UDR, Inc.
Form 10-Q
July 28, 2015

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

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period from to
Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)
UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

The number of shares of UDR, Inc.’s common stock, $0.01 par value, outstanding as of July 27, 2015 was 259,101,916.

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2015 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 the Operating Partnership. Unless the context otherwise requires, the references in this Report to the "Operating Partnership" or the "OP" refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of UDR and "stockholders" means the holders of shares of UDR's common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as the "OP Units" and the holders of the OP Units are referred to as "unitholders." This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

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

As of June 30, 2015, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,105,126 units (approximately 95.1%) of the limited partnership interests of the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under "Management's Discussion and Analysis of Financial Condition and Results of Operations," are provided for each of UDR and the Operating Partnership.

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

	June 30, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$8,332,634	$8,205,627
Less: accumulated depreciation	(2,557,949)	(2,434,772)
Real estate held for investment, net	5,774,685	5,770,855
Real estate under development (net of accumulated depreciation of $0)	92,645	177,632
Total real estate owned, net of accumulated depreciation	5,867,330	5,948,487
Cash and cash equivalents	2,990	15,224
Restricted cash	22,912	22,340
Deferred financing costs, net	19,930	22,686
Notes receivable, net	15,494	14,369
Investment in and advances to unconsolidated joint ventures, net	914,815	718,226
Other assets	96,259	105,202
Total assets	$6,939,730	$6,846,534
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	$1,350,439	$1,361,529
Unsecured debt	2,213,964	2,221,576
Real estate taxes payable	18,263	15,978
Accrued interest payable	27,735	34,215
Security deposits and prepaid rent	33,366	34,064
Distributions payable	75,129	69,460
Accounts payable, accrued expenses, and other liabilities	72,054	91,282
Total liabilities	3,790,950	3,828,104
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership	290,278	282,480
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,803,812 shares issued and outstanding at June 30, 2015 and December 31, 2014	46,571	46,571
Common stock, $0.01 par value; 350,000,000 shares authorized:		
259,091,257 and 255,114,603 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	2,591	2,551
Additional paid-in capital	4,342,829	4,223,747
Distributions in excess of net income	(1,525,159)	(1,528,917)
Accumulated other comprehensive income/(loss), net	(9,190)	(8,855)
Total stockholders’ equity	2,857,642	2,735,097
Noncontrolling interests	860	853
Total equity	2,858,502	2,735,950
Total liabilities and equity	$6,939,730	$6,846,534

See accompanying notes to consolidated financial statements.

UDR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUES:				
Rental income	$212,764	$200,959	$419,811	$395,311
Joint venture management and other fees	3,098	2,747	15,804	6,434
Total revenues	215,862	203,706	435,615	401,745
OPERATING EXPENSES:				
Property operating and maintenance	37,194	36,840	74,444	73,560
Real estate taxes and insurance	25,138	23,716	51,360	49,147
Property management	5,851	5,527	11,545	10,872
Other operating expenses	1,769	2,162	3,535	4,088
Real estate depreciation and amortization	90,344	88,876	179,121	177,409
General and administrative	13,721	12,530	25,873	24,524
Casualty-related (recoveries)/charges, net	843	—	1,839	500
Other depreciation and amortization	1,700	1,193	3,323	2,273
Total operating expenses	176,560	170,844	351,040	342,373
Operating income	39,302	32,862	84,575	59,372
Income/(loss) from unconsolidated entities	(573)	(428)	58,586	(3,993)
Interest expense	(29,673)	(31,691)	(58,473)	(64,575)
Interest income and other income/(expense), net	382	1,426	742	2,841
Income/(loss) before income taxes, discontinued operations, and gain/(loss) on sale of real estate owned	9,438	2,169	85,430	(6,355)
Tax benefit/(expense), net	1,404	2,190	1,829	5,519
Income/(loss) from continuing operations	10,842	4,359	87,259	(836)
Income/(loss) from discontinued operations, net of tax	—	18	—	(69)
Income/(loss) before gain/(loss) on sale of real estate owned	10,842	4,377	87,259	(905)
Gain/(loss) on sale of real estate owned, net of tax	79,042	26,709	79,042	51,003
Net income/(loss)	89,884	31,086	166,301	50,098
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership	(3,029)	(1,077)	(5,617)	(1,724)
Net (income)/loss attributable to noncontrolling interests	—	(2)	(7)	(6)
Net income/(loss) attributable to UDR, Inc.	86,855	30,007	160,677	48,368
Distributions to preferred stockholders — Series E (Convertible)	(931)	(931)	(1,862)	(1,862)
Net income/(loss) attributable to common stockholders	$85,924	$29,076	$158,815	$46,506
Income/(loss) per weighted average common share — basic:				
Income/(loss) from continuing operations attributable to common stockholders	$0.33	$0.12	$0.62	$0.19
Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—
Net income/(loss) attributable to common stockholders	$0.33	$0.12	$0.62	$0.19
Income/(loss) per weighted average common share — diluted:				
Income/(loss) from continuing operations attributable to common stockholders	$0.33	$0.12	$0.61	$0.18

Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—
Net income/(loss) attributable to common stockholders	$0.33	$0.12	$0.61	$0.18
Common distributions declared per share	0.2775	0.2600	$0.5550	$0.5200
Weighted average number of common shares outstanding — basic	257,849	250,255	257,344	250,216
Weighted average number of common shares outstanding — diluted	262,806	252,191	259,267	252,091

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income/(loss)	$89,884	$31,086	$166,301	$50,098
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	6,186	304	(1,366)	249
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	292	1,145	1,029	2,677
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	6,478	1,449	(337)	2,926
Comprehensive income/(loss)	96,362	32,535	165,964	53,024
Comprehensive (income)/loss attributable to noncontrolling interests	(3,253)	(1,129)	(5,623)	(1,836)
Comprehensive income/(loss) attributable to UDR, Inc.	$93,109	$31,406	$160,341	$51,188

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2014	2,803,812	$46,571	255,114,603	$2,551	$4,223,747	$(1,528,917)	$(8,855)	$853	$2,735,950
Net income/(loss) attributable to UDR, Inc.	—	—	—	—	—	160,677	—	—	160,677
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	—	—	7	7
Other comprehensive income/(loss)	—	—	—	—	—	—	(335)	—	(335)
Issuance/(forfeiture) of common and restricted shares, net	—	—	434,234	4	6,881	—	—	—	6,885
Issuance of common shares through public offering	—	—	3,439,636	34	108,705	—	—	—	108,739
Adjustment for conversion of noncontrolling interest of unitholders in the Operating Partnership	—	—	102,784	2	3,496	—	—	—	3,498
Common stock distributions declared ($0.555 per share)	—	—	—	—	—	(144,127)	—	—	(144,127)
Preferred stock distributions declared-Series E ($0.6644 per share)	—	—	—	—	—	(1,862)	—	—	(1,862)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	—	—	(10,930)	—	—	(10,930)

Balance at June 30, 2015	2,803,812	$46,571	259,091,257	$2,591	$4,342,829	$(1,525,159)	$(9,190)	$860	$2,858,502

