UDR, Inc.
Form 10-Q
July 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to

Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)

UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)

Maryland (UDR, Inc.)	54-0857512
Delaware (United Dominion Realty, L.P.)	54-1776887
(State or other jurisdiction of 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.

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

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

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

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

UDR, Inc.:

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

(Do not check if a smaller reporting company)

United Dominion Realty, L.P.:

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

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

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

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of July 25, 2016 was 267,057,652.

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2016 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to "we," "us," "our," the "Company," "UDR" or "UDR, Inc." refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership"), a Delaware limited partnership of which UDR is the sole general partner. The DownREIT Partnership was formed in conjunction with certain acquisitions from Home Properties, L.P., a New York limited partnership, by UDR in October 2015. Unless the context otherwise requires, the references in this Report to the "Operating Partnership" or the "OP" refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of UDR and "stockholders" means the holders of shares of UDR's common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as the "OP Units" and "DownREIT Units," and the holders of the OP Units and DownREIT Units are referred to as "unitholders." This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

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

As of June 30, 2016, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,116,596 units (approximately 95.1%) of the limited partnership interests of the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under "Management's Discussion and Analysis of Financial Condition and Results of Operations," are provided for each of UDR and the Operating Partnership.

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

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$9,073,474	$9,053,599
Less: accumulated depreciation	(2,842,273)	(2,646,044)
Real estate held for investment, net	6,231,201	6,407,555
Real estate under development (net of accumulated depreciation of $0 and $0, respectively)	238,938	124,072
Real estate held for disposition (net of accumulated depreciation of $0 and $830, respectively)	—	11,775
Total real estate owned, net of accumulated depreciation	6,470,139	6,543,402
Cash and cash equivalents	5,167	6,742
Restricted cash	20,524	20,798
Funds held in escrow from Internal Revenue Code Section 1031 exchanges	34,732	—
Notes receivable, net	19,694	16,694
Investment in and advances to unconsolidated joint ventures, net	933,403	938,906
Other assets	126,423	137,302
Total assets	$7,610,082	$7,663,844
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$1,256,119	$1,376,945
Unsecured debt, net	2,209,058	2,193,850
Real estate taxes payable	23,168	18,786
Accrued interest payable	26,735	29,162
Security deposits and prepaid rent	37,916	36,330
Distributions payable	86,957	80,368
Accounts payable, accrued expenses, and other liabilities	91,275	81,356
Total liabilities	3,731,228	3,816,797
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	929,985	946,436
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,796,903 shares issued and outstanding at June 30, 2016 and December 31, 2015	46,457	46,457
Series F; 16,452,496 shares issued and outstanding at June 30, 2016 and December 31, 2015	1	1
Common stock, $0.01 par value; 350,000,000 shares authorized:		
267,058,578 and 261,844,521 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	2,671	2,618
Additional paid-in capital	4,622,939	4,447,816

Distributions in excess of net income	(1,712,418)	(1,584,459)
Accumulated other comprehensive income/(loss), net	(12,974)	(12,678)
Total stockholders' equity	2,946,676	2,899,755
Noncontrolling interests	2,193	856
Total equity	2,948,869	2,900,611
Total liabilities and equity	$7,610,082	$7,663,844

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Rental income	$236,168	$212,764	$468,125	$419,811
Joint venture management and other fees	2,618	3,098	5,476	15,804
Total revenues	238,786	215,862	473,601	435,615
OPERATING EXPENSES:				
Property operating and maintenance	38,574	37,194	78,020	74,444
Real estate taxes and insurance	30,279	25,138	58,656	51,360
Property management	6,494	5,851	12,873	11,545
Other operating expenses	1,892	1,769	3,644	3,535
Real estate depreciation and amortization	105,937	90,344	211,276	179,121
General and administrative	10,835	13,721	24,679	25,873
Casualty-related charges/(recoveries), net	1,629	843	1,629	1,839
Other depreciation and amortization	1,486	1,700	3,039	3,323
Total operating expenses	197,126	176,560	393,816	351,040
Operating income	41,660	39,302	79,785	84,575
Income/(loss) from unconsolidated entities	325	(573)	1,004	58,586
Interest expense	(30,678)	(29,673)	(61,782)	(58,473)
Interest income and other income/(expense), net	540	382	971	742
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	11,847	9,438	19,978	85,430
Tax benefit/(provision), net	402	1,404	805	1,829
Income/(loss) from continuing operations	12,249	10,842	20,783	87,259
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net income/(loss)	19,564	89,884	31,168	166,301
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	17,946	86,855	28,339	160,677
Distributions to preferred stockholders — Series E (Convertible)	(929)	(931)	(1,858)	(1,862)
Net income/(loss) attributable to common stockholders	$17,017	$85,924	$26,481	$158,815
Common distributions declared per share	$0.2950	$0.2775	$0.5900	$0.5550
Income/(loss) per weighted average common share:				
Basic	$0.06	$0.33	$0.10	$0.62
Diluted	$0.06	$0.33	$0.10	$0.61
Weighted average number of common shares outstanding:				
Basic	266,268	257,849	264,362	257,344
Diluted	268,174	262,806	266,227	259,267

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income/(loss)	$19,564	$89,884	$31,168	$166,301
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(1,963)	6,186	(2,774)	(1,366)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	943	292	1,878	1,029
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	(1,020)	6,478	(896)	(337)
Comprehensive income/(loss)	18,544	96,362	30,272	165,964
Comprehensive (income)/loss attributable to noncontrolling interests	(1,537)	(3,253)	(2,229)	(5,623)
Comprehensive income/(loss) attributable to UDR, Inc.	$17,007	$93,109	$28,043	$160,341

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2015	$46,458	$2,618	$4,447,816	$(1,584,459)	$(12,678)	$856	$2,900,611
Net income/(loss) attributable to UDR, Inc.	—	—	—	28,339	—	—	28,339
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	301	301
Disposition of noncontrolling interests in consolidated real estate	—	—	—	—	—	(1,155)	(1,155)
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	220	220
Long-Term Incentive Plan Unit grants	—	—	—	—	—	1,971	1,971
Other comprehensive income/(loss)	—	—	—	—	(296)	—	(296)
Issuance/(forfeiture) of common and restricted shares, net	—	3	1,809	—	—	—	1,812
Issuance of common shares through public offering	—	50	173,233	—	—	—	173,283
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	—	—	81	—	—	—	81
Common stock distributions declared ($0.5900 per share)	—	—	—	(157,632)	—	—	(157,632)
Preferred stock distributions declared-Series E ($0.6644 per share)	—	—	—	(1,858)	—	—	(1,858)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	3,192	—	—	3,192
Balance at June 30, 2016	$46,458	$2,671	$4,622,939	$(1,712,418)	$(12,974)	$2,193	$2,948,869

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income/(loss)	$31,168	$166,301
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	214,315	182,444
(Gain)/loss on sale of real estate owned, net of tax	(10,385)	(79,042)
Tax (benefit)/provision, net	(805)	(1,829)
(Income)/loss from unconsolidated entities	(1,004)	(58,586)
Amortization of share-based compensation	7,075	9,060
Other	7,515	5,933
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(8,551)	7,431
Increase/(decrease) in operating liabilities	(12,858)	(14,709)
Net cash provided by/(used in) operating activities	226,470	217,003
Investing Activities		
Acquisition of real estate assets	(17,235)	—
Proceeds from sale of real estate investments, net	21,943	90,543
Development of real estate assets	(66,138)	(66,083)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(49,112)	(47,453)
Capital expenditures — non-real estate assets	(1,941)	(1,655)
Investment in unconsolidated joint ventures	(20,635)	(184,078)
Distributions received from unconsolidated joint ventures	13,663	46,075
(Issuance)/repayment of notes receivable	(3,000)	(1,125)
Net cash provided by/(used in) investing activities	(122,455)	(163,776)
Financing Activities		
Payments on secured debt	(145,499)	(4,549)
Proceeds from the issuance of secured debt	25,000	—
Payments on unsecured debt	(95,053)	(325,319)
Net proceeds/(repayment) of revolving bank debt	109,199	304,500
Proceeds from the issuance of common shares through public offering, net	173,283	108,739
Distributions paid to redeemable noncontrolling interests	(14,624)	(5,148)
Distributions paid to preferred stockholders	(1,858)	(1,862)
Distributions paid to common stockholders	(151,512)	(138,559)
Other	(4,526)	(3,263)
Net cash provided by/(used in) financing activities	(105,590)	(65,461)
Net increase/(decrease) in cash and cash equivalents	(1,575)	(12,234)
Cash and cash equivalents, beginning of period	6,742	15,224
Cash and cash equivalents, end of period	$5,167	$2,990

	Six Months Ended June 30,

	2016	2015
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$64,793	$66,448
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	$11,526	$—
Acquisition of real estate	—	24,067
Fair value adjustment of debt acquired as part of acquisition of real estate	—	1,363
Development costs and capital expenditures incurred but not yet paid	42,940	23,523
Conversion of Operating Partnership noncontrolling interest to common stock (2,080 shares in 2016 and 102,784 shares in 2015)	81	3,498

