UDR, Inc.
Form 10-Q
November 03, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number 1-10524
UDR, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**54-0857512**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification No.)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The number of shares of the issuer s common stock, $0.01 par value, outstanding as of October 30, 2009, was 152,821,378.

UDR, Inc.
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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UDR, Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2009 (unaudited)	December 31, 2008 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 5,835,852**	$ 5,644,930
Less: accumulated depreciation	**(1,284,227)**	(1,078,637)
	4,551,625	4,566,293
Real estate under development (net of accumulated depreciation of $482 and $52)	**232,957**	186,771
Total real estate owned, net of accumulated depreciation	**4,784,582**	4,753,064
Cash and cash equivalents	**24,954**	12,740
Marketable securities	**37,020**	
Restricted cash	**8,280**	7,726
Deferred financing costs, net	**26,002**	29,168
Notes receivable	**7,300**	207,450
Investment in unconsolidated joint ventures	**53,598**	47,048
Other assets	**68,521**	85,842
Other assets real estate held for disposition		767
Total assets	**$ 5,010,257**	$ 5,143,805
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	**$ 1,863,127**	$ 1,462,471
Unsecured debt	**1,411,919**	1,798,662
Real estate taxes payable	**32,500**	14,035
Accrued interest payable	**19,108**	20,744
Security deposits and prepaid rent	**30,771**	28,829
Distributions payable	**30,810**	57,144
Deferred gains on the sale of depreciable property	**28,831**	28,845
Accounts payable, accrued expenses, and other liabilities	**56,560**	71,395
Other liabilities real estate held for disposition		1,204
Total liabilities	**3,473,626**	3,483,329
Redeemable non-controlling interests in operating partnership	**99,137**	108,092

Stockholders equity		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2008)	**46,571**	46,571
4,430,700 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (4,430,700 shares at December 31, 2008)	**110,768**	110,768
Common stock, $0.01 par value; 250,000,000 shares authorized		
152,846,734 shares issued and outstanding (148,781,115 shares at December 31, 2008)	**1,528**	1,488
Additional paid-in capital	**1,906,300**	1,850,871
Distributions in excess of net income	**(628,445)**	(448,737)
Accumulated other comprehensive loss, net	**(2,714)**	(11,927)
Total UDR, Inc. stockholders equity	**1,434,008**	1,549,034
Non-controlling interest	**3,486**	3,350
Total equity	**1,437,494**	1,552,384
Total liabilities and stockholders equity	**$ 5,010,257**	$ 5,143,805

See accompanying notes to consolidated financial statements.

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UDR, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	**2009**	2008
REVENUES				
Rental income	**$ 150,311**	$ 147,414	**$ 452,769**	$ 413,955
Non-property income:				
Other income	**1,627**	9,969	**10,609**	21,286
Total Revenues	**151,938**	157,383	**463,378**	435,241
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	**18,908**	19,101	**57,771**	47,775
Personnel	**13,049**	12,675	**38,464**	36,523
Utilities	**8,207**	8,113	**23,924**	22,017
Repair and maintenance	**8,315**	8,318	**23,423**	22,544
Administrative and marketing	**3,636**	3,635	**10,553**	10,784
Property management	**4,134**	4,054	**12,452**	11,384
Other operating expenses	**1,172**	1,153	**4,437**	3,183
Real estate depreciation and amortization	**69,695**	65,551	**207,747**	180,493
Interest				
Expense incurred	**33,909**	39,860	**105,794**	118,381
Net gain on debt extinguishment		(2,523)	**(9,849)**	(8,595)
Amortization of convertible debt premium	**967**	1,670	**3,316**	5,010
Expenses related to tender offer	**3,764**		**3,764**	
General and administrative	**8,924**	9,835	**27,797**	29,535
Hurricane related expenses		833	**127**	833
Other depreciation and amortization	**858**	1,140	**3,730**	3,013
Total Expenses	**175,538**	173,415	**513,450**	482,880
Loss from operations	**(23,600)**	(16,032)	**(50,072)**	(47,639)
Loss from unconsolidated entities	**(16,742)**	(1,897)	**(18,187)**	(3,286)
Tax (expense)/benefit for taxable REIT subsidiary	**(14)**	829	**(65)**	5,743
Loss from continuing operations	**(40,356)**	(17,100)	**(68,324)**	(45,182)
Income from discontinued operations	**601**	6,736	**2,486**	806,908
Consolidated net (loss)/income	**(39,755)**	(10,364)	**(65,838)**	761,726
Net loss/(income) attributable to non-controlling interests	**1,779**	450	**3,175**	(48,598)

Net (loss)/income attributable to UDR, Inc.	**(37,976)**	(9,914)	**(62,663)**	713,128
Distributions to preferred stockholders Series E (Convertible)	**(931)**	(931)	**(2,793)**	(2,793)
Distributions to preferred stockholders Series G	**(1,869)**	(1,989)	**(5,607)**	(6,545)
Discount on preferred stock repurchases, net		3,056		3,056
Net (loss)/income attributable to common stockholders	**$ (40,776)**	$ (9,778)	**$ (71,063)**	$ 706,846
Earnings per weighted average common share basic and diluted:				
Loss from continuing operations available to common stockholders	**$ (0.27)**	$ (0.12)	**$ (0.50)**	$ (0.71)
Income from discontinued operations	**$**	$ 0.05	**$ 0.02**	$ 5.79
Net (loss)/income attributable to common stockholders	**$ (0.27)**	$ (0.07)	**$ (0.48)**	$ 5.08
Common distributions declared per share	**$ 0.180**	$ 0.305	**$ 0.665**	$ 0.915
Weighted average number of common shares outstanding basic	**150,000**	137,329	**149,048**	139,266
Weighted average number of common shares outstanding diluted	**150,000**	137,329	**149,048**	139,266

See accompanying notes to consolidated financial statements.

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

Nine Months Ended September 30,	**2009**	**2008**
Operating Activities		
Consolidated net (loss)/income	**$ (65,838)**	$ 761,726
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	**211,477**	183,506
Net gains on the sale of depreciable property	**(2,486)**	(786,917)
Net gains on the sale of land		(183)
Gains on debt extinguishment	**(9,849)**	(8,595)
Write off of bad debt	**2,635**	954
Write off of note receivable and other assets	**1,089**	
Loss from unconsolidated entities	**18,187**	3,286
Amortization of deferred financing costs and other	**5,499**	6,774
Amortization of deferred compensation	**5,862**	5,346
Amortization of convertible debt premium	**3,316**	5,010
Prepayments/(refunds) on income taxes	**1,846**	(4,047)
Changes in operating assets and liabilities:		
Decrease in operating assets	**7,489**	(8,249)
Decrease in operating liabilities	**10,423**	(19,921)
Net cash provided by operating activities	**189,650**	138,690
Investing Activities		
Proceeds from sales of real estate investments, net		1,485,100
Proceeds from note receivable	**200,000**	44,774
Disbursements related to notes receivable		(39,569)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(28,528)**	(909,764)
Development of real estate assets	**(142,195)**	(101,952)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(63,881)**	(101,128)
Capital expenditures non-real estate assets	**(6,290)**	(21,347)
Investment in unconsolidated joint venture	**(23,871)**	(1,881)
Purchase deposits on pending real estate acquisitions		(928)
Purchase of marketable securities	**(30,942)**	
Change in funds held in escrow from IRC Section 1031 exchanges		56,217
Net cash (used in)/provided by investing activities	**(95,707)**	409,522
Financing Activities		
Payments on secured debt	**(34,205)**	(75,473)
Proceeds from the issuance of secured debt	**434,860**	156,885
Proceeds from the issuance of unsecured debt		240,000

Payments on unsecured debt	**(401,958)**	(367,031)
Net proceeds/(repayment) of revolving bank debt	**25,000**	(193,400)
Payment of financing costs	**(5,267)**	(2,957)
Proceeds from the issuance of common stock through public offering, net	**32,953**	
Issuance of common and restricted stock, net	**(969)**	2,491
Proceeds from the redemption of Series G preferred stock, net		(20,347)
Repayment of the investment of performance based programs		(766)
Distributions paid to non-controlling interests	**(5,925)**	(8,923)
Distributions paid to preferred stockholders	**(8,400)**	(9,629)
Distributions paid to common stockholders	**(117,020)**	(128,887)
Repurchase of common stock	**(798)**	(140,533)
Net cash used in financing activities	**(81,729)**	(548,570)
Net increase/(decrease) in cash and cash equivalents	**12,214**	(358)
Cash and cash equivalents, beginning of period	**12,740**	3,219
Cash and cash equivalents, end of period	**$ 24,954**	$ 2,861
Supplemental Information:		
Interest paid during the period	**$ 122,577**	$ 93,627
Non-cash transactions:		
Conversion of operating partnership non-controlling interests to common stock (1,839,216 shares in 2009 and 150,061 shares in 2008)	**17,423**	1,380
Issuance of restricted stock awards	**1**	4
Issuance of note receivable upon the disposition of real estate		200,000
Secured debt assumed with the acquisition of properties, net of fair value adjustment		95,728

See accompanying notes to consolidated financial statements.

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UDR, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME/LOSS
(In thousands, except share data)
(Unaudited)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Shares	Amount	Capital	Income	Income/(Loss)	Interest	Total
Balance at December 31, 2008	**7,234,512**	**$ 157,339**	**148,781,115**	**$ 1,488**	**$ 1,850,871**	**$ (448,737)**	**$ (11,927)**	**$ 3,350**	**$ 1,552,384**
Comprehensive Income									
Net loss						(62,663)		136	(62,527)
Other comprehensive income									
Change in fair value of marketable securities							4,520		4,520
Unrealized gain on derivative financial instruments							5,355		5,355
Allocation to redeemable non-controllable interests							(662)		(662)
Comprehensive income/loss						**(62,663)**	**9,213**	**136**	**(53,314)**
Issuance of common and restricted shares			57,003		4,953				4,953
Issuance of common shares through public offering, net of issuance costs			2,269,400	23	32,930				32,953
Purchase of common shares			(100,000)	(1)	(797)				(798)
					938				938

Adjustment for conversion of non-controlling Series C and D LLC									
Adjustment for conversion of non-controlling interests of unitholders in operating partnerships			1,839,216	18	17,405				17,423
Common stock distributions declared ($0.665 per share)						(99,075)			(99,075)
Preferred stock distributions declared-Series E ($0.9966 per share)						(2,793)			(2,793)
Preferred stock distributions declared-Series G ($1.2656 per share)						(5,607)			(5,607)
Adjustment to reflect redeemable non-controlling redemption value						(9,570)			(9,570)
Balance at September 30, 2009	**7,234,512**	**$ 157,339**	**152,846,734**	**$ 1,528**	**$ 1,906,300**	**$ (628,445)**	**$ (2,714)**	**$ 3,486**	**$ 1,437,494**

See accompanying notes to consolidated financial statements.

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UDR, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(UNAUDITED)

1. CONSOLIDATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (we , our , us , the Company or UDR) is a self-administ real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP). As of September 30, 2009, there were 179,863,065 units in the Operating Partnership outstanding, of which 173,740,481 units or 97% were owned by UDR and 6,122,584 units or 3% were owned by limited partners. As of September 30, 2009, there were 6,264,461 units in the Heritage OP outstanding, of which 6,088,659 units or 97% were owned by UDR and 175,802 units or 3% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership and the Heritage OP.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2009, and results of operations for the three and nine months ended September 30, 2009 and 2008 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes appearing in UDR s Form 8-K filed with the SEC on May 22, 2009.

