

UDR, Inc.
Form 10-Q
November 09, 2010

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

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
OR**

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)
UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)**

**Maryland (UDR, Inc.) 54-0857512
Delaware (United Dominion Realty, L.P.) 54-1776887
(State or other jurisdiction of (I.R.S. Employer
incorporation of organization) Identification No.)
1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129
(Address of principal executive offices) (zip code)
(720) 283-6120**

(Registrant's telephone number, including area code)

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

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

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

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

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

UDR, Inc.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
accelerated filer o

(Do not check if a smaller reporting company)

United Dominion Realty, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

The number of shares of UDR, Inc. s common stock, \$0.01 par value, outstanding as of November 8, 2010, was 182,137,034.

**UDR, INC.
UNITED DOMINION REALTY, L.P.
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EXPLANATORY NOTE

This combined Form 10-Q includes information with respect to both UDR, Inc. (UDR or the Company), a Maryland corporation, and United Dominion Realty, L.P., (the Operating Partnership), a Delaware limited partnership, of which UDR is the sole general partner. As of September 30, 2010, UDR owned 110,883 units of the general partnership interests of the Operating Partnership and 174,369,059 units (or approximately 96.9%) of the limited partnership interests of the Operating Partnership (the OP Units). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under Management s Discussion and Analysis of Financial Condition and Results of Operations, are provided for each of UDR and the Operating Partnership. This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

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

	September 30, 2010	December 31, 2009
	(unaudited)	(audited)
ASSETS		
Real estate owned:		
Real estate held for investment	\$ 6,758,458	\$ 5,975,239
Less: accumulated depreciation	(1,560,239)	(1,346,689)
Real estate held for investment, net	5,198,219	4,628,550
Real estate under development (net of accumulated depreciation of \$628 and \$1,226)	94,249	318,531
Real estate held for disposition (net of accumulated depreciation of \$0 and \$3,378)		16,673
Total real estate owned, net of accumulated depreciation	5,292,468	4,963,754
Cash and cash equivalents	10,107	5,985
Marketable securities	41,873	37,650
Restricted cash	14,879	8,879
Deferred financing costs, net	26,225	26,601
Notes receivable	7,800	7,800
Investment in unconsolidated joint ventures	16,391	14,126
Other assets	67,615	67,822
Total assets	\$ 5,477,358	\$ 5,132,617
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	\$ 2,045,810	\$ 1,989,434
Unsecured debt	1,433,860	1,437,155
Real estate taxes payable	28,871	16,976
Accrued interest payable	19,939	19,146
Security deposits and prepaid rent	27,037	31,798
Distributions payable	36,582	30,857
Deferred gains on the sale of depreciable property	28,824	28,826
Accounts payable, accrued expenses, and other liabilities	63,766	80,685
Total liabilities	3,684,689	3,634,877
Redeemable non-controlling interests in operating partnership	117,012	98,758

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, 2009)	46,571	46,571
3,405,562 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (3,432,962 shares at December 31, 2009)	85,139	85,824
Common stock, \$0.01 par value; 250,000,000 shares authorized		
182,128,994 shares issued and outstanding (155,465,482 shares at December 31, 2009)	1,821	1,555
Additional paid-in capital	2,437,284	1,948,669
Distributions in excess of net income	(895,069)	(687,180)
Accumulated other comprehensive (loss)/income, net	(3,741)	2
Total UDR, Inc. stockholders' equity	1,672,005	1,395,441
Non-controlling interest	3,652	3,541
Total equity	1,675,657	1,398,982
Total liabilities and stockholders' equity	\$ 5,477,358	\$ 5,132,617

