting. Our initial investment was approximately \$31.1 million.

In June 2013 and within UDR/MetLife I, the Company exchanged with MetLife its approximately 10% ownership interest in four operating communities and paid MetLife an additional \$15.6 million in cash for an increased ownership interest of approximately 35% in two high-rise operating communities, bringing UDR's ownership interest in the two high-rise operating communities to 50% each. The two high-rise operating communities are located in Denver, Colorado and San Diego, California and were subsequently contributed to UDR/MetLife II. The four operating communities in which UDR exchanged its ownership interest are located in Washington D.C.; San Francisco, California; Dallas, Texas; and Charlotte, North Carolina. UDR continues to fee manage these four operating communities.

In March 2014, the Company sold its minority ownership interests in two operating communities located in Los Angeles, California to MetLife for cash proceeds of \$3.0 million, which resulted in an immaterial gain. In April 2014, the Company increased its ownership interest in the remaining six operating communities in the UDR/MetLife I Joint Venture from 12% to 50%, and MetLife and the Company contributed the communities to the UDR/MetLife II Joint Venture. The Company paid MetLife \$82.5 million for the additional ownership interests. The Company continues to fee manage the operating communities that were contributed to the UDR/MetLife II Joint Venture as well as the two operating communities in which it sold its minority ownership interests.

In July 2014, the Company increased the ownership interest in two land sites in UDR/MetLife I to 50.1% and formed individual asset joint ventures, which are included in Other UDR/MetLife Joint Ventures in the table above. The remaining 49.9% continues to be held by our joint venture partner MetLife. The Company paid MetLife approximately \$21.5 million for the additional ownership interests.

In December 2014, the Company increased its ownership interest in one land site in the UDR/MetLife I Joint Venture to 50%. Additionally, the Company increased its ownership interest in another land site to 50.1%, which MetLife and the Company contributed to a separate joint venture and is included in Other UDR/MetLife Joint Ventures in the table above. The Company paid MetLife approximately \$15.3 million for the additional ownership interests. As of December 31, 2014, the remaining assets in the UDR/MetLife I Joint Venture were comprised of three potential development land sites in which the Company has an average ownership interest of approximately 5% and one fully entitled land parcel in which the Company owns 50%.

In December 2014, the Company sold a 49% interest in 13th and Market located in San Diego, California to MetLife for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million and a 50% interest in 3033 Wilshire in Los Angeles, California, also to MetLife for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million.

The number of apartment homes for the communities under development presented in the table above is based on (b) the projected number of total homes. As of December 31, 2014, no apartment homes had been completed in Other UDR/MetLife Joint Ventures.

In June 2013, the Company sold a 50% interest in five partnerships (the "UDR/MetLife Vitruvian Park® Partnerships") to MetLife for approximately \$141.3 million. The transaction resulted in a gain of approximately \$436,000 which the Company has deferred until the terms of the construction completion guarantee have been met. Under the terms of the UDR/MetLife Vitruvian Park® Partnerships, the Company serves as the general partner with (c) significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions. The UDR/MetLife Vitruvian Park® Partnerships are accounted for under the equity method of accounting. Our initial investment was approximately \$80.2 million, which consisted of approximately \$140.0 million (50% of our net book value of the real estate at the time of the transaction) reduced by our share of the net proceeds received upon encumbering the assets of approximately \$58.7 million and other operating adjustments.

At closing, a total of \$118.3 million of secured debt was placed on the two operating communities and the community under development. The debt on the two operating communities carries an interest rate of 4.0% with a term of ten years and the non-recourse construction loan on the community under development carries an interest rate of LIBOR plus 175 basis points with a term of two years and two one-year extension options. The Company has guaranteed the completion of the construction of the development. Proceeds from the construction loan will be used for completion of construction of the development. Upon completion, at its 50% ownership, the Company's pro-rata share of the undepreciated book value of the UDR/MetLife Vitruvian Park® Partnerships' real estate assets and outstanding debt

will be approximately \$145.0 million and \$62.8 million, respectively.

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(d) UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to \$450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180 million of which the Company's maximum equity will be 30% or \$54 million when fully invested.

(e) In November 2007, UDR and an unaffiliated third party formed a joint venture to own and operate 10 communities located in Texas. UDR contributed cash and property equal to 20% of the fair value of the joint venture. During the year ended December 31, 2012, the Company acquired the remaining 80% ownership interests in two communities in Austin, Texas for \$11.7 million. The Company's investment in the joint venture at December 31, 2014 and 2013 was net of deferred profits on the sale of depreciable properties to the joint venture of \$23.9 million and \$24.0 million, respectively.

In January 2015, the eight communities held by the Texas joint venture were sold, generating proceeds to UDR of \$43.5 million. The Company recorded promote and fee income of approximately \$9.6 million and a gain of approximately \$59.1 million (including \$24.2 million of previously deferred gains) in connection with the sale.

(f) In October 2013, the Company entered into a participating debt financing arrangement with a third party that is developing a \$108 million, 218-home, high-rise luxury community located adjacent to the Cherry Creek Mall in Denver, Colorado. Under the agreement, UDR will finance up to 85%, or approximately \$92.0 million, of the development cost at an interest rate of 6.5% per annum on the outstanding debt balance. In addition, the Company has the option to purchase the community upon completion of construction and has a 50% participating interest in the profit upon the acquisition of the community or sale to a third party. The Company accounts for the arrangement consistent with an investment in real estate under the equity method of accounting.

As of December 31, 2014, and 2013, our participating loan investment was \$62.7 million and \$14.3 million, respectively, which was included in Investment in and advances to unconsolidated joint ventures, net on the Consolidated Balance Sheets. We also recognized \$2.4 million and \$156,000 of income included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013, respectively.

Dispositions

During the year ended December 31, 2014, the Company recognized gains on the sale of real estate, net of tax, of \$143.6 million. The Company sold nine communities consisting of a total of 2,500 apartment homes, an adjacent parcel of land, and one operating property for gross proceeds of \$328.4 million, resulting in net proceeds of \$324.4 million and a total gain, net of tax, of \$138.6 million. The Company also sold 49% interest in a recently completed development for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million, and 50% interest in a land parcel for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million. A portion of the sale proceeds was designated for tax-deferred exchanges under Section 1031 of the Internal Revenue Code and was used to fund acquisitions of real estate as discussed above.

In 2013, UDR sold two apartment communities in the Sacramento market, consisting of 914 apartment homes for gross proceeds of \$81.1 million. UDR recognized gains of \$41.9 million, which are included in Income/(loss) from discontinued operations, net of tax on the UDR Consolidated Statements of Operations. Proceeds were used primarily to fund development and redevelopment activity and reduce debt.

In 2012, UDR sold 21 apartment communities, which had 6,507 apartment homes for gross proceeds of \$609.4 million. UDR recognized gains (before tax) of \$260.4 million, which are included in Income/(loss) from discontinued operations, net of tax on the UDR Consolidated Statements of Operations. Proceeds were used primarily to fund development and redevelopment activity and reduce debt.

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.

Financing Activities

For the years ended December 31, 2014, 2013 and 2012, Net cash provided by/(used in) financing activities was \$(113.7) million, \$(198.6) million and (\$116.0) million, respectively.

The following significant financing activities occurred during the year ended December 31, 2014:

• repaid \$81.0 million of secured debt;

repaid \$184.0 million of 5.13% unsecured medium-term notes due January 2014;
 repaid \$128.5 million of 5.50% unsecured medium-term notes due April 2014;
 issued \$300.0 million of 3.750% senior unsecured medium-term notes due July 2024;
 sold 3,410,433 shares of common stock for aggregate net proceeds of approximately \$99.8 million after deducting related expenses;
 net borrowings of \$152.5 million under the Company's \$900 million unsecured revolving credit facility; and
 paid distributions of \$256.1 million to our common stockholders.

The following significant financing activities occurred during the year ended December 31, 2013:

issued \$300 million of 3.70% senior unsecured medium-term notes due October 2020;
 repaid \$46.6 million of secured debt. The \$46.6 million of secured debt included \$42.2 million of mortgage payments and the repayment of \$4.4 million of credit facilities;
 repaid \$122.5 million of 6.05% unsecured medium-term notes due June 2013; and
 • re-priced our \$100 million and \$250 million unsecured term notes from LIBOR plus 142.5 basis points to LIBOR plus 125 basis points, and extended the maturity dates from January 2016 to June 2018.

Credit Facilities

As of December 31, 2014, we have secured credit facilities with Fannie Mae with an aggregate commitment of \$834.3 million, all of which was outstanding. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023, and bear interest at floating and fixed rates. The Company has \$568.1 million of the funded balance fixed at a weighted average interest rate of 5.12% and the remaining balance of \$266.2 million on these facilities had at a weighted average variable rate of 1.60% at December 31, 2014.

As of December 31, 2014, the Company has a \$900 million unsecured revolving credit facility that matures in December 2017. The credit facility has a six month extension option and contains an accordion feature that allows us to increase the facility to \$1.45 billion. Based on the Company's current credit rating, the credit facility carries an interest rate equal to LIBOR plus a spread of 100 basis points and a facility fee of 15 basis points. As of December 31, 2014, we had \$152.5 million of outstanding borrowings under the credit facility, leaving \$747.5 million of unused capacity (excluding \$1.9 million of letters of credit at December 31, 2014).

The Fannie Mae credit facilities and the bank unsecured revolving credit facility are subject to customary financial covenants and limitations. As of December 31, 2014, we were in compliance with all financial covenants under these credit facilities.

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 \$579.7 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2014. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$6.9 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. These analysis 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 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 Consolidated Financial Statements included in this Report for additional discussion of derivative instruments.

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

Funds from Operations

Funds from operations (“FFO”) is defined as net income (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, gains or losses from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust’s (“NAREIT”) definition issued in April 2002 and is comparable to FFO, diluted in the accompanying reconciliation. 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, OP Units, unvested restricted stock, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count.

Activities of our TRS include development and land entitlement. From time to time, we develop and subsequently sell a TRS property which results in a short-term use of funds that produces a profit that differs from the traditional long-term investment in real estate for REITs. We believe that the inclusion of these TRS gains in FFO is consistent with the standards established by NAREIT as the short-term investment is incidental to our main business. TRS gains on sales, net of taxes, are defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation.

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 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 on sales of marketable securities and TRS property, deferred tax valuation allowance increases and decreases, casualty-related expenses and recoveries, severance costs and legal costs. Management believes that FFO as Adjusted 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. FFO as Adjusted 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 attributable to UDR, Inc. is the most directly comparable GAAP financial measure to FFO as Adjusted. However, other REITs may use different methodologies for calculating FFO as Adjusted or similar FFO measures and, accordingly, our FFO as Adjusted may not always be comparable to FFO as Adjusted or similar FFO measures calculated by other REITs. FFO as Adjusted 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, or “AFFO”, is a non-GAAP financial measure that management uses as a supplemental measure of our performance. AFFO is defined as FFO as Adjusted less recurring capital expenditures 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 FFO as Adjusted.

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 attributable to UDR, Inc. 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 (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 UDR, Inc. to FFO, FFO as Adjusted, and AFFO for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	Year Ended December 31,		
	2014	2013	2012
Net income/(loss) attributable to UDR, Inc.	\$154,334	\$44,812	\$212,177
Distributions to preferred stockholders	(3,724)	(3,724)	(6,010)
Real estate depreciation and amortization, including discontinued operations	358,154	341,490	350,400
Noncontrolling interests	5,508	1,470	8,126
Real estate depreciation and amortization on unconsolidated joint ventures	42,133	33,180	32,531
Net (gain)/loss on the sale of depreciable property, excluding TRS	(144,703)	(40,450)	(243,805)
Premium on preferred stock redemption or repurchases, net	—	—	(2,791)
Funds from operations (“FFO”), basic	411,702	376,778	350,628
Distribution to preferred stockholders — Series E (Convertible)	3,724	3,724	3,724
FFO, diluted	\$415,426	\$380,502	\$354,352
FFO per common share, basic	\$1.58	\$1.45	\$1.41
FFO per common share, diluted	\$1.56	\$1.44	\$1.40
Weighted average number of common shares and OP Units outstanding — basic	260,775	259,306	248,262
Weighted average number of common shares, OP Units, and common stock equivalents outstanding — diluted	265,728	263,926	252,659
Impact of adjustments to FFO:			
Acquisition-related costs/(fees), including joint ventures	\$442	\$(254)	\$2,762
Costs/(benefit) associated with debt extinguishment and tender offer	192	178	(277)
Redemption of preferred stock	—	—	2,791
(Gain)/loss on sale of land	1,056	—	—
Net gain on prepayment of note receivable	(8,411)	—	—
Tax benefit associated with the conversion of certain TRS entities into REITs	(5,770)	—	—
Gain on sale of TRS property/marketable securities	—	(2,651)	(7,749)
Severance costs and other restructuring expense	—	—	733
Reversal of deferred tax valuation allowance	—	—	(21,530)
Casualty-related (recoveries)/charges, net	541	(9,665)	9,262
	\$(11,950)	\$(12,392)	\$(14,008)
FFO as Adjusted, diluted	\$403,476	\$368,110	\$340,344
FFO as Adjusted per common share, diluted	\$1.52	\$1.39	\$1.35
Recurring capital expenditures	(43,921)	(42,707)	(42,249)
AFFO	\$359,555	\$325,403	\$298,095
AFFO per common share, diluted	\$1.35	\$1.23	\$1.18

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the years ended December 31, 2014, 2013, and 2012 (shares in thousands):

	Year Ended December 31,		
	2014	2013	2012
Weighted average number of common shares and OP Units outstanding — basic	260,775	259,306	248,262
Weighted average number of OP Units outstanding	(9,247)	(9,337)	(9,411)
Weighted average number of common shares outstanding — basic per the Consolidated Statements of Operations	251,528	249,969	238,851
Weighted average number of common shares, OP Units, and common stock equivalents outstanding — diluted	265,728	263,926	252,659
Weighted average number of OP Units outstanding	(9,247)	(9,337)	(9,411)
Weighted average incremental shares from assumed conversion of stock options —	—	(1,169)	(1,213)
Weighted average incremental shares from unvested restricted stock	—	(415)	(148)
Weighted average number of Series E preferred shares outstanding	(3,036)	(3,036)	(3,036)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	253,445	249,969	238,851

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

	Year Ended December 31,		
	2014	2013	2012
Net cash provided by/(used in) operating activities	\$392,360	\$339,902	\$327,187
Net cash provided by/(used in) investing activities	(293,660)	(123,209)	(211,582)
Net cash provided by/(used in) financing activities	(113,725)	(198,559)	(115,993)

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, 2014, 2013, and 2012, and includes the results of both continuing and discontinued operations for the periods presented.