See accompanying notes to consolidated financial statements.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries ("UDR," the "Company," "we," "our," or "us"), is a self-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership" or the "OP") and UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership"). As of June 30, 2016, there were 183,278,698 units in the Operating Partnership outstanding, of which 174,227,479 units, or 95.1%, were owned by UDR and 9,051,219 units, or 4.9%, were owned by limited partners. As of June 30, 2016, there were 32,367,380 units in the DownREIT Partnership ("DownREIT Units") outstanding, of which 16,229,407, or 50.1%, were owned by UDR (of which, 13,470,651, or 41.6%, were held by the Operating Partnership) and 16,137,973, or 49.9%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2016, and results of operations for the three and six months ended June 30, 2016 and 2015 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2015 appearing in UDR's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2016.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the Company on January 1, 2020; early adoption is permitted on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU aims to simplify the accounting for share-based payments by amending the accounting for forfeitures, statutory tax withholding requirements, classification in the statements of cash flow and income taxes. The updated standard will be effective for the Company on January 1, 2017, with early adoption permitted. The update requires a prospective, retrospective or modified retrospective approach, depending on the type of amendment. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Company on January 1, 2019, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model of consolidation. Under ASU 2015-02, companies will need to re-evaluate whether an entity meets the criteria to be considered a variable interest entity (“VIE”) or whether the consolidation of an entity should be assessed under the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard was effective for the Company beginning on January 1, 2016. The adoption of the new standard did not result in the consolidation of entities not previously consolidated or the deconsolidation of any entities previously consolidated. Upon adopting the new standard, the Operating Partnership and DownREIT Partnership became VIEs as the limited partners of these entities lack substantive kick-out rights and substantive participating rights. The Company is the primary beneficiary of, and continues to consolidate, the entities determined to be VIEs.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company on January 1, 2018; early adoption is permitted on January 1, 2017. The Company has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

Principles of Consolidation

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

Discontinued Operations

In accordance with GAAP, a discontinued operation represents (1) a component of an entity or group of components that has been disposed of or is classified as held for sale in a single transaction and represents a strategic shift that has

or will have a major effect on an entity’s financial results, or (2) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of (1) a separate major line of business, (2) a separate major geographic area of operations, (3) a major equity method investment, or (4) other major parts of an entity.
We record sales of real estate that do not meet the definition of a discontinued operation in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations.
Revenue and Real Estate Sales Gain Recognition
Rental income related to leases is recognized on an accrual basis when due from residents and tenants in accordance with GAAP. Rental payments are generally due on a monthly basis and recognized when earned. The Company recognizes interest income, management and other fees and incentives when earned, and the amounts are fixed and determinable.

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

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

Notes Receivable

The following table summarizes our notes receivable, net as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Interest rate at June 30, 2016	Balance outstanding June 30, 2016	Balance outstanding December 31, 2015
Note due February 2020 (a)	10.00 %	$12,994	$ 12,994
Note due July 2017 (b)	8.00 %	2,500	2,500
Note due October 2020 (c)	8.00 %	1,200	1,200
Note due April 2021 (d)	10.00 %	3,000	—
Total notes receivable, net		$19,694	$ 16,694

(a) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $13.0 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).

In March 2016, the terms of this secured note receivable were amended to extend the maturity from the fifth anniversary of the date of the note (February 2017) to the eighth anniversary of the date of the note (February 2020).

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.5 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.0 million. Interest payments are due when the loan matures. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $10.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (October 2020).

(d) In April 2016, the Company entered into a secured note receivable with an unaffiliated third party with an aggregate commitment of $15.0 million. During the six months ended June 30, 2016, the Company loaned $3.0 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any

private or public capital raising in the amount of $25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (April 2021).
The Company recognized $0.5 million and $0.3 million of interest income from notes receivable during the three months ended June 30, 2016 and 2015, respectively, and $0.8 million and $0.7 million during the six months ended June 30,

2016 and 2015, respectively, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2016 and 2015, the Company's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion.

Income Taxes

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

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of June 30, 2016, UDR's net deferred tax asset was $8.4 million (net of a valuation allowance of $0.1 million), which is included in Other assets on the Consolidated Balance Sheets.

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

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

UDR had no material unrecognized tax benefit, accrued interest or penalties at June 30, 2016. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2011 through 2014 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax benefit/(provision), net on the Consolidated Statements of Operations.

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3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2016, the Company owned and consolidated 132 communities in 10 states plus the District of Columbia totaling 40,728 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Land	$1,794,615	$1,833,156
Depreciable property — held and used:		
Land Improvements	178,355	173,821
Building, improvements, and furniture, fixtures and equipment	7,100,504	7,046,622
Under development:		
Land and land improvements	111,028	78,085
Building, improvements, and furniture, fixtures and equipment	127,910	45,987
Real estate held for disposition:		
Land	—	9,963
Building, improvements, and furniture, fixtures and equipment	—	2,642
Real estate owned	9,312,412	9,190,276
Accumulated depreciation	(2,842,273)	(2,646,874)
Real estate owned, net	$6,470,139	$6,543,402

In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately $20.1 million, including closing costs. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 50% interest in the parcel of land as an unconsolidated joint venture (see Note 5, Joint Ventures and Partnerships). We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by $31.1 million. Subsequent to the acquisition, the Company entered into a triple-net operating ground lease for the parcel of land at market terms with a third-party developer. The lessee plans to construct a multi-family community on the parcel of land. The ground lease provides the ground lessee with options to buy the fee interest in the parcel of land. The lease term is 49 years plus two 25-year extension options, does not transfer ownership to the lessee, and does not include a bargain purchase option.

During the six months ended June 30, 2016, the Company sold a retail center in Bellevue, Washington and its 95% ownership interest in two parcels of land in Santa Monica, California for total gross proceeds of $69.4 million, resulting in total net proceeds of $66.1 million and a total gain, net of tax, of $10.4 million. A portion of the proceeds related to the sale of the retail center in Bellevue, Washington were designated for Internal Revenue Code ("IRC") Section 1031 exchanges. As of June 30, 2016, $34.7 million of these proceeds were included in Funds held in escrow from Internal Revenue Code Section 1031 exchanges on the Consolidated Balance Sheet.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $2.7 million and $1.6 million for the three months ended June 30, 2016 and 2015, respectively, and $4.7 million and $3.8 million for the six months ended June 30, 2016 and 2015, respectively. Total interest capitalized was $3.8 million and $3.8 million for the three months ended June 30, 2016 and 2015, respectively, and $8.0 million and $8.6 million for the six months ended June 30, 2016 and 2015, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. VARIABLE INTEREST ENTITIES

As of January 1, 2016, the Company adopted ASU 2015-02. See discussion in Note 2, Significant Accounting Policies for further details. As a result of the adoption, the Operating Partnership and DownREIT Partnership were determined to be VIEs. As the Company was determined to be the primary beneficiary, we will continue to consolidate these entities.

The Company has determined that the Operating Partnership and DownREIT Partnership are VIEs as the limited partners lack substantive kick-out rights and substantive participating rights. The Company has concluded that it is the primary beneficiary of, and therefore continues to consolidate, the Operating Partnership and DownREIT Partnership based on its role as the manager of the communities and its direct ownership interests, including all general partner interests. The Company's role as community manager and its equity interests give us the power to direct the activities that most significantly impact the economic performance and the obligation to absorb potentially significant losses or the right to receive potentially significant benefits of the Operating Partnership and DownREIT Partnership.

See the consolidated financial statements of the Operating Partnership presented within this Report and Note 4, Unconsolidated Entities, to the Operating Partnership's consolidated financial statements for the results of operations of the Operating Partnership and DownREIT Partnership, respectively.

5. JOINT VENTURES AND PARTNERSHIPS

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

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

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

UDR, INC.
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The following table summarizes the Company's investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of June 30, 2016 and December 31, 2015 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR's Ownership Interest	
		June 30, 2016	June 30, 2016	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Operating and development:							
UDR/MetLife I	Various	1 development community (a); 3 land parcels	150	$21,319	$ 15,894	19.6 %	17.2 %
UDR/MetLife II (b)	Various	21 operating communities	4,642	418,701	425,230	50.0 %	50.0 %
Other UDR/MetLife Development Joint Ventures (c)	Various	1 operating community; 4 development communities (a)	1,437	164,870	171,659	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities; 6 land parcels	1,130	71,984	73,469	50.0 %	50.0 %
UDR/KFH	Washington, D.C.	3 operating communities	660	15,126	17,211	30.0 %	30.0 %
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment and preferred equity investment				692,000	703,463		

	Location	Rate	Years To Maturity	Investment at		Income from Investment			
						Three Months Ended June 30,		Six Months Ended June 30,	
				June 30, 2016	December 31, 2015	2016	2015	2016	2015
Participating loan investment:									
Steele Creek	Denver, CO	6.5%	1.1	93,902	90,747	$1,560	$1,352	$3,079	$2,506
Preferred equity investment:									
West Coast Development Joint Venture	Various	6.5%	N/A	147,501	144,696	$1,409	$(548)	$3,198	$(548)
Total investment in and advances to unconsolidated joint ventures, net				$933,403	$ 938,906				

(a) The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes. As of June 30, 2016, 447 apartment homes had been completed in Other

UDR/MetLife Development Joint Ventures, and no apartment homes had been completed in UDR/MetLife I.

(b) In September 2015, the 717 Olympic community, which is owned by the UDR/MetLife II joint venture, experienced extensive water damage due to a ruptured water pipe. For the three and six months ended June 30, 2016, the Company recorded losses of $0 and $1.1 million, respectively, its proportionate share of the total losses incurred.

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(c) In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately $20.1 million, including closing costs. As a result, the Company consolidated the parcel of land and it is no longer accounted for as an unconsolidated joint venture (see Note 3, Real Estate Owned). The parcel of land was previously held in Other/UDR MetLife Development Joint Ventures.

As of June 30, 2016 and December 31, 2015, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of $8.3 million and $6.8 million, respectively, which will be recognized through income over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees for our management of the joint ventures and partnerships of $2.6 million and $2.6 million for the three months ended June 30, 2016 and 2015, respectively, and $5.4 million and $5.2 million for the six months ended June 30, 2016 and 2015, respectively. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three and six months ended June 30, 2016 and 2015.