See accompanying notes to consolidated financial statements

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UDR, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
REVENUES				
Rental income	\$ 159,795	\$ 149,756	\$ 464,256	\$ 451,102
Non-property income:				
Other income	2,195	1,627	7,571	10,609
Total Revenues	161,990	151,383	471,827	461,711
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	19,280	18,838	57,861	57,559
Personnel	14,787	12,975	42,267	38,264
Utilities	9,097	8,183	25,723	23,868
Repair and maintenance	9,737	8,295	26,109	23,346
Administrative and marketing	4,165	3,617	11,973	10,491
Property management	4,394	4,119	12,767	12,406
Other operating expenses	1,396	1,437	4,338	5,110
Real estate depreciation and amortization	75,569	69,561	221,229	207,341
Interest				
Expense incurred	37,307	33,909	109,193	105,794
Net loss/(gain) on debt extinguishment	91		1,121	(9,849)
Amortization of convertible debt discount	859	967	2,754	3,316
Expenses related to tender offer		3,764		3,764
Storm related (income)/expenses	(52)		669	127
General and administrative	12,046	8,673	31,258	27,189
Other depreciation and amortization	1,224	858	3,755	3,730
Total Expenses	189,900	175,196	551,017	512,456
Loss from operations	(27,910)	(23,813)	(79,190)	(50,745)
Loss from unconsolidated entities	(835)	(16,742)	(2,757)	(18,187)
Loss from continuing operations	(28,745)	(40,555)	(81,947)	(68,932)
Income from discontinued operations	4,140	800	4,676	3,094
Consolidated net loss	(24,605)	(39,755)	(77,271)	(65,838)
Net loss attributable to non-controlling interests	839	1,779	2,828	3,175
Net loss attributable to UDR, Inc.	(23,766)	(37,976)	(74,443)	(62,663)
Distributions to preferred stockholders Series E (Convertible)	(932)	(931)	(2,794)	(2,793)
Distributions to preferred stockholders Series G	(1,436)	(1,869)	(4,325)	(5,607)
Discount on preferred stock repurchases, net			25	

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Net loss attributable to common stockholders	\$	(26,134)	\$	(40,776)	\$	(81,537)	\$	(71,063)
Earnings per weighted average common share basic:								
Loss from continuing operations attributable to common stockholders	\$	(0.18)	\$	(0.28)	\$	(0.54)	\$	(0.50)
Income from discontinued operations	\$	0.02	\$	0.01	\$	0.03	\$	0.02
Net loss attributable to common stockholders	\$	(0.16)	\$	(0.27)	\$	(0.51)	\$	(0.48)
Earnings per weighted average common share diluted:								
Loss from continuing operations attributable to common stockholders	\$	(0.18)	\$	(0.28)	\$	(0.54)	\$	(0.50)
Income from discontinued operations	\$	0.02	\$	0.01	\$	0.03	\$	0.02
Net loss attributable to common stockholders	\$	(0.16)	\$	(0.27)	\$	(0.51)	\$	(0.48)
Common distributions declared per share	\$	0.185	\$	0.180	\$	0.545	\$	0.665
Weighted average number of common shares outstanding basic		165,403		150,000		160,841		147,883
Weighted average number of common shares outstanding diluted		165,403		150,000		160,841		147,883

See accompanying notes to consolidated financial statements

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

	Nine Months Ended September 30,	
	2010 (unaudited)	2009 (unaudited)
Operating Activities		
Consolidated net loss	\$ (77,271)	\$ (65,838)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	225,246	211,477
Net gain on the sale of depreciable property	(4,034)	(2,486)
Loss/(gain) on debt extinguishment	1,121	(9,849)
Write off of bad debt	2,036	2,635
Write off of note receivable and other assets		1,089
Loss from unconsolidated entities	2,757	18,187
Amortization of deferred financing costs and other	5,861	5,499
Amortization of deferred compensation	9,079	5,862
Amortization of convertible debt discount	2,754	3,316
Changes in income tax accrual	(2,702)	1,846
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(10,364)	7,489
Increase in operating liabilities	3,006	10,423
Net cash provided by operating activities	157,489	189,650
Investing Activities		
Proceeds from sales of real estate investments, net	20,688	
Proceeds from note receivable		200,000
Payments related to the buyout of joint venture partner	(16,141)	
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(342,697)	(28,528)
Development of real estate assets	(79,718)	(142,195)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	(52,681)	(63,881)
Capital expenditures non-real estate assets	(3,332)	(6,290)
Investment in unconsolidated joint ventures	(5,697)	(23,871)
Distributions received from unconsolidated joint venture	730	
Purchase of marketable securities		(30,942)
Net cash used in investing activities	(478,848)	(95,707)
Financing Activities		
Payments on secured debt	(99,745)	(34,205)
Proceeds from the issuance of secured debt	62,833	434,860
Proceeds from the issuance of unsecured debt	149,190	
Payments on unsecured debt	(79,488)	(401,958)
Net (repayment)/proceeds of revolving bank debt	(76,700)	25,000