Net Income/(Loss) Attributable to Common Stockholders

2014 -vs- 2013

Net income attributable to common stockholders was \$150.6 million (\$0.59 per diluted share) for the year ended December 31, 2014 as compared to net income of \$41.1 million (\$0.16 per diluted share) for the prior year. The increase in net income attributable to common stockholders for the year ended December 31, 2014 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

gains, net of tax, of \$143.6 million on the sale of real estate during the year ended December 31, 2014. These gains consisted of:

the sale of nine communities with a total of 2,500 apartment homes, an adjacent parcel of land, and one operating property for gross proceeds of \$328.4 million, resulting in a gain, net of tax, of approximately \$138.6 million; and the sale of 49% interest in a recently completed development for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million and 50% interest in a land parcel for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million.

an increase in total property net operating income (“NOI”) primarily due to higher occupancy and higher revenue per occupied home, and NOI from the homes placed in service related to development and redevelopment projects completed in 2014 and 2013, partially offset by the disposition of communities in 2014 and 2013.

This was partially offset by:

- an increase in depreciation and amortization expense primarily from the homes placed in service related to development and redevelopment projects completed in 2014 and 2013, partially offset by a decrease from sold communities and fully depreciated assets; and
- casualty-related recoveries in 2013 resulting from the effects of Hurricane Sandy on three of our New York City communities in 2012 (see Note 4, Real Estate Owned, in the Notes to the UDR Consolidated Financial Statements for more details);

2013 -vs- 2012

Net income attributable to common stockholders was \$41.1 million (\$0.16 per diluted share) for the year ended December 31, 2013 as compared to net income of \$203.4 million (\$0.85 per diluted share) for the prior year. The decrease in net income attributable to common stockholders for the year ended December 31, 2013 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- a decrease in net gains of \$218.5 million on the sale of depreciable property related to the disposition of two communities in 2013 as compared to 21 communities in 2012; and

- a decrease of \$23.0 million in tax benefit primarily due to the reversal of our tax valuation allowance during 2012.

This was partially offset by:

- an increase in total property NOI primarily due to higher occupancy and higher revenue per occupied home partially offset by the disposition of 21 communities in 2012;

- casualty-related recoveries in 2013 resulting from the effects of Hurricane Sandy on three of our New York, New York communities in 2012 (see Note 16, Casualty-Related (Recoveries)/Charges, in the Notes to the UDR Consolidated Financial Statements included in this Report for more details);

- a decrease in depreciation and amortization expense primarily from the disposition of assets in 2012 and intangible assets related to in place leases acquired in 2011 and 2012 becoming fully amortized in 2012, which was partially offset by the depreciation from developed and redeveloped units placed in service in 2012 and 2013;

- a decrease in loss from unconsolidated entities primarily due to an \$8.3 million gain (\$5.3 million net of tax expense) on the sale of our 95% interest in the Lodge at Stoughton; and

- a decrease in interest expense due to lower average debt balances, lower average interest rates, and higher capitalized interest from development and redevelopment activities.

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.

Although the Company considers NOI a useful measure of a 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 (which includes discontinued operations) for each of the periods presented (dollars in thousands):

	Year Ended December 31, (a)				Year Ended December 31, (b)			
	2014	2013	% Change		2013	2012	% Change	
Same-Store Communities:								
Same-store rental income	\$630,966	\$604,729	4.3	%	\$613,733	\$584,999	4.9	%
Same-store operating expense (c)	(190,128)	(185,512)	2.5	%	(189,224)	(184,393)	2.6	%
Same-store NOI	440,838	419,217	5.2	%	424,509	400,606	6.0	%
Non-Mature Communities/Other NOI:								
Acquired communities NOI	17,788	14,997	18.6	%	19,291	16,709	15.5	%
Sold or held for sale communities NOI	14,108	28,662	(50.8)	%	7,932	29,941	(73.5)	%
Developed communities NOI	26,492	4,920	438.5	%	4,846	(334)	(1,550.9)	%
Redeveloped communities NOI	45,578	36,229	25.8	%	44,991	42,026	7.1	%
Commercial NOI and other	11,517	10,016	15.0	%	12,472	15,252	(18.2)	%
Total non-mature communities/other NOI	115,483	94,824	21.8	%	89,532	103,594	(13.6)	%
Total Property NOI	\$556,321	\$514,041	8.2	%	\$514,041	\$504,200	2.0	%

(a) Same-store consists of 34,581 apartment homes.

(b) Same-store consists of 35,790 apartment homes.

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

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

	Year Ended December 31,		
	2014	2013	2012
Total property NOI	\$556,321	\$514,041	\$504,200
Joint venture management and other fees	13,044	12,442	11,911
Property management	(22,142)	(20,780)	(20,465)
Other operating expenses	(8,271)	(7,136)	(5,718)
Real estate depreciation and amortization	(358,154)	(341,490)	(350,401)
General and administrative	(47,800)	(42,238)	(43,792)
Casualty-related recoveries/(charges), net	(541)	12,253	(8,495)
Other depreciation and amortization	(5,775)	(6,741)	(4,105)
Income/(loss) from unconsolidated entities	(7,006)	(415)	(8,579)
Interest expense	(130,454)	(126,083)	(138,792)
Interest and other income/(expense), net	11,837	4,681	2,703
Tax benefit/(provision), net	15,136	7,299	30,282
Gain/(loss) on sale of real estate owned, net of tax	143,647	40,449	251,554
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership	(5,511)	(1,530)	(7,986)
Net (income)/loss attributable to noncontrolling interests	3	60	(140)
Net income/(loss) attributable to UDR, Inc.	\$154,334	\$44,812	\$212,177

Same -Store Communities

2014 -vs- 2013

Our same-store community properties (those acquired, developed, and stabilized prior to January 1, 2013 and held on December 31, 2014) consisted of 34,581 apartment homes and provided 79.2% of our total NOI for the year ended December 31, 2014.

NOI for our same-store community properties increased 5.2% or \$21.6 million for the year ended December 31, 2014 compared to 2013. The increase in property NOI was attributable to a 4.3% or \$26.2 million increase in property rental income, which was partially offset by a 2.5% or \$4.6 million increase in operating expenses. The increase in revenues was primarily driven by a 3.5% or \$20.2 million increase in rental rates and a 4.9% or \$2.2 million increase in reimbursement and fee income. Physical occupancy increased 0.6% to 96.7% and total monthly income per occupied home increased by 3.8% to \$1,573.

The increase in operating expenses was primarily driven by a 4.1% or \$2.6 million increase in real estate tax caused by higher real estate valuations and a 15.5% or \$1.3 million increase in insurance expense primarily caused by a higher volume of small claims.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 69.9% for the year ended December 31, 2014 as compared to 69.3% for 2013.

2013 -vs- 2012

Our same-store community properties (those acquired, developed, and stabilized prior to January 1, 2012 and held on December 31, 2013) consisted of 35,790 apartment homes and provided 82.6% of our total NOI for the year ended December 31, 2013.

NOI for our same-store community properties increased 6.0% or \$23.9 million for the year ended December 31, 2013 compared to 2012. The increase in property NOI was attributable to a 4.9% or \$28.7 million increase in property rental income, which was partially offset by a 2.6% or \$4.8 million increase in operating expenses. The increase in revenues was primarily driven by a 4.0% or \$22.7 million increase in rental rates and a 7.7% or \$3.6 million increase in reimbursement and fee income. Physical occupancy increased 0.2% to 96.0% and total monthly income per occupied home increased by 4.7% to \$1,488.

The increase in operating expenses was primarily driven by a 6.7% or \$3.9 million increase in real estate tax and a 4.6% or \$2.0 million increase in personnel costs, which was partially offset by a 4.2% or \$1.3 million decrease in repair and maintenance expense.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 69.2% for the year ended December 31, 2013 as compared to 68.5% for 2012.

Non-Mature Communities/Other

2014 -vs- 2013

The remaining \$115.5 million or 20.8% of our total NOI for the year ended December 31, 2014 was generated from our non-mature communities/other. UDR's non-mature communities/other consist of communities that do not meet the criteria to be included in same-store communities, which includes communities developed or acquired, redevelopment properties, sold or held for sale properties, and non-apartment components of mixed use properties. NOI from non-mature communities/other increased by 21.8% or \$20.7 million for the year ended December 31, 2014 compared to 2013. The increase was primarily driven by an increase in NOI of 438.5% or \$21.6 million from development communities and 25.8% or \$9.3 million from redevelopment communities completed in 2014 and 2013, which was partially offset by a decrease in NOI of 50.8% or \$14.6 million from communities sold in 2014 and 2013.

2013 -vs- 2012

The remaining \$89.5 million of our total NOI for the year ended December 31, 2013 was generated from our non-mature communities/other. NOI from non-mature communities decreased by 13.6% or \$14.1 million for the year ended December 31, 2013 compared to 2012. The decrease was primarily driven by a decrease in NOI of 73.5% or

\$22.0 million from communities

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sold in 2012, partially offset by an increase in NOI of 1,550.9% or \$5.2 million from development communities completed in 2013 and 2012 and an increase in NOI of 7.1% or \$3.0 million from redeveloped communities completed in 2013 and 2012.

Real Estate Depreciation and Amortization

For the year ended December 31, 2014, real estate depreciation and amortization on both continuing and discontinued operations increased 4.9% or \$16.7 million as compared to 2013. The increase in depreciation and amortization for the year ended December 31, 2014 was primarily due to homes delivered from our development and redevelopment communities, partially offset by a decrease from sold communities and fully depreciated assets.

For the year ended December 31, 2013, real estate depreciation and amortization on both continuing and discontinued operations decreased 2.5% or \$8.9 million as compared to 2012. The decrease in depreciation and amortization for the year ended December 31, 2013 was primarily from the disposition of assets in 2012 and intangible assets related to in place leases acquired in 2012 and 2011 becoming fully amortized in 2012. The decrease was partially offset by the depreciation from developed and redeveloped units placed in service in 2013 and 2012.

General and Administrative

For the year ended December 31, 2014, general and administrative expense increased 13.2% or \$5.6 million from 2013. The increase was primarily due to a \$3.8 million increase in stock-based compensation expense under the long-term incentive plan and salary and benefit increases.

For the year ended December 31, 2013, general and administrative expense decreased 3.5% or \$1.6 million from 2012. The decrease was primarily due to acquisition costs incurred in 2012.

Interest Expense

For the year ended December 31, 2014, interest expense increased by 3.5% or \$4.4 million as compared to 2013. The increase in interest expense was primarily due lower capitalized interest from development and redevelopment activities.

For the year ended December 31, 2013, interest expense decreased 9.2% or \$12.7 million as compared to 2012. The decrease in interest expense was primarily due to lower debt balances and lower interest rates and higher capitalized interest from development and redevelopment activities.

Tax Benefit/(Provision), Net

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 recognized a Tax benefit/(provision), net of \$15.1 million, \$7.3 million and \$30.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. The increase from 2013 to 2014 is primarily attributable to a one-time benefit of \$5.8 million related to the conversion of certain taxable REIT subsidiaries into REITs in 2014. The decrease from 2012 to 2013 was primarily attributable to the reversal of a \$21.5 million net deferred tax asset valuation allowance in 2012. Prior to 2012, our TRS had a history of losses and, as a result, had historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. In the first quarter of 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating losses, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings, forecasts of future earnings from sales of depreciable property, and its cumulative earnings for the last twelve quarters.

