UDR, Inc.
Form 10-Q
July 31, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from to

Commission file number

1 10524 (UDR, Inc.)

333 156002 01 (United Dominion Realty, L.P.)

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (zip code)

(720) 283 6120

(Registrant's telephone number, including area code)

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

UDR, Inc.	Yes	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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

UDR, Inc.
United Dominion Realty, L.P.

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

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

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of July 27, 2018 was 267,678,903.

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UDR, INC.

UNITED DOMINION REALTY, L.P.

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PART II — OTHER INFORMATION

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10 Q for the quarter ended June 30, 2018 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to "we," "us," "our," the "Company," "UDR" or "UDR, Inc." refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership"), 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 Q is being filed separately by UDR and the Operating Partnership.

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

As of June 30, 2018, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,137,816 OP Units, representing approximately 94.8% of the total outstanding OP Units in the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and UDR's role as the Operating Partnership's sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under "Management's Discussion and Analysis of Financial Condition and Results of Operations," are presented in this report for each of UDR and the Operating Partnership.

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UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$ 9,940,707	$ 9,584,716
Less: accumulated depreciation	(3,518,824)	(3,326,312)
Real estate held for investment, net	6,421,883	6,258,404
Real estate under development (net of accumulated depreciation of $592 and $3,854, respectively)	335,665	588,636
Total real estate owned, net of accumulated depreciation	6,757,548	6,847,040
Cash and cash equivalents	1,055	2,038
Restricted cash	29,857	19,792
Notes receivable, net	40,709	19,469
Investment in and advances to unconsolidated joint ventures, net	739,910	720,830
Other assets	138,279	124,104
Total assets	$ 7,707,358	$ 7,733,273
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$ 799,815	$ 803,269
Unsecured debt, net	2,952,297	2,868,394
Real estate taxes payable	21,972	18,349
Accrued interest payable	38,201	33,432
Security deposits and prepaid rent	34,519	31,916
Distributions payable	95,131	91,455
Accounts payable, accrued expenses, and other liabilities	74,344	102,956
Total liabilities	4,016,279	3,949,771
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	922,329	948,138
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,780,994 shares issued and outstanding at June 30, 2018 and December 31, 2017	46,200	46,200
Series F; 15,804,393 and 15,852,721 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1	1
Common stock, $0.01 par value; 350,000,000 shares authorized:		
	2,677	2,678

267,667,437 and 267,822,069 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	4,639,147	4,651,205
Distributions in excess of net income	(1,929,124)	(1,871,603)
Accumulated other comprehensive income/(loss), net	(1,407)	(2,681)
Total stockholders' equity	2,757,494	2,825,800
Noncontrolling interests	11,256	9,564
Total equity	2,768,750	2,835,364
Total liabilities and equity	$ 7,707,358	$ 7,733,273

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES:				
Rental income	$ 256,634	$ 244,658	$ 507,117	$ 485,929
Joint venture management and other fees	3,109	3,321	5,931	5,891
Total revenues	259,743	247,979	513,048	491,820
OPERATING EXPENSES:				
Property operating and maintenance	41,452	40,612	82,039	80,212
Real estate taxes and insurance	31,907	29,423	65,189	59,611
Property management	7,057	6,728	13,945	13,363
Other operating expenses	2,825	2,369	4,834	4,060
Real estate depreciation and amortization	106,520	108,450	214,656	213,482
General and administrative	12,373	11,434	24,132	24,509
Casualty-related charges/(recoveries), net	746	1,191	1,686	1,693
Other depreciation and amortization	1,684	1,567	3,375	3,175
Total operating expenses	204,564	201,774	409,856	400,105
Operating income	55,179	46,205	103,192	91,715
Income/(loss) from unconsolidated entities	(2,032)	(1,426)	(3,709)	9,772
Interest expense	(31,598)	(33,866)	(61,541)	(64,405)
Interest income and other income/(expense), net	1,128	515	3,887	942
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	22,677	11,428	41,829	38,024
Tax (provision)/benefit, net	(233)	(366)	(460)	(698)
Income/(loss) from continuing operations	22,444	11,062	41,369	37,326
Gain/(loss) on sale of real estate owned, net of tax	—	—	70,300	2,132
Net income/(loss)	22,444	11,062	111,669	39,458
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(1,813)	(854)	(9,203)	(3,192)
Net (income)/loss attributable to noncontrolling interests	(30)	(51)	(109)	(142)
Net income/(loss) attributable to UDR, Inc.	20,601	10,157	102,357	36,124
Distributions to preferred stockholders — Series E (Convertible)	(971)	(929)	(1,926)	(1,858)
Net income/(loss) attributable to common stockholders	$ 19,630	$ 9,228	$ 100,431	$ 34,266
Common distributions declared per share	$ 0.3225	$ 0.3100	$ 0.6450	$ 0.6200

