UDR, Inc.
Form 10-K
February 20, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from to

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

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

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (zip code)

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

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

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

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

(Title of Class)

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

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

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

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

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

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

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

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

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

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

The aggregate market value of the shares of common stock of UDR, Inc. held by non-affiliates on June 30, 2017 was approximately $3.6 billion. This calculation excludes shares of common stock held by the registrant's officers and directors and each person known by the registrant to beneficially own more than 5% of the registrant's outstanding shares, as such persons may be deemed to be affiliates. This determination of affiliate status should not be deemed conclusive for any other purpose. As of February 16, 2018, there were 268,160,029 shares of UDR, Inc.'s common stock outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from UDR, Inc.'s definitive proxy statement for the 2018 Annual Meeting of Stockholders.

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

This Report combines the annual reports on Form 10 K for the fiscal year ended December 31, 2017 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), both Delaware limited partnerships of which UDR is the sole general partner. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P., together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as “OP Units” and “DownREIT Units” respectively, and the holders of the OP Units and DownREIT Units are referred to as “unitholders.” This combined Form 10 K is being filed separately by UDR and the Operating Partnership.

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

As of December 31, 2017, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,126,805 OP Units, representing approximately 95.0% of the total outstanding OP Units in the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and UDR’s role as the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities” and “Control and Procedures” are presented in this report for each of UDR and the Operating Partnership. In addition, certain disclosures in “Business” are separated by entity to the extent that the discussion relates to UDR’s business outside of the Operating Partnership.

Table of Contents

PART I

Forward-Looking Statements

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

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

general economic conditions;

unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates;

the failure of acquisitions to achieve anticipated results;

possible difficulty in selling apartment communities;

competitive factors that may limit our ability to lease apartment homes or increase or maintain rents;

insufficient cash flow that could affect our debt financing and create refinancing risk;

failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders;

development and construction risks that may impact our profitability;

potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us;

risks from extraordinary losses for which we may not have insurance or adequate reserves;

risks from cybersecurity breaches of our information technology systems and the information technology systems of our third party vendors and other third parties;

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

delays in completing developments and lease-ups on schedule;

our failure to succeed in new markets;

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

1

Table of Contents

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

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

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

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

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

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

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

Table of Contents

Item 1. BUSINESS

General

UDR is a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, disposes of, and manages multifamily apartment communities generally located in high barrier-to-entry markets throughout the United States. The high barrier-to-entry markets are characterized by limited land for new construction, difficult and lengthy entitlement processes, low single-family home affordability and strong employment growth potential. At December 31, 2017, our consolidated real estate portfolio included 127 communities located in 19 markets, with a total of 39,998 completed apartment homes, which are held directly or through our subsidiaries, including the Operating Partnership and the DownREIT Partnership, and consolidated joint ventures. In addition, we have an ownership interest in 29 communities containing 7,286 apartment homes through unconsolidated joint ventures or partnerships. As of December 31, 2017, the Company was developing two wholly-owned communities with 1,101 apartment homes, 300 of which have been completed, and two unconsolidated joint venture communities with 533 apartment homes, none of which have been completed.

At December 31, 2017, the Operating Partnership's consolidated real estate portfolio included 53 communities located in 15 markets, with a total of 16,698 completed apartment homes. The Operating Partnership owns, operates, acquires, renovates, develops, redevelops, and manages multifamily apartment communities generally located in high barrier-to-entry markets located throughout the United States. During the year ended December 31, 2017, revenues of the Operating Partnership represented approximately 43% of our total rental revenues.

UDR has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to in this Report as the "Code." To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gains) to our stockholders annually. As a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our stockholders annually. In 2017, we declared total distributions of $1.24 per common share and paid dividends of $1.225 per common share.

	Dividends Declared in 2017	Dividends Paid in 2017
First Quarter	$ 0.310	$ 0.295
Second Quarter	0.310	0.310
Third Quarter	0.310	0.310
Fourth Quarter	0.310	0.310
Total	$ 1.240	$ 1.225

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

As of February 16, 2018, we had 1,502 full-time associates and 40 part-time associates, all of whom were employed by UDR.

Reporting Segments

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

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to January 1, 2016, and held as of December 31, 2017. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

Table of Contents

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

Business Objectives

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

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

2017 Highlights

In July 2017, the Company marked its 45th year as a REIT and, in October 2017, paid its 180th consecutive quarterly dividend. The Company's annualized declared 2017 dividend of $1.24 represented a 5.1% increase over the previous year.

We achieved Same-Store revenue growth of 3.7% and Same-Store net operating income ("NOI") growth of 3.8%.

We completed two developments held by unconsolidated joint ventures in Irvine, CA and Mountain View, CA with a total of 536 apartment homes.

We completed three redevelopment projects in San Francisco, CA, Austin, TX and Dallas, TX.

As of December 31, 2017, we were developing two wholly-owned communities and two communities held by unconsolidated joint ventures.

We acquired a community in Denver, CO with 218 apartment homes and increased our ownership from 49% to 100% in an operating community located in Seattle, WA with 244 apartment homes for a total of approximately $207.5 million. The acquisition in Denver, CO will be fully or partially funded with tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986.

We recognized gains on the sale of real estate of $43.4 million from the sale of two communities in Orange County, CA and Carlsbad, CA with a total of 218 apartment homes and a parcel of land in Richmond, VA.

We recognized gains of $7.6 million as a result of the sale of two communities in Seattle, WA and Anaheim, CA by the West Coast Development Joint Venture.

We contributed $87.5 million to five unconsolidated investments under our Developer Capital Program, which earn preferred returns ranging between 6.5% to 11.0%.

Table of Contents

We issued $600 million of 3.50%, 10-year senior unsecured medium-term notes and redeemed $300 million of 4.25% unsecured medium-term notes due June 2018.

We prepaid $275.3 million of our secured credit facilities with borrowings under the unsecured commercial paper program and proceeds from the issuance of senior unsecured medium-term notes.

We entered into an unsecured commercial paper program under which we may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500 million.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further information on the Company's and the Operating Partnership's activities in 2017.

Our Strategic Vision

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

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

Maintaining a Diversified Portfolio and Allocating Capital to Accretive Investment Opportunities

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

· our consolidated apartment portfolio includes 127 communities located in 19 markets throughout the U.S., including both Coastal and Sunbelt locations; and

· our mix of urban/suburban communities and our mix of A/B quality properties is approximately 50%/50%.

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

Acquisitions and Dispositions

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

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

- potential for capital appreciation of the property;
- ability to increase the value and profitability of the property through operations and redevelopment;

Table of Contents

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

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

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

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

	2017	2016	2015	2014	2013
Homes acquired	462	508	3,246	358	—
Homes disposed	218	1,782	2,735	2,500	914
Homes owned at December 31,	39,998	39,454	40,728	39,851	41,250
Total real estate owned, at cost	$ 10,177,206	$ 9,615,753	$ 9,190,276	$ 8,383,259	$ 8,207,977

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

	2017	2016	2015		2014	2013
Homes acquired	218	—	421		—	—
Homes disposed	218	276	4,256	(a)	264	914
Homes owned at December 31,	16,698	16,698	16,974		20,814	20,746
Total real estate owned, at cost	$ 3,816,956	$ 3,674,704	$ 3,630,905		$ 4,238,770	$ 4,188,480

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

Development Activities

Our objective in developing a community is to create value while improving the quality of our portfolio. Demographic trends, economic drivers, and how multifamily fundamentals and valuations have trended over the long-term generally govern our review process on where to allocate development capital. At December 31, 2017, our development pipeline included two wholly-owned communities located in Huntington Beach, California and Boston, Massachusetts with a total of 1,101 homes and an aggregate budget of $716.5 million, in which we have a total carrying value of

$592.5 million.

Redevelopment Activities

Our objective in redeveloping a community is twofold: we aim to meaningfully grow rental rates while also producing a higher yielding and more valuable asset through asset quality improvement. During 2017, we continued to redevelop properties in primary markets where we concluded there was an opportunity to add value. During the year ended December 31, 2017, we incurred $15.4 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings. At December 31, 2017, the Company was not redeveloping any communities.

Joint Venture and Partnership Activities

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

Maintaining a Strong Balance Sheet

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

Financing Activities

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

Consistently Driving Operational Excellence

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

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

Operating Partnership Strategies and Vision

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

Competitive Conditions

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

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

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

Table of Contents

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

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

Communities

At December 31, 2017, our consolidated real estate portfolio included 127 communities with a total of 39,998 completed apartment homes, which included the Operating Partnership's consolidated real estate portfolio of 53 communities with a total of 16,698 completed apartment homes. The overall quality of our portfolio enables us to raise rents and to attract residents with higher levels of disposable income who are more likely to absorb such rents.

At December 31, 2017, the Company was developing two wholly-owned communities with 1,101 apartment homes, 300 of which have been completed. The communities being developed are not part of the Operating Partnership's real estate portfolio.

At December 31, 2017, the Company was not redeveloping any communities.

Same-Store Community Comparison

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

For the year ended December 31, 2017, our Same-Store NOI increased by $22.0 million compared to the prior year. Our Same-Store Community properties provided 87.0% of our total NOI for the year ended December 31, 2017. The increase in NOI for the 35,471 Same-Store apartment homes, or 88.7% of our portfolio, was primarily driven by an increase in rental rates and fee and reimbursement income, partially offset by an increase in real estate taxes.

For the year ended December 31, 2017, the Operating Partnership's Same-Store NOI increased by $10.7 million compared to the prior year. The Operating Partnership's Same-Store Community properties provided 87.2% of its total NOI for the year ended December 31, 2017. The increase in NOI for the 14,840 Same-Store apartment homes, or 88.9% of the Operating Partnership's portfolio, was primarily driven by an increase in rental rates and fee and reimbursement income, partially offset by an increase in real estate taxes.

Revenue growth in 2018 may be impacted by adverse developments affecting the general economy, reduced occupancy rates, increased rental concessions, new supply, increased bad debt and other factors which may adversely impact our ability to increase rents.

Tax Matters

UDR has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, UDR must continue to meet certain tests that, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than net capital gains) to our stockholders annually. Provided we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent such net income is distributed to our stockholders annually. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

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

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2017.