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

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). Effective for our financial statements issued for interim and annual periods commencing with the quarterly period ended September 30, 2009, the FASB Accounting Standards Codification (Codification or ASC) is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all then-existing, non-SEC accounting and reporting standards. In the FASB s view, the Codification does not change GAAP, and therefore the adoption of SFAS 168, now referred to as FASB ASC 105, *Generally Accepted Accounting Principles*, did not have an effect on our consolidated financial position, results of operations or cash flows. However, where we have referred to specific authoritative accounting literature, both the Codification and pre-Codification GAAP literature are disclosed.

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FASB ASC 810, *Consolidation* (formerly SFAS 160, Non-controlling Interests in Consolidated Financial Statements-an amendment of Accounting Research Bulletin 51 (Consolidated Financial Statements) establishes accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the non-controlling interest with disclosure of both amounts on the consolidated statement of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The Company adopted this standard, effective January 1, 2009. As a result, loss from continuing operations attributable to common stockholders per diluted share decreased by $0.00 and $0.37 for the three and nine months ended September 30, 2008, respectively and income from discontinued operations per diluted share increased by the same amounts. There was no impact to net (loss)/income attributable to common stockholders per diluted share due to the adoption of this standard. As part of our adoption of this standard, we have retroactively adopted the measurement provisions of FASB ASC 480, *Distinguishing Liabilities from Equity* (formerly EITF Topic D-98, Classification and Measurement of Redeemable Securities). Upon adoption, we adjusted the carrying amount of the operating partnership units by recognizing an $86.8 million increase to Redeemable non-controlling interest in operating partnership on the balance sheet and a corresponding decrease in Distributions in Excess of Net Income, which was accounted for as a cumulative effect adjustment as of January 1, 2006.

FASB ASC 470-20, *Debt with Conversion and Other Options* (formerly FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion) (Subtopic 470-20) requires entities that issued certain convertible debt instruments that may be settled or partially settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the entity s nonconvertible debt borrowing rate. This standard requires that an entity determine the estimated fair value of a similar debt instrument as of the date of the issuance without the conversion feature but inclusive of any other embedded features such as puts and calls and assign that value to the debt component of the instrument, which would result in a discount being recorded. The debt is subsequently accreted to its par value over its expected life using the market rate at the date of issuance. The residual value between the initial proceeds and the value allocated to the debt would be reflected in equity as additional paid in capital. The Company adopted this standard, effective for fiscal years beginning after December 15, 2008 and retrospectively applied it to both new and existing convertible instruments. Accordingly, the Company recognized a decrease in Distributions in Excess of Net Income of $117,000 on January 1, 2006 for the cumulative change in interest expense. We also recorded a $32.6 million increase to Additional Paid in Capital for the allocation of the equity component. The Company recognized an additional $967,000 ($0.01 per diluted share) and $6.7 million ($0.04 per diluted share) and $1.7 million ($0.01 per diluted share) and $5.0 million ($0.03 per diluted share) of interest expense in the three and nine months ended September 30, 2009 and 2008, respectively. This impact includes both regular amortization of convertible debt premium and the effect of write offs due to convertible debt repurchases.

FASB ASC 260, *Earnings per Share* (formerly FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities) was effective January 1, 2009 and has been applied retrospectively. This standard clarifies that unvested share-based payment awards that participate in dividends similar to shares of common stock or operating partnership units should be treated as participating securities. It also affects the computation of basic and diluted earnings per share for unvested restricted stock awards which entitle the holders to dividends. The standard did not affect earnings per share amounts for the three and nine months ended September 30, 2009 because we reported a net loss for the period and accordingly had no undistributed earnings. This standard had an immaterial affect on the earnings per share amount for the three and nine months ended September 30, 2008. We do not expect it to have a material effect on future earnings per share amounts.

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FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157, Fair Value Instruments and FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157) (Topic 820) defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurement. Topic 820 applies to other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. The adoption of Topic 820 for financial assets and liabilities, as of January 1, 2008, did not have a material impact on our financial position or operations. Topic 820 delayed the effective date of Topic 820 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Fair value measurements identified in Topic 820 is effective for our fiscal year beginning January 1, 2009 and did not have any impact on our consolidated financial position, results of operations or cash flows.

FASB ASC 825, *Financial Instruments* (formerly SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities) became effective for our fiscal year beginning January 1, 2008. This standard allows an entity to elect to measure certain financial instruments at fair value. If this irrevocable election is made, an entity may apply this guidance on an instrument by instrument basis with a few exceptions and report any change in the fair value of the instrument in earnings. The Company has not adopted the fair value measurement option for any of its financial instruments.

FASB ASC 805, *Business Combinations* (formerly SFAS 141R, Business Combinations) became effective for fiscal years beginning after December 15, 2008. This standard establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This standard also provides guidance for recognizing and measuring the goodwill acquired in the business combination, recognizing assets acquired and liabilities assumed arising from contingencies, and determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of this guidance could materially impact our future consolidated financial position and results of operations depending on the Company s acquisition activity as certain acquisition costs that have historically been capitalized as part of the basis of the real estate and amortized over the real estate s useful life will now be expensed as incurred. This guidance did not have a material impact on our financial statements during the nine months ended September 30, 2009.

FASB ASC 815, *Derivatives* (formerly SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133) (Topic 815), effective for our fiscal year beginning January 1, 2009, presents disclosure requirements to enhance the financial statement user s understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Topic 815 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The standard did not have any impact on our consolidated financial position, results of operations or cash flows. However, it requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. See Note 9, *Derivative and Hedging Activity,* for these additional disclosures.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which (1) addresses the effects of eliminating the qualifying special-purpose entity concept from ASC 860, *Transfers and Servicing* (formerly SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities), and (2) responds to concerns about the application of certain key provisions of ASC 810, *Consolidation* (formerly FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities), including concerns over the transparency of enterprises involvement with variable interest entities (VIEs). SFAS 167 is effective beginning on January 1, 2010. The Company is currently assessing the impact of SFAS 167.

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In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, Measuring Liabilities at Fair Value (ASU 2009-05), which provides amendments to Topic 820. ASU 2009-05 provides additional guidance clarifying the measurement of liabilities at fair value. ASU 2009-05 is effective in the fourth quarter 2009 for a calendar year entity. The Company is currently evaluating the impact of ASU 2009-05 on its financial position, results of operations, cash flows and disclosures.

Accounting Policies

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 income, excise and franchise taxes. UDR elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries (TRS) relating to the Company s developer, RE3 and condominium conversion activities.

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of September 30, 2009, UDR has recorded a current tax liability of $16.1 million and a deferred tax asset of approximately $21.4 million and recorded income tax expense of $14,000 and $65,000 for the three and nine months ended September 30, 2009, respectively.

UDR adopted FASB ASC 740, *Income Taxes* (formerly FASB Interpretation 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109) (Topic 740) on January 1, 2007. This guidance 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. It also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

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

As a result of the implementation of Topic 740, UDR recognized no material adjustments to liabilities related to unrecognized income tax benefits. At the adoption date, UDR s TRS had $538,000 of net unrecognized tax benefits, which would favorably impact our effective tax rate if recognized. During the nine months ended September 30, 2008, the liability was reversed due to the Company no longer meeting the measurement criteria. As such, subsequent to September 30, 2008, UDR had no unrecognized tax benefits, accrued interest or penalties. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2004 2008 remain open to examination by the major taxing 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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Real Estate Sales

The Company accounts for sales of real estate in accordance with FASB ASC 360-20, *Real Estate Sales* (formerly SFAS 66, Accounting for Sales of Real Estate). For sales transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property, we remove the related assets and liabilities from our consolidated balance sheet 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.

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

Investment in Unconsolidated Joint Ventures

In accordance with FASB ASC 323-10, *Investments- Equity Method and Joint Ventures* (formerly APB Opinion 18), The Equity Method of Accounting for Investments in Common Stock) (Subtopic 323-10), 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.

Marketable Securities

Marketable securities represent publicly traded debt securities and are classified as available for sale and carried at fair value, with unrealized gains and losses reported as a separate component of stockholders equity. Declines in the value of public and private investments that management determines are other than temporary are recorded as a provision for loss on investments. The amortization of any discount and interest income are recorded in Other Income on the Consolidated Statements of Operations. See Note 8, *Fair Value of Derivatives and Financial Instruments.*

The Company has the ability to make public and private investments in equity and debt securities. The publicly traded securities are classified as available-for-sale securities and carried at fair value, with unrealized gains and losses reported as a separate component of stockholders equity. For publicly traded debt securities, the Company initially assesses our intent and ability to hold the debt instrument before determining the classification as either held-to-maturity securities which would be reported at their amortized cost or as an available-for-sale security. Private investments for which we lack the ability to exercise significant influence are accounted for at cost.

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2. REAL ESTATE

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development and properties deemed as held for sale. As of September 30, 2009 the Company owned and consolidated 164 communities in 10 states plus the District of Columbia totaling 45,249 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2009 and December 31, 2008 *(dollar amounts in thousands)*:

	September 30, 2009	December 31, 2008
Land	$ 1,581,294	$ 1,567,737
Depreciable property held for investment:		
Building and improvements	4,011,906	3,859,245
Furniture, fixtures and equipment	242,652	217,948
Under development:		
Land	53,458	52,294
Construction in progress	179,981	134,529
Real estate owned	$ 6,069,291	$ 5,831,753
Accumulated depreciation	(1,284,709)	(1,078,689)
Real estate owned, net	$ 4,784,582	$ 4,753,064

3. DISCONTINUED OPERATIONS

Discontinued operations represent properties that UDR has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property s operations and cash flows have or will be divested to a third party by the Company whereby UDR will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Company. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria of held for sale the Company will recapture any unrecorded depreciation for the property. The assets and liabilities of properties deemed as held for sale are presented separately on the Consolidated Balance Sheets. Properties deemed as held for sale are reported at the lower of their carrying amount or their estimated fair value less the costs to sell the assets. UDR did not dispose of any communities during the nine months ended September 30, 2009, nor did we have any classified as held for disposition at September 30, 2009. For the nine months ended September 30, 2008, UDR sold 86 communities with a total of 25,684 apartment homes, one commercial property, one parcel of land and 53 condominiums from two communities with a total of 640 condominiums. UDR recognized after-tax gains for financial reporting purposes of $787.1 million on these sales. The results of operations for these properties and the gain/loss from disposition are classified on the Consolidated Statements of Operations in the line item titled Income from discontinued operations , for the three and nine months ended September 30, 2009 and 2008.

In conjunction with the sale of the 86 communities during the nine months ended September 30, 2008, the Company received a note in the amount of $200 million. On May 4, 2009, the Company received from the buyer payment in full of the $200 million note, plus accrued and unpaid interest thereon in the amount of $123,287.

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UDR has elected TRS status for certain of its corporate subsidiaries, primarily those engaged in development activities and, to a lesser extent, condominium conversion. For the three months ended September 30, 2009 and 2008, UDR recognized an income tax expense of $14,000 and an income tax benefit of $829,000, respectively, and an income tax expense of $65,000 and an income tax benefit of $5.9 million for the nine months ended September 30, 2009 and 2008, respectively. Of the balance, UDR allocated no income tax provision to discontinued operations for the three and nine months ended September 30, 2009, and an income tax benefit of $0 and $161,000 for the three and nine months ended September 30, 2008, respectively.