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Payment of financing costs	(5,040)	(5,267)
Issuance of common and restricted stock, net	4,680	(969)
Proceeds from the issuance of common shares through public offering, net	467,783	32,953
Payments on the repurchase of Series G preferred stock, net	(637)	
Distributions paid to non-controlling interests	(3,069)	(5,925)
Distributions paid to preferred stockholders	(7,119)	(8,400)
Distributions paid to common stockholders	(87,207)	(117,020)
Repurchase of common stock		(798)
Net cash provided by/(used in) financing activities	325,481	(81,729)
Net increase in cash and cash equivalents	4,122	12,214
Cash and cash equivalents, beginning of period	5,985	12,740
Cash and cash equivalents, end of period	\$ 10,107	\$ 24,954
Supplemental Information:		
Interest paid during the year, net of amounts capitalized	\$ 120,424	\$ 122,577
Non-cash transactions:		
Conversion of operating partnership non-controlling interests to common stock (445,560 in 2010 and 1,839,216 shares in 2009)	8,320	17,423
Secured debt assumed with the acquisition of properties, net of fair value adjustment	93,262	
Retirement of fully depreciated assets	8,680	
Issuance of restricted stock awards	16	1
Payment of Special Dividend through the issuance of 11,358,042 shares of common stock		132,787
See accompanying notes to consolidated financial statements		

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

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net	Other Comprehensive Income/(Loss)	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount		Income			
Balance, December 31, 2009	6,236,774	\$ 132,395	155,465,482	\$ 1,555	\$ 1,948,669	\$ (687,180)	\$ 2	\$ 3,541	\$ 1,398,982
Comprehensive income (loss)									
Net loss						(74,443)			(74,443)
Change in equity attributable to non-controlling interest								111	111
Other comprehensive income (loss)									
Change in fair value of marketable securities							2,151		2,151
Unrealized loss on derivative financial instruments							(6,030)		(6,030)
Allocation to redeemable non-controlling interests							136		136
Comprehensive income (loss)						(74,443)	(3,743)	111	(78,075)
Issuance of common and restricted shares			1,673,585	17	12,738				12,755
Issuance of common shares through public offering	(27,400)	(685)	24,544,367	245	467,538				467,783
					23	25			(637)

Repurchase of 27,400 shares of 6.75% Series G Cumulative Redeemable Shares										
Adjustment for conversion of non-controlling interests of unitholders in operating partnerships	445,560	4	8,316							8,320
Common stock distributions declared (\$0.545 per share)						(92,331)				(92,331)
Preferred stock distributions declared-Series E (\$0.9966 per share)						(2,794)				(2,794)
Preferred stock distributions declared-Series G (\$1.265625 per share)						(4,325)				(4,325)
Adjustment to reflect redeemable non-controlling redemption value						(34,021)				(34,021)
Balance, September 30, 2010	6,209,374	\$ 131,710	182,128,994	\$ 1,821	\$ 2,437,284	\$(895,069)	\$(3,741)	\$ 3,652	\$ 1,675,657	

See accompanying notes to consolidated financial statements

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UDR, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(UNAUDITED)

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (we , our , us , the Company or UDR) is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities.

The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP). As of September 30, 2010, there were 179,909,408 units in the Operating Partnership outstanding, of which 174,369,059 units or 96.9% were owned by UDR and 5,540,349 units or 3.1% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Heritage OP prior to UDR 's ownership of 100% of the units outstanding in Heritage OP as of December 31, 2009.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and 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, 2010, and results of operations for the three and nine months ended September 30, 2010 and 2009 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 Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 25, 2010.

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

The Company evaluated subsequent events through the date its financial statements were issued. No recognized or non-recognized subsequent events were noted except as noted in Note 15.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Real Estate Sales

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.

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

Redeemable non-controlling interests in operating partnerships

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

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

Marketable Securities

Marketable securities represent common stock restricted for trading and debt securities in publicly held companies. These securities 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.

Investment in Unconsolidated Joint Ventures

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 in unconsolidated entities. 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.

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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 has elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries (TRS), primarily those engaged in development activities.

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. UDR recorded income tax benefit of \$2.7 million and \$2.6 million from the write-off of income tax payable for the three and nine months ended September 30, 2010, respectively, which are classified on the Consolidated Statements of Operations in the line item entitled General and Administrative.

Effective January 1, 2007, the Company adopted guidance which 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 its tax positions and evaluates them using a two-step process. First, we determine whether a tax position is more likely than not (greater than 50 percent probability) to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. 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.