Income/(loss) per weighted average common share:

Basic	$ 0.07	$ 0.03	$ 0.38	$ 0.13
Diluted	$ 0.07	$ 0.03	$ 0.37	$ 0.13
Weighted average number of common shares outstanding:				
Basic	267,311	266,972	267,428	266,881
Diluted	268,890	268,859	269,002	268,742

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income/(loss)	$ 22,444	$ 11,062	$ 111,669	$ 39,458
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:				
Other comprehensive income/(loss) - derivative instruments:				
Unrealized holding gain/(loss)	282	(507)	1,992	126
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	(426)	390	(598)	1,209
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	(144)	(117)	1,394	1,335
Comprehensive income/(loss)	22,300	10,945	113,063	40,793
Comprehensive (income)/loss attributable to noncontrolling interests	(1,830)	(897)	(9,432)	(3,455)
Comprehensive income/(loss) attributable to UDR, Inc.	$ 20,470	$ 10,048	$ 103,631	$ 37,338

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands, except per share data)

(Unaudited)

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2017	$ 46,201	$ 2,678	$ 4,651,205	$ (1,871,603)	$ (2,681)	$ 9,564	$ 2,835,364
Net income/(loss) attributable to UDR, Inc.	—	—	—	102,357	—	—	102,357
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	86	86
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	108	108
Repurchase of common shares	—	(6)	(19,982)	—	—	—	(19,988)
Long Term and Short Term Incentive Plan Unit grants/(vestings), net	—	—	—	—	—	1,498	1,498
Other comprehensive income/(loss)	—	—	—	—	1,274	—	1,274
Issuance/(forfeiture) of common and restricted shares, net	—	—	(4,731)	—	—	—	(4,731)
Adjustment for conversion of noncontrolling interest of unitholders in the Operating	—	5	12,655	—	—	—	12,660

Partnership and DownREIT Partnership							
Common stock distributions declared ($0.645 per share)	—	—	—	(172,654)	—	—	(172,654)
Preferred stock distributions declared-Series E ($0.6984 per share)	—	—	—	(1,926)	—	—	(1,926)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	14,702	—	—	14,702
Balance at June 30, 2018	$ 46,201	$ 2,677	$ 4,639,147	$ (1,929,124)	$ (1,407)	$ 11,256	$ 2,768,750

See accompanying notes to consolidated financial statements.

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UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
Operating Activities		
Net income/(loss)	$ 111,669	$ 39,458
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	218,031	216,657
(Gain)/loss on sale of real estate owned, net of tax	(70,300)	(2,132)
(Income)/loss from unconsolidated entities	3,709	(9,772)
Return on investment in unconsolidated joint ventures	1,371	2,669
Amortization of share-based compensation	7,082	6,833
Other	2,259	10,103
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(15,702)	(8,159)
Increase/(decrease) in operating liabilities	(3,018)	(16,040)
Net cash provided by/(used in) operating activities	255,101	239,617
Investing Activities		
Acquisition of real estate assets	—	(65,381)
Proceeds from sales of real estate investments, net	89,433	3,250
Development of real estate assets	(108,175)	(128,433)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(44,612)	(51,309)
Capital expenditures — non-real estate assets	(1,501)	(2,043)
Investment in unconsolidated joint ventures	(41,545)	(67,509)
Distributions received from unconsolidated joint ventures	17,385	26,210
Purchase deposits on pending acquisitions	(1,000)	—
Repayment/(issuance) of notes receivable, net	(21,240)	2,500
Net cash provided by/(used in) investing activities	(111,255)	(282,715)
Financing Activities		
Payments on secured debt	(2,305)	(324,118)
Net proceeds from the issuance of unsecured debt	55,000	539,292
Net proceeds/(repayment) of revolving bank debt	28,180	18,708
Repurchase of common shares	(19,988)	—
Distributions paid to redeemable noncontrolling interests	(16,140)	(15,385)
Distributions paid to preferred stockholders	(1,894)	(1,858)
Distributions paid to common stockholders	(169,357)	(161,840)
Other	(8,260)	(12,794)
Net cash provided by/(used in) financing activities	(134,764)	42,005

