

UDR, Inc.
Form 10-K
February 19, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

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

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

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

Maryland (UDR, Inc.)	54-0857512
Delaware (United Dominion Realty, L.P.)	54-1776887
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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(Address of principal executive offices) (zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value (UDR, Inc.)	New York Stock Exchange

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

(Title of Class)

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

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

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

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

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

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

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

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

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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EXPLANATORY NOTE

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

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

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

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PART I

Forward-Looking Statements

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

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

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

uninsured losses due to insurance deductibles, self-insurance retention, uninsured claims or casualties, or losses in excess of applicable coverage;

delays in completing developments and lease-ups on schedule;

our failure to succeed in new markets;

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risks that third parties who have an interest in or are otherwise involved in projects in which we have an interest, including mezzanine borrowers, joint ventures or other investors, do not perform as expected;

changing interest rates, which could increase interest costs and affect the market price of our securities;

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

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

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

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

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

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

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

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Item 1. BUSINESS

General

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

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

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

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

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

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

Reporting Segments

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

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to January 1, 2017, and held as of December 31, 2018. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

Business Objectives

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

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

2018 Highlights

In July 2018, the Company marked its 46th year as a REIT and, in October 2018, paid its 184th consecutive quarterly dividend. The Company's annualized declared 2018 dividend of \$1.29 represented a 4.0% increase over the previous year.

Total revenues increased 5.1% and net income attributable to common stockholders increased 69.1% over the prior year.

We achieved Same-Store revenue growth of 3.5% and Same-Store net operating income ("NOI") growth of 3.4%.

We completed the development of two wholly-owned communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 apartment homes.

We completed the development of two communities held by unconsolidated joint ventures, located in Los Angeles, California and Addison, Texas, with a total of 533 apartment homes.

We recognized gains on the sale of real estate of \$136.2 million from the sale of two communities in Huntington Beach, California and Fairfax, Virginia with a total of 868 apartment homes.

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

We issued \$300.0 million of 4.40% (4.27% effective rate after the effect of a cash flow hedge) 10-year senior unsecured medium-term notes.

We prepaid \$224.8 million of our secured credit facility and \$50.1 million of fixed rate mortgage debt with proceeds from the refinance of a mortgage note payable and proceeds from the issuance of senior unsecured medium-term

notes.

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We extended the maturity and lowered the rates on our \$1.1 billion Revolving Credit Facility and \$350 million Term Loan Facility.

We repurchased 593,373 shares of common stock at a weighted average price per share of \$33.69, for total consideration of approximately \$20.0 million.

We sold 7,150,000 shares of common stock for aggregate net proceeds of \$299.8 million at a price per share of \$41.98.

Thomas W. Toomey was named Chairman of the Board, in addition to his responsibilities as Chief Executive Officer.

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

Our Strategic Vision

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

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

Maintaining a Diversified Portfolio and Allocating Capital to Accretive Investment Opportunities

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

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

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

Acquisitions and Dispositions

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

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

- potential for capital appreciation of the property;

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

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

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

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

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

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

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

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

Development Activities

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

communities, located in Huntington Beach, California and Boston, Massachusetts, with a total of 1,101 homes.

Redevelopment Activities

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

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Joint Venture and Partnership Activities

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

Maintaining a Strong Balance Sheet

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

Financing Activities

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

Consistently Driving Operational Excellence

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

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

Operating Partnership Strategies and Vision

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

Competitive Conditions

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

and investment funds, public and private real estate companies, investment companies and other public and private apartment REITs, some of which may have greater resources, or lower capital costs, than we do.

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

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

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

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

Communities

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

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

Same-Store Community Comparison

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

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

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

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

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

Tax Matters

UDR has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, UDR must continue to meet certain tests that, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than net capital gains) to our stockholders annually. Provided we maintain our qualification as a REIT, we

generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent such net income is distributed to our stockholders annually. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

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

Inflation

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

Environmental Matters

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

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

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

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may

require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on our results of operations and our financial condition.

Insurance

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

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

Available Information

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

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Item 1A.RISK FACTORS

There are many factors that affect the business and the results of operations of the Company and the Operating Partnership, some of which are beyond the control of the Company and the Operating Partnership. The following is a description of important factors that may cause the actual results of operations of the Company and the Operating Partnership in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this Report relating to our financial results, operations and business prospects. Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

Risks Related to Our Real Estate Investments and Our Operations

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

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

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

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

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

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

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

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

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

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

increase or maintain rents, which could materially adversely affect our results of operations and financial condition.

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

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

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

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

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

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

investment and our overall profitability goals; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Ground leases. We have in the past and may in the future enter into, as either landlord or tenant, a long-term ground lease with respect to a property or a portion thereof. Such ground leases may contain a rent reset provision that requires both parties to agree to a new rent or is based upon factors, for example fair market rent, that

are not objective and are not within our control. We may not be able to agree with the counterparty to a revised rental rate, or the revised rental rate may be set by external factors, which could result in a different rental rate than we forecasted. In addition, the other party may not perform as expected under the ground lease or there may be a dispute with the other party to the ground lease. Any of these circumstances could have an adverse effect on our business, financial condition or operating results.

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

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

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

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

Our Business and Operations Would Suffer in the Event of Information Technology System Failures. Despite system redundancy and the existence of a disaster recovery plan for our information technology systems, our information technology systems and the information technology systems maintained by our third party vendors are vulnerable to damage arising from any number of sources beyond our or our third party vendors' control, including energy

blackouts, natural disasters, terrorism, war, and telecommunication failures. Any failure to maintain proper function and availability of our or third party vendors' information technology systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could adversely affect our business, financial condition and results of operations.

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

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

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

Risks Related to Our Indebtedness and Financings

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

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

- the national and local economies;
- local real estate market conditions, such as an oversupply of apartment homes;
- tenants’ perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;
- our ability to provide adequate management, maintenance and insurance;
- rental expenses, including real estate taxes and utilities;
- competition from other apartment communities;
- changes in interest rates and the availability of financing;
- changes in governmental regulations and the related costs of compliance; and
- changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing.