The income attributable to discontinued operations is summarized as follows *(dollars in thousands):*

	Three Months Ended September 30,		Nine Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Rental income	**$**	$ 26	**$**	$ 39,597
Non-property income				183
Rental expenses		(2)		16,082
Property management fee		1		1,089
Real estate depreciation				
Interest expense/(income)		(4)		2,612
Other expenses				6
		(5)		19,789
Income before net gain on the sale of depreciable property		31		19,991
Net gain on the sale of depreciable property, excluding RE3	**555**	6,566	**2,440**	787,555
RE3 gain/(loss) on the sale of depreciable property, net of tax	**46**	139	**46**	(638)
Income from discontinued operations	**$ 601**	$ 6,736	**$ 2,486**	$ 806,908

4. JOINT VENTURES

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

Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint venture. In addition, we may earn fees for providing management and development services to the unconsolidated joint ventures. As of September 30, 2009, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

During the quarter ended September 30, 2009, the Company established a joint venture with Kuwait Finance House to invest up to $450.0 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180.0 million of which the Company s maximum equity contribution will be 30% or $54.0 million when fully invested. At closing and at September 30, 2009, we owned 30% of the joint venture. Our investment at September 30, 2009 was $226,000. At September 30, 2009, the joint venture did not hold any property.

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UDR is a partner with an unaffiliated third party in a joint venture which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was $11.8 million. Our investment at September 30, 2009 and December 31, 2008 was $10.0 million and $10.4 million, respectively.

UDR is a partner with an unaffiliated third party in a joint venture which is developing a 274 home apartment community in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in the fourth quarter of 2009. At closing and at September 30, 2009, we owned 49% of the joint venture. Our initial investment was $10.0 million. During the three and nine months ended September 30, 2009, the Company made additional capital contributions of $6.0 million and $22.1 million to the joint venture to fund development costs. Our investment at September 30, 2009 and December 31, 2008 was $24.4 million and $9.9 million, respectively. The September 30, 2009 investment is net of an $11.0 million equity loss discussed below.

UDR is a partner with an unaffiliated third party in a joint venture which owns an operating retail site in Bellevue, Washington. At closing and at September 30, 2009, we owned 49% of the joint venture. Our initial investment was $5.7 million. Our investment at September 30, 2009 and December 31, 2008 was $5.0 million and $10.2 million, respectively. The September 30, 2009 investment is net of a $5.0 million equity loss discussed below. The Company initially planned to develop a 430 home high rise apartment building with ground floor retail on an existing operating retail center. However, during the nine months ended September 30, 2009, the joint venture decided to continue to operate the retail property as opposed to developing the site.

In accordance with Subtopic 323-10, we evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. During the quarter ended September 30, 2009, we recognized a non-cash charge of $16.0 million representing the other-than-temporary decline in the fair values below the carrying values of two of the Company s equity investments in our Bellevue, Washington unconsolidated joint ventures.

In November 2007, UDR and an unaffiliated third party formed a joint venture which owns and operates various properties located in Texas. In November 2007, UDR sold nine operating properties, consisting of 3,690 units, and contributed one property under development to the joint venture. The property under development has 302 units and was completed in 2008 and commenced lease up at that time. UDR contributed cash and property equal to 20% of the fair value of the properties. The unaffiliated member contributed cash equal to 80% of the fair value of the properties comprising the joint venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at September 30, 2009 and December 31, 2008 was $14.1 million and $16.5 million, respectively.

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Summarized financial information relating to 100% of all the unconsolidated joint ventures operations (not just our proportionate share) is presented below as of and for the three and nine months ended September 30, (*dollars in thousands):*

	2009	2008
For the three months ended September 30:		
Revenues	$ 11,417	$ 10,888
Real estate depreciation and amortization	5,474	5,953
Net loss	(4,761)	(9,057)
For the nine months ended September 30:		
Revenues	$ 34,454	$ 31,793
Real estate depreciation and amortization	15,861	17,369
Net loss	(11,188)	(17,144)
As of September 30, 2009 and December 31, 2008:		
Real estate, net	$ 534,164	$ 517,549
Total assets	545,650	534,751
Amount due to UDR	1,081	3,898
Third party debt	380,252	373,353
Total liabilities	396,869	397,135
Equity	148,781	137,616

As of September 30, 2009, the Company had deferred profit from the sale of properties of $28.8 million, which the Company will not recognize until the underlying property is sold to a third party. The Company recognized $466,000, $1.5 million, $3.5 million and $4.7 million of management fees for our involvement in the joint ventures for the three and nine months ended September 30, 2009 and 2008, respectively.

The Company may be required to make additional capital contributions to certain of our joint ventures should additional capital contributions be necessary to fund development costs or operating shortfalls.

5. SECURED DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established the interest rate for the underlying debt instrument. Secured debt, which encumbers $2.9 billion or 47% of UDR s real estate owned based upon historical gross book value ($3.2 billion, based on historical gross book value, or 53% of UDR s real estate owned is unencumbered) consists of the following as of September 30, 2009 (*dollars in thousands*):

	Principal Outstanding		2009 Weighted	2009 Weighted	Number of
	September 30, 2009	December 31, 2008	Average Interest Rate	Average Years to Maturity	Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	**$ 491,922**	$ 476,810	4.76%	2.5	15
Tax-exempt secured notes payable	**13,325**	13,325	5.30%	21.4	1
Fannie Mae credit facilities	**861,715**	666,642	5.43%	7.0	35

Total fixed rate secured debt	**1,366,962**	1,156,777	5.19%	4.7	51
Variable Rate Debt					
Mortgage notes payable	**208,244**	114,181	2.72%	4.0	13
Tax-exempt secured note payable	**27,000**	27,000	1.14%	20.5	1
Fannie Mae credit facilities	**260,921**	164,513	1.70%	6.3	10
Total variable rate secured debt	**496,165**	305,694	2.09%	8.3	24
Total secured debt	**$ 1,863,127**	$ 1,462,471	4.36%	5.7	75

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UDR has four revolving secured credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion at September 30, 2009. The Fannie Mae credit facilities are for an initial term of 10 years, through October 1, 2019, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have $861.7 million of the funded balance fixed at a weighted average interest rate of 5.43% and the remaining funded balance on these facilities is currently at a weighted average variable rate of 1.70%.

	September 30, 2009	December 31, 2008
	(dollar amounts in thousands)	
Borrowings outstanding	$ 1,122,636	$ 831,155
Weighted average borrowings during the period ended	987,007	702,620
Maximum daily borrowings during the period ended	1,122,636	831,370
Weighted average interest rate during the period ended	4.58%	5.47%
Weighted average interest rate at the end of the period	4.56%	5.04%

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair market adjustment was a net discount of $941,000 and $763,000 at September 30, 2009 and December 31, 2008, respectively.

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from February 2010 through June 2016 and carry interest rates ranging from 2.66% to 6.84%. Mortgage notes payable includes debt associated with development activities.

Tax-exempt secured notes payable. Fixed rate mortgage notes payable that secure tax-exempt housing bond issues mature in March 2031 and carry an interest rate of 5.30%. Interest on these notes is payable in semi-annual installments.

Secured credit facilities. At September 30, 2009, UDR s borrowings under its fixed rate secured credit facilities consisted of $861.7 million on a $1.4 billion aggregate commitment under four revolving secured credit facilities with Fannie Mae (the Company also owes $260.9 million under the variable rate component of these credit facilities). As of September 30, 2009, the fixed rate Fannie Mae credit facilities had a weighted average fixed rate of interest of 5.43%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from August 2010 through April 2016. The mortgage notes payable are based on LIBOR plus some basis points, which translate into interest rates ranging from 0.96% to 5.25% at September 30, 2009.

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures in March 2030. Interest on this note is payable in monthly installments. The variable mortgage note has an interest rate of 1.14% as of September 30, 2009.

Secured credit facilities. The variable rate secured credit facilities consisted of $260.9 million outstanding on the Fannie Mae credit facilities. As of September 30, 2009, the variable rate Fannie Mae credit facilities had a weighted average variable rate of 1.70%.

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The aggregate maturities, including amortizing principal payments, of our secured debt due during each of the next five calendar years and thereafter are as follows *(dollars in thousands):*

	Fixed			Variable			
	Mortgage Notes	Tax-Exempt Notes Payable	Credit Facilities	Mortgage Notes	Tax Exempt Notes Payable	Credit Facilities	Total
2009	$ 908	$	$ 648	$	$		$ 1,556
2010	214,153		2,654	6,453			223,260
2011	88,387		52,808	52,286		39,513	232,994
2012	56,786		177,944	33,365		60,000	328,095
2013	61,375		38,631	38,509			138,515
Thereafter	70,313	13,325	589,030	77,631	27,000	161,408	938,707
Total	$ 491,922	$ 13,325	$ 861,715	$ 208,244	$ 27,000	260,921	$ 1,863,127

6. UNSECURED DEBT

A summary of unsecured debt as of September 30, 2009 and December 31, 2008 is as follows *(dollars in thousands):*

	September 30, 2009	December 31, 2008
Commercial Banks		
Borrowings outstanding under an unsecured term loan due February 2010 (a)	**$ 240,000**	$ 240,000
Borrowings outstanding under an unsecured credit facility due July 2012 (b)	**25,000**	
	265,000	240,000
Senior Unsecured Notes		
4.25% Medium-Term Notes due January 2009		50,000
6.50% Notes due June 2009		200,000
3.90% Medium-Term Notes due March 2010 (includes premium of $73 and $190)	**50,073**	50,190
3.625% Convertible Senior Notes due September 2011 (net of Subtopic 470-20 discount of $3,818 and $7,080) (c), (d)	**122,517**	164,255
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
6.05% Medium-Term Notes due June 2013 (d)	**122,500**	125,000
5.13% Medium-Term Notes due January 2014	**184,000**	184,000
5.50% Medium-Term Notes due April 2014 (net of discount of $312 and $363)	**128,188**	128,137
5.25% Medium-Term Notes due January 2015 (includes premium of $185 and $212)	**175,360**	175,387
5.25% Medium-Term Notes due January 2016	**83,260**	83,260
8.50% Debentures due September 2024 (d), (f)	**15,644**	54,118
4.00% Convertible Senior Notes due December 2035 (net of Subtopic 470-20 discount of $2,415 and $5,834) (d), (e)	**165,335**	244,166
Other	**42**	149

	1,146,919		1,558,662
$	**1,411,919**	$	1,798,662

(a) During the year ended December 31, 2008, UDR borrowed $240 million in the form of a two-year unsecured term loan from a consortium of banks. UDR entered into one interest rate swap agreement associated with the borrowings under the term loan with an aggregate notional value of $200 million in which the Company pays a fixed rate of interest and receives a variable rate of interest on the notional amount. The interest rate swap effectively changes UDR s interest rate exposure on $200 million of these borrowings from a variable rate to a weighted average fixed rate of

approximately 3.61%. The remaining $40 million has a variable interest rate, which was 1.10% at September 30, 2009.