Environmental Matters

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

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

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

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on our results of operations and our financial condition.

Table of Contents

Insurance

We carry comprehensive general liability coverage on our communities, with limits of liability customary within the multi-family apartment industry to insure against liability claims and related defense costs. We are also insured, with limits of liability customary within the multi-family apartment industry, against the risk of direct physical damage in amounts necessary to reimburse us on a replacement cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period.

Available Information

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

Table of Contents

Item 1A.RISK FACTORS

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

Risks Related to Our Real Estate Investments and Our Operations

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

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

We May Be Unable to Renew Leases or Relet Apartment Units as Leases Expire, or the Terms of Renewals or New Leases May Be Less Favorable Than Current Leases. When our residents decide to leave our apartments, whether because they decide not to renew their leases or they leave prior to their lease expiration date, we may not be able to relet their apartment units. Even if the residents do renew or we can relet the apartment units, the terms of renewal or reletting may be less favorable than current lease terms. Furthermore, because the majority of our apartment leases have initial terms of 12 months or less, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms. If we are unable to promptly renew the leases or relet the apartment units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition may be adversely affected. If residents do not experience increases in their income, we may be unable to increase rent and/or delinquencies may increase.

Table of Contents

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

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. The general risk of inflation is that interest on our debt and general and administrative expenses increase at a rate faster than increases in our rental rates, which could adversely affect our results of operations, cash flow and ability to make distributions to UDR’s stockholders.

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

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

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

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

- we may be unable to obtain financing for acquisitions on favorable terms, including but not limited to interest rates, term and/or loan-to-value ratios, or at all, all of which could cause us to delay or even abandon potential acquisitions;

- even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the debt used to finance the acquisition;
- even if we enter into an acquisition agreement for an apartment community, we may not complete the acquisition for a variety of reasons after incurring certain acquisition-related costs;

Table of Contents

- we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;
- when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability;
- the expected occupancy rates and rental rates may differ from actual results; and
- we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could materially adversely affect our expected return on our investments and our overall profitability.

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

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

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

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

13

Table of Contents

Property Ownership Through Partnerships and Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and/or acquire properties in partnerships and joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. As of December 31, 2017, we had active joint ventures and partnerships, including our participating loan investment and preferred equity investments, with a total equity investment of $720.8 million. We could become engaged in a dispute with one or more of our partners which might affect our ability to operate a jointly-owned property. Moreover, our partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our partners may have competing interests in our markets that could create conflicts of interest. Also, our partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. In general, we and our partners may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of our interest in the partnership or joint venture (if we are the seller) or of the other partner's interest in the partnership or joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process.

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

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

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

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

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

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

- inability to accurately evaluate local apartment market conditions and local economies;

Table of Contents

- inability to hire and retain key personnel;
- lack of familiarity with local governmental and permitting procedures; and
- inability to achieve budgeted financial results.

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

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

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

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

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations.

Our Properties May Contain or Develop Harmful Mold or Suffer from Other Indoor Air Quality Issues, Which Could Lead to Liability for Adverse Health Effects or Property Damage or Cost for Remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation, which could adversely affect our results of operations and cash flow. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

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

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

Compliance with or Changes in Real Estate Tax and Other Laws and Regulations Could Adversely Affect Our Funds from Operations and Our Ability to Make Distributions to Stockholders. We are subject to federal, state and local laws, regulations, rules and ordinances at locations where we operate regarding a wide variety of matters that could affect, directly or indirectly, our operations. Generally, we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws and regulations regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures or unanticipated reductions in revenue, which could adversely affect our funds from operations and the ability to make distributions to stockholders.

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

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

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

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

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

Table of Contents

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

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

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Materially and Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR’s Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under generally accepted accounting principles as in effect in the United States (“GAAP”), if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we are required to recognize asset impairment charges in the future, these charges could materially and adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR’s common stock.

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

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

Our Business and Operations Would Suffer in the Event of Information Technology System Failures. Despite system redundancy and the existence of a disaster recovery plan for our information technology systems, our information technology systems and the information technology systems maintained by our third party vendors are vulnerable to damage arising from any number of sources beyond our or our third party vendors' control, including energy blackouts, natural disasters, terrorism, war, and telecommunication failures. Any failure to maintain proper function and availability of our or third party vendors' information technology systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition and results of operations.

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

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

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

Risks Related to Our Indebtedness and Financings

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

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

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

Expenses associated with our investment in an apartment community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in revenue from that community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments, we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt, including unsecured commercial paper, at rates that vary with market interest rates. As of December 31, 2017, UDR had approximately $480.5 million of variable rate indebtedness outstanding, which constitutes approximately 13.0% of total outstanding indebtedness as of such date. As of December 31, 2017, the Operating Partnership had approximately $27.0 million of variable rate indebtedness outstanding, which constitutes approximately 16.9% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt, including unsecured commercial paper. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties.

Our Debt Level May Be Increased. Our current debt policy does not contain any limitations on the level of debt that we may incur, although our ability to incur debt is limited by covenants in our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

Financing May Not Be Available and Could Be Dilutive. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit, construction loans and other forms of secured debt, commercial paper and other forms of unsecured debt, and equity financing, including common and preferred equity. We and other companies in the real estate industry have experienced limited availability of financing from time to time, including due to regulatory changes directly or indirectly affecting financing markets, for example the changes in terms on construction loans brought about by the Basel III capital requirements and the associated “High Volatility Commercial Real Estate” designation, which has adversely impacted the availability of

Table of Contents

loans, including construction loans, and the proceeds of and the interest rate thereon. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of UDR's existing stockholders could be diluted.

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

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR's Stock. Our ability to make scheduled payments on, or to refinance, our debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the global financial crisis and the economic recession that followed it, the United States stock and credit markets experienced significant price volatility, dislocations and liquidity disruptions, which caused market prices of many stocks to fluctuate substantially and the spreads on debt financings to widen considerably. Those circumstances materially impacted liquidity in the financial markets at times, making terms for certain financings less attractive, and in some cases resulted in the unavailability of financing, such as the commercial paper market. Any future disruptions or uncertainty in the stock and credit markets may negatively impact our ability to refinance existing indebtedness and access additional financing for acquisitions, development of our properties and other purposes at reasonable terms or at all, which may negatively affect our business and the market price of UDR's common stock. If we are not successful in refinancing our existing indebtedness when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of UDR's common or preferred stock.

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

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

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us

Table of Contents

to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Termination of these hedging agreements typically involves costs, such as transaction fees or breakage costs.

Risks Related to Tax Laws

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

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including, for periods prior to 2018, any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to UDR’s stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until the fifth calendar year after the year in which we first failed to qualify as a REIT. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to UDR’s stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to UDR’s stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

Dividends Paid By REITs Generally Do Not Qualify for Reduced Tax Rates. In general, the maximum U.S. federal income tax rate for dividends paid to individual U.S. stockholders is 20%. Unlike dividends received from a corporation that is not a REIT, our distributions to individual stockholders generally are not eligible for the reduced rates. However, under the Tax Cuts and Jobs Act of 2017, with respect to regular dividends (dividends that are themselves neither capital gain dividends nor qualified dividend income) we pay to our U.S. stockholders that are not corporations, 20% of such dividends may generally be included in the calculation of combined qualified business income for purposes of calculating the deduction available under Section 199A of the Code (a provision due to expire after 2025, absent future legislation).

UDR May Conduct a Portion of Our Business Through Taxable REIT Subsidiaries, Which are Subject to Certain Tax Risks. We have established taxable REIT subsidiaries. Despite UDR’s qualification as a REIT, its taxable REIT subsidiaries must pay income tax on their taxable income. In addition, we must comply with various tests to continue to qualify as a REIT for federal income tax purposes, and our income from and investments in our taxable REIT subsidiaries generally do not constitute permissible income and investments for these tests. While we will attempt to ensure that our dealings with our taxable REIT subsidiaries will not adversely affect our REIT qualification, we cannot provide assurance that we will successfully achieve that result. Furthermore, we may be subject to a 100%

penalty tax, we may jeopardize our ability to retain future gains on real property sales, or our taxable REIT subsidiaries may be denied deductions, to the extent our dealings with our taxable REIT subsidiaries are not deemed to be arm's length in nature or are otherwise not respected.

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

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

Changes to the U.S. Federal Income Tax Laws, including the Enactment of Certain Tax Reform Measures, Could Have an Adverse Impact on Our Business and Financial Results. Although the Tax Cuts and Jobs Act of 2017 was recently passed, there can be no assurance that future changes to the U.S. federal income tax laws or regulatory changes will not be proposed or enacted that could impact our business and financial results. The REIT rules are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, which may result in revisions to regulations and interpretations in addition to statutory changes. If enacted, certain of such changes could have an adverse impact on our business and financial results. Moreover, the Tax Cuts and Jobs Act of 2017 contained provisions that may reduce the relative competitive advantage of operating as a REIT. For example, the Tax Cuts and Jobs Act of 2017 lowered income tax rates on individuals and corporations, easing the burden of double taxation on corporate dividends and potentially causing the single level of taxation on REIT distributions to be relatively less attractive. The Tax Cuts and Jobs Act of 2017 also contains provisions allowing the expensing of capital expenditures, which could result in the bunching of taxable income and required distributions for REITs, and provisions further limiting the deductibility of interest expense, which could disrupt the real estate market.