Net increase/(decrease) in cash, cash equivalents, and restricted cash	9,082	(1,093)
Cash, cash equivalents, and restricted cash, beginning of year	21,830	22,106
Cash, cash equivalents, and restricted cash, end of period	$ 30,912	$ 21,013
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$ 58,203	$ 66,047
Cash paid/(refunds received) for income taxes	729	1,641
Non-cash transactions:		
Transfer of investment in and advances to unconsolidated joint ventures to real estate owned	$ —	$ 32,260
Vesting of LTIP Units	4,397	2,317
Development costs and capital expenditures incurred but not yet paid	32,613	49,295
Conversion of Operating Partnership and DownREIT Partnership noncontrolling interests to common stock (330,573 shares in 2018 and 168,804 shares in 2017)	12,660	6,135
Dividends declared but not yet paid	95,131	91,447
The following reconciles cash, cash equivalents, and restricted cash to the total of the same amounts as shown above:		
Cash, cash equivalents, and restricted cash, beginning of year:		
Cash and cash equivalents	$ 2,038	$ 2,112
Restricted cash	19,792	19,994
Total cash, cash equivalents, and restricted cash as shown above	$ 21,830	$ 22,106
Cash, cash equivalents, and restricted cash, end of period:		
Cash and cash equivalents	$ 1,055	$ 1,411
Restricted cash	29,857	19,602
Total cash, cash equivalents, and restricted cash as shown above	$ 30,912	$ 21,013

See accompanying notes to consolidated financial statements.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries ("UDR," the "Company," "we," "our," or "us"), is a self-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership" or the "OP") and UDR Lighthouse DownREIT L.P. (the "DownREIT Partnership"). As of June 30, 2018, there were 183,636,543 units in the Operating Partnership ("OP Units") outstanding, of which 174,248,699 OP Units, or 94.9%, were owned by UDR and 9,387,844 OP Units, or 5.1%, were owned by outside limited partners. As of June 30, 2018, there were 32,367,380 units in the DownREIT Partnership ("DownREIT Units") outstanding, of which 17,186,005, or 53.1%, were owned by UDR (including 13,470,651 DownREIT Units, or 41.6%, that were held by the Operating Partnership) and 15,181,375, or 46.9%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of June 30, 2018, and results of operations for the three and six months ended June 30, 2018 and 2017, have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2017 appearing in UDR's Annual Report on Form 10 K, filed with the Securities and Exchange Commission on February 20, 2018.

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

The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted other than those in Note 6, Secured and Unsecured Debt, Net.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

In January 2017, the FASB issued ASU 2017 01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The ASU changes the definition of a business to assist entities with evaluating whether a set of transferred assets is a business. As a result, the accounting for acquisitions of real estate could be impacted. The updated standard was effective for the Company on January 1, 2018. The ASU will be applied prospectively to any transactions occurring

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

after adoption. The Company expects that the updated standard will result in fewer acquisitions of real estate meeting the definition of a business and fewer acquisition-related costs being expensed in the period incurred.

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

As a result of the adoption of ASU 2016-18, for the six months ended June 30, 2017, the following line items in the following amounts were reclassified on the Consolidated Statements of Cash Flows (in thousands):

	Six months ended June 30, 2017	
(Increase)/decrease in operating assets	$	(381)
Net cash provided by /(used in) operating activities	$	(381)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	$	(11)
Net cash provided by /(used in) investing activities	$	(11)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	$	(392)

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

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

In January 2016, the FASB issued ASU No. 2016 01, Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The updated standard requires certain equity securities to be measured at fair value on the balance sheet, with changes in fair value recognized in net income. The standard was effective for the Company on January 1, 2018. The Company holds one investment in equity securities subject to the updated guidance. As the investment does not have a readily determinable fair value, the Company elected the measurement alternative under which the investment is measured at cost, less any impairment, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. During the three and six months ended June 30, 2018, the Company recorded gains of zero and $2.1 million, respectively, in Interest income and other income/(expense), net on the Consolidated Statements of Operations as a result of measuring the investment using this measurement alternative. The Company does not view the impact, as a result of the adoption of the updated standard, to be material to the consolidated financial statements. Disclosures were updated pursuant to the requirements of the ASU.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