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(b) Our unsecured credit facility provides us with an aggregate borrowing capacity of $600 million, which at our election we can increase to $750 million under certain circumstances. Our unsecured credit facility with a consortium of financial institutions carries an interest rate equal to LIBOR plus a spread of 47.5 basis points and matures on July 2012. In addition, the unsecured credit facility contains a provision that allows us to bid up to 50% of the commitment and we can bid out the entire unsecured credit facility once per quarter so long as we maintain an investment grade rating.

(c) Subject to the restrictions on ownership of our common stock and certain other conditions, at

any time on or after July 15, 2011 and prior to the close of business on the second business day prior to the maturity date of September 15, 2011, and also following the occurrence of certain events, holders of outstanding 3.625% notes may convert their notes into cash and, if applicable, shares of our common stock, at the conversion rate in effect at such time. Upon conversion of the notes, UDR will deliver cash and common stock, if any, based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 trading day observation period. The initial conversion rate for each $1,000 principal amount of notes was 26.6326 shares of our common stock (equivalent to

an initial conversion price of approximately $37.55 per share), subject to adjustment under certain circumstances. The Company s Special Dividend paid in January 2009 met the criteria to adjust the conversion rate and resulted in an adjusted conversion rate of 29.0207 shares of our common stock for each $1,000 of principal (equivalent to a conversion price of approximately $34.46 per share). If UDR undergoes certain change in control transactions, holders of the 3.625% notes may require us to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased plus any unpaid interest accrued to the repurchase date. In connection

with the issuance of the 3.625% notes, UDR entered into a capped call transaction covering approximately 6.7 million shares of our common stock, subject to anti-dilution adjustments similar to those contained in the notes. The capped call expires on the maturity date of the 3.625% notes. The capped call transaction combines a purchased call option with a strike price of $37.548 with a written call option with a strike price of $43.806. The capped call transaction effectively increased the initial conversion price to $43.806 per share, representing a 40% conversion premium. The net cost of approximately $12.6 million of the capped call transaction was included in stockholders

equity.

(d) During the nine months ended September 30, 2009, the Company repurchased several different traunches of its unsecured debt in open market purchases resulting in retired debt with a notional value of $238.9 million for $222.3 million of cash. The gain of $9.8 million is presented as a separate component of interest expense on our Consolidated Statements of Operations for the nine months ended September 30, 2009. Consistent with our accounting policy, the Company expensed $2.3 million of unamortized financing costs and $3.4 million of unamortized premium on convertible debt as a result of these debt retirements for the nine months

ended September 30, 2009.

(e) Holders of the outstanding 4.00% notes may require us to repurchase their notes in whole or in part on January 15, 2011, December 15, 2015, December 15, 2020, December 15, 2025 and December 15, 2030, or upon the occurrence of a fundamental change, for cash equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid interest. On or after January 15, 2011, UDR will have the right to redeem the 4.00% notes in whole or in part, at any time or from time to time, for cash equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest. Subject to the

restrictions on ownership of shares of our common stock and certain other conditions, holders of the 4.00% notes may convert their notes, into cash and, if applicable, shares of our common stock, at the conversion rate in effect at such time, as follows: (i) prior to the close of business on the second business day immediately preceding the stated maturity date at any time on or after December 15, 2030, and (ii) prior to December 15, 2030 under certain specified circumstances. The initial conversion rate for the notes was 35.2988 shares of our common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $28.33 per share), subject

to adjustment under certain circumstances. The Company s Special Dividend paid in January 2009 met the criteria to adjust the conversion rate and the conversion rate was adjusted to 38.7123 shares of our common stock for each $1,000 of principal (equivalent to a conversion price of approximately $25.83 per share).

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(f) During the quarter ended September 30, 2009, pursuant to a cash tender offer announced on August 4, 2009, the Company repurchased $37.5 million in aggregate principal amount of its 8.50% Debentures due September 15, 2024 for $41.2 million of cash. In connection with this repurchase, the Company recorded a premium and related transaction costs. The tender offer expired on September 3, 2009.

Subtopic 470-20 applies to all convertible debt instruments that have a net settlement feature, which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. This guidance requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers nonconvertible debt borrowing rate. The Company adopted provisions under Subtopic 470-20 as of January 1, 2009, and the adoption impacted the historical accounting for the 3.625% convertible senior notes due September 2011 and the 4.00% convertible senior notes due December 2035, and resulted in increased interest expense of $967,000 and $3.3 million and $1.7 million and $5.0 million for the three and nine months ended September 30, 2009 and 2008, respectively.

The following is a summary of short-term bank borrowings under UDR s unsecured credit facility at September 30, 2009 and December 31, 2008 *(dollars in thousands):*

	September 30, 2009	**December 31, 2008**

Total revolving credit facility	**$ 600,000**	$ 600,000
Borrowings outstanding at end of period	**25,000**	
Weighted average daily borrowings during the period ended	**97,634**	84,566
Maximum daily borrowings during the period ended	**279,400**	587,400
Weighted average interest rate during the period ended	**0.9%**	4.1%
Weighted average interest rate at the end of the period	**0.9%**	N/A

The convertible notes are convertible at the option of the holder at certain times and under certain circumstances, and as such are presented as if the holder will convert the debt instrument at the earliest available date. The aggregate maturities of unsecured debt for the five years subsequent to September 30, 2009 are as follows *(dollars in thousands):*

	Bank Lines	**Unsecured Debt**	**Total**
2009	$	$	$
2010		290,000	290,000
2011 (a)		287,851	287,851
2012	25,000	100,000	125,000
2013		122,500	122,500
Thereafter		586,568	586,568
	$ 25,000	$ 1,386,919	$ 1,411,919

(a) The convertible debt balances have been adjusted to reflect the effect of Subtopic 470-20. Excluding the adjustment, the total maturities in 2011 would be $294.1 million.

Our debt instruments contain covenants that we were in compliance with at September 30, 2009.

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7. EARNINGS/(LOSS) PER SHARE

Basic earnings per common share is computed based upon the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed based upon the weighted average number of common shares outstanding plus the effect of dilutive stock options and other potentially dilutive common stock equivalents such as the non-vested restricted stock awards.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
Numerator for (loss)/earnings per share basic and diluted:				
Net (loss)/earnings available to common stockholders	**$ (40,776)**	$ (9,778)	**$ (71,063)**	$ 706,846
Denominator for (loss)/earnings per share basic and diluted:				
Weighted average common shares outstanding	**150,801**	139,210	**150,097**	140,501
Non-vested restricted stock awards	**(801)**	(1,281)	**(1,049)**	(1,235)
Denominator for basic and diluted (loss)/earnings per share	**150,000**	137,929	**149,048**	139,266
(Loss)/earnings per share basic and diluted	**$ (0.27)**	$ (0.07)	**$ (0.48)**	$ 5.08

The effect of the conversion of the operating partnership units, Out-Performance Partnership Shares, convertible preferred stock, convertible debt, stock options and unvested restricted stock is not dilutive and is therefore not included in the above calculations as the Company reported a loss from continuing operations.

If the operating partnership units were converted to common stock, the additional weighted average common shares outstanding for the three and nine months ended September 30, 2009 and 2008, would be 6,317,556 and 6,953,353 and 9,571,048 and 9,632,185, respectively.

At September 30, 2009 and 2008, if the measurement periods had ended on that date, no Series E Out-Performance Partnership Shares would have been issued had the Series E Program terminated on that date. Accordingly, no additional operating partnership units would have been issued at that date (see Note 12*, Commitments and Contingencies*, for a discussion of UDR s Out-Performance Program).

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding would be 3,035,547 weighted average common shares for the three and nine months ended September 30, 2009 and 2008.

If the stock options and unvested restricted stock were converted to common stock, the additional weighted average common shares outstanding would be 844,219 and 320,905 for the three and nine months ended September 30, 2009 and 1,248,676 and 1,226,607 for the three and nine months ended September 30, 2008.

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8. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Effective January 1, 2008, UDR adopted FASB ASC 820, *Fair Value of Measurements and Disclosures* (formerly SFAS 157, Fair Value Measurements) (Topic 820), which defines fair value based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

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

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

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

The Company has derivative contracts that are measured and recognized at fair value using the Topic 820 hierarchy. The derivative contracts use the Level 2 hierarchy and are recorded in Other assets and in Accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheets for $2.2 million and $7.1 million, respectively as of September 30, 2009.

At September 30, 2009 and December 31, 2008, the fair values of cash and cash equivalents, restricted cash, notes receivable, escrow 1031 exchange funds, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company adopted the provisions of FASB ASC 825, *Financial Instruments* (formerly FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments) on June 30, 2009, which require disclosures about the fair value of financial instruments in interim as well as annual financial statements. The carrying amounts and estimated fair value of the Company s financial instruments, where different, as of September 30, 2009 and December 31, 2008, are summarized as follows *(dollars in thousands)*:

	September 30, 2009		**December 31, 2008**	
	Carrying Amounts	**Estimated Fair Value**	**Carrying Amounts**	**Estimated Fair Value**
Debt instruments				
Secured debt (a)	**$ 1,863,127**	**$ 1,892,337**	$ 1,462,471	$ 1,419,411
Unsecured debt (b)	**1,411,919**	**1,313,316**	1,798,662	1,183,098
Derivative contracts (c)				
Interest rate swaps	**$ (7,123)**	**$ (7,123)**	$ (11,011)	$ (11,011)
Interest rate caps	**2,189**	**2,189**	62	62

(a) See Note 5, Secured Debt

(b) See Note 6, Unsecured Debt

(c) See Note 9, Derivatives and Hedging Activity

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FASB ASC 320, *Investments- Debt and Equity Securities* (formerly FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments), which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The amortized cost, gross unrealized gains and losses and fair value of the Company s investments at September 30, 2009 are as follows (*dollars in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Corporate debt securities U.S.	$ 32,500	$ 4,520	$	$ 37,020

We estimate the fair value of the corporate debt securities determined by Level 1 inputs which utilize quoted prices in active markets we have the ability to access for identical assets.

Since the Company recognized an unrealized gain during the three and nine months ended September 30, 2009, and it does not intend to sell the investments at a loss nor will it be required to sell the investments before recovery of its amortized cost basis by the time the Company s rights to redeem the debt securities become effective in March 2012, the Company does not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2009.

During the three months ended September 30, 2009, the Company recognized a non-cash charge of $16.0 million representing the other-than-temporary decline in the fair values below the carrying values of two of the Company s equity investments in our Bellevue, Washington unconsolidated joint ventures. 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. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy.

9. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income/(Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months and nine months ended September 30, 2009, the Company recorded less than $1,000 of ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item.

Amounts reported in Accumulated Other Comprehensive Income/(Loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the next twelve months, the Company estimates that an additional $7.1 million will be reclassified as an increase to interest expense.

As of September 30, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (*dollar amounts in thousands*):

Interest Rate Derivative	**Number of Instruments**	**Notional**
Interest rate swaps	11	$ 597,261
Interest rate caps	2	$ 113,909

Derivatives not designated as hedges are not speculative and are used to manage the Company s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, *Derivatives and Hedging* (formerly SFAS 133, Accounting for Derivative Instruments and Hedging Activities) (Topic 815). Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in gains of $20,000 and $685,000 for the three and nine months ended September 30, 2009. As of September 30, 2009, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (*dollar amounts in thousands*):

Product	**Number of Instruments**	**Notional**
Interest rate caps	5	$ 270,166

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

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of September 30, 2009.