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

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

The Operating Partnership and the DownREIT Partnership Intend to Qualify as Partnerships, But Cannot Guarantee That They Will Qualify. The Operating Partnership and the DownREIT Partnership intend to qualify as partnerships for federal income tax purposes, and intend to take that position for all income tax reporting purposes. If classified as partnerships, the Operating Partnership and the DownREIT Partnership generally will not be taxable entities and will not incur federal income tax liability. However, the Operating Partnership and the DownREIT Partnership would be treated as corporations for federal income tax purposes if they were “publicly traded partnerships,” unless at least 90% of their income was qualifying income as defined in the Code. A “publicly traded partnership” is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although neither the Operating Partnership’s nor the DownREIT Partnership’s partnership units are traded on an established securities market, because of the redemption rights of their limited partners, the Operating Partnership’s and DownREIT Partnership’s units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and the Operating Partnership and the

DownREIT Partnership may not qualify for one of the “safe harbors” under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. The Operating Partnership and the DownREIT Partnership may not meet this qualifying income test. If either the Operating Partnership or the DownREIT Partnership were to be taxed as a corporation, it would incur substantial tax liabilities, and UDR would then fail to qualify as a REIT for tax purposes, unless it qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

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

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

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

- general market and economic conditions;
- actual or anticipated variations in UDR’s quarterly operating results or dividends or UDR’s payment of dividends in shares of UDR’s stock;
- changes in our funds from operations or earnings estimates;
- difficulties or inability to access capital or extend or refinance existing debt;
- decreasing (or uncertainty in) real estate valuations;
- changes in market valuations of similar companies;
- publication of research reports about us or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of UDR’s stock to demand a higher annual yield from future dividends;
- a change in analyst ratings;
- additions or departures of key management personnel;
- adverse market reaction to any additional debt we incur in the future;
- speculation in the press or investment community;

- terrorist activity which may adversely affect the markets in which UDR’s securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;

Table of Contents

- failure to qualify as a REIT;
- strategic decisions by us or by our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- failure to satisfy listing requirements of the NYSE;
- governmental regulatory action and changes in tax laws; and
- the issuance of additional shares of UDR's common stock, or the perception that such sales might occur, including under UDR's at-the-market equity distribution program.

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

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR's Stockholders' Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in UDR's stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of UDR's stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Item 2. PROPERTIES

At December 31, 2017, our consolidated apartment portfolio included 127 communities located in 19 markets, with a total of 39,998 completed apartment homes.

The tables below set forth a summary of real estate portfolio by geographic market of the Company and of the Operating Partnership at December 31, 2017.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2017

UDR, INC.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Gross Amount (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home S (in squar feet)
ST REGION								
Francisco,	11	2,751	8.5 %	$ 860,823	$ 65,495	$ 312,913	96.5 %	830
nge County,	11	4,698	11.4 %	1,155,124	—	245,876	95.5 %	838
ttle, WA	15	2,837	9.7 %	984,139	77,272	346,894	96.4 %	900
Angeles, CA	4	1,225	4.4 %	451,322	67,700	368,426	95.7 %	967
nterey insula, CA	7	1,565	1.7 %	172,856	—	110,451	96.8 %	728
er Southern ifornia	2	654	1.0 %	106,023	—	162,115	96.0 %	960
tland, OR	2	476	0.5 %	48,317	—	101,506	97.2 %	903
D-ATLANTIC GION								
tropolitan .	22	8,402	21.2 %	2,160,447	247,992	257,135	97.0 %	908
hmond, VA	4	1,358	1.4 %	145,969	33,850	107,488	97.6 %	1,018
timore, MD	3	720	1.5 %	150,168	—	208,567	96.6 %	993
RTHEAST GION								
v York, NY	4	1,945	12.8 %	1,304,372	—	670,628	97.7 %	742
ton, MA	5	1,548	5.6 %	566,487	76,721	365,948	96.3 %	1,042
UTHEAST GION								
ando, FL	9	2,500	2.2 %	219,764	—	87,906	96.9 %	946
hville, TN	8	2,260	2.0 %	206,572	39,881	91,404	96.7 %	933
npa, FL	7	2,287	2.5 %	251,246	12,450	109,858	97.0 %	982
er Florida	1	636	0.8 %	84,520	39,787	132,893	96.3 %	1,130
UTHWEST GION								
las, TX	7	2,345	2.7 %	277,303	107,734	118,253	96.3 %	862
tin, TX	4	1,273	1.6 %	162,215	36,299	127,427	96.1 %	913

ıver, CO	1	218	1.4	%	139,264	—	638,826	88.2	%	948
al Operating nmunities	127	39,698	92.9	%	9,446,931	805,181	$ 237,970	96.6	%	901
l Estate Under velopment (a)	—	300	5.8	%	592,490	—				
d	—	—	0.7	%	75,940	—				
er	—	—	0.6	%	61,845	(1,912)				
al Real Estate ned	127	39,998	100.0	%	$ 10,177,206	$ 803,269				

(a) As of December 31, 2017, the Company was developing two wholly-owned communities with 1,101 apartment homes, 300 of which have been completed.

25

Table of Contents

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2017

UNITED DOMINION REALTY, L.P.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value		Gross Amount (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy		Averag Home S (in squa feet)
T REGION										
Francisco,	9	2,185	15.6	%	$ 596,299	$ 65,495	$ 272,906	97.6	%	817
ge County,	6	3,383	20.2	%	770,308	—	227,700	95.5	%	806
le, WA	5	932	5.9	%	223,419	—	239,720	96.8	%	874
Angeles, CA	2	344	3.0	%	113,853	—	330,968	95.7	%	976
terey nsula, CA	7	1,565	4.5	%	172,856	—	110,451	96.8	%	728
r Southern ornia	1	414	1.9	%	72,988	—	176,300	96.0	%	996
and, OR	2	476	1.3	%	48,317	—	101,506	97.2	%	903
-ATLANTIC ION										
opolitan	6	2,068	14.5	%	554,100	31,373	267,940	97.2	%	898
more, MD	2	540	2.7	%	103,028	—	190,793	96.7	%	968
THEAST ION										
York, NY	2	996	15.9	%	606,732	—	609,169	97.6	%	690
on, MA	1	387	1.9	%	71,653	—	185,150	96.8	%	1,069
THEAST ION										
ville, TN	6	1,612	3.8	%	144,786	23,550	89,818	96.4	%	925
pa, FL	2	942	2.8	%	105,505	—	112,001	97.5	%	1,043
r Florida	1	636	2.2	%	84,520	39,787	132,893	96.3	%	1,130
THWEST ION										
er, CO	1	218	3.6	%	139,264	—	638,826	88.2	%	948
Operating munities	53	16,698	99.8	%	3,807,628	160,205	$ 228,029	96.6	%	871
r	—	—	0.2	%	9,328	(360)				
Real Estate ed	53	16,698	100	%	$ 3,816,956	$ 159,845				

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II

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

UDR, Inc.:

Common Stock

UDR, Inc.'s common stock has been listed on the New York Stock Exchange ("NYSE") under the symbol "UDR" since May 7, 1990. The following tables set forth the quarterly high and low sale prices per common share reported on the NYSE for each quarter of the last two fiscal years. Distribution information for common stock reflects distributions declared per share for each calendar quarter and paid at the end of the following month.

	2017			2016		
	High	Low	Distributions Declared	High	Low	Distributions Declared
Quarter ended March 31,	$ 36.50	$ 34.48	$ 0.310	$ 38.53	$ 33.15	$ 0.295
Quarter ended June 30,	$ 40.49	$ 35.97	$ 0.310	$ 38.56	$ 33.42	$ 0.295
Quarter ended September 30,	$ 39.79	$ 37.75	$ 0.310	$ 37.63	$ 34.20	$ 0.295
Quarter ended December 31,	$ 40.05	$ 37.68	$ 0.310	$ 36.48	$ 33.11	$ 0.295

On February 16, 2018, the closing sale price of our common stock was $34.61 per share on the NYSE, and there were 3,639 holders of record of the 268,160,029 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 83% of the distributions for 2017 represented ordinary income, 1% represented qualified ordinary income, 11% represented long-term capital gain, and 5% represented unrecaptured section 1250 gain.

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

Series E Preferred Stock

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

Distributions declared on the Series E for the years ended December 31, 2017 and 2016 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2017, a total of 2,780,994 shares of the Series E were outstanding.

Series F Preferred Stock

We are authorized to issue up to 20,000,000 shares of our Series F Preferred Stock ("Series F"). The Series F may be purchased by holders of our Operating Partnership Units, or OP Units, described below under "Operating Partnership Units," at a purchase price of $0.0001 per share. OP unitholders are entitled to subscribe for and purchase one share of the Series F for each OP Unit held. In connection with the acquisition of properties from Home OP and the formation of the DownREIT Partnership in October 2015, we issued 13,988,313 Series F shares at $0.0001 per share to former limited partners of the Home OP, which had the right to subscribe for one share of Series F for each DownREIT Unit issued in connection with the acquisitions.

Table of Contents

As of December 31, 2017, a total of 15,852,721 shares of the Series F were outstanding. Holders of the Series F are entitled to one vote for each share of the Series F they hold, voting together with the holders of our common stock, on each matter submitted to a vote of security holders at a meeting of our stockholders. The Series F does not entitle its holders to any other rights, privileges or preferences.

Distribution Reinvestment and Stock Purchase Plan

We have a Distribution Reinvestment and Stock Purchase Plan under which holders of our common stock may elect to automatically reinvest their distributions and make additional cash payments to acquire additional shares of our common stock. Stockholders who do not participate in the plan continue to receive distributions as and when declared. As of February 16, 2018, there were approximately 1,884 participants in the plan.

United Dominion Realty, L.P.:

Operating Partnership Units

There is no established public trading market for United Dominion Realty, L.P.'s Operating Partnership Units. From time to time we issue shares of our common stock in exchange for OP Units tendered to the Operating Partnership for redemption in accordance with the provisions of the Operating Partnership's limited partnership agreement. At December 31, 2017, there were 183,350,924 OP Units outstanding in the Operating Partnership, of which 174,237,688 OP Units or 95.0% were owned by UDR and affiliated entities and 9,113,236 OP Units or 5.0% were owned by non-affiliated limited partners. Under the terms of the Operating Partnership's limited partnership agreement, the holders of OP Units have the right to require the Operating Partnership to redeem all or a portion of the OP Units held by the holder in exchange for a cash payment based on the market value of our common stock at the time of redemption. However, the Operating Partnership's obligation to pay the cash amount is subject to the prior right of the Company to acquire such OP Units in exchange for either the cash amount or the number of shares of our common stock equal to the number of OP Units being redeemed.

During 2017, we issued a total of 7,604 shares of common stock upon redemption of OP Units.