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Operating Activities		
Net income/(loss)	$166,301	$50,098
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	182,444	179,682
(Gain)/loss on sale of real estate owned, net of tax	(79,042)	(51,003)
Tax (benefit)/provision, net	(1,829)	(5,559)
(Income)/loss from unconsolidated entities	(58,586)	3,993
Casualty-related (recoveries)/charges, net	1,839	500
Other	13,154	13,054
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	7,431	5,677
Increase/(decrease) in operating liabilities	(14,709)	(10,229)
Net cash provided by/(used in) operating activities	217,003	186,213
Investing Activities		
Acquisition of real estate assets	—	(77,793)
Proceeds from sale of real estate investments, net	90,543	47,922
Development of real estate assets	(66,083)	(115,964)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(47,453)	(57,574)
Capital expenditures — non-real estate assets	(1,655)	(2,917)
Investment in unconsolidated joint ventures	(184,078)	(120,555)
Distributions received from unconsolidated joint ventures	46,075	12,507
Purchase deposits on pending acquisitions	—	(4,000)
(Issuance)/repayment of notes receivable	(1,125)	38,800
Net cash provided by/(used in) investing activities	(163,776)	(279,574)
Financing Activities		
Payments on secured debt	(4,549)	(42,304)
Proceeds from the issuance of secured debt	—	5,502
Payments on unsecured debt	(325,319)	(312,500)
Proceeds from the issuance of unsecured debt	—	298,956
Net proceeds/(repayment) of revolving bank debt	304,500	276,500
Proceeds from the issuance of common shares through public offering, net	108,739	—
Distributions paid to redeemable noncontrolling interests	(5,148)	(4,909)
Distributions paid to preferred stockholders	(1,862)	(1,862)
Distributions paid to common stockholders	(138,559)	(124,338)
Other	(3,263)	(5,117)
Net cash provided by/(used in) financing activities	(65,461)	89,928
Net increase/(decrease) in cash and cash equivalents	(12,234)	(3,433)
Cash and cash equivalents, beginning of period	15,224	30,249
Cash and cash equivalents, end of period	2,990	26,816

	Six Months Ended June 30, 2015	2014
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$66,448	$69,291
Non-cash transactions:		
Acquisition of real estate	$24,067	$—
Fair value adjustment of debt acquired as part of acquisition of real estate	1,363	$—

See accompanying notes to consolidated financial statements.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

1. CONSOLIDATION AND BASIS OF PRESENTATION
Consolidation and Basis of Presentation
UDR, Inc., collectively with our consolidated subsidiaries ("UDR," the "Company," "we," "our," or "us"), is a self-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership" or the "OP"). As of June 30, 2015, there were 183,278,698 units in the Operating Partnership outstanding, of which 174,216,009 units, or 95.1%, were owned by UDR and 9,062,689 units, or 4.9%, were owned by limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership.
The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2015, and results of operations for the three and six months ended June 30, 2015 and 2014 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2014 appearing in UDR's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 24, 2015.
The accompanying interim unaudited consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP"). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the interim unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation.
The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted.
2. SIGNIFICANT ACCOUNTING POLICIES
Recent Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard specifically excludes lease contracts. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for the Company on January 1, 2018; early adoption is permitted on January 1, 2017. The Company has not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, to revise the presentation of debt issuance costs. Under ASU 2015-03, entities will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred costs will continue to be included in interest expense. The guidance, which is to be applied retrospectively to all prior periods, is effective for fiscal years beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. The Company does not expect ASU 2015-03 to have a significant effect on its consolidated financial statements.

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
JUNE 30, 2015

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model. Among other changes, the new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard will be effective for the Company beginning on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

Discontinued Operations

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

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

Revenue and Real Estate Sales Gain Recognition

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

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

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

Notes Receivable

The following table summarizes our notes receivable, net as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	Interest rate at June 30, 2015	Balance outstanding June 30, 2015	Balance outstanding December 31, 2014
Note due February 2017 (a)	10.00 %	$ 12,994	$ 11,869

Note due July 2017 (b)	8.00 %	2,500	2,500
Total notes receivable, net		$ 15,494	$ 14,369

(a) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $13.0 million. During the six months ended June 30, 2015, the Company loaned an additional $1.1 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (February 2017).

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

The Company recognized $0.3 million and $1.3 million of interest income from notes receivable during the three months ended June 30, 2015 and 2014, respectively, and $0.7 million and $2.5 million during the six months ended June 30, 2015 and 2014, respectively, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2015 and 2014, 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 redeemable noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests was $224,000 and $50,000 during the three months ended June 30, 2015 and 2014, respectively, and $(1,000) and $106,000 during the six months ended June 30, 2015 and 2014, respectively.

Income Taxes

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

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company's deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of June 30, 2015, UDR's net deferred tax asset was $9.1 million (net of a valuation allowance of less than $0.1 million), which is included in Other assets on the Consolidated Balance Sheets.

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

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

than not to be realized upon ultimate settlement.
UDR had no material unrecognized tax benefit, accrued interest or penalties at June 30, 2015. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2011 through 2014

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remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax benefit/(expense), net on the Consolidated Statements of Operations.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2015, the Company owned and consolidated 136 communities in 10 states plus the District of Columbia totaling 39,404 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Land and land improvements	$1,919,597	$1,980,221
Depreciable property — held and used:		
Building, improvements, and furniture, fixtures and equipment	6,413,037	6,225,406
Under development:		
Land and land improvements	78,085	24,584
Building, improvements, and furniture, fixtures and equipment	14,560	153,048
Real estate owned	8,425,279	8,383,259
Accumulated depreciation	(2,557,949)	(2,434,772)
Real estate owned, net	$5,867,330	$5,948,487

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

During the six months ended June 30, 2015, the Company sold three communities with a total of 812 apartment homes for gross proceeds of $109.9 million, resulting in net proceeds of $90.5 million and a total gain, net of tax, of $79.0 million. A portion of the sale proceeds were designated as a tax-deferred exchange related to a 2014 acquisition under Section 1031 of the Internal Revenue Code.

In June 2015, the Company and the Operating Partnership entered into a definitive agreement with an affiliate of Lone Star Funds (“Lone Star”) and Home Properties, L.P. (“Home”) to acquire up to six communities valued at $908.0 million in exchange for a combination of partnership units of a newly formed operating partnership ("UDR DownREIT Units"), cash and the assumption of debt.

The agreement provides that each Home unitholder will have the option to elect to receive cash from Lone Star, UDR DownREIT Units, or a combination of cash and UDR DownREIT Units. The number of UDR DownREIT Units and the amount of cash will be determined at the closing of the consent solicitation of the Home unitholders, which we anticipate to be completed by mid-August, 2015. If all Home unitholders elect to receive UDR DownREIT Units, the transaction would be funded through the issuance of approximately $753.0 million of UDR DownREIT Units at $35 per unit, the assumption of $90.0 million of debt and $65.0 million in cash, inclusive of transfer taxes and loan assumption fees. Based upon the level of Home unitholders electing to receive UDR DownREIT Units, UDR will have the option to either acquire less than six properties or to acquire some of the properties through a Section 1031 exchange pursuant to the Internal Revenue Code. The closing of the transaction is subject to certain customary closing conditions, including, among others, the satisfaction (or waiver) of certain closing conditions to the merger between Lone Star and Home, and is anticipated to occur during the fourth quarter of 2015.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $1.6 million and $2.1 million for the three months ended June 30, 2015 and 2014, respectively, and $3.8 million and $5.5 million for the six months ended June 30, 2015 and 2014, respectively. Total interest capitalized was $3.8 million and $4.9 million for the three months ended June 30, 2015 and 2014, respectively, and $8.6 million and $10.2 million for the six months ended June 30, 2015 and 2014, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. DISCONTINUED OPERATIONS

Effective January 1, 2014, UDR prospectively adopted ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, for all communities not previously sold or classified as held for sale. The standard had a material impact on the Company's consolidated financial statements. As a result of adopting the ASU, during the three and six months ended June 30, 2014, gains (net of tax) of $26.7 million and $49.9 million, respectively, from disposition of real estate, excluding a $1.1 million gain related to the sale of land, are included in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations rather than in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

As of June 30, 2014, the Company held one operating property that was classified as held for disposition prior to the adoption of ASU 2014-08 and, therefore, met the requirements to be reported as a discontinued operation. The operating results of the property for the three and six months ended June 30, 2014 are included in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations. The property was subsequently sold during the third quarter of 2014.