Tabular Disclosure of Fair Values of Derivative Instruments (amounts in thousands)

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Topic 815				
Interest Rate Products	Other Assets	$ 1,152	Other Liabilities	$ 7,123
Total derivatives designated as hedging instruments under Topic 815		$ 1,152		$ 7,123
Derivatives **not** designated as hedging instruments under Topic 815				
Interest Rate Products	Other Assets	$ 1,037	Other Liabilities	$
Total derivatives **not** designated as hedging instruments under Topic 815		$ 1,037		$

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

The tables below present the effect of the Company s derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2009 (*dollar amounts in thousands*).

Derivatives in Topic 815 Cash Flow Hedging Relationships	**Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**

For the three months ended September 30, 2009:

Interest Rate Products	$	(3,340)	Interest expense	$	(3,386)	Other expense	$
Total	$	(3,340)		$	(3,386)		$

For the nine months ended September 30, 2009:

Interest Rate Products	$	(3,815)	Interest expense	$	(9,170)	Other expense	$
Total	$	(3,815)		$	(9,170)		$

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Derivatives Not Designated as Hedging Instruments Under Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative
For the three months ended September 30, 2009:		
Interest Rate Products	Other income / (expense)	$ 20
Total		$ 20
For the nine months ended September 30, 2009:		
Interest Rate Products	Other income / (expense)	$ 685
Total		$ 685

Credit-risk-related Contingent Features

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

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

As of September 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $8.1 million. As of September 30, 2009, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2009, it would have been required to settle its obligations under the agreements at their termination value of $8.1 million.

10. OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive loss was $2.7 million and $11.9 million at September 30, 2009 and December 31, 2008, respectively. It consists of accumulated unrealized gains from the mark-to-market of marketable securities classified as available-for-sale and unrealized gains or losses from derivative financial instruments. The Company allocates a pro-rata share of gains or losses to non-controlling interests.

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11. STOCK BASED COMPENSATION

UDR accounts for stock based compensation in accordance with FASB ASC 718, Compensation- Stock Compensation (formerly SFAS 123R, Share Based Payment), which the Company adopted on January 1, 2006, utilizing the modified prospective method. During the nine months ended September 30, 2009 and 2008, we recognized $5.9 million and $5.3 million, respectively as stock based compensation expense, which is inclusive of awards granted to our outside directors.

12. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

UDR is committed to completing our unfunded real estate projects under development and our development joint ventures. At September 30, 2009 our commitments are as follows (*dollars in thousands*):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete	Ownership Stake
Wholly owned under development	5	$ 233,439	$ 75,011	100%
Unconsolidated joint venture (a)	1	57,909	2,361	49%
		$ 291,348	$ 77,372	

(a) Costs incurred to date and expected costs to complete are based on UDR s ownership percentage of the joint venture.

The Company may be required to make additional capital contributions to certain of our joint ventures should additional capital contributions be necessary to fund development costs or operating shortfalls.

Contingencies

Series E Out-Performance Program

In February 2007, the board of directors of UDR approved the Series E Out-Performance Program (the Series E Program) pursuant to which certain executive officers of UDR (the Series E Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance V, LLC, a Delaware limited liability company (the Series E LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series E Out-Performance Partnership Shares or Series E OPPSs). The Series E Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series E LLC has agreed to sell 805,000 membership units to certain members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $805,000 for the Series E OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert. The Series E Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2007 and ending December 31, 2009.

The Series E Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12%

annualized (Minimum Return).

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At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series E LLC as holder of the Series E OPPSs will receive (for the indirect benefit of the Series E Participants as holders of interests in the Series E LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);
ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and
iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days immediately preceding the valuation date.

For the Series E OPPSs, the number determined pursuant to clause (ii) above is capped at 0.5% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series E Participants will forfeit their entire initial investment.

Based on the results through September 30, 2009, no Series E OPPSs would have been issued had the Series E Program terminated on that date. However, since the ultimate determination of Series E OPPSs to be issued will not occur until December 31, 2009, and the number of Series E OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series E OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series E OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Litigation and Legal Matters

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

13. REPORTABLE SEGMENTS

FASB ASC Topic 280, *Segment Reporting* (formerly SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information) (Topic 280) requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments performance. UDR s chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

UDR owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR s apartment communities are rental income and net operating income (NOI). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. UDR s chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

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UDR s two reportable segments are same communities and non-mature/other communities:

Same communities represent those communities acquired, developed, and stabilized prior to July 1, 2008, and held as of September 30, 2009. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Non-mature/other communities represent those communities that were acquired or developed in 2007 and 2008, sold properties, redevelopment properties, properties classified as real estate held for disposition, condominium conversion properties, joint venture properties, properties managed by third parties and the non-apartment components of mixed use properties.

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR s total revenues during the three and nine months ended September 30, 2009 and 2008.

Certain reclassifications have been made to prior year amounts to conform to current year presentation. These reclassifications primarily represent presentation changes related to discontinued operations as described in Note 3, Discontinued Operations. The accounting policies applicable to the operating segments described above are the same as those described in Note 1, Summary of Significant Accounting Policies, of the consolidated financial statements included in UDR s Form 8-K filed with the SEC on May 22, 2009. The following table details rental income and NOI for UDR s reportable segments for the three and nine months ended September 30, 2009 and 2008, and reconciles NOI to net income per the Consolidated Statements of Operations *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Reportable apartment home segment rental income				
Same Communities				
Western Region	**$ 54,091**	$ 56,584	**$ 164,696**	$ 165,799
Mid-Atlantic Region	**31,604**	31,635	**94,867**	89,797
Southeastern Region	**27,349**	28,286	**83,149**	85,243
Southwestern Region	**4,434**	4,658	**13,576**	13,779
Non-Mature communities/Other	**32,833**	26,277	**96,481**	98,934
Total segment and consolidated rental income	**$ 150,311**	$ 147,440	**$ 452,769**	$ 453,552

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Reportable apartment home segment NOI				
Same Communities				
Western Region	**$ 37,550**	$ 39,547	**$ 116,061**	$ 115,985
Mid-Atlantic Region	**21,508**	21,463	**65,147**	61,383
Southeastern Region	**16,427**	17,390	**51,098**	53,297
Southwestern Region	**2,776**	2,894	**8,666**	8,674
Non-Mature communities/Other	**19,935**	14,306	**57,662**	58,488
Total segment and consolidated NOI	**98,196**	95,600	**298,634**	297,827
Reconciling items:				
Non-property income	**1,627**	9,969	**10,609**	21,286
Property management	**(4,134)**	(4,055)	**(12,452)**	(12,473)
Other operating expenses	**(1,172)**	(1,153)	**(4,437)**	(3,189)
Depreciation and amortization	**(69,695)**	(65,551)	**(207,747)**	(180,493)
Interest, net	**(38,640)**	(39,003)	**(103,025)**	(117,408)
Hurricane related expenses		(833)	**(127)**	(833)
General and administrative	**(8,924)**	(9,835)	**(27,797)**	(29,535)
Other depreciation and amortization	**(858)**	(1,140)	**(3,730)**	(3,013)
Loss from unconsolidated entities	**(16,742)**	(1,897)	**(18,187)**	(3,286)
Tax (expense)/benefit for the TRS	**(14)**	829	**(65)**	5,743
Non-controlling interests	**1,779**	450	**3,175**	(48,598)
Net gain on the sale of land and depreciable property	**601**	6,705	**2,486**	787,100
Net (loss)/income attributable to UDR, Inc.	**$ (37,976)**	$ (9,914)	**$ (62,663)**	$ 713,128

The following table details the assets of UDR s reportable segments as of September 30, 2009 and as of December 31, 2008 *(dollars in thousands)*:

	September 30, 2009	December 31, 2008
Reportable apartment home segment assets:		
Same communities:		
Western Region	**$ 2,128,477**	$ 2,109,525
Mid-Atlantic Region	**967,246**	952,266
Southeastern Region	**843,124**	834,496
Southwestern Region	**161,193**	160,149
Non-mature communities/Other	**1,969,251**	1,775,317
Total segment assets	**6,069,291**	5,831,753

Accumulated depreciation	**(1,284,709)**	(1,078,689)
Total segment assets net book value	**4,784,582**	4,753,064
Reconciling items:		
Cash and cash equivalents	**24,954**	12,740
Marketable securities	**37,020**	
Restricted cash	**8,280**	7,726
Deferred financing costs, net	**26,002**	29,168
Notes receivable	**7,300**	207,450
Investment in unconsolidated joint ventures	**53,598**	47,048
Other assets	**68,521**	85,842
Other assets real estate held for disposition		767
Total consolidated assets	**$ 5,010,257**	$ 5,143,805

Capital expenditures excluding redevelopment for the three months ended September 30, 2009 and 2008 related to our same communities totaled $11.1 million and $18.3 million, respectively and $34.9 million and $49.7 million for the nine months ended September 30, 2009 and 2008, respectively. Capital expenditures related to our non-mature/other communities for the three months ended September 30, 2009 and 2008 totaled $2.7 million and $4.1 million, respectively and $7.7 million and $11.4 million for the nine months ended September 30, 2009 and 2008, respectively.

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Markets included in the above geographic segments are as follows:

i. Western Orange County, San Francisco, Monterey Peninsula, Los Angeles, San Diego, Seattle, Inland Empire, Sacramento and Portland.

ii. Mid-Atlantic Metropolitan DC, Richmond, Baltimore, Norfolk, and Other Mid-Atlantic.

iii. Southeastern Tampa, Orlando, Nashville, Jacksonville, and Other Florida.

iv. Southwestern Phoenix and Dallas

14. Subsequent Event

The Company evaluated subsequent events through November 3, 2009, the date of issuance of the Company s financial statements. No recognized or non-recognized subsequent events were noted, other than the matter disclosed below.

Subsequent to September 30, 2009, the Company agreed to increase its guarantee to 100% of the project debt related to the joint venture which is developing a 274 home apartment community in the central business district of Bellevue, Washington. Concurrent with its agreement to increase its guarantee, the Company was appointed managing member of the joint venture. As managing member, the Company obtained significant control over major operating and financial decisions of the joint venture. As a result, the Company will be required to consolidate the joint venture with an estimated fair value of $96.0 million of assets and an estimated fair value of $70.5 million of debt during the quarter ended December 31, 2009.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, 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 the 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, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions. 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.

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

general economic factors;

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;

the timing and closing of planned dispositions under agreement;

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 budget or on schedule;

our failure to succeed in new markets;

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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 Internal Revenue 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 below in Part II, Item 1A. Risk Factors. We encourage investors to review these risks factors.

Business Overview

We are a real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. 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 two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this report to we, us, our, the company, or UDR refer collectively to Inc. and its subsidiaries.