Purchases of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10 million share repurchase program. In January 2008, UDR's Board of Directors authorized a new 15 million share repurchase program. Under both share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended December 31, 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
Beginning Balance	9,967,490	$ 22.00	9,967,490	15,032,510
October 1, 2017 through October 31, 2017	—	—	—	15,032,510
November 1, 2017 through November 30, 2017	—	—	—	15,032,510

December 1, 2017 through December 31, 2017	—	—	—	15,032,510
Balance as of December 31, 2017	9,967,490	$ 22.00	9,967,490	15,032,510

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

During the three months ended December 31, 2017, certain of our employees surrendered shares of common stock owned by them to satisfy their statutory minimum federal and state tax obligations associated with the vesting of

28

Table of Contents

restricted shares of common stock or the exercise of stock options issued under our 1999 Long-Term Incentive Plan (the "LTIP"). The following table summarizes all of these repurchases during the three months ended December 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share(a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2017 through October 31, 2017	—	$ —	N/A	N/A
November 1, 2017 through November 30, 2017	32,075	39.10	N/A	N/A
December 1, 2017 through December 31, 2017	—	—	N/A	N/A
Total	32,075	$ 39.10		

(a) The price paid per share is based on the closing price of our common stock as of the date of the determination of the statutory minimum for federal and state tax obligations.

Table of Contents

Comparison of Five-year Cumulative Total Returns

The following graph compares the five-year cumulative total returns for UDR common stock with the comparable cumulative return of the NAREIT Equity REIT Index, Standard & Poor's 500 Stock Index, the NAREIT Equity Apartment Index and the MSCI US REIT Index. The graph assumes that $100 was invested on December 31, 2012, in each of our common stock and the indices presented. Historical stock price performance is not necessarily indicative of future stock price performance. The comparison assumes that all dividends are reinvested.

	Period Ending					
Index	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
UDR, Inc.	100.00	101.98	139.89	176.21	176.68	192.78
NAREIT Equity Apartment Index	100.00	93.80	130.97	152.52	156.88	162.72
MSCI U.S. REIT Index	100.00	102.47	133.60	136.97	148.75	156.29
S&P 500 Index	100.00	132.39	150.51	152.59	170.84	208.14
NAREIT Equity REIT Index	100.00	102.47	133.35	137.61	149.33	157.14

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

Table of Contents

Item 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and other information of UDR, Inc. and of the Operating Partnership as of and for each of the years in the five-year period ended December 31, 2017. The table should be read in conjunction with each of UDR, Inc.'s and the Operating Partnership's respective consolidated financial statements and the notes thereto, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Report.

	UDR, Inc. Year Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2017	2016	2015	2014	2013
OPERATING DATA:					
Rental income	$ 984,309	$ 948,461	$ 871,928	$ 805,002	$ 746,484
Income/(loss) from continuing operations	89,251	109,529	105,482	16,260	2,340
Income/(loss) from discontinued operations, net of tax	—	—	—	10	43,942
Net income/(loss)	132,655	320,380	357,159	159,842	46,282
Distributions to preferred stockholders	3,708	3,717	3,722	3,724	3,724
Net income/(loss) attributable to common stockholders	117,850	289,001	336,661	150,610	41,088
Common stock distributions declared	331,974	315,102	289,500	263,503	235,721
Income/(loss) per weighted average common share — basic:					
Income/(loss) from continuing operations attributable to common stockholders	$ 0.44	$ 1.09	$ 1.30	$ 0.60	$ (0.01)
Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—	0.17
Net income/(loss) attributable to common stockholders	$ 0.44	$ 1.09	$ 1.30	$ 0.60	$ 0.16
Income/(loss) per weighted average common share — diluted:					
Income/(loss) from continuing operations attributable to common stockholders	$ 0.44	$ 1.08	$ 1.29	$ 0.59	$ (0.01)
Income/(loss) from discontinued operations attributable to common stockholders	—	—	—	—	0.17
Net income/(loss) attributable to common stockholders	$ 0.44	$ 1.08	$ 1.29	$ 0.59	$ 0.16
Weighted average number of Common Shares outstanding —	267,024	265,386	258,669	251,528	249,969

basic					
Weighted average number of Common Shares outstanding — diluted	268,830	267,311	263,752	253,445	249,969
Weighted average number of Common Shares outstanding, OP Units/DownREIT Units and Common Stock equivalents outstanding — diluted	296,672	295,469	276,699	265,728	263,926
Common stock distributions declared - per share	$ 1.24	$ 1.18	$ 1.11	$ 1.04	$ 0.94
Balance Sheet Data:					
Real estate owned, at cost (a)	$ 10,177,206	$ 9,615,753	$ 9,190,276	$ 8,383,259	$ 8,207,977
Accumulated depreciation (a)	3,330,166	2,923,625	2,646,874	2,434,772	2,208,794
Total real estate owned, net of accumulated depreciation (a)	6,847,040	6,692,128	6,543,402	5,948,487	5,999,183
Total assets	7,733,273	7,679,584	7,663,844	6,828,728	6,787,342
Secured debt, net (a)	803,269	1,130,858	1,376,945	1,354,321	1,432,186
Unsecured debt, net	2,868,394	2,270,620	2,193,850	2,210,978	2,071,137
Total debt, net	3,671,663	3,401,478	3,570,795	3,565,299	3,503,323
Total stockholders' equity	$ 2,825,800	$ 3,093,110	$ 2,899,755	$ 2,735,097	$ 2,811,648
Number of Common Shares outstanding	267,822	267,259	261,845	255,115	250,750
Other Data (a)					
Total consolidated apartment homes owned (at end of year)	39,998	39,454	40,728	39,851	41,250
Weighted average number of consolidated apartment homes owned during the year	39,692	40,543	39,501	40,644	41,392
Cash Flow Data:					
Cash provided by/(used in) operating activities	$ 519,152	$ 536,929	$ 458,627	$ 397,303	$ 344,373
Cash provided by/(used in) investing activities	(407,441)	(112,277)	(265,461)	(298,603)	(127,680)
Cash provided by/(used in) financing activities	(111,785)	(429,282)	(201,648)	(113,725)	(198,559)
Funds from Operations (b):					
Funds from operations attributable to common stockholders and unitholders — basic	$ 538,916	$ 527,096	$ 455,565	$ 411,702	$ 376,778
Funds from operations attributable to common stockholders and unitholders — diluted	542,624	530,813	459,287	415,426	380,502

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

(b) Funds from operations ("FFO") is defined as Net income/(loss) attributable to common stockholders (computed in accordance with GAAP), excluding impairment write-downs of depreciable real estate or of investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the

31

Table of Contents

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

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

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

Table of Contents

United Dominion Realty, L.P.

Year Ended December 31,

(In thousands, except per OP unit data

and apartment homes owned)

	2017	2016	2015	2014	2013
OPERATING DATA:					
Rental income	$ 419,377	$ 404,415	$ 440,408	$ 422,634	$ 401,853
Income/(loss) from continuing operations	66,583	46,082	56,940	33,544	32,766
Income/(loss) from discontinued operations	—	—	—	—	45,176
Net income/(loss)	107,855	79,262	215,063	97,179	77,942
Net income/(loss) attributable to OP unitholders	106,307	77,818	213,301	96,227	73,376
Income/(loss) per weighted average OP Unit - basic and diluted:					
Income/(loss) from continuing operations attributable to OP unitholder	$ 0.58	$ 0.42	$ 1.16	$ 0.53	$ 0.16
Income/(loss) from discontinued operations attributable to OP unitholder	—	—	—	—	0.24
Net income/(loss) attributable to OP unitholders	$ 0.58	$ 0.42	$ 1.16	$ 0.53	$ 0.40
Weighted average number of OP Units outstanding — basic and diluted	183,344	183,279	183,279	183,279	184,196
Balance Sheet Data:					
Real estate owned, at cost (a)	$ 3,816,956	$ 3,674,704	$ 3,630,950	$ 4,238,770	$ 4,188,480
Accumulated depreciation (a)	1,543,652	1,408,815	1,281,258	1,403,303	1,241,574
Total real estate owned, net of accumulated depreciation (a)	2,273,304	2,265,889	2,349,647	2,835,467	2,946,906
Total assets	2,395,573	2,415,535	2,554,808	2,873,809	2,987,393
Secured debt, net (a)	159,845	433,974	475,964	927,484	929,017
Total liabilities	520,443	797,036	833,478	1,139,758	1,184,296
Total partners' capital	1,464,295	1,578,202	1,713,412	1,703,001	1,795,934
Advances (to)/from the General Partner	$ 397,899	$ 19,659	$ (11,270)	$ 13,624	$ (9,916)
Number of OP units outstanding	183,351	183,279	183,279	183,279	183,279
Other Data:					
	16,698	16,698	16,974	20,814	20,746

Total consolidated apartment homes owned (at end of year) (a)					
Cash Flow Data:					
Cash provided by/(used in) operating activities	$ 234,463	$ 228,682	$ 226,765	$ 208,032	$ 208,346
Cash provided by/(used in) investing activities	(106,080)	(9,546)	23,583	(46,650)	(63,954)
Cash provided by/(used in) financing activities	(128,846)	(221,483)	(247,747)	(162,777)	(145,299)

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

Table of Contents

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

Forward-Looking Statements

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

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

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

Table of Contents

- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;
- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and
- changes in real estate laws, tax laws and other laws affecting our business.

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

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

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

The following discussion should be read in conjunction with the consolidated financial statements appearing elsewhere herein and is based primarily on the consolidated financial statements and the accompanying notes for the years ended December 31, 2017, 2016 and 2015 of each of UDR, Inc. and United Domination Realty, L.P.

UDR, Inc.:

Business Overview

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

At December 31, 2017, our consolidated real estate portfolio included 127 communities in 11 states plus the District of Columbia totaling 39,998 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 29 communities with 7,286 apartment homes.

At December 31, 2017, the Company was developing two wholly-owned communities with a total of 1,101 apartment homes, 300 of which have been completed, and two unconsolidated joint venture communities with a total of 533 apartment homes, none of which have been completed. The Company was not redeveloping any communities as of December 31, 2017.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (“GAAP”) requires management to use judgment in the application of accounting policies, including making estimates and assumptions. A critical accounting policy is one that is both important to our financial condition and results of operations as well as involves some degree of uncertainty. Estimates are prepared based on management's assessment after considering all evidence available. Changes in estimates could affect our financial position or results of operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, Significant Accounting Policies, to the Notes to the UDR, Inc. Consolidated Financial Statements included in this Report.