UDR had no unrecognized tax benefit, accrued interest or penalties at September 30, 2010. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2005 - 2009 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 assets owned by the Company consist of income producing operating properties, properties under development and land held for future development. As of September 30, 2010 the Company owned and consolidated 172 communities in 10 states plus the District of Columbia totaling 48,409 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2010 and December 31, 2009 (*dollar amounts in thousands*):

	September 30, 2010	December 31, 2009
Land	\$ 1,885,656	\$ 1,622,838
Depreciable property held and used:		
Building and improvements	4,582,697	4,104,165
Furniture, fixtures and equipment	290,105	248,236
Under development:		
Land	27,052	65,525
Construction in progress	67,825	254,232
Held for disposition:		
Land		12,563
Building and improvements		7,089
Furniture, fixtures and equipment		399
Real estate owned	\$ 6,853,335	\$ 6,315,047
Accumulated depreciation	(1,560,867)	(1,351,293)
Real estate owned, net	\$ 5,292,468	\$ 4,963,754

The following table summarizes UDR's real estate community acquisitions for the three and nine months ended September 30, 2010 (*dollar amounts in thousands*):

Property Name	Market	Acquisition Date	Units	Purchase Price (a)
1818 Platinum Triangle	Orange County, CA	August 2010	265	\$ 70,500
Domain Brewers Hill	Baltimore, MD	August 2010	180	46,000
Garrison Square	Boston, MA	September 2010	160	98,000
Marina Pointe	Los Angeles, CA	September 2010	583	157,500
Ridge at Blue Hills	Boston, MA	September 2010	186	40,000
			1,374	\$ 412,000

(a) The purchase price is the contractual amount paid by

UDR to the third party and does not include any costs that the Company incurred in the pursuit of the property.

The \$412 million purchase price was allocated \$153.6 million to land; \$253.5 million to building and improvements; \$2.5 million to furniture, fixtures, and equipment; and \$2.4 million to intangible assets based on preliminary estimates and are subject to change as we obtain more complete information during the measurement period.

During the three and nine months ended September 30, 2010, the Company also acquired land located in San Francisco, CA with a purchase price of \$23.6 million.

The Company incurred \$2.7 million of acquisition related costs during the three and nine months ended September 30, 2010, and \$13,000 and \$274,000 during the three and nine months ended September 30, 2009, respectively. These expenses are classified on the Consolidated Statements of Operations in the line item entitled General and administrative.

The Company did not have any acquisitions for the three and nine months ended September 30, 2009.

Table of Contents**4. DISCONTINUED OPERATIONS**

Discontinued operations represent properties that UDR has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property's operations and cash flows have been or will be divested to a third party by the Company whereby UDR will not have any 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 sold one 149 unit community during the three and nine months ended September 30, 2010. UDR recognized gains for financial reporting purposes of \$3.9 million on this sale, which is included in discontinued operations. UDR did not dispose of any communities in the three and nine months ended September 30, 2009. The results of operations for the following properties are classified on the Consolidated Statements of Operations in the line item entitled Income from discontinued operations.

The following is a summary of income from discontinued operations for the three and nine months ended September 30, 2010 and 2009 (*dollars in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Rental income	\$ 530	\$ 555	\$ 1,619	\$ 1,667
Rental expenses	231	207	637	607
Property management fee	15	15	45	46
Real estate depreciation	22	134	295	406
	268	356	977	1,059
Income before net gain on the sale of depreciable property	262	199	642	608
Net gain on the sale of depreciable property, excluding RE3	3,878	555	3,999	2,440
RE3 gain on the sale of depreciable property, net of tax		46	35	46
Income from discontinued operations	\$ 4,140	\$ 800	\$ 4,676	\$ 3,094

5. JOINT VENTURES

UDR has entered into joint ventures with unrelated third parties 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% when we have the power to direct the activities of the entity that most significantly affect the entity's economic performance. In addition, the Company consolidates any joint venture in which we are the general partner or managing member and the third party partner or member does not have the ability to substantively participate in the decision-making process nor the ability to remove us as general partner or managing member, without cause.

UDR's joint ventures are funded with a combination of debt and equity. Our losses are limited to our investment and the Company does not guarantee any debt issued by our unconsolidated joint ventures, capital payout or other obligations associated with our joint ventures. The Company guarantees 100% of the debt owed by one of our consolidated joint ventures for which our equity ownership percentage is 98%.