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

Principles of Consolidation

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

Discontinued Operations

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

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

Revenue

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

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

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

Lease Revenue

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

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

Reimbursements Revenue

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

Other Revenue

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

Joint venture management and other fees

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

Real Estate Sales Gain Recognition

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

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

Disaggregation of Revenue

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

	Three Months Ended June 30, (a)		Six Months Ended June 30, (b)	
	2018	2017	2018	2017
Lease Revenue (c)				
Same-Store Communities				
West Region	$ 93,895	$ 89,909	$ 183,326	$ 175,658
Mid-Atlantic Region	54,145	52,700	107,562	104,989
Northeast Region	36,631	36,324	73,340	72,771
Southeast Region	27,109	25,961	53,781	51,478
Southwest Region	11,597	11,259	19,658	19,322
Non-Mature Communities/Other	12,697	9,509	29,445	24,092
Total segment and consolidated lease revenue	$ 236,074	$ 225,662	$ 467,112	$ 448,310
Reimbursements Revenue				
Same-Store Communities				
West Region	$ 4,507	$ 4,338	$ 8,600	$ 8,255
Mid-Atlantic Region	2,786	2,696	5,403	5,298
Northeast Region	643	724	1,280	1,439
Southeast Region	1,728	1,627	3,394	3,237
Southwest Region	660	658	1,118	1,054
Non-Mature Communities/Other	1,524	1,426	3,512	3,072
Total segment and consolidated reimbursements revenue	$ 11,848	$ 11,469	$ 23,307	$ 22,355
Other Revenue				
Same-Store Communities				
West Region	$ 2,869	$ 2,684	$ 5,513	$ 5,425
Mid-Atlantic Region	1,764	1,803	3,712	3,599
Northeast Region	815	684	1,532	1,443
Southeast Region	1,614	1,561	3,313	3,091
Southwest Region	552	534	963	989
Non-Mature Communities/Other	1,098	261	1,665	717
Total segment and consolidated other revenue	$ 8,712	$ 7,527	$ 16,698	$ 15,264

Total Revenue				
Same-Store Communities				
West Region	$ 101,271	$ 96,931	$ 197,439	$ 189,338
Mid-Atlantic Region	58,695	57,199	116,677	113,886
Northeast Region	38,089	37,732	76,152	75,653
Southeast Region	30,451	29,149	60,488	57,806
Southwest Region	12,809	12,451	21,739	21,365
Non-Mature Communities/Other	15,319	11,196	34,622	27,881
Total segment and consolidated total revenue	$ 256,634	$ 244,658	$ 507,117	$ 485,929

(a) Same-Store Community population consisted of 38,911 apartment homes.
(b) Same-Store Community population consisted of 38,277 apartment homes.
(c) Lease Revenue is subject to recognition under ASC 840, Leases.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

Notes Receivable

The following table summarizes our Notes receivable, net as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	Interest rate at June 30, 2018		Balance Outstanding June 30, 2018	December 31, 2017
Note due March 2019 (a)	12.00	%	$ 20,000	$ —
Note due February 2020 (b)	10.00	%	14,209	13,669
Note due October 2020 (c)	8.00	%	2,000	2,000
Note due August 2022 (d)	10.00	%	4,500	3,800
Total notes receivable, net			$ 40,709	$ 19,469

(a) In March 2018, the Company entered into a secured note receivable with an unaffiliated third party with an aggregate commitment of $20.0 million, of which $20.0 million has been funded. Interest payments are due when the loan matures. The note matures in March 2019 and is secured by a parcel of land.

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $16.4 million, of which $14.2 million has been funded, including $0.5 million during the six months ended June 30, 2018. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).

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

(d) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $10.0 million, of which $4.5 million has been funded, including $0.7 million during the six months ended June 30, 2018. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $25.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) August 2022.

