UDR, Inc.
Form 10-K
February 27, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2012
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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 þ	No o
United Dominion Realty, L.P.	Yes o	No þ

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 o	No þ
United Dominion Realty, L.P.	Yes o	No þ

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 þ	No o
United Dominion Realty, L.P.	Yes þ	No o

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 þ	No o
United Dominion Realty, L.P.	Yes þ	No o

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. o

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

The aggregate market value of the shares of common stock of UDR, Inc. held by non-affiliates on June 30, 2012 was approximately $4.4 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 19, 2013 there were 250,179,737 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 2013 Annual Meeting of Stockholders.

TABLE OF CONTENTS

PART IV

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2012 of UDR, Inc. a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company”, “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as “OP Units” and the holders of the OP 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 our company and our operating partnership, which are reflected in our disclosure in this report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiary (“TRS”), RE^3, whose activities include development of land and land entitlement. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding securities of UDR.

As of December 31, 2012, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,775,152 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership (the “OP Units”). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities” and “Control and Procedures” are provided 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.

PART I

Forward-Looking Statements

This Annual 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 ex are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unfavorable changes in the apartment market, changing economic conditions, the impact of inflation/deflation on rental rates and property operating expenses, expectations concerning availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the Vitruvian Park® development, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income. 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 Annual 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. For a further discussion of these and other factors that could impact future results, performance or transactions, see “Item 1A. Risk Factors” elsewhere in this Annual Report.

Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual 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.

Item 1. BUSINESS

General

UDR is a self administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages multifamily apartment communities generally located in high barrier-to-entry markets located 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, 2012, our consolidated apartment portfolio included 145 communities located in 22 markets, with a total of 41,571 completed apartment homes, which are held through our subsidiaries, including the Operating Partnership, and consolidated joint ventures. In addition, we have an ownership interest in 39 communities containing 9,558 apartment homes through unconsolidated joint ventures. At December 31, 2012, the Company is developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.

At December 31, 2012, the Operating Partnership’s consolidated apartment portfolio included 72 communities located in 19 markets, with a total of 21,660 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, 2012, revenues of the Operating Partnership represented approximately 54% of our total rental revenues.

UDR 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 qualified 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 2012, we declared total distributions of $0.88 per common share and paid dividends of $0.88 per common share.

	Dividends Declared in 2012	Dividends Paid in 2012
First Quarter	$0.220	$0.215
Second Quarter	0.220	0.220
Third Quarter	0.220	0.220
Fourth Quarter	0.220	0.220
Total	$0.880	$0.875

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 located at www.udr.com.

As of February 18, 2013, we had 1,551 full-time associates and 82 part-time associates, all of whom were employed by UDR.

Reporting Segments

We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to January 1, 2011, and held as of December 31, 2012. 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 community is not classified as held for sale 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/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, properties classified as real estate held for sale, consolidated joint venture properties, properties managed by third parties, and the non-apartment components of mixed use properties. For additional information regarding our operating segments, see Note 14 to UDR's consolidated financial statements and Note 11 to the Operating Partnership's consolidated financial statements.

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, 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 earnings and dividends.

2012 Highlights

- In July 2012, the Company marked its 40th year as a REIT and paid its 160th consecutive quarterly dividend. The Company's full-year 2012 dividend of $0.88 represented a 10% increase over the previous year.
- We formed a new unconsolidated real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest. The initial 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. In addition, we exchanged our 12% ownership interest in four operating communities, and 3.1% ownership in two land parcels in our UDR/MetLife I joint venture, and paid $10

million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown

2

Seattle, bringing UDR's ownership interest in The Olivian to 50%. The Olivian was contributed to the UDR/MetLife II joint venture. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina; and Chicago, Illinois. At December 31, 2012, there are 13 communities with 2,752 apartment homes and land parcels in the UDR/MetLife I joint venture. The Company serves as the general partner of both joint ventures with significant participating rights held by our partner. The Company earns property management, asset management and financing fees.

- We acquired the remaining 80% ownership interests in two apartment communities (633 homes) in Austin, Texas for $11.7 million from our Texas joint venture.
- We acquired two parcels of land for development in San Francisco, California and Boston, Massachusetts for a total purchase price of $77.2 million.
- We formed two consolidated joint ventures with unaffiliated third parties to acquire land for future development in Santa Monica, California. At closing, UDR owned a controlling interest of 95% in the joint ventures for an initial investment of $10.3 million and $7.0 million.
- We sold 21 communities with 6,507 apartment homes for $609.4 million, recognizing a gain (before tax) of $260.4 million.
- We issued $400 million aggregate principal amount of 4.625% Medium Term Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.
- We repaid $491.9 million of secured debt. The $491.9 million of secured debt includes $157.2 million of construction loans, which were due at various dates ranging from November 2012 through October 2014 with variable interest rates ranging from 2.23% to 2.46% and with a fixed interest rate of 3.25%; repayment of $212.5 million of credit facilities, which were due at various dates ranging from April 2012 through May 2017 with variable interests rates ranging from 0.75% to 2.85% and with fixed interest rates ranging from 4.86% to 6.12%; and $122.2 million of mortgage payments, which were due at various dates ranging from August 2012 through June 2032 with fixed interest rates ranging from 3.43% to 6.76% and a variable interest rate of 1.84%.
- We repaid $445.0 million of unsecured debt, which includes $100 million of 5.00% Medium Term Notes due January 2012, and net payments of $345.0 million were applied toward borrowings under the Company's $900 million revolving credit facility.
- In September 2011, the Company entered into an equity distribution agreement in connection with filing a new registration statement on Form S-3. The equity distribution agreement replaced the prior equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents, and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes.
- We completed the redemption of all outstanding shares of our 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million.
- We closed on a public offering of 19,000,000 shares of our common stock, in addition to 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and estimated offering expenses. Proceeds from the sale of shares through this offering

were used to repay approximately $363.9 million of the Company’s 3.3% (weighted average interest rate) secured debt with various maturities from 2012 - 2014, to redeem all of our outstanding Series G Preferred Stock, to repay a portion of indebtedness outstanding under our unsecured credit facility, and the balance for working capital and general corporate purposes.

- We purchased mezzanine debt securing a mortgage on a class A community in West Los Angeles, California. The

$26.5 million loan was purchased at a yield of 7.25% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022.

- We issued a $24.5 million unsecured note receivable to one of our unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year.

Other than the following, there were no significant changes to the Operating Partnership's business during 2012 (the above 2012 highlights relate to UDR or other subsidiaries of UDR):

- The Operating Partnership sold four communities with 1,314 apartment homes for a gain of $51.1 million.

Our Strategies and Vision

Our vision is to be the innovative multifamily public real estate investment trust of choice. Our strategic priorities are:

1. Strengthen the Quality of Our Portfolio
2. Increase Cash Flow to Support Dividend Growth
3. Flexible/Strong Balance Sheet
4. A Great Place to Work and Live

Capital Allocation

Acquisitions and Dispositions

During 2012, we acquired the remaining 80% ownership interests in two apartment communities (633 homes) in Austin, Texas for $11.7 million from our Texas joint venture partner.

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million, and UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the city, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between the fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture. The Company's total investment is $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a 98.0% interest in the joint venture. The Company's total investment is $26.6 million, which consists of its initial investment and the acquisition of its partner's 2.0% ownership interest in the joint venture.

In 2012, the Company formed two consolidated joint ventures with unaffiliated third parties to acquire land for future development in Santa Monica, California. At closing, UDR owned a controlling interest of 95% in the joint ventures for an initial investment of $10.3 million and $7.0 million.

The Operating Partnership did not have any acquisitions during the year ended December 31, 2012.

When evaluating potential acquisitions, we consider:

- 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 community;
- current and projected cash flow of the property and the ability to increase cash flow;
- potential for capital appreciation of the property;
- ability to increase the value and profitability of the property through operations and redevelopment;
- high barrier-to-entry markets which are characterized by low single-family affordability and strong employment growth potential;
- 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.

During 2012, we sold 21 communities (6,507 apartment homes) for $609.4 million, recognizing a gain (before tax) of $260.4 million. Four of these communities (1,314 apartment homes) were owned by the Operating Partnership, and were sold for a gain of $51.1 million.

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):

	2012	2011	2010	2009	2008
Homes acquired	633	3,161	1,374	289	4,558
Homes disposed	6,507	4,488	149	—	25,684
Homes owned at December 31	41,571	47,343	48,553	45,913	44,388
Total real estate owned, at cost	$8,055,828	$8,074,471	$6,881,347	$6,315,047	$5,831,753

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

	2012	2011	2010	2009	2008
Homes acquired	—	1,833	—	—	3,346
Homes disposed	1,314	2,024	—	—	16,960
Homes owned at December 31	21,660	23,160	23,351	23,351	23,351
Total real estate owned, at cost	$4,182,920	$4,205,298	$3,706,184	$3,640,888	$3,569,239

Development Activities

During 2012, we incurred $246.9 million for development costs.

The following wholly-owned projects were under development as of December 31, 2012 (dollars in thousands):

	Location	Number of Apartment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
Capitol View on Fourteenth	Washington, DC	255	76	$117,851	$126,100	$495	1Q13
Fiori on Vitruvian Park	Addison, TX	391	—	70,315	98,350	252	3Q13
The Residences at Bella Terra	Huntington Beach, CA	467	—	89,809	150,000	321	4Q13
Mission Bay	San Fransisco, CA	315	—	77,444	139,600	443	4Q13
Los Alisos (a)	Mission Viejo, CA	320	—	47,723	87,050	272	4Q13
The Calvert (a)	Alexandria, VA	332	—	39,670	132,000	398	2Q14
Beach Walk	Huntington Beach, CA	173	—	15,895	50,700	293	2Q14
Pier 4	Boston, MA	369	—	32,341	217,700	590	2Q15
		2,622	76	$491,048	$1,001,500	$382	

(a) These projects are held by the Operating Partnership.

Redevelopment Activities

During 2012, we continued to redevelop properties in targeted markets where we concluded there was an opportunity to add value. During the year ended December 31, 2012, we incurred $104.3 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings.

At December 31, 2012, the following communities were in redevelopment (dollars in thousands):

	Location	Number of Apartment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
The Westerly on Lincoln	Marina del Rey, CA	583	357	$29,768	$36,100	$62	2Q13
Rivergate	New York, NY	706	124	16,830	60,000	85	3Q14
Pine Brook I & II	Costa Mesa, CA	496	22	6,065	38,700	78	2Q14
Villa Venetia	Costa Mesa, CA	468	99	22,355	36,600	78	2Q14
		2,253	602	$75,018	$171,400	$76	

Joint Venture Activities

Consolidated joint ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million and UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the City of Huntington Beach, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture. The Company's total investment is $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a 98.0% interest in the joint venture. The Company's total investment of $26.6 million consists of its initial investment and the acquisition of its partner's 2.0% ownership interest in the joint venture.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire 3032 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $10.3 million.

In October 2012, the Company formed a joint venture with an unaffiliated third party to acquire 2919 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $7.0 million.

Unconsolidated joint ventures

In January 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest in a $1.3 billion portfolio of 12 operating communities containing 2,528 apartment homes. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was $327.1 million, which consisted of $293.5 million of cash paid and $33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the $293.5 million of cash paid for its investment, the Company paid $80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.)

In November 2012, the Company exchanged its 12% ownership interest in four operating communities and 3.1% ownership in two land parcels in UDR/MetLife I, and paid MetLife $10.0 million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown Seattle, bringing UDR's ownership interest in The Olivian to 50%. The community was contributed to UDR/MetLife II. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina; and Chicago, Illinois. UDR will continue to fee manage the four operating communities.

For additional information regarding these and our other joint ventures, see Note 5, Joint Ventures to the Consolidated Financial Statements of UDR, Inc. in this Report.
The Operating Partnership is not a party to any of the joint venture activities described above.

Balance Sheet Management

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 consistently strengthen our capital structure, we utilized proceeds from debt and equity offerings and refinancings to extend maturities, pay down existing debt and acquire apartment communities during 2012. The following is a summary of our major financing activities in 2012.

- We repaid $491.9 million of secured debt. The $491.9 million of secured debt includes $157.2 million of construction loans, which were due at various dates ranging from November 2012 through October 2014 with variable interest rates ranging from 2.23% to 2.46% and with a fixed interest rate of 3.25%; repayment of $212.5 million of credit facilities, which were due at various dates ranging from April 2012 through May 2017 with variable interests rates ranging from 0.75% to 2.85% and with fixed interest rates ranging from 4.86% to 6.12%; and $122.2 million of mortgage payments, which were due at various dates ranging from August 2012 through June 2032 with fixed interest rates ranging from 3.43% to 6.76% and a variable interest rate of 1.84%;

- We repaid $445.0 million of unsecured debt, which includes $100 million of 5.00% Medium Term Notes due January 2012, and net payments of $345.0 million were applied toward borrowings under the Company's $900 million revolving credit facility;

- We issued $400 million in 4.625% Medium Term Notes due January 2022 with a discount of $3.6 million;

- In September 2011, the Company entered into an equity distribution agreement in connection with filing a new registration statement on Form S-3. The equity distribution agreement replaced the prior equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes; and

- In June 2012, we closed a public offering of 19,000,000 shares of our common stock, in addition to 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and offering expenses.

Operational Excellence, Cash Flow and Dividend Growth

Investment in new technologies continue to drive operating efficiencies in our business and help us to better meet the changing needs of our residents. Since its launch in January 2009, our residents have been utilizing our web-based resident internet portal on our website. Our residents have the ability to conduct business with us 24 hours a day, 7 days a week. In July 2010, we completed the roll out of online leasing renewals throughout our portfolio. As a result of transforming our operations through technology, resident's satisfaction 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.

In 2012, UDR.com features and functionality were enhanced to increase a user's engagement and search capability. Improvements included a new responsive website, new photography, enhancements to the online web forms and improved layout of the individual UDR community homepages. We also overhauled our mobile applications. These overall enhancements have increased our web visitor traffic year-over-year to almost 3.6 million visitors in 2012, up 16%, with mobile traffic at 1.1 million visitors, up 121%.

Portfolio Improvement

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.

For the year ended December 31, 2012, approximately 63.3% of our same store net operating income ("NOI") was generated by communities located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Boston, Massachusetts; Baltimore, Maryland; and Washington, D.C.

Operating Partnership Strategies and Vision

The Operating Partnership's long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets and enhance resident and associate service through technology. As a result, the Operating Partnership has sought to expand its interests in communities located in New York, New York; San Francisco Bay Area, California; Boston, Massachusetts; and Washington D.C. markets over the past years. Prospectively, we plan to continue to channel new investments into those markets we believe will continue to provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single-family home affordability and limited new supply for multifamily housing, which are three key drivers to strong rental growth.

Markets and Competitive Conditions

During the year ended December 31, 2012, 63.3% of our consolidated same store net operating income was generated from apartment homes located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Boston, Massachusetts; Baltimore, Maryland; and Washington, D.C. At December 31, 2012, the Company held 71.4% of its carrying value of its real estate portfolio in our core markets. During the year ended December 31, 2012, 66.3% of the Operating Partnership's same store net operating income was generated from apartment homes located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Baltimore, Maryland; and Washington, D.C. At December 31, 2012, the Operating Partnership held 81.0% of its carrying value of its real estate portfolio in its core markets. We believe that this diversification increases investment opportunity and decreases the risk associated with cyclical local real estate markets and economies, thereby increasing the stability and predictability of our earnings.

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 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 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;
- access to sources of capital;
- geographic diversification with a presence in 23 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 in spite of a weak economic environment.

Communities

At December 31, 2012, our apartment portfolio included 145 consolidated communities having a total of 41,571 completed apartment homes and an additional 2,622 apartment homes under development, which included the Operating Partnership's apartment portfolio of 72 consolidated communities having a total of 21,660 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, 2012, the Company is developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed. Of these eight development communities, the Operating Partnership is developing two wholly-owned communities totaling 652 homes, none of which have been completed at December 31, 2012.

At December 31, 2012, the Company is redeveloping four wholly-owned communities with 2,253 apartment homes, 602 of which have been completed. Of these four redevelopment communities, the Operating Partnership is redeveloping two wholly-owned communities with 964 apartment homes, of which 121 have been completed at December 31, 2012.