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At September 30, 2009, our portfolio included 164 communities with 45,249 apartment homes nationwide. The following table summarizes our market information by major geographic markets:

	As of September 30, 2009					Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009 (a)	
Same Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Gross Value	Total Gross Value (in thousands)	Average Physical Occupancy	Total Income per Occupied Home (b)	Average Physical Occupancy	Total Income per Occupied Home (b)
Western Region								
Orange Co, CA	13	4,067	11.7%	$ 712,193	95.3%	$ 1,498	95.1%	$ 1,531
San Francisco, CA	8	1,741	6.5%	393,339	95.9%	1,910	95.6%	1,835
Monterey Peninsula, CA	7	1,565	2.5%	150,604	95.6%	1,111	94.6%	1,098
Los Angeles, CA	6	1,222	4.3%	263,367	94.4%	1,571	94.7%	1,485
San Diego, CA	5	1,123	2.9%	173,222	95.1%	1,361	95.2%	1,384
Seattle, WA	7	1,270	2.5%	150,881	96.2%	1,158	96.1%	1,169
Inland Empire, CA	3	1,074	2.5%	149,432	94.7%	1,228	94.6%	1,248
Sacramento, CA	2	914	1.1%	67,248	94.7%	897	93.2%	907
Portland, OR	3	716	1.1%	68,192	96.1%	974	95.9%	987
Mid-Atlantic Region								
Metropolitan DC	8	2,656	6.6%	402,950	96.7%	1,460	96.9%	1,429
Richmond, VA	7	2,211	3.1%	190,338	96.8%	1,026	96.1%	1,007
Baltimore, MD	9	1,820	3.5%	214,263	96.8%	1,237	97.0%	1,180
Norfolk VA	6	1,438	1.4%	82,582	95.7%	950	95.7%	959
Other Mid-Atlantic	5	1,132	1.3%	77,112	96.3%	1,011	96.3%	1,016
Southeastern Region								
Tampa, FL	10	3,278	4.1%	249,581	95.2%	920	95.0%	927
Orlando, FL	9	2,500	3.1%	187,021	94.7%	904	94.8%	921
Nashville, TN	7	1,874	2.3%	141,390	96.3%	859	95.9%	871
Jacksonville, FL	5	1,857	2.5%	154,404	94.9%	822	94.5%	835
Other Florida	4	1,184	1.8%	110,728	94.5%	990	94.4%	1,010
Southwestern Region								
Phoenix, AZ	3	914	1.2%	70,318	95.4%	871	94.9%	897
Dallas, TX	3	555	1.5%	90,875	95.1%	1,360	96.5%	1,618
Total/Average Same Communities	130	35,111	67.5%	4,100,040	95.6%	$ 1,167	95.4%	$ 1,157

Non Matures, Commercial Properties & Other	32	9,837	28.6%	1,735,812
Total Real Estate Held for Investment	162	44,948	96.1%	5,835,852
Real Estate Under Development (c)	2	301	3.9%	233,439
Total	164	45,249	100.0%	$ 6,069,291

(a) The same community population for the nine months ended September 30, 2009 includes 33,166 homes.

(b) Total Income per Occupied Home represents total revenues per weighted average number of apartment homes occupied.

(c) The Company is currently developing five wholly-owned communities with a total of 1,958 apartment homes of which 1,657 have not yet been completed.

Liquidity and Capital Resources

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

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

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

On September 15, 2009, under its At the Market equity distribution program, the Company entered into a sales agreement (the Sales Agreement) with Merrill Lynch, Pierce, Fenner & Smith Incorporated (BAML) and Morgan Stanley & Co. Incorporated, as sales agents and/or principals (the Agents). Under the terms of the Sales Agreement, the Company may sell up to 15 million shares of its common stock from time to time, to or through the Agents, by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable Agent. The Company will pay each Agent compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Agent, as sales agent, under the Sales Agreement. During the three months ended September 30, 2009, the Company sold 2,269,400 shares of common stock under the Sales Agreement through BAML, acting as our agent, at an average price per share of $14.89, for aggregate gross proceeds of approximately $33.8 million. Aggregate net proceeds from such sales, after deducting commissions to BAML of approximately $676,000 and other transaction costs of approximately $161,000, were approximately $33.0 million.

Future Capital Needs

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

In addition to the $1.6 million of scheduled debt maturities outstanding at September 30, 2009, the Company anticipates prepaying $90.3 million of 2010 secured debt with proceeds from borrowings under our secured or unsecured credit facilities during the remainder of 2009.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, and (3) real estate investment properties. Based on the Company s repositioning initiative, management deemed our policy surrounding real estate sales to be a critical accounting policy.

Real Estate Sales

The Company accounts for sales of real estate in accordance with FASB ASC 360-20 (formerly SFAS 66). For sale transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property we remove the related assets and liabilities from our consolidated balance sheet and record the gain or loss in the period the transaction closes. For sales 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.

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

Our other critical accounting policies are described in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in UDR s Form 8-K filed with the SEC on May 22, 2009. There have been no significant changes in our critical accounting policies from those reported in our Form 8-K filed with the SEC on May 22, 2009. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows

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

Operating Activities

For the nine months ended September 30, 2009, our cash flow provided by operating activities was $189.7 million compared to $138.7 million for the comparable period in 2008. The increase in cash flow from operating activities is primarily due to changes in other assets and accrued liabilities.

Investing Activities

For the nine months ended September 30, 2009, net cash used in investing activities was $95.7 million as compared to net cash provided by investing activities of $409.5 million for the comparable period in 2008. Changes in the level of investing activities from period to period reflects our strategy as it relates to our disposition, acquisition, capital expenditures, and development programs, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail below.

Acquisitions

During the nine months ended September 30, 2009, we acquired one community with 289 units. Our long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been expanding our interests in the Southern California, Northern California, Florida, Metropolitan Washington DC and the Washington State markets over the past several years. Prospectively, any additional acquisitions will be channeled into those markets that we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including high barriers to entry, favorable job formation and low single-family home affordability.

Capital Expenditures

In conformity with GAAP, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

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During the nine months ended September 30, 2009, $65.2 million or approximately $1,500 per home was spent on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated $22.2 million or $511 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, and other exterior/interior upgrades totaled $19.3 million or $445 per home, and major renovations totaled $23.7 million or $544 per home for the nine months ended September 30, 2009.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties, for the periods presented:

	Nine months ended September 30, (dollars in thousands)			Nine months ended September 30, (per home)		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**
Turnover capital expenditures	**$ 7,163**	$ 7,074	1.3%	**$ 165**	$ 150	10.5%
Asset preservation expenditures	**15,027**	13,247	13.4%	**346**	282	22.4%
Total recurring capital expenditures	**22,190**	20,321	9.2%	**511**	432	18.0%
Revenue enhancing improvements	**19,342**	35,830	-46.0%	**445**	762	-41.5%
Major renovations	**23,639**	44,977	-47.4%	**544**	956	-43.1%
Total capital expenditures	**$ 65,171**	$ 101,128	-35.6%	**$ 1,500**	$ 2,150	-30.2%
Repair and maintenance expense	**$ 22,557**	$ 24,862	-9.3%	**$ 519**	$ 528	-1.6%
Average stabilized home count	43,451	47,045				

Total capital expenditures for our communities decreased $36.0 million for the nine months ended September 30, 2009, compared to the comparable period in 2008. This decrease was primarily attributable to the Company s ongoing repositioning of our real estate portfolio evidenced by our disposition of 86 communities during the nine months ended September 30, 2008. Recurring capital expenditures during 2009 are currently expected to be approximately $675 per home.

Development

At September 30, 2009, our development pipeline for wholly-owned communities totaled 1,958 homes with a budget of $308.5 million in which we have a carrying value of $233.4 million. We expect to have the first of these communities complete development during the first quarter of 2010. In addition, we own several parcels of land held for future development with a gross book value of $151.2 million in which the Company is seeking entitlements and preparing for development, although we do not anticipate commencing any new developments during 2009.

For the nine months ended September 30, 2009, we invested approximately $142.2 million in development projects, an increase of $40.2 million from our 2008 level of $102.0 million. We funded these costs with $78.3 million in draws on our construction facilities. At September 30, 2009, the Company has drawn $242.6 million and has $107.7 million of remaining capacity on our construction facilities. We completed development on two wholly-owned communities with 449 apartment homes at a total cost of $70.4 million during the nine months ended September 30, 2009.

Unconsolidated Joint Ventures

During the quarter ended September 30, 2009, the Company established a joint venture with Kuwait Finance House to invest up to $450.0 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180.0 million of which the Company s maximum equity contribution will be 30% or $54.0 million when fully invested. At closing and at September 30, 2009, we owned 30% of the joint venture. Our investment at September 30, 2009 was $226,000. At September 30, 2009, the joint venture did not hold any property.

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UDR is a partner with an unaffiliated third party in a joint venture which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was $11.8 million. Our investment at September 30, 2009 and December 31, 2008 was $10.0 million and $10.4 million, respectively.

UDR is a partner with an unaffiliated third party in a joint venture which is developing a 274 home apartment community in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in the fourth quarter of 2009. At closing and at September 30, 2009, we owned 49% of the joint venture. Our initial investment was $10.0 million. During the three and nine months ended September 30, 2009, the Company made additional capital contributions of $6.0 million and $22.1 million to the joint venture to fund development costs. Our investment at September 30, 2009 and December 31, 2008 was $24.4 million and $9.9 million, respectively. The September 30, 2009 investment is net of an $11.0 million equity loss recorded in the third quarter of 2009, discussed below. Subsequent to September 30, 2009, the Company agreed to increase its guarantee to 100% of the project debt related to the joint venture. Concurrent with its agreement to increase its guarantee, the Company was appointed managing member of the joint venture. As managing member, the Company obtained significant control over major operating and financial decisions of the joint venture. As a result, the Company will be required to consolidate the joint venture with an estimated fair value of $96.0 million of assets and an estimated fair value of $70.5 million of debt during the quarter ended December 31, 2009.

UDR is a partner with an unaffiliated third party in a joint venture which owns an operating retail site in Bellevue, Washington. At closing and at September 30, 2009, we owned 49% of the joint venture. Our initial investment was $5.7 million. Our investment at September 30, 2009 and December 31, 2008 was $5.0 million and $10.2 million, respectively. The September 30, 2009 investment is net of a $5.0 million equity loss recorded in the third quarter of 2009, discussed below. The joint venture initially planned to develop a 430 home high rise apartment building with ground floor retail on an existing operating retail center. However, during the nine months ended September 30, 2009, the joint venture decided to continue to operate the retail property as opposed to developing the site.

In accordance with Subtopic 323-10, we evaluated our investments in unconsolidated joint ventures for impairment for events or changes in circumstances that indicate that there may be an other-than-temporary decline in value. We considered various factors to determine if a decrease in the value of the investment is other-than- temporary. During the quarter ended September 30, 2009, we recognized a non-cash charge of $16.0 million representing the other-than-temporary decline in the fair values below the carrying values of two of the Company s equity investments in our Bellevue, Washington based unconsolidated joint ventures.

Disposition of Investments

During the nine months ended September 30, 2009 UDR did not dispose of any communities. We plan to continue to pursue our strategy of exiting markets where long-term growth prospects are limited and redeploying capital into markets we believe will provide the best investment returns.

During the nine months ended September 30, 2009, UDR received payment in full of a $200 million note issued in conjunction with the sale of 86 communities during the nine months ended September 30, 2008 plus accrued and unpaid interest thereon in the amount of $123,287.

Financing Activities

Net cash used in financing activities during the nine months ended September 30, 2009, was $81.7 million versus $548.6 million for the comparable period in 2008.

The following is a summary of our significant financing activities for the nine months ended September 30, 2009:

Repaid $34.2 million of secured debt and $418.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The $418.2 million of unsecured debt includes $141.9 million for maturing medium-term notes and $276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of $37.5 million in aggregate principal amount of our 8.50% debentures due September 15, 2024 for $41.2 million of cash.

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Repurchased unsecured debt with a notional amount of $238.9 million for $222.3 million, which is included in the $418.2 million above, resulting in a gain on extinguishment of $9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035. As a result of these repurchases, the gain is represented as a reduction to interest expense on the Consolidated Statements of Operations.