Casualty-Related (Recoveries)/Charges, Net

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

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Based on the claims filed and management's estimates, the Company recognized a \$9.0 million impairment charge for the damaged assets' net book value and incurred \$10.4 million of repair and cleanup costs during the year ended December 31, 2012. The impairment charge and the repair and cleanup costs incurred were reduced as of December 31, 2012 by \$14.5 million of estimated insurance recovery, and were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations. During the year ended December 31, 2013, no material adjustments to the impairment charge and the repair and cleanup costs incurred were recognized. With the exception of one of the properties that is under redevelopment at December 31, 2013, the rehabilitation of the remaining two properties was substantially completed as of December 31, 2013 and was completed during 2014. As of December 31, 2013, the Company had settled the Hurricane Sandy claims and received insurance proceeds in excess of the \$14.5 million estimated insurance recovery receivable related to the impairment charge and the repair and cleanup costs incurred. As a result, the Company recognized a Casualty-related recovery of approximately \$4.8 million and a casualty gain of approximately \$654,000 for the year ended December 31, 2013. Both the recovery and casualty gain were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations.

Based on the claims filed and management's estimates, the Company recognized \$4.4 million of business interruption losses for the year ended December 31, 2012, of which \$3.6 million were related to rent concession rebates provided to residents during the period the properties were uninhabitable and were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations, and \$767,000 were related to rent that was not contractually receivable and were classified as a reduction to Rental income on the Consolidated Statements of Operations. As noted below, the Company recovered from the insurance carrier approximately \$4.2 million of the \$4.4 million of 2012 business interruption losses. The Company estimates that it incurred an additional \$3.4 million of business interruption losses for the year ended December 31, 2013. As noted below, the Company recovered from the insurance carrier approximately \$2.6 million of the \$3.4 million of 2013 business interruption losses. During the year ended December 31, 2013, the Company received approximately \$6.8 million of insurance proceeds for recovery of business interruption losses. Of the \$6.8 million of insurance proceeds received in 2013, \$4.2 million related to recovery of business interruption losses incurred in 2012 and the remaining \$2.6 million related to recovery of business interruption losses incurred in 2013. The \$6.8 million of recovery was classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations as of December 31, 2013.

During the year ended December 31, 2014, the Company recorded \$541,000 of casualty-related losses due to property damage incurred during an earthquake and a storm in California, all of which are included in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations.

Income/(Loss) from Unconsolidated Entities

For the years ended December 31, 2014, 2013 and 2012, we recognized losses from unconsolidated entities of \$7.0 million, \$415,000, and \$8.6 million, respectively. These losses relate to our investments in unconsolidated joint ventures and partnerships and are included in Income/(loss) from unconsolidated entities on the UDR Consolidated Statements of Operations included in this Report. The increase in loss in 2014 as compared to 2013, as well as the decrease in loss in 2013 as compared to 2012, was primarily due to an \$8.3 million gain (\$5.3 million net of tax expense) on the sale of our 95% interest in the Lodge at Stoughton in 2013.

Interest and other income/(expense), net

For the years ended December 31, 2014, 2013 and 2012, we recognized Interest and other income/(expense), net of \$11.9 million, \$4.6 million, and \$3.5 million, respectively. The increase in 2014 as compared to 2013 and 2012 was primarily attributable to the net gain of \$8.4 million realized on the repayment of a note receivable in 2014.

Gain/(Loss) on Sale of Real Estate Owned, Net of Tax

During the year ended December 31, 2014, the Company recognized gains on the sale of real estate, net of tax, of \$143.6 million. The Company sold nine communities consisting of a total of 2,500 apartment homes, an adjacent parcel of land, and one operating property for gross proceeds of \$328.4 million, resulting in net proceeds of \$324.4 million and a total gain, net of tax, of \$138.6 million. The Company also sold 49% interest in a recently completed development for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million; and our 50% interest in a land parcel for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million. A portion of the sale proceeds was designated for tax-deferred exchanges under Section 1031 of the Internal Revenue Code and was used to fund acquisitions of real estate as discussed below.

Due to the Company's adoption ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, effective January 1, 2014, these gains, net of tax, are included in Gain/(loss) on sale of real estate owned, net of tax on the UDR Consolidated Statements of Operations. See Note 2, Significant Accounting Policies, in the Notes to the UDR Consolidated Financial Statements included in this Report for additional information.

For the years ended December 31, 2013 and 2012, we recognized gains (before tax) of \$41.9 million, and \$260.4 million, respectively. These gains are included in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations of UDR included in this Report. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period as well as the extent of gains related to specific properties sold.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, the majority of our leases are for a term of fourteen months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2014.

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, 2014 (dollars in thousands):

Contractual Obligations	Payments Due by Period				Total
	2015	2016-2017	2018-2019	Thereafter	
Long-term debt obligations	\$520,934	\$644,155	\$1,190,637	\$1,227,379	\$3,583,105
Interest on debt obligations (a)	125,037	200,454	135,239	114,451	575,181
Letters of credit	1,866	—	—	—	1,866
Unfunded commitments on:					
Development projects (b)	40,068	—	—	—	40,068
Unconsolidated joint ventures (b) (c)	—	172,155	—	—	172,155
Redevelopment projects (b)	14,222	—	—	—	14,222
Participating loan investments (d)	29,302				29,302
Operating lease obligations:					
Operating space	709	200	152	109	1,170
Ground leases (e)	5,412	10,824	10,824	313,735	340,795
	\$737,550	\$1,027,788	\$1,336,852	\$1,655,674	\$4,757,864

(a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2014.

(b) Any unfunded costs at December 31, 2014 are shown in the year of estimated completion.

(c) Represents UDR's contributed and remaining equity commitment in unconsolidated joint ventures.

(d) Represents UDR's remaining participating loan commitment for Steele Creek.

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 reset provision based on the communities appraised value or consumer price index but does not included a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

During 2014, we incurred gross interest costs of \$150.7 million, of which \$20.2 million was capitalized.

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, 2014, the Operating Partnership’s real estate portfolio included 68 communities located in nine states and the District of Columbia with a total of 20,814 apartment homes.

As of December 31, 2014, UDR owned 110,883 units of our general limited partnership interests and 174,002,342 units of our limited partnership interests (the “OP Units”), or approximately 95.0% 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. We refer to our General Partner together with its consolidated subsidiaries (including us) and the General Partner’s consolidated joint ventures as “UDR” or the “General Partner.”

UDR 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 September 2003. At December 31, 2014, the General Partner’s consolidated real estate portfolio included 139 communities located in 10 states and the District of Columbia with a total of 39,851 apartment homes. In addition, the General Partner had an ownership interest in 36 communities with 10,055 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, 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, 2014, 2013, and 2012, were \$4.9 million, \$8.4 million, and \$5.8 million, respectively.

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, 2014.

Same-Store Communities	As of December 31, 2014				Year Ended December 31, 2014		
	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)
West Region							
San Francisco, CA	9	2,185	13.3	% \$560,828	96.4	% \$2,671	\$52,012
Orange County, CA	8	2,935	12.3	% 522,264	94.8	% 1,721	42,097
Seattle, WA	5	932	5.0	% 213,135	97.1	% 1,540	11,989
Los Angeles, CA	2	344	2.5	% 108,080	94.4	% 2,179	5,646
Monterey Peninsula, CA	7	1,565	3.8	% 161,635	93.7	% 1,243	15,325
Other Southern California	3	635	2.6	% 109,741	94.9	% 1,658	8,349
Portland, OR	3	716	1.7	% 73,811	96.8	% 1,204	6,970
Mid-Atlantic Region							
Metropolitan D.C.	7	2,378	13.2	% 561,052	96.4	% 1,909	35,342
Baltimore, MD	5	994	3.6	% 152,041	87.8	% 1,558	11,297
Southeast Region							
Tampa, FL	3	1,154	2.8	% 117,260	96.3	% 1,192	10,336
Nashville, TN	6	1,612	3.2	% 134,852	97.0	% 1,029	12,988
Other Florida	1	636	1.9	% 81,316	95.4	% 1,378	6,491
Northeast Region							
New York, NY	1	493	6.3	% 268,662	96.9	% 3,528	16,193
Boston, MA	2	833	4.2	% 178,607	96.3	% 1,855	12,737
Southwest Region							
Dallas, TX	2	1,348	4.5	% 189,458	95.6	% 1,410	14,020
Austin, TX	1	250	1.0	% 39,538	96.2	% 1,653	2,801
Total/Average Same-Store Communities	65	19,010	81.9	% 3,472,280	95.4	% \$1,713	264,593
Non Matures, Commercial Properties & Other	3	1,804	18.1	% 766,490			35,720
Total Real Estate Owned	68	20,814	100	% 4,238,770			\$300,313
Total Accumulated Depreciation				(1,403,303)			
				\$2,835,467			

Total Real Estate
Owned, Net of
Accumulated
Depreciation

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

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, 2013 and held as of December 31, 2014. 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 sale 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 allocated to us under the General Partner's credit agreements. The General Partner will routinely use its unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

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

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 allocated to us under our General Partner's credit agreements, and to a lesser extent, from cash flows provided by operating activities.

As of December 31, 2014, the Operating Partnership had approximately \$193.0 million of principal payments on secured debt maturing in 2015. We anticipate that we will repay that debt with operating cash flows or proceeds from borrowings allocated to us under our General Partner's credit agreements. The repayment of debt will be recorded as an offset to the Advances (to)/from General Partner.

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, 2014, 2013, and 2012.

Operating Activities

For the year ended December 31, 2014, Net cash provided by/(used in) operating activities was \$208.0 million compared to \$208.3 million for 2013. The increase in cash flow due to improved income from continuing operations was offset by changes in operating assets and liabilities.

For the year ended December 31, 2013, Net cash provided by/(used in) operating activities was \$208.3 million compared to \$201.1 million for 2012. The increase in net cash flow from operating activities was primarily due to an increase in property net operating income from our apartment community portfolio and changes in operating assets and operating liabilities.

Investing Activities

For the year ended December 31, 2014, Net cash provided by/(used in) investing activities was \$(46.7) million compared to \$(64.0) million for 2013. The decrease in cash used in investing activities was primarily related to lower spend on development and redevelopment.

For the year ended December 31, 2013, Net cash provided by/(used in) investing activities was \$(64.0) million compared to \$4.3 million for 2012. Changes in the level of investment activities from period to period reflect our strategy as it relates to acquisitions, dispositions, development, redevelopment, and capital expenditures.

Disposition of Investments

During the year ended December 31, 2014 the Operating Partnership sold one community and an adjacent parcel of land in San Diego, California for gross proceeds of \$48.7 million, resulting in a \$24.4 million gain and net proceeds of \$47.9

million. The Operating Partnership also recorded gains of \$39.2 million in connection with UDR's sale of two communities in Tampa, Florida and Los Angeles, California, which were previously deferred. The total gains of \$63.6 million were included in Gain/(loss) on sale of real estate owned on the Consolidated Statements of Operations. In 2013, the Operating Partnership sold two apartment communities in the Sacramento market, consisting of 914 apartment homes for gross proceeds of \$81.1 million. The Operating Partnership recognized a gain of \$41.5 million, which is included in Income/(loss) from discontinued operations on the Operating Partnership's Consolidated Statements of Operations. Proceeds were used primarily to fund development and redevelopment activity and reduce debt.

Also in 2013, the Operating Partnership distributed the development property Los Alisos to the General Partner as a capital distribution. Upon the distribution of the property, the Operating Partnership redeemed 1,002,556 limited partnership units owned by UDR and affiliated entities and reduced its receivable from the General Partner by \$53.7 million, resulting in a net capital reduction of \$77.0 million.

In 2012, the Operating Partnership sold four communities with 1,314 apartment homes for a gain of \$51.1 million.

Financing Activities

For the year ended December 31, 2014, Net cash provided by/(used in) financing activities was \$(162.8) million compared to \$(145.3) million for 2013. The increase in cash used in financing activities was primarily due to increased advances to the General Partner, partially offset by decreased payments on secured debt and proceeds from the issuance of secured debt.

For the year ended December 31, 2013, Net cash provided by/(used in) financing activities was \$(145.3) million compared to \$(203.3) million for 2012. The decrease in cash used in financing activities was primarily due to a decrease in payments on secured debt, a decrease in advances from the General Partner, and a decrease in proceeds from the issuance of secured debt.

Credit Facilities

As of December 31, 2014, an aggregate commitment of \$526.6 million of the General Partner's secured credit facilities with Fannie Mae was allocated to the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at December 31, 2014. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At December 31, 2014, \$333.8 million of the outstanding balance was fixed at a weighted average interest rate of 4.90% and the remaining balance of \$192.8 million on these facilities had a weighted average variable interest rate of 1.83%. During 2013, the General Partner reallocated an additional \$13.7 million of the Fannie Mae credit facilities to the Operating Partnership.