Combined summary balance sheets relating to the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total real estate, net	$3,169,088	$ 3,135,757
Cash and cash equivalents	27,961	36,480
Amount due from UDR	1,069	—
Other assets	20,634	29,891
Total assets	$3,218,752	$ 3,202,128
Amount due to UDR	$—	$ 7,266
Third party debt	1,707,406	1,614,463
Accounts payable and accrued liabilities	74,563	95,523
Total liabilities	1,781,969	1,717,252
Total equity	1,436,783	1,484,876
Total liabilities and equity	$3,218,752	$ 3,202,128
Investment in and advances to unconsolidated joint ventures, net	$933,403	$ 938,906

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UDR, INC.
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Combined summary financial information relating to the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Total revenues	$58,153	$55,450	$113,190	$109,996
Property operating expenses	(22,981)	(21,557)	(46,394)	(41,724)
Real estate depreciation and amortization	(21,770)	(19,402)	(40,713)	(38,754)
Operating income/(loss)	13,402	14,491	26,083	29,518
Interest expense	(17,005)	(16,169)	(33,184)	(32,230)
Other income/(expense)	(2)	(7)	(4)	(7)
Income/(loss) from discontinued operations	—	—	—	182,488
Net income/(loss)	$(3,605)	$(1,685)	$(7,105)	$179,769
UDR income/(loss) from unconsolidated entities	$325	$(573)	$1,004	$58,586

UDR, INC.
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JUNE 30, 2016

6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at June 30, 2016 and December 31, 2015 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2016		
	June 30, 2016	December 31, 2015	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:					
Fixed Rate Debt					
Mortgage notes payable (a)	$322,689	$442,617	4.30%	6.3	5
Fannie Mae credit facilities (b)	512,584	514,462	5.23%	2.6	18
Deferred financing costs	(3,482)	(4,278)			
Total fixed rate secured debt, net	831,791	952,801	4.87%	4.0	23
Variable Rate Debt					
Mortgage notes payable (c)	31,337	31,337	2.25%	0.6	1
Tax-exempt secured notes payable (d)	94,700	94,700	1.18%	6.7	2
Fannie Mae credit facilities (b)	299,378	299,378	1.92%	3.6	8
Deferred financing costs	(1,087)	(1,271)			
Total variable rate secured debt, net	424,328	424,144	1.78%	4.0	11
Total Secured Debt, net	1,256,119	1,376,945	3.82%	4.0	34
Unsecured Debt:					
Variable Rate Debt					
Borrowings outstanding under an unsecured credit facility due January 2020 (e) (i)	255,000	150,000	1.36%	3.6	
Borrowings outstanding under an unsecured working capital credit facility due January 2019 (f)	4,199	—	1.37%	2.5	
1.40% Term Loan Facility due January 2021 (e) (i)	35,000	35,000	1.40%	4.6	
Fixed Rate Debt					
5.25% Medium-Term Notes due January 2016 (g)	—	83,260	— %	—	
6.21% Term Notes due July 2016 (g)	—	12,091	— %	—	
4.25% Medium-Term Notes due June 2018 (net of discounts of $822 and $1,037, respectively) (i)	299,178	298,963	4.25%	1.9	
3.70% Medium-Term Notes due October 2020 (net of discounts of $34 and $38, respectively) (i)	299,966	299,962	3.70%	4.3	
2.23% Term Loan Facility due January 2021 (e) (i)	315,000	315,000	2.23%	4.6	
4.63% Medium-Term Notes due January 2022 (net of discounts of $1,985 and $2,164, respectively) (i)	398,015	397,836	4.63%	5.5	
3.75% Medium-Term Notes due July 2024 (net of discounts of $834 and $886, respectively) (i)	299,166	299,114	3.75%	8.0	
8.50% Debentures due September 2024	15,644	15,644	8.50%	8.2	
	299,363	299,329	4.00%	9.3	

4.00% Medium-Term Notes due October 2025 (net of discounts of $637 and $671, respectively) (h) (i)				
Other	23	24	N/A	N/A
Deferred financing costs	(11,496)	(12,373)	N/A	N/A
Total Unsecured Debt, net	2,209,058	2,193,850	3.58%	5.4
Total Debt, net	$3,465,177	$3,570,795	3.76%	4.9

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

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. As of June 30, 2016, secured debt encumbered $2.1 billion or 22.5% of UDR's total real estate owned based upon gross book value ($7.2 billion or 77.5% of UDR's real estate owned based on gross book value is unencumbered).

(a) At June 30, 2016, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from February 2017 through June 2026 and carry interest rates ranging from 3.35% to 5.86%.

On June 1, 2016, the Company entered into a $25.0 million fixed rate mortgage note due June 5, 2026 with an interest rate of 3.35%. Interest is payable monthly beginning on July 5, 2016.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Company had a reduction to interest expense based on the amortization of the fair market adjustment of debt assumed in the acquisition of properties of $0.7 million and $1.3 million during the three months ended June 30, 2016 and 2015, respectively, and $1.5 million and $2.4 million during the six months ended June 30, 2016 and 2015, respectively. The unamortized fair market adjustment was a net premium of $8.4 million and $10.0 million at June 30, 2016 and December 31, 2015, respectively.

(b) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $812.0 million at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, $512.6 million of the outstanding balance was fixed and had a weighted average interest rate of 5.23% and the remaining balance of $299.4 million had a weighted average variable interest rate of 1.92%.

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

	June 30, 2016	December 31, 2015
Borrowings outstanding	$811,962	$ 813,840
Weighted average borrowings during the period ended	812,752	822,521
Maximum daily borrowings during the period ended	813,544	834,003
Weighted average interest rate during the period ended	4.0 %	4.0 %
Weighted average interest rate at the end of the period	4.0 %	3.9 %

(c) In July 2016, the Company paid off the $31.3 million variable rate mortgage note payable with borrowings under its $1.1 billion unsecured revolving credit facility.

(d) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have an interest rate of 1.18% as of June 30, 2016.

(e) As of June 30, 2016, the Company has a $1.1 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") and a $350.0 million senior unsecured term loan facility (the "Term Loan Facility"). The credit agreement for these facilities (the "Credit Agreement") allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The

Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021.

Based on the Company’s current credit rating, the Revolving Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points and a facility fee of 15 basis points, and the Term Loan Facility has an interest rate equal to LIBOR plus a margin of 95 basis points. Depending on the Company’s credit rating, the margin under the Revolving Credit Facility ranges from 85 to 155 basis points, the facility fee ranges from 12.5 to 30 basis points, and the margin under the Term Loan Facility ranges from 90 to 175 basis points.

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

The following is a summary of short-term bank borrowings under the Revolving Credit Facility at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total revolving credit facility	$1,100,000	$1,100,000
Borrowings outstanding at end of period (1)	255,000	150,000
Weighted average daily borrowings during the period ended	155,780	353,647
Maximum daily borrowings during the period ended	260,000	541,500
Weighted average interest rate during the period ended	1.3 %	1.1 %
Interest rate at end of the period	1.4 %	1.2 %

(1) Excludes $2.8 million and $2.3 million of letters of credit at June 30, 2016 and December 31, 2015, respectively.

(f) As of June 30, 2016, the Company has a working capital credit facility, which provides for a $30 million unsecured revolving credit facility (the “Working Capital Credit Facility”) with a scheduled maturity date of January 1, 2019. Based on the Company’s current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company’s credit rating, the margin ranges from 85 to 155 basis points.

In July 2016, the Company amended the working capital credit facility to increase the maximum borrowing capacity from $30 million to $75 million. The scheduled maturity date and interest rate were unchanged by the amendment.

The following is a summary of short-term bank borrowings under UDR’s working capital credit facility at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total revolving working capital credit facility	$30,000	$ 30,000
Borrowings outstanding at end of period	4,199	—
Weighted average daily borrowings during the period ended	12,601	—
Maximum daily borrowings during the period ended	29,361	—
Weighted average interest rate during the period ended	1.3 %	— %
Interest rate at end of the period	1.4 %	— %

(g) Paid off at maturity with borrowings under the Company's $1.1 billion unsecured revolving credit facility.

(h) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on $200 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.55%.

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

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UDR, INC.
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The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next ten calendar years subsequent to June 30, 2016 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2016	$3,559	$—	$3,559	$—	$3,559
2017	179,189	96,337	275,526	—	275,526
2018	73,096	137,969	211,065	300,000	511,065
2019	247,796	67,700	315,496	4,199	319,695
2020	170,664	—	170,664	555,000	725,664
2021	—	—	—	350,000	350,000
2022	—	—	—	400,000	400,000
2023	—	96,409	96,409	—	96,409
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
Thereafter	25,000	27,000	52,000	—	52,000
Subtotal	826,904	425,415	1,252,319	2,224,843	3,477,162
Non-cash (a)	4,887	(1,087)	3,800	(15,785)	(11,985)
Total	$831,791	$424,328	$1,256,119	$2,209,058	$3,465,177

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended June 30, 2016 and 2015, the Company amortized $1.2 million and $1.5 million, respectively, of deferred financing costs into Interest expense. For the six months ended June 30, 2016 and 2015, the Company amortized $2.4 million and $3.0 million, respectively, of deferred financing costs into Interest expense

We were in compliance with the covenants of our debt instruments at June 30, 2016.

7. INCOME/(LOSS) PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Numerator for income/(loss) per share:				
Income/(loss) from continuing operations	$12,249	$10,842	$20,783	$87,259
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	17,946	86,855	28,339	160,677
Distributions to preferred stockholders — Series E (Convertible)	(929)	(931)	(1,858)	(1,862)
Income/(loss) attributable to common stockholders - basic	$17,017	$85,924	$26,481	$158,815
Dilutive distributions to preferred stockholders - Series E (Convertible)	—	931	—	—
Income/(loss) attributable to common stockholders - diluted	$17,017	$86,855	$26,481	$158,815
Denominator for income/(loss) per share:				
Weighted average common shares outstanding	267,113	259,028	265,234	258,567
Non-vested restricted stock awards	(845)	(1,179)	(872)	(1,223)
Denominator for basic income/(loss) per share	266,268	257,849	264,362	257,344
Incremental shares issuable from assumed conversion of stock options, unvested LTIP Units, and unvested restricted stock	1,906	4,957	1,865	1,923
Denominator for diluted income/(loss) per share	268,174	262,806	266,227	259,267
Income/(loss) per weighted average common share:				
Basic	$0.06	$0.33	$0.10	$0.62
Diluted	$0.06	$0.33	$0.10	$0.61

Basic income/(loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income/(loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of the OP Units and DownREIT Units, convertible preferred stock, stock options, unvested long-term incentive plan units ("LTIP Units") and unvested restricted stock. Only those instruments having a dilutive impact on our basic income/(loss) per share are included in diluted income/(loss) per share during the periods. For the three and six months ended June 30, 2016 and the six months ended June 30, 2015, the Company's Series E preferred stock was anti-dilutive. For the three months ended June 30, 2015, the Company's Series E preferred stock was dilutive for purposes of calculating earnings per share.