Expenses associated with our investment in an apartment community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in income from that community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments,

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we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

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

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

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

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

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR’s Stock. Our ability to make scheduled payments on, or to refinance, our debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the global financial crisis and the economic recession that followed it, the United States stock and credit markets experienced significant price volatility, dislocations and liquidity disruptions, which caused market prices of many stocks to fluctuate substantially and the spreads on debt financings to widen considerably. Those circumstances materially impacted liquidity in the financial markets at times, making terms for certain financings less attractive, and in some cases resulted in the unavailability of financing, such as the commercial paper market. Any future disruptions or uncertainty in the stock and credit markets may negatively impact our ability to refinance existing indebtedness and access additional

financing for acquisitions, development of our properties and other purposes at reasonable terms or at all, which may negatively affect our business and the market price of UDR's common stock. If we are not successful in refinancing our existing indebtedness when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of UDR's common or preferred stock.

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

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

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

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

Risks Related to Tax Laws

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

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including, for periods prior to 2018, any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to UDR's stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until

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

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

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

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

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

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

Changes to the U.S. Federal Income Tax Laws, including the Enactment of Certain Tax Reform Measures, Could Have an Adverse Impact on Our Business and Financial Results. The recently passed Tax Cuts and Jobs Act of 2017 significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. The impact of the Act on us and our stockholders is uncertain, and may not become evident for some period of time. For example, the Act contained provisions that may reduce the relative competitive advantage of operating as a REIT, including the lowering of income tax rates on individuals and corporations, which eases the burden of double taxation on corporate dividends and potentially causes the single level of taxation on REIT distributions to become relatively less attractive. The Act also contains provisions allowing the expensing of capital

expenditures, which could result in the bunching of taxable income and required distributions for REITs, and provisions extending the depreciable lives of certain real estate assets and further limiting the deductibility of interest expense, which could negatively impact the real estate market. In addition, although the Tax Cuts and Jobs Act of 2017 was recently passed, there can be no assurance that future changes to the U.S. federal income tax laws or regulatory changes will not be proposed or enacted that could impact our business and financial results. The REIT rules are regularly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, which may result in revisions to regulations and interpretations in addition to statutory changes. If enacted, certain of such changes could have an adverse impact on our business and financial results.

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

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

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

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

cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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

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

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

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

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

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

UDR, INC.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value		Total Carrying Value (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy		Average Home Size (in square feet)
PACIFIC WEST REGION										
Orange County,	11	4,950	14.4	%	\$ 1,475,898	\$ —	\$ 298,161	92.3	%	731
San Francisco,	11	2,751	8.5	%	868,607	27,000	315,742	96.7	%	830
Seattle, WA	15	2,837	9.7	%	993,287	74,910	350,119	96.5	%	900
Los Angeles, CA	4	1,225	4.5	%	454,303	67,700	370,860	96.2	%	967
San Jose, CA	7	1,565	1.7	%	177,687	—	113,538	96.8	%	728
Greater Southern California	2	654	1.1	%	107,159	—	163,852	96.5	%	960
Portland, OR	2	476	0.5	%	49,113	—	103,179	96.6	%	903
SOUTH ATLANTIC REGION										
Metropolitan Atlanta, GA	21	7,798	19.9	%	2,036,504	213,078	261,157	97.4	%	883
Richmond, VA	4	1,358	1.5	%	148,231	—	109,154	97.9	%	1,018
Baltimore, MD	3	720	1.5	%	152,023	—	211,143	96.2	%	993
SOUTHEAST REGION										
New York, NY	4	1,945	12.9	%	1,314,294	—	675,730	97.9	%	742
Boston, MA	6	2,133	9.1	%	924,630	105,000	433,488	81.3	%	957
SOUTHWEST REGION										
Miami, FL	9	2,500	2.2	%	225,722	—	90,289	96.8	%	946
Tampa, FL	7	2,287	2.5	%	256,749	—	112,265	97.2	%	982
Memphis, TN	8	2,260	2.1	%	211,364	—	93,524	96.5	%	933
Greater Florida	1	636	0.8	%	85,475	—	134,395	96.5	%	1,130
SOUTHWEST REGION										
Dallas, TX	7	2,345	2.8	%	283,351	115,000	120,832	96.5	%	862
Fort Worth, TX	4	1,273	1.6	%	164,002	—	128,831	97.1	%	913

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ver, CO	1	218	1.4	%	141,918	—	651,000	91.6	%	948
al Operating										
munities	127	39,931	98.7	%	10,070,317	602,688	\$ 252,193	95.5	%	880
d	—	—	0.7	%	67,734	—				
er	—	—	0.6	%	58,108	(1,461)				
al Real Estate										
ned	127	39,931	100.0	%	\$ 10,196,159	\$ 601,227				

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

UNITED DOMINION REALTY, L.P.

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

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

UDR, Inc.:

Common Stock

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

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

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

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

Series E Preferred Stock

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

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

Series F Preferred Stock

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

As of December 31, 2018, a total of 15,802,393 shares of the Series F were outstanding. Holders of the Series F are entitled to one vote for each share of the Series F they hold, voting together with the holders of our common stock, on

each matter submitted to a vote of security holders at a meeting of our stockholders. The Series F does not entitle its holders to any other rights, privileges or preferences.

Distribution Reinvestment and Stock Purchase Plan

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

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United Dominion Realty, L.P.:

Operating Partnership Units

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

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

Purchases of Equity Securities

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

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

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

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Comparison of Five-year Cumulative Total Returns

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

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

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

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Item 6. SELECTED FINANCIAL DATA