Table of Contents

Cost Capitalization

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

In addition to construction costs, we capitalize costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion. The costs capitalized are reported on the Consolidated Balance Sheets as Total Real Estate Owned, Net of Accumulated Depreciation. Amounts capitalized during the years ended December 31, 2017, 2016, and 2015 were $27.4 million, $24.4 million, and $22.4 million, respectively.

Investment in Unconsolidated Entities

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

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

Impairment of Long-Lived Assets

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

Real Estate Investment Properties

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

Table of Contents

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

REIT Status

We are a Maryland corporation that has elected to be treated for federal income tax purposes as a REIT. A REIT is a legal entity that holds interests in real estate and is required by the Code to meet a number of organizational and operational requirements, including a requirement that a REIT must distribute at least 90% of our REIT taxable income (other than our net capital gain) to our stockholders. If we were to fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at the regular corporate rates and may not be able to qualify as a REIT for four years. Based on the net earnings reported for the year ended December 31, 2017 in our Consolidated Statements of Operations, we would have incurred federal and state GAAP income taxes if we had failed to qualify as a REIT.

Summary of Real Estate Portfolio by Geographic Market

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2017.

	As of December 31, 2017				Year Ended December 31, 2017		
Same-Store Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying Value (in thousands)	Average Physical Occupancy	Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)
West Region							
San Francisco, CA	10	2,558	7.2 %	$ 732,102	96.7 %	$ 3,414	$ 77,162
Orange County, CA	10	3,251	8.5 %	864,555	95.9 %	2,360	67,734
Seattle, WA	10	2,014	5.5 %	557,788	96.7 %	2,123	35,808
Los Angeles, CA	4	1,225	4.4 %	451,322	95.7 %	2,709	28,601
Monterey Peninsula, CA	7	1,565	1.7 %	172,854	96.8 %	1,641	22,443
Other Southern California	2	654	1.0 %	106,020	96.0 %	1,804	10,089
Portland, OR	2	476	0.5 %	48,317	97.2 %	1,542	6,425
Mid-Atlantic Region							
Metropolitan D.C.	21	7,551	19.1 %	1,940,773	97.1 %	1,988	120,160

Richmond, VA	4	1,358	1.4	%	145,970	97.6	%		1,290	15,523
Baltimore, MD	3	720	1.5	%	150,168	96.6	%		1,691	9,944
Northeast Region										
New York, NY	4	1,945	12.8	%	1,302,795	97.7	%		4,333	67,242
Boston, MA	5	1,548	5.5	%	562,967	96.3	%		2,958	39,231
Southeast Region										
Orlando, FL	9	2,500	2.2	%	219,764	96.9	%		1,260	25,822
Nashville, TN	8	2,260	2.0	%	206,572	96.7	%		1,255	23,740
Tampa, FL	7	2,287	2.5	%	251,247	97.0	%		1,344	23,916
Other Florida	1	636	0.8	%	84,519	96.3	%		1,517	7,248
Southwest Region										
Dallas, TX	6	2,040	2.0	%	202,393	96.5	%		1,226	18,376
Austin, TX	3	883	0.9	%	89,681	97.1	%		1,363	8,079
Total/Average Same-Store Communities	116	35,471	79.5	%	8,089,807	96.8	%	$	2,064	607,543
Non-Mature, Commercial Properties & Other	11	4,227	14.7	%	1,494,909					91,255
Total Real Estate Held for Investment	127	39,698	94.2	%	9,584,716					698,798
Real Estate Under Development (b)	—	300	5.8	%	592,490					(295)
Total Real Estate Owned	127	39,998	100.0	%	10,177,206					$ 698,503
Total Accumulated Depreciation					(3,330,166)					
Total Real Estate Owned, Net of Accumulated Depreciation					$ 6,847,040					

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

Table of Contents

(b) As of December 31, 2017, the Company was developing two wholly-owned communities with a total of 1,101 apartment homes, 300 of which have been completed.

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

Our Same-Store Communities segment represents those communities acquired, developed, and stabilized prior to January 1, 2016 and held as of December 31, 2017. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the communities are not classified as held for disposition at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

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

Liquidity and Capital Resources

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

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

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

On January 23, 2017, the Company entered into an unsecured commercial paper program. Under the terms of the program, the Company may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of the Company’s other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership. As of December 31, 2017, we had $300.0 million of unsecured commercial paper outstanding, for one month terms, at a weighted average annualized rate of 1.96%.

On June 16, 2017, the Company issued $300 million of 3.50% senior unsecured medium-term notes due July 1, 2027. Interest is payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2018. The notes were priced at 99.764% of the principal amount at issuance. The Company used the net proceeds for general corporate purposes, including the repayment of outstanding indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership.

On July 31, 2017, the Company entered into an ATM sales agreement under which the Company may offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents and may enter into separate forward sales agreements to or through its forward purchasers. Upon entering into the ATM sales agreement, the Company simultaneously terminated the sales agreement for its prior at-the-market equity offering program, which was entered into in April 2017, which had replaced the prior at-the-market equity offering program entered into in April

Table of Contents

2012. During the year ended December 31, 2017, the Company did not sell any shares of common stock through the new continuous equity program or the prior ATM program.

On December 13, 2017, the Company issued $300 million of 3.50% senior unsecured medium-term notes due January 15, 2028. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on July 15, 2018. The notes were priced at 99.601% of the principal amount at issuance. The Company used the net proceeds for the repayment of debt, including funding the redemption of senior unsecured medium-term notes due in June 2018, and for general corporate purposes. The notes are fully and unconditionally guaranteed by the Operating Partnership.

Future Capital Needs

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

During 2018, we have approximately $33.7 million of secured debt maturing, inclusive of principal amortization, and $300.0 million of unsecured debt maturing, comprised solely of unsecured commercial paper. We anticipate repaying that debt with cash flow from our operations, proceeds from debt or equity offerings, proceeds from dispositions of properties, or from borrowings under our credit agreements and our unsecured commercial paper program.

Statements of Cash Flows

The following discussion explains the changes in Net cash provided by/(used in) operating activities, Net cash provided by/(used in) investing activities, and Net cash provided by/(used in) financing activities that are presented in our Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016, and 2015.

Operating Activities

For the year ended December 31, 2017, Net cash provided by/(used in) operating activities was $519.2 million compared to $536.9 million for 2016. The decrease in cash flow from operating activities was primarily due to a decrease in cash from return on investment in unconsolidated joint ventures, partially offset by improved net operating income, primarily driven by revenue growth at communities, and changes in operating assets and liabilities.

For the year ended December 31, 2016, Net cash provided by/(used in) operating activities was $536.9 million compared to $458.6 million for 2015. The increase in cash flow from operating activities was primarily due to improved net operating income, primarily driven by revenue growth at communities, and an increase in cash from return on investment in unconsolidated joint ventures, partially offset by changes in operating assets and liabilities.

Investing Activities

For the year ended December 31, 2017, Net cash provided by/(used in) investing activities was $(407.4) million compared to $(112.3) million for 2016. The increase in cash used in investing activities was primarily due to a decrease in proceeds from the sale of real estate assets, an increase in investment in unconsolidated joint ventures, and an increase in spend on consolidated development projects, capital expenditures and major renovations, partially offset by a decrease in the acquisition of real estate assets and an increase in distributions received from unconsolidated joint ventures.

For the year ended December 31, 2016, Net cash provided by/(used in) investing activities was $(112.3) million compared to $(265.5) million for 2015. The decrease in cash used in investing activities was primarily due to a decrease in the acquisition of real estate assets, a decrease in investment in unconsolidated joint ventures, an increase in distributions received from unconsolidated joint ventures and a decrease in capital expenditures and major renovations, partially offset by an increase in spend on consolidated development projects and a decrease in proceeds from the sale of real estate assets.

Acquisitions

In October 2017, the Company acquired an operating community located in Denver, Colorado with a total of 218 apartment homes and 17,000 square feet of retail space for a purchase price of approximately $141.5 million. The

Company consolidated the operating community and accounted for the consolidation as a business combination. As a result of the consolidation, the Company increased its real estate assets owned by $139.0 million, recorded approximately $2.5 million of in-place lease intangibles and recorded a gain on consolidation of approximately $14.8 million, which is included in Income/(loss) from unconsolidated entities on the Consolidated Statements of Operations. The acquisition will be fully or partially funded with tax-deferred like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986 ("Section 1031 exchanges"). Prior to acquiring the community, the Company had provided $93.5 million as a participating loan investment to the third-party developer and was entitled to receive, in addition to repayment of principal and interest, contingent interest equal to 50% of the sum of the amount the property was sold for less construction and closing costs, which equaled approximately $14.9 million. The Company had previously accounted for its participating loan investment as an unconsolidated joint venture.

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

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

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

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

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

In October 2015, the Company completed the acquisition of six Washington, D.C. area properties from Home Properties, L.P., a New York limited partnership ("Home OP"), for $900.6 million, which was comprised of $564.8 million of DownREIT Units in the newly formed DownREIT Partnership issued at $35 per unit (a total of 16.1 million units), the assumption of $89.3 million of debt, $221.0 million of reverse Section 1031 exchanges, and $25.5 million of cash. In addition, the Company issued approximately 14.0 million shares of its Series F Preferred Stock to former limited partners of Home OP, which had the right to subscribe for one share of Series F Preferred Stock for each DownREIT Unit issued in connection with the acquisitions.

Of the six properties acquired from Home OP, four were acquired through the DownREIT Partnership, one was acquired by the Company through a reverse Section 1031 exchange and one was acquired by the Operating Partnership through a reverse Section 1031 exchange.

Table of Contents

In February 2015, the Company acquired an office building in Highlands Ranch, Colorado, for 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 office building. The building consists of approximately 120,000 square feet. All existing leases were assumed by the Company at the time of the acquisition.

Dispositions

In December 2017, the Company sold two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California for gross proceeds of $69.0 million, resulting in net proceeds of $68.0 million and a gain of $41.3 million.