The following is a summary of income/(loss) from discontinued operations, net of tax for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Rental income	$—	$78	$—	$126
Rental expenses	—	89	—	214
Property management	—	2	—	3
Interest income and other (income)/expense, net	—	9	—	18
Income tax benefit/(expense)	—	40	—	40
Income/(loss) from discontinued operations, net of tax	$—	$18	$—	$(69)
Income/(loss) from discontinued operations attributable to UDR, Inc.	$—	$17	$—	$(67)

5. JOINT VENTURES AND PARTNERSHIPS

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

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

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 unconsolidated joint ventures and partnerships.

The following table summarizes the Company’s investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR’s Ownership Interest	
		June 30, 2015	June 30, 2015	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Operating and development:							
UDR/MetLife I	Various	4 land parcels	—	$14,181	$13,306	16.1 %	15.7 %
UDR/MetLife II	Various	21 operating communities	4,642	428,321	431,277	50.0 %	50.0 %
Other UDR/MetLife Development Joint Ventures	Various	1 operating community; 4 development communities (a); 1 land parcels	1,437	158,172	134,939	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities 6 land parcels	1,130	75,531	80,302	50.0 %	50.0 %
UDR/KFH	Washington, D.C.	3 operating communities	660	19,775	21,596	30.0 %	30.0 %
Texas (b)	Texas	—	—	—	(25,901)	— %	20.0 %
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment			695,980,000	695,980	655,519		

	Location	Rate	Years To Maturity	Investment at		Income from Investment			
						Three Months Ended June 30,		Six Months Ended June 30,	
				June 30, 2015	December 31, 2014	2015	2014	2015	2014
Participating loan investment:									
Steele Creek	Denver, CO	6.5%	2.1	85,208	62,707	$1,352	$456	$2,506	$777
Preferred equity investment:									
West Coast Development Joint Venture (c)	Various	6.5%	—	133,627	—	$(548)	$—	$(548)	$—
				$914,815	$718,226				

Total investment in and advances to unconsolidated joint ventures, net

(a) The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes. As of June 30, 2015, no apartment homes had been completed in Other UDR/MetLife Development Joint Ventures.

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

(c) In May 2015, the Company entered into a joint venture agreement with real estate private equity firm, The Wolff Company ("Wolff"), and agreed to pay $136.3 million for a 48 percent interest in a portfolio of five communities that are currently under construction (the "West Coast Development Joint Venture"). As of June 30, 2015, the Company had funded $129.6 million of its investment and had a remaining commitment of $6.7 million. The communities are located in three of the Company's core, coastal markets: Metro Seattle, Los Angeles and Orange County, CA. UDR earns a 6.5 percent preferred return on its investment through each individual community's date of stabilization, defined as when a community reaches 80 percent occupancy for ninety consecutive days, while Wolff is allocated all operating income and expense during the pre-stabilization period. Upon stabilization, income and expense will be shared based on each partner's ownership percentage. The Company will serve as property manager and be paid a management fee during the lease-up phase and subsequent operation of each of the communities. Wolff is the general partner of the joint venture and the developer of the communities.

The Company has a fixed price option to acquire Wolff's remaining interest in each community beginning one year after completion. If the options are exercised for all five communities, the Company's total price will be $597.4 million. In the event the Company does not exercise its options to purchase at least two communities, Wolff will be entitled to earn a contingent disposition fee equal to 6.5 percent return on its implied equity in the communities not acquired. Wolff is providing certain guaranties and there will be construction loans on all five communities. Once completed, the five communities will contain 1,533 homes.

The Company has concluded it does not control the joint venture and accounts for it under the equity method of accounting. The Company's recorded equity investment in the West Coast Development Joint Venture at June 30, 2015 of $133.6 million is inclusive of outside basis costs and our accrued but unpaid preferred return. During the three and six months ended June 30, 2015, the Company earned a preferred return of $1.0 million, offset by its share of the West Coast Development Joint Venture transaction expenses of $1.5 million.

As of June 30, 2015 and December 31, 2014, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of $6.8 million and $28.5 million, respectively, which will be recognized through income over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees for our management of the joint ventures and partnerships of $2.6 million and $2.3 million for the three months ended June 30, 2015 and 2014, respectively, and $5.2 million and $5.6 million for the six months ended June 30, 2015 and 2014, respectively. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three and six months ended June 30, 2015 and 2014.

Combined summary balance sheets relating to all of the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Total real estate, net	$3,004,723	$2,941,803
Assets held for sale	—	216,196
Cash and cash equivalents	36,820	32,544
Other assets	32,869	28,707
Total assets	$3,074,412	$3,219,250
Amount due to UDR	$6,434	$2,997
Third party debt	1,529,724	1,504,477
Liabilities held for sale	—	229,706
Accounts payable and accrued liabilities	63,521	44,335
Total liabilities	1,599,679	1,781,515
Total equity	1,474,733	1,437,735
Total liabilities and equity	$3,074,412	$3,219,250
UDR's investment in unconsolidated joint ventures	$914,815	$718,226

Combined summary financial information relating to all of the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total revenues	$55,450	$48,379	$109,996	$87,334
Property operating expenses	(21,557)	(18,001)	(41,724)	(32,360)
Real estate depreciation and amortization	(19,402)	(16,808)	(38,754)	(31,496)
Operating income/(loss)	14,491	13,570	29,518	23,478
Interest expense	(16,169)	(14,928)	(32,230)	(27,079)
Other income/(expense)	(7)	—	(7)	—
Income/(loss) from discontinued operations	—	(4,705)	182,488	(31,688)
Net income/(loss)	$(1,685)	$(6,063)	$179,769	$(35,289)
UDR income/(loss) from unconsolidated entities	$(573)	$(428)	$58,586	$(3,993)

6. SECURED AND UNSECURED DEBT

The following is a summary of our secured and unsecured debt at June 30, 2015 and December 31, 2014 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2015			
	June 30, 2015	December 31, 2014	Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	$408,736	$401,210	5.50	%	1.1	7
Fannie Mae credit facilities (b)	566,288	568,086	5.12	%	3.5	21
Total fixed rate secured debt	975,024	969,296	5.28	%	2.5	28
Variable Rate Debt						
Mortgage notes payable	31,337	31,337	1.94	%	1.6	1
Tax-exempt secured notes payable (c)	94,700	94,700	0.84	%	7.7	2
Fannie Mae credit facilities (b)	249,378	266,196	1.63	%	4.8	7
Total variable rate secured debt	375,415	392,233	1.45	%	5.3	10
Total Secured Debt	1,350,439	1,361,529	4.22	%	3.3	38
Unsecured Debt:						
Commercial Banks						
Borrowings outstanding under an unsecured credit facility due December 2017 (d) (f)	457,000	152,500	1.12	%	2.4	
Senior Unsecured Notes						
5.25% Medium-Term Notes due January 2015 (net of discounts of $0 and $6, respectively) (e)	—	325,169	—	%	—	
5.25% Medium-Term Notes due January 2016	83,260	83,260	5.25	%	0.5	
6.21% Term Notes due July 2016	12,609	—	6.21	%	1.0	
4.25% Medium-Term Notes due June 2018 (net of discounts of $1,251 and $1,465, respectively) (f)	298,749	298,535	4.25	%	2.9	
1.70% Term Notes due June 2018 (f)	215,000	215,000	1.70	%	2.9	
1.53% Term Notes due June 2018 (f)	100,000	100,000	1.53	%	2.9	
1.33% Term Notes due June 2018 (f)	35,000	35,000	1.33	%	2.9	
3.70% Medium-Term Notes due October 2020 (net of discounts of $42 and $46, respectively) (f)	299,958	299,954	3.70	%	5.3	
4.63% Medium-Term Notes due January 2022 (net of discounts of $2,344 and $2,523, respectively) (f)	397,656	397,477	4.63	%	6.5	

3.75% Medium-Term Notes due July 2024 (net of discount of $938 and $990, respectively) (f)	299,062	299,010	3.75	%	9.0
8.50% Debentures due September 2024	15,644	15,644	8.50	%	9.2
Other	26	27	N/A		N/A
Total Unsecured Debt	2,213,964	2,221,576	3.20	%	4.6
Total Debt	$3,564,403	$3,583,105	3.58	%	4.1

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Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the above table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. As of June 30, 2015, secured debt encumbered $2.2 billion or 26.6% of UDR's total real estate owned based upon gross book value ($6.2 billion or 73.4% of UDR's real estate owned based on gross book value is unencumbered).