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' net operating income ("NOI"), which is total rental revenue, less rental expenses excluding property management and other operating expenses. Our same store community population are 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, 2012, our same store NOI increased by $21.6 million or 6.6% compared to the prior year. The increase in NOI for the 33,823 apartment homes, or 70% of our portfolio, which make up the same store population was driven by an increase in rental rates, fee and reimbursement income, and increased occupancy, partially offset by an increase in operating expenses.

For the year ended December 31, 2012, the Operating Partnership's same store NOI increased by $12.4 million or 6.5% compared to the prior year. The increase in NOI for the 17,880 apartment homes, or 72% of the Operating Partnerships portfolio, which make up the same store population was driven by an increase in rental rates, and fee and reimbursement income, partially offset by an increase in operating expenses.

Revenue growth in 2013 may be impacted by general adverse conditions affecting the economy, reduced occupancy rates, increased rental concessions, 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 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 through wage pressures, property taxes, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an escalation in energy and food 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, 2012.

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 our 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 us and our financial condition.

Insurance

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

Executive Officers of the Company

UDR is the sole general partner of the Operating Partnership. The following table sets forth information about our executive officers as of February 19, 2013. The executive officers listed below serve in their respective capacities at the discretion of our Board of Directors.

Name	Age	Office	Since
Thomas W. Toomey	52	President, Chief Executive Officer, and Director	2001
Warren L. Troupe	59	Senior Executive Vice President	2008
Harry G. Alcock	50	Senior Vice President — Asset Management	2010
Jerry A. Davis	50	Senior Vice President — Chief Operating Officer	2013
Thomas M. Herzog	50	Senior Vice President — Chief Financial Officer	2013
Mark A. Schumacher	54	Senior Vice President — Chief Accounting Officer	2012
R. Scott Wesson	50	Senior Vice President — Chief Information Officer	2011

Set forth below is certain biographical information about our executive officers.

Mr. Toomey spearheads the vision and strategic direction of the Company and oversees its executive officers. He joined us in February 2001 as President, Chief Executive Officer and Director. Prior to joining us, Mr. Toomey was with Apartment Investment and Management Company (AIMCO), where he served as Chief Operating Officer for two years and Chief Financial Officer for four years. During his tenure at AIMCO, Mr. Toomey was instrumental in the growth of AIMCO from 34,000 apartment homes to 360,000 apartment homes. He has also served as a Senior Vice President at Lincoln Property Company, a national real estate development, property management and real estate consulting company, from 1990 to 1995. He currently serves on the Executive Board of the National Association of Real Estate Investment Trusts (NAREIT), as a member of the Real Estate Roundtable, as a trustee with the Urban Land Institute and as a trustee of the Oregon State University Foundation.

Mr. Troupe oversees all financial, treasury, tax and legal functions of the Company. He joined us in March 2008 as Senior Executive Vice President. In May 2008, he was appointed the Company's Corporate Compliance Officer and in October 2008 he was named the Company's Corporate Secretary. Prior to joining us, Mr. Troupe was a partner with Morrison & Forester LLP from 1997 to 2008, where his practice focused on all aspects of corporate finance including, but not limited to, public and private equity offerings, traditional loan structures, debt placements to subordinated debt financings, workouts and recapitalizations. He currently is a member of the National Multi Housing Council (NMHC), the Pension Real Estate Association (PREA) and the Urban Land Institute.

Mr. Alcock oversees the Company's acquisitions, dispositions, development, redevelopment and asset management. He joined us in December 2010 as Senior Vice President — Asset Management. Prior to joining the company, Mr. Alcock was with AIMCO for over 16 years, serving most recently as Executive Vice President, co-Head of Transactions and Asset Management. He was appointed Executive Vice President and Chief Investment officer in 1999, a position he held through 2007. Mr. Alcock established and chaired the company's Investment Committee, established the portfolio management function and at various times ran the property debt and redevelopment departments. Prior to the formation of AIMCO, from 1992 to 1994, Mr. Alcock was with Heron Financial and PDI, predecessor companies to AIMCO. From 1988 to 1992 he worked for Larwin Company, a national homebuilder.

Mr. Davis oversees property operations, human resources and technology. He originally joined us in March 1989 as Controller and subsequently moved into Operations as an Area Director and in 2001, he accepted the position of Chief Operating Officer of JH Management Co., a California-based apartment company. He returned to the Company in March 2002 and in 2007, Mr. Davis was promoted to Senior Vice President — Property Operations. Mr. Davis was promoted to Chief Operating Officer in 2013. He began his career in 1984 as a Staff Accountant for Arthur Young & Co.

Mr. Herzog oversees the areas of accounting, tax, financial planning and analysis, investor relations and SEC reporting. He joined us in January 2013 as Senior Vice President — Chief Financial Officer. Prior to joining the Company, Mr. Herzog served as Chief Financial Officer for Amstar, a Denver-based real estate investment company. From 2009 to 2011 Mr. Herzog served as Chief Financial Officer of HCP, Inc., an S&P 500 health care REIT. From 2004 to 2009 Mr. Herzog was with AIMCO where he began in the role of Senior Vice President and Chief Accounting Officer and then was promoted in 2005 to Executive Vice President and Chief Financial Officer. From

2000 to 2004 he served in the roles of Chief Accounting Officer & Global

Controller and Finance Technical Advisor for GE Real Estate. Prior to joining GE Real Estate, Mr. Herzog was with Deloitte & Touche LLP for ten years, where he served in positions of increasing responsibility, including a two-year national office assignment in the real estate group.

Mr. Schumacher oversees all accounting and tax functions of the Company. He joined us in April 2012 as Senior Vice President — Chief Accounting Officer. Prior to joining the Company, Mr. Schumacher was with Houghton Mifflin Harcourt, a textbook and trade publisher, from 2008 to 2011, where he initially served as Senior Vice President, Finance & Chief Accounting Officer and was promoted to Executive Vice President, Chief Financial Officer for the K-12 division. From 2002 to 2007 he was with Archstone Smith as Senior Vice President, Chief Accounting Officer. Prior to this time Mr. Schumacher was with US West for over 17 years where he held positions of increasing responsibility in accounting, budgeting and financial analysis. The company merged with Qwest Communications in 2000, where he served as Vice President, Controller from January 2001 through December 2001. Qwest and Mr. Schumacher were the subject of civil and administrative actions brought by the Securities and Exchange Commission in 2004 and 2005 related to accounting, internal control and reporting violations at Qwest. Mr. Schumacher began his career as an accountant with Coopers & Lybrand in Denver, Colorado.

Mr. Wesson oversees all aspects of the company's information technology infrastructure and strategy. He joined us in May 2011 as Senior Vice President — Chief Information Officer. Prior to joining the Company, Mr. Wesson was with RealFoundations, a global real estate management consultancy, where he served as Managing Director from 2008 to 2011. From 1997 to 2008 he was with AIMCO where he served as Senior Vice President, Chief Investment Officer. He took on the additional role of Chief Strategy Officer for AIMCO in 2006. From 1991 to 1997 Mr. Wesson was with Lincoln Property Company in the role of Vice President of Information Systems. Prior to that time he worked for five years as a District Manager for ADP. Mr. Wesson began his career in Dallas, Texas working as an Analyst for Federated Department Stores.

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.

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 strategically 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 market 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, the downturn in the housing market, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, 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 and 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 national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates, making alternative housing more affordable;
- government or builder incentives which enable first time homebuyers to put little or no money down, 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.

Continued Economic Weakness Following the Economic Recession that the U.S. Economy Recently Experienced May Materially and Adversely Affect our Financial Condition and Results of Operations. The U.S. economy continues to experience some weakness following a severe recession, including relatively high levels of unemployment and weak consumer spending. If the economic recovery slows or stalls, or if the economy experiences another recession, we may experience adverse effects on our occupancy levels, our rental revenues and the value of our properties, any of which could adversely affect our cash flow, financial condition and results of operations. We are also exposed to risks relating to the housing market recovery that has accompanied the economic recovery, to the extent that when demand for single family homes increases, demand for apartments may decline, which could adversely affect our cash flow, financial condition and results of operations.

14

Substantial International, National and Local Government Spending and Increasing Deficits May Adversely Impact Our Business, Financial Condition and Results of Operations. The values of, and the cash flows from, the properties we own are affected by developments in global, national and local economies. As a result of the most recent recession and the significant government interventions, federal, state and local governments have incurred record deficits and assumed or guaranteed liabilities of private financial institutions or other private entities. These increased budget deficits and the weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

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 our debt interest and general and administrative expenses increase at a rate higher than our rental rates. The predominant effects of deflation include high unemployment and credit contraction. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties. High unemployment may have a negative effect on our occupancy levels and our rental revenues.

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 promptly 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:

- 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.

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:

- we may be unable to obtain financing for acquisitions on favorable terms or at all;
- 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 acquisition;
- even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;
- we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we 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; 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 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 pursue attractive investment opportunities on favorable terms, which could adversely affect our ability to grow.

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:

- we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates 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;
- if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;
- 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 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 and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; 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.

In some cases in the past, the costs of upgrading acquired communities exceeded our original estimates. We may experience similar cost increases in the future. Our inability to charge rents that will be sufficient to offset the effects of any increases in these costs may impair our profitability.

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, or volatility in the financial markets and economic weakness could affect the counterparties' ability to complete transactions with us as intended, both of which could result in disruptions to our operations that may adversely affect our business and results of operations.

Property Ownership Through 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 joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. If we use such a structure, we could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, joint venture 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, joint venture partners may have competing interests in our markets that could create conflicts of interest. Also, our joint venture partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. Frequently, 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 joint venture (if we are the seller) or of the other partner's interest in the 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 also are also subject to risk in cases where an institutional owner is our joint venture partner, including (i) a deadlock if we and our joint venture partner are unable to agree upon certain major and other decisions, (ii) the limitation of our ability to liquidate our position in the joint venture without the consent of the other joint venture partner, and (iii) the requirement to provide guarantees in favor of lenders with respect to the indebtedness of the joint venture.

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

As a result of our substantial real estate holdings, the cost of insuring our apartment communities is a significant component of expense. Insurance premiums are subject to significant increases and fluctuations, which can be widely 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 of our insurance companies that we hold policies with may be negatively impacted resulting 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 our insurance policies or increase the cost of insuring additional properties and recently developed or redeveloped properties.

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

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

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

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

Real Estate Tax and Other Laws. 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 regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

Risk of Damage from Catastrophic Weather Events. Certain of our communities are located in the general vicinity of mudslides and fires, and others where there are hurricanes, tornadoes or risks of other inclement weather. The adverse weather 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 materially and adversely affect our business and our financial condition and results of operations.

Risk of Earthquake Damage. Some of our communities are located in the general vicinity of active 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 would 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 and our 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 Due to Fire, Natural Disasters or Other Hazards. The accidental death of persons living in our communities due to fire, natural disasters or other hazards could have a material 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 a material 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 a material 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 a material adverse effect on our business and results of operations.

Mezzanine Loan Assets Involve Greater Risks of Loss than Senior Loans Secured by Income-producing Properties. We may acquire 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 long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured 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 initial expenditure. 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.

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 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 UDR's stock price.

Our Business and Operations Would Suffer in the Event of System Failures. Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and keeping of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Although we take steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information, such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

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.

We May be Adversely Affected by New Federal Laws and Regulations. The United States Administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate change, executive compensation and others. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us.

Federal rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the recent economic downturn. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area culminated in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

Changing laws, regulations and standards relating to corporate governance and public disclosure in particular, including certain provisions of the Dodd-Frank Act and the rules and regulations promulgated thereunder, have created uncertainty for public companies like ours and could significantly increase the costs and risks associated with accessing the U.S. public markets. Because we are committed to maintaining high standards of internal control over financial reporting, corporate governance and public disclosure, our management team will need to devote significant time and financial resources to comply with these evolving standards for public companies. We intend to continue to invest appropriate resources to comply with both existing and evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

We May be Adversely Affected by New State and Local Laws and Regulations. We are subject to state and local laws, regulations and ordinances at locations where we operate and to the rules and regulations of various local authorities regarding a wide variety of matters that could affect, directly or indirectly, our operations. We cannot predict what matters might be considered in the future by these state and local authorities, nor can we judge what impact, if any, the implementation of new legislation might have on our business.

The Adoption of Derivatives Legislation by Congress Could Have an Adverse Impact on our Ability to Hedge Risks Associated with our Business. The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk and REITs meeting certain criteria. While we may ultimately be eligible for such exceptions, we cannot ensure we will qualify for them. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available hedge counterparties to us.

Changes in the System for Establishing U.S. Accounting Standards May Materially and Adversely Affect Our Reported Results of Operations. Accounting for public companies in the United States has historically been conducted in accordance with generally accepted accounting principles as in effect in the United States ("GAAP"). GAAP 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. The International Accounting Standards Board (the "IASB") is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards ("IFRS"). IFRS generally reflects accounting practices that prevail in Europe and in developed nations around the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on "fair value" models of accounting for assets and liabilities than GAAP. "Fair value" models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

We are monitoring the SEC's activity with respect to the proposed adoption of IFRS by United States public companies. It is unclear at this time how the SEC will propose that GAAP and IFRS be harmonized if the proposed change is adopted. In addition, switching to a new method of accounting and adopting IFRS would be a complex undertaking. We would potentially need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately to be adopted are not now known, the magnitude of costs associated with this conversion are uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial position and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific IFRS standards that would potentially be adopted. Until there is more certainty with respect to the IFRS standards that could be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

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 full limits of our line of credit may not be available to us 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 an adverse effect on our cash flow, 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 net rental income 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 net rental income generated by our apartment communities:

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

21

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 rental income 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.

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 and other forms of secured and 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. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our 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, the major debt rating agencies, routinely evaluate our debt and have given us ratings on our senior unsecured debt 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 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.

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 or to refinance 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 past few years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. The potential downgrade of the U.S.’s credit rating and the European debt crisis have contributed to instability in global credit markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt 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. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of UDR’s common shares and other adverse effects on us and our business.

Prospective buyers of our properties may also experience difficulty in obtaining debt financing which might make it more difficult for us to sell properties at acceptable pricing levels. Tightening of credit in financial markets and high unemployment rates may also adversely affect the ability of tenants to meet their lease obligations and for us to continue increasing rents on a prospective basis. Disruptions in the credit and financial markets may also have other adverse effects on us and the overall economy.

A Change in U.S. Government Policy Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. Fannie Mae and Freddie Mac are a major source of financing for secured multifamily rental real estate. We and other multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guaranteeing apartment loans. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. The Administration has proposed potential options for the future of mortgage finance in the U.S. that could involve 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, it would significantly reduce our access to debt capital and adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. Uncertainty in the future activity and involvement of Fannie Mae and Freddie Mac as a source of financing could negatively impact our ability to make acquisitions and make it more difficult or not

possible for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.
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.
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 at rates that vary with market interest rates. As of December 31, 2012, UDR had approximately $454.5 million of variable rate indebtedness outstanding, which constitutes approximately 13.3% of total outstanding indebtedness as of such date. As of December 31, 2012, the Operating Partnership had approximately $201.6 million of variable rate indebtedness outstanding, which constitutes approximately 20.8% 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. 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. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of UDR’s common and preferred stock and debt securities.
Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have 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 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.

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. shareholders is 20%. Unlike dividends received from a corporation that is not a REIT, our distributions to individual shareholders generally are not eligible for the reduced rates.

UDR May Conduct a Portion of Our Business Through Taxable REIT Subsidiaries, Which are Subject to Certain Tax Risks. We have established several 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.

We Could Face Possible State and Local Tax Audits and Adverse Changes in State and Local Tax Laws. As discussed in the risk factors above, 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 municipalities 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, entities through which we own real estate may also become subject to tax audits. If such entities become subject to state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition.