In February 2017, the Company sold a parcel of land in Richmond, Virginia for gross proceeds of $3.5 million, resulting in net proceeds of $3.3 million and a gain of $2.1 million.

In November 2016, the Company sold seven operating communities with a total of 1,402 apartment homes in Baltimore, Maryland and an operating community with 380 apartment homes in Dallas, Texas for gross proceeds of $284.6 million, resulting in net proceeds of $280.5 million and a gain, net of tax, of $200.5 million. A portion of the proceeds was designated for tax-deferred Section 1031 exchanges.

In May 2016, the Company sold a retail center in Bellevue, Washington for gross proceeds of $45.4 million, resulting in net proceeds of $44.1 million and a gain, net of tax, of $7.3 million. A portion of the proceeds was designated for tax-deferred Section 1031 exchanges.

In March 2016, the Company sold its 95% ownership interest in two parcels of land in Santa Monica, California for gross proceeds of $24.0 million, resulting in net proceeds of $22.0 million and a gain, net of tax, of $3.1 million.

During the year ended December 31, 2015, the Company sold 12 communities with a total of 2,735 apartment homes for gross proceeds of $408.7 million, resulting in net proceeds of $387.7 million and a gain of $251.7 million. A portion of the sale proceeds was designated for tax-deferred Section 1031 exchanges for a 2014 acquisition and the October 2015 acquisitions.

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

Capital Expenditures

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

For the year ended December 31, 2017, total capital expenditures of $105.9 million or $2,667 per stabilized home, which in aggregate include recurring capital expenditures and major renovations, were spent across our portfolio, excluding development and commercial properties, as compared to $112.9 million or $2,786 per stabilized home for the prior year.

The decrease in total capital expenditures was primarily due to:

- a decrease of 27.8%, or $5.9 million, in major renovations, primarily due to lower redevelopment spend; and
- a decrease of 13.0%, or $1.6 million, in turnover capital expenditures.

Table of Contents

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development and commercial properties, for the years ended December 31, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,				Per Home Year Ended December 31,			
	2017	2016	% Change		2017	2016	% Change	
Turnover capital expenditures	$ 10,905	$ 12,532	(13.0)	%	$ 275	$ 309	(11.0)	%
Asset preservation expenditures	35,129	34,725	1.2	%	885	856	3.4	%
Total recurring capital expenditures	46,034	47,257	(2.6)	%	1,160	1,166	(0.5)	%
Revenue-enhancing improvements	44,467	44,414	0.1	%	1,120	1,095	2.3	%
Major renovations (a)	15,370	21,274	(27.8)	%	387	525	(26.2)	%
Total capital expenditures	$ 105,871	$ 112,945	(6.3)	%	$ 2,667	$ 2,786	(4.3)	%
Repair and maintenance expense	$ 33,704	$ 33,859	(0.5)	%	$ 849	$ 835	1.7	%
Average home count (b)	39,692	40,543	(2.1)	%				

(a) Major renovations include major structural changes and/or architectural revisions to existing buildings.
(b) Average number of homes is calculated based on the number of homes outstanding at the end of each month.

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

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

Consolidated Real Estate Under Development and Redevelopment

At December 31, 2017, our development pipeline for two wholly-owned communities totaled 1,101 homes, 300 of which have been completed, with a budget of $716.5 million, in which we have a carrying value of $592.5 million. The communities are estimated to be completed during the first quarter of 2018 and the first quarter of 2019. During 2017, we incurred $248.5 million for development costs, an increase of $70.2 million from our 2016 level of $178.3 million.

At December 31, 2017, the Company was not redeveloping any communities.

During the year ended December 31, 2017, we incurred $15.4 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings, a decrease of $5.9 million from our 2016 level of $21.3 million.

Unconsolidated Joint Ventures and Partnerships

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

The Company's investment in and advances to unconsolidated joint ventures and partnerships, net, are accounted for under the equity method of accounting. For the year ended December 31, 2017:

- we made investments totaling $123.8 million in our unconsolidated joint ventures;
- our proportionate share of the net income/(loss) of the joint ventures and partnerships was $31.3 million;
- our investment in unconsolidated joint ventures decreased by $140.5 million due to the acquisition of 100% interest in two operating communities previously held as unconsolidated entities, partially offset by capital contributions; and

Table of Contents

- we received distributions of $120.7 million, of which $4.4 million were operating cash flows and $116.3 million were investing cash flows.

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary impairments in the value of its investments in unconsolidated joint ventures or partnerships during the year ended December 31, 2017 and 2016.

Financing Activities

For the years ended December 31, 2017, 2016 and 2015, Net cash provided by/(used in) financing activities was $(111.8) million, $(429.3) million and $(201.6) million, respectively.

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

- issued $300 million of 3.50% senior unsecured medium-term notes due July 1, 2027, for net proceeds of approximately $296.9 million;
- issued $300 million of 3.50% senior unsecured medium-term notes due January 15, 2028, for net proceeds of approximately $296.9 million;
- net proceeds of $300.0 million under our unsecured commercial paper program;
- repaid $326.3 million of secured debt;
- redeemed $300.0 million of 4.25% unsecured medium-term notes due June 2018 prior to maturity; and
- paid distributions of $327.8 million to our common stockholders.

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

- issued $300 million of 2.95% senior unsecured medium-term notes due September 1, 2026;
- repaid $375.3 million of secured debt and $11.8 million of unsecured debt;
- repaid $83.3 million of 5.25% unsecured medium-term notes due January 2016;
- issued $50.0 million of secured debt;
- repaid $128.7 million under the Company's unsecured revolving credit facility, net of borrowings;
- sold 5,000,000 shares of common stock for aggregate net proceeds of approximately $173.2 million at a price per share of $34.73; and
- paid distributions of $308.9 million to our common stockholders.

The following significant financing activities occurred during the year ended December 31, 2015:

- repaid $194.0 million of secured debt;
- repaid $325.2 million of 5.25% unsecured medium-term notes due January 2015;
- entered into a $350.0 million senior unsecured term loan facility due January 2021, which replaced the Company's $250 million term loan and $100 million term loan that were scheduled to mature in June 2018;
- entered into a new $1.1 billion revolving credit facility with a maturity date in January 2020, exclusive of options to extend, which replaced the prior $900 million revolving credit facility that was scheduled to mature in December 2017;
- issued $300.0 million of 4.00% senior unsecured medium-term notes due October 1, 2025;

Table of Contents

- sold 6,339,636 shares of common stock for aggregate net proceeds of approximately $210.0 million after deducting related expenses;
- net repayments of $2.5 million under the Company's $1.1 billion unsecured revolving credit facility; and
- paid distributions of $283.2 million to our common stockholders.

Credit Facilities and Commercial Paper Program

We have two secured credit facilities with Fannie Mae with an aggregate commitment of $314.9 million, all of which was outstanding as of December 31, 2017. The Fannie Mae credit facilities mature at various dates from December 2018 through July 2020 and bear interest at floating and fixed rates. At December 31, 2017, $285.8 million of the outstanding balance was fixed and had a weighted average interest rate of 4.86% and the remaining balance of $29.0 million had a weighted average variable rate of 2.92%. During the year ended December 31, 2017, the Company prepaid $275.3 million of its secured credit facilities with borrowings under the Company's unsecured commercial paper program and proceeds from the issuance of senior unsecured medium-term notes.

The Company has a $1.1 billion unsecured revolving credit facility (the "Revolving Credit Facility") and a $350.0 million unsecured term loan facility (the "Term Loan Facility"). The credit agreement for these facilities allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021.

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

As of December 31, 2017, we had no outstanding borrowings under the Revolving Credit Facility, leaving $1.1 billion of unused capacity (excluding $3.3 million of letters of credit at December 31, 2017), and $350.0 million of outstanding borrowings under the Term Loan Facility.

We have a working capital credit facility, which provides for a $75 million unsecured revolving credit facility (the "Working Capital Credit Facility") with a scheduled maturity date of January 1, 2019. Based on the Company's current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company's credit rating, the margin ranges from 85 to 155 basis points. In February 2018, we amended the working capital credit facility to extend the scheduled maturity date to January 2021. The maximum borrowing capacity and interest rate were unchanged by the amendment.

As of December 31, 2017, we had $21.8 million of outstanding borrowings under the Working Capital Credit Facility, leaving $53.2 million of unused capacity.

The Fannie Mae credit facilities and the bank revolving credit facilities are subject to customary financial covenants and limitations, all of which were in compliance with at December 31, 2017.

On January 23, 2017, we entered into an unsecured commercial paper program. Under the terms of the program, we may issue unsecured commercial paper up to a maximum aggregate amount outstanding of $500 million. The notes are sold under customary terms in the United States commercial paper market and rank pari passu with all of our other unsecured indebtedness. The notes are fully and unconditionally guaranteed by the Operating Partnership. As of December 31, 2017, we had issued $300.0 million of commercial paper, for one month terms, at a weighted average annualized rate of 1.96%, leaving $200.0 million of unused capacity.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these

Table of Contents

financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had $480.5 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2017. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by $5.5 million based on the average balance outstanding during the year.

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

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

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

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by/(used in) operating activities	$ 519,152	$ 536,929	$ 458,627
Net cash provided by/(used in) investing activities	(407,441)	(112,277)	(265,461)
Net cash provided by/(used in) financing activities	(111,785)	(429,282)	(201,648)

Results of Operations

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015.

Net Income/(Loss) Attributable to Common Stockholders

2017 -vs- 2016

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

· gains, net of tax, of $43.4 million on the sale of a parcel of land in Richmond, Virginia and the sale of two operating communities with a total of 218 apartment homes in Orange County, California and Carlsbad, California, during the year ended December 31, 2017, as compared to gains, net of tax, of $210.9 million on the sale of eight operating communities with a total of 1,782 apartment homes, a retail center and the Company’s 95% interest in two land parcels during the year ended December 31, 2016;

·

an increase in depreciation expense of $10.4 million primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2017 and 2016, partially offset by a decrease from sold communities and fully depreciated assets; and

- a decrease in income from unconsolidated entities of $21.0 million primarily due to:

- during the year ended December 31, 2017, total gains on consolidation of $27.0 million from the purchase of two previously unconsolidated operating communities in Seattle, Washington from our West Coast Development Joint Venture and Denver, Colorado from our Development Capital Program, and net losses during the lease-up of development joint ventures.