(a) At June 30, 2015, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2015 through May 2019 and carry interest rates ranging from 3.43% to 6.16%.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Company had a reduction to interest expense based on the amortization of the fair market adjustment of debt assumed in the acquisition of properties of $1.3 million and $1.2 million during the three months ended June 30, 2015 and 2014, respectively, and $2.4 million and $2.5 million during the six months ended June 30, 2015 and 2014, respectively. The unamortized fair market adjustment was a net premium of $5.7 million and $6.7 million at June 30, 2015 and December 31, 2014, respectively.

(b) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $815.7 million at June 30, 2015. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2015, $566.3 million of the outstanding balance was fixed and had a weighted average interest rate of 5.12% and the remaining balance of $249.4 million had a weighted average variable interest rate of 1.63%.

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

	June 30, 2015	December 31, 2014
Borrowings outstanding	$815,666	$834,282
Weighted average borrowings during the period ended	830,434	835,873
Maximum daily borrowings during the period ended	834,003	837,564
Weighted average interest rate during the period ended	4.0 %	4.1 %
Weighted average interest rate at the end of the period	4.1 %	4.0 %

(c) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates of 0.84% and 0.85% as of June 30, 2015.

(d) As of June 30, 2015, the Company has a $900 million unsecured revolving credit facility that matures in December 2017. The credit facility has a six month extension option and contains an accordion feature that allows us to increase the facility to $1.45 billion. Based on the Company's current credit rating, the credit facility carries an interest rate equal to LIBOR plus a spread of 100 basis points and a facility fee of 15 basis points.

The following is a summary of short-term bank borrowings under UDR’s revolving credit facility at June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015		December 31, 2014	
Total revolving credit facility	$900,000		$900,000	
Borrowings outstanding at end of period (1)	457,000		152,500	
Weighted average daily borrowings during the period ended	402,514		291,761	
Maximum daily borrowings during the period ended	539,100		625,000	
Weighted average interest rate during the period ended	1.2	%	1.2	%
Interest rate at end of the period	1.1	%	1.1	%

(1) Excludes $2.3 million and $1.9 million of letters of credit at June 30, 2015 and December 31, 2014, respectively.

(e) Paid off at maturity with borrowings under the Company's $900 million unsecured revolving credit facility.

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

The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next five calendar years subsequent to June 30, 2015 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt (a)	Total Debt
2015	$191,363	$—	$191,363	$79	$191,442
2016	148,223	—	148,223	94,469	242,692
2017	177,882	96,337	274,219	457,000	731,219
2018	121,685	87,969	209,654	648,445	858,099
2019	245,871	67,700	313,571	—	313,571
Thereafter	90,000	123,409	213,409	1,013,971	1,227,380
Total	$975,024	$375,415	$1,350,439	$2,213,964	$3,564,403

(a) With the exception of the 1.33% Term Notes due June 2018 and the revolving credit facility which carry a variable interest rate, all unsecured debt carries fixed interest rates.

We were in compliance with the covenants of our debt instruments at June 30, 2015.

7. INCOME/(LOSS) PER SHARE

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Numerator for income/(loss) per share:				
Income/(loss) from continuing operations	$10,842	$4,359	$87,259	$(836)
Gain/(loss) on sale of real estate owned, net of tax	79,042	26,709	79,042	51,003
(Income)/loss from continuing operations attributable to redeemable noncontrolling interests in the Operating Partnership	(3,029)	(1,076)	(5,617)	(1,726)
(Income)/loss from continuing operations attributable to noncontrolling interests	—	(2)	(7)	(6)
Income/(loss) from continuing operations attributable to UDR, Inc.	86,855	29,990	160,677	48,435
Distributions to preferred stockholders - Series E (Convertible)	(931)	(931)	(1,862)	(1,862)
Income/(loss) from continuing operations attributable to common stockholders - basic	$85,924	$29,059	$158,815	$46,573
Dilutive distributions to preferred stockholders - Series E (Convertible)	931	—	—	—
Income/(loss) from continuing operations attributable to common stockholders - diluted	$86,855	$29,059	$158,815	$46,573
Income/(loss) from discontinued operations, net of tax	$—	$18	$—	$(69)
(Income)/loss from discontinued operations attributable to redeemable noncontrolling interests in the Operating Partnership	—	(1)	—	2
Income/(loss) from discontinued operations attributable to common stockholders	$—	$17	$—	$(67)
Net income/(loss) attributable to common stockholders	85,924	29,076	$158,815	$46,506
Denominator for income/(loss) per share:				
Weighted average common shares outstanding	259,028	251,458	258,567	251,336
Non-vested restricted stock awards	(1,179)	(1,203)	(1,223)	(1,120)
Denominator for basic income/(loss) per share	257,849	250,255	257,344	250,216
Incremental shares issuable from assumed conversion of preferred stock, stock options, and unvested restricted stock	4,957	1,936	1,923	1,875
Denominator for diluted income/(loss) per share	262,806	252,191	259,267	252,091
Income/(loss) per weighted average common share-basic:				
	$0.33	$0.12	$0.62	$0.19

Income/(loss) from continuing operations attributable to common stockholders				
Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—
Net income/(loss) attributable to common stockholders	$0.33	$0.12	$0.62	$0.19
Income/(loss) per weighted average common share-diluted:				
Income/(loss) from continuing operations attributable to common stockholders	$0.33	$0.12	$0.61	$0.18
Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—
Net income/(loss) attributable to common stockholders	$0.33	$0.12	$0.61	$0.18

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Basic income/(loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income/(loss) per share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of the OP Units, convertible preferred stock, stock options, and restricted stock. Only those instruments having a dilutive impact on our basic income/(loss) per share are included in diluted income/(loss) per share during the periods. For the three months ended June 30, 2015, the Company's Series E preferred stock was dilutive for purposes of calculating earnings per share. For the six months ended June 30, 2015, and the three and six months ended June 30, 2014, the Company's Series E preferred stock was anti-dilutive.

The following table sets forth the additional shares of common stock outstanding by equity instrument if converted to common stock for each of the three and six months ended June 30, 2015 and 2014 (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
OP Units	9,125	9,316	9,145	9,317
Preferred stock	3,036	3,036	3,036	3,036
Stock options and unvested restricted stock	1,921	1,936	1,923	1,875

8. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interests in the Operating Partnership

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

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

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

Redeemable noncontrolling interests in the Operating Partnership, December 31, 2014	$282,480	
Mark-to-market adjustment to redeemable noncontrolling interests in the Operating Partnership	10,930	
Conversion of OP Units to Common Stock	(3,498	)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership	5,617	
Distributions to redeemable noncontrolling interests in the Operating Partnership	(5,250	)
Allocation of other comprehensive income/(loss)	(1	)
Redeemable noncontrolling interests in the Operating Partnership, June 30, 2015	$290,278	

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income/(loss) attributable to common stockholders	$85,924	$29,076	$158,815	$46,506
Conversion of OP Units to UDR Common stock	3,479	191	3,498	191
Change in equity from net income/(loss) attributable to common stockholders and conversion of OP Units to UDR Common Stock	$89,403	$29,267	$162,313	$46,697

Noncontrolling Interests

Noncontrolling interests represent interests of unrelated partners in certain consolidated affiliates, and are presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. Net (income)/loss attributable to noncontrolling interests was $0 and $(2,000) during the three months ended June 30, 2015 and 2014, respectively, and $(7,000) and $(6,000) during the six months ended June 30, 2015 and 2014, respectively.

9. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

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

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

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UDR, INC.
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The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of June 30, 2015 and December 31, 2014 are summarized as follows (dollars in thousands):

			Fair Value at June 30, 2015, Using		
	Total Carrying Amount in Statement of Financial Position at June 30, 2015	Fair Value Estimate at June 30, 2015	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$15,494	$15,863	$—	$—	$15,863
Derivatives - Interest rate contracts (b)	12	12	—	12	—
Total assets	$15,506	$15,875	$—	$12	$15,863
Derivatives - Interest rate contracts (b)	$9,109	$9,109	$—	$9,109	$—
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	408,736	420,571	—	—	420,571
Fannie Mae credit facilities	566,288	592,916	—	—	592,916
Secured debt instruments - variable rate: (c)					
Mortgage notes payable	31,337	31,337	—	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	249,378	249,378	—	—	249,378
Unsecured debt instruments: (c)					
Commercial bank	457,000	457,000	—	—	457,000
Senior unsecured notes	1,756,964	1,816,636	—	—	1,816,636
Total liabilities	$3,573,512	$3,671,647	$—	$9,109	$3,662,538
Redeemable noncontrolling interests in the Operating Partnership (d)	$290,278	$290,278	$—	$290,278	$—

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	Total Carrying Amount in Statement of Financial Position at December 31, 2014	Fair Value Estimate at December 31, 2014	Fair Value at December 31, 2014, Using		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Notes receivable (a)	$14,369	$14,808	$—	$—	$14,808
Derivatives - Interest rate contracts (b)	88	88	—	88	—
Total assets	$14,457	$14,896	$—	$88	$14,808
Derivatives- Interest rate contracts (b)	$10,368	$10,368	$—	$10,368	$—
Secured debt instruments - fixed rate: (c)					
Mortgage notes payable	401,210	415,663	—	—	415,663
Fannie Mae credit facilities	568,086	606,623	—	—	606,623
Secured debt instruments - variable rate: (c)					
Mortgage notes payable	31,337	31,337	—	—	31,337
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	266,196	266,196	—	—	266,196
Unsecured debt instruments: (c)					
Commercial bank	152,500	152,500	—	—	152,500
Senior unsecured notes	2,069,076	2,144,125	—	—	2,144,125
Total liabilities	$3,593,473	$3,721,512	$—	$10,368	$3,711,144
Redeemable noncontrolling interests in the Operating Partnership (d)	$282,480	$282,480	$—	$282,480	$—

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

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

Financial Instruments Carried at Fair Value

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2015 and December 31, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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

Financial Instruments Not Carried at Fair Value

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

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

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

We consider various factors to determine if a decrease in the value of our investment in and advances to unconsolidated joint ventures, net is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the three and six months ended June 30, 2015 and 2014.

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

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10. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2015, the Company recorded no ineffectiveness to earnings. During the three and six months ended June 30, 2014, the Company recorded a gain of approximately $3,000 related to the ineffective portion of the derivative, which was caused by a timing difference between the derivative and the hedge item.

Amounts reported in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets related to derivatives that will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through June 30, 2016, the Company estimates that an additional $2.6 million will be reclassified as an increase to interest expense.

As of June 30, 2015, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	9	$565,000
Interest rate caps	2	$219,984

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in no adjustment to earnings for the three and six months ended June 30, 2015 and 2014.

As of June 30, 2015, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	2	$116,289

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	Asset Derivatives (included in Other assets) Fair Value at:		Liability Derivatives (included in Other liabilities) Fair Value at:	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:				
Interest rate products	$9	86	$9,109	$10,368
Derivatives not designated as hedging instruments:				
Interest rate products	$3	$2	$—	$—

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

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)		Gain/(Loss) Recognized in Interest expense (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2015	2014	2015	2014	2015	2014
Three Months Ended June 30,						
Interest rate products	$6,186	$304	$(292)	$(1,145)	$—	$3
Six Months Ended June 30,						
Interest rate products	$(1,366)	$249	$(1,029)	$(2,677)	$—	$3

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
	2015	2014
Three Months Ended June 30,		
Interest rate products	$(22)	$—
Six Months Ended June 30,		
Interest rate products	$(24)	$—

Credit-risk-related Contingent Features

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

Certain of the Company's agreements with its derivative counterparties contain provisions where, if there is a change in the Company's financial condition that materially changes the Company's creditworthiness in an adverse manner, the

Company may be required to fully collateralize its obligations under the derivative instrument.

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

As of June 30, 2015, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $10.7 million. As of June 30, 2015, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at June 30, 2015, it may have been required to settle its obligations under the agreements at their termination value of $10.7 million.

Tabular Disclosure of Offsetting Derivatives

Company has elected not to offset derivative positions in the consolidated financial statements. The tables below present the effect on its financial position had the Company made the election to offset its derivative positions as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets (a)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2015	$12	$—	$12	$—	$—	$12
December 31, 2014	$88	$—	$88	$(27)	$—	$61

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

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets (b)	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Posted	Net Amount
June 30, 2015	$9,109	$—	$9,109	$—	$—	$9,109
December 31, 2014	$10,368	$—	$10,368	$(27)	$—	$10,341

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

11. STOCK BASED COMPENSATION

The Company recognized stock based compensation expense, inclusive of awards granted to our independent directors, of $5.1 million and $3.6 million during the three months ended June 30, 2015 and 2014, respectively, and $9.6 million and $7.3 million during the six months ended June 30, 2015 and 2014, respectively.

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UDR, INC.
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12. COMMITMENTS AND CONTINGENCIES
Commitments
Real Estate Under Development
The following summarizes the Company's real estate commitments at June 30, 2015 (dollars in thousands):

	Number of Properties	Costs Incurred as of June 30, 2015 (a)		Expected Costs to Complete		Average Ownership Stake	
Wholly-owned — under development	1	$92,645	(b)	$249,355		100	%
Wholly-owned — redevelopment	1	4,854	(b)	10,146		100	%
Joint ventures:							
Unconsolidated joint ventures	4	335,539		163,791	(c)	Various	
Participating loan investments	1	85,208	(d)	6,801	(e)	0	%
Preferred equity investments	5	129,592	(f)	6,735	(g)	48	%
		$647,838		$436,828			

(a) Represents 100% of project costs incurred as of June 30, 2015.
(b) Costs incurred to date include $114,000 and $1.3 million of accrued fixed assets for development and redevelopment, respectively.
(c) Represents UDR's proportionate share of expected remaining costs to complete.
(d) Represents the participating loan balance funded as of June 30, 2015.
(e) Represents UDR's remaining participating loan commitment for Steele Creek.
(f) Represents UDR's share of capital contributed to the West Coast Development Joint Venture as of June 30, 2015.
(g) Represents UDR's remaining funding commitment on Katella Grand II.

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

13. REPORTABLE SEGMENTS
GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.
UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional

supervision and accounting costs related to consolidated property operations, and land rent. UDR's chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

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

- Same-Store Communities represent those communities acquired, developed, and stabilized prior to April 1, 2014 for quarter-to-date comparison and January 1, 2014 for year-to-date comparison and held as of June 30, 2015. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior period, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the three and six months ended June 30, 2015 and 2014.