The Operating Partnership Intends to Qualify as a Partnership, But Cannot Guarantee That It Will Qualify. The Operating Partnership intends to qualify as a partnership for federal income tax purposes at any such time that the Operating Partnership admits additional limited partners other than UDR. If classified as a partnership, the Operating Partnership generally will not be a taxable entity and will not incur federal income tax liability. However, the Operating Partnership would be treated as a corporation for federal income tax purposes if it were a "publicly traded partnership," unless at least 90% of the Operating Partnership's 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 the Operating Partnership's partnership units are not traded on an established securities market, because of the redemption right, the Operating 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 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 may not meet this qualifying income test. If the Operating 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;
- 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.

Item 2. PROPERTIES

At December 31, 2012, our consolidated apartment portfolio included 145 communities located in 22 markets, with a total of 41,571 completed apartment homes.

We lease approximately 40,000 square feet of office space in Highlands Ranch, Colorado for our corporate headquarters. We also lease two additional regional offices with 3,000 and 9,000 square feet in Richmond, Virginia and Alexandria, Virginia, respectively.

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, 2012.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2012

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 Size (In Square Feet)
WESTERN REGION								
Orange County, CA	13	4,254	10.6 %	$853,576	$165,621	$200,653	93.4 %	839
San Francisco, CA	11	2,436	8.1 %	655,835	103,249	269,226	95.8 %	852
Seattle, WA	11	2,165	5.9 %	472,485	71,387	218,237	96.0 %	823
Monterey Peninsula, CA	7	1,565	2.0 %	157,245	—	100,477	93.5 %	679
Los Angeles, CA	6	1,502	5.9 %	477,004	105,874	317,579	90.6 %	939
Sacramento, CA	2	914	0.9 %	69,936	—	76,515	92.7 %	820
Portland, OR	3	716	0.9 %	71,419	31,505	99,747	95.0 %	918
Inland Empire, CA	2	654	1.3 %	101,497	51,915	155,194	94.3 %	955
San Diego, CA	2	366	0.7 %	56,516	—	154,415	95.0 %	865
MID-ATLANTIC REGION								
Washington DC	13	4,313	10.9 %	880,431	150,734	204,134	97.0 %	883
Baltimore, MD	11	2,301	3.7 %	303,088	110,757	131,720	96.5 %	957
Norfolk, VA	6	1,438	1.1 %	87,397	—	60,777	94.5 %	1,016
Richmond, VA	4	1,358	1.7 %	136,785	41,507	100,726	95.4 %	985
Other Mid-Atlantic	1	168	0.2 %	12,173	—	72,458	95.7 %	1,002
NORTHEAST REGION								
New York, NY	4	1,914	14.7 %	1,187,078	202,145	620,208	95.6 %	754
Boston, MA	4	1,179	3.9 %	317,140	83,524	268,991	96.1 %	1,097
SOUTHEASTERN REGION								
Tampa, FL	10	3,452	4.1 %	326,379	19,195	94,549	96.0 %	962
Orlando, FL	11	3,167	3.5 %	279,686	81,322	88,313	95.7 %	978
Nashville, TN	8	2,260	2.3 %	185,266	22,957	81,977	96.9 %	933
Other Florida	1	636	1.0 %	78,876	40,133	124,020	95.0 %	1,130
SOUTHWESTERN REGION								
Dallas, TX	10	3,464	5.2 %	419,289	87,961	121,042	93.4 %	849
Austin, TX	4	1,273	1.8 %	147,700	60,349	116,025	96.9 %	913
	144	41,495	90.4 %	7,276,801	1,430,135	$175,366	95.1 %	899

Total Operating Communities						
Real Estate Under Development (a)	1	76	6.1	%	491,048	—
Land	—	—	2.4	%	196,072	—
Other	—	—	1.1	%	91,907	—
Total Real Estate Owned	145	41,571	100.0	%	$8,055,828	$1,430,135

(a) The Company is currently developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.

27

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2012
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		Average Home Size (In Square Feet)
WESTERN REGION										
Orange County, CA	11	3,899	18.3	%	$764,344	$ 165,621	$196,036	93.1	%	811
San Francisco, CA	9	2,185	13.2	%	552,898	103,249	253,043	95.8	%	830
Monterey Peninsula, CA	7	1,565	3.8	%	157,245	—	100,477	93.5	%	679
Seattle, WA	5	932	5.0	%	209,742	23,786	225,046	96.4	%	865
Sacramento, CA	2	914	1.7	%	69,936	—	76,515	92.7	%	820
Portland, OR	3	716	1.7	%	71,419	31,505	99,747	95.0	%	918
Los Angeles, CA	3	463	3.0	%	126,064	38,174	272,276	95.2	%	960
Inland Empire, CA	1	414	1.7	%	69,918	51,915	168,884	94.5	%	989
San Diego, CA	2	366	1.4	%	56,516	—	154,415	95.0	%	865
MID-ATLANTIC REGION										
Washington DC	7	2,378	13.2	%	553,472	98,730	232,747	96.3	%	926
Baltimore, MD	5	994	3.5	%	148,267	64,655	149,162	88.0	%	972
NORTHEAST REGION										
New York, NY	2	1,001	13.9	%	582,910	202,145	582,328	96.4	%	686
Boston, MA	2	833	4.2	%	174,542	59,365	209,534	96.0	%	1,120
SOUTHEASTERN REGION										
Nashville, TN	6	1,612	3.1	%	130,492	—	80,950	97.0	%	925
Tampa, FL	3	1,154	2.7	%	113,513	—	98,366	96.3	%	1,003
Other Florida	1	636	1.9	%	78,877	40,133	124,020	95.0	%	1,130
SOUTHWESTERN REGION										
Dallas, TX	2	1,348	4.4	%	185,501	87,961	137,613	95.6	%	910
Austin, TX	1	250	0.9	%	38,928	—	155,712	96.9	%	883
Total Operating Communities	72	21,660	97.6	%	4,084,584	967,239	$188,577	94.7	%	878
Real Estate Under Development (a)	—	—	2.0	%	87,392	—				
Land	—	—	0.1	%	2,445	—				
Other	—	—	0.3	%	8,499	—				
Total Real Estate Owned	72	21,660	100.0	%	$4,182,920	$ 967,239				

(a) The Operating Partnership is currently developing two wholly-owned communities with 652 apartment homes, none of which have been completed.

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.

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, or "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.

	2012			2011		
	High	Low	Distributions Declared	High	Low	Distributions Declared
Quarter ended March 31,	$26.80	$23.57	$0.220	$24.42	$22.19	$0.185
Quarter ended June 30,	$27.20	$24.62	$0.220	$26.46	$23.42	$0.200
Quarter ended September 30,	$27.75	$24.76	$0.220	$27.26	$21.18	$0.200
Quarter ended December 31,	$25.09	$22.31	$0.220	$25.67	$20.04	$0.215

On February 19, 2013, the closing sale price of our common stock was $24.88 per share on the NYSE, and there were 5,351 holders of record of the 250,179,737 outstanding shares of our common stock.
We have determined that, for federal income tax purposes, approximately 20% of the distributions for 2012 represented ordinary income, 21% represented long-term capital gain, and 59% 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 year ended December 31, 2012 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2012, a total of 2,803,812 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 ("Series F") Preferred Stock. The Series F Preferred Stock 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. At December 31, 2012, a total of 2,529,194 shares of the Series F were outstanding with an aggregate purchase value of $253. 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.

Series G Preferred Stock

In May 2007, UDR issued 5,400,000 shares of the 6.75% Series G Cumulative Redeemable Preferred Stock ("Series G"). On May 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million. As a result of this redemption, the write off of additional paid in capital of $2.8 million related to the issuance of Series G was recognized as a decrease to our net income/(loss) attributable to common stockholders.

During the year ended December 31, 2011, the Company repurchased 141,200 shares of Series G for more than the liquidation preference of $25 per share, resulting in a loss of $175,000 to our net income/(loss) attributable to common stockholders.

Distributions declared on the Series G for the years ended December 31, 2012 and 2011 were $0.57 and $1.69, respectively.

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 14, 2013, there were approximately 2,111 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, 2012, there were 184,281,253 OP Units outstanding in the Operating Partnership, of which 174,886,035 OP Units or 94.9% were owned by UDR and 9,395,218 OP Units or 5.1% were owned by 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 2012, we issued a total of 20,438 shares of common stock upon redemption of OP Units.

On December 14, 2012 we issued 1,998 shares of our common stock upon redemption of OP Units. Because these shares of common stock were issued to accredited investors in transactions not involving a public offering, the transaction is exempt from registration under the Securities Act of 1933 in accordance with Section 4(2) of the Securities Act.

We did not issue any other shares of our common stock upon redemption of OP Units during the three months ended December 31, 2012.

Purchases of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10,000,000 share repurchase program. In January 2008, UDR's Board of Directors authorized a new 15,000,000 share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price 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 (1)
Beginning Balance	9,967,490	$22.00	9,967,490	15,032,510
October 1, 2012 through October 31, 2012	—	—	—	15,032,510
November 1, 2012 through November 30, 2012	—	—	—	15,032,510
December 1, 2012 through December 31, 2012	—	—	—	15,032,510
Balance as of December 31, 2012	9,967,490	$22.00	9,967,490	15,032,510

(1) This number reflects the amount of shares that were available for purchase under our 10,000,000 share repurchase program authorized in February 2006 and our 15,000,000 share repurchase program authorized in January 2008.

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 (of the initial year shown in the graph), 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	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
UDR, Inc.	100.00	80.64	102.84	152.93	168.58	165.32
NAREIT Equity Apartment Index	100.00	74.87	97.63	143.56	165.23	176.69
US MSCI REITS	100.00	62.03	79.78	102.50	111.41	131.20
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59
NAREIT Equity REIT Index	100.00	62.27	79.70	101.99	110.45	130.39

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.

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, 2012. 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. Years Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2012	2011	2010	2009	2008
OPERATING DATA:					
Rental income (a)	$713,928	$622,995	$512,550	$491,655	$456,848
Loss from continuing operations (a)	(43,036)	(123,225)	(117,930)	(104,913)	(75,707)
Income from discontinued operations, net of tax (a)	263,339	143,810	11,342	13,290	819,574
Consolidated net income/(loss)	220,303	20,585	(106,588)	(91,623)	743,867
Distributions to preferred stockholders	6,010	9,311	9,488	10,912	12,138
Net income/(loss) attributable to common stockholders	203,376	10,537	(112,362)	(95,858)	688,708
Common distributions declared	215,654	165,590	126,086	127,066	308,313
Special Dividend declared	—	—	—	—	177,074
Earnings per share — basic and diluted:					
Loss from continuing operations attributable to common stockholders	$(0.25)	$(0.66)	$(0.75)	$(0.73)	$(1.00)
Income from discontinued operations (a)	1.10	0.71	0.07	0.09	6.29
Net income/(loss) attributable to common stockholders	0.85	0.05	(0.68)	(0.64)	5.29
Weighted average number of Common Shares outstanding — basic and diluted	238,851	201,294	165,857	149,090	130,219
Weighted average number of Common Shares outstanding, OP Units and Common Stock equivalents outstanding — diluted (b)	252,659	214,086	176,900	159,561	142,904
Common distributions declared	$0.88	$0.80	$0.73	$0.85	$2.29
Balance Sheet Data:					
Real estate owned, at cost (c)	$8,055,828	$8,074,471	$6,881,347	$6,315,047	$5,831,753
Accumulated depreciation (c)	1,924,682	1,831,727	1,638,326	1,351,293	1,078,689
Total real estate owned, net of accumulated depreciation (c)	6,131,146	6,242,744	5,243,021	4,963,754	4,753,064
Total assets	6,888,509	6,721,354	5,529,540	5,132,617	5,143,805
Secured debt (c)	1,430,135	1,891,553	1,963,670	1,989,434	1,462,471
Unsecured debt	1,979,198	2,026,817	1,603,834	1,437,155	1,798,662
Total debt	3,409,333	3,918,370	3,567,504	3,426,589	3,261,133
Stockholders' equity	2,992,916	2,314,050	1,606,343	1,395,441	1,415,989
Number of Common Shares outstanding	250,139	219,650	182,496	155,465	137,423

	UDR, Inc. Years Ended December 31, (In thousands, except per share data and apartment homes owned) 2012	2011	2010	2009	2008
OPERATING DATA (continued):					
Other Data (c)					
Total consolidated apartments owned (at end of year)	41,571	47,343	48,553	45,913	44,388
Weighted average number of apartment homes owned during the year	42,747	48,531	47,571	45,113	46,149
Cash Flow Data:					
Cash provided by operating activities	$317,341	$244,236	$214,180	$229,383	$179,754
Cash (used in)/provided by investing activities	(209,385)	(1,053,182)	(583,754)	(158,045)	302,304
Cash (used in)/provided by financing activities	(108,344)	811,963	373,075	(78,093)	(472,537)
Funds from Operations (b):					
Funds from operations — basic	$329,098	$269,856	$189,045	$180,858	$204,213
Funds from operations — diluted	332,822	273,580	192,771	184,582	207,937

(a) Reclassified to conform to current year presentation in accordance with generally accepted accounting principles, as described in Note 4 to the Consolidated Financial Statements included in this Report.

(b) Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles), 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 unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust's definition issued in April 2002. We consider FFO a useful metric for investors as we use FFO in evaluating property acquisitions and its operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

During the year ended December 31, 2012, UDR chose to exclude from the calculation of FFO a one-time taxable benefit of $21.5 million from the TRS, and a tax provision of $6.6 million associated with a gain on the sale of properties from the TRS. The benefit has been excluded from FFO due to its nonrecurring nature (reversal of a deferred tax valuation allowance).

RE^3 is our subsidiary whose activities include development and land entitlement. RE^3 tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. To determine whether gains from RE^3 will be included in FFO, the Company considers whether the operating asset has been a short term investment. We consider FFO with RE^3 tax benefits and gain on sales, net of taxes, and any related valuation allowance release, to be a meaningful supplemental measure of performance because the short-term use of funds produces a profit that differs from the traditional long-term investment in real estate for REITs.

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

(c) Includes amounts classified as Held for Sale, where applicable.

United Dominion Realty, L.P. Years Ended December 31, (In thousands, except per OP unit data and apartment homes owned)	2012	2011	2010	2009	2008
OPERATING DATA:					
Rental income (a)	$393,941	$353,947	$306,272	$309,305	$291,006
(Loss)/income from continuing operations (a)	(9,872)	(36,988)	(27,789)	(9,492)	4,701
Income from discontinued operations (a)	54,206	67,217	7,095	5,447	494,207
Consolidated net income/(loss)	44,334	30,229	(20,694)	(4,045)	498,908
Net income/(loss) attributable to OP unitholders	43,982	30,159	(20,735)	(4,176)	497,720
Earnings per OP unit- basic and diluted:					
(Loss)/income from continuing operations (a)	$(0.06)	$(0.20)	$(0.15)	$(0.05)	$0.03
Income from discontinued operations (a)	0.29	0.37	0.04	0.03	2.97
Net income/(loss) attributable to OP unitholders	0.24	0.17	(0.12)	(0.02)	3.00
Weighted average number of OP units outstanding — basic and diluted	184,281	182,448	179,909	178,817	166,163
Balance Sheet Data:					
Real estate owned, at cost (b)	$4,182,920	$4,205,298	$3,706,184	$3,640,888	$3,569,239
Accumulated depreciation (b)	1,097,133	976,358	884,083	717,892	552,369
Total real estate owned, net of accumulated depreciation (b)	3,085,787	3,228,940	2,822,101	2,922,996	3,016,870
Total assets	3,136,254	3,292,167	2,861,395	2,961,067	3,254,851
Secured debt (b)	967,239	1,189,645	1,070,061	1,122,198	851,901
Total liabilities	1,217,498	1,438,798	1,299,772	1,339,319	1,272,101
Total partners' capital	1,917,299	2,034,792	2,042,241	2,197,753	2,345,825
Receivable due from General Partner	11,056	193,584	492,709	588,185	375,124
Number of OP units outstanding	184,281	182,448	179,909	179,909	166,163
Other Data:					
Total apartments owned (at end of year) (b)	21,660	23,160	23,351	23,351	23,351
Cash Flow Data:					
Cash provided by operating activities	$201,095	$156,071	$146,604	$157,333	$168,660
Cash provided by/(used in) investing activities	4,273	(226,980)	(59,458)	129,628	81,993
Cash (used in)/provided by financing activities	(203,268)	70,693	(86,668)	(290,109)	(247,150)

(a) Reclassified to conform to current year presentation in accordance with generally accepted accounting principles, as described in Note 4 to the Consolidated Financial Statements included in this Report.