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

	UDR, Inc. Year Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2018	2017	2016	2015	2014
OPERATING DATA:					
Rental income	\$ 1,035,105	\$ 984,309	\$ 948,461	\$ 871,928	\$ 805,002
Income/(loss) from continuing operations (a)	221,542	132,655	320,380	357,159	159,832
Income/(loss) from discontinued operations, net of tax	—	—	—	—	10
Net income/(loss)	221,542	132,655	320,380	357,159	159,842
Distributions to preferred stockholders	3,868	3,708	3,717	3,722	3,724
Net income/(loss) attributable to common stockholders	199,238	117,850	289,001	336,661	150,610
Common stock distributions declared	348,079	331,974	315,102	289,500	263,503
Income/(loss) per weighted average common share — basic	\$ 0.74	\$ 0.44	\$ 1.09	\$ 1.30	\$ 0.60
Income/(loss) per weighted average common share — diluted	\$ 0.74	\$ 0.44	\$ 1.08	\$ 1.29	\$ 0.59
Weighted average number of Common Shares outstanding — basic	268,179	267,024	265,386	258,669	251,528
Weighted average number of Common Shares outstanding — diluted	269,483	268,830	267,311	263,752	253,445
Weighted average number of Common Shares outstanding, OP Units/DownREIT Units and Common Stock equivalents outstanding — diluted	297,042	296,672	295,469	276,699	265,728
Common stock distributions declared - per share	\$ 1.29	\$ 1.24	\$ 1.18	\$ 1.11	\$ 1.04
Balance Sheet Data:					
Real estate owned, at cost (b)	\$ 10,196,159	\$ 10,177,206	\$ 9,615,753	\$ 9,190,276	\$ 8,383,259
Accumulated depreciation (b)	3,654,160	3,330,166	2,923,625	2,646,874	2,434,772
	6,541,999	6,847,040	6,692,128	6,543,402	5,948,487

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Total real estate owned, net of accumulated depreciation (b)					
Total assets	7,711,728	7,733,273	7,679,584	7,663,844	6,828,728
Secured debt, net (b)	601,227	803,269	1,130,858	1,376,945	1,354,321
Unsecured debt, net	2,946,560	2,868,394	2,270,620	2,193,850	2,210,978
Total liabilities	3,816,211	3,949,771	3,673,132	3,816,797	3,810,298
Total stockholders' equity	2,905,625	2,825,800	3,093,110	2,899,755	2,735,097
Number of Common Shares outstanding	275,546	267,822	267,259	261,845	255,115
Other Data (b)					
Total consolidated apartment homes owned (at end of year)	39,931	39,998	39,454	40,728	39,851
Weighted average number of consolidated apartment homes owned during the year	39,406	39,692	40,543	39,501	40,644
Cash Flow Data:					
Cash provided by/(used in) operating activities (c)	\$ 560,676	\$ 518,915	\$ 536,568	\$ 457,162	\$ 397,582
Cash provided by/(used in) investing activities (c)	(113,548)	(407,406)	(112,720)	(265,538)	(299,338)
Cash provided by/(used in) financing activities	(260,067)	(111,785)	(429,282)	(201,648)	(113,725)
Funds from Operations (d):					
Funds from operations attributable to common stockholders and unitholders — basic	\$ 570,254	\$ 538,916	\$ 527,096	\$ 455,565	\$ 411,702
Funds from operations attributable to common stockholders and unitholders — diluted	574,122	542,624	530,813	459,287	415,426

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

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

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

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

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

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

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

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

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United Dominion Realty, L.P.

Year Ended December 31,

(In thousands, except per OP unit data

and apartment homes owned)

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

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

Realty, L.P. Consolidated Financial Statements included in this Report.

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

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

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

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

Forward-Looking Statements

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

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

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

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

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

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

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

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

UDR, Inc.:

Business Overview

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

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

Critical Accounting Policies and Estimates

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

operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, Significant Accounting Policies, to the Notes to the UDR, Inc. Consolidated Financial Statements included in this Report.

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Cost Capitalization

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

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

Investment in Unconsolidated Entities

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

We continually evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Impairment of Long-Lived Assets

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

reference to market rates and transactions.

Real Estate Investment Properties

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

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

REIT Status

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

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Summary of Real Estate Portfolio by Geographic Market

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

	Number of Apartment Communities	December 31, 2018			Total Carrying Value (in thousands)	Year Ended December 31, 2018			
		Number of Apartment Homes	Percentage of Total Carrying Value			Average Physical Occupancy	Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)	
Same-Store Communities West Region									
Orange County, CA	10	4,434	11.0	%	\$ 1,123,626	96.2	%	\$ 2,302	\$ 91,463
San Francisco, CA	11	2,751	8.5	%	865,010	96.7	%	3,560	86,159
Seattle, WA	14	2,593	8.7	%	889,283	96.6	%	2,423	51,882
Los Angeles, CA	4	1,225	4.5	%	454,304	96.2	%	2,812	29,462
Monterey Peninsula, CA	7	1,565	1.7	%	177,689	96.8	%	1,770	24,859
Other Southern California	2	654	1.1	%	107,144	96.5	%	1,896	10,747
Portland, OR	2	476	0.5	%	49,113	96.6	%	1,576	6,526
Mid-Atlantic Region									
Metropolitan D.C.	21	7,798	19.8	%	2,017,115	97.4	%	2,031	127,994
Richmond, VA	4	1,358	1.5	%	148,231	97.9	%	1,335	16,039
Baltimore, MD	3	720	1.5	%	152,023	96.2	%	1,689	9,637
Northeast Region									
New York, NY	4	1,945	12.8	%	1,307,371	97.9	%	4,335	64,798
Boston, MA	5	1,548	5.6	%	567,245	96.6	%	3,063	41,200
Southeast Region									
Orlando, FL	9	2,500	2.2	%	225,723	96.8	%	1,344	27,690
Tampa, FL	7	2,287	2.5	%	256,747	97.2	%	1,402	25,187
Nashville, TN	8	2,260	2.1	%	211,365	96.5	%	1,301	24,583
Other Florida	1	636	0.8	%	85,475	96.5	%	1,595	7,760

Southwest Region									
Dallas, TX	6	2,040	2.0	%	206,465	96.7	%	1,253	18,244
Austin, TX	3	883	0.9	%	91,216	97.5	%	1,361	8,164
Total/Average Same-Store Communities	121	37,673	87.7	%	8,935,145	96.9	%	\$ 2,145	672,394
Non-Mature, Commercial Properties & Other	6	2,258	12.3	%	1,261,014				59,721
Total Real Estate Owned	127	39,931	100.0	%	10,196,159				\$ 732,115
Total Accumulated Depreciation					(3,654,160)				
Total Real Estate Owned, Net of Accumulated Depreciation									\$ 6,541,999

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

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

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

scheduled maturity date of September 30, 2023.