Table of Contents**Consolidated Joint Ventures**

UDR is a partner with an unaffiliated third party in a joint venture (989 Elements) which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in 989 Elements for \$7.7 million. Concurrently, our partner resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture resulting in the consolidation of the joint venture. The joint venture assets and liabilities were recorded at fair value. The fair value of the assets was \$55.0 million (\$54.8 million of real estate owned and \$200,000 of current assets) and the fair value of liabilities was \$34.1 million (\$33.4 million of a construction loan, net of fair market value adjustment of \$1.6 million and \$700,000 of current liabilities) at the consolidation date. On December 31, 2009, the Company repaid the outstanding balance of \$35.0 million on the construction loan held by 989 Elements. In March 2010, the Company paid \$7.7 million and acquired our partner's 49% interest in the joint venture. At closing of the agreement and at September 30, 2010, the Company's interest in 989 Elements was 98%.

UDR is a partner with an unaffiliated third party in a joint venture (Elements Too) which owns and operates a 274 home apartment community in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and was completed in the first quarter of 2010. On October 16, 2009, our partner resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture resulting in the consolidation of the joint venture. The joint venture assets and liabilities were recorded at fair value. Prior to consolidation, our equity investment in Elements Too was \$24.4 million (net of an \$11.0 million equity loss recorded as of December 31, 2009) at October 16, 2009. The fair value of the assets was \$100.3 million (\$99.5 million of real estate owned and \$814,000 of current assets) and the fair value of liabilities was \$75.6 million (\$70.5 million of a construction loan, \$917,000 of a derivative instrument, and \$4.2 million of current liabilities). On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Elements Too for \$3.2 million. In March 2010, the Company paid the outstanding balance of \$3.2 million and acquired our partner's 49% interest in the joint venture. At closing of the agreement and at September 30, 2010, the Company's interest in Elements Too was 98%. During the nine months ended September 30, 2010, the Company repaid the outstanding balance of \$70.5 million on the construction loan held by Elements Too.

UDR is a partner with an unaffiliated third party in a joint venture (Bellevue) which owns an operating retail site in Bellevue, Washington. 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 year ended December 31, 2009, the joint venture decided to continue to operate the retail property as opposed to developing a high rise apartment building on the site. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Bellevue for \$5.2 million. In addition, our partner resigned as managing member and appointed UDR as managing member. Concurrent with its resignation, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture resulting in the consolidation of the joint venture at fair value. Prior to consolidation, our equity investment in Bellevue was \$5.0 million (net of a \$5.0 million equity loss recorded as of December 31, 2009). The fair value of the assets was \$33.0 million (\$32.8 million of real estate owned and \$211,000 of current assets) and the fair value of liabilities was \$23.0 million (\$22.3 million of a mortgage payable, \$506,000 of a derivative instrument, and \$213,000 of current liabilities). In March 2010, the Company paid \$5.2 million and acquired our partner's 49% interest in the joint venture. At closing of the agreement and at September 30, 2010, the Company's interest in Bellevue was 98%. At September 30, 2010, the carrying value of the mortgage payable guaranteed by the Company was \$22.3 million.

Prior to their consolidation in 2009, we evaluated our investments in these joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We considered various factors to determine if a decrease in value of each of these investments is other-than-temporary. In 2009, we recognized a non-cash charge of \$16.0 million representing the other-than-temporary decline in fair values below the carrying values of two of the Company's Bellevue, Washington joint ventures. The Company did not recognize any

other-than-temporary decrease in the value of its other investments in unconsolidated joint ventures during the three and nine months ended September 30, 2010.

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The activities and accounts of these joint ventures are included in the Company's consolidated financial position as of September 30, 2010 and December 31, 2009, consolidated results of operations for the three and nine months ended September 30, 2010, and consolidated cash flows for the nine months ended September 30, 2010.

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 services to the unconsolidated joint ventures. As of September 30, 2010, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

In August 2009, UDR and an unaffiliated third party formed a jointed venture for the investment of 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 will be 30% or \$54.0 million when fully invested. During the quarter ended June 30, 2010, the joint venture acquired its first property (151 homes) located in Metropolitan Washington D.C. for \$43.1 million. At closing and at September 30, 2010, the Company owned 30%. Our investment at September 30, 2010 and December 31, 2009 was \$5.3 million and \$242,000, respectively.