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

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 an demand/supply

ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the Vitruvian Park® development, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income.
The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- general economic conditions;
- unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates;
- the failure of acquisitions to achieve anticipated results;
- possible difficulty in selling apartment communities;
- competitive factors that may limit our ability to lease apartment homes or increase or maintain rents;
- insufficient cash flow that could affect our debt financing and create refinancing risk;
- failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders;
- development and construction risks that may impact our profitability;
- potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us;
- risks from extraordinary losses for which we may not have insurance or adequate reserves;
- uninsured losses due to insurance deductibles, self-insurance retention, uninsured claims or casualties, or losses in excess of applicable coverage;
- delays in completing developments and lease-ups on schedule;
- our failure to succeed in new markets;
- changing interest rates, which could increase interest costs and affect the market price of our securities;
- potential liability for environmental contamination, which could result in substantial costs to us;
- the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;
- our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and
- changes in real estate laws, tax laws and other laws affecting our business.

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

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

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

any such statement is based, except to the extent otherwise required by law.
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, 2012, 2011 and 2010 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, acquires, renovates, develops, and manages apartment communities. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include an operating partnership United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this Report to "we," "us," "our," "the Company," or "UDR" refer collectively to UDR, Inc., its subsidiaries and its consolidated joint ventures.
At December 31, 2012, our consolidated real estate portfolio included 145 communities with 41,571 apartment homes, and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 39 communities with 9,558 apartment homes.
At December 31, 2012, the Company is developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.
At December 31, 2012, the Company is redeveloping four wholly-owned communities with 2,253 apartment homes, 602 of which have been completed.

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2012.

	As of December 31, 2012				Year Ended December 31, 2012		
Same Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value	Total Carrying (in thousands)	Average Physical Occupancy	Total Income per Occupied Home (a)	Net Operating Income (in thousands)
Western Region							
Orange County, CA	10	3,290	7.5 %	$603,144	94.9 %	$1,621	$43,450
Seattle, WA	11	2,165	5.9 %	472,485	96.0 %	1,414	24,377
San Francisco, CA	7	1,477	4.6 %	367,362	96.4 %	2,386	30,518
Los Angeles, CA	5	919	3.7 %	294,780	95.1 %	2,023	13,706
Monterey Peninsula, CA	7	1,565	2.0 %	157,245	93.5 %	1,111	13,033
Inland Empire, CA	2	654	1.3 %	101,497	94.3 %	1,434	7,389
Portland, OR	3	716	0.9 %	71,419	95.0 %	1,043	5,677
Sacramento, CA	2	914	0.9 %	69,936	92.7 %	885	5,798
San Diego, CA	2	366	0.7 %	56,516	95.0 %	1,413	3,892
Mid-Atlantic Region							
Washington D.C.	10	3,516	8.3 %	671,235	97.0 %	1,744	48,673
Baltimore, MD	11	2,301	3.7 %	303,088	96.5 %	1,428	26,983
Richmond, VA	4	1,358	1.7 %	136,785	95.4 %	1,172	13,512
Norfolk, VA	6	1,438	1.1 %	87,397	94.5 %	989	10,850
Other Mid-Atlantic	1	168	0.2 %	12,173	95.7 %	987	1,227
Southeastern Region							
Tampa, FL	10	3,452	4.1 %	326,379	96.0 %	1,042	26,038
Orlando, FL	11	3,167	3.5 %	279,686	95.7 %	964	22,668
Nashville, TN	8	2,260	2.2 %	185,266	96.9 %	948	16,773
Other Florida	1	636	1.0 %	78,876	95.0 %	1,246	5,739
Southwestern Region							
Dallas, TX	8	2,725	3.5 %	285,664	96.2 %	1,027	19,610
Austin, TX	1	390	0.7 %	60,919	96.3 %	1,282	3,207
Northeast Region							
Boston, MA	2	346	1.7 %	142,597	96.2 %	2,774	$7,621
Total/Average Same Communities	122	33,823	59.2 %	4,764,449	95.7 %	$1,331	350,741
Non Mature, Commercial Properties & Other	22	7,672	34.7 %	2,800,331			153,952
Total Real Estate Held for Investment	144	41,495	93.9 %	7,564,780			504,693
Real Estate Under Development (b)	1	76	6.1 %	491,048			(493)
Total Real Estate Owned	145	41,571	100.0 %	8,055,828			$504,200
Total Accumulated Depreciation				(1,924,682)			
Total Real Estate Owned, Net of Accumulated				$6,131,146			

Depreciation

(a) Total Income per Occupied Home represents total revenues divided by the product of occupancy and the number of mature apartment homes.

(b) The Company is currently developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.

We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to January 1, 2011 and held as of December 31, 2012. 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 community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months. Our Non-Mature/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, consolidated joint venture properties, 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, the sale of properties, and the issuance of debt and equity. 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 credit agreements. We routinely use our unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit agreements. 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 the disposition of properties. We believe that our net cash provided by operations and borrowings under credit agreements 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 disposition of properties.

We have a shelf registration statement filed with the Securities and Exchange Commission, or “SEC” which provides for the issuance of an indeterminate amount of common stock, preferred stock, 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 10, 2012, the Company issued $400 million aggregate principal amount of 4.625% Medium Term Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.

In March 2011, the Company entered into an equity distribution agreement under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents. In September 2011, the Company entered into a new equity distribution agreement in connection with filing a new registration statement on Form S-3. The new equity distribution agreement replaced the March 2011 agreement, and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold all of the remaining 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes.

On May 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock were redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of

$82.1 million.

On June 4, 2012, the Company closed a public offering of 19,000,000 shares of its common stock, in addition to 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and estimated offering expenses. Proceeds from the sale of shares through this offering were used to repay approximately $363.9 million of the Company's 3.3% (weighted average interest rate) secured debt with various maturities from 2012 - 2014, to redeem all of its outstanding Series G Preferred Stock, to repay a portion of indebtedness outstanding under its unsecured credit facility, and the balance for working capital and general corporate purposes.

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, the sale of properties and, to a lesser extent, from cash flows provided by operating activities.

During 2013, we have approximately $50.4 million of secured debt maturing, inclusive of principal amortization, and $121.5 million of unsecured debt maturing. We anticipate repaying that debt with cash flow from our operations and debt and equity offerings.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with 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.

Capital Expenditures

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.

Total capital expenditures, which in aggregate include recurring capital expenditures and major renovations, of $157.3 million or $3,576 per stabilized home were spent on all of our communities, excluding development and commercial properties, for the year ended December 31, 2012 as compared to $81.9 million or $1,706 per home for the comparable period in prior year.

The increase in total capital expenditures was primarily due to:

- an increase in major renovations. Major renovations of $104.3 million or $2,370 per home were spent for the year ended December 31, 2012 as compared to $30.0 million or $625 per home for the comparable period in the prior year. Major renovations for the year ended December 31, 2012 were primarily attributable to the redevelopment of four wholly-owned communities (2,253 homes) with a budget of $171.4 million of which we have $75.0 million of costs incurred at December 31, 2012; and
- an increase of 47.0% or $3.4 million in revenue-enhancing capital expenditures, such as kitchen and bath remodels, on our existing operating portfolio, and an increase of 7.5% or $970,000 in turnover-related expenditures for floor coverings and appliances.

These increases were partially offset by a decrease in total recurring capital expenditures. Total recurring capital expenditures of $42.2 million or $960 per stabilized home were spent for the year ended December 31, 2012 as compared to $44.6 million or $928 per stabilized home for the comparable period in the prior year, which was primarily due to a 10.4% or $3.3 million decrease in asset preservation expenditures.

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, 2012 and 2011:

	Year Ended December 31, (dollars in thousands)			Per Home Year Ended December 31,		
	2012	2011	% Change	2012	2011	% Change
Turnover capital expenditures	$13,875	$12,905	7.5 %	$315	$269	17.1 %
Asset preservation expenditures	28,374	31,658	(10.4)%	645	659	(2.1)%
Total recurring capital expenditures	42,249	44,563	(5.2)%	$960	928	3.4 %
Revenue-enhancing improvements	10,772	7,330	47.0 %	245	153	60.1 %
Major renovations	104,280	29,992	247.7 %	2,370	625	279.2 %
Total capital expenditures	$157,301	$81,885	92.1 %	$3,576	$1,706	109.6 %
Repair and maintenance expense	$36,158	$37,588	(3.8)%	$821	$789	4.1 %
Average stabilized home count	43,992	48,005				

We will 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. Recurring capital expenditures during 2013 are projected to be approximately $1,020 per home.

Investment in Unconsolidated Joint Ventures

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.

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

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 upon industry trends and reference to market rates and transactions.

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage, and based on management's estimates, the Company recognized a $9.0 million impairment charge for the damaged assets' net book value during the year ended December 31, 2012. See Note 15, Hurricane Related Charges of UDR's Consolidated Financial Statements for additional information.

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. 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 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, 2012 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.

Statements of Cash Flow

The following discussion explains the changes in net cash provided by operating activities, net cash used in investing activities, and net cash (used in)/provided by financing activities that are presented in our Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010.

Operating Activities

For the year ended December 31, 2012, our net cash flow provided by operating activities was $317.3 million compared to $244.2 million for the comparable period in 2011. The increase in cash flow from operating activities is primarily due to an increase in property net operating income from our apartment community portfolio and changes in operating assets and operating liabilities.

For the year ended December 31, 2011, our net cash flow provided by operating activities was $244.2 million compared to $214.2 million for 2010. The increase in cash flow from operating activities is primarily due to an increase in property net operating income from our apartment community portfolio, which was partially offset by the increase in operating assets and a decrease in operating liabilities.

Investing Activities

For the year ended December 31, 2012, net cash used in investing activities was $209.4 million compared to $1.1 billion for the comparable period in 2011. The decrease in net cash used for investing activities was due to changes in the level of investment activities, which reflect our strategy as it relates to our investments in joint ventures, acquisitions, dispositions, capital expenditures, and development activities, all of which are discussed in further detail throughout this Report.

For the year ended December 31, 2011, net cash used in investing activities was $1.1 billion compared to net cash used in investing activities of $583.8 million for 2010. The change relates to acquisitions of real estate assets and investments in unconsolidated joint ventures, which are discussed in further detail throughout this Report.

Acquisitions

During the year ended December 31, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) located in Austin, Texas for $11.7 million from its joint venture partner.

In addition, the Company also acquired two parcels of land for development in San Francisco, California and Boston, Massachusetts for a total purchase price of $77.2 million. These land parcels were originally acquired as part of our investment in two development joint ventures. (See additional information under "Consolidated Joint Ventures" of this section.)

For the year ended December 31, 2011, the Company acquired eight apartment communities located in New York, New York; Boston, Massachusetts; Washington, D.C.; and San Francisco, California for a total gross purchase price of $1.5 billion. During the same period, the Company also acquired land located in Huntington Beach, California; Addison, Texas; and Boston, Massachusetts for a gross purchase price of $34.3 million.

Our long-term strategic plan is to continue achieving greater operating efficiencies by investing in target locations in core markets. As a result, we have been seeking to expand our interests in communities located in the Boston, Massachusetts; California; Washington, D.C.; New York, New York; and Seattle, Washington markets. We believe these markets will provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single-family home ownership affordability and limited new supply for multifamily housing, which are three key drivers to strong rental growth.

Real Estate Under Development and Redevelopment

At December 31, 2012, our development pipeline consists of eight wholly-owned communities (2,622 homes) with a budget of $1.0 billion in which we have a carrying value of $491.0 million. The estimated completion dates for these communities will be through the second quarter of 2015.

At December 31, 2012, the Company is redeveloping four wholly-owned communities with 2,253 apartment homes, 602 of which have been completed. The estimated completion dates for these communities will be through the third quarter of 2014.

For the year ended December 31, 2012, we invested approximately $246.9 million and $144.9 million in development and redevelopment projects, respectively, an increase of $148.2 million and $53.4 million, respectively, from our 2011 level of $98.7 million and $91.5 million, respectively.

Consolidated Joint Ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million and owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the City of Huntington Beach, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture. The Company's total investment was $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a 98.0% interest in the joint venture. The Company's total investment of $26.6 million consists of our initial investment and the acquisition of its partner's 2.0% ownership interest in the joint venture.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire 3032 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $10.3 million.

In October 2012, the Company formed a joint venture with an unaffiliated third party to acquire 2919 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $7.0 million.

Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint ventures. In addition, we may earn fees for providing management services to the unconsolidated joint ventures. As of December 31, 2012, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

The following table summarizes the Company's investment in unconsolidated joint ventures as of December 31, 2012 and 2011 (dollar amounts in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at December 31, 2012	Investment at December 31, 2011	UDR's Ownership Interest	
Operating							
UDR/MetLife I (a)	Various	14 Communities	2,547	$ 75,129	$ 133,843	13.3	%
		8 Land Parcels	N/A			4.3	%
UDR/MetLife II (b)	Various	13 Communities	2,752	327,001	—	50.0	%
Lodge at Stoughton (c)	Stoughton, MA	1 Community	240	16,311	17,213	95.0	%
KFH (d)	Washington D.C.	3 Communities	660	29,663	34,146	30.0	%
Texas JV (e)	Texas	8 Communities	3,359	3,457	7,138	20.0	%
Development							
13th & Market	San Diego, CA	1 Community	264	29,930	12,115	95.0	%
Domain College Park	College Park, MD	1 Community	256	25,546	8,585	95.0	%
Total Investment in Unconsolidated Joint Ventures				$ 507,037	$ 213,040		

(a) Under the terms of UDR/MetLife I, UDR acts as the general partner with significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions.

In 2010, the Company acquired from the Hanover Company ("Hanover") its ownership interest in the joint venture for $100.8 million consisting of $71.8 million in cash, which included associated transaction costs, and a $30 million note payable to Hanover. UDR agreed to pay the $30 million balance to Hanover in two interest free installments in the amounts of $20 million (paid in 2011) and $10 million (paid in 2012) on the first and second anniversaries of the closing, respectively. The $30 million payable was recorded at its present value of $29 million using an effective interest rate of 2.67%. At December 31, 2012 and 2011, the net carrying value of the payable was $0 and $9.8 million, respectively. Interest expense of $207,000, $697,000, and $129,000 was recorded during the years ended December 31, 2012, 2011, and 2010 respectively.

UDR's inital cost of its equity investment of $100.8 million differed from the proportionate share in the underlying net assets of UDR/MetLife I of $111.4 million. The difference of $10.6 million was attributable to certain assets and adjustments

44

that were allocated to UDR's proportionate share in UDR/MetLife I's buildings of $8.4 million, land of $3.9 million, and $(1.6) million of lease intangible assets. With the exception of land, the difference related to buildings is accreted and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets was amortized and recorded as a component of loss from unconsolidated entities over 11 months with the offset to the Company's carrying value of its equity investment. During the year ended December 31, 2012, the Company recorded $184,000 of net accretion. During the years ended December 31, 2011 and 2010, the Company recorded $1.1 million and $264,000 of amortization, respectively.

In November 2012, the Company exchanged its 12% ownership interest in four operating communities and 3.1% ownership in two land parcels in UDR/MetLife I, and paid MetLife $10.0 million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown Seattle, bringing UDR's ownership interest in The Olivian to 50%. The community was contributed to UDR/MetLife II. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina; and Chicago, Illinois. UDR will continue to fee manage the four operating communities.

(b) In January 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was $327.1 million, which consisted of $293.5 million of cash paid and $33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the $293.5 million of cash paid for its investment, the Company paid $80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.)
(c) During the year ended December 31, 2012, the Company loaned the joint venture $24.5 million to repay a secured loan with an unaffiliated third party. The loan with the joint venture has terms similar to the original loan. (See Note 2, Significant Accounting Policies for further discussion on terms of the related party note.)
(d) UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to $450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180 million of which the Company's maximum equity will be 30% or $54 million when fully invested.
(e) UDR is a partner with an unaffiliated third party which owns and operates apartment communities located in Texas. UDR initially contributed cash and a property equal to 20% of the fair value of ten properties (3,992 homes). The unaffiliated member contributed cash equal to 80% of the fair value of the properties, which was then used to purchase nine operating properties from UDR. During the year ended December 31, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) in Austin, Texas for $11.7 million from the joint venture.
For additional information regarding these joint ventures, see Note 5, Joint Ventures, in the Consolidated Financial Statements of UDR, Inc. included in this Report.