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

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

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

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

Future Capital Needs

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

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

Statements of Cash Flows

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

Operating Activities

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

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

Investing Activities

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

issuances of notes receivable.

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

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Acquisitions

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

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

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

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

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

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

In June 2016, the Company increased its ownership interest from 50% to 100% in a parcel of land in Los Angeles, California for a purchase price of approximately \$20.1 million. As a result, the Company consolidated the parcel of land. UDR had previously accounted for its 50% interest in the parcel of land as an unconsolidated joint venture. We accounted for the consolidation as an asset acquisition resulting in no gain or loss upon consolidation and increased our real estate owned by \$31.1 million. Subsequent to the acquisition, the Company entered into a triple-net operating ground lease for the parcel of land at market terms with a third-party developer. The lessee plans to construct a multi-family community on the parcel of land. The ground lease provides the ground lessee with options to buy the

fee interest in the parcel of land. The lease term is 49 years plus two 25 year extension options, does not transfer ownership to the lessee, and does not include a bargain purchase option.

Dispositions

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

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

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

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

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

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

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

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

Capital Expenditures

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

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

The increase in total capital expenditures was primarily due to:

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

This was partially offset by:

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

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

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

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

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

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

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

Consolidated Real Estate Under Development

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

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

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

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

Unconsolidated Joint Ventures and Partnerships

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

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

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

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

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

Financing Activities

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

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

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

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

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

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

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

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

Credit Facilities and Commercial Paper Program

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

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

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

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

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

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

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

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

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

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

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Interest Rate Risk

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

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

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

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

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

Results of Operations

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

Net Income/(Loss) Attributable to Common Stockholders

2018 -vs- 2017

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

- gains of \$136.2 million on the sale of two operating communities with a total of 868 apartment homes in Huntington Beach, California and Fairfax, Virginia, during the year ended December 31, 2018, as compared to gains of \$43.4

million on the sale of a parcel of land in Richmond, Virginia and the sale of two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California during the year ended December 31, 2017; and

- an increase in total property NOI of \$33.6 million primarily due to higher revenue per occupied home and NOI from communities acquired in 2017, redeveloped in 2017 or recently developed, partially offset by a decrease from sold communities.

This was partially offset by:

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

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Venture and Denver, Colorado from our Development Capital Program during the year ended December 31, 2017. 2017 -vs- 2016

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

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

As compared to:

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

This was partially offset by:

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

Apartment Community Operations

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

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

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

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

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

*Not meaningful

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

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

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

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

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

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

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Same-Store Communities

2018 -vs- 2017

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

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

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

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

2017 -vs- 2016

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

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

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

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

Non-Mature Communities/Other

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

2018 -vs- 2017

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

2017 -vs- 2016

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

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

Income/(Loss) from Unconsolidated Entities

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

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

As compared to:

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

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

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

As compared to:

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

Gain/(Loss) on Sale of Real Estate Owned

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

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

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

Inflation

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

Off-Balance Sheet Arrangements

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

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Contractual Obligations

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

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

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

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

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

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

Funds from Operations

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

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

Funds from Operations as Adjusted

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

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

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

Adjusted Funds from Operations

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

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

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

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

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

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

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

United Dominion Realty, L.P.:

Business Overview

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

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

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

8,112 completed apartment homes through unconsolidated operating communities.

Critical Accounting Policies and Estimates

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

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

Cost Capitalization

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

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

Investment in Unconsolidated Entities

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

We continually evaluate our investments in unconsolidated joint ventures when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment property. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Impairment of Long-Lived Assets

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by the future operation and disposition of those assets are less than the net book value of those assets. Our cash flow estimates are based upon

historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair market value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates, capitalization rates, industry trends and reference to market rates and transactions.

Real Estate Investment Properties

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

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

Summary of Real Estate Portfolio by Geographic Market

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

	December 31, 2018				Year Ended December 31, 2018				
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)		
Same-Store Communities West Region									
Orange County, CA	5	3,119	19.4 %	\$ 737,372	96.4 %	\$ 2,239	\$ 62,391		
San Francisco, CA	9	2,185	15.8 %	601,924	96.6 %	3,233	63,169		
Seattle, WA	5	932	5.9 %	226,065	96.4 %	2,046	15,587		
Los Angeles, CA	2	344	3.0 %	114,896	96.2 %	2,713	7,963		
Monterey Peninsula, CA	7	1,565	4.7 %	177,689	96.8 %	1,770	24,859		
Other Southern California	1	414	2.0 %	73,948	96.2 %	2,010	7,169		
Portland, OR	2	476	1.3 %	49,113	96.6 %	1,576	6,526		
Mid-Atlantic Region									
Metropolitan D.C.	6	2,068	14.6 %	558,399	97.5 %	2,106	35,297		
Baltimore, MD	2	540	2.7 %	104,684	96.4 %	1,514	6,345		
Northeast Region									
New York, NY	2	996	16.0 %	609,071	97.8 %	3,887	32,717		
Boston, MA	1	387	1.9 %	72,882	97.0 %	2,070	6,739		

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Southeast										
Region										
Tampa, FL	2	942	2.8	%	106,909	97.7	%	1,473	11,058	
Nashville, TN	6	1,612	3.9	%	148,339	96.3	%	1,282	17,130	
Other Florida	1	636	2.2	%	85,474	96.5	%	1,595	7,760	
Total/Average										
Same-Store										
Communities	51	16,216	96.2	%	3,666,765	96.8	%	\$ 2,194	\$ 304,710	
Non-Mature,										
Commercial										
Properties &										
Other	1	218	3.8	%	145,220				12,670	
Total Real										
Estate Owned	52	16,434	100.0	%	3,811,985				\$ 317,380	
Total										
Accumulated										
Depreciation										
					(1,658,161)					
Total Real										
Estate										
Owned, Net										
of										
Accumulated										
Depreciation										
					\$ 2,153,824					

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

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

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to January 1, 2017 and held as of December 31, 2018. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

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Liquidity and Capital Resources