In November 2007, UDR and an unaffiliated third party formed a joint venture which owns and operates 10 operating properties located in Texas (3,992 homes). 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, 2010 and December 31, 2009 was \$11.1 million and \$13.9 million, respectively.

We evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. During the three and nine months ended September 30, 2010, the Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures.

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

	2010	2009 (a)
For the three months ended September 30,:		
Revenues	\$ 11,015	\$ 11,417
Real estate depreciation and amortization	5,753	5,474
Net loss	(3,945)	(4,761)
For the nine months ended September 30,:		
Revenues	\$ 31,647	\$ 34,454
Real estate depreciation and amortization	16,322	15,861
Net loss	(12,610)	(11,188)

(a) Includes results of operations of joint ventures subsequently consolidated during the fourth quarter of 2009. See Consolidated

Joint Ventures
above.

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The combined summary balance sheets relating to 100% of all the unconsolidated joint ventures (not just our proportionate share) are presented below as of September 30, 2010 and December 31, 2009 (*dollars in thousands*):

	September 30, 2010	December 31, 2009
Real estate, net	\$ 350,073	\$ 320,786
Total assets	360,758	332,694
Amount due to UDR	839	779
Third party debt	280,000	254,000
Total liabilities	289,935	265,091
Equity	70,823	67,603

As of September 30, 2010, 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 \$453,000 and \$1.5 million and \$466,000 and \$1.5 million of management fees for our involvement in the joint ventures for the three and nine months ended September 30, 2010 and 2009, respectively.

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

6. SECURED DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt on continuing operations, which encumbers \$3.2 billion or 47% of UDR's real estate owned based upon book value (\$3.6 billion or 53% of UDR's real estate owned is unencumbered) consists of the following as of September 30, 2010 (*dollars in thousands*):

	Principal Outstanding		Nine Months Ended September 30, 2010		
			Weighted	Weighted	Number of
	September	December	Average	Average	Communities
	30,	31,	Interest	Years to	Encumbered
	2010	2009	Rate	Maturity	
Fixed Rate Debt					
Mortgage notes payable	\$ 344,048	\$ 506,203	5.18%	2.7	10
Tax-exempt secured notes payable	13,325	13,325	5.30%	20.4	1
Fannie Mae credit facilities	948,002	949,971	5.40%	6.3	14
Total fixed rate secured debt	1,305,375	1,469,499	5.34%	5.5	25
Variable Rate Debt					
Mortgage notes payable	385,284	243,810	2.34%	3.0	14
Tax-exempt secured note payable	94,700	27,000	1.09%	19.5	2
Fannie Mae credit facilities	260,451	249,125	1.68%	5.4	35
Total variable rate secured debt	740,435	519,935	1.95%	5.9	51

Total secured debt	\$ 2,045,810	\$ 1,989,434	4.11%	5.7	76
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UDR has five secured credit facilities with Fannie Mae with an aggregate commitment of \$1.4 billion at September 30, 2010. The Fannie Mae credit facilities are for an initial term of 10 years, 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 \$948.0 million of the funded balance fixed at a weighted average interest rate of 5.4% and the remaining balance on these facilities is currently at a weighted average variable rate of 1.7%.

	September 30, 2010	December 31, 2009
	(dollar amounts in thousands)	
Borrowings outstanding	\$ 1,208,453	\$ 1,199,096
Weighted average borrowings during the period ended	1,206,806	1,033,658
Maximum daily borrowings during the period ended	1,209,739	1,199,322
Weighted average interest rate during the period ended	4.6%	4.6%
Weighted average interest rate at the end of the period	4.6%	4.6%

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 \$779,000 and \$987,000 at September 30, 2010 and December 31, 2009, 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 January 2011 through February 2017 and carry interest rates ranging from 2.66% to 6.60%. 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, 2010, the Company had \$948.0 million outstanding of fixed rate secured credit facilities with Fannie Mae with a weighted average fixed interest rate of 5.40%.

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 January 2011 through April 2016. The mortgage notes payable are based on LIBOR plus basis points, which translate into interest rates ranging from 0.98% to 5.25% at September 30, 2010.

Tax-exempt secured notes payable. The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature at various dates from August 2019 and March 2030. Interest on these notes is payable in monthly installments. The variable mortgage notes have interest rates ranging from 1.07% to 1.10% as of September 30, 2010.