Disposition of Investments

In 2012, UDR sold 21 apartment communities, which had 6,507 apartment homes for a total sales price of $609.4 million. UDR recognized gains (before tax) of $260.4 million, which is included in discontinued operations. Proceeds were used primarily to fund development and redevelopment activity and reduce debt.

In 2011, UDR sold 18 apartment home communities (4,488 homes), which included six apartment home communities (1,418 homes) sold in conjunction with an asset exchange in April 2011, for a total sales price of $593.4 million. UDR recognized gains for financial reporting purposes of $138.5 million, which is included in discontinued operations. In

2010, UDR sold a 149 apartment home community for a sales price of $21.2 million. Proceeds from the sale were used primarily to acquire apartment home communities and reduce debt.

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

Financing Activities

For the year ended December 31, 2012, our net cash (used in)/provided by financing activities was $(108.3) million compared to $812.0 million for the comparable period of 2011.

The following significant financing activities occurred during the year ended December 31, 2012:

- repaid $491.9 million of secured debt. The $491.9 million of secured debt includes $157.2 million of construction loans, which were due at various dates ranging from November 2012 through October 2014 with variable interest rates ranging from 2.23% to 2.46% and with a fixed interest rate of 3.25%, repayment of $212.5 million of credit facilities, which were due at various dates ranging from April 2012 through May 2017 with variable interests rates ranging from 0.75% to 2.85% and with fixed interest rates ranging from 4.86% to 6.12%, and $122.2 million of mortgage payments, which were due at various dates ranging from August 2012 through June 2032 with fixed interest rates ranging from 3.43% to 6.76% and a variable interest rate of 1.84%;

- repaid $445.0 million of unsecured debt, which includes $100 million of 5.00% Medium Term Notes due January 2012, and net payments of $345.0 million were applied toward borrowings under the Company's $900 million revolving credit facility;

- issued $400 million in 4.625% Medium Term Notes due January 2022 with a discount of $3.6 million;

- in September 2011, the Company entered into an equity distribution agreement in connection with filing a new registration statement on Form S-3. The equity distribution agreement replaced the prior equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents, and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes;

- in May 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million; and

- in June 2012, the Company closed a public offering of 19,000,000 shares of its common stock, in addition to 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and estimated offering expenses.

Credit Facilities

As of December 31, 2012 and 2011, we have secured credit facilities with Fannie Mae with an aggregate commitment of $931.3 million with $842.5 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years (maturing at various dates from May 2017 through December 2019) and bear interest at floating and fixed rates. We have $631.1 million of the funded balance fixed at a weighted average interest rate of 5.11% and the remaining balance on these facilities is currently at a weighted average variable rate of 2.07% at December 31, 2012. We had $744.5 million of the funded balance fixed at a weighted average interest rate of 5.14% and $310.5 million was at a weighted average variable rate of 1.63% as of December 31, 2011.

As of December 31, 2012, we have a $900 million unsecured revolving credit facility that matures in October 2015. The credit facility has a one-year extension option, and contains an accordion feature that allows us to increase the facility to $1.35 billion. Based on the Company's current credit ratings, the credit facility carries an interest rate equal to LIBOR plus a spread of 122.5 basis points and a facility fee of 22.5 basis points. As of December 31, 2012, we had $76.0 million outstanding borrowings under the credit facility, leaving $824 million of unused capacity (excluding $3.9 million of letters of credit). As of December 31, 2011, we had $421 million of borrowing outstanding under the credit facility leaving $479 million of unused capacity (excluding $3.6 million of letters of credit).

The Fannie Mae credit facilities and the bank unsecured revolving credit facility are subject to customary financial covenants and limitations. As of December 31, 2012, we were in compliance with all financial covenants under these credit facilities.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had $454.5 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2012. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by $6.6 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. These analysis do not consider the effects of the adjusted level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in our financial structure.

The Company also utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 12, Derivatives and Hedging Activities, in the Notes to the Consolidated Financial Statements for additional discussion of derivate instruments.

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

Funds from operations (“FFO”) is defined as net income (computed in accordance with generally accepted accounting principles, or “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 unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust’s (“NAREIT”) definition issued in April 2002. 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 generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

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 REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. During the year ended December 31, 2012, UDR chose to exclude from the calculation of FFO a one-time tax benefit of $21.5 million from TRS, and a tax provision of $6.6 million associated with a gain on the sale of properties from the TRS. The benefit related to the reversal of a deferred tax valuation allowance has been excluded from FFO due to its nonrecurring nature. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a Company’s real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

In the computation of diluted FFO, OP Units, unvested restricted stock, stock options, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count.

Activities of our taxable REIT subsidiary (“TRS”), RE^3, include development and land entitlement. TRS tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before

47

accumulated depreciation. To determine whether gains from the TRS will be included in FFO, the Company considers whether the operating asset has been a short term investment. We consider FFO with the TRS recurring tax benefits and gain on sales, net of taxes and any related valuation allowance release, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

FFO as Adjusted is defined as FFO excluding the impact of acquisition-related costs and other non-recurring items including, but not limited to, prepayment costs/benefits associated with early debt retirement, gains on sales of marketable securities and taxable REIT subsidiary property, storm-related expenses, severance costs and legal costs.

Adjusted FFO, or "AFFO", is defined as FFO as Adjusted less recurring capital expenses. Management considers AFFO a useful metric for investors as it is more indicative of the Company's recurring operational cash flow than FFO or FFO as Adjusted.

The following table outlines our reconciliation of net income/(loss) attributable to UDR, Inc. to FFO, FFO as Adjusted, and AFFO for the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Net income/(loss) attributable to UDR, Inc.	$212,177	$20,023	$(102,899)
Distributions to preferred stockholders	(6,010)	(9,311)	(9,488)
Real estate depreciation and amortization, including discontinued operations	350,400	370,343	303,446
Net income/(loss) attributable to redeemable non-controlling interests in OP	7,986	395	(3,835)
Net income attributable to non-controlling interests	140	167	146
Real estate depreciation and amortization on unconsolidated joint ventures	32,531	11,631	5,698
Net gain on the sale of depreciable property in discontinued operations, excluding TRS	(243,805)	(123,217)	(4,048)
Tax benefit of taxable REIT subsidiary	(21,530)	—	—
(Premium)/discount on preferred stock repurchases, net	(2,791)	(175)	25
Funds from operations (“FFO”) — basic	$329,098	$269,856	$189,045
Distribution to preferred stockholders — Series E (Convertible)	3,724	3,724	3,726
Funds from operations — diluted	$332,822	$273,580	$192,771
FFO per common share — basic	$1.33	$1.29	$1.10
FFO per common share — diluted	$1.32	$1.28	$1.09
Weighted average number of common shares and OP Units outstanding — basic	248,262	208,896	171,569
Weighted average number of common shares, OP Units, and common stock equivalents outstanding — diluted	252,659	214,086	176,900
Impact of adjustments to FFO:			
Acquisition-related costs (including joint ventures)	2,762	6,076	2,865
Joint venture financing and acquisition fee	—	(2,335)	(982)
(Benefit)/costs associated with debt extinguishment and tender offer	(277)	4,602	(3,521)
Redemption of preferred stock	2,791	175	(25)
Gains on sale of TRS property and marketable securities	(7,749)	(9,780)	—
Severance costs and other restructuring expense	733	1,342	6,803
Hurricane-related charges, net	9,262	—	567
	$7,522	$80	$5,707
FFO, diluted	332,822	273,580	192,771
FFO as Adjusted, diluted	$340,344	$273,660	$198,478
FFO as Adjusted per common share, diluted	$1.35	$1.28	$1.12
Recurring capital expenditures	(42,249)	(44,563)	(32,066)
AFFO	$298,095	$229,097	$166,412
AFFO per common share, diluted	$1.18	$1.07	$0.94

The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the years ended December 31, 2012, 2011, and 2010 (shares in thousands):

	Year Ended December 31,		
	2012	2011	2010
Weighted average number of common shares and OP units outstanding basic	248,262	208,896	171,569
Weighted average number of OP units outstanding	(9,411)	(7,602)	(5,712)
Weighted average number of common shares outstanding - basic per the Consolidated Statements of Operations	238,851	201,294	165,857
Weighted average number of common shares, OP units, and common stock equivalents outstanding — diluted	252,659	214,086	176,900
Weighted average number of OP units outstanding	(9,411)	(7,602)	(5,712)
Weighted average incremental shares from assumed conversion of stock options	(1,213)	(1,297)	(1,637)
Weighted average incremental shares from unvested restricted stock	(148)	(857)	(658)
Weighted average number of Series E preferred shares outstanding	(3,036)	(3,036)	(3,036)
Weighted average number of common shares outstanding — diluted per the Consolidated Statements of Operations	238,851	201,294	165,857

FFO also does not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs. A presentation of cash flow metrics based on GAAP is as follows (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	$317,341	$244,236	$214,180
Net cash used in investing activities	(209,385)	(1,053,182)	(583,754)
Net cash (used in)/provided by financing activities	(108,344)	811,963	373,075

Results of Operations

The following discussion includes the results of both continuing and discontinued operations for the periods presented.

Net Income/(Loss) Attributable to Common Stockholders

2012 -vs- 2011

Net income attributable to common stockholders was $203.4 million ($0.85 per diluted share) for the year ended December 31, 2012 as compared to a net income of $10.5 million ($0.05 per diluted share) for the comparable period in the prior year. The increase in net income attributable to common stockholders for the year ended December 31, 2012 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in disposition gains in 2012 as compared to 2011. The Company recognized gains (before tax) of $260.4 million and $138.5 million on the sale of 21 and 18 communities during the years ended December 31, 2012 and 2011, respectively;
- an increase in income tax benefit of the TRS resulting from the reversal of a net deferred tax asset valuation allowance during the year ended December 31, 2012;

- a decrease in depreciation expense from communities sold in 2012 and 2011, which was partially offset by an increase in depreciation expense due to the Company’s acquisition of eight operating communities in 2011, and the completion of development communities in 2011 and 2012 and redevelopment communities in 2011; and

- an increase in our net operating income primarily due to the Company’s acquisition of eight operating communities in 2011.

The increases to our net income attributable to common stockholders were partially offset by:

- an increase in hurricane-related charges net, resulting from the effects of Hurricane Sandy on three of our New York, New York communities.

2011 -vs- 2010

Net income attributable to common stockholders was $10.5 million ($0.05 per diluted share) for the year ended December 31, 2011 as compared to net loss attributable to common stockholders of $112.4 million ($0.68 per diluted share) for the comparable period in the prior year. The increase in net income attributable to common stockholders for the year ended December 31, 2011 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in disposition gains in 2011 as compared to 2010. The Company recognized gains of $138.5 million and $4.1 million during the years ended December 31, 2011 and 2010, respectively, on the sale of 18 apartment home communities and one community, respectively; and

- an increase in our net operating income.

The increases to our net income attributable to common stockholders were partially offset by:

- an increase in depreciation expense primarily due to the Company’s acquisition of eight apartment communities during the year ending December 31, 2011, and the completion of redevelopment and development communities in 2010 and 2011.

Apartment Community Operations

Our net income results primarily from net operating income (“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.

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

	Year Ended December 31, (a)			Year Ended December 31, (b)		
	2012	2011	% Change	2011	2010	% Change
Same Store Communities:						
Same store rental income	$516,828	$490,674	5.3 %	$457,871	$439,539	4.2 %
Same store operating expense (c)	(166,087)	(161,569)	2.8 %	(150,685)	(148,234)	1.7 %
Same store NOI	350,741	329,105	6.6 %	307,186	291,305	5.5 %
Non-Mature Communities NOI:						
Acquired communities NOI	60,732	31,333	93.8 %	49,711	8,345	495.7 %
Sold or held for sale communities NOI	19,750	67,239	(70.6)%	67,239	74,022	(9.2)%
Developed communities NOI	7,948	6,612	20.2 %	8,591	2,571	234.2 %
Redeveloped communities NOI	47,426	36,127	31.3 %	37,762	23,743	59.0 %
Commercial NOI and other	17,603	14,344	22.7 %	14,271	11,078	28.8 %
Total non-mature communities NOI	153,459	155,655	(1.4)%	177,574	119,759	48.3 %
Total Property NOI	$504,200	$484,760	4.0 %	$484,760	$411,064	17.9 %

(a) Same-store consists of 33,823 apartment homes.
(b) Same-store consists of 32,221 apartment homes.
(c) Excludes depreciation, amortization, and property management expenses.

The following table is our reconciliation of total property NOI to net income/(loss) attributable to UDR, Inc. as reflected, for both continuing and discontinued operations, for the periods presented (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Total property NOI	$504,200	$484,760	$411,064
Non-property income	15,435	17,422	14,347
Real estate depreciation and amortization	(350,400)	(370,343)	(303,446)
Interest expense	(138,792)	(158,333)	(150,796)
Hurricane-related charges, net	(8,495)	—	—
General and administrative and property management	(63,960)	(66,016)	(62,675)
Severance costs and other restructuring charges	(733)	(1,342)	(6,803)
Other depreciation and amortization	(4,105)	(3,931)	(4,843)
Other operating expenses	(5,748)	(6,217)	(5,848)
Loss from unconsolidated entities	(8,579)	(6,352)	(4,204)
Tax benefit/(expense) of taxable REIT subsidiary	21,076	(7,571)	2,533
Redeemable non-controlling interests in OP	(7,986)	(395)	3,835
Non-controlling interests	(140)	(167)	(146)
Net gain on sale of properties	260,404	138,508	4,083
Net income/(loss) attributable to UDR, Inc.	$212,177	$20,023	$(102,899)

Same Store Communities

2012 -vs- 2011

Our same store community properties (those acquired, developed, and stabilized prior to January 1, 2011 and held on December 31, 2012) consisted of 33,823 apartment homes and provided 70% of our total NOI for the year ended December 31, 2012.

NOI for our same store community properties increased 6.6% or $21.6 million for the year ended December 31, 2012 compared to the same period in 2011. The increase in property NOI was attributable to a 5.3% or $26.2 million increase in property rental income and a 2.8% or $4.5 million increase in operating expenses. The increase in revenues was primarily driven by a 4.6% or $22.1 million increase in rental rates and a 7.2% or $3.0 million increase in reimbursement and fee income. Physical occupancy increased 0.1% to 95.7% and total monthly income per occupied home increased $66 to $1,331.

The increase in operating expenses was primarily driven by a 9.0% or $4.4 million increase in real estate tax and a 4.5% or $1.2 million increase in repairs and maintenance costs, which was partially offset by a 3.4% or $1.4 million decrease in personnel expense.

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 67.9% for the year ended December 31, 2012 as compared to 67.1% for the comparable period in 2011.

2011 -vs- 2010

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2010 and held on December 31, 2011) consisted of 32,221 apartment homes and provided $307.2 million or 63% of our total property NOI for the year ended December 31, 2011.

NOI for our same community properties increased 5.5% or $15.9 million for the year ended December 31, 2011 compared to the same period in 2010. The increase in property NOI was primarily attributable to a 4.2% or $18.3 million increase in property rental income which was offset by a 1.7% or $2.5 million increase in operating expenses. The increase in revenues was primarily driven by a 4.1% or $17.2 million increase in rental rates and a 11.9% or $3.8 million increase in fee and reimbursement income which was offset by a 13.4% or $2.1 million increase in vacancy loss. Physical occupancy decreased 0.2% to 95.6% and total income per occupied home increased $52 to $1,239.

The increase in property operating expenses was primarily driven by a 6.8% or $1.6 million increase in utilities expense, a 1.9% or $885,000 increase in taxes, and a 3.7% or $284,000 increase in insurance costs, which was partially offset by a 1.7% or $632,000 decrease in personnel cost.