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility, with an aggregate borrowing capacity of \$900 million, \$250 million of term notes due June 2018, \$100 million of term notes due June 2018, \$300 million of medium-term notes due June 2018, \$300 million of medium-term notes due October 2020, \$400 million of medium-term notes due January 2022, and \$300 million of medium-term notes due July 2024. As of December 31, 2014, there were \$152.5 million outstanding borrowings under the unsecured credit facility. As of December 31, 2013, there was no outstanding balance under the unsecured credit facility.

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 \$219.8 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2014. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$2.2 million based on the balance at December 31, 2014.

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 allocated to the Operating Partnership to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 8, Derivatives and Hedging Activity, in the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report for additional discussion of derivative instruments.

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, 2014, 2013, and 2012, and includes the results of both continuing and discontinued operations for the periods presented.

Net Income(Loss) Attributable to OP Unitholders

2014 -vs- 2013

Net income/(loss) attributable to OP unitholders was \$96.2 million (\$0.53 per OP Unit) for the year ended December 31, 2014 as compared to \$73.4 million (\$0.40 per OP Unit) for the the prior year. The increase resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

the Operating Partnership sold one community and an adjacent parcel of land in San Diego, California for gross proceeds of \$48.7 million, resulting in a \$24.4 million gain and net proceeds of \$47.9 million. The Operating Partnership also recorded gains of \$39.2 million in connection with UDR's sale of two communities in Tampa, Florida and Los Angeles, California, which were previously deferred;

an increase in total property net operating income ("NOI") primarily due to higher occupancy and higher revenue per occupied home, and NOI from the homes placed in service related to development and redevelopment projects completed in 2014 and 2013, partially offset by the disposition of communities in 2014 and 2013.

This was partially offset by:

casualty-related recoveries in 2013 resulting from the effects of Hurricane Sandy on two of our New York City communities in 2012 (see Note 13, Casualty-Related (Recoveries)/Charges, in the Notes to the Operating Partnership's Consolidated Financial Statements for more details).

2013 -vs- 2012

Net income/(loss) attributable to OP unitholders was \$73.4 million (\$0.40 per OP Unit) for the year ended December 31, 2013 as compared to \$44.0 million (\$0.24 per OP Unit) for the prior year. The increase resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

an increase in total property NOI primarily due to higher occupancy and higher revenue per occupied home, partially offset by a decrease in NOI due to the disposition of four communities in 2012;

a decrease in depreciation and amortization expense primarily from the disposition of assets in 2012, partially offset by the depreciation from developed or redeveloped units placed in service in 2013 and 2012;

casualty-related recoveries in 2013 resulting from the effects of Hurricane Sandy on two of our New York, New York communities in 2012 (see Note 13, Casualty-Related (Recoveries)/Charges, in the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report for more details); and

a decrease in interest expense due to lower average debt balances, lower average interest rates, and higher capitalized interest from development and redevelopment activities.

This was partially offset by:

a decrease in net gains of \$9.6 million on the sale of depreciable properties related to the disposition of two communities in 2013 as compared to four communities in 2012.

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 is property management expense which is calculated as 2.75% of property revenue to cover regional supervision and accounting costs related to consolidated property operations and land rent.

Although the Company considers NOI a useful measure of a 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 portfolio (which includes discontinued operations) for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	Year Ended December 31, (a)				Year Ended December 31, (b)			
	2014	2013	% Change		2013	2012	% Change	
Same-Store Communities:								
Same-store rental income	\$372,818	\$355,585	4.8	%	\$344,525	\$327,877	5.1	%
Same-store operating expense (c)	(108,225)	(106,228)	1.9	%	(103,252)	(99,944)	3.3	%
Same-store NOI	264,593	249,357	6.1	%	241,273	227,933	5.9	%
Non-Mature Communities/Other NOI:								
Acquired communities NOI	16,417	14,998	9.5	%	14,997	14,160	5.9	%
Sold communities NOI	11	8,671	(99.9	)%	5,581	10,296	(45.8	)%
Developed communities NOI	(603)	(17)	3,447.1	%	(17)	(2)	750.0	%
Redeveloped communities NOI	14,245	10,084	41.3	%	18,848	20,093	(6.2	)%
Commercial NOI and other	5,650	4,442	27.2	%	6,853	9,058	(24.3	)%
Total non-mature communities/other NOI	35,720	38,178	(6.4	)%	46,262	53,605	(13.7	)%
Total Property NOI	\$300,313	\$287,535	4.4	%	\$287,535	\$281,538	2.1	%

(a) Same-store consists of 19,010 apartment homes.

(b) Same-store consists of 18,616 apartment homes.

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

The following table is our reconciliation of total property NOI to Net income/(loss) attributable to OP unitholders as reflected, for both continuing and discontinued operations, for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	Year Ended December 31,		
	2014	2013	2012
Total property NOI	\$300,313	\$287,535	\$281,538
Property management	(11,622)	(11,298)	(11,019)
Other operating expenses	(5,172)	(5,728)	(5,272)
Real estate depreciation and amortization	(179,176)	(181,302)	(195,051)
General and administrative	(28,541)	(24,808)	(26,204)
Casualty-related recoveries/(charges), net	(541)	8,083	(5,518)
Interest expense	(41,717)	(36,058)	(45,234)
Gain/(loss) on sale of real estate owned	63,635	41,518	51,094
Net (income)/loss attributable to noncontrolling interests	(952)	(4,566)	(352)
Net income/(loss) attributable to OP unitholders	\$96,227	\$73,376	\$43,982

Same-Store Communities

2014 -vs- 2013

Our same-store community properties (those acquired, developed, and stabilized prior to January 1, 2013 and held on December 31, 2014) consisted of 19,010 apartment homes and provided 88.1% of our total NOI for the year ended December 31, 2014.

NOI for our same-store community properties increased 6.1% or \$15.2 million for the year ended December 31, 2014 compared to 2013. The increase in property NOI was primarily attributable to a 4.8% or \$17.2 million increase in property rental income, which was partially offset by a 1.9% or \$2.0 million increase in operating expenses. The increase in revenues was primarily driven by a 3.7% or \$12.8 million increase in rental rates and a 4.0% or \$1.1 million increase in reimbursement and fee income. Physical occupancy increased 0.2% to 95.4% and total monthly income per occupied home increased by 4.6% to \$1,713 for the year ended December 31, 2014 compared to 2013. The increase in operating expenses was primarily driven by a 4.2% or \$1.5 million increase in real estate tax caused by higher real estate valuations and a 18.7% or \$810,000 increase in insurance expense primarily caused by a higher volume of small claims, which was partially offset by a 2.3% or \$367,000 decrease in repairs and maintenance costs. As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 71.0% for the year ended December 31, 2014 as compared to 70.0% for 2013.

2013 -vs- 2012

Our same-store community properties (those acquired, developed, and stabilized prior to January 1, 2012 and held on December 31, 2013) consisted of 18,616 apartment homes and provided 83.9% of our total NOI for the year ended December 31, 2013.

NOI for our same-store community properties increased 5.9% or \$13.3 million for the year ended December 31, 2013 compared to 2012. The increase in property NOI was primarily attributable to a 5.1% or \$16.6 million increase in property rental income, which was partially offset by a 3.3% or \$3.3 million increase in operating expenses. The increase in revenues was primarily driven by a 4.3% or \$13.7 million increase in rental rates and a 6.8% or \$1.8 million increase in reimbursement and fee income. Physical occupancy increased 0.2% to 95.8% and total monthly income per occupied home increased by 4.8% to \$1,609 for the year ended December 31, 2013 compared to 2012. The increase in operating expenses was primarily driven by a 7.0% or \$2.3 million increase in real estate tax and a 5.2% or \$1.2 million increase in personnel costs, which was partially offset by a 3.1% or \$502,000 decrease in repairs and maintenance costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 70.0% for the year ended December 31, 2013 as compared to 69.5% for 2012.

Non-Mature Communities/Other

2014 -vs- 2013

The remaining \$35.7 million or 11.9% of our total NOI during the year ended December 31, 2014 was generated from our non-mature communities/other. The Operating Partnership's non-mature communities/other consist of communities that do not meet the criteria to be included in same-store communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. NOI from non-mature communities/other decreased 6.4% or \$2.5 million for the year ended December 31, 2014 compared to 2013. The decrease was primarily driven by a decrease in NOI of 99.9% or \$8.7 million from properties sold during 2014 and 2013, which was partially offset by an increase in NOI of 27.2% or \$1.2 million from commercial/other properties, and an increase of 41.3% or \$4.2 million from redevelopment properties.

2013 -vs- 2012

The remaining \$46.3 million or 16.1% of our total NOI during the year ended December 31, 2013 was generated from our non-mature communities/other. The Operating Partnership's non-mature communities/other consist of communities that do not meet the criteria to be included in same-store communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. NOI from non-mature communities/other decreased 13.7% or \$7.3 million for the year ended December 31, 2013 compared to 2012. The decrease was primarily driven by a decrease in NOI of 45.8% or \$4.7 million from properties sold during 2013 and 2012, a decrease in NOI of 24.3% or \$2.2 million from commercial/other properties, and a decrease of 6.2% or \$1.2 million from redevelopment properties.

Real Estate Depreciation and Amortization

For the year ended December 31, 2014, real estate depreciation and amortization from continuing and discontinued operations decreased by 1.2% or \$2.1 million as compared to 2013. The decrease in depreciation and amortization for the year ended December 31, 2014 was primarily from disposition of assets in 2014 and 2013, partially offset by the depreciation from developed and redeveloped units placed in service in 2014 and 2013.

For the year ended December 31, 2013, real estate depreciation and amortization from continuing and discontinued operations decreased by 7.0% or \$13.7 million as compared to 2012. The decrease in depreciation and amortization for the year ended December 31, 2013 was primarily from the disposition of assets in 2012.

Casualty-Related Recoveries/(Charges), Net

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

Based on the claims filed and management's estimates, the Operating Partnership recognized a \$7.1 million impairment charge for the damaged assets' net book value and incurred \$7.0 million of repair and cleanup costs during the year ended December 31, 2012. The impairment charge and the repair and cleanup costs incurred were reduced as of December 31, 2012 by \$10.8 million of estimated insurance recovery, and were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations. During the year ended December 31, 2013, no material adjustments to the impairment charge and the repair and cleanup costs incurred were recognized. The rehabilitation of these two properties was substantially completed as of December 31, 2013.

As of December 31, 2013, the Operating Partnership had settled the Hurricane Sandy claims and received insurance proceeds in excess of the \$10.8 million estimated insurance recovery receivable related to the impairment charge and

the repair and cleanup costs incurred. As a result, the Company recognized a Casualty-related recovery of approximately \$3.3 million and a casualty gain of approximately \$582,000 for the year ended December 31, 2013. Both the recovery and casualty gain were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations.

Based on the claims filed and management's estimates, the Operating Partnership recognized \$2.2 million of business interruption losses for the year ended December 31, 2012, of which \$1.8 million were related to rent concession rebates provided to residents during the period the properties were uninhabitable and were classified in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations, and \$400,000 were related to rent that was not contractually receivable and were classified as a reduction to Rental income on the Consolidated Statements of Operations. The Company estimates that it incurred an additional \$2.1 million of business interruption losses for the year ended December 31, 2013. As noted, the Company settled the Hurricane Sandy claims as of December 31, 2013.

During the year ended December 31, 2013, the Operating Partnership received approximately \$4.2 million of insurance proceeds for recovery of business interruption losses. Of the \$4.2 million of insurance proceeds received during the year ended December 31, 2013, \$2.1 million related to recovery of business interruption losses incurred in 2012 and the remaining \$2.1 million related to recovery of business interruption losses incurred in 2013. The \$4.2 million of recovery was included in Casualty-related (recoveries)/charges, net on the Operating Partnership's Consolidated Statements of Operations.

During the year ended December 31, 2014, the Company recorded \$541,000 of casualty-related losses due to property damage incurred during an earthquake and a storm in California, all of which are included in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations.

Interest Expense

For the year ended December 31, 2014, interest expense increased by 15.7% or \$5.7 million as compared to 2013, which was primarily due to lower portion of interest capitalized in 2014 as a result of completed developments, partially offset by a decrease in interest expense due to replacement of debt at lower rates.

For the year ended December 31, 2013, interest expense decreased by 20.3% or \$9.2 million as compared to 2012, which was primarily due to lower portion of interest capitalized in 2013 as a result of completed developments, partially offset by a decrease in interest expense due to replacement of debt at lower rates.

Gain/(Loss) on the Sale of Real Estate Owned

For the year ended December 31, 2014, the Operating Partnership sold one community and an adjacent parcel of land in San Diego, California for gross proceeds of \$48.7 million, resulting in a \$24.4 million gain and net proceeds of \$47.9 million. The Operating Partnership also recorded gains of \$39.2 million in connection with UDR's sale of two communities in Tampa, Florida and Los Angeles, California, which were previously deferred.