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The following table sets forth the additional shares of common stock outstanding by equity instrument if converted to common stock for each of the three and six months ended June 30, 2016 and 2015 (shares in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
OP/DownREIT Units	25,190	9,125	25,191	9,145
Preferred stock	3,028	3,036	3,028	3,036
Stock options, unvested LTIP Units and unvested restricted stock	1,906	1,921	1,865	1,923

8. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership

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

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

The following table sets forth redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership for the following period (dollars in thousands):

Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, December 31, 2015	$946,436
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(3,192)
Conversion of OP Units to Common Stock	(81)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	2,515
Distributions to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(15,093)
Allocation of other comprehensive income/(loss)	(600)
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership, June 30, 2016	$929,985

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The following sets forth net income/(loss) attributable to common stockholders and transfers from redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership for the following periods (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income/(loss) attributable to common stockholders	$17,017	$85,924	$26,481	$158,815
Conversion of OP Units and DownREIT Units to UDR Common stock	81	3,479	81	3,498
Change in equity from net income/(loss) attributable to common stockholders and conversion of OP Units and DownREIT Units to UDR Common Stock	$17,098	$89,403	$26,562	$162,313

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners and unvested LTIP Units in certain consolidated affiliates. Net (income)/loss attributable to noncontrolling interests was less than $(0.1) million and zero during the three months ended June 30, 2016 and 2015, respectively, and $(0.3) million and less than $(0.1) million during the six months ended June 30, 2016 and 2015, respectively.

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

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

9. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Fair value is based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level valuation hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

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

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The estimated fair values of the Company’s financial instruments either recorded or disclosed on a recurring basis as of June 30, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

			Fair Value at June 30, 2016, Using		
	Total Carrying Amount in Statement of Financial Position at June 30, 2016	Fair Value Estimate at June 30, 2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$19,694	$19,501	$—	$—	$ 19,501
Derivatives - Interest rate contracts (b)	3	3	—	3	—
Total assets	$19,697	$19,504	$—	$3	$ 19,501
Derivatives - Interest rate contracts (b)	$3,554	$3,554	$—	$3,554	$—
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	322,689	340,060	—	—	340,060
Fannie Mae credit facilities	512,584	542,250	—	—	542,250
Secured debt instruments - variable rate: (c)					
Mortgage notes payable	31,337	31,337	—	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	299,378	299,378	—	—	299,378
Unsecured debt instruments: (c)					
Commercial bank	259,199	259,199	—	—	259,199
Senior unsecured notes	1,961,355	2,096,376	—	—	2,096,376
Total liabilities	$3,484,796	$3,666,854	$—	$3,554	$ 3,663,300
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Parthership (d)	$929,985	$929,985	$—	$929,985	$—

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			Fair Value at December 31, 2015, Using		
	Total Carrying Amount in Statement of Financial Position at December 31, 2015	Fair Value Estimate at December 31, 2015	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$16,694	$16,938	$—	$—	$16,938
Derivatives - Interest rate contracts (b)	13	13	—	13	—
Total assets	$16,707	$16,951	$—	$13	$16,938
Derivatives- Interest rate contracts (b)	$2,112	$2,112	$—	$2,112	$—
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	442,617	448,019	—	—	448,019
Fannie Mae credit facilities	514,462	539,050	—	—	539,050
Secured debt instruments - variable rate: (c)					
Mortgage notes payable	31,337	31,337	—	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	299,378	299,378	—	—	299,378
Unsecured debt instruments: (c)					
Commercial bank	150,000	150,000	—	—	150,000
Senior unsecured notes	2,056,223	2,108,687	—	—	2,108,687
Total liabilities	$3,590,829	$3,673,283	$—	$2,112	$3,671,171
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership (d)	$946,436	$946,436	$—	$946,436	$—

(a)See Note 2, Significant Accounting Policies.
(b)See Note 10, Derivatives and Hedging Activity.
(c)See Note 6, Secured and Unsecured Debt, Net.
(d)See Note 8, Noncontrolling Interests.

There were no transfers into or out of each of the levels of the fair value hierarchy.

Financial Instruments Carried at Fair Value

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2016 and December 31, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB’s fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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

Financial Instruments Not Carried at Fair Value

At June 30, 2016 and December 31, 2015, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

We consider various factors to determine if a decrease in the value of our investment in and advances to unconsolidated joint ventures, net is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three and six months ended June 30, 2016 and 2015.

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

10. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The 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), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2016 and 2015, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2016 and 2015, the Company recorded no ineffectiveness to earnings.

Amounts reported in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets related to derivatives that will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through June 30, 2017, the Company estimates that an additional $3.6 million will be reclassified as an increase to interest expense.

As of June 30, 2016, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps (a)	3	$315,000
Interest rate caps	2	$203,166

(a) The three interest rate swaps noted in the table above mature in January and April 2017. During the second quarter of 2016, the Company entered into four forward starting interest rate swaps, with an aggregate notional amount of $315.0 million, which are effective in January and April 2017 and mature in January 2020.

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in an adjustment to earnings of less than $0.1 million for the three and six months ended June 30, 2016 and

2015.

As of June 30, 2016, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	3	$133,107

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

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Asset Derivatives (included in Other assets)		Liability Derivatives (included in Other liabilities)	
	Fair Value at:		Fair Value at:	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:				
Interest rate products	$ 2	$ 9	$3,554	$ 2,112
Derivatives not designated as hedging instruments:				
Interest rate products	$ 1	$ 4	$—	$ —

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 six months ended June 30, 2016 and 2015 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)		Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2016	2015	2016	2015	2016	2015
Three Months Ended June 30,						
Interest rate products	$(1,963)	$6,186	$(943)	$(292)	$ —	$ —
Six Months Ended June 30,						
Interest rate products	$(2,774)	$(1,366)	$(1,878)	$(1,029)	$ —	$ —

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
	2016	2015

Three Months Ended June 30,		
Interest rate products	$ (3)	$ (22)
Six Months Ended June 30,		
Interest rate products	$ (3)	$ (24)

Credit-risk-related Contingent Features

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

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

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

The Company has certain agreements with some of its derivative counterparties that contain a provision where, in the event of default by the Company or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative agreement, the failure to comply with or perform under the derivative agreement, bankruptcy, a merger without assumption of the derivative agreement, or in a merger, a surviving entity's creditworthiness is materially weaker than the original party to the derivative agreement.

As of June 30, 2016, 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 $3.8 million. As of June 30, 2016, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at June 30, 2016, it may have been required to settle its obligations under the agreements at their termination value of $3.8 million.

Tabular Disclosure of Offsetting Derivatives

Company has elected not to offset derivative positions in the consolidated financial statements. The tables below present the effect on its financial position had the Company made the election to offset its derivative positions as of June 30, 2016 and December 31, 2015 (dollars in thousands):

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2016	$ 3	$ —	$ 3	$ —	$ —	$ 3
December 31, 2015	$ 13	$ —	$ 13	$ —	$ —	$ 13

(a) Amounts reconcile to the aggregate fair value of derivative assets in the "Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet" located in this footnote.

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Posted	Net Amount

June 30, 2016	$ 3,554	$ —	$ 3,554	$ —	$ —	$ 3,554
December 31, 2015	$ 2,112	$ —	$ 2,112	$ —	$ —	$ 2,112

(a) Amounts reconcile to the aggregate fair value of derivative liabilities in the "Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet" located in this footnote.

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11. STOCK BASED COMPENSATION

The Company recognized stock based compensation expense, inclusive of awards granted to our independent directors, net of capitalization, of $3.2 million and $4.8 million for the three months ended June 30, 2016 and 2015, respectively, and $7.1 million and $9.1 million during the six months ended June 30, 2016 and 2015, respectively.

12. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Company's real estate commitments at June 30, 2016 (dollars in thousands):

	Number of Properties	Costs Incurred to Date (a)		Expected Costs to Complete		Average Ownership Stake	
Wholly-owned — under development	2	$238,938	(b)	$469,562		100	%
Wholly-owned — redevelopment	4	20,752	(b)	24,648		100	%
Joint ventures:							
Unconsolidated joint ventures	5	614,300		88,086	(c)	50	%
Participating loan investments	1	93,902	(d)	—		0	%
Preferred equity investments	2	57,874	(e)	—		48	%
		$1,025,766		$582,296			

(a) Represents 100% of project costs incurred as of June 30, 2016.

(b) Costs incurred to date include $28.4 million and $5.1 million of accrued fixed assets for development and redevelopment, respectively.

(c) Represents UDR's proportionate share of expected remaining costs to complete.

(d) Represents the participating loan balance funded as of June 30, 2016.

(e) Represents UDR's upfront investment contributed to the West Coast Development Joint Venture for the properties under development as of June 30, 2016.

Contingencies

Litigation and Legal Matters

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

13. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments. UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing.

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Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. UDR's chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

UDR's two reportable segments are Same-Store Communities and Non-Mature Communities/Other:

- Same-Store Communities represent those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for year-to-date comparison and held as of June 30, 2016. 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 period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

Management evaluates the performance of each of our apartment communities on a Same-Store Community and Non-Mature Community/Other basis, as well as individually and geographically. This is consistent with the aggregation criteria under GAAP as each of our apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Company's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the three and six months ended June 30, 2016 and 2015.