As compared to:

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

This was partially offset by:

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

2016 -vs- 2015

Net income/(loss) attributable to common stockholders was $289.0 million ($1.08 per diluted share) for the year ended December 31, 2016 as compared to net income of $336.7 million ($1.29 per diluted share) for the prior year. The decrease resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

· gains, net of tax, of $210.9 million on the sale of eight operating communities with a total of 1,782 apartment homes, a retail center and the Company's 95% interest in two land parcels during the year ended December 31, 2016, compared to gains, net of tax, of $251.7 million on the sale of 12 operating communities with a total of 2,735 apartment homes during the year ended December 31, 2015;
· an increase in depreciation expense of $45.0 million due to homes delivered from our development and redevelopment communities and communities acquired in 2016 and 2015, partially offset by a decrease from sold communities and fully depreciated assets;
· a decrease in joint venture management and other fees of $11.3 million primarily due to the promote and fee income of $10.0 million recognized in connection with the sale of the Texas Joint Venture in 2015; and
· a decrease in income from unconsolidated entities of $10.1 million primarily due to the sale of three operating communities by the UDR/MetLife II joint venture, which resulted in gains of $47.7 million for the Company, and a casualty gain of $3.8 million, as a result of insurance proceeds related to a September 2015 event received during the year ended December 31, 2016, as compared to the sale of the eight communities held by the Texas Joint Venture, which resulted in a gain of $59.4 million, during the year ended December 31, 2015.

This was partially offset by:

· an increase in total property NOI of $59.2 million primarily due to higher revenue per occupied home, NOI from the homes placed in service related to development and redevelopment projects completed in 2016 and 2015 and communities acquired in 2016 and 2015, partially offset by a decrease from sold communities.

Apartment Community Operations

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

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

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

Table of Contents

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

	Year Ended December 31, (a)				Year Ended December 31, (b)			
	2017	2016	% Change		2016	2015	% Change	
Same-Store Communities:								
Same-Store rental income	$ 850,065	$ 819,962	3.7	%	$ 725,414	$ 686,589	5.7	%
Same-Store operating expense (c)	(242,522)	(234,385)	3.5	%	(207,857)	(200,473)	3.7	%
Same-Store NOI	607,543	585,577	3.8	%	517,557	486,116	6.5	%
Non-Mature Communities/Other NOI:								
Stabilized, non-mature communities NOI (d)	61,002	47,711	27.9	%	84,310	33,367	152.7	%
Acquired communities NOI	5,783	—	—	%	2,441	—	—	%
Redevelopment communities NOI	4,021	4,270	(5.8)	%	36,743	37,682	(2.5)	%
Development communities NOI	(295)	(436)	(32.3)	%	(436)	(114)	282.5	%
Non-residential/other NOI	17,081	16,244	5.2	%	16,026	15,666	2.3	%
Sold and held for disposition communities NOI	3,368	19,719	(82.9)	%	16,444	41,152	(60.0)	%
Total Non-Mature Communities/Other NOI	90,960	87,508	3.9	%	155,528	127,753	21.7	%
Total property NOI	$ 698,503	$ 673,085	3.8	%	$ 673,085	$ 613,869	9.6	%

(a) Same-Store consists of 35,471 apartment homes.
(b) Same-Store consists of 31,930 apartment homes.
(c) Excludes depreciation, amortization, and property management expenses.
(d) Represents non-mature communities that have achieved 90% occupancy for three consecutive months but do not meet the criteria to be included in Same-Store Communities.

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

	Year Ended December 31,		
	2017	2016	2015
Net income/(loss) attributable to UDR, Inc.	$ 121,558	$ 292,718	$ 340,383
Joint venture management and other fees	(11,482)	(11,400)	(22,710)
Property management	27,068	26,083	23,978
Other operating expenses	9,060	7,649	9,708
Real estate depreciation and amortization	430,054	419,615	374,598
General and administrative	48,566	49,761	59,690
Casualty-related charges/(recoveries), net	4,335	732	2,335
Other depreciation and amortization	6,408	6,023	6,679
(Income)/loss from unconsolidated entities	(31,257)	(52,234)	(62,329)
Interest expense	128,711	123,031	121,875
Interest income and other (income)/expense, net	(1,971)	(1,930)	(1,551)
Tax provision/(benefit), net	(240)	(3,774)	(3,886)
(Gain)/loss on sale of real estate owned, net of tax	(43,404)	(210,851)	(251,677)
Net income/(loss) attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	10,933	27,282	16,773
Net income/(loss) attributable to noncontrolling interests	164	380	3
Total property NOI	$ 698,503	$ 673,085	$ 613,869

Table of Contents

Same-Store Communities

2017 -vs- 2016

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

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

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

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 71.5% for the year ended December 31, 2017 as compared to 71.4% for the comparable period in 2016.

2016 -vs- 2015

Our Same-Store Community properties (those acquired, developed, and stabilized prior to January 1, 2015 and held on December 31, 2016) consisted of 31,930 apartment homes and provided 76.9% of our total NOI for the year ended December 31, 2016.

NOI for our Same-Store Community properties increased 6.5%, or $31.4 million, for the year ended December 31, 2016 compared to the same period in 2015. The increase in property NOI was primarily attributable to a 5.7%, or $38.8 million, increase in property rental income, which was partially offset by a 3.7%, or $7.4 million, increase in operating expenses. The increase in property income was primarily driven by a 5.5%, or $35.9 million, increase in rental rates and a 6.5%, or $3.6 million, increase in reimbursement and fee income. Physical occupancy was unchanged at 96.7% and total monthly income per occupied home increased by 5.6% to $1,958.

The increase in operating expenses was primarily driven by a 9.2%, or $6.5 million, increase in real estate taxes, which was primarily due to higher assessed valuations and lower appeal refunds.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 71.3% for the year ended December 31, 2016 as compared to 70.8% for 2015.

Non-Mature Communities/Other

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

2017 -vs- 2016

The remaining 13.0%, or $91.0 million, of our total NOI during the year ended December 31, 2017 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 3.9%, or $3.5 million, for the year ended December 31, 2017 as compared to the same period in 2016. The increase was primarily attributable to a $13.3 million increase in NOI from stabilized, non-mature communities, a $5.8 million increase in NOI from acquired communities and a $0.8 million increase in non-residential/other NOI, partially offset by a $16.4 million decrease in NOI from sold communities.

Table of Contents

2016 -vs- 2015

The remaining $155.5 million, or 23.1%, of our total NOI for the year ended December 31, 2016 was generated from our Non-Mature Communities/Other. NOI from Non-Mature Communities/Other increased by 21.7%, or $27.8 million, for the year ended December 31, 2016 compared to 2015. The increase was primarily attributable to a $41.0 million increase in NOI from acquired communities and an $11.2 million increase from developed and redeveloped communities completed in 2016 and 2015, which was partially offset by a $24.7 million decrease in NOI of from communities sold or held for disposition in 2016 and 2015.

Joint Venture Management and Other Fees

For the years ended December 31, 2016 and 2015, we recognized income from joint venture management and other fees of $11.4 million and $22.7 million, respectively. The decreased income in 2016 as compared to 2015 was attributable to the promote and fee income of $10.0 million recognized in connection with the sale of the Texas Joint Venture in 2015.

Real Estate Depreciation and Amortization

For the year ended December 31, 2017, real estate depreciation and amortization increased 2.5%, or $10.4 million, as compared to 2016. The increase was primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2017 and 2016, partially offset by a decrease from sold communities and fully depreciated assets.

For the year ended December 31, 2016, real estate depreciation and amortization increased 12.0%, or $45.0 million, as compared to 2015. The increase was primarily due to homes delivered from our development and redevelopment communities and communities acquired in 2016 and 2015, partially offset by a decrease from sold communities and fully depreciated assets.

General and Administrative

For the year ended December 31, 2016, general and administrative expense decreased 16.6%, or $9.9 million, from 2015. The decrease was primarily due to a decrease in bonus expense and stock-based compensation expense for awards under the long-term incentive plan of $6.2 million, primarily due to the departure of our prior Chief Financial Officer in 2016 and outperformance in 2015, a decrease in long-term incentive plan transition costs of $2.6 million and a decrease in acquisition costs of $1.9 million, which was partially offset by an increase in salaries and benefits.

Income/(Loss) from Unconsolidated Entities

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

- the sale of two communities out of the West Coast Development joint venture, which resulted in gains of $7.6 million for the Company; and
- the Company's purchase of 100% interest in two previously unconsolidated operating communities, which resulted in gains of $27.0 million for the Company during the year ended December 31, 2017.

As compared to:

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

For the years ended December 31, 2016 and 2015, we recognized income/(loss) from unconsolidated entities of $52.2 million and $62.3 million, respectively. The decrease of $10.1 million was primarily due to:

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

Table of Contents

As compared to:

- the sale of the eight communities held by the Texas Joint Venture, which resulted in a gain of $59.4 million, during the year ended December 31, 2015.

Interest Expense

For the years ended December 31, 2017 and 2016, we recognized interest expense of $128.8 million and $123.0 million, respectively. The increase in 2017 as compared to 2016 of $5.8 million was primarily due to the early pay off of secured debt during 2017, resulting in prepayment costs.

Tax (Provision)/Benefit, Net

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 recognized a Tax (provision)/benefit, net of $0.3 million and $3.8 million for the years ended December 31, 2017 and 2016, respectively.

The decrease for 2017 as compared to 2016 was primarily attributable to the conversion of certain TRS entities into REITs in 2016 and a one-time tax benefit of $1.1 million related to the recording of previously reserved receivables for REIT AMT credits that became refundable under the Tax Cuts and Jobs Act of 2017.

Gain/(Loss) on Sale of Real Estate Owned, Net of Tax

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

During the year ended December 31, 2016, the Company sold eight operating communities with a total of 1,782 apartment homes, a retail center, and its 95% interest in two land parcels, resulting in a gain, net of tax, of $210.9 million.

During the year ended December 31, 2015, the Company sold 12 operating communities with a total of 2,735 apartment homes, resulting in a gain, net of tax, of $251.7 million.