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 67.1% as compared to 66.3% in the comparable period in the prior year.

Non-Mature/Other Communities

2012 -vs- 2011

The remaining $153.5 million or 30% of our total NOI during the year ended December 31, 2012 was generated from our “non-mature communities.” UDR’s non-mature communities consist of communities that do not meet the criteria to be included in same communities, which includes communities developed or acquired, redevelopment properties, sold properties, and non-apartment components of mixed use properties. NOI from non-mature communities decreased by 1.4% or $2.2 million for the year ended December 31, 2012 compared to the same period in 2011. The decrease was primarily driven by a decrease in NOI of 70.6% or $47.5 million from communities sold in 2012 and 2011, which was partially offset by an increase in NOI of 93.8% or $29.4 million from communities acquired in 2011 and an increase in NOI of 31.3% or $11.3 million from communities redeveloped in 2012 and 2011. During the year ended December 31, 2012, a $2.3 million increase to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move-out.

2011 -vs- 2010

The remaining $177.6 million and $119.8 million of our NOI during the year ended December 31, 2011 and 2010, respectively, was generated from communities that we classify as “non-mature communities”. UDR’s non-mature communities consist of communities that do not meet the criteria to be included in same communities, which includes communities developed or acquired, redevelopment properties, held for sale properties, sold properties and non-apartment components of mixed use properties. NOI from non-mature communities increased by 48.3% or $57.8 million for the year ended December 31, 2011 compared to the same period in 2010. The increase was primarily driven by an increase in NOI of 495.7% or $41.4 million from communities acquired in 2011 and 2010, and an increase in NOI of 59.0% or $14.0 million from redeveloped communities in 2011. These increases were partially offset by a decrease in NOI of 9.2% or $6.8 million from communities sold in 2011.

Other Income

During the years ended December 31, 2012, 2011 and 2010, other income from continuing and discontinued operations includes fees earned for both recurring and nonrecurring items from the Company’s joint ventures of $11.8 million, $9.6 million, and $3.2 million, respectively. During the year ended December 31, 2012, the Company recognized $2.7 million of interest income from notes receivable issued in 2012, net of accretion, of which $281,000 was related party interest income. During the years ended December 31, 2011 and 2010, the Company recognized $646,000 and $730,000, respectively, of interest income from notes receivable that were paid during the year ended December 31, 2011. During the year ended December 31, 2011, other income also included a gain of $3.1 million from the sale of marketable securities, and a gain of $3.9 million from the sale of our cost investment in a privately held company. During the year ended December 31, 2010, other income also includes a gain of $4.7 million from the sale of marketable securities, a reversal of certain tax accruals of $2.1 million, and interest income and discount amortization from an interest in a convertible debt security of $2.9 million.

Real Estate Depreciation and Amortization

For the year ended December 31, 2012, real estate depreciation and amortization attributable to both continuing and discontinued operations decreased 5.4% or $19.9 million as compared to the comparable period in 2011. The decrease in depreciation and amortization for the year ended December 31, 2012 is primarily from the disposition of 21 communities (6,507 apartment homes) and 18 communities (4,488 apartment homes) in 2012 and 2011, respectively, and ceasing depreciation on assets classified as held for sale.

During the year ended December 31, 2011, real estate and amortization attributable to both continuing and discontinued operations increased 22.0% or $66.9 million as compared to the comparable periods in 2010. The increase in depreciation and amortization for the year ended December 31, 2011 is primarily the result of the Company’s acquisition of eight communities (3,161 apartment homes) during 2011, development and redevelopment activity during 2011 and 2010, and additional capital expenditures. As part of the Company’s acquisition activity in 2011 a portion of the purchase price was attributable to the fair value of intangible assets which were typically amortized over a period of less than one year. The increase in depreciation and amortization expense was also attributable to amortization expense related to in place leases acquired in 2011.

Interest Expense

For the year ended December 31, 2012, interest expense attributable to both continuing and discontinued operations decreased 12.3% or $19.5 million as compared to the comparable period in 2011. The decrease in interest expense was primarily due to early debt extinguishment during the year ended December 31, 2012, and the write off of $4.0 million of deferred financing costs related to the prepayment of debt in 2011.

For the year ended December 31, 2011, interest expense on both continuing and discontinued operations increased 5.0% or $7.5 million as compared to 2010. This increase in interest expense was primarily due to slightly higher debt balances. The increase was also attributable to the write off of $4.6 million of deferred financing costs related to the prepayment of debt.

54

Tax Benefit of Taxable REIT Subsidiary

UDR elected for RE^3 to be treated as a taxable REIT subsidiary ("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.

Prior to 2012, the TRS had a history of losses and, as a result, had historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the year ended December 31, 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating losses, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings, forecasts of future earnings from the sale of depreciable property, and its cumulative earnings for the last twelve quarters. For the year ended December 31, 2012, the Company recognized an income tax benefit from RE^3 of $21.1 million, net, which primarily resulted from the reversal of a net deferred tax asset valuation allowance of $21.5 million.

For the year ended December 31, 2011, we recognized a benefit of $5.6 million in continuing operations due to the results of operations and temporary differences associated with the TRS, and an expense of $13.2 million in discontinued operations due to assets disposed of at a gain. For the year ended December 31, 2010, we recognized a net benefit of $2.5 million from the write-off of income taxes payable (net of income taxes paid).

Hurricane-Related Charges

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to tenants for a period following the hurricane. The Company has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates the Company recognized a $9.0 million impairment charge for the damaged assets' net book value during the year ended December 31, 2012. In addition, the Company incurred $10.4 million of repair and cleanup costs for the year ended December 31, 2012. With the exception of one of the properties that is under redevelopment at December 31, 2012, the rehabilitation of the remaining two properties is expected to be completed in the third quarter of 2013.
Based on the claims filed and management's estimates the Company recognized $4.4 million of business interruption losses for the year ended December 31, 2012. $3.6 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable was classified in "Hurricane-related charges, net," and $767,000 of business interruption losses were related to rent that was not contractually receivable was classified as a reduction to "Rental income" on the Consolidated Statements of Operations. The impairment charge and the repair and cleanup costs incurred during the year ended December 31, 2012 have been reduced by the estimated insurance recovery of $14.5 million, and are classified in "Hurricane-related charges, net" on the Consolidated Statements of Operations. Of the estimated insurance recovery, $4.8 million was received during the year ended December 31, 2012. Since the Company determined that it was probable of receipt, the remaining $9.7 million of the estimated insurance recovery was recorded as a receivable at December 31, 2012. Subsequent to December 31, 2012, the Company received $6.7 million of the estimated insurance recovery, of which $6.2 million was for repair and cleanup costs and $500,000 was for business interruption losses.

To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as income in the period those amounts are received or when receipt is deemed probable to occur.

General and administrative

For the year ended December 31, 2012, general and administrative expense decreased 6.2% or $2.9 million from the comparable period in 2011. The change was primarily due to a decrease in acquisition-related costs of $2.5 million, which is attributable to less acquisition activity during the year ended December 31, 2012 as compared to the comparable period in 2011.

For the year ended December 31, 2011, general and administrative expense increased 1.5% or $672,000 from the comparable period in 2010. The increase was due to a number of factors, none of which are significant.

Severance Costs and Other Restructuring Charges

For the years ended December 31, 2012 and 2011, the Company recognized $733,000 and $1.3 million of severance charges, respectively.

For the year ended December 31, 2010, the Company recognized $6.8 million of severance and restructuring charges as the Company consolidated its corporate operations and centralized job functions to its Highlands Ranch, Colorado headquarters from its Richmond, Virginia office. Also included in these charges were severance costs related to the retirement of an executive officer.

Gains on the Sale of Depreciable Property

For the years ended December 31, 2012, 2011 and 2010, we recognized gains (before tax) for financial reporting purposes of $260.4 million, $138.5 million, and $4.1 million, respectively. These gains are included in “Income from discontinued operations, net of tax” on the Consolidated Statements of Operations. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period as well as the extent of gains related to specific properties sold.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, property taxes, utilities and material costs, the majority of our leases are for a term of fourteen 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 energy and food 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, 2012.

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, 2012 (dollars in thousands):

	Payments Due by Period				
Contractual Obligations	2013	2014-2015	2016-2017	Thereafter	Total
Long-term debt obligations	$171,895	$957,093	$813,722	$1,466,623	$3,409,333
Interest on debt obligations (a)	146,260	235,660	145,241	133,669	660,830
Letters of credit	3,859	—	—	—	3,859
Unfunded commitments on:					
Development projects (b)	211,901	316,797	—	—	528,698
Redevelopment projects (b)	6,716	93,984	—	—	100,700
Operating lease obligations:					
Operating space	581	1,151	40	—	1,772
Ground leases (c)	5,158	10,316	10,316	315,152	340,942
	$546,370	$1,615,001	$969,319	$1,915,444	$5,046,134

(a) Interest payments on variable rate debt instruments are based on each debt instrument's respective year-end interest rate at December 31, 2012.

(b) Any unfunded costs at December 31, 2012 are shown in the year of estimated completion.

(c) 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 included a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

During 2012, we incurred gross interest costs of $165.2 million, of which $26.4 million was capitalized.

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 (as amended from time to time, or any successor to such statute, the "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, 2012, the Operating Partnership's real estate portfolio included 72 communities located in nine states plus the District of Columbia, with a total of 21,660 apartment homes.

As of December 31, 2012, UDR owned 110,883 units of our general limited partnership interests and 174,775,152 units of our limited partnership interests (the "OP Units"), or approximately 94.9% 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 Report to the Operating Partnership or "we," "us" or "our" refer to UDR, L.P. together with its consolidated subsidiaries. We refer to our General Partner together with its consolidated subsidiaries (including us) and the General Partner's consolidated joint ventures as "UDR" or the "General Partner."

UDR operates as a self-administered real estate investment trust, or REIT. UDR focuses on owning, acquiring, renovating, developing, and managing apartment communities nationwide. The General Partner was formed in 1972 as a Virginia corporation and changed its state of incorporation from Virginia to Maryland in September 2003. At December 31, 2012, the General Partner's consolidated real estate portfolio included 145 communities located in 10 states and the District of Columbia with a total of 41,571 apartment homes. In addition, the General Partner has an ownership interest in 39 communities with 9,558 completed apartment homes through unconsolidated joint ventures.

The following table summarizes our market information by major geographic markets as of and for the year ended December 31, 2012.

	As of December 31, 2012					Year Ended December 31, 2012			
Same Communities	Number of Apartment Communities	Number of Apartment Homes	Percentage of Total Carrying Value		Total Carrying Value (in thousands)	Average Physical Occupancy		Total Income per Occupied Home (a)	Net Operating Income (in thousands)
Western Region									
Orange County, CA	8	2,935	12.3	%	$513,911	94.7	%	$1,583	$38,064
Monterey Peninsula, CA	7	1,565	3.8	%	157,245	93.5	%	1,111	13,033
San Francisco, CA	6	1,453	8.5	%	354,862	96.4	%	2,383	30,064
Seattle, WA	5	932	5.0	%	209,742	96.4	%	1,364	10,346
Sacramento, CA	2	914	1.7	%	69,936	92.7	%	885	5,798
Portland, OR	3	716	1.7	%	71,419	95.0	%	1,043	5,677
Los Angeles, CA	3	463	3.0	%	126,064	95.2	%	1,838	6,129
Inland Empire, CA	1	414	1.7	%	69,918	94.5	%	1,541	5,140
San Diego, CA	2	366	1.4	%	56,516	95.0	%	1,413	3,891
Mid-Atlantic Region									
Washington D.C.	7	2,378	13.2	%	553,473	96.3	%	1,843	34,627
Baltimore, MD	5	994	3.5	%	148,267	96.0	%	1,384	11,174
Southeastern Region									
Nashville, TN	6	1,612	3.1	%	130,492	97.0	%	921	11,534
Tampa, FL	3	1,154	2.7	%	113,513	96.3	%	1,084	9,238
Other Florida	1	636	1.9	%	78,877	95.0	%	1,246	5,738
Southwestern Region									
Dallas, TX	2	1,348	4.4	%	185,501	95.6	%	1,284	12,225
Total/Average Same Communities	61	17,880	67.9	%	2,839,736	95.4	%	$1,439	202,678
Non Mature, Commercial Properties & Other	11	3,780	30.1	%	1,255,792				78,860
Total Real Estate Held for Investment	72	21,660	98.0	%	4,095,528				$281,538
Real Estate Under Development (b)	—	—	2.0	%	87,392				
Total Real Estate Owned	72	21,660	100.0	%	4,182,920				

Total Accumulated Depreciation	(1,097,133)
Total Real Estate Owned, Net of Accumulated Depreciation	$3,085,787

(a) Total Income per Occupied Home represents total revenues divided by the product of occupancy and the number of mature apartment homes.

(b) The Operating Partnership is currently developing two wholly-owned communities with 652 apartment homes, none of which have been completed.

We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to January 1, 2011 and held as of December 31, 2012. 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 community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months. Our Non-Mature/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, 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, the sale of properties, and the issuance of debt. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. The Operating Partnership's primary source of liquidity is cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings allocated to us under the General Partner's credit agreements. The General Partner will routinely use its unsecured credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

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

Future Capital Needs

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

As of December 31, 2012, the Operating Partnership had approximately $45.9 million of secured debt maturing in 2013, inclusive of principal amortization. We anticipate that we will repay that debt with operating cash flows and proceeds from borrowings allocated to us under our General Partner's credit agreements. The repayment of debt will be recorded as an offset to the "Receivable due from General Partner."

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with 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 and that 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.

Capital Expenditures

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.

During the year ended December 31, 2012, $72.1 million was spent on capital expenditures for all of our communities as compared to $63.2 million for the year ended December 31, 2011. These capital improvements included turnover-related capital expenditures, revenue-enhancing capital expenditures, asset preservation expenditures, kitchen and bath upgrades, other extensive interior/exterior upgrades and major renovations.

We will continue to selectively add revenue-enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital.

59

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 upon industry trends and reference to market rates and transactions.

In October 2012, Hurricane Sandy hit the East Coast, affecting two operating communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage and based on management's estimates the Operating Partnership recorded an impairment charge of $7.1 million related to the damaged assets. See Note 12, Hurricane Related Charges of the Operating Partnership's Consolidated Financial Statements for additional information.

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. 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 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.

Statements of Cash Flows

The following discussion explains the changes in net cash provided by operating activities, net cash provided by/(used in) investing activities, and (used in)/provided by financing activities that are presented in our Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010.

Operating Activities

For the year ended December 31, 2012, net cash flow provided by operating activities was $201.1 million compared to $156.1 million for the comparable period in 2011. The increase in net cash flow from operating activities was primarily due to an increase in property net operating income from our apartment community portfolio and changes in operating assets and operating liabilities.

For the year ended December 31, 2011, net cash flow provided by operating activities was $156.1 million compared to $146.6 million for the comparable period in 2010. The increase in net cash flow from operating activities is primarily due to an increase in property net operating income from our apartment community portfolio, which was partially offset by the increase in operating assets and a decrease in operating liabilities.

Investing Activities

For the year ended December 31, 2012, net cash provided by/(used in) investing activities was $4.3 million compared to $(227.0) million for the comparable period in 2011. Changes in the level of investment activities from period to period reflect our strategy as it relates to acquisitions, dispositions, development, redevelopment, and capital expenditures.

For the year ended December 31, 2011, net cash used in investing activities was $227.0 million compared to $59.5 million for the comparable period in 2010. The increase in net cash used in investing activities was primarily due to acquisition activities partially offset by proceeds received from dispositions in 2011.

Acquisitions and Dispositions
The Operating Partnership did not have any acquisitions during the year ended December 31, 2012. During the year ended December 31, 2011, the Operating Partnership acquired four communities with 1,833 apartment homes for $761.2 million.

During the year ended December 31, 2012, the Operating Partnership sold four communities with 1,314 apartment homes for a gain of $51.1 million. During the year ended December 31, 2011, the Operating Partnership sold eight communities with 2,024 apartment homes, which included four communities with 984 homes sold in conjunction with an asset exchange for a gain of $60.1 million.