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The following table details rental income and NOI for UDR’s reportable segments for the three and six months ended June 30, 2016 and 2015, and reconciles NOI to Net Income/(Loss) Attributable to UDR, Inc. in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended June 30, (a)		Six Months Ended June 30, (b)	
	2016	2015	2016	2015
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$75,060	$69,510	$147,423	$135,777
Mid-Atlantic Region	41,706	41,041	82,910	81,418
Northeast Region	32,490	30,935	64,560	61,230
Southeast Region	27,702	25,844	54,839	51,126
Southwest Region	13,285	12,697	26,428	25,171
Non-Mature Communities/Other	45,925	32,737	91,965	65,089
Total consolidated rental income	$236,168	$212,764	$468,125	$419,811
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$55,265	$51,781	$109,541	$100,718
Mid-Atlantic Region	29,301	28,456	57,357	55,989
Northeast Region	23,677	22,408	46,609	43,941
Southeast Region	19,081	17,426	37,877	34,312
Southwest Region	8,187	8,078	16,415	15,702
Non-Mature Communities/Other	31,804	22,283	63,650	43,345
Total consolidated NOI	167,315	150,432	331,449	294,007
Reconciling items:				
Joint venture management and other fees	2,618	3,098	5,476	15,804
Property management	(6,494)	(5,851)	(12,873)	(11,545)
Other operating expenses	(1,892)	(1,769)	(3,644)	(3,535)
Real estate depreciation and amortization	(105,937)	(90,344)	(211,276)	(179,121)
General and administrative	(10,835)	(13,721)	(24,679)	(25,873)
Casualty-related recoveries/(charges), net	(1,629)	(843)	(1,629)	(1,839)
Other depreciation and amortization	(1,486)	(1,700)	(3,039)	(3,323)
Income/(loss) from unconsolidated entities	325	(573)	1,004	58,586
Interest expense	(30,678)	(29,673)	(61,782)	(58,473)
Interest income and other income/(expense), net	540	382	971	742
Tax benefit/(provision), net	402	1,404	805	1,829
Gain/(loss) on sale of real estate owned, net of tax	7,315	79,042	10,385	79,042
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,610)	(3,029)	(2,515)	(5,617)
Net (income)/loss attributable to noncontrolling interests	(8)	—	(314)	(7)
Net income/(loss) attributable to UDR, Inc.	$17,946	$86,855	$28,339	$160,677

(a) Same-Store Community population consisted of 34,179 apartment homes.

(b) Same-Store Community population consisted of 34,017 apartment homes.

The following table details the assets of UDR's reportable segments as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	$2,778,642	$2,766,939
Mid-Atlantic Region	1,532,799	1,522,868
Northeast Region	1,629,365	1,621,555
Southeast Region	737,292	730,060
Southwest Region	387,874	384,487
Non-Mature Communities/Other	2,246,440	2,164,367
Total segment assets	9,312,412	9,190,276
Accumulated depreciation	(2,842,273)	(2,646,874)
Total segment assets — net book value	6,470,139	6,543,402
Reconciling items:		
Cash and cash equivalents	5,167	6,742
Restricted cash	20,524	20,798
Funds held in escrow from Internal Revenue Code Section 1031 exchanges	34,732	—
Notes receivable, net	19,694	16,694
Investment in and advances to unconsolidated joint ventures, net	933,403	938,906
Other assets	126,423	137,302
Total consolidated assets	$7,610,082	$7,663,844

Capital expenditures related to our Same-Store Communities totaled $24.3 million and $18.7 million for the three months ended June 30, 2016 and 2015, respectively, and $37.5 million and $30.6 million for the six months ended June 30, 2016 and 2015, respectively. Capital expenditures related to our Non-Mature Communities/Other totaled $1.7 million and $3.2 million for the three months ended June 30, 2016 and 2015, respectively, and $4.1 million and $7.1 million for the six months ended June 30, 2016 and 2015, respectively.

Markets included in the above geographic segments are as follows:

i. West Region — Orange County, San Francisco, Seattle, Los Angeles, Monterey Peninsula, Other Southern California, and Portland
ii. Mid-Atlantic Region — Metropolitan D.C., Baltimore, and Richmond
iii. Northeast Region — New York and Boston
iv. Southeast Region — Orlando, Tampa, Nashville, and Other Florida
v. Southwest Region — Dallas and Austin

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

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$3,664,728	$3,630,905
Less: accumulated depreciation	(1,353,616)	(1,281,258)
Total real estate owned, net of accumulated depreciation	2,311,112	2,349,647
Cash and cash equivalents	1,535	3,103
Restricted cash	11,659	11,344
Investment in unconsolidated entities	134,823	166,186
Other assets	23,864	24,528
Total assets	$2,482,993	$2,554,808
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt, net	$446,009	$475,964
Notes payable due to General Partner	273,334	273,334
Real estate taxes payable	5,232	2,775
Accrued interest payable	1,371	1,550
Security deposits and prepaid rent	16,616	15,929
Distributions payable	54,196	50,962
Accounts payable, accrued expenses, and other liabilities	16,639	12,964
Total liabilities	813,397	833,478
Commitments and contingencies (Note 10)		
Capital:		
Partners' capital:		
General partner:		
110,883 OP Units outstanding at June 30, 2016 and December 31, 2015	1,054	1,110
Limited partners:		
183,167,815 OP Units outstanding at June 30, 2016 and December 31, 2015	1,619,927	1,712,415
Accumulated other comprehensive income/(loss), net	(113)	(113)
Total partners' capital	1,620,868	1,713,412
Advances (to)/from General Partner	26,875	(11,270)
Noncontrolling interests	21,853	19,188
Total capital	1,669,596	1,721,330
Total liabilities and capital	$2,482,993	$2,554,808

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Rental income	$100,892	$113,158	$199,678	$223,253
OPERATING EXPENSES:				
Property operating and maintenance	15,838	19,065	31,898	38,179
Real estate taxes and insurance	10,396	11,810	20,570	24,676
Property management	2,775	3,112	5,492	6,139
Other operating expenses	1,519	1,496	3,019	2,986
Real estate depreciation and amortization	37,053	44,100	73,844	88,578
General and administrative	3,844	7,032	9,265	12,671
Casualty-related (recoveries)/charges, net	465	280	465	873
Total operating expenses	71,890	86,895	144,553	174,102
Operating income	29,002	26,263	55,125	49,151
Income/(loss) from unconsolidated entities	(10,030)	—	(23,417)	—
Interest expense	(4,525)	(9,757)	(9,077)	(19,377)
Interest expense on note payable due to General Partner	(3,053)	(1,151)	(6,106)	(2,302)
Income/(loss) from continuing operations	11,394	15,355	16,525	27,472
Gain/(loss) on sale of real estate owned	—	32,375	—	56,998
Net income/(loss)	11,394	47,730	16,525	84,470
Net (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Net income/(loss) attributable to OP unitholders	$11,044	$47,383	$15,831	$83,729
Income/(loss) per weighted average OP Unit - basic and diluted	$0.06	$0.26	$0.09	$0.46
Weighted average OP Units outstanding - basic and diluted	183,279	183,279	183,279	183,279

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income/(loss)	$11,394	$47,730	$16,525	$84,470
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(1)	(26)	(3)	(77)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	2	267	3	553
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	1	241	—	476
Comprehensive income/(loss)	11,395	47,971	16,525	84,946
Comprehensive (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Comprehensive income/(loss) attributable to OP unitholders	$11,045	$47,624	$15,831	$84,205

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partners	Limited Partners	UDR, Inc. Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss), net	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
Balance at December 31, 2015	$64,409	$268,481	$1,379,525	$1,110	$(113)	$1,713,412	$(11,270)	$19,188	$1,721,330
Net income/(loss)	151	631	15,039	10	—	15,831	—	694	16,525
Distributions	(1,164)	(4,408)	(102,737)	(66)	—	(108,375)	—	—	(108,375)
OP Unit Redemptions for common shares of UDR	—	(81)	81	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	1,276	4,875	(6,151)	—	—	—	—	—	—
Long-Term Incentive Plan Unit grants	—	—	—	—	—	—	—	1,971	1,971
Net change in advances (to)/from General Partner	—	—	—	—	—	—	38,145	—	38,145
Balance at June 30, 2016	$64,672	$269,498	$1,285,757	$1,054	$(113)	$1,620,868	$26,875	$21,853	$1,669,596

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
Operating Activities		
Net income/(loss)	$16,525	$84,470
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	73,844	88,578
(Gain)/loss on sale of real estate owned	—	(56,998)
(Income)/loss from unconsolidated entities	23,417	—
Other	1,176	524
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(1,521)	(341)
Increase/(decrease) in operating liabilities	2,509	(976)
Net cash provided by/(used in) operating activities	115,950	115,257
Investing Activities		
Proceeds from sale of real estate investments, net	—	27,718
Development of real estate assets	—	(7,740)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(30,117)	(25,487)
Distributions received from unconsolidated entities	7,946	—
Net cash provided by/(used in) investing activities	(22,171)	(5,509)
Financing Activities		
Advances from/(to) General Partner, net	(59,922)	(102,378)
Payments on secured debt	(30,322)	(2,588)
Distributions paid to partnership unitholders	(5,103)	(5,120)
Net cash provided by/(used in) financing activities	(95,347)	(110,086)
Net increase/(decrease) in cash and cash equivalents	(1,568)	(338)
Cash and cash equivalents, beginning of period	3,103	502
Cash and cash equivalents, end of period	$1,535	$164
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$11,296	$23,296
Non-cash transactions:		
Development costs and capital expenditures incurred but not yet paid	$7,020	$5,200
LTIP Unit grants	$1,971	$—

See accompanying notes to the consolidated financial statements.