Noncontrolling Interest

For the years ended December 31, 2017, 2016 and 2015, we recognized net income attributable to redeemable noncontrolling interests in the Operating Partnership and the DownREIT Partnership of $10.9 million, $27.3 million, and $16.8 million, respectively. The decrease in 2017 as compared to 2016 is primarily attributable to the noncontrolling interest’s share of gains on sale associated with the dispositions made in 2016. The increase in 2016 as compared to 2015 is primarily attributable to the number of partnership units held by third-party noncontrolling interest holders as a result of the formation of the DownREIT Partnership in October 2015.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results of operations as a result of wage pressures and increases in utilities and material costs, the majority of our apartment leases have initial terms of 12 months or less, which generally enables us to compensate for any inflationary effects by increasing rental rates on our apartment homes. Although an extreme escalation in costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2017.

Table of Contents

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2017 (dollars in thousands):

	Payments Due by Period				
Contractual Obligations	2018	2019-2020	2021-2022	Thereafter	Total
Long-term debt obligations	$ 333,670	$ 836,938	$ 752,274	$ 1,761,489	$ 3,684,371
Interest on debt obligations (a)	125,885	223,391	148,227	213,087	710,590
Letters of credit	3,301	—	—	—	3,301
Unfunded commitments on:					
Development projects (b)	18,871	105,139	—	—	124,010
Unconsolidated joint ventures (b) (c)	22,076	—	—	—	22,076
Operating lease obligations:					
Operating space	76	152	32	—	260
Ground leases (d)	5,629	11,258	11,258	335,207	363,352
	$ 509,508	$ 1,176,878	$ 911,791	$ 2,309,783	$ 4,907,960

(a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2017.
(b) Any unfunded costs at December 31, 2017 are shown in the year of estimated completion.
(c) Represents UDR's proportionate share of expected remaining costs to complete the developments.
(d) For purposes of our ground lease contracts, the Company uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a reset provision based on the communities appraised value or consumer price index but does not include a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

During 2017, we incurred gross interest costs of $147.3 million, of which $18.6 million was capitalized.

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

Funds from Operations

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

We consider FFO a useful metric for investors as we use FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income

Table of Contents

and cash flow as a measure of our activities in accordance with GAAP. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of funds available to fund our cash needs.

Funds from Operations as Adjusted

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

Management believes that FFO as Adjusted is useful supplemental information regarding our operating performance as it provides a consistent comparison of our operating performance across time periods and allows investors to more easily compare our operating results with other REITs. FFO as Adjusted is not intended to represent cash flow or liquidity for the period, and is only intended to provide an additional measure of our operating performance. We believe that Net income/(loss) attributable to common stockholders is the most directly comparable GAAP financial measure to FFO as Adjusted. However, other REITs may use different methodologies for calculating FFO as Adjusted or similar FFO measures and, accordingly, our FFO as Adjusted may not always be comparable to FFO as Adjusted or similar FFO measures calculated by other REITs. FFO as Adjusted should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or as an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity.

Adjusted Funds from Operations

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

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

Table of Contents

The following table outlines our reconciliation of Net income/(loss) attributable to common stockholders to FFO, FFO as Adjusted, and AFFO for the years ended December 31, 2017, 2016, and 2015 (dollars in thousands):

	Year Ended December 31,		
	2017	2016	2015
Net income/(loss) attributable to common stockholders	$ 117,850	$ 289,001	$ 336,661
Real estate depreciation and amortization	430,054	419,615	374,598
Noncontrolling interests	11,097	27,662	16,776
Real estate depreciation and amortization on unconsolidated joint ventures	57,102	47,832	38,652
Net gain on the sale of unconsolidated depreciable property	(35,363)	(47,848)	(59,445)
Net gain on the sale of depreciable real estate owned	(41,824)	(209,166)	(251,677)
Funds from operations (“FFO”) attributable to common stockholders and unitholders, basic	$ 538,916	$ 527,096	$ 455,565
Distribution to preferred stockholders — Series E (Convertible)	3,708	3,717	3,722
FFO attributable to common stockholders and unitholders, diluted	$ 542,624	$ 530,813	$ 459,287
Income/(loss) per weighted average common share - diluted	$ 0.44	$ 1.08	$ 1.29
FFO per common share and unit, basic	$ 1.85	$ 1.81	$ 1.68
FFO per common share and unit, diluted	$ 1.83	$ 1.80	$ 1.66
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	291,845	290,516	271,616
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,672	295,469	276,699
Impact of adjustments to FFO:			
Acquisition-related costs/(fees)	$ 371	$ 213	$ 2,126
Acquisition-related costs/(fees) on unconsolidated joint ventures	—	—	1,460
Costs/(benefit) associated with debt extinguishment and other	9,212	1,729	—
Texas joint venture promote and disposition fee income	—	—	(10,005)
Long-term incentive plan transition costs	—	898	3,537
Net gain on the sale of non-depreciable real estate owned	(1,580)	(1,685)	—
Legal claims, net of tax	—	(480)	705
Net loss on sale of unconsolidated land	—	1,016	—
Severance costs and other restructuring expense	624	871	—
Tax benefit associated with the conversion of certain TRS entities into REITs	—	(2,436)	—
Casualty-related (recoveries)/charges, net	4,504	732	2,335
Casualty-related (recoveries)/charges, on unconsolidated joint ventures, net	(881)	(3,752)	2,474
	$ 12,250	$ (2,894)	$ 2,632
FFO as Adjusted attributable to common stockholders and unitholders, diluted	$ 554,874	$ 527,919	$ 461,919
FFO as Adjusted per common share and unit, diluted	$ 1.87	$ 1.79	$ 1.67
Recurring capital expenditures	(46,034)	(47,257)	(45,467)
AFFO attributable to common stockholders and unitholders, diluted	$ 508,840	$ 480,662	$ 416,452

AFFO per common share and unit, diluted	$ 1.72	$ 1.63	$ 1.51

53

Table of Contents

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the UDR Consolidated Statements of Operations for the years ended December 31, 2017, 2016, and 2015 (shares in thousands):

	Year Ended December 31,		
	2017	2016	2015
Weighted average number of common shares and OP/DownREIT Units outstanding — basic	291,845	290,516	271,616
Weighted average number of OP/DownREIT Units outstanding	(24,821)	(25,130)	(12,947)
Weighted average number of common shares outstanding — basic per the Consolidated Statements of Operations	267,024	265,386	258,669
Weighted average number of common shares, OP/DownREIT Units, and common stock equivalents outstanding — diluted	296,672	295,469	276,699
Weighted average number of OP/DownREIT Units outstanding	(24,821)	(25,130)	(12,947)
Weighted average number of Series E preferred shares outstanding	(3,021)	(3,028)	—
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	268,830	267,311	263,752

UNITED DOMINION REALTY, L.P.:

Business Overview

United Dominion Realty, L.P. (the "Operating Partnership" or "UDR, L.P.") is a Delaware limited partnership formed in February 2004 and organized pursuant to the provisions of the Delaware Revised Uniform Limited Partnership Act. The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations on November 4, 1995. Our sole general partner is UDR, Inc., a Maryland corporation ("UDR" or the "General Partner"), which conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership. At December 31, 2017, the Operating Partnership's real estate portfolio included 53 communities located in nine states and the District of Columbia with a total of 16,698 apartment homes.

As of December 31, 2017, UDR owned 110,883 units of our general partnership interests and 174,126,805 units of our limited partnership interests (the "OP Units"), or approximately 95.0% of our outstanding OP Units. By virtue of its ownership of our OP Units and being our sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this section of this Report to the Operating Partnership or "we," "us" or "our" refer to UDR, L.P. together with its consolidated subsidiaries, and all references in this section to "UDR" or the "General Partner" refer solely to UDR, Inc.

UDR is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in June 2003. At December 31, 2017, the General Partner's consolidated real estate portfolio included 127 communities located in 11 states and the District of Columbia with a total of 39,998 apartment homes. In addition, the General Partner had an ownership interest in 29 communities with 7,286 completed apartment homes through unconsolidated operating communities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to use judgment in the application of accounting policies, including making estimates and assumptions. A critical accounting policy is one that is both important to our financial condition and results of operations as well as involves some degree of uncertainty. Estimates are prepared based on management's assessment after considering all evidence available. Changes in estimates could affect our financial position or results of operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, Significant Accounting Policies, to the Notes to the Operating Partnership's Consolidated Financial Statements included in this Report.

Table of Contents

Cost Capitalization

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

In addition to construction costs, we capitalize costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. As each home in a capital project is completed and becomes available for lease-up, the Operating Partnership ceases capitalization on the related portion. The costs capitalized are reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. Amounts capitalized during the years ended December 31, 2017, 2016, and 2015, were $0.5 million, $0.8 million, and $0.9 million, respectively.

Investment in Unconsolidated Entities

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

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

Impairment of Long-Lived Assets

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

Real Estate Investment Properties

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

Table of Contents

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

Summary of Real Estate Portfolio by Geographic Market

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2017.

	As of December 31, 2017					Year Ended December 31, 2017			
Same-Store Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value		Total Carrying Value (in thousands)	Average Physical Occupancy		Monthly Income per Occupied Home (a)	Net Operating Income (in thousands)
West Region									
San Francisco, CA	8	1,992	12.3	%	$ 470,310	96.8	%	$ 3,056	$ 55,258
Orange County, CA	5	1,936	12.6	%	479,922	96.0	%	2,317	39,465
Seattle, WA	5	932	5.8	%	223,080	96.8	%	1,934	14,958
Los Angeles, CA	2	344	3.0	%	113,853	95.7	%	2,579	7,254
Monterey Peninsula, CA	7	1,565	4.5	%	172,854	96.8	%	1,641	22,443
Other Southern California	1	414	1.9	%	72,985	96.0	%	1,918	6,768
Portland, OR	2	476	1.3	%	48,317	97.2	%	1,542	6,425
Mid-Atlantic Region									
Metropolitan D.C.	6	2,068	14.5	%	552,822	97.2	%	2,057	33,756
Baltimore, MD	2	540	2.7	%	103,028	96.7	%	1,502	6,536
Northeast Region									