Due to the Company's adoption ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, effective January 1, 2014, these gains were included in Gain/(loss) on sale of real estate owned on the Operating Partnership's Consolidated Statements of Operations. See Note 2, Significant Accounting Policies, in the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report for additional information.

For the years ended December 31, 2013, and 2012, we recognized gains on sale of depreciable property of \$41.5 million, and \$51.1 million, respectively. These gains are included in Income/(loss) from discontinued operations on the Operating Partnership's Consolidated Statements of Operations included in this Report. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period as well as the extent of gains related to specific properties sold.

Net (Income)/Loss Attributable to Noncontrolling Interests

For the year ended December 31, 2014, net income attributable to noncontrolling interests was \$952,000 as compared to \$4.6 million for 2013. The decrease of \$3.6 million was primarily due to the Operating Partnership correcting an

error in the General Partner's ownership interest in one of the consolidated subsidiaries resulting in a cumulative adjustment recorded in 2013 of \$3.3 million. Management believes the impact of the cumulative adjustment in 2013 is immaterial to the financial statements taken as a whole.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment

homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2014.

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, 2014 (dollars in thousands):

Contractual Obligations	Payments Due by Period				Total
	2015	2016-2017	2018-2019	Thereafter	
Long-term debt obligations	\$193,003	\$154,455	\$384,992	\$199,509	\$931,959
Interest on debt obligations (a)	40,906	49,287	33,497	11,132	134,822
Operating lease obligations — ground leases (b)	5,308	10,616	10,616	313,648	340,188
	\$239,217	\$214,358	\$429,105	\$524,289	\$1,406,969

- (a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2014.

- (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 reset provision based on the communities appraised value or 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, 2014, 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 adequate 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 evaluation 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, 2014.

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, 2014. The report of Ernst & Young LLP, which expresses an unqualified opinion on UDR, Inc.'s internal control over financial reporting as of December 31, 2014, 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 2015 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 2015 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 “Compensation Committee Report” in the definitive proxy statement for UDR’s 2015 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 2015 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 and Governance Committees,” and “Executive Compensation” in the definitive proxy statement for UDR’s 2015 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 2015 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.
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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.

Date: February 24, 2015	UDR, Inc. By: /s/ Thomas W. Toomey Thomas W. Toomey Chief Executive Officer and President (Principal Executive Officer)
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Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 24, 2015 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey	/s/ Katherine A. Cattanach
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Thomas W. Toomey Chief Executive Officer, President, and Director (Principal Executive Officer)	Katherine A. Cattanach Director
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/s/ Thomas M. Herzog	/s/ Eric J. Foss
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Thomas M. Herzog Senior Vice President and Chief Financial Officer (Principal Financial Officer)	Eric J. Foss Director
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/s/ Mark A. Schumacher	/s/ Robert P. Freeman
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Mark A. Schumacher Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	Robert P. Freeman Director
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/s/ James D. Klingbeil	/s/ Jon A. Grove
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James D. Klingbeil Chairman of the Board	Jon A. Grove Director
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/s/ Lynne B. Sagalyn	/s/ Robert A. McNamara
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Lynne B. Sagalyn Vice Chair of the Board	Robert A. McNamara Director
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/s/ Mark R. Patterson Mark R. Patterson Director
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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.

Date: February 24, 2015

By: UDR, Inc., its sole general partner
By: /s/ Thomas W. Toomey
Thomas W. Toomey
Chief Executive Officer and
President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 24, 2015 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer, President, and
Director of the General Partner (Principal Executive
Officer)

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director of the General Partner

/s/ Thomas M. Herzog

Thomas M. Herzog
Senior Vice President and Chief Financial
Officer of the General Partner (Principal Financial
Officer)

/s/ Eric J. Foss

Eric J. Foss
Director of the General Partner

/s/ Mark A. Schumacher

Mark A. Schumacher
Senior Vice President and 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
Chairman of the Board of the General Partner

/s/ Jon A. Grove

Jon A. Grove
Director of the General Partner

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Vice Chair of the Board 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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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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.

We have audited the accompanying consolidated balance sheets of UDR, Inc. (the “Company”) as of December 31, 2014 and 2013, 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, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UDR, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UDR, Inc.'s internal control over financial reporting as of December 31, 2014, 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 24, 2015 expressed an unqualified opinion thereon.

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company changed its reporting of discontinued operations as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”.

/s/ Ernst & Young LLP

Denver, Colorado
February 24, 2015

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of UDR, Inc.

We have audited UDR, Inc.'s internal control over financial reporting as of December 31, 2014, 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). UDR, Inc.'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 included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, UDR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UDR, Inc. as of December 31, 2014 and 2013, 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, 2014 and our report dated February 24, 2015, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 24, 2015

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UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2014	December 31, 2013
ASSETS		
Real estate owned:		
Real estate held for investment	\$8,205,627	\$7,723,844
Less: accumulated depreciation	(2,434,772)	(2,200,815)
Real estate held for investment, net	5,770,855	5,523,029
Real estate under development (net of accumulated depreciation of \$0 and \$1,411, respectively)	177,632	466,002
Real estate sold or held for disposition (net of accumulated depreciation of \$0 and \$6,568, respectively)	—	10,152
Total real estate owned, net of accumulated depreciation	5,948,487	5,999,183
Cash and cash equivalents	15,224	30,249
Restricted cash	22,340	22,796
Deferred financing costs, net	22,686	26,924
Notes receivable, net	14,369	83,033
Investment in and advances to unconsolidated joint ventures, net	718,226	507,655
Other assets	105,202	137,882
Total assets	\$6,846,534	\$6,807,722
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	\$1,361,529	\$1,442,077
Unsecured debt	2,221,576	2,081,626
Real estate taxes payable	15,978	13,847
Accrued interest payable	34,215	32,279
Security deposits and prepaid rent	34,064	27,203
Distributions payable	69,460	61,907
Accounts payable, accrued expenses, and other liabilities	91,282	118,682
Total liabilities	3,828,104	3,777,621
Commitments and contingencies (Note 14)		
Redeemable noncontrolling interests in the Operating Partnership	282,480	217,597
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,803,812 shares issued and outstanding at December 31, 2014 and 2013	46,571	46,571
Common stock, \$0.01 par value; 350,000,000 shares authorized; 255,114,603 and 250,749,665 shares issued and outstanding at December 31, 2014 and 2013, respectively	2,551	2,507
Additional paid-in capital	4,223,747	4,109,765
Distributions in excess of net income	(1,528,917)	(1,342,070)
Accumulated other comprehensive income/(loss), net	(8,855)	(5,125)
Total stockholders' equity	2,735,097	2,811,648

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Noncontrolling interests	853	856
Total equity	2,735,950	2,812,504
Total liabilities and equity	\$6,846,534	\$6,807,722
See accompanying notes to consolidated financial statements.		

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UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
REVENUES:			
Rental income	\$805,002	\$746,484	\$704,701
Joint venture management and other fees	13,044	12,442	11,911
Total revenues	818,046	758,926	716,612
OPERATING EXPENSES:			
Property operating and maintenance	149,428	144,319	139,784
Real estate taxes and insurance	99,175	93,765	86,154
Property management	22,138	20,528	19,378
Other operating expenses	8,271	7,136	5,718
Real estate depreciation and amortization	358,154	339,532	341,926
General and administrative	47,800	42,238	43,792
Casualty-related (recoveries)/charges, net	541	(12,253)	) 8,495
Other depreciation and amortization	5,775	6,741	4,105
Total operating expenses	691,282	642,006	649,352
Operating income	126,764	116,920	67,260
Income/(loss) from unconsolidated entities	(7,006	) (415	) (8,579
Interest expense	(130,454	) (126,083	) (138,792
Interest and other income/(expense), net	11,858	4,619	3,524
Income/(loss) before income taxes, discontinued operations and gain/(loss) on sale of real estate owned	1,162	(4,959	) (76,587
Tax benefit/(provision), net	15,098	7,299	30,282
Income/(loss) from continuing operations	16,260	2,340	(46,305
Income/(loss) from discontinued operations, net of tax	10	43,942	266,608
Income/(loss) before gain/(loss) on sale of real estate owned	16,270	46,282	220,303
Gain/(loss) on sale of real estate owned, net of tax	143,572	—	—
Net income/(loss)	159,842	46,282	220,303
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership	(5,511	) (1,530	) (7,986
Net (income)/loss attributable to noncontrolling interests	3	60	(140
Net income/(loss) attributable to UDR, Inc.	154,334	44,812	212,177
Distributions to preferred stockholders — Series E (Convertible)	(3,724	) (3,724	) (3,724
Distributions to preferred stockholders — Series G	—	—	(2,286
Premium on preferred stock redemption or repurchases, net	—	—	(2,791
Net income/(loss) attributable to common stockholders	\$150,610	\$41,088	\$203,376
Income/(loss) per weighted average common share — basic:			
Income/(loss) from continuing operations attributable to common stockholders	\$0.60	\$(0.01	) \$(0.22
Income/(loss) from discontinued operations attributable to common stockholders	—	0.17	1.07
Net income/(loss) attributable to common stockholders	\$0.60	\$0.16	\$0.85

UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Income/(loss) per weighted average common share — diluted:			
Income/(loss) from continuing operations attributable to common stockholders	\$0.59	\$(0.01)	\$(0.22)
Income/(loss) from discontinued operations attributable to common stockholders	—	0.17	1.07
Net income/(loss) attributable to common stockholders	\$0.59	\$0.16	\$0.85
Weighted average number of common shares outstanding — basic	251,528	249,969	238,851
Weighted average number of common shares outstanding — diluted	253,445	249,969	238,851
See accompanying notes to consolidated financial statements.			

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UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income/(loss)	\$159,842	\$46,282	\$220,303
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:			
Other comprehensive income/(loss) - derivative instruments:			
Unrealized holding gain/(loss)	(8,695)	) (469	) (4,924)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	4,834	6,851	7,649
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	(3,861	) 6,382	2,725
Comprehensive income/(loss)	155,981	52,664	223,028
Comprehensive (income)/loss attributable to noncontrolling interests	(5,375	) (1,720	) (8,206)
Comprehensive income/(loss) attributable to UDR, Inc.	\$150,606	\$50,944	\$214,822
See accompanying notes to consolidated financial statements.			

UDR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except share and per share data)

	Preferred Stock		Common Stock			Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount	Paid-in Capital				
Balance at December 31, 2011	6,068,174	\$128,180	219,650,225	\$2,197	\$3,340,470	\$(1,142,895)	\$(13,902)	\$4,734	\$2,318,790
Net income/(loss) attributable to UDR, Inc.	—	—	—	—	—	212,177	—	—	212,177
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	—	—	140	140
Other comprehensive income/(loss)	—	—	—	—	—	—	2,645	—	2,645
Issuance/(forfeiture) of common and restricted shares, net	—	—	(22,224)	—	(742)	—	—	—	(742)
Issuance of common shares through public offering	—	—	30,490,969	305	755,833	—	—	—	756,138
Redemption of 3,264,362 shares of 6.75% Series G Cumulative Redeemable Shares	(3,264,362)	(81,609)	—	—	2,791	(2,791)	—	—	(81,609)
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	—	—	20,438	(1)	530	—	—	—	529
Acquisition of noncontrolling interests	—	—	—	—	—	—	—	(4,871)	(4,871)
Increase in noncontrolling interests from business combination, net	—	—	—	—	—	—	—	913	913
Common stock distributions	—	—	—	—	—	(215,654)	—	—	(215,654)

declared (\$0.88 per share)										
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	—	—	(3,724	) —	—	(3,724	
Preferred stock distributions declared-Series G (\$0.5671875 per share)	—	—	—	—	—	(2,286	) —	—	(2,286	
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	—	—	11,392	—	—	11,392	
Balance at December 31, 2012	2,803,812	46,571	250,139,408	2,501	4,098,882	(1,143,781	) (11,257	) 916	2,993,832	
Net income/(loss) attributable to UDR, Inc.	—	—	—	—	—	44,812	—	—	44,812	
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	—	—	(60	) (60	
Other comprehensive income/(loss)	—	—	—	—	—	—	6,132	—	6,132	
Issuance/(forfeiture) of common and restricted shares, net	—	—	533,966	5	9,067	—	—	—	9,072	
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	—	—	76,291	1	1,816	—	—	—	1,817	
Common stock distributions declared (\$0.94 per share)	—	—	—	—	—	(235,721	) —	—	(235,721	
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	—	—	(3,724	) —	—	(3,724	
Adjustment to reflect redemption value of redeemable noncontrolling	—	—	—	—	—	(3,656	) —	—	(3,656	

interests

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UDR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(In thousands, expect share and per share data)