Secured credit facilities. At September 30, 2010, the Company had \$260.5 million outstanding of variable rate secured credit facilities with Fannie Mae with a weighted average floating interest rate of 1.68%.

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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*):

	Mortgage Notes	Fixed Tax Exempt Notes Payable	Credit Facilities	Mortgage Notes	Variable Tax Exempt Notes Payable	Credit Facilities	Total
2010	\$ 909	\$	\$ 684	\$	\$	\$	\$ 1,593
2011	129,868		52,808	110,524		39,513	332,713
2012	57,390		177,944	58,621		59,529	353,484
2013	62,010		38,631	38,509			139,150
2014	381		3,328	101,102			104,811
Thereafter	93,490	13,325	674,607	76,528	94,700	161,409	1,114,059
Total	\$ 344,048	\$ 13,325	\$ 948,002	\$ 385,284	\$ 94,700	\$ 260,451	\$ 2,045,810

7. UNSECURED DEBT

A summary of unsecured debt as of September 30, 2010 and December 31, 2009 is as follows (*dollars in thousands*):

	September 30, 2010	December 31, 2009
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due July 2012 (a)	\$ 112,600	\$ 189,300
Senior Unsecured Notes		
3.90% Medium-Term Notes due March 2010 (includes premium of \$34)		50,034
3.63% Convertible Senior Notes due September 2011 (net of discount of \$1,497 and \$3,351) (b), (d), (h)	95,602	122,984
5.00% Medium-Term Notes due January 2012	100,000	100,000
3.02% Term Notes due December 2013 (c)	100,000	100,000
6.05% Medium-Term Notes due June 2013	122,500	122,500
5.13% Medium-Term Notes due January 2014 (e)	184,000	184,000
5.50% Medium-Term Notes due April 2014 (net of discount of \$243 and \$295) (e)	128,257	128,205
5.25% Medium-Term Notes due January 2015 (includes net discount of \$551 and premium \$177) (e),(f)	324,624	175,352
5.25% Medium-Term Notes due January 2016 (e)	83,260	83,260
8.50% Debentures due September 2024	15,644	15,644
4.00% Convertible Senior Notes due December 2035 (net of discount of \$416 and \$1,916) (g), (h)	167,334	165,834
Other	39	42
	1,321,260	1,247,855

\$ 1,433,860 \$ 1,437,155

- (a) We have a \$600 million unsecured revolving credit facility that matures in July 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 47.5 basis points. 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.

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- (b) 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.

- (c) The Company had an interest rate swap agreement related to these notes, which expired during the three months ended March 31, 2010. The notes carried a variable interest rate of 3.02% at September 30, 2010 and a fixed interest rate of 6.26% at December 31, 2009.
- (d) During the nine months ended September 30, 2010, the Company repurchased some of its 3.625% convertible Senior Notes in open market purchases. As a result of these transactions, we retired debt with a notional value of \$29.2 million for

\$29.4 million of cash. Consistent with our accounting policy, the Company expensed \$206,000 of unamortized financing costs and \$599,000 of unamortized discount on convertible debt as a result of these debt retirements for the nine months ended September 30, 2010. The loss of \$1.0 million is included within a separate component of interest expense on our Consolidated Statements of Operations for the nine months ended September 30, 2010.

- (e) During the nine months ended September 30, 2009, the Company repurchased several different tranches of its unsecured debt in open market purchases. As a result of these transactions, we retired debt with a notional value

of
\$238.9 million
for
\$222.3 million
of cash.
Consistent with
our accounting
policy, the
Company
expensed
\$3.4 million of
unamortized
discount on
convertible debt
as a result of
these debt
retirements for
the nine months
ended
September 30,
2009. The gains
of \$9.8 million
are presented as
a separate
component of
interest expense
on our
Consolidated
Statements of
Operations for
the three and
nine months
ended
September 30,
2009.

- (f) On December 7, 2009, the Company entered into an Amended and Restated Distribution Agreement with respect to the issue and sale by the Company from time to time of its Medium-Term Notes, Series A

Due Nine Months or More From Date of Issue. During the three months ended March 31, 2010, the Company issued \$150 million of 5.25% senior unsecured medium-term notes under the Amended and Restated Distribution Agreement. These notes were priced at 99.46% of the principal amount at issuance and had a discount of \$701,000 at September 30, 2010.

- (g) 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,