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1. CONSOLIDATION AND BASIS OF PRESENTATION

Basis of Presentation

United Dominion Realty, L.P. (“UDR, L.P.,” the “Operating Partnership,” “we” or “our”) is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. (“UDR” or the “General Partner”), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three months ended June 30, 2016 and 2015, rental revenues of the Operating Partnership represented 43% and 53%, respectively, and for the six months ended June 30, 2016 and 2015, 43% and 53%, respectively, of the General Partner’s consolidated rental revenues. As of June 30, 2016, the Operating Partnership’s apartment portfolio consisted of 56 communities located in 14 markets consisting of 16,974 apartment homes.

Interests in UDR, L.P. are represented by operating partnership units (“OP Units”). The Operating Partnership’s net income is allocated to the partners, which is initially based on their respective distributions made during the year and secondly, their percentage interests. Distributions are made in accordance with the terms of the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. (the “Operating Partnership Agreement”), on a per unit basis that is generally equal to the dividend per share on UDR’s common stock, which is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “UDR.”

As of June 30, 2016, there were 183,278,698 OP Units outstanding, of which 174,227,479 or 95.1% were owned by UDR and affiliated entities and 9,051,219 or 4.9% were owned by non-affiliated limited partners. See Note 9, Capital Structure.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2016, and results of operations for the three and six months ended June 30, 2016 and 2015 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2015 included in the Annual Report on Form 10-K filed by UDR and the Operating Partnership with the SEC on February 23, 2016.

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables, held-to-maturity debt securities, loans and other financial instruments, and to present the net amount of the financial instrument expected to be collected. The updated standard will be effective for the Operating Partnership on January 1, 2020; early adoption is permitted on January 1, 2019. The Operating Partnership is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU aims to simplify the accounting for share-based payments by amending the accounting for forfeitures, statutory tax withholding requirements, classification in the statements of cash flow and income taxes. The updated standard will be effective for the Operating Partnership on January 1, 2017, with early adoption permitted. The update requires a prospective, retrospective or modified retrospective approach, depending on the type of amendment. The Operating Partnership is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods, but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard will be effective for the Operating Partnership on January 1, 2019, with early adoption permitted. The Operating Partnership is currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model of consolidation. Under ASU 2015-02, companies will need to re-evaluate whether an entity meets the criteria to be considered a variable interest entity (“VIE”) or whether the consolidation of an entity should be assessed under the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard was effective for the Operating Partnership beginning on January 1, 2016. The adoption of the new standard did not result in the consolidation of entities not previously consolidated or the deconsolidation of any entities previously consolidated. Upon adopting the new standard, UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”) became a VIE as the limited partners lack substantive kick-out rights and substantive participating rights. The Operating Partnership is not the primary beneficiary of the DownREIT Partnership and will continue to account for its interest as an equity method investment.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Operating Partnership on January 1, 2018; early adoption is permitted on January 1, 2017. The Operating Partnership has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)
JUNE 30, 2016

Principles of Consolidation

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

Discontinued Operations

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

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

Income/(Loss) Per Operating Partnership Unit

Basic income/(loss) per OP Unit is computed by dividing net income/(loss) attributable to the general and limited partner unitholders by the weighted average number of general and limited partner units outstanding during the year. Diluted income/(loss) per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units or resulted in the issuance of OP Units and then shared in the income/(loss) of the Operating Partnership.

Revenue and Real Estate Sales Gain Recognition

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

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

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

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)
JUNE 30, 2016

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to unitholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2016 and 2015, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 8, Derivatives and Hedging Activity, for further discussion.

Income Taxes

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

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

Management of the Operating Partnership has reviewed all open tax years (2011 through 2014) of tax jurisdictions and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2016, the Operating Partnership owned and consolidated 56 communities in eight states plus the District of Columbia totaling 16,974 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Land	$835,686	$833,300
Depreciable property — held and used:		
Buildings, improvements, and furniture, fixture and equipment	2,829,042	2,797,605
Real estate owned	3,664,728	3,630,905
Accumulated depreciation	(1,353,616)	(1,281,258)
Real estate owned, net	$2,311,112	$2,349,647

The Operating Partnership did not have any acquisitions or sales of real estate during the six months ended June 30, 2016.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Operating Partnership capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $0.3 million and $0.2 million for the three months ended June 30, 2016 and 2015, respectively, and $0.6 million and $0.3 million for the six months ended June 30, 2016 and 2015, respectively. Total interest capitalized was less than $0.1 million for the three months ended June 30, 2016 and 2015, and $0.2 million and less than $0.1 million for the six months ended June 30, 2016 and 2015, respectively. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. UNCONSOLIDATED ENTITIES

The Operating Partnership's investment in the DownREIT Partnership is accounted for under the equity method of accounting and is included in Investment in unconsolidated entities on the Consolidated Balance Sheets. The Operating Partnership recognizes earnings or losses from its investments in unconsolidated entities consisting of our share of the net earnings or losses of the partnership in accordance with the partnership agreement.

Upon adopting ASU 2015-02, the DownREIT Partnership became a VIE as the limited partners lack substantive kick-out rights and substantive participating rights. The Operating Partnership is not the primary beneficiary of the DownREIT Partnership as it lacks the power to direct the activities that most significantly impact its economic performance and will continue to account for its interest as an equity method investment. See Note 2, Significant Accounting Policies.

As of June 30, 2016, the DownREIT Partnership operated 13 communities with 6,261 apartment homes. The Operating Partnership’s investment in the DownREIT Partnership was $134.8 million and $166.2 million as of June 30, 2016 and December 31, 2015, respectively.

Combined summary balance sheets relating to all of the DownREIT Partnership (not just our proportionate share) are presented below as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Total real estate, net	$ 1,432,291	$ 1,457,244
Cash and cash equivalents	—	89
Other assets	15,334	37,228
Note receivable from affiliate	126,500	126,500
Amount due from UDR	—	35,293
Total assets	$ 1,574,125	$ 1,656,354
Secured debt, net	443,639	524,052
Amount due to UDR	45,348	—
Accounts payable and accrued liabilities	26,315	25,487
Total liabilities	515,302	549,539
Total equity	1,058,823	1,106,815

Total liabilities and equity	$1,574,125	$ 1,656,354
OP’s investment in the DownREIT Partnership	$134,823	$ 166,186

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)
JUNE 30, 2016

Combined summary financial information relating to all of the DownREIT Partnership (not just our proportionate share) is presented below for the three and six months ended June 30, 2016 (dollars in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Rental income	$32,646	$64,263
Property operating and maintenance	(11,084)	(22,441)
Real estate depreciation and amortization	(30,308)	(60,361)
Operating income/(loss)	(8,746)	(18,539)
Interest expense	(3,524)	(7,265)
Other income/(expense)	(1,358)	(3,090)
Net income/(loss)	$(13,628)	$(28,894)
OP's income/(loss) from unconsolidated entities	$(10,030)	$(23,417)

There is no financial information presented for the three and six months ended June 30, 2015 as the DownREIT Partnership was formed in the fourth quarter of 2015.

5. DEBT, NET

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2016		
	June 30, 2016	December 31, 2015	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	$—	$ 30,132	N/A	—	—
Fannie Mae credit facilities	250,638	250,828	5.08%	3.2	8
Deferred financing costs	(1,296)	(1,627)			
Total fixed rate secured debt, net	249,342	279,333	5.08%	3.2	8
Variable Rate Debt					
Tax-exempt secured note payable	27,000	27,000	1.18%	15.7	1
Fannie Mae credit facilities	170,203	170,203	2.12%	4.2	6
Deferred financing costs	(536)	(572)			
Total variable rate secured debt, net	196,667	196,631	1.99%	5.8	7
Total Secured Debt, net	$446,009	$ 475,964	3.86%	4.3	15

As of June 30, 2016, an aggregate commitment of $420.8 million of the General Partner's secured credit facilities with Fannie Mae was allocated to the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at June 30, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2016, $250.6 million of the outstanding balance was fixed

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and had a weighted average interest rate of 5.08% and the remaining balance of $170.2 million on these facilities had a weighted average variable interest rate of 2.12%.

The following information relates to the credit facilities allocated to the Operating Partnership (dollars in thousands):

	June 30, 2016	December 31, 2015
Borrowings outstanding	$420,841	$ 421,031
Weighted average borrowings during the period ended	421,251	425,522
Maximum daily borrowings during the period	421,661	431,462
Weighted average interest rate during the period ended	3.8 %	3.8 %
Interest rate at the end of the period	3.9 %	3.8 %

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Operating Partnership did not have any unamortized fair value adjustments associated with the fixed rate debt instruments on the Operating Partnership's properties.

Fixed Rate Debt

Secured credit facilities. At June 30, 2016, the General Partner had borrowings against its fixed rate facilities of $512.6 million, of which $250.6 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2016, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 5.08%.

Variable Rate Debt

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures March 2032. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 1.18% as of June 30, 2016.

Secured credit facilities. At June 30, 2016, the General Partner had borrowings against its variable rate facilities of $299.4 million, of which $170.2 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2016, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 2.12%.

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The aggregate maturities of the Operating Partnership’s secured debt due during each of the next ten calendar years subsequent to June 30, 2016 are as follows (dollars in thousands):

	Fixed	Variable		
Year	Secured Credit Facilities	Tax-Exempt Secured Notes Payable	Secured Credit Facilities	Total
2016	$195	$—	$—	$195
2017	15,640	—	6,566	22,206
2018	48,872	—	96,327	145,199
2019	123,095	—	—	123,095
2020	62,836	—	—	62,836
2021	—	—	—	—
2022	—	—	—	—
2023	—	—	67,310	67,310
2024	—	—	—	—
2025	—	—	—	—
Thereafter	—	27,000	—	27,000
Subtotal	250,638	27,000	170,203	447,841
Non-cash (a)	(1,296)	(89)	(447)	(1,832)
Total	$249,342	$26,911	$169,756	$446,009

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended June 30, 2016 and 2015, the Operating Partnership amortized $0.1 million and $0.4 million, respectively, and $0.3 million and $0.7 million for the six months ended June 30, 2016 and 2015, respectively, of deferred financing costs into Interest expense.