	Preferred Stock		Common Stock			Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net			Noncontrolling Interests Total
	Shares	Amount	Shares	Amount	Paid-in Capital					
Balance at December 31, 2013	2,803,812	46,571	250,749,665	2,507	4,109,765	(1,342,070)	(5,125)	856		2,812,504
Net income/(loss) attributable to UDR, Inc.	—	—	—	—	—	154,334	—	—		154,334
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	—	—	(3)	(3)	
Other comprehensive income/(loss)	—	—	—	—	—	—	(3,730)	—		(3,730)
Issuance/(forfeiture) of common and restricted shares, net	—	—	801,054	8	9,797	—	—	—		9,805
Issuance of common shares through public offering	—	—	3,410,433	34	99,815	—	—	—		99,849
Adjustment for conversion of noncontrolling interest of unitholders in Operating Partnership	—	—	153,451	2	4,370	—	—	—		4,372
Common stock distributions declared (\$1.04 per share)	—	—	—	—	—	(263,503)	—	—		(263,503)
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	—	—	(3,724)	—	—		(3,724)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	—	—	(73,954)	—	—		(73,954)
Balance at December 31, 2014	2,803,812	\$46,571	255,114,603	\$2,551	\$4,223,747	\$(1,528,917)	\$(8,855)	\$853		\$2,735,950

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except for share data)

	Year Ended December 31,		
	2014	2013	2012
Operating Activities			
Net income/(loss)	\$ 159,842	\$ 46,282	\$ 220,303
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	363,929	348,231	354,505
Gain/(loss) on sale of real estate owned, net of tax	(143,647)	) (41,919)	) (251,554)
Impairment loss, net of tax	—	1,470	—
Tax benefit/(provision), net	(15,136)	) (7,299)	) (30,282)
Loss from unconsolidated entities	7,006	415	8,579
Casualty-related (recoveries)/charges, net	541	(270)	) 8,495
Other	26,517	24,826	26,009
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	(1,074)	) (15,135)	) 12,647
Increase/(decrease) in operating liabilities	(5,618)	) (16,699)	) (21,515)
Net cash provided by/(used in) operating activities	392,360	339,902	327,187
Investing Activities			
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(228,810)	) —	(108,215)
Proceeds from sales of real estate investments, net	383,886	250,043	593,167
Development of real estate assets	(251,493)	) (280,603)	) (246,923)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(96,679)	) (153,676)	) (144,877)
Capital expenditures — non-real estate assets	(5,497)	) (7,639)	) (7,947)
Investment in unconsolidated joint ventures	(222,930)	) (43,291)	) (283,369)
Distributions received from unconsolidated joint ventures	59,199	130,984	50,580
(Issuance)/repayment of notes receivable	68,664	(19,027)	) (63,998)
Net cash provided by/(used in) investing activities	(293,660)	) (123,209)	) (211,582)
Financing Activities			
Payments on secured debt	(80,961)	) (46,564)	) (491,885)
Proceeds from the issuance of secured debt	5,502	—	250
Payments on unsecured debt	(312,500)	) (122,500)	) (100,000)
Proceeds from the issuance of unsecured debt	298,956	299,943	396,400
Net proceeds/(repayment) of revolving bank debt	152,500	(76,000)	) (345,000)
Proceeds from the issuance of common shares through public offering, net	99,849	—	756,138
Payments for the repurchase of Series G preferred stock, net	—	—	(81,609)
Distributions paid to redeemable noncontrolling interests	(9,929)	) (9,348)	) (9,033)
Acquisition of nonredeemable noncontrolling interests	—	—	(4,871)
Distributions paid to preferred stockholders	(3,724)	) (3,724)	) (6,954)
Distributions paid to common stockholders	(256,100)	) (231,822)	) (207,470)
Other	(7,318)	) (8,544)	) (21,959)
Net cash provided by/(used in) financing activities	(113,725)	) (198,559)	) (115,993)
Net increase/(decrease) in cash and cash equivalents	(15,025)	) 18,134	(388)
Cash and cash equivalents, beginning of year	30,249	12,115	12,503
Cash and cash equivalents, end of year	\$ 15,224	\$ 30,249	\$ 12,115

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands, except for share data)

	Year Ended December 31,		
	2014	2013	2012
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	\$ 131,815	\$ 127,877	\$ 133,133
Non-cash transactions:			
Real estate acquired in asset exchange or upon consolidation of joint ventures	—	129,437	—
Transfer of real estate owned to investment in and advances to unconsolidated ventures	54,938	175,951	—
Secured debt assumed in the acquisitions of properties, including asset exchange and consolidation of joint ventures	—	63,595	34,412
Fair market value adjustment of secured debt assumed in acquisitions of properties, including asset exchange	—	—	2,617
Development costs and capital expenditures incurred but not yet paid	34,746	37,220	24,551
Contribution of purchase deposit made in 2011 to unconsolidated joint venture	—	—	80,397
Conversion of operating partnership noncontrolling interests to common stock (153,451 shares in 2014, 76,291 shares in 2013; and 20,438 shares in 2012)	4,372	1,817	529
See accompanying notes to consolidated financial statements.			

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 2014, our consolidated apartment portfolio consisted of 139 consolidated communities located in 20 markets consisting of 39,851 apartment homes. In addition, the Company has an ownership interest in 10,055 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”). As of December 31, 2014 and 2013, there were 183,278,698 units in the Operating Partnership outstanding, of which 174,113,225 or 95.0% and 173,959,774 or 94.9%, respectively, were owned by UDR and 9,165,473 or 5.0% and 9,318,924 or 5.1%, respectively, were owned by limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating 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 mentioned in Note 5, Joint Ventures and Partnerships, and Note 8, Stockholders’ Equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which incorporates a requirement that a disposition represent a strategic shift in an entity’s operations into the definition of a discontinued operation. In accordance with the ASU, 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. The standard requires prospective application and will be effective for interim and annual periods beginning on or after December 15, 2014, with early adoption permitted. The early adoption provision excludes components of an entity that were sold or classified as held for sale prior to the adoption of the standard. The Company elected to early adopt this standard effective January 1, 2014, which had a significant impact on the Company’s consolidated financial statements as further discussed in Note 3, Discontinued Operations. Subsequent to the Company’s adoption of ASU 2014-08, the sale of real estate that does not meet the definition of a discontinued operation under the standard is included in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace

most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company on January 1, 2017; early adoption is not permitted. The Company has not yet selected a transition method and we

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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 expensed as incurred.

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 sale 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 sale 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 sale properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for sale properties are capitalized at cost. Depreciation is not recorded on real estate held for sale.

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, 2014, 2013, and 2012 were \$9.0 million, \$11.1 million and \$10.0 million, respectively. During the years ended December 31, 2014, 2013, and 2012, total interest capitalized was \$20.2 million, \$29.4 million, and \$26.4 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

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 and Real Estate Sales Gain Recognition

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

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

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

Notes Receivable

The following table summarizes our notes receivable, net as of December 31, 2014 and 2013 (dollars in thousands):

	Interest rate at December 31, 2014	Balance Outstanding December 31, 2014	December 31, 2013
Note due June 2014 (a)		\$ —	\$40,800
Note due February 2017 (b)	10.00	% 11,869	14,580
Note due July 2017 (c)	8.00	% 2,500	1,400
Note due June 2022 (net of discount of \$0 and \$247, respectively) (d)		—	26,253
Total notes receivable, net		\$ 14,369	\$83,033

(a) In the fourth quarter of 2013, in conjunction with the sale of its 95% interest in the Lodge at Stoughton, one of its unconsolidated joint ventures, the Company provided the buyer with a \$40.8 million loan secured by the property at LIBOR plus a spread of 350 basis points with two three-month extension options at increased rates and a financing fee. In June 2014, the note was paid in full.

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$11.9 million, which bears an interest rate of 10.00% per annum. During the year ended December 31, 2014, the Company loaned an additional \$1.2 million and received a payment of \$3.9 million in the fourth quarter under this note. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any

private or public capital raising in the amount of \$5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (February 2017).

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of \$2.5 million, which bears an interest rate of 8.00% per annum. During the year ended December 31, 2014, the Company loaned an additional \$1.1 million under the note. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of \$5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).

(d) In 2012, the Company purchased a "B" Note secured by a first mortgage on a class A community in West Los Angeles. The \$26.5 million loan was purchased at a yield of 7.25% and bore a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022. The discount is amortized using the effective interest method. In July 2014, the Company received proceeds of \$36.0 million from the repayment of this note, resulting in a net gain of approximately \$8.4 million, which is included in Interest and other income/(expense), net on the Consolidated Statements of Operations.

During the years ended December 31, 2014, 2013 and 2012, the Company recognized \$3.4 million, \$4.1 million and \$2.7 million, respectively, of interest income from these notes receivable, of which \$0, \$765,000 and \$281,000, respectively, were related party interest income. Interest income is included in Interest 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 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. 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, 2014, 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.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

Redeemable Noncontrolling Interests in the Operating Partnership

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

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

Income Taxes

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

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of December 31, 2014 and 2013, UDR's net deferred tax asset of \$7.0 million, which had no valuation allowance, and \$32.3 million, net of a valuation allowance of \$1.3 million, respectively, was included in Other assets on the Consolidated Balance Sheets.

Prior to 2012, our TRS had a history of losses and, as a result, historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. In 2012, the Company determined that it was more likely than not that the deferred tax assets, including any remaining net operating loss carry forward, would be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings from sales of depreciable property, forecasts of future earnings and its cumulative earnings for the last twelve quarters. The reversal of the valuation allowance resulted in an income tax benefit of \$44.4 million during the year ended December 31, 2012, \$21.5 million of which is reported in continuing operations and included within Tax benefit/(provision), net in the Consolidated Statements of Operations, and \$22.9 million of which is included within Income/(loss) from discontinued operations, net of tax in the Consolidated Statements of Operations.

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

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

Company will 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, 2014. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2010 through 2013 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

Discontinued Operations

Prior to the adoption of ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, the results of operations for those properties sold during the year or classified as held for sale at the end of the current year are classified as discontinued operations in the current and prior periods. Further, to meet the discontinued operations criteria, the Company will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. Once a property is classified as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria for held for sale, the Company will recapture any unrecorded depreciation on the property. The assets and liabilities, if any, of properties classified as held for sale are presented separately on the Consolidated Balance Sheets at the lower of their carrying amount or their estimated fair value less the costs to sell the assets. (See Note 3, Discontinued Operations and Assets Held for Sale, for further discussion).

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 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 General and administrative. During the years ended December 31, 2014, 2013, and 2012, total advertising expense was \$6.0 million, \$5.7 million, and \$6.2 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.

Preferred Share Redemption and Repurchases

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

When redeeming or repurchasing preferred stock, the Company recognizes share issuance costs as a charge to the preferred stock on a pro rata basis to the total costs incurred for the preferred stock as well as any premium or discount

on the redemption or repurchase. In connection with the redemption of the Series G Preferred Stock, the Company recognized a (decrease)/increase in net income/(loss) attributable to common stockholders of \$(2.8) million for the year ended December 31, 2012, which is reported in Premium on preferred stock redemption or repurchases, net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

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, 2014, 2013, and 2012, 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 and marketable securities reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to redeemable noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in interest expense in the accompanying Consolidated Statements of Operations. See Note 13, Derivatives and Hedging Activity, for further discussion. The (gain)/loss on marketable securities reclassified from other comprehensive income/(loss) is included in Interest and other income/(expense), net on the Consolidated Statements of Operations. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the years ended December 31, 2014, 2013, and 2012 was \$(133,000), \$250,000, and \$80,000, 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, 2014, the Company held greater than 10% of the carrying value of its real estate portfolio in the Orange County, California; Metropolitan D.C.; and New York, New York markets.

3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Effective January 1, 2014, UDR prospectively adopted ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, for all communities not previously sold or classified as held for sale. The standard had a material impact on the Company's consolidated financial statements. As a result of adopting the ASU, during the year ended December 31, 2014, gains, net of tax, of \$142.5 million from disposition of real estate, excluding a \$1.1 million gain related to the sale of land, are included in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations rather than in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

Prior to the prospective adoption of ASU 2014-08, FASB Accounting Standards Codification ("ASC") Subtopic 205-20 required, among other things, that the primary assets and liabilities and the results of operations of UDR's real properties that have been sold or are held for disposition, be classified as discontinued operations and segregated in UDR's Consolidated Statements of Operations and Consolidated Balance Sheets. Consequently, the primary assets and liabilities and the net operating results of those properties sold or classified as held for disposition prior to January 1, 2014 are accounted for as discontinued operations for all periods presented. This presentation does not have an impact on net income available to common stockholders; it only results in the reclassification of the operating results within the Consolidated Statements of Operations for the periods ended December 31, 2014, 2013, and 2012.