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

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

Future Capital Needs

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

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

Statements of Cash Flows

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

Operating Activities

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

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

Investing Activities

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

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

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Acquisitions

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

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

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

Dispositions

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

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

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

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

Financing Activities

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

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

Credit Facilities

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

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of \$1.1 billion, an unsecured commercial paper program with an aggregate borrowing capacity of

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

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

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

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

Interest Rate Risk

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

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

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

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

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

Results of Operations

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

Net Income/(Loss) Attributable to OP Unitholders

2018 -vs- 2017

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

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

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

2017 -vs- 2016

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

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

This was partially offset by:

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

Apartment Community Operations

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

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

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

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

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

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

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

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

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

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

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

Net income/(loss) attributable to noncontrolling interests	1,722	1,548	1,444
Total property NOI	\$ 317,380	\$ 306,841	\$ 297,121

Same-Store Communities

2018 -vs- 2017

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

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

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

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

2017 -vs- 2016

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

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

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

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

Non-Mature Communities/Other

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

2018 -vs- 2017

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

2017 -vs- 2016

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

Real Estate Depreciation and Amortization

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

commercial office building in 2018 and fully depreciated assets.

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

Income/(Loss) in Unconsolidated Entities

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

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

Interest Expense

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

Gain/(Loss) on Sale of Real Estate Owned

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

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

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

Inflation

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

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

\$ 5,556 \$ 11,112 \$ 11,112 \$ 346,303 \$ 374,083

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

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

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

Management's Report on Internal Control over Financial Reporting

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

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

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Changes in Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

Item 11. EXECUTIVE COMPENSATION

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

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

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

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

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page F 1 of this Report.
2. Financial Statement Schedules. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page S 1 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.
3. Exhibits. The exhibits filed with this Report are set forth in the Exhibit Index appearing immediately below, including the financial statements required under Rule 3 09 of Regulation S-X for UDR Lighthouse DownREIT L.P.

EXHIBIT INDEX

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

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

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

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Exhibit	Description	Location
3.02	<u>Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007.</u>	Exhibit 3.2 to UDR, Inc.'s Current Report on Form 8 K dated March 14, 2007 and filed with the Commission on March 15, 2007.
3.03	<u>Articles of Amendment to the Articles of Restatement of UDR, Inc. dated August 30, 2011 and filed with the State Department of Assessments and Taxation of the State of Maryland on August 31, 2011.</u>	Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8 K dated August 29, 2011 and filed with the Commission on September 1, 2011.
3.04	<u>Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 24, 2018.</u>	Exhibit 3.1 to UDR, Inc.'s Current Report on Form 8-K dated May 24, 2018 and filed with the SEC on May 29, 2018.
3.05	<u>Articles Supplementary relating to UDR, Inc.'s 6.75% Series G Cumulative Redeemable Preferred Stock dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 30, 2007.</u>	Exhibit 3.4 to UDR, Inc.'s Form 8 A Registration Statement dated and filed with the Commission on May 30, 2007.
3.06	<u>Amended and Restated Bylaws of UDR, Inc. (as amended through May 24, 2018).</u>	Exhibit 3.6 to UDR, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
3.07	<u>Certificate of Limited Partnership of United Dominion Realty, L.P. dated as of February 19, 2004.</u>	Exhibit 3.4 to United Dominion Realty, L.P.'s Post-Effective Amendment No. 1 to Registration Statement on Form S 3 dated and filed with the Commission on October 15, 2010.
3.08	<u>Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004.</u>	Exhibit 10.23 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2003.
3.09	<u>First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of June 24, 2005.</u>	Exhibit 10.06 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended June 30, 2005.
3.10	<u>Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2006.</u>	Exhibit 10.6 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended March 31, 2006.
3.11	<u>Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 2, 2007.</u>	Exhibit 99.1 to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended September 30, 2009.
3.12	<u>Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion</u>	Exhibit 10.25 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31,

Realty, L.P. dated as of December 27, 2007. 2007.

- 3.13 Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of March 7, 2008. Exhibit 10.53 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2008.

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

Commission on March 22, 2007.

- 4.08 Form of UDR, Inc. Floating Rate Medium-Term Note, Series A. Exhibit 4.02 to UDR, Inc.'s Current Report on Form 8 K dated March 20, 2007 and filed with the Commission on March 22, 2007.

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

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| 4.20 | <u>UDR, Inc. 3.500% Medium-Term Note, Series A due January 2028, issued December 13, 2017.</u> | Exhibit 4.21 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017. |
| 4.21 | <u>UDR, Inc. 4.400% Medium-Term Note, Series A due January 2029, issued October 26, 2018.</u> | Filed herewith. |
| 10.01* | <u>UDR, Inc. 1999 Long-Term Incentive Plan (as amended and restated February 2, 2017).</u> | Exhibit 10.1 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016. |

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Exhibit	Description	Location
10.02*	<u>Form of UDR, Inc. Restricted Stock Award Agreement under the 1999 Long-Term Incentive Plan.</u>	Exhibit 10.2 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.
10.03*	<u>Form of UDR, Inc. Restricted Stock Award Agreement for awards outside of the 1999 Long-Term Incentive Plan.</u>	Exhibit 99.3 to UDR, Inc.'s Current Report on Form 8 K dated March 19, 2007 and filed with the Commission on March 19, 2007.
10.04*	<u>Form of UDR, Inc. Notice of Performance Contingent Restricted Stock Award.</u>	Exhibit 10.2 to UDR, Inc.'s Current Report on Form 8 K dated May 2, 2006 and filed with the Commission on May 8, 2006.
10.05*	<u>Description of UDR, Inc. Shareholder Value Plan.</u>	Exhibit 10(x) to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 1999.
10.06*	<u>Description of UDR, Inc. Executive Deferral Plan.</u>	Exhibit 10(xi) to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 1999.
10.07*	<u>Indemnification Agreement by and between UDR, Inc. and each of its directors and officers listed on Schedule A thereto.</u>	Exhibit 10.7 to UDR, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.
10.08	<u>Amended and Restated Master Credit Facility Agreement dated as of June 24, 2002 by and between UDR, Inc. and Green Park Financial Limited Partnership, as amended through February 14, 2007.</u>	Exhibit 10.41 to UDR, Inc.'s Annual Report on Form 10 K for the year ended December 31, 2006.
10.09	<u>Limited Liability Company Agreement of UDR Texas Ventures LLC, a Delaware limited liability company, dated as of November 5, 2007.</u>	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated November 5, 2007 and filed with the Commission on November 9, 2007.
10.10*	<u>Letter Agreement between UDR, Inc. and Thomas M. Herzog, dated May 12, 2016.</u>	Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated May 12, 2016 and filed with the Commission on May 18, 2016.