Repurchased 100,000 shares of UDR common stock at an average price per share of $7.98 under our share repurchase programs.

Borrowed an additional $434.9 million of secured debt, which consisted of $293.4 million on our Fannie Mae credit facilities, $63.2 million additional secured variable rate debt and $78.3 million additional construction loans.

Initiated an At the Market equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of September 30, 2009, the Company sold 2,269,400 shares of common stock under the program at an average price per share of $14.89, for aggregate net proceeds of approximately $33.0 million.

Credit Facilities

As of September 30, 2009, we have secured revolving credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion with $321.9 million available. The Fannie Mae credit facilities are for an initial term of 10 years, through October 1, 2019, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have $861.7 million of the funded balance fixed at a weighted average interest rate of 5.4% and $260.9 million of the remaining funded balance on these facilities is currently at a weighted average variable rate of 1.7%.

We have a $600 million unsecured revolving credit facility that matures on July 26, 2012. Under certain circumstances, we may increase the $600 million credit facility to $750 million. Based on our current credit rating, the $600 million credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points. Under a competitive bid feature and for so long as we maintain an investment grade rating, we have the right under the $600 million credit facility to bid out 50% of the commitment amount and we can bid out 100% of the commitment amount once per quarter. As of September 30, 2009, we had $25.0 million of borrowings outstanding under the credit facility leaving $575.0 million of unused capacity.

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

Derivative Instruments

As part of UDR s overall interest rate risk management strategy, we use derivatives as a means to fix the interest rates of variable rate debt obligations or to hedge anticipated financing transactions. UDR s derivative transactions used for interest rate risk management includes interest rate swaps with indexes that relate to the pricing of specific financial instruments of UDR. We believe that we have appropriately controlled our interest rate risk through the use of derivative instruments so that there will not be any material unintended effect on consolidated earnings. Derivative contracts did not have a material impact on the results of operations during the three and nine months ended September 30, 2009 *(see Note 9 Derivatives and Hedging Activity in Notes to Consolidated Financial Statements).*

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Funds from Operations

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

Historical cost accounting for real estate assets in accordance with generally accepted accounting principles implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or (losses) related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

The following table outlines our FFO calculation and reconciliation to generally accepted accounting principles for the three and nine months ended September 30, 2009 and 2008 *(dollars and shares in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net (loss)/income attributable to UDR, Inc.	**$ (37,976)**	$ (9,914)	**$ (62,663)**	$ 713,128
Distributions to preferred stockholders	**(2,800)**	(2,920)	**(8,400)**	(9,338)
Real estate depreciation and amortization, including discontinued operations	**69,695**	65,551	**207,747**	180,493
Non-controlling interest	**(1,779)**	(450)	**(3,175)**	48,598
Real estate depreciation and amortization on unconsolidated joint ventures	**1,276**	1,302	**3,584**	3,364
Net gains on the sale of depreciable property in discontinued operations, excluding RE3	**(555)**	(6,566)	**(2,440)**	(787,555)
Funds from operations (FFO) basic	**$ 27,861**	$ 47,003	**$ 134,653**	$ 148,690
Distribution to preferred stockholders Series E (Convertible)	**931**	931	**2,793**	2,793

Funds from operations diluted	**$**	**28,792**	$	47,934	**$**	**137,446**	$ 151,483
FFO per common share basic	**$**	**0.18**	$	0.32	**$**	**0.86**	$ 1.00
FFO per common share diluted	**$**	**0.18**	$	0.32	**$**	**0.86**	$ 0.99
Write-off of convertible debt premium for repurchases						**3,365**	
Amortization of convertible debt premium		**967**		1,670		**3,316**	5,010
Funds from operations as adjusted diluted	**$**	**29,759**	$	49,604	**$**	**144,127**	$ 156,493
FFO as adjusted per common share diluted	**$**	**0.19**	$	0.33	**$**	**0.90**	$ 1.02
Weighted average number of common shares and OP Units outstanding basic		**156,317**		146,899		**156,001**	148,899
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted		**160,197**		151,185		**159,357**	153,160

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In the computation of diluted FFO, when OP Units, out-performance partnership units, convertible debt, unvested restricted stock, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; they are included in the diluted share count.

RE^3 is our subsidiary that focuses on development, land entitlement and short-term hold investments. RE^3 tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with RE^3 tax benefits and gain on sales, net of taxes, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Weighted average number of common shares and OP units outstanding basic	**156,317**	146,899	**156,001**	148,899
Weighted average number of OP units outstanding	**(6,317)**	(9,570)	**(6,953)**	(9,633)
Weighted average number of common shares outstanding basic per the Consolidated Statements of Operations	**150,000**	137,329	**149,048**	139,266
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**160,197**	151,185	**159,357**	153,160
Weighted average number of OP units outstanding	**(6,317)**	(9,570)	**(6,953)**	(9,633)
Weighted average incremental shares from assumed conversion of stock options	**(705)**	(501)	**(265)**	(492)
Weighted average incremental shares from unvested restricted stock	**(139)**	(749)	**(55)**	(733)
Weighted average number of Series E preferred shares outstanding	**(3,036)**	(3,036)	**(3,036)**	(3,036)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**150,000**	137,329	**149,048**	139,266

FFO also does not represent cash generated from operating activities in accordance with generally accepted accounting principles, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by generally accepted accounting principles, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs.

A presentation of cash flow metrics based on generally accepted accounting principles is as follows for the nine months ended September 30, (*dollars in thousands*):

	Nine Months Ended

	September 30,	
	2009	**2008**
Net cash provided by operating activities	**$ 189,650**	$ 138,690
Net cash (used in)/provided by investing activities	**$ (95,707)**	$ 409,522
Net cash used in financing activities	**$ (81,729)**	$ (548,570)

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Results of Operations

Net (Loss)/Income Attributable to Common Stockholders

Net loss attributable to common stockholders was ($40.8) million (($0.27) per diluted share) for the three months ended September 30, 2009 versus ($9.8) million (($0.07) per diluted share) for the comparable period in the prior year. The increase in the loss for the three months ended September 30, 2009, when compared to the same period in 2008, resulted primarily from the following items, which are discussed in further detail elsewhere within this report:

a reduction in the Company s disposition activities and the associated gains during the three months ended September 30, 2009 relative to the prior year. The Company recognized net gains of $601,000 and $6.7 million during the three months ended September 30, 2009 and 2008, respectively. The Company does not believe it will have significant disposition activity during the remainder of 2009,

recognition of a $16.0 million non-cash charge representing an other-than-temporary decline in the fair value of equity investments in two of our unconsolidated joint ventures during the quarter ended September 30, 2009,

an increase in depreciation expense primarily due to the Company s acquisition of operating properties and the completion of redevelopment and development communities in 2008 and 2009,

decrease in other income as discussed below under Other Income, and

a reduction in fees earned for both recurring and non-recurring items related to the Company s joint ventures.

The decrease in net loss available to common shareholders was partially offset by a slight increase in apartment community net operating income.

Net loss attributable to common stockholders was ($71.1) million (($0.48) per diluted share) for the nine months ended September 30, 2009 as compared to net income of $706.8 million ($5.08 per diluted share) for the comparable period in the prior year. The decrease for the nine months ended September 30, 2009, when compared to the same period in 2008, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this report:

a significant decrease in gains recognized from the sale of depreciable property,

recognition of a non-cash charge representing an other-than-temporary decline in the fair value of equity investments in its unconsolidated joint ventures during the quarter ended September 30, 2009,

a reduction in fees earned for both recurring and non-recurring items related to the Company s joint ventures,

a reduction of interest income from full payment received in May 2009 for a $200.00 million note received in relation to the disposition of 86 properties during 2008,

the recognition of an income tax benefit from the Company s TRS during the nine months ended September 20, 2008,

an increase in real estate depreciation and amortization, and

a decrease in income attributed to non-controlling interest.

The decrease in net operating income available to common shareholders was partially offset by the following:

a decrease in interest expense due to a reduction in corporate debt and the Company recording a gain on extinguishment of debt on the repurchase of a portion of our outstanding senior unsecured notes, which is presented as a reduction to interest expense,

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a slight increase in apartment community net operating income, and

a decrease in income attributed to non-controlling interest.

Apartment Community Operations

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**
Property rental income	$ 148,344	$ 145,854	1.7%	$ 446,823	$ 451,411	-1.0%
Property operating expense (a)	(52,189)	(51,137)	2.1%	(152,553)	(158,451)	-3.7%
Property net operating income	$ 96,155	$ 94,717	1.5%	$ 294,270	$ 292,960	0.4%

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

The following table is our reconciliation of property NOI to net income/(loss) attributable to UDR, Inc. as reflected on the Consolidated Statements of Operations for the periods presented *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Property net operating income	**$ 96,155**	$ 94,717	**$ 294,270**	$ 292,960
Other net operating income	**2,041**	883	**4,364**	4,867
Non-property income, net	**1,627**	9,969	**10,609**	21,286
Hurricane related expenses		(833)	**(127)**	(833)
Real estate depreciation and amortization	**(69,695)**	(65,551)	**(207,747)**	(180,493)
Interest, net	**(38,640)**	(39,003)	**(103,025)**	(117,408)
General and administrative and property management	**(13,058)**	(13,890)	**(40,249)**	(42,008)
Other expenses	**(1,172)**	(1,153)	**(4,437)**	(3,189)
Other depreciation and amortization	**(858)**	(1,140)	**(3,730)**	(3,013)
Loss from unconsolidated entities	**(16,742)**	(1,897)	**(18,187)**	(3,286)
Tax (expense)/benefit for the TRS	**(14)**	829	**(65)**	5,743
Net gain on sale of land and depreciable property	**601**	6,705	**2,486**	787,100
Non-controlling interests	**1,779**	450	**3,175**	(48,598)
	$ (37,976)	$ (9,914)	**$ (62,663)**	$ 713,128

Net (loss)/income per the Consolidated Statements
of Operations attributable to UDR, Inc.

Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to July 1, 2008, and held on September 30, 2009, which consisted of 35,111 apartment homes) provided 81% of our property net operating income for the three months ended September 30, 2009.

For the third quarter of 2009, same community properties net operating income decreased 3.7% or $3.0 million compared to the same period in 2008. The decrease in property NOI was primarily attributable to a 3.0% or $3.7 million decrease in property rental income. This decrease in property rental income was primarily driven by a 3.6% decrease in total income per occupied home from $1,211 in 2008 to $1,167 in 2009. Physical occupancy increased from 95.0% to 95.6% during the same period.

Property operating expenses decreased by 1.6% or $652,000 during the third quarter of 2009 compared to the same period in 2008. The decrease in property operating expenses was primarily driven by a 7.2% or $194,000 decrease in administrative and marketing expense, a $217,000 or 3.4% decrease in utilities, a $257,000 or 3.9% decrease in repairs and maintenance expense, and a 15.0% or $361,000 decrease in insurance expense. These decreases were partially offset by a 3.2% or $376,000 increase in real estate taxes.

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Our same communities (those communities acquired, developed, and stabilized prior to January 1, 2008, and held on September 30, 2009, which consisted of 33,166 apartment homes) provided 76% of our property NOI for the nine months ended September 30, 2009.