The following table details rental income and NOI from continuing and discontinued operations for UDR's reportable segments for the three and six months ended June 30, 2015 and 2014, and reconciles NOI to Net Income/(Loss) Attributable to UDR, Inc. in the Consolidated Statements of Operations (dollars in thousands):

	Three Months Ended June 30, (a)		Six Months Ended June 30, (b)	
	2015	2014	2015	2014
Reportable apartment home segment rental income				
Same-Store Communities				
West Region	$68,646	$64,004	$135,595	$126,405
Mid-Atlantic Region	43,536	42,644	86,331	84,694
Southeast Region	26,540	25,063	52,505	49,774
Northeast Region	21,436	20,294	42,328	40,096
Southwest Region	14,363	13,623	28,470	27,090
Non-Mature Communities/Other	38,243	35,409	74,582	67,378
Total consolidated rental income	$212,764	$201,037	$419,811	$395,437
Reportable apartment home segment NOI				
Same-Store Communities				
West Region	$51,400	$46,496	$100,999	$91,287
Mid-Atlantic Region	30,302	29,863	59,590	58,699
Southeast Region	17,876	16,769	35,207	33,465
Northeast Region	16,269	15,459	31,835	30,004
Southwest Region	8,998	8,263	17,534	16,621
Non-Mature Communities/Other	25,587	23,542	48,842	42,440
Total consolidated NOI	150,432	140,392	294,007	272,516
Reconciling items:				
Joint venture management and other fees	3,098	2,747	15,804	6,434
Property management	(5,851)	(5,529)	(11,545)	(10,875)
Other operating expenses	(1,769)	(2,171)	(3,535)	(4,106)
Real estate depreciation and amortization	(90,344)	(88,876)	(179,121)	(177,409)
General and administrative	(13,721)	(12,530)	(25,873)	(24,524)
Casualty-related recoveries/(charges), net	(843)	—	(1,839)	(500)
Other depreciation and amortization	(1,700)	(1,193)	(3,323)	(2,273)
Income/(loss) from unconsolidated entities	(573)	(428)	58,586	(3,993)
Interest expense	(29,673)	(31,691)	(58,473)	(64,575)
Interest income and other income/(expense), net	382	1,426	742	2,841
Tax benefit/(expense), net	1,404	2,230	1,829	5,559
Gain/(loss) on sale of real estate owned, net of tax	79,042	26,709	79,042	51,003
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership	(3,029)	(1,077)	(5,617)	(1,724)
Net (income)/loss attributable to noncontrolling interests	—	(2)	(7)	(6)
Net income/(loss) attributable to UDR, Inc.	$86,855	$30,007	$160,677	$48,368

(a) Same-Store Community population consisted of 35,250 apartment homes.

(b) Same-Store Community population consisted of 35,250 apartment homes.

The following table details the assets of UDR's reportable segments as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Reportable apartment home segment assets:		
Same-Store Communities:		
West Region	$2,608,586	$2,592,156
Mid-Atlantic Region	1,541,420	1,533,993
Southeast Region	738,595	733,068
Northeast Region	1,081,035	1,076,656
Southwest Region	443,526	440,721
Non-Mature Communities/Other	2,012,117	2,006,665
Total assets	8,425,279	8,383,259
Accumulated depreciation	(2,557,949)	(2,434,772)
Total assets — net book value	5,867,330	5,948,487
Reconciling items:		
Cash and cash equivalents	2,990	15,224
Restricted cash	22,912	22,340
Deferred financing costs, net	19,930	22,686
Notes receivable, net	15,494	14,369
Investment in and advances to unconsolidated joint ventures, net	914,815	718,226
Other assets	96,259	105,202
Total consolidated assets	$6,939,730	$6,846,534

Capital expenditures related to our Same-Store Communities totaled $20.6 million and $12.8 million for the three months ended June 30, 2015 and 2014, respectively, and $33.8 million and $20.3 million for the six months ended June 30, 2015 and 2014, respectively. Capital expenditures related to our Non-Mature Communities/Other totaled $1.2 million and $2.5 million for the three months ended June 30, 2015 and 2014, respectively, and $3.8 million and $4.8 million for the six months ended June 30, 2015 and 2014.

Markets included in the above geographic segments are as follows:

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

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

	June 30, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$4,238,995	$4,238,770
Less: accumulated depreciation	(1,474,834)	(1,403,303)
Total real estate owned, net of accumulated depreciation	2,764,161	2,835,467
Cash and cash equivalents	164	502
Restricted cash	14,456	13,811
Deferred financing costs, net	3,707	4,475
Other assets	23,090	24,029
Total assets	$2,805,578	$2,878,284
LIABILITIES AND CAPITAL		
Liabilities:		
Secured debt	$912,567	$931,959
Notes payable due to General Partner	88,696	88,696
Real estate taxes payable	7,516	7,061
Accrued interest payable	3,168	3,284
Security deposits and prepaid rent	17,905	18,387
Distributions payable	50,962	47,788
Deferred gains on the sale of depreciable property	—	24,622
Accounts payable, accrued expenses, and other liabilities	18,362	22,436
Total liabilities	1,099,176	1,144,233
Commitments and contingencies (Note 9)		
Capital:		
Partners’ capital:		
General partner:		
110,883 OP Units outstanding at June 30, 2015 and December 31, 2014	1,094	1,105
Limited partners:		
183,167,815 OP Units outstanding at June 30, 2015 and December 31, 2014	1,684,784	1,702,971
Accumulated other comprehensive income/(loss), net	(599)	(1,075)
Total partners’ capital	1,685,279	1,703,001
Advances (to)/from General Partner	2,956	13,624
Noncontrolling interests	18,167	17,426
Total capital	1,706,402	1,734,051
Total liabilities and capital	$2,805,578	$2,878,284

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUES:				
Rental income	$113,158	$104,842	$223,253	$207,212
OPERATING EXPENSES:				
Property operating and maintenance	19,065	18,328	38,179	36,562
Real estate taxes and insurance	11,810	11,546	24,676	23,265
Property management	3,112	2,883	6,139	5,698
Other operating expenses	1,496	1,451	2,986	2,887
Real estate depreciation and amortization	44,100	44,697	88,578	88,968
General and administrative	7,032	7,459	12,671	14,429
Casualty-related (recoveries)/charges, net	280	—	873	500
Total operating expenses	86,895	86,364	174,102	172,309
Operating income	26,263	18,478	49,151	34,903
Interest expense	(9,757)	(9,008)	(19,377)	(17,871)
Interest expense on note payable due to General Partner	(1,151)	(1,151)	(2,302)	(2,302)
Income/(loss) before gain/(loss) on sale of real estate owned	15,355	8,319	27,472	14,730
Gain/(loss) on sale of real estate owned	32,375	16,285	56,998	40,687
Net income/(loss)	47,730	24,604	84,470	55,417
Net (income)/loss attributable to noncontrolling interests	(347)	(178)	(741)	(458)
Net income/(loss) attributable to OP unitholders	$47,383	$24,426	$83,729	$54,959
Income/(loss) per weighted average OP Unit - basic and diluted:	$0.26	$0.13	$0.46	$0.30
Weighted average OP Units outstanding - basic and diluted	183,279	183,279	183,279	183,279

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income/(loss)	$47,730	$24,604	$84,470	$55,417
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	(26)	(140)	(77)	(191)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	267	573	553	1,196
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	241	433	476	1,005
Comprehensive income/(loss)	47,971	25,037	84,946	56,422
Comprehensive (income)/loss attributable to noncontrolling interests	(347)	(178)	(741)	(458)
Comprehensive income/(loss) attributable to OP unitholders	$47,624	$24,859	$84,205	$55,964