- 10.11 Subordination Agreement dated as of April 16, 1998, by and between UDR, Inc. and United Dominion Realty, L.P. Exhibit 10(vi)(a) to UDR, Inc.'s Quarterly Report on Form 10 Q for the quarter ended March 31, 1998.
- 10.12 Third Amended and Restated Distribution Agreement among UDR, Inc., United Dominion Realty, L.P., as Guarantor, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Wells Fargo Securities, LLC, as Agents, dated September 1, 2011, with respect to the issue and sale by UDR, Inc. of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue. Exhibit 1.2 to UDR, Inc.'s Current Report on Form 8 K dated and filed with the Commission on September 1, 2011.
- 10.13 First Amended and Restated Credit Agreement, dated as of September 27, 2018, by and among UDR, Inc., as borrower, and the lenders and agents party thereto. Exhibit 10.1 to UDR, Inc.'s Current Report on Form 8 K dated September 27, 2018 and filed with the Commission on October 1, 2018.

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

- 23.1 Consent of Independent Registered Public Accounting Firm for UDR, Inc. Filed herewith.
- 23.2 Consent of Independent Registered Public Accounting Firm for United Dominion Realty, L.P. Filed herewith.

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

*Management Contract or Compensatory Plan or Arrangement

Item 16. FORM 10-K SUMMARY

None.

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SIGNATURES

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

UDR, Inc.

Date: February 19, 2019 By: /s/ Thomas W. Toomey
Thomas W. Toomey
Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

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

/s/ Thomas W. Toomey

/s/ Katherine A. Cattanach

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

Katherine A. Cattanach
Director

/s/ Joseph D. Fisher

/s/ Mary Ann King

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

Mary Ann King
Director

/s/ Tracy L. Hofmeister

/s/ Robert P. Freeman

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

Robert P. Freeman
Director

/s/ James D. Klingbeil

/s/ Jon A. Grove

James D. Klingbeil
Lead Independent Director

Jon A. Grove
Director

/s/ Clint D. McDonnough
Clint D. McDonnough
Director

/s/ Robert A. McNamara

Robert A. McNamara
Director

/s/ Mark R. Patterson
Mark R. Patterson
Director

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Director

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SIGNATURES

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

UNITED DOMINION REALTY, L.P.

By: UDR, Inc., its sole general partner

Date: February 19, 2019 By: /s/ Thomas W. Toomey

Thomas W. Toomey

Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

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

/s/ Thomas W. Toomey

/s/ Katherine A. Cattanach

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

Katherine A. Cattanach
Director of the General Partner

/s/ Joseph D. Fisher

/s/ Mary Ann King

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

Mary Ann King
Director of the General Partner

/s/ Tracy L. Hofmeister

/s/ Robert P. Freeman

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

Robert P. Freeman
Director of the General Partner

/s/ James D. Klingbeil

/s/ Jon A. Grove

James D. Klingbeil

Jon A. Grove

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Lead Independent Director of the General Partner

Director of the General Partner

/s/ Clint D. McDonnough

Clint D. McDonnough

Director of the General Partner

/s/ Robert A. McNamara

Robert A. McNamara

Director of the General Partner

/s/ Mark R. Patterson

Mark R. Patterson

Director of the General Partner

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn

Director of the General Partner

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of UDR, Inc.

Opinion on the Financial Statements

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

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

Basis for Opinion

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

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

/s/ Ernst & Young LLP

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

Denver, Colorado
February 19, 2019

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of UDR, Inc.

Opinion on Internal Control over Financial Reporting

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

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

Basis for Opinion

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

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

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the

assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Denver, Colorado
February 19, 2019

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UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

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

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Additional paid-in capital	4,920,732	4,651,205
Distributions in excess of net income	(2,063,996)	(1,871,603)
Accumulated other comprehensive income/(loss), net	(67)	(2,681)
Total stockholders' equity	2,905,625	2,825,800
Noncontrolling interests	17,152	9,564
Total equity	2,922,777	2,835,364
Total liabilities and equity	\$ 7,711,728	\$ 7,733,273

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

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

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands, except per share data)

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2015	\$ 46,458	\$ 2,618	\$ 4,447,816	\$ (1,584,459)	\$ (12,678)	\$ 856	\$ 2,900,611
Net income/(loss) attributable to UDR, Inc.	—	—	—	292,718	—	—	292,718
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	322	322
Disposition of noncontrolling interest of consolidated real estate	—	—	—	—	—	(1,155)	(1,155)
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	102	102
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	3,735	3,735
Other comprehensive income/(loss)	—	—	—	—	7,069	—	7,069
Issuance/(forfeiture) of common and restricted shares, net	—	2	4,973	—	—	—	4,975
Issuance of common shares through public offering	—	50	173,161	—	—	—	173,211
Adjustment for conversion of	—	3	9,463	—	—	—	9,466

noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership Common stock distributions declared (\$1.18 per share)	—	—	—	(315,102)	—	—	(315,102)
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	(3,717)	—	—	(3,717)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	24,735	—	—	24,735
Balance at December 31, 2016	46,458	2,673	4,635,413	(1,585,825)	(5,609)	3,860	3,096,970
Net income/(loss) attributable to UDR, Inc.	—	—	—	121,558	—	—	121,558
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	147	147
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	125	125
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	5,432	5,432
Other comprehensive income/(loss)	—	—	—	—	2,928	—	2,928
Issuance/(forfeiture) of common and restricted shares, net	—	1	437	—	—	—	438
Cumulative effect upon adoption of ASU 2016-09	—	—	558	(558)	—	—	—
Conversion of Series E Cumulative Convertible Shares	(257)	—	257	—	—	—	—

Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership	—	4	14,540	—	—	—	14,544
Common stock distributions declared (\$1.24 per share)	—	—	—	(331,974)	—	—	(331,974)
Preferred stock distributions declared-Series E (\$1.3288 per share)	—	—	—	(3,708)	—	—	(3,708)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(71,096)	—	—	(71,096)
Balance at December 31, 2017	46,201	2,678	4,651,205	(1,871,603)	(2,681)	9,564	2,835,364
Net income/(loss) attributable to UDR, Inc.	—	—	—	203,106	—	—	203,106
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	175	175
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	108	108
Repurchase of common shares	—	(6)	(19,982)	—	—	—	(19,988)
Long Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	7,305	7,305
Other comprehensive income/(loss)	—	—	—	—	2,614	—	2,614
Exercise of stock options, net	—	8	(23,061)	—	—	—	(23,053)
Issuance/(forfeiture) of common and restricted shares, net	—	(1)	(507)	—	—	—	(508)
	—	72	299,753	—	—	—	299,825

Issuance of common shares through public offering							
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership and DownREIT Partnership	—	4	13,324	—	—	—	13,328
Common stock distributions declared (\$1.29 per share)	—	—	—	(348,079)	—	—	(348,079)
Preferred stock distributions declared-Series E (\$1.3968 per share)	—	—	—	(3,868)	—	—	(3,868)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(43,552)	—	—	(43,552)
Balance at December 31, 2018	\$ 46,201	\$ 2,755	\$ 4,920,732	\$ (2,063,996)	\$ (67)	\$ 17,152	\$ 2,922,777

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except for share data)

	Year Ended December 31,		
	2018	2017	2016
Operating Activities			
Net income/(loss)	\$ 221,542	\$ 132,655	\$ 320,380
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization	435,679	436,462	425,638
(Gain)/loss on sale of real estate owned	(136,197)	(43,404)	(226,199)
(Income)/loss from unconsolidated entities	5,055	(31,257)	(52,234)
Return on investment in unconsolidated joint ventures	4,248	4,416	57,578
Amortization of share-based compensation	14,244	12,862	13,398
Other	4,998	20,467	39,490
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	(13,880)	(9,008)	(29,399)
Increase/(decrease) in operating liabilities	24,987	(4,278)	(12,084)
Net cash provided by/(used in) operating activities	560,676	518,915	536,568
Investing Activities			
Acquisition of real estate assets	—	(96,791)	(163,015)
Proceeds from sales of real estate investments, net	247,031	71,235	301,799
Development of real estate assets	(150,238)	(248,546)	(178,279)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(112,359)	(124,728)	(91,740)
Capital expenditures — non-real estate assets	(4,850)	(1,384)	(4,439)
Investment in unconsolidated joint ventures	(112,025)	(123,842)	(40,162)
Distributions received from unconsolidated joint ventures	42,683	116,329	66,116
Purchase deposits on pending acquisitions	(1,000)	—	—
Repayment/(issuance) of notes receivable, net	(22,790)	321	(3,000)
Net cash provided by/(used in) investing activities	(113,548)	(407,406)	(112,720)
Financing Activities			
Payments on secured debt	(279,243)	(326,346)	(375,308)
Proceeds from the issuance of secured debt	80,000	—	50,000
Payments on unsecured debt	—	(300,000)	(95,053)
Net proceeds from the issuance of unsecured debt	299,994	598,095	300,000
Net proceeds/(repayment) of commercial paper	(198,885)	300,000	—
Net proceeds/(repayment) of revolving bank debt	(21,751)	417	(128,650)
Proceeds from the issuance of common shares through public offering, net	299,825	—	173,211
Repurchase of common shares	(19,988)	—	—
Distributions paid to redeemable noncontrolling interests	(32,457)	(31,089)	(29,688)
Distributions paid to preferred stockholders	(3,836)	(3,708)	(3,717)

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Distributions paid to common stockholders	(342,241)	(327,793)	(308,923)
Other	(41,485)	(21,361)	(11,154)
Net cash provided by/(used in) financing activities	(260,067)	(111,785)	(429,282)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	187,061	(276)	(5,434)
Cash, cash equivalents, and restricted cash, beginning of year	21,830	22,106	27,540
Cash, cash equivalents, and restricted cash, end of year	\$ 208,891	\$ 21,830	\$ 22,106
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	\$ 132,466	\$ 126,348	\$ 124,635
Cash paid/(refunds received) for income taxes	625	1,660	693
Non-cash transactions:			
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	\$ —	\$ 140,549	\$ 80,583
Secured debt assumed in the consolidation of unconsolidated joint ventures	—	—	75,796
Fair value adjustment of secured debt assumed in the consolidation of unconsolidated joint ventures	—	—	4,228
Vesting of LTIP Units	4,397	2,317	—
Development costs and capital expenditures incurred but not yet paid	10,304	43,930	46,285
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (348,057 shares in 2018; 389,033 shares in 2017; and 260,292 shares in 2016)	13,328	14,544	9,466
Dividends declared but not yet paid	97,666	91,455	86,936

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

1. CONSOLIDATION AND BASIS OF PRESENTATION

Organization and Formation

UDR, Inc. (“UDR,” the “Company,” “we,” or “our”) is a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities generally in high barrier-to-entry markets located in the United States. The high barrier-to-entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. At December 31, 2018, our consolidated apartment portfolio consisted of 127 consolidated communities located in 19 markets consisting of 39,931 apartment homes. In addition, the Company has an ownership interest in 8,112 apartment homes through unconsolidated joint ventures.