For the nine months ended September 30, 2009, our same communities NOI decreased 1.0% or $2.4 million compared to the same period in 2008. The decrease in property NOI is primarily attributable to a $4.2 million, or 1.3%, decrease in property rental income partially offset by a $1.9 million, or 1.7%, decrease in expenses.

The decrease in rental revenues was primarily due to a 1.9% decrease in total income per occupied home from $1,179 in 2008 to $1,157 in 2009, and an increase of 48.3% or $680,000 in bad debt expense. This decrease was partially offset by a 3.4%, or $835,000, increase in fee income and other reimbursements. Physical occupancy also increased slightly from 94.8% to 95.4%.

The decrease in expense was primarily due to a 5.1% or $911,000 decrease in repairs and maintenance expense, a 2.3% or $630,000 decrease in personnel costs, and a 10.6% or $796,000 decrease in administrative and marketing expenses. These decreases were partially offset by a 2.0% or $662,000 increase in real estate taxes.

Non-Mature/Other Communities

The remaining 19% or $17.9 million and 24% or $70.6 million of our property NOI during the three and nine months ended September 30, 2009, was generated from communities that we classify as non-mature/other communities. UDR s non-mature communities consist primarily of sold properties, properties classified as real estate held for disposition, communities acquired or developed in 2008 and 2009, redevelopment properties, and condominium properties. The largest components of our non-mature portfolio for the three and nine months ended September 30, 2009 are our acquired and redevelopment communities.

The acquired communities contributed NOI of $8.9 million and $40.6 million for the three and nine months ended September 30, 2009, respectively. The redevelopment communities contributed NOI of $4.9 million and $19.1 million for the three and nine months ended September 30, 2009.

Other Income

For the three and nine months ended September 30, 2009, significant amounts reflected in other income include: interest income and discount amortization from an interest in a convertible debt security and fees earned for both recurring and non-recurring items related to the Company s joint ventures. For the nine months ended September 30, 2009, other income also included interest income from a note for $200 million that the Company received related to the disposition of 86 properties during 2008. In May 2009, the $200 million note was paid in full plus accrued and unpaid interest thereon in the amount of $123,287.

Real Estate Depreciation and Amortization

For the three and nine months ended September 30, 2009, real estate depreciation and amortization on both continuing and discontinued operations increased 6.3% or $4.1 million and 15.1% or $27.3 million, respectively versus the comparable period in 2008, primarily due to acquisitions during 2008 and capital expenditures. As part of the Company s acquisition activity a portion of the purchase price is allocated to intangible assets and are typically amortized over a period of less than one year.

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Interest Expense

For the three and nine months ended September 30, 2009, interest expense on both continuing and discontinued operations decreased 0.9% or $363,000 and 12.3% or $14.4 million, respectively, as compared to the comparable period in 2008. The decreases are primarily due to increased gains recognized on debt extinguishment upon the redemption of unsecured notes and convertible debt and the reduction of the weighted average interest rate from 5.0% in 2008 to 4.5% in 2009. The decrease in the weighted average interest rate in 2009 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2009 when compared to the same period in 2008.

General and Administrative

For the three months ended September 30, 2009, general and administrative expenses decreased $911,000 or 9.3% and $1.7 million or 5.9%, respectively, as compared to the comparable period in 2008. The variances were due to a number of factors, none of which were significant.

Loss from Unconsolidated Entities

For the three and nine months ended September 30, 2009, loss from unconsolidated entities increased $14.8 million or 783% and $14.9 million and 453%, respectively, as compared to the comparable period in 2008. The increase in the loss is due to a $16.0 million non-cash charge representing an other-than-temporary decline in the fair value of equity investments in two of our unconsolidated joint ventures during the quarter ended September 30, 2009, in addition, to a reduction in fees earned for both recurring and non-recurring items related to the Company s joint ventures.

Gains on the Sales of Depreciable Property

For the three months ended September 30, 2009, we recognized after-tax gains for financial reporting purposes of $601,000 versus $6.7 million for the comparable period in 2008. For the nine months ended September 30, 2009, we recognized after-tax gains for financial reporting purposes of $2.5 million versus $806.9 million for the comparable period in 2008. 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, 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 nine months ended September 30, 2009.

Off-Balance Sheet Arrangements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

See our Annual Report on Form 10-K for the year ended December 31, 2008 Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a more complete discussion of our interest rate sensitive assets and liabilities. As of September 30, 2009, our market risk has not changed materially from the amounts reported on our Annual Report on Form 10-K for the year ended December 31, 2008.

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Item 4. CONTROLS AND PROCEDURES

As of September 30, 2009, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures 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. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. In addition, our Chief Executive Officer and our Chief Financial Officer concluded that during the quarter ended September 30, 2009, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our internal control over financial reporting is designed with the objective of providing reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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. However, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective under circumstances where our disclosure controls and procedures should reasonably be expected to operate effectively.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There are many factors that affect our business and our results of operations, some of which are beyond our control. The following is a description of important factors that may cause our actual results of operations 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. Except as required by law, we undertake no obligation to update any such forward-looking statements to reflect events or circumstances after the date on which it is made.

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. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to pay our indebtedness and to distribute to our 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;
- the timing and costs associated with property improvements, repairs or renovations;
- declines in household formation; and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We have periodically disposed 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, and purchasers may not be willing to pay prices acceptable to us. 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 materially 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, 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 flow generated from our property sales; and

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

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

We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies. We have selectively acquired in the past, and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

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

- even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;

- an acquired apartment community may fail to perform as we expected in analyzing our investment, or a significant exposure related to the acquired property may go undetected during our due diligence procedures;

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

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

We do not expect to acquire apartment communities at the rate we have in prior years, which may limit our growth and have a material adverse effect on our business and the market value of our securities. In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other apartment REITs, have competed with us to acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect growth.

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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;

- 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.

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

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

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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.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. Although inflation has not materially impacted our operations in the recent past, increased inflation could have a more pronounced negative impact on our debt interest and general and administrative expenses, as these costs could increase at a rate higher than our rental rates.

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.

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

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

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

Real Estate Tax and Other Laws. Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential

liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

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

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.

Any Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on Our 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 our stock price.

Our Success Depends on Our Senior Management. Our success depends upon the retention of our senior management, whose continued service in 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.

Risks Related to Our Indebtedness and Financing

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 our distribution requirements to maintain our status as a REIT for federal income tax purposes, and 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. Additionally, we are 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 and increase our financing costs.

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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 our 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;
- changes in interest rates and the availability of financing; 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.

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.

Financing Could be Impacted by Negative Capital Market Conditions. Recently, domestic financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the subprime mortgage lending sector of the credit market, liquidity has tightened in overall domestic financial markets, including the investment grade debt and equity capital markets. Consequently, there is greater risk that the financial institutions we do business with could experience disruptions that would negatively affect our ability to obtain financing.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit, Impact Our Tenant Base, and Have other Adverse Effects on Us and the Market Price of Our 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. The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing.

Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our common or preferred stock. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of our common shares and other adverse effects on us and our business.

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

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

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of September 30, 2009, we had approximately $561.2 million of variable rate indebtedness outstanding, which constitutes approximately 17.1% of our total outstanding indebtedness 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 our 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.

Risks Related to Tax Laws

We Would Incur Adverse Tax Consequences if We Fail to Qualify as a REIT. We have elected to be taxed as a REIT under the Internal Revenue 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 our stockholders.

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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 our stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the two taxable years following the year in which we first failed to qualify. 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 our 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 our 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.

REITs May Pay a Portion of Dividends in Common Stock. In December 2008, the Internal Revenue Service issued Revenue Procedure 2008-68, providing temporary guidance that assists publicly traded REITs in satisfying their tax-related distribution requirements while conserving cash. This temporary guidance is intended to permit REITs to limit cash distributions in order to maintain liquidity during the current downturn in economic conditions. Under this guidance, effective January 1, 2008 and ending on or before December 31, 2009, the Internal Revenue Service will treat a distribution of stock by a publicly traded REIT, pursuant to certain elections to receive stock or cash, as a taxable distribution of property. The amount of such stock distribution will be treated as equal to the amount of cash that could have been received instead. The guidance permits REITs to limit the aggregate amount of cash available to stockholders pursuant to the election to 10% of the aggregate distribution of cash and stock taken together. If we pay a portion of our dividends in shares of our common stock pursuant to this temporary guidance, our stockholders may receive less cash than they received in distributions in prior years and the market value of our securities may decline.

We 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 our qualification as a REIT, our 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, we are 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 our 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 Internal Revenue 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 our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

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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 we are organized and qualify as a REIT we are generally not subject to federal income taxes, but we are 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 our 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.

Risks Related to Our Organization and Our Shares

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

The market price per share of our common stock may decline or fluctuate significantly in response to many factors, including:

general market and economic conditions,

actual or anticipated variations in our quarterly operating results or dividends or our payment of dividends in shares of our 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,

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-based companies),

general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of our stock to demand a higher annual yield from future dividends,

a change in analyst ratings,

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 our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending,

governmental regulatory action and changes in tax laws, and

the issuance of additional shares of our common stock, or the perception that such sales might occur, including under our at-the-market sales agreement.

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

We May Change the Dividend Policy for Our Common Stock in the Future. The decision to declare and pay dividends on our common stock in the future, 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 our common stock.

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in Our 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 our 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 our 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 Our Stockholders to Effect a Change in Control of Our Company May Prevent Takeovers That are Beneficial to Our 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 Internal Revenue Code, during the last half of any taxable year. Our charter contains ownership and transfer restrictions relating to our 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. These provisions 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 our stockholders or might otherwise be in our stockholders best interests.

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

Repurchase of Equity Securities

In February 2006, our Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended September 30, 2009. For the nine months ended September 30, 2009, the Company repurchased 100,000 shares of our common stock under these programs.

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Beginning Balance	9,967,490	$ 22.00	9,967,490	15,032,510
July 1, 2009 through July 31, 2009				15,032,510
August 1, 2009 through August 31, 2009				15,032,510
September 1, 2009 through September 30, 2009				15,032,510
Balance as of September 30, 2009	9,967,490	$ 22.00	9,967,490	15,032,510

(1) This number reflects the number of shares that were available for purchase under our 10 million share repurchase program in effect on December 31, 2007 and our 15 million share repurchase program announced on January 31, 2008.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

There is no other information required to be disclosed in a report on Form 8-K during the quarter ended September 30, 2009 that was not previously disclosed in a Form 8-K.

Item 6. EXHIBITS

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

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SIGNATURES

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

UDR, Inc.
(registrant)

Date: November 3, 2009

/s/ David L. Messenger
David L. Messenger
Senior Vice President and Chief Financial Officer
(duly authorized officer, principal financial officer and chief accounting officer)

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EXHIBIT INDEX

Exhibit No.	Description
4.1	Supplemental Indenture dated August 20, 2009, by and between the Company and U.S. Bank National Association, as trustee, to the Company s Indenture dated as of April 1, 1994 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated August 20, 2009 and filed with the Securities and Exchange Commission on August 21, 2009, Commission File No. 1-10524).
4.2	Indenture dated as of April 1, 1994 (incorporated by reference to Exhibit 4(ii)(f)(1) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, Commission File No. 1-10524)
10.1	Sales Agreement dated September 15, 2009, among the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated (incorporated by reference to Exhibit 1.1 to the Company s Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 15, 2009, Commission File No. 1-10524).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Chief Financial Officer.
99.1	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P.