The Operating Partnership’s long-term strategic plan is to achieve greater operating efficiencies by investing in target locations in core markets. As a result, we have been seeking to expand our interests in communities located in Boston, Massachusetts; California, Washington, D.C., New York, New York; and Seattle, Washington markets over the past years. Prospectively, we plan to continue to channel new investments into those markets we believe will continue to provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single-family home affordability and limited, new supply for multifamily housing, which are three key drivers to strong rental growth.

Real Estate Under Development and Redevelopment

At December 31, 2012, the Operating Partnership is developing two wholly-owned communities totaling 652 homes with a budget of $219.1 million in which we have a carrying value of $87.4 million. The estimated completion date for these communities will be through the second quarter of 2014.

At December 31, 2012, the Operating Partnership is redeveloping two wholly-owned communities with 964 apartment homes, of which 121 have been completed. The estimated completion date for these communities will be through the second quarter of 2014.

Financing Activities

For the year ended December 31, 2012, our net cash (used in)/provided by financing activities was $(203.3) million compared to $70.7 million for the comparable period of 2011. The change in cash used in financing activities was primarily due to an increase in payments on secured debt and a decrease in advances from the General Partner, partially offset by proceeds from the issuance of secured debt.

For the year ended December 31, 2011, our net cash provided by financing activities was $70.7 million compared to net cash used in financing activities of $86.7 million for 2010. The increase in cash provided by financing activities was primarily due to an increase in advances from the General Partner, partially offset by an increase in payments of secured debt.

Credit Facilities

As of December 31, 2012, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of $931.3 million with $842.5 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years and bear interest at floating and fixed rates. At December 31, 2012, $631.1 million of the funded balance was fixed at a weighted average interest rate of 5.11% and the remaining balance on these facilities was at a weighted average variable rate of 2.07%. At December 31, 2012, $507.8 million of these credit facilities are allocated to the Operating Partnership based on the ownership of the assets securing the debt.

As of December 31, 2011, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of $1.3 billion with $1.1 billion outstanding. The Fannie Mae credit facilities are for an initial term of 10 years (maturing at various dates from May 2017 through December 2019), bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at the General Partner’s option. At December 31, 2011, $744.5 million of the outstanding balance was fixed at a weighted average interest rate of 5.14% and the remaining balance of $310.5 million on these facilities had a weighted average variable interest rate of 1.63%. $667.5 million of these credit facilities were allocated to the Operating Partnership at December 31, 2011 based on the ownership of the assets securing the debt.

The Operating Partnership is a guarantor on the General Partner’s $250 million term loan due January 2016, $100 million term loan due January 2016, $300 million of medium-term notes due June 2018, and $400 million of medium-term notes due January 2022. At December 31, 2012 and December 31, 2011, the Operating Partnership guaranteed the General Partner’s unsecured credit facility, with an aggregate borrowing capacity of $900 million. There were $76.0 million and $421.0 million of borrowings outstanding on the unsecured credit facility at

December 31, 2012 and 2011, respectively.
The credit facilities are subject to customary financial covenants and limitations.

Interest Rate Risk

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had $201.6 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2012. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by $2.0 million based on the balance at December 31, 2012.

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

The General Partner utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. See Note 8, Derivative and Hedging Activity, in the Notes to the Consolidated Financial Statements for additional discussion of derivative instruments.

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, 2012, 2011, and 2010, and includes the results of both continuing and discontinued operations for the periods presented.

Net Income Attributable to OP Unitholders

2012 -vs- 2011

Net income attributable to OP unitholders was $44.0 million ($0.24 per OP unit) for the year ended December 31, 2012 as compared to $30.2 million ($0.17 per OP unit) for the comparable period in the prior year. The increase in net income attributable to OP unit holders resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in net operating income primarily due to the acquisition of four communities in 2011; and
- a decrease in interest expense due to early extinguishment of secured debt and an increase in capitalized interest during the year ended December 31, 2012.

These increases to our net income attributable to OP unitholders were partially offset by:

- a decrease in disposition gains for the year ended December 31, 2012 as compared to the comparable period in 2011. The Operating Partnership recognized gains of $51.1 million and $60.1 million during the years ended December 31, 2012 and 2011, respectively, on the sale of four and eight apartment home communities, respectively.

2011 -vs- 2010

Net income attributable to OP unitholders was $30.2 million ($0.17 per OP unit) for the year ended December 31, 2011 as compared to a net loss of $20.7 million ($0.12 per OP unit) for the comparable period in the prior year. The increase in net income attributable to OP unit holders for the year ended December 31, 2011 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in disposition gains in 2011 as compared to 2010. We recognized net gains of $60.1 million for the year ended December 31, 2011 on the sale of eight apartment home communities. We recognized net gains of $152,000 for the year ended December 31, 2010 on trailing activities of apartment home communities sold in years prior to 2010; and

- an increase in net operating income.

These increases to our net income attributable to OP unitholders were partially offset by:

• an increase in depreciation expense primarily due to the four acquisitions of operating properties in 2011.

Apartment Community Operations

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

The following table summarizes the operating performance of our total portfolio (which includes discontinued operations) for the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	Year Ended December 31,			Year Ended December 31,		
	2012	2011	% Change	2011	2010	% Change
Same Store Communities:						
Same store rental income	$294,522	$279,192	5.5 %	$279,192	$266,961	4.6 %
Same store operating expense (a)	(91,844)	(88,956)	3.2 %	(88,956)	(87,619)	1.5 %
Same store NOI	202,678	190,236	6.5 %	190,236	179,342	6.1 %
Non-Mature Communities NOI:						
Acquired communities NOI	39,813	22,576	76.4 %	22,576	—	— %
Sold or held for sale communities NOI	4,503	20,412	(77.9)%	20,412	28,830	(29.2)%
Developed communities NOI	(9)	1,562	(100.6)%	—	—	— %
Redeveloped communities NOI	25,493	22,283	14.4 %	23,917	21,318	12.2 %
Commercial NOI and other	9,060	7,189	26.0 %	7,117	4,626	53.8 %
Total non-mature communities NOI	78,860	74,022	6.5 %	74,022	54,774	35.1 %
Total Property NOI	$281,538	$264,258	6.5 %	$264,258	$234,116	12.9 %

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

The following table is our reconciliation of total property NOI to net income/(loss) attributable to OP unitholders as reflected, for both continuing and discontinued operations, for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Property net operating income	$281,538	$264,258	$234,116
Non-property income	—	—	1,695
Real estate depreciation and amortization	(195,051)	(197,964)	(166,480)
Interest	(45,234)	(53,632)	(52,222)
General and administrative and property management	(37,223)	(37,014)	(32,927)
Other operating expenses	(5,272)	(5,484)	(5,028)
Hurricane related charges, net	(5,518)	—	—
Net gain on sale of real estate	51,094	60,065	152
Non-controlling interests	(352)	(70)	(41)
Net income/(loss) attributable to OP unitholders	$43,982	$30,159	$(20,735)

Same Store Communities

2012 -vs- 2011

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2011 and held on December 31, 2012) consisted of 17,880 apartment homes and provided 72% of our total NOI for the year ended December 31, 2012.

NOI for our same store community properties increased 6.5% or $12.4 million for the year ended December 31, 2012 compared to the same period in 2011. The increase in property NOI was primarily attributable to a 5.5% or $15.3 million increase in total revenue, which was partially offset by a 3.2% or $2.9 million increase in operating expenses. The increase in revenues was primarily driven by a 5.2% or $14.0 million increase in rental rates and a 7.7% or $1.9 million increase in fee and reimbursement income. Physical occupancy remained the same at 95.4% and total income per occupied home increased $75 to $1,439 for the year ended December 31, 2012 compared to the same period in 2011.

The increase in property operating expenses was primarily driven by a 7.2% increase of $2.1 million in real estate tax, and a 6.5% or $906,000 increase in repair and maintenance costs, which was partially offset by a 2.2% or $474,000 decrease in personnel costs.

As a result of the percentage changes in property rental income, the operating margin (property net operating income divided by property rental income) was 68.8% for the year ended December 31, 2012 as compared to 68.1% for the comparable period in 2011.

2011 -vs- 2010

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2010 and held on December 31, 2011) consisted of 17,880 apartment homes and provided 72% of our total NOI for the year ended December 31, 2011.

NOI for our same store community properties increased 6.1% or $10.9 million for the year ended December 31, 2011 compared to the same period in 2010. The increase in property NOI was primarily attributable to a 4.6% or $12.2 million increase in rental income, which was offset by a 1.5% or $1.3 million increase in operating expenses. The increase in revenues was primarily driven by a 4.4% or $11.3 million increase in rental rates. Physical occupancy decreased 0.2% to 95.4% and total income per occupied home increased $63 to $1,364 for the year ended December 31, 2011 as compared to the prior year.

The increase in property operating expenses was primarily due to a 6.6% or $909,000 increase in utility costs.

64

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) was 68.1% for the year ended December 31, 2011 as compared to 67.2% for the comparable period in 2010.

Non-Mature/Other Communities

2012 -vs- 2011

The remaining $78.9 million or 28% of our total NOI during the year ended December 31, 2012 was generated from communities that we classify as “non-mature communities.” The Operating Partnership’s non-mature communities consist of communities that do not meet the criteria to be included in same store communities, which includes communities developed or acquired, redevelopment properties, sold or held for sale properties, and non-apartment components of mixed use properties. NOI from non-mature communities increased 6.5% or $4.8 million for the year ended December 31, 2012 compared to the same period in 2011. The increase was primarily driven by an increase in NOI of 76.4% or $17.2 million from communities acquired in 2011 and an increase of 14.4% or $3.2 million from redevelopment properties, including communities completed in 2012. These increases in NOI were partially offset by a decrease in NOI of 77.9% or $15.9 million from properties sold during 2012 and 2011. During the year ended December 31, 2012, a $1.2 million increase to NOI was recognized to reflect the establishment of a receivable from former residents previously written off at move out.

2011 -vs- 2010

The remaining $74.0 million and $54.8 million of our NOI during the year ended December 31, 2011 and 2010, respectively, was generated from communities that we classify as “non-mature communities.” Our non-mature communities consist of communities that do not meet the criteria to be included in same store communities, which include communities developed or acquired, redevelopment properties, sold or held for sale properties, properties managed by third-parties, and properties classified as real estate held for sale. NOI from non-mature communities increased 35.1% or $19.2 million for the year ended December 31, 2011 compared to the same period in 2010. The increase was primarily driven by an increase in NOI of $22.6 million from acquisition activities in 2011, partially offset by a decrease in NOI of 29.2% or $8.4 million from properties sold in 2011 and 2010 or held for sale.

Real Estate Depreciation and Amortization

For the year ended December 31, 2012, real estate depreciation and amortization from continuing and discontinued operations decreased by 1.5% or $2.9 million as compared to the comparable period in 2011. The decrease in depreciation and amortization for the year ended December 31, 2012 is primarily the result of acquisitions in 2011 and dispositions in 2011 and 2012. As part of the Operating Partnership’s acquisition activity, a portion of the purchase price is attributable to the fair value of intangible assets which are typically amortized over a period of less than one year.

For the year ended December 31, 2011, real estate depreciation and amortization from continuing and discontinued operations increased by 18.9% or $31.5 million as compared to the comparable period in 2010. The increase in depreciation and amortization expense is primarily due to the acquisition of four apartment home communities in 2011.

Interest Expense

For the year ended December 31, 2012, interest expense decreased by 15.7% or $8.4 million, as compared to the same period in 2011. This increase is primarily due to a lower debt balances from the pay off of certain fixed rate mortgage notes payable and lower average borrowings on secured credit facilities and an increase in capitalized interest due to increased development and redevelopment activity.

For the year ended December 31, 2011, interest expense increased 2.7% or $1.4 million, as compared to the same period in 2010. This increase is primarily due to a higher debt balances from mortgages assumed in certain 2011 acquisitions, issuance of a note payable due to the General Partner in 2011, and an increase in the interest rate charged on the note payable to the General Partner. The increase is partially offset by lower average borrowings on secured credit facilities, lower weighted average interest rates and the payment of a tax exempt secured note payable in 2011.

Hurricane-Related Charges

In October 2012, Hurricane Sandy hit the East Coast, affecting two of the Operating Partnership's operating communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to tenants for a period following the hurricane. The Operating Partnership has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates the Operating Partnership recognized a $7.1 million impairment charge for the damaged assets' net book value. In addition, the Operating Partnership incurred $7.0 million of repair and cleanup costs for the year ended December 31, 2012. The rehabilitation of these properties is expected to be completed in the third quarter of 2013.

Based on the claims filed and management's estimates the Operating Partnership recognized $2.2 million of business interruption losses for the year ended December 31, 2012. $1.8 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable was classified in "Hurricane-related charges, net," and $400,000 of business interruption losses were related to rent that was not contractually receivable was classified as a reduction to "Rental income" on the Consolidated Statements of Operations.

The impairment charge and the repair and cleanup costs incurred during the year ended December 31, 2012 have been reduced by the estimated insurance recovery of $10.8 million, and are classified in "Hurricane-related charges, net" on the Consolidated Statements of Operations. Of the estimated insurance recovery, $4.0 million was received during the year ended December 31, 2012. Since the Operating Partnership determined that it was probable of receipt, the remaining $6.8 million of the estimated insurance recovery was recorded as a receivable at December 31, 2012.

To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as income in the period those amounts are received or when receipt is deemed probable to occur.

General and Administrative

The Operating Partnership is charged directly for general and administrative expenses it incurs. The Operating Partnership is also charged for other general and administrative expenses that have been allocated by UDR to each of its subsidiaries, including the Operating Partnership, based on each subsidiary's pro-rata portion of UDR's total apartment homes.

For the year ended December 31, 2012, general and administrative expenses decreased 0.6% or $166,000, as compared to the comparable period in 2011. The decrease was primarily due to a decrease in acquisition-related costs associated with a decrease in acquisition activity in 2012 as compared to the same period in 2011, which was partially offset by a number of factors, none of which were significant.

For the year ended December 31, 2011, general and administrative expenses increased 13.2% or $3.1 million, as compared to the comparable period in 2010. The increase was primarily due to acquisition-related costs associated directly with acquisitions of properties by the Operating Partnership.

Income from Discontinued Operations

For the years ended December 31, 2012, 2011, and 2010, we recognized income from discontinued operations for financial reporting purposes of $54.2 million, $67.2 million, and $7.1 million respectively. The change in income from discontinued operations primarily relates to the recognition of net gains from the sale of property of $51.1 million, $60.1 million and $152,000 during the years ended December 31, 2012, 2011, and 2010, respectively.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food 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, 2012.

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, 2012 (dollars in thousands):

	Payments Due by Period				
Contractual Obligations	2013	2014-2015	2016-2017	Thereafter	Total
Long-term debt obligations	$45,874	$202,283	$156,370	$562,712	$967,239
Interest on debt obligations (a)	43,184	85,269	52,541	34,691	215,685
Unfunded commitments on:					
Development projects (b)	39,367	94,946	—	—	134,313
Redevelopment projects (b)	—	50,814	—	—	50,814
Operating lease obligations — ground leases (c)	5,054	10,108	10,108	314,857	340,127
	$133,479	$443,420	$219,019	$912,260	$1,708,178

(a) Interest payments on variable rate debt instruments are based on each debt instruments respective year end interest rate at December 31, 2012.

(b) Any unfunded costs at December 31, 2012 are shown in the year of estimated completion.

(c) For purposes of our ground lease contracts, the Operating Partnership uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a reset provision based on the communities appraised value or consumer price index but does not included a specified minimum lease payment, the Operating Partnership uses the current rent over the remainder of the lease term.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

As of December 31, 2012, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, which is the sole General Partner of the Operating Partnership of the effectiveness of the design and operation of the disclosure controls and procedures of the Company and the Operating Partnership. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the disclosure controls and procedures of the Company and the Operating Partnership are effective at the reasonable assurance level described above.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act for the Company and the Operating Partnership. Under the supervision and with the participation of the management, the Chief Executive Officer and Chief Financial Officer of the Company, which is the sole General Partner of the Operating Partnership, conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations (COSO). Based on such evaluation, management concluded that the Company's and the Operating Partnership's internal control over financial reporting was effective as of December 31, 2012.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Report, has audited UDR, Inc.'s internal control over financial reporting as of December 31, 2012. The report of Ernst & Young LLP, which expresses an unqualified opinion on UDR, Inc.'s internal control over financial reporting as of December 31, 2012, is included under the heading "Report of Independent Registered Public Accounting Firm" of UDR, Inc. contained in this Report. Further, an attestation report of the registered public accounting firm of United Dominion Realty, L.P. will not be required as long as United Dominion Realty, L.P. is a non-accelerated filer.