During 2014, the Company sold one operating property that was classified as held for disposition prior to the adoption of ASU 2014-08 and, therefore, met the requirements to be reported as a discontinued operation. The sale of this property resulted in an immaterial gain, net of tax, of \$75,000. The gain, net of tax, and operating results of the property for the years ended December 31, 2014, 2013, and 2012, are included in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

During the year ended December 31, 2013, the Company sold two communities in the Sacramento market with 914 apartment homes for gross proceeds of \$81.1 million. During the year ended December 31, 2012, the Company sold 21 communities with 6,507 apartment homes for gross proceeds of \$609.4 million.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

During the years ended December 31, 2014, 2013, and 2012, UDR recognized net gain/(loss) on the sale of depreciable properties, before tax of \$75,000, \$41.9 million, and \$260.4 million, respectively, which are included in Income/(Loss) from Discontinued Operations, Net of Tax on the Consolidated Statements of Operations.

The following is a summary of Income/(loss) from discontinued operations, net of tax for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	Year Ended December 31,			
	2014	2013	2012	
Rental income	\$147	\$9,152	\$39,543	
Rental expenses	225	3,511	14,106	
Property management	4	252	1,087	
Real estate depreciation	—	1,958	8,475	
Interest and other (income)/expense, net	21	(62	) 821	
Income/(loss) attributable to disposed properties and assets held for sale	(103	) 3,493	15,054	
Net gain/(loss) on the sale of depreciable property	75	41,919	260,404	
Impairment charges	—	(2,355	) —	
Income tax benefit/(expense)	38	885	(8,850	)
Income/(loss) from discontinued operations, net of tax	\$10	\$43,942	\$266,608	
Income/(loss) from discontinued operations attributable to UDR, Inc.	\$10	\$42,364	\$256,533	

4. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for sale properties. As of December 31, 2014, the Company owned and consolidated 139 communities in 10 states plus the District of Columbia totaling 39,851 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2014 and 2013 (dollars in thousands):

	December 31, 2014	December 31, 2013
Land and land improvements	\$1,980,221	\$1,847,127
Depreciable property — held and used:		
Building, improvements, and furniture, fixtures and equipment	6,225,406	5,876,717
Under development:		
Land	24,584	110,769
Building, improvements, and furniture, fixtures and equipment	153,048	356,644
Real estate held for disposition:		
Land	—	10,751
Building, improvements, and furniture, fixtures and equipment	—	5,969
Real estate owned	8,383,259	8,207,977
Accumulated depreciation	(2,434,772)	(2,208,794)
Real estate owned, net	\$5,948,487	\$5,999,183

During the year ended December 31, 2014, the Company sold nine communities consisting of a total of 2,500 apartment homes, an adjacent parcel of land, and one operating property for gross proceeds of \$328.4 million, resulting in net proceeds of \$324.4 million and a total gain, net of tax, of \$138.6 million. A portion of the sale proceeds was designated for tax-deferred exchanges under Section 1031 of the Internal Revenue Code and was used to fund acquisitions of real estate as discussed below.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

In December 2014, the Company sold a 49% interest in 13th and Market and a 50% interest in 3033 Wilshire to MetLife for approximately \$54.2 million and \$8.3 million, respectively, and recognized, net of tax, a gain of \$7.2 million and a loss of \$2.2 million, respectively. Subsequent to the sale, the two communities 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. See further discussion of this transaction in Note 5, Joint Ventures and Partnerships. The activity of the two communities prior to sale is classified as a component of continuing operations on the Consolidated Statements of Operations.

In 2014, the Company acquired a fully-entitled land parcel for future development located in Huntington Beach, California for \$77.8 million, two communities, located in Seattle, Washington and Kirkland, Washington, with a total of 358 apartment homes for \$45.5 million and \$75.2 million, respectively, a land parcel for future development located in Boston, Massachusetts for \$32.2 million. The four acquisitions during the year ended December 31, 2014 were accomplished through tax-deferred exchanges under Section 1031 of the Internal Revenue Code.

In June 2013, the Company sold a 50% interest in five partnerships (the “UDR/MetLife Vitruvian Park® Partnerships”) to MetLife for approximately \$141.3 million, before transaction costs of \$936,000. The properties held by the UDR/MetLife Vitruvian Park® Partnerships are located in Addison, Texas and consist of two operating communities with 739 apartment homes, one recently completed development community in lease-up with 391 apartment homes, and 28.4 acres of developable land parcels. The transaction resulted in a gain of approximately \$436,000 which the Company has deferred until the terms of the construction completion guarantee have been met. The UDR/MetLife Vitruvian Park® Partnerships 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. See further discussion of this transaction in Note 5, Joint Ventures and Partnerships.

The operations of the UDR/MetLife Vitruvian Park® Partnerships' assets, prior to the sale of a 50% interest, have been classified as a component of continuing operations on the Consolidated Statements of Operations, as UDR has continuing involvement over the duration of the partnership.

In December 2013, the Company sold a 49% interest to MetLife in the Company's fully-entitled 399 Fremont land parcel located in San Francisco, California for approximately \$29.9 million. In conjunction with the sale, the Company formed a new unconsolidated joint venture, UDR/MetLife 399 Fremont, to develop a \$318 million, 447-home, luxury high-rise tower on the site. As the Company recently acquired the 399 Fremont land parcel, the sale price was equivalent to the cost basis resulting in no gain or loss on the transaction. For more information on this transaction see Note 5, Joint Ventures and Partnerships.

In December 2013, the Company became the managing partner of two joint ventures resulting in consolidation of both and increasing the real estate owned by \$129.4 million. See Note 5, Joint Ventures and Partnerships, for further details.

The Company incurred \$373,000, \$59,000 and \$2.3 million of acquisition-related costs during the years ended December 31, 2014, 2013, and 2012, respectively. These expenses are reported within the line item General and Administrative on the Consolidated Statements of Operations.

In February 2015, the Company acquired an office building in Highlands Ranch, Colorado, for total consideration of approximately \$24.0 million, which was comprised of assumed debt. The Company's corporate offices, as well as other leased office space, are located in the acquired building. The building consists of approximately 120,000 square feet, of which UDR occupies approximately 44,000 square feet. All existing leases were assumed by the Company at the time of the acquisition.

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. In addition, the Company consolidates any joint venture or partnership in which we are the general partner or managing partner and the third party does not have the ability to substantively participate in the decision-making process nor the ability to remove us as general partner or managing partner without cause.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

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.

Consolidated Joint Ventures

In December 2013, the Company consolidated its 95%/5% development joint ventures 13th and Market in San Diego, California and Domain College Park in Metropolitan, D.C. The consolidation was due to the Company becoming the managing partner of each of the joint ventures pursuant to amendments to the LLC Agreements. In connection with the amendments, our partner received equity distributions reducing its capital account balances to zero, the Company replaced our partner as the managing partner, and our partner no longer has the ability to substantively participate in the decision-making process, with only protective rights remaining. We accounted for the consolidations as asset acquisitions since the joint ventures were under development and not complete at the time of consolidation resulting in no gain or loss upon consolidation and increasing our real estate owned by \$129.4 million and our debt owed by \$63.6 million. In addition pursuant to the amendments, the Company paid a non-refundable deposit to our partner in January 2014 of \$2.0 million for each joint venture, or \$4.0 million in total, for the right to exercise options in 2014 to acquire our partner's upside participation in the joint ventures. The non-refundable deposits were applied towards the total purchase price of approximately \$24.7 million when the Company acquired 100% of the interest in the joint ventures in November 2014.

In December 2014, the Company sold a 49% interest in 13th and Market to MetLife for \$54.2 million, resulting in a gain, net of tax, of \$7.2 million. Additionally, the Company sold a 50% interest in a wholly owned land parcel to MetLife for \$8.3 million, resulting in a loss, net of tax, of \$2.2 million. As a result, the Company no longer controls these two joint ventures and they were deconsolidated by the Company in December 2014.

Unconsolidated Joint Ventures and Partnerships

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

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

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, 2014 and 2013 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR's Ownership Interest		
		2014	2014	2014	2013	2014	2013	
Operating and development:								
UDR/MetLife I (a)	Various	4 land parcels	—	\$ 13,306	\$ 47,497	15.7	% 4.5	%
UDR/MetLife II (a)	Various	21 operating communities	4,642	431,277	327,926	50.0	% 50.0	%
Other UDR/MetLife Joint Ventures (a)	Various	1 operating community, 3 development communities (b), 2 land parcels	1,282	134,939	36,313	50.6	% 35.8	%
UDR/MetLife Vitruvian Park® (c)	Addison, TX	3 operating communities, 6 land parcels	1,394	80,302	79,318	50.0	% 50.0	%
UDR/KFH (d)	Washington, D.C.	3 operating communities	660	21,596	25,919	30.0	% 30.0	%
Texas (e)	Texas	8 operating communities	3,359	(25,901)	(23,591)	20.0	% 20.0	%
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment				655,519	493,382			

	Location	Preferred Return	Years To Maturity	Investment at		Income From Participating Loan Investment For The Year Ended		
				2014	2013	2014	2013	2012
Participating loan investment:								
Steele Creek (f)	Denver, CO	6.5%	2.8	62,707	14,273	\$2,350	\$156	\$—

Total investment in and advances to unconsolidated joint ventures, net

\$ 718,226 \$ 507,655

(a) In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California, which is included in Other UDR/MetLife Joint Ventures in the table above. At closing, UDR owned a noncontrolling interest of 92.5% in the joint venture. The Company's total investment was \$55.5 million, which consisted of its initial investment of \$37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid \$13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for \$4.7 million. In December 2013, the Company sold a 49% ownership interest to MetLife in the fully-entitled 399 Fremont land parcel for approximately \$29.9 million. In conjunction with the sale, the Company formed a new unconsolidated real estate joint venture with MetLife, UDR/MetLife 399 Fremont, to develop a \$318 million, 447-home, luxury high-rise tower on the site. Construction commenced in the first quarter 2014. As the Company recently acquired the 399 Fremont land parcel, the sale price was equivalent to the cost

basis resulting in no gain or loss on the transaction. Under the terms of the partnership, the Company serves as the general partner with significant participating rights held by our partner, and has the ability to earn fees for development management, property management, asset management, and financing transactions. The UDR/MetLife 399 Fremont Joint Venture is accounted for under the equity method of accounting. Our initial investment was approximately \$31.1 million.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

In June 2013 and within UDR/MetLife I, the Company exchanged with MetLife its approximately 10% ownership interest in four operating communities and paid MetLife an additional \$15.6 million in cash for an increased ownership interest of approximately 35% in two high-rise operating communities, bringing UDR's ownership interest in the two high-rise operating communities to 50% each. The two high-rise operating communities are located in Denver, Colorado and San Diego, California and were subsequently contributed to UDR/MetLife II. The four operating communities in which UDR exchanged its ownership interest are located in Washington D.C.; San Francisco, California; Dallas, Texas; and Charlotte, North Carolina. UDR continues to fee manage these four operating communities.

In March 2014, the Company sold its minority ownership interests in two operating communities located in Los Angeles, California to MetLife for cash proceeds of \$3.0 million, which resulted in an immaterial gain. In April 2014, the Company increased its ownership interest in the remaining six operating communities in the UDR/MetLife I Joint Venture from 12% to 50%, and MetLife and the Company contributed the communities to the UDR/MetLife II Joint Venture. The Company paid MetLife \$82.5 million for the additional ownership interests. The Company continues to fee manage the operating communities that were contributed to the UDR/MetLife II Joint Venture as well as the two operating communities in which it sold its minority ownership interests.

In July 2014, the Company increased the ownership interest in two land sites in UDR/MetLife I to 50.1% and formed individual asset joint ventures, which are included in Other UDR/MetLife Joint Ventures in the table above. The remaining 49.9% continues to be held by our joint venture partner MetLife. The Company paid MetLife approximately \$21.5 million for the additional ownership interests.

In December 2014, the Company increased its ownership interest in one land site in the UDR/MetLife I Joint Venture to 50%. Additionally, the Company increased its ownership interest in another land site to 50.1%, which MetLife and the Company contributed to a separate joint venture and is included in Other UDR/MetLife Joint Ventures in the table above. The Company paid MetLife approximately \$15.3 million for the additional ownership interests. As of December 31, 2014, the remaining assets in the UDR/MetLife I Joint Venture were comprised of three potential development land sites in which the Company has an average ownership interest of approximately 5% and one fully entitled land parcel in which the Company owns 50%.

In December 2014, the Company sold a 49% interest in 13th and Market located in San Diego, California to MetLife for gross proceeds of \$54.2 million, resulting in a gain, net of tax, of \$7.2 million and a 50% interest in 3033 Wilshire in Los Angeles, California, also to MetLife for gross proceeds of \$8.3 million, resulting in a loss, net of tax, of \$2.2 million.

The number of apartment homes for the communities under development presented in the table above is based on (b) the projected number of total homes. As of December 31, 2014, no apartment homes had been completed in Other UDR/MetLife Development Joint Ventures.