Basis of Presentation

The accompanying consolidated financial statements of UDR include its wholly-owned and/or controlled subsidiaries (see the “Consolidated Joint Ventures” section of Note 5, Joint Ventures and Partnerships, for further discussion). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In August 2018, the Securities and Exchange Commission (“SEC”) adopted amendments to update and simplify disclosure requirements as well as eliminate outdated, superseded and/or redundant requirements with United States generally accepted accounting principles, or GAAP, (“SEC Simplification”). The amendments are effective for all SEC

filings made on or after November 5, 2018. As a result of the amendments, the Company will no longer provide ratios of earnings to fixed charges in our exhibits to our annual and quarterly filings with the SEC. Additionally, the amendments removed certain SEC guidance that conflicted with GAAP guidance, under which the Company previously followed SEC guidance and recorded Gain/(loss) on the sale of real estate owned, net of tax, after Operating income. The Company has reclassified Gain/(loss) on the sale of real estate owned within Operating income, with any income tax impact recorded within Tax (provision)/benefit, net per GAAP for all periods presented.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

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

Gain/(loss) on the sale of real estate owned, net of tax – as previously reported	\$ 210,851
Tax impact of sales of real estate owned	15,348
Gain/(loss) on the sale of real estate owned – as reported herein	\$ 226,199

Tax (provision)/benefit, net – as previously reported	\$ 3,774
Tax impact of sales of real estate owned	(15,348)
Tax (provision)/benefit, net – as reported herein	\$ (11,574)

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

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

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

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

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

	Year ended December 31,	
	2017	2016
(Increase)/decrease in operating assets	\$ (237)	\$ (361)
Net cash provided by /(used in) operating activities	\$ (237)	\$ (361)

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Proceeds from sales of real estate investments, net	\$ -	\$ (555)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	35	112
Net cash provided by /(used in) investing activities	\$ 35	\$ (443)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	\$ (202)	\$ (804)

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

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

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

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

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

In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, which provides entities with relief from the costs of implementing certain aspects of ASU No. 2016-02, Leases. The ASU provides a practical expedient which allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be

classified as an operating lease. The Company intends to elect the practical expedient to account for lease and non-lease components as a single component in lease contracts where we are the lessor. The ASU also provides a transition option that permits entities to not recast the comparative periods presented when transitioning to the standard. The Company also intends to elect the transition option.

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Real Estate

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

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

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

Quarterly or when changes in circumstances warrant, UDR will assess our real estate properties for indicators of impairment. In determining whether the Company has indicators of impairment in our real estate assets, we assess whether the long-lived asset’s carrying value exceeds the community’s undiscounted future cash flows, which is representative of projected net operating income (“NOI”) plus the residual value of the community. Our future cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

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

Cash and Cash Equivalents

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

Restricted Cash

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

Revenue

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

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

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

Lease Revenue

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

Reimbursements Revenue

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

Other Revenue

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

Joint venture management and other fees

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

Real Estate Sales Gain Recognition

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

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

Disaggregation of Revenue

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

	December 31, (a)		
	2018	2017	2016
Lease Revenue (b)			
Same-Store Communities			
West Region	\$ 371,366	\$ 355,904	\$ 328,693
Mid-Atlantic Region	204,733	199,207	194,367
Northeast Region	148,057	146,105	142,249
Southeast Region	109,190	104,106	99,451
Southwest Region	39,567	38,978	37,529
Non-Mature Communities/Other	82,986	65,474	75,478
Total segment and consolidated lease revenue	\$ 955,899	\$ 909,774	\$ 877,767
Reimbursements Revenue			
Same-Store Communities			
West Region	\$ 17,159	\$ 16,377	\$ 14,797
Mid-Atlantic Region	9,084	8,715	8,123
Northeast Region	2,721	2,775	2,434
Southeast Region	6,821	6,509	6,413
Southwest Region	2,197	2,098	1,930
Non-Mature Communities/Other	8,768	7,781	7,859
Total segment and consolidated reimbursements revenue	\$ 46,750	\$ 44,255	\$ 41,556
Other Revenue			
Same-Store Communities			
West Region	\$ 10,789	\$ 10,728	\$ 9,831
Mid-Atlantic Region	6,633	6,235	5,733
Northeast Region	3,241	2,856	2,890
Southeast Region	6,223	5,852	5,454
Southwest Region	1,945	1,916	1,814
Non-Mature Communities/Other	3,625	2,693	3,416
Total segment and consolidated other revenue	\$ 32,456	\$ 30,280	\$ 29,138

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

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

DECEMBER 31, 2018

Notes Receivable

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

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

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

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

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

Investment in Joint Ventures and Partnerships

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

We evaluate our investments in unconsolidated joint ventures for events or changes in circumstances that indicate there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, the fair value of the property of the joint venture, and the relationships with the other joint venture partners and its lenders. The amount of loss recognized is the excess of the investment's carrying amount over its estimated fair value. If we believe that the decline in fair value is temporary, no impairment is recorded. The aforementioned factors are taken into consideration as a whole by management in determining the valuation of our equity method investments. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our Consolidated Financial Statements.

Derivative Financial Instruments

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

Redeemable Noncontrolling Interests in the Operating Partnership and DownREIT Partnership

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

Limited partners of the Operating Partnership and the DownREIT Partnership have the right to require such partnership to redeem all or a portion of the OP Units/DownREIT Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in the partnership agreement of the Operating Partnership or the DownREIT Partnership, as applicable), provided that such OP Units/DownREIT Units have been outstanding for at least one year, subject to certain exceptions. UDR, as the general partner of the Operating Partnership and the DownREIT Partnership may, in its sole discretion, purchase the OP Units/DownREIT Units by paying to the limited partner either the Cash Amount or the REIT Share Amount (generally one share of Common

Stock of the Company for each OP Unit/DownREIT Unit), as defined in the partnership agreement of the Operating Partnership or the DownREIT Partnership, as applicable. Accordingly, the Company records the OP Units/DownREIT Units outside of permanent equity and reports the OP Units/DownREIT Units at their redemption value using the Company's stock price at each balance sheet date.

Income Taxes

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

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UDR, INC.

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Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of December 31, 2018 and 2017, UDR's net deferred tax asset/(liability) was less than \$(0.1) million and \$0.1 million, respectively.

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

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

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

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

Principles of Consolidation

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

Discontinued Operations

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

or will have a major effect on an entity's financial results, or (2) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of (1) a separate major line of business, (2) a separate major geographic area of operations, (3) a major equity method investment, or (4) other major parts of an entity.

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

Stock-Based Employee Compensation Plans

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

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

Advertising Costs

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

Cost of Raising Capital

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

Comprehensive Income/(Loss)

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