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner’s unsecured revolving credit facility with an aggregate borrowing capacity of $1.1 billion, $300 million of medium-term notes due June 2018, $300 million of medium-term notes due October 2020, a $350 million term loan facility due January 2021, $400 million of medium-term notes due January 2022, $300 million of medium-term notes due July 2024 and $300 million of medium-term notes due October 2025. As of June 30, 2016 and December 31, 2015, the outstanding balance under the unsecured revolving credit facility was $255.0 million and $150.0 million, respectively.

6. RELATED PARTY TRANSACTIONS

Advances (To)/From the General Partner

The Operating Partnership participates in the General Partner’s central cash management program, wherein all the Operating Partnership’s cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net Advances (to)/from General Partner of $26.9 million and $(11.3) million at June 30, 2016 and December 31, 2015, respectively, which are reflected as decreases of capital on the Consolidated Balance Sheets.

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Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR's total apartment homes. The general and administrative expenses allocated to the Operating Partnership by UDR were $2.9 million and $5.7 million during the three months ended June 30, 2016 and 2015, respectively, and $7.5 million and $9.9 million during the six months ended June 30, 2016 and 2015, respectively, and are included in General and administrative on the Consolidated Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the three months ended June 30, 2016 and 2015, the Operating Partnership incurred $3.7 million and $4.3 million, respectively, and during the six months ended June 30, 2016 and 2015, the Operating Partnership incurred $7.3 million and $8.6 million, respectively, of related party management fees related to a management agreement entered into in 2011 with wholly-owned subsidiaries of UDR's taxable REIT subsidiaries ("TRS") (See further discussion in paragraph below). These related party management fees are initially recorded in General and administrative on the Consolidated Statements of Operations, and a portion related to management fees charged by UDR's TRS is reclassified to Property management on the Consolidated Statements of Operations. (See further discussion below.)

Management Fee

In 2011, the Operating Partnership entered into a management agreement with wholly owned subsidiaries of UDR's TRSs. Under the management agreement, the Operating Partnership is charged a management fee equal to 2.75% of gross rental revenues, which is classified in Property management on the Consolidated Statements of Operations.

Notes Payable to General Partner

As of June 30, 2016 and December 31, 2015, the Operating Partnership had $273.3 million of unsecured notes payable to the General Partner at annual interest rates between 4.12% and 5.34%. Certain limited partners of the Operating Partnership have provided guarantees related to these notes payable. The guarantees were provided by the limited partners in conjunction with their contribution of properties to the Operating Partnership. The notes mature on August 31, 2021, December 31, 2023 and April 1, 2026, and interest payments are made monthly. The Operating Partnership recognized interest expense on the notes payable of $3.1 million and $1.2 million during the three months ended June 30, 2016 and 2015, respectively, and $6.1 million and $2.3 million during the six months ended June 30, 2016 and 2015, respectively.

7. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

Fair value is based on the price that would be received to sell an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level valuation hierarchy prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

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

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The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of June 30, 2016 and December 31, 2015 are summarized as follows (dollars in thousands):

			Fair Value at June 30, 2016, Using		
	Total Carrying Amount in Statement of Financial Position at June 30, 2016	Fair Value Estimate at June 30, 2016	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives - Interest rate contracts (a)	$ 2	$ 2	$ —	$ 2	$ —
Total assets	$ 2	$ 2	$ —	$ 2	$ —
Secured debt instruments - fixed rate: (b)					
Fannie Mae credit facilities	$ 250,638	$ 267,526	$ —	$ —	$ 267,526
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	170,203	170,203	—	—	170,203
Total liabilities	$ 447,841	$ 464,729	$ —	$ —	$ 464,729

			Fair Value at December 31, 2015, Using		
	Total Carrying Amount in Statement of Financial Position at December 31, 2015	Fair Value Estimate at December 31, 2015	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives - Interest rate contracts (a)	$ 8	$ 8	$ —	$ 8	$ —
Total assets	$ 8	$ 8	$ —	$ 8	$ —

Secured debt instruments - fixed rate: (b)					
Mortgage notes payable	$ 30,132	$ 30,308	$—$	—	$ 30,308
Fannie Mae credit facilities	250,828	263,070	——		263,070
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	——		27,000
Fannie Mae credit facilities	170,203	170,203	——		170,203
Total liabilities	$ 478,163	$ 490,581	$—$	—	$ 490,581

(a)See Note 8, Derivatives and Hedging Activity.
(b)See Note 5, Debt, Net.

Financial Instruments Carried at Fair Value

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

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

Although the General Partner, on behalf of the Operating Partnership, has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2016 and December 31, 2015, the Operating Partnership has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Operating Partnership has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Operating Partnership made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Financial Instruments Not Carried at Fair Value

As of June 30, 2016, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Operating Partnership using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Operating Partnership would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

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8. DERIVATIVES AND HEDGING ACTIVITY
Risk Management Objective of Using Derivatives
The Operating Partnership is exposed to certain risks arising from both its business operations and economic conditions. The General Partner principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The General Partner manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the General Partner enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The General Partner’s and the Operating Partnership’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the General Partner’s known or expected cash payments principally related to the General Partner’s borrowings.
Cash Flow Hedges of Interest Rate Risk
The General Partner’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the General Partner primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the General Partner making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.
A portion of the General Partner’s interest rate derivatives have been allocated to the Operating Partnership based on the General Partner’s underlying debt instruments allocated to the Operating Partnership. (See Note 5, Debt, Net.)
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), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2016 and 2015, 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. The Operating Partnership recorded no gain or loss from ineffectiveness during the three and six months ended June 30, 2016 and 2015.
Amounts reported in Accumulated other comprehensive income/(loss), net related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner’s variable-rate debt that is allocated to the Operating Partnership. Through June 30, 2017, we estimate that less than $0.1 million will be reclassified as an increase to interest expense.
As of June 30, 2016, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate caps	1	$96,327

Derivatives not designated as hedges are not speculative and are used to manage the Operating Partnership’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in an adjustment to earnings of less than $0.1 million for the three and six months ended June 30, 2016 and 2015.

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As of June 30, 2016, we had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	3	$98,932

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

The table below presents the fair value of the Operating Partnership's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	Asset Derivatives (included in Other assets) Fair Value at:		Liability Derivatives (included in Other liabilities) Fair Value at:	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:				
Interest rate products	$ 1	$ 4	$ —	$ —
Derivatives not designated as hedging instruments:				
Interest rate products	$ 1	$ 4	$ —	$ —

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

The tables below present the effect of the derivative financial instruments on the Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)		Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2016	2015	2016	2015	2016	2015
Three Months Ended June 30,						
Interest rate products	$(1)	$(26)	$(2)	$(267)	$ —	$ —
Six Months Ended June 30,						
Interest rate products	$(3)	$(77)	$(3)	$(553)	$ —	$ —

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
	2016	2015

Three Months Ended June 30,		
Interest rate products	$ (3)	$ (22)
Six Months Ended June 30,		
Interest rate products	$ (3)	$ (23)

Credit-risk-related Contingent Features

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

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General Partner could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the General Partner’s default on the indebtedness.

Certain of the General Partner’s agreements with its derivative counterparties contain provisions where if there is a change in the General Partner’s financial condition that materially changes the General Partner’s creditworthiness in an adverse manner, the General Partner may be required to fully collateralize its obligations under the derivative instrument. At June 30, 2016 and December 31, 2015, no cash collateral was posted or required to be posted by the General Partner or by a counterparty.

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

The General Partner has certain agreements with some of its derivative counterparties that contain a provision where in the event of default by the General Partner or the counterparty, the right of setoff may be exercised. Any amount payable to one party by the other party may be reduced by its setoff against any amounts payable by the other party. Events that give rise to default by either party may include, but are not limited to, the failure to pay or deliver payment under the derivative agreement, the failure to comply with or perform under the derivative agreement, bankruptcy, a merger without assumption of the derivative agreement, or in a merger, a surviving entity’s creditworthiness is materially weaker than the original party to the derivative agreement.

As of June 30, 2016, the fair value of derivatives in a net liability position that were allocated to the Operating Partnership, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was zero.

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The General Partner has elected not to offset derivative positions in the consolidated financial statements. The table below presents the effect on the Operating Partnership's financial position had the General Partner made the election to offset its derivative positions as of June 30, 2016 and December 31, 2015:

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2016	$ 2	$ —	$ 2	$ —	$ —	$ 2
December 31, 2015	$ 8	$ —	$ 8	$ —	$ —	$ 8

(a) Amounts reconcile to the aggregate fair value of derivative assets in the "Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet" located in this footnote.

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (b)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Posted	Net Amount
June 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2015	$ —	$ —	$ —	$ —	$ —	$ —

(b) Amounts reconcile to the aggregate fair value of derivative liabilities in the "Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet" located in this footnote.

9. CAPITAL STRUCTURE

General Partnership Units

The General Partner has complete discretion to manage and control the operations and business of the Operating Partnership, which includes but is not limited to the acquisition and disposition of real property, construction of buildings and making capital improvements, and the borrowing of funds from outside lenders or UDR and its subsidiaries to finance such activities. The General Partner can generally authorize, issue, sell, redeem or purchase any OP Unit or securities of the Operating Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of OP Units, the class or one or more series of classes, with designations, preferences, participating, optional or other special rights, powers and duties including rights, powers and duties senior to limited partnership interests without approval of any limited partners except holders of Class A Limited Partnership Units. There were 110,883 General Partnership units outstanding at June 30, 2016 and December 31, 2015, all of which were held by UDR.