In June 2013, the Company sold a 50% interest in five partnerships (the "UDR/MetLife Vitruvian Park® Partnerships") to MetLife for approximately \$141.3 million. The transaction resulted in a gain of approximately \$436,000 which the Company has deferred until the terms of the construction completion guarantee have been met. Under the terms of the UDR/MetLife Vitruvian Park® Partnerships, the Company serves as the general partner with (c) significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions. The UDR/MetLife Vitruvian Park® Partnerships are accounted for under the equity method of accounting. Our initial investment was approximately \$80.2 million, which consisted of approximately \$140.0 million (50% of our net book value of the real estate at the time of the transaction) reduced by our share of the net proceeds received upon encumbering the assets of approximately \$58.7 million and other operating adjustments.

At closing, a total of \$118.3 million of secured debt was placed on the two operating communities and the community under development. The debt on the two operating communities carries an interest rate of 4.0% with a term of ten years and the non-recourse construction loan on the community under development carries an interest rate of LIBOR

plus 175 basis points with a term of two years and two one-year extension options. The Company has guaranteed the completion of the construction of the development. Proceeds from the construction loan will be used for completion of construction of the development. Upon completion, at its 50% ownership, the Company's pro-rata share of the undepreciated book value of the UDR/MetLife Vitruvian Park® Partnerships' real estate assets and outstanding debt will be approximately \$145.0 million and \$62.8 million, respectively.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

(d) UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to \$450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180 million of which the Company's maximum equity will be 30% or \$54 million when fully invested.

(e) In November 2007, UDR and an unaffiliated third party formed a joint venture to own and operate 10 communities located in Texas. UDR contributed cash and property equal to 20% of the fair value of the joint venture. During the year ended December 31, 2012, the Company acquired the remaining 80% ownership interests in two communities in Austin, Texas for \$11.7 million. The Company's investment in the joint venture at December 31, 2014 and 2013 was net of deferred profits on the sale of depreciable properties to the joint venture of \$23.9 million and \$24.0 million, respectively.

In January 2015, the eight communities held by the Texas joint venture were sold, generating net proceeds to UDR of \$43.5 million. The Company recorded promote and fee income of \$9.6 million and a gain of \$59.1 million (including \$24.2 million of previously deferred gains) in connection with the sale.

(f) In October 2013, the Company entered into a participating debt financing arrangement with a third party that is developing a \$108 million, 218-home, high-rise luxury community located adjacent to the Cherry Creek Mall in Denver, Colorado. Under the agreement, UDR will finance up to 85%, or approximately \$92.0 million, of the development cost at an interest rate of 6.5% per annum on the outstanding debt balance. In addition, the Company has the option to purchase the community upon completion of construction and has a 50% participating interest in the profit upon the acquisition of the community or sale to a third party. The Company accounts for the arrangement consistent with an investment in real estate under the equity method of accounting.

As of December 31, 2014, and 2013, our participating loan investment was \$62.7 million and \$14.3 million, respectively, which was included in Investment in and advances to unconsolidated joint ventures, net on the Consolidated Balance Sheets. We also recognized \$2.4 million and \$156,000 of income included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of \$24.7 million and \$25.4 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 \$11.3 million, \$11.2 million, and \$11.8 million of management fees during the years ended December 31, 2014, 2013, and 2012, respectively, for our management of 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 decrease in the value of its other investments in unconsolidated joint ventures or partnerships during the years ended December 31, 2014, 2013, and 2012.

Combined summary financial information relating to all of the unconsolidated joint ventures and partnerships operations (not just our proportionate share), is presented below for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

As of and For the Year Ended December 31, 2014	UDR/MetLife I	UDR/MetLife II	UDR/MetLife Vitruvian Park®	Texas	UDR/KFH	Other joint ventures	Total
Condensed Statements of Operations:							
Total revenues	\$ 727	\$ 152,047	\$ 19,376	\$—	\$ 19,724	\$ 1,579	\$ 193,453
Property operating expenses	618	52,150	10,711	—	7,498	1,122	72,099
Real estate depreciation and amortization	2,130	41,504	7,380	—	14,426	3,959	69,399
Operating income/(loss)	(2,021)	58,393	1,285	—	(2,200)	(3,502)	51,955
Interest expense	—	(48,493)	(4,131)	—	(5,873)	(94)	(58,591)
Other income/(expense)	—	—	—	—	—	—	—
Gain/(loss) on sale of real estate	—	—	—	—	—	—	—
Income/(loss) from discontinued operations	(31,802)	—	—	(4,229)	—	—	(36,031)
Net income/(loss)	\$ (33,823)	\$ 9,900	\$ (2,846)	\$ (4,229)	\$ (8,073)	\$ (3,596)	\$ (42,667)
UDR recorded income (loss) from unconsolidated entities	\$ (2,955)	\$ 2,814	\$ (4,068)	\$ (772)	\$ (2,601)	\$ 576	\$ (7,006)
Condensed Balance Sheets:							
Total real estate, net	\$ 89,482	\$ 1,986,237	\$ 278,600	\$—	\$ 235,623	\$ 351,861	\$ 2,941,803
Assets held for sale	1,978	—	—	214,218	—	—	216,196
Cash and cash equivalents	1,983	15,245	6,570	—	2,507	6,239	32,544
Other assets	(146)	19,589	3,933	—	1,128	4,203	28,707
Total assets	93,297	2,021,071	289,103	214,218	239,258	362,303	3,219,250
Amount due/(from) to UDR	107	(444)	1,960	—	531	843	2,997
Third party debt	—	1,147,109	123,649	—	165,209	68,510	1,504,477
Liabilities held for sale	5,110	—	—	224,596	—	—	229,706
Accounts payable and accrued liabilities	749	17,573	6,766	—	1,396	17,851	44,335
Total liabilities	5,966	1,164,238	132,375	224,596	167,136	87,204	1,781,515
Total equity	\$ 87,331	\$ 856,833	\$ 156,728	\$ (10,378)	\$ 72,122	\$ 275,099	\$ 1,437,735
UDR's investment in unconsolidated joint ventures	\$ 13,306	\$ 431,277	\$ 80,302	\$ (25,901)	\$ 21,596	\$ 197,646	\$ 718,226

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

As of and For the Year Ended December 31, 2013	UDR/MetLife I	UDR/MetLife II	UDR/MetLife Vitruvian Park®	Texas	UDR/KFH	Other joint ventures	Total
Condensed Statements of Operations:							
Total revenues	\$ 691	\$ 109,926	\$ 7,680	\$—	\$ 19,221	\$ 5,324	\$ 142,842
Property operating expenses	621	33,809	4,633	—	7,035	3,292	49,390
Real estate depreciation and amortization	115	30,122	3,830	—	14,199	3,564	51,830
Operating income/(loss)	(45)	45,995	(783)	—	(2,013)	(1,532)	41,622
Interest expense	—	(37,055)	(1,886)	—	(5,872)	(913)	(45,726)
Other income/(expense)	—	1	—	—	—	—	1
Income/(loss) from discontinued operations	(22,388)	—	—	(9,584)	—	—	(31,972)
Net income/(loss)	\$ (22,433)	\$ 8,941	\$ (2,669)	\$ (9,584)	\$ (7,885)	\$ (2,445)	\$ (36,075)
UDR recorded income/(loss) from unconsolidated entities	\$ (4,675)	\$ 4,471	\$ (2,851)	\$ (1,218)	\$ (2,366)	\$ 6,224	\$ (415)
Condensed Balance Sheets:							
Total real estate, net	\$ 90,971	\$ 1,476,588	\$ 283,878	\$—	\$ 249,097	\$ 65,133	\$ 2,165,667
Assets held for sale	753,427	—	—	231,981	—	—	985,408
Cash and cash equivalents	305	16,454	3,498	—	2,289	—	22,546
Other assets	4,782	16,666	1,578	—	1,474	83	24,583
Total assets	849,485	1,509,708	288,954	231,981	252,860	65,216	3,198,204
Amount due to UDR	4,520	2,275	1,352	—	420	1,136	9,703
Third party debt	—	877,799	120,999	—	165,209	—	1,164,007
Liabilities held for sale	346,810	—	—	230,393	—	—	577,203
Accounts payable and accrued liabilities	89	14,508	7,152	—	1,234	2,813	25,796
Total liabilities	351,419	894,582	129,503	230,393	166,863	3,949	1,776,709
Total equity	\$ 498,066	\$ 615,126	\$ 159,451	\$ 1,588	\$ 85,997	\$ 61,267	\$ 1,421,495
UDR's investment in unconsolidated joint ventures	\$ 47,497	\$ 327,926	\$ 79,318	\$ (23,591)	\$ 25,919	\$ 50,586	\$ 507,655

For the Year Ended December 31, 2012	UDR/MetLife I	UDR/MetLife II	UDR/MetLife Vitruvian Park®	Texas	UDR/KFH	Other joint ventures	Total
Condensed Statements of Operations:							
Total revenues	\$ 632	\$ 87,386	\$ —	\$—	\$ 18,670	\$ 2,724	\$ 109,412
Property operating expenses	252	25,737	—	—	6,831	1,368	34,188
Real estate depreciation and amortization	124	32,553	—	—	16,546	1,897	51,120

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Operating income/(loss)	256	29,096	—	—	(4,707)	(541)	24,104
Interest expense	—	(29,170)	—	—	(5,890)	(561)	(35,621)
Other income/(expense)	—	(9)	—	—	—	—	(9)
Income/(loss) from discontinued operations	8,609	—	—	(1,040)	—	—	7,569
Net income/(loss)	\$ 8,865	\$ (83)	\$ —	\$(1,040)	\$(10,597)	\$(1,102)	\$(3,957)
UDR recorded income/(loss) from unconsolidated entities	\$ (1,750)	\$ 15	\$ —	\$(2,399)	\$(3,221)	\$(1,224)	\$(8,579)

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

6. SECURED AND UNSECURED DEBT

The following is a summary of our secured and unsecured debt at December 31, 2014 and 2013 (dollars in thousands):

	Principal Outstanding		For the Year Ended December 31, 2014			
	December 31,		Weighted	Weighted	Number of	
	2014	2013	Average	Average	Communities	
			Interest Rate	Years to	Encumbered	
				Maturity		
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	\$401,210	\$445,706	5.46	% 1.6	6	
Fannie Mae credit facilities (b)	568,086	626,667	5.12	% 4.0	22	
Total fixed rate secured debt	969,296	1,072,373	5.26	% 3.0	28	
Variable Rate Debt						
Mortgage notes payable	31,337	63,595	1.94	% 2.1	1	
Tax-exempt secured notes payable (c)	94,700	94,700	0.83	% 8.2	2	
Fannie Mae credit facilities (b)	266,196	211,409	1.60	% 5.2	7	
Total variable rate secured debt	392,233	369,704	1.44	% 5.7	10	
Total Secured Debt	1,361,529	1,442,077	4.16	% 3.8	38	
Unsecured Debt:						
Commercial Banks						
Borrowings outstanding under an unsecured credit facility due December 2017 (d) (h)	152,500	—	1.09	% 2.9		
Senior Unsecured Notes						
5.13% Medium-Term Notes due January 2014 (e)	—	184,000	—	% —		
5.50% Medium-Term Notes due April 2014 (net of discount of \$20) (e)	—	128,480	—	% —		
5.25% Medium-Term Notes due January 2015 (net of discounts of \$6 and \$134, respectively) (f)	325,169	325,041	5.25	% —		
5.25% Medium-Term Notes due January 2016	83,260	83,260	5.25	% 1.0		
4.25% Medium-Term Notes due June 2018 (net of discounts of \$1,465 and \$1,893, respectively) (h)	298,535	298,107	4.25	% 3.4		
2.17% Term Notes due June 2018 (h)	215,000	250,000	2.17	% 3.4		
1.53% Term Notes due June 2018 (h)	100,000	65,000	1.53	% 3.4		
1.31% Term Notes due June 2018 (h)	35,000	35,000	1.31	% 3.4		
3.70% Medium-Term Notes due October 2020 (net of discounts of \$46 and \$54, respectively) (h)	299,954	299,946	3.70	% 5.8		
4.63% Medium-Term Notes due January 2022 (net of discounts of \$2,523 and \$2,882, respectively) (h)	397,477	397,118	4.63	% 7.0		
	299,010	—	3.75	% 9.5		

3.75% Medium-Term Notes due July 2024 (net
of discount of \$990) (g) (h)

8.50% Debentures due September 2024	15,644	15,644	8.50	%	9.7
Other	27	30	N/A		N/A
Total Unsecured Debt	2,221,576	2,081,626	3.81	%	4.6
Total Debt	\$3,583,105	\$3,523,703	3.94	%	4.3

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2014

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the above table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. As of December 31, 2014, secured debt encumbered \$2.2 billion or 26.6% of UDR's total real estate owned based upon gross book value (\$6.2 billion or 73.4% of UDR's real estate owned based on gross book value is unencumbered).

(a) At December 31, 2014, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2015 through May 2019 and carry interest rates ranging from 3.43% to 5.94%.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. During the years ended December 31, 2014, 2013, and 2012, the Company had \$5.1 million, \$5.1 million, and \$4.9 million, respectively, of amortization expense on the fair market adjustment of debt a