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partners	Limited Partners	UDR, Inc. Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss), net	Total Partners' Capital	Advances (to)/from General Partner	Noncontrolling Interests	Total
Balance at December 31, 2014	$53,987	$228,493	$1,420,491	$1,105	$(1,075)	$1,703,001	$13,624	$17,426	$1,734,051
Net income/(loss)	868	3,357	79,453	51	—	83,729	—	741	84,470
Distributions	(1,164)	(4,086)	(96,615)	(62)	—	(101,927)	—	—	(101,927)
OP Unit Redemptions for common shares of UDR	—	(3,496)	3,496	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	2,415	9,905	(12,320)	—	—	—	—	—	—
Unrealized gain on derivative financial investments	—	—	—	—	476	476	—	—	476
Net change in advances (to)/from General Partner	—	—	—	—	—	—	(10,668)	—	(10,668)
Balance at June 30, 2015	$56,106	$234,173	$1,394,505	$1,094	$(599)	$1,685,279	$2,956	$18,167	$1,706,402

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Operating Activities		
Net income/(loss)	$84,470	$55,417
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	88,578	88,968
Gain/(loss) on sale of real estate owned	(56,998)	(40,687)
Casualty-related (recoveries)/charges, net	873	500
Other	(349)	(123)
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(341)	1,506
Increase/(decrease) in operating liabilities	(976)	(2,164)
Net cash provided by/(used in) operating activities	115,257	103,417
Investing Activities		
Proceeds from sale of real estate investments, net	27,718	47,922
Development of real estate assets	(7,740)	(29,192)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(25,487)	(21,355)
Net cash provided by/(used in) investing activities	(5,509)	(2,625)
Financing Activities		
Advances from/(to) General Partner, net	(102,378)	(94,113)
Proceeds from the issuance of secured debt	—	—
Payments on secured debt	(2,588)	(2,492)
Distributions paid to partnership unitholders	(5,120)	(4,909)
Payments of financing costs	—	—
Net cash provided by/(used in) financing activities	(110,086)	(101,514)
Net increase/(decrease) in cash and cash equivalents	(338)	(722)
Cash and cash equivalents, beginning of period	502	1,897
Cash and cash equivalents, end of period	$164	$1,175
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$23,296	$21,649

See accompanying notes to the consolidated financial statements.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

United Dominion Realty, L.P. ("UDR, L.P.," the "Operating Partnership," "we" or "our") is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. ("UDR" or the "General Partner"), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the three months ended June 30, 2015 and 2014, rental revenues of the Operating Partnership represented 53% and 52%, respectively, and for the six months ended June 30, 2015 and 2014 53% and 52%, respectively, of the General Partner's consolidated rental revenues. As of June 30, 2015, the Operating Partnership's apartment portfolio consisted of 67 communities located in 17 markets consisting of 20,569 apartment homes.

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

As of June 30, 2015, there were 183,278,698 OP Units outstanding, of which 174,216,009 or 95.1% were owned by UDR and affiliated entities and 9,062,689 or 4.9% were owned by non-affiliated limited partners. See Note 8, Capital Structure.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2015, and results of operations for the three and six months ended June 30, 2015 and 2014 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2015 included in the Annual Report on Form 10-K filed by UDR and the Operating Partnership with the SEC on February 24, 2015.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, to revise the presentation of debt issuance costs. Under ASU 2015-03, entities will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred costs will continue to be included in interest expense. The guidance, which is to be applied retrospectively to all prior periods, is effective for fiscal years beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. The Operating Partnership does not expect ASU 2015-03 to have a significant effect on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model. Among other changes, the new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard will be effective for the Operating Partnership beginning on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The Operating Partnership is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

Discontinued Operations

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

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

Income/(Loss) Per Operating Partnership Unit

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

Revenue and Real Estate Sales Gain Recognition

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

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

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

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to unitholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2015 and 2014, the Operating Partnership's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges and (gain)/loss reclassified from other comprehensive income/(loss) into earnings. The (gain)/loss reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 7, Derivatives and Hedging Activity, for further discussion.

Income Taxes

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

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

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

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consists of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of June 30, 2015, the Operating Partnership owned and consolidated 67 communities in nine states plus the District of Columbia totaling 20,569 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Land	$1,006,651	$1,008,014

Depreciable property — held and used:		
Buildings, improvements, and furniture, fixture and equipment	3,232,344	3,230,756
Real estate owned	4,238,995	4,238,770
Accumulated depreciation	(1,474,834)	(1,403,303)
Real estate owned, net	$2,764,161	$2,835,467

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The Operating Partnership did not have any acquisitions or real estate sales during the six months ended June 30, 2015.

During the six months ended June 30, 2015, the Operating Partnership sold one community with a total of 240 apartment homes for gross proceeds of $45.3 million, resulting in net proceeds of $27.7 million and a total gain, net of tax, of $32.4 million. Additionally, the Operating Partnership recognized a gain of $24.6 million, which was previously deferred, in connection with the sale of the communities held by the Texas Joint Venture.
Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Operating Partnership capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $195,000 and $542,000 for the three months ended June 30, 2015 and 2014, respectively, and $328,000 and $1.3 million for the six months ended June 30, 2015 and 2014, respectively. Total interest capitalized was $32,000 and $1.0 million during the three months ended June 30, 2015 and 2014, respectively, and $54,000 and $2.0 million during the six months ended June 30, 2015 and 2014, respectively. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion and depreciation commences over the estimated useful life.

In June 2015, the General Partner and the Operating Partnership entered into a definitive agreement with an affiliate of Lone Star Funds (“Lone Star”) and Home Properties, L.P. (“Home”) to acquire up to six communities valued at $908.0 million in exchange for a combination of partnership units of a newly formed operating partnership ("UDR DownREIT Units"), cash and the assumption of debt.

The agreement provides that each Home unitholder will have the option to elect to receive cash from Lone Star, UDR DownREIT Units, or a combination of cash and UDR DownREIT Units. The number of UDR DownREIT Units and the amount of cash will be determined at the closing of the consent solicitation of the Home unitholders, which we anticipate to be completed by mid-August, 2015. If all Home unitholders elect to receive UDR DownREIT Units, the transaction would be funded through the issuance of approximately $753.0 million of UDR DownREIT Units at $35 per unit, the assumption of $90.0 million of debt and $65.0 million in cash, inclusive of transfer taxes and loan assumption fees. Based upon the level of Home unitholders electing to receive UDR DownREIT Units, UDR will have the option to either acquire less than six properties or to acquire some of the properties through a Section 1031 exchange pursuant to the Internal Revenue Code. The closing of the transaction is subject to certain customary closing conditions, including, among others, the satisfaction (or waiver) of certain closing conditions to the merger between Lone Star and Home, and is anticipated to occur during the fourth quarter of 2015.

The acquired properties will be owned and consolidated by UDR but only partially owned and accounted for as an equity method investment by the Operating Partnership.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)
June 30, 2015

4. DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	Principal Outstanding		Six Months Ended June 30, 2015		
	June 30, 2015	December 31, 2014	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	$374,056	$378,371	5.49 %	1.1	5
Fannie Mae credit facilities	334,002	333,828	4.90 %	4.1	9
Total fixed rate secured debt	708,058	712,199	5.21 %	2.5	14
Variable Rate Debt					
Tax-exempt secured note payable	27,000	27,000	0.85 %	16.7	1
Fannie Mae credit facilities	177,509	192,760	1.88 %	5.7	5
Total variable rate secured debt	204,509	219,760	1.74 %	7.1	6
Total Secured Debt	$912,567	$931,959	4.43 %	3.5	20

As of June 30, 2015, an aggregate commitment of $511.5 million of the General Partner's secured credit facilities with Fannie Mae was allocated to the Operating Partnership based on the ownership of the assets securing the debt. The entire commitment was outstanding at June 30, 2015. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At June 30, 2015, $334.0 million of the outstanding balance was fixed and had a weighted average interest rate of 4.90% and the remaining balance of $177.5 million on these facilities had a weighted average variable interest rate of 1.88%.