The Company recognized $1.1 million and $0.5 million of interest income from notes receivable during the three months ended June 30, 2018 and 2017, respectively, and $1.7 million and $0.9 million during the six months ended June 30, 2018 and 2017, respectively, none of which was related party interest income and all of which is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated

Statements of Comprehensive Income/(Loss). For the three and six months ended June 30, 2018 and 2017, the Company's other comprehensive income/(loss) consisted of the gain/(loss) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the three months ended June 30, 2018 and 2017 was $(0.1) million and less than $(0.1) million, respectively, and during the six months ended June 30, 2018 and 2017, was $0.1 million and $0.1 million, respectively.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

Income Taxes

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

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of June 30, 2018 and December 31, 2017, UDR’s net deferred tax asset was $0.1 million and $0.1 million, respectively.

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

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

UDR had no material unrecognized tax benefit, accrued interest or penalties at June 30, 2018. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2014 through 2017 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax (provision)/benefit, net on the Consolidated Statements of Operations.

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

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

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and held for disposition properties. As of June 30, 2018, the Company owned and consolidated 127 communities in 11 states plus the District of Columbia totaling 40,180 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018	December 31, 2017
Land	$ 1,851,486	$ 1,780,229
Depreciable property — held and used:		
Land improvements	194,785	189,919
Building, improvements, and furniture, fixtures and equipment	7,894,436	7,614,568
Under development:		
Land and land improvements	37,568	109,468
Building, improvements, and furniture, fixtures and equipment	298,689	483,022
Real estate owned	10,276,964	10,177,206
Accumulated depreciation	(3,519,416)	(3,330,166)
Real estate owned, net	$ 6,757,548	$ 6,847,040

Acquisitions

The Company did not have any acquisitions during the six months ended June 30, 2018.

Dispositions

During the six months ended June 30, 2018, the Company sold an operating community in Orange County, California with a total of 264 apartment homes for gross proceeds of $90.5 million, resulting in a gain of $70.3 million. The proceeds were designated for a tax-deferred Section 1031 exchange that were used to pay a portion of the purchase price for an acquisition in October 2017.

Developments

During the six months ended June 30, 2018, the Company completed the development of a 516 apartment home community in Huntington Beach, California.

Other Activity

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, for the three months ended June 30, 2018 and 2017, were $1.6 million and $1.7 million, respectively, and $5.0 million and $4.4 million for the six months ended June 30, 2018 and 2017, respectively. Total interest capitalized was $3.6 million and $4.6 million for the three months ended June 30, 2018 and 2017, respectively, and $8.2 million and $9.4 million for the six months ended June 30, 2018

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and 2017, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion of the costs and depreciation commences over the estimated useful life.

In connection with the acquisition of certain properties, the Company agreed to pay certain of the tax liabilities of certain contributors if the Company sells one or more of the properties contributed in a taxable transaction prior to the expiration of specified periods of time following the acquisition. The Company may, however, sell, without being required to pay any tax liabilities, any of such properties in a non-taxable transaction, including, but not limited to, a tax-deferred Section 1031 exchange.

Further, the Company has agreed to maintain certain debt that may be guaranteed by certain contributors for specified periods of time following the acquisition. The Company, however, has the ability to refinance or repay guaranteed debt or to substitute new debt if the debt and the guaranty continue to satisfy certain conditions.

4. VARIABLE INTEREST ENTITIES

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

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

5. JOINT VENTURES AND PARTNERSHIPS

UDR has entered into joint ventures and partnerships with unrelated third parties to acquire real estate assets that are either consolidated and included in Real estate owned on the Consolidated Balance Sheets or are accounted for under the equity method of accounting, and are included in Investment in and advances to unconsolidated joint ventures, net, on the Consolidated Balance Sheets. The Company consolidates the entities that we control as well as any variable interest entity where we are the primary beneficiary. Under the VIE model, the Company consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest.

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

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

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UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

June 30, 2018

The following table summarizes the Company's investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of June 30, 2018 and December 31, 2017 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties June 30, 2018	Number of Apartment Homes June 30, 2018	Investment at June 30, 2018	Investment at December 31, 2017	UDR's Ownership Interest June 30, 2018	UDR's Ownership Interest December 31, 2017
Operating and development:							
UDR/MetLife I	Los Angeles, CA	1 development community (a)	150	$ 35,033	$ 34,653	50.0 %	50.0 %
UDR/MetLife II	Various	18 operating communities	4,059	300,891	303,702	50.0 %	50.0 %
Other UDR/MetLife Joint Ventures	Various	5 operating communities	1,437	124,647	135,563	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities; 1 development community (a);	1,513	79,477	78,404	50.0 %	50.0 %