Limited Partnership Units

As of June 30, 2016 and December 31, 2015, there were 183,167,815 limited partnership units outstanding, of which 1,873,332 were Class A Limited Partnership Units. UDR owned 174,116,596, or 95.1%, of OP Units outstanding at June 30, 2016 and December 31, 2015, of which 121,661 were Class A Limited Partnership Units. The remaining 9,051,219, or 4.9%, of OP Units outstanding were held by non-affiliated partners at June 30, 2016 and December 31, 2015, of which 1,751,671 were Class A Limited Partnership Units.

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

The non-affiliated limited partners' capital is adjusted to redemption value at the end of each reporting period with the corresponding offset against UDR's limited partner capital account based on the redemption rights noted above. The aggregate value upon redemption of the then-outstanding OP Units held by limited partners was $334.2 million and $340.1 million as of June 30, 2016 and December 31, 2015, respectively, based on the value of UDR's common stock at each period end. A limited partner has no right to receive any distributions from the Operating Partnership on or after the date of redemption of its OP Units.

Class A Limited Partnership Units

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

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

LTIP Units

UDR grants long-term incentive plan units ("LTIP Units") to certain employees and non-employee directors. The LTIP Units represent an ownership interest in the Operating Partnership and have voting and distribution rights consistent with OP Units. The LTIP Units are subject to the terms of UDR's long-term incentive plan.

Two classes of LTIP Units are granted, Class 1 LTIP Units and Class 2 LTIP Units. Class 1 LTIP Units are granted to non-employee directors and vest after one year. Class 2 LTIP Units are granted to certain employees and vest over a period from one to three years subject to certain performance and market conditions being achieved. Vested LTIP Units may be converted into OP Units provided that such LTIP Units have been outstanding for at least two years from the date of grant.

Allocation of Profits and Losses

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

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10. COMMITMENTS AND CONTINGENCIES
Commitments
Real Estate Under Development
The following summarizes the Operating Partnership's real estate commitments at June 30, 2016 (dollars in thousands):

	Number of Properties	Costs Incurred to Date (a)	Expected Costs to Complete (unaudited)
Real estate communities — redevelopment	2	$ 14,351	$ 18,649

(a)Costs incurred to date include $3.3 million of accrued fixed assets for redevelopment.
Contingencies
Litigation and Legal Matters
The Operating Partnership is subject to various legal proceedings and claims arising in the ordinary course of business. The Operating Partnership cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. The General Partner believes that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on the Operating Partnership's financial condition, results of operations or cash flow.
11. REPORTABLE SEGMENTS
GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.
The Operating Partnership owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures of the Operating Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the chief operating decision maker's assessment of the Operating Partnership's performance on a consolidated basis. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations, and land rent. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.
The Operating Partnership's two reportable segments are Same-Store Communities and Non-Mature Communities/Other:

- Same-Store Communities represent those communities acquired, developed, and stabilized prior to April 1, 2015 for quarter-to-date comparison and January 1, 2015 for the year-to-date comparison and held as of June 30, 2016. 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 period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

Management of the General Partner evaluates the performance of each of the Operating Partnership's apartment communities on a Same-Store Community and Non-Mature Community/Other basis, as well as individually and geographically. This is consistent with the aggregation criteria under GAAP as each of the apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Operating Partnership's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the Operating Partnership's total revenues during the three and six months ended June 30, 2016 and 2015.

The following table details rental income and NOI for the Operating Partnership's reportable segments for the three and six months ended June 30, 2016 and 2015, and reconciles NOI to Net income/(loss) attributable to OP unitholders in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended June 30, (a)		Six Months Ended June 30, (b)	
	2016	2015	2016	2015
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$45,493	$41,715	$90,095	$82,451
Mid-Atlantic Region	10,805	10,554	21,455	20,882
Northeast Region	13,203	12,784	26,209	25,173
Southeast Region	11,918	11,175	23,615	22,172
Non-Mature Communities/Other	19,473	36,930	38,304	72,575
Total consolidated rental income	$100,892	$113,158	$199,678	$223,253
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$34,203	$31,481	$67,830	$61,598
Mid-Atlantic Region	7,479	7,294	14,704	14,310
Northeast Region	10,406	9,972	20,463	19,657
Southeast Region	8,165	7,488	16,208	14,755
Non-Mature Communities/Other	14,405	26,048	28,005	50,078
Total consolidated NOI	74,658	82,283	147,210	160,398
Reconciling items:				
Property management	(2,775)	(3,112)	(5,492)	(6,139)
Other operating expenses	(1,519)	(1,496)	(3,019)	(2,986)
Real estate depreciation and amortization	(37,053)	(44,100)	(73,844)	(88,578)
General and administrative	(3,844)	(7,032)	(9,265)	(12,671)
Casualty-related recoveries/(charges), net	(465)	(280)	(465)	(873)
Income/(loss) from unconsolidated entities	(10,030)	—	(23,417)	—
Interest expense	(7,578)	(10,908)	(15,183)	(21,679)
Gain/(loss) on sale of real estate owned	—	32,375	—	56,998
Net (income)/loss attributable to noncontrolling interests	(350)	(347)	(694)	(741)
Net income/(loss) attributable to OP unitholders	$11,044	$47,383	$15,831	$83,729

(a)Same-Store Community population consisted of 14,277 apartment homes.
(b)Same-Store Community population consisted of 14,277 apartment homes.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)
JUNE 30, 2016

The following table details the assets of the Operating Partnership’s reportable segments as of June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016	December 31, 2015
Reportable apartment home segment assets		
Same-Store Communities		
West Region	$1,506,255	$1,497,867
Mid-Atlantic Region	413,093	410,710
Northeast Region	672,588	669,082
Southeast Region	324,514	321,787
Non-Mature Communities/Other	748,278	731,459
Total assets	3,664,728	3,630,905
Accumulated depreciation	(1,353,616)	(1,281,258)
Total assets - net book value	2,311,112	2,349,647
Reconciling items:		
Cash and cash equivalents	1,535	3,103
Restricted cash	11,659	11,344
Investment in unconsolidated entities	134,823	166,186
Other assets	23,864	24,528
Total consolidated assets	$2,482,993	$2,554,808

Capital expenditures related to the Operating Partnership’s Same-Store Communities totaled $11.6 million and $9.1 million for the three months ended June 30, 2016 and 2015, respectively, and $16.7 million and $14.4 million for the six months ended June 30, 2016 and 2015, respectively. Capital expenditures related to the Operating Partnership’s Non-Mature Communities/Other totaled $0.5 million and $4.1 million for the three months ended June 30, 2016 and 2015, respectively, and $0.9 million and $7.1 million for the six months ended June 30, 2016 and 2015, respectively.

Markets included in the above geographic segments are as follows:

i. West Region — Orange County, San Francisco, Seattle, Los Angeles, Monterey Peninsula, Other Southern California, and Portland
ii. Mid-Atlantic Region — Metropolitan D.C. and Baltimore
iii. Northeast Region — New York and Boston
iv. Southeast Region — Tampa, Nashville, and Other Florida

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

Forward-Looking Statements

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

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

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

- delays in completing developments and lease-ups on schedule;
- our failure to succeed in new markets;
- changing interest rates, which could increase interest costs and affect the market price of our securities;

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

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

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

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

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

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

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

UDR, Inc.:

Business Overview

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

At June 30, 2016, our consolidated real estate portfolio included 132 communities in 10 states plus the District of Columbia totaling 40,728 apartment homes. In addition, we had an ownership interest in 29 communities with 7,143 apartment homes through unconsolidated operating communities. The Same-Store Community apartment home population for the three and six months ended June 30, 2016 was 34,179 and 34,017, respectively.

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The following table summarizes our market information by major geographic markets as of and for the three and six months ended June 30, 2016.

	June 30, 2016				Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
Same-Store Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home (a)	Average Physical Occupancy	Monthly Income per Occupied Home (a)
West Region								
Orange County, CA	10	3,194	8.8 %	$ 818,395	95.8 %	2,227	96.0 %	$ 2,206
San Francisco, CA	9	2,230	6.8 %	631,782	96.1 %	3,318	96.3 %	3,310
Seattle, WA	10	2,014	5.9 %	546,615	96.6 %	1,995	96.7 %	1,983
Los Angeles, CA	4	1,225	4.8 %	444,008	94.4 %	2,614	94.6 %	2,611
Monterey Peninsula, CA	7	1,565	1.8 %	166,579	97.4 %	1,487	96.6 %	1,470
Other Southern California	3	756	1.3 %	124,075	95.4 %	1,723	95.4 %	1,705
Portland, OR	2	476	0.5 %	47,188	97.7 %	1,462	97.4 %	1,445
Mid-Atlantic Region								
Metropolitan D.C.	15	4,824	11.8 %	1,100,945	96.9 %	1,958	96.8 %	1,946
Baltimore, MD	10	2,122	3.1 %	289,745	97.0 %	1,500	96.9 %	1,497
Richmond, VA	4	1,358	1.5 %	142,109	96.8 %	1,265	96.6 %	1,260
Northeast Region								
New York, NY	4	1,945	13.9 %	1,297,216	96.9 %	4,253	97.1 %	4,227
Boston, MA	4	1,179	3.6 %	332,149	96.7 %	2,469	96.3 %	2,446
Southeast Region								
Orlando, FL	9	2,500	2.3 %	213,983	96.5 %	1,182	96.6 %	1,170
Tampa, FL	7	2,287	2.6 %	242,484	96.6 %	1,284	96.7 %	1,274
Nashville, TN	8	2,260	2.1 %	198,071	97.7 %	1,194	97.4 %	1,178
Other Florida	1	636	0.9 %	82,754	96.0 %	1,490	95.9 %	1,485
Southwest Region								
Dallas, TX	8	2,725	3.2 %	299,932	96.4 %	1,248	96.7 %	1,240
Austin, TX	3	883	1.0 %	87,942	96.5 %	1,349	96.6 %	1,335
Total/Average Same-Store Communities	118	34,179	75.9 %	7,065,972	96.6 %	$ 1,921	96.6 %	$ 1,909
Non-Mature, Commercial Properties & Other	14	6,549	21.5 %	2,007,502				