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

	June 30, 2015	December 31, 2014
Borrowings outstanding	$511,511	$526,588
Weighted average borrowings during the period ended	520,773	527,592
Maximum daily borrowings during the period	523,011	528,659
Weighted average interest rate during the period ended	3.8 %	4.1 %
Interest rate at the end of the period	3.9 %	4.0 %

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair value adjustment of the fixed rate debt instruments on the Operating Partnership’s properties was a net premium of $4.2 million and $6.2 million at June 30, 2015 and December 31, 2014, respectively.

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2015 through May 2019 and carry interest rates ranging from 3.43% to 5.94%.

Secured credit facilities. At June 30, 2015, the General Partner had borrowings against its fixed rate facilities of $566.3 million, of which $334.0 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2015, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 4.90%.

Variable Rate Debt

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures March 2032. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 0.85% as of June 30, 2015.

Secured credit facilities. At June 30, 2015, the General Partner had borrowings against its variable rate facilities of $249.4 million, of which $177.5 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of June 30, 2015, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 1.88%.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next five calendar years subsequent to June 30, 2015 are as follows (dollars in thousands):

	Fixed		Variable		
Year	Mortgage Notes Payable	Secured Credit Facilities	Tax-Exempt Secured Notes Payable	Secured Credit Facilities	Total
2015	$188,759	$184	$—	$—	$188,943
2016	131,946	385	—	—	132,331
2017	1,630	15,640	—	6,566	23,836
2018	1,685	111,256	—	81,559	194,500
2019	50,036	123,095	—	—	173,131
Thereafter	—	83,442	27,000	89,384	199,826
Total	$374,056	$334,002	$27,000	$177,509	$912,567

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility with an aggregate borrowing capacity of $900 million, $250 million of term notes due June 2018, $100 million of term notes due June 2018, $300 million of medium-term notes due June 2018, $300 million of medium-term notes due October 2020, $400 million of medium-term notes due January 2022, and $300 million of medium-term notes due July 2024. As of June 30, 2015 and December 31, 2014, the outstanding balance under the unsecured revolving credit facility was $457.0 million and $152.5 million, respectively.

5. RELATED PARTY TRANSACTIONS

Advances (To)/From the General Partner

The Operating Partnership participates in the General Partner’s central cash management program, wherein all the Operating Partnership’s cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net Advances (to)/from General Partner of $3.0 million and $13.6 million at June 30, 2015 and December 31, 2014, respectively, which are reflected as increases of capital on the Consolidated Balance Sheets.

Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR’s total apartment homes. The general and administrative expenses allocated to the Operating Partnership by UDR were $5.7 million and $7.2 million during the three months ended June 30, 2015 and 2014, respectively, and $9.9 million and $13.9 million during the six months ended June 30, 2015 and 2014, respectively, and are included in General and administrative on the Consolidated Statements of Operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the three months ended June 30, 2015 and 2014, the Operating Partnership incurred $4.3 million and $3.1 million, respectively, and during the six months ended June 30, 2015 and 2014 incurred $8.6 million and $6.2 million, respectively, of related party management fees related to a management agreement entered into in 2011 with wholly-owned subsidiaries of UDR's taxable REIT subsidiaries ("TRS"). (See further discussion in paragraph below.) These related party management fees are initially recorded in General and administrative on the Consolidated Statements of Operations, and a portion related to management fees charged by UDR's TRS is reclassified to Property management on the Consolidated Statements of Operations. (See further discussion below.)

Management Fee

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

Notes Payable to General Partner

As of June 30, 2015 and December 31, 2014, the Operating Partnership had $88.7 million of unsecured notes payable to the General Partner at annual interest rates between 5.18% and 5.34%. Certain limited partners of the Operating Partnership have provided guarantees related to these notes payable. The guarantees were provided by the limited partners in conjunction with their contribution of properties to the Operating Partnership. The notes mature on August 31, 2021 and December 31, 2023 and interest payments are made monthly. The Operating Partnership recognized interest expense on the notes payable of $1.2 million and $1.2 million during the three months ended June 30, 2015 and 2014, respectively and $2.3 million and $2.3 million during the six months ended June 30, 2015 and 2014, respectively.

6. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

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

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of June 30, 2015 and December 31, 2014 are summarized as follows (dollars in thousands):

			Fair Value at June 30, 2015, Using		
	Total Carrying Amount in Statement of Financial Position at June 30, 2015	Fair Value Estimate at June 30, 2015	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives - Interest rate contracts (a)	$7	$7	$—	$7	$—
Total assets	$7	$7	$—	$7	$—
Derivatives - Interest rate contracts (a)	$436	$436	$—	$436	$—
Secured debt instruments - fixed rate: (b)					
Mortgage notes payable	374,056	384,909	—	—	384,909
Fannie Mae credit facilities	334,002	349,634	—	—	349,634
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	177,509	177,509	—	—	177,509
Total liabilities	$913,003	$939,488	$—	$436	$939,052

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	Total Carrying Amount in Statement of Financial Position at December 31, 2014	Fair Value Estimate at December 31, 2014	Fair Value at December 31, 2014, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives - Interest rate contracts (a)	$39	$39	$—	$39	$—
Total assets	$39	$39	$—	$39	$—
Derivatives - Interest rate contracts (a)	$918	$918	$—	$918	$—
Secured debt instruments - fixed rate: (b)					
Mortgage notes payable	378,371	391,835	—	—	391,835
Fannie Mae credit facilities	333,828	355,470	—	—	355,470
Secured debt instruments - variable rate: (b)					
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	192,760	192,760	—	—	192,760
Total liabilities	$932,877	$967,983	$—	$918	$967,065

(a) See Note 7, Derivatives and Hedging Activity.
(b) See Note 4, Debt.

Financial Instruments Carried at Fair Value

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

Although the General Partner, on behalf of the Operating Partnership, has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2015 and December 31, 2014, the Operating Partnership has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Operating Partnership has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Operating Partnership made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Financial Instruments Not Carried at Fair Value

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

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

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

7. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

A portion of the General Partner's interest rate derivatives have been allocated to the Operating Partnership based on the General Partner's underlying debt instruments allocated to the Operating Partnership. (See Note 4, Debt.)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income/(loss), net in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Operating Partnership recorded no gain or loss from ineffectiveness during the three and six months ended June 30, 2015, and 2014.

Amounts reported in Accumulated other comprehensive income/(loss), net related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner's variable-rate debt that is allocated to the Operating Partnership. Through June 30, 2016, we estimate that an additional $440,000 will be reclassified as an increase to interest expense.

As of June 30, 2015, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	1	$46,357
Interest rate caps	1	$143,508

Derivatives not designated as hedges are not speculative and are used to manage the Operating Partnership's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in no adjustment to earnings for the three and six months ended June 30, 2015 and 2014.

As of June 30, 2015, we had the following outstanding derivatives that were not designated as a hedges in a qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	2	$109,264

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

The table below presents the fair value of the Operating Partnership's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	Asset Derivatives (included in Other assets) Fair Value at:		Liability Derivatives (included in Other liabilities) Fair Value at:	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:				
Interest rate products	$4	$37	$436	$918
Derivatives not designated as hedging instruments:				
Interest rate products	$3	$2	$—	$—

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

The tables below present the effect of the derivative financial instruments on the Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Unrealized holding gain/(loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Interest expense (Effective Portion)	
Derivatives in Cash Flow Hedging Relationships	2015	2014	2015	2014
Three Months Ended June 30,				
Interest rate products	$(26)	$(140)	$(267)	$(573)
Six Months Ended June 30,				
Interest rate products	$(77)	$(191)	$(553)	$(1,196)

	Gain/(Loss) Recognized in Interest income and other income/(expense), net	
Derivatives Not Designated as Hedging Instruments	2015	2014
Three Months Ended June 30,		
Interest rate products	$(22)	$—
Six Months Ended June 30,		