Changes in Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information set forth under the headings "Election of Directors," "Corporate Governance Matters," "Audit Committee Report," "Corporate Governance Matters-Board Leadership Structure and Committees-Audit Committee Financial Expert," "Corporate Governance Matters-Identification and Selection of Nominees for Directors," "Corporate Governance Matters-Board of Directors and Committee Meetings" and "Section 16(a) Beneficial Ownership Reporting Compliance" in UDR, Inc.'s definitive proxy statement (our "definitive proxy statement") for its 2013 Annual Meeting of Stockholders to be held on May 23, 2013. UDR is the sole general partner of the Operating Partnership.

Information required by this item regarding our executive officers is included in Part I of this Report in the section entitled "Business-Executive Officers of the Company".

We have a code of ethics for senior financial officers that applies to our principal executive officer, all members of our finance staff, including the principal financial officer, the principal accounting officer, the treasurer and the controller, our director of investor relations, our corporate secretary, and all other Company officers. We also have a code of business conduct and ethics that applies to all of our employees. Information regarding our codes is available on our website, www.udr.com, and is incorporated by reference to the information set forth under the heading "Corporate Governance Matters" in our definitive proxy statement for UDR's 2013 Annual Meeting of Stockholders. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or a waiver from, a provision of our codes by posting such amendment or waiver on our website.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information set forth under the headings "Security Ownership of Certain Beneficial Owners and Management," "Corporate Governance Matters-Board Leadership Structure and Committees-Compensation Committee Interlocks and Insider Participation," "Executive Compensation," "Compensation of Directors" and "Compensation Committee Report" in the definitive proxy statement for UDR's 2013 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

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

The information required by this item is incorporated by reference to the information set forth under the headings "Security Ownership of Certain Beneficial Owners and Management," "Executive Compensation" and "Equity Compensation Plan Information" in the definitive proxy statement for UDR's 2013 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

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

The information required by this item is incorporated by reference to the information set forth under the heading "Security Ownership of Certain Beneficial Owners and Management," "Corporate Governance Matters-Corporate Governance Overview," "Corporate Governance Matters-Director Independence," "Corporate Governance Matters-Board Leadership Structure and Committees-Independence of Audit, Compensation and Governance Committees," and "Executive Compensation" in the definitive proxy statement for UDR's 2013 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information set forth under the headings "Audit Matters - Audit Fees" and "Audit Matters - Pre-Approval Policies and Procedures" in the definitive proxy statement for UDR's 2013 Annual Meeting of Stockholders. UDR is the sole general partner of the Operating Partnership.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page F-1 of this Report.

2. Financial Statement Schedules. See Index to Consolidated Financial Statements and Schedules of UDR, Inc. and United Dominion Realty, L.P. on page S-1 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.

3. Exhibits. The exhibits filed with this Report are set forth in the Exhibit Index.

SIGNATURES

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

UDR, INC.

Date: February 26, 2013

By: /s/ Thomas W. Toomey
Thomas W. Toomey
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 26, 2013 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey	/s/ Katherine A. Cattanach
Thomas W. Toomey Chief Executive Officer, President, and Director	Katherine A. Cattanach Director
/s/ Thomas M. Herzog	/s/ Eric J. Foss
Thomas M. Herzog Senior Vice President and Chief Financial Officer	Eric J. Foss Director
/s/ Mark A. Schumacher	/s/ Robert P. Freeman
Mark A. Schumacher Senior Vice President and Chief Accounting Officer	Robert P. Freeman Director
/s/ James D. Klingbeil	/s/ Jon A. Grove
James D. Klingbeil Chairman of the Board	Jon A. Grove Director
/s/ Lynne B. Sagalyn	/s/ Mark J. Sandler
Lynne B. Sagalyn Vice Chair of the Board	Mark J. Sandler Director

SIGNATURES

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

UNITED DOMINION REALTY, L.P.

By: UDR, INC., its sole general partner

Date: February 26, 2013

By: /s/ Thomas W. Toomey
Thomas W. Toomey
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 26, 2013 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey
Chief Executive Officer, President, and
Director of the General Partner

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director of the General Partner

/s/ Thomas M. Herzog

Thomas M. Herzog
Senior Vice President and Chief Financial
Officer of the General Partner

/s/ Eric J. Foss

Eric J. Foss
Director of the General Partner

/s/ Mark A. Schumacher

Mark A. Schumacher
Senior Vice President and Chief Accounting
Officer of the General Partner

/s/ Robert P. Freeman

Robert P. Freeman
Director of the General Partner

/s/ James D. Klingbeil

James D. Klingbeil
Chairman of the Board of the General Partner

/s/ Jon A. Grove

Jon A. Grove
Director of the General Partner

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Vice Chair of the Board of the General Partner

/s/ Mark J. Sandler

Mark J. Sandler
Director of the General Partner

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of UDR, Inc.

We have audited the accompanying consolidated balance sheets of UDR, Inc. (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UDR, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UDR, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2013

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of UDR, Inc.

We have audited UDR, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). UDR, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, UDR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UDR, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income/(loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2012 of UDR, Inc. and our report dated February 26, 2013, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Real estate owned:		
Real estate held for investment	$7,564,780	$7,269,347
Less: accumulated depreciation	(1,923,429)	(1,605,090)
Real estate held for investment, net	5,641,351	5,664,257
Real estate under development (net of accumulated depreciation of $1,253 and $570)	489,795	246,229
Real estate sold or held for sale (net of accumulated depreciation of $0 and $226,067)	—	332,258
Total real estate owned, net of accumulated depreciation	6,131,146	6,242,744
Cash and cash equivalents	12,115	12,503
Restricted cash	23,561	24,634
Deferred financing costs, net	24,990	30,068
Notes receivable, net	64,006	—
Investment in unconsolidated joint ventures	507,037	213,040
Other assets	125,654	198,365
Total assets	$6,888,509	$6,721,354
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	$1,430,135	$1,891,553
Unsecured debt	1,979,198	2,026,817
Real estate taxes payable	14,076	13,397
Accrued interest payable	30,937	23,208
Security deposits and prepaid rent	42,589	35,516
Distributions payable	57,915	51,019
Deferred fees and gains on the sale of depreciable property	29,406	29,100
Accounts payable, accrued expenses, and other liabilities	87,003	95,485
Total liabilities	3,671,259	4,166,095
Commitments and contingencies (Note 13)		
Redeemable non-controlling interests in operating partnership	223,418	236,475
Equity		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2011)	46,571	46,571
0 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (3,264,362 shares at December 31, 2011)	—	81,609
Common stock, $0.01 par value; 350,000,000 shares authorized 250,139,408 shares issued and outstanding (219,650,225 shares at December 31, 2011)	2,501	2,197
Additional paid-in capital	4,098,882	3,340,470
Distributions in excess of net income	(1,143,781)	(1,142,895)
Accumulated other comprehensive loss, net	(11,257)	(13,902)

Total stockholders' equity	2,992,916	2,314,050
Non-controlling interest	916	4,734
Total equity	2,993,832	2,318,784
Total liabilities and equity	$6,888,509	$6,721,354

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31, 2012	2011	2010
REVENUES			
Rental income	$713,928	$622,995	$512,550
Non-property income:			
Other income	15,435	17,422	12,502
Total revenues	729,363	640,417	525,052
EXPENSES			
Rental expenses:			
Real estate taxes and insurance	87,121	75,884	62,726
Personnel	55,132	50,009	44,795
Utilities	36,913	33,782	28,117
Repair and maintenance	34,383	32,595	27,907
Administrative and marketing	15,929	13,204	11,963
Property management	19,632	17,131	14,095
Other operating expenses	5,748	5,990	5,773
Real estate depreciation and amortization	344,060	326,788	245,588
Interest:			
Expense incurred	139,069	150,687	138,724
Amortization of convertible debt discount	—	1,077	3,530
Other debt (benefits)/charges, net	(277)	4,602	1,204
Hurricane-related charges, net	8,495	—	—
General and administrative	43,059	45,915	45,243
Severance costs and other restructuring charges	733	1,342	6,803
Other depreciation and amortization	4,105	3,931	4,843
Total expenses	794,102	762,937	641,311
Loss from operations	(64,739)	(122,520)	(116,259)
Loss from unconsolidated entities	(8,579)	(6,352)	(4,204)
Tax benefit of taxable REIT subsidiary	30,282	5,647	2,533
Loss from continuing operations	(43,036)	(123,225)	(117,930)
Income from discontinued operations, net of tax	263,339	143,810	11,342
Net income/(loss)	220,303	20,585	(106,588)
Net (income)/loss attributable to redeemable non-controlling interests in OP	(7,986)	(395)	3,835
Net income attributable to non-controlling interests	(140)	(167)	(146)
Net income/(loss) attributable to UDR, Inc.	212,177	20,023	(102,899)
Distributions to preferred stockholders — Series E (Convertible)	(3,724)	(3,724)	(3,726)
Distributions to preferred stockholders — Series G	(2,286)	(5,587)	(5,762)
(Premium)/discount on preferred stock redemption or repurchases, net	(2,791)	(175)	25
Net income/(loss) attributable to common stockholders	$203,376	$10,537	$(112,362)
Earnings per weighted average common share — basic and diluted:			
	$(0.25)	$(0.66)	$(0.75)

Loss from continuing operations attributable to common stockholders			
Income from discontinued operations	$1.10	$0.71	$0.07
Net (loss)/income attributable to common stockholders	$0.85	$0.05	$(0.68)
Weighted average number of common shares outstanding — basic and diluted	238,851	201,294	165,857

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31, 2012	2011	2010
Net income/(loss)	$220,303	$20,585	$(106,588)
Other comprehensive income/(loss):			
Other comprehensive income/(loss) - derivative instruments:			
Unrealized holding loss	(4,924)	(16,477)	(9,273)
Loss reclassified into earnings from other comprehensive income	7,649	9,132	6,777
Other comprehensive income - marketable securities:			
Unrealized gains on available-for-sale securities	—	—	3,492
Gain reclassified into earnings from other comprehensive income	—	(3,492)	(4,584)
Other comprehensive income/(loss)	2,725	(10,837)	(3,588)
Comprehensive income/(loss)	223,028	9,748	(110,176)
Comprehensive income/(loss) attributable to non-controlling interests	8,206	158	(3,807)
Comprehensive income/(loss) attributable to UDR, Inc.	$214,822	$9,590	$(106,369)

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2009	6,236,774	$132,395	155,465,482	$1,555	$1,948,669	$(687,180)	$2	$3,541	$1,398,982
Net loss attributable to UDR, Inc.	—	—	—	—	—	(102,899)	—	—	(102,899)
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	146	146
Other comprehensive loss	—	—	—	—	—	—	(3,471)	—	(3,471)
Issuance/(forfeiture) of common and restricted shares, net	—	—	1,562,537	16	15,710	—	—	—	15,726
Issuance of common shares through public offering	—	—	24,544,367	245	467,319	—	—	—	467,564
Redemption of 27,400 shares of 6.75% Series G Cumulative Redeemable Shares	(27,400)	(685)	—	—	23	25	—	—	(637)
Adjustment for conversion of non-controlling interest of unitholders in Operating Partnership	—	—	923,944	9	18,420	—	—	—	18,429
Common stock distributions declared ($0.73 per share)	—	—	—	—	—	(126,086)	—	—	(126,086)
Preferred stock distributions declared-Series E ($1.3288 per share)	—	—	—	—	—	(3,726)	—	—	(3,726)
Preferred stock distributions declared-Series G ($1.6875 per share)	—	—	—	—	—	(5,762)	—	—	(5,762)
	—	—	—	—	—	(48,236)	—	—	(48,236)

Adjustment to reflect redemption value of redeemable non-controlling interests									
Balance at December 31, 2010	6,209,374	131,710	182,496,330	1,825	2,450,141	(973,864)	(3,469)	9,687	1,610,030
Net income attributable to UDR, Inc.	—	—	—	—	—	20,023	—	—	20,023
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	167	167
Other comprehensive loss	—	—	—	—	—	—	(10,433)	—	(10,433)
Issuance/(forfeiture) of common and restricted shares, net	—	—	615,752	6	10,996	—	—	—	11,002
Issuance of common shares through public offering	—	—	36,525,632	366	879,388	—	—	—	879,754
Redemption of 141,200 shares of 6.75% Series G Cumulative Redeemable Shares	(141,200)	(3,530)	—	—	108	(175)	—	—	(3,597)
Adjustment for conversion of non-controlling interest of unitholders in Operating Partnership	—	—	12,511	—	287	—	—	—	287
Acquisition of non-controlling interest	—	—	—	—	(450)	—	—	—	(450)
Increase in non-controlling interest from business combination, net	—	—	—	—	—	—	—	880	880
Common stock distributions declared ($0.80 per share)	—	—	—	—	—	(165,590)	—	—	(165,590)
Preferred stock distributions declared-Series E	—	—	—	—	—	(3,724)	—	—	(3,724)

($1.3288 per share)									
Preferred stock distributions declared-Series G ($1.6875 per share)	—	—	—	—	—	(5,587)	—	—	(5,587)
Adjustment to reflect redemption value of redeemable non-controlling interests	—	—	—	—	—	(13,978)	—	—	(13,978)
Balance at December 31, 2011	6,068,174	$128,180	219,650,225	2,197	$3,340,470	(1,142,895)	(13,902)	4,734	2,318,784
Net income attributable to UDR, Inc.	—	—	—	—	—	212,177	—	—	212,177
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	140	140
Other comprehensive income	—	—	—	—	—	—	2,645	—	2,645
Issuance/(forfeiture) of common and restricted shares, net	—	—	(22,224)	—	(742)	—	—	—	(742)
Issuance of common shares through public offering	—	—	30,490,969	305	755,833	—	—	—	756,138

UDR, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
(In thousands, expect for share and per share data)

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount					
Redemption of 3,264,362 shares of 6.75% Series G Cumulative Redeemable Shares	(3,264,362)	(81,609)	—	—	2,791	(2,791)	—	—	(81,609)
Adjustment for conversion of non-controlling interest of unitholders in Operating Partnership	—	—	20,438	(1)	530	—	—	—	529
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(4,871)	(4,871)
Increase in non-controlling interest from business combination, net	—	—	—	—	—	—	—	913	913
Common stock distributions declared ($0.88 per share)	—	—	—	—	—	(215,654)	—	—	(215,654)
Preferred stock distributions declared-Series E ($1.3288 per share)	—	—	—	—	—	(3,724)	—	—	(3,724)
Preferred stock distributions declared-Series G ($0.5671875 per share)	—	—	—	—	—	(2,286)	—	—	(2,286)
Adjustment to reflect redemption value of redeemable non-controlling interests	—	—	—	—	—	11,392	—	—	11,392
Balance at December 31,	2,803,812	$46,571	250,139,408	$2,501	$4,098,882	$(1,143,781)	$(11,257)	$916	$2,993,832

2012
See accompanying notes to consolidated financial statements.

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

	Years Ended December 31, 2012	2011	2010
Operating Activities			
Net income/(loss)	$220,303	$20,585	$(106,588)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	354,505	374,274	308,289
Net gain on sale of marketable securities	—	(3,123)	(4,725)
Net gain on sale of cost investments	—	(3,946)	—
Net gain on the sale of depreciable property	(251,554)	(125,928)	(4,083)
Tax benefit of taxable REIT subsidiary	(30,282)	(5,647)	(2,533)
(Gain)/loss on debt extinguishment	(277)	4,602	1,204
Loss from unconsolidated entities	8,579	6,352	4,204
Amortization of deferred financing costs and other	4,158	8,696	8,957
Amortization of deferred compensation	8,741	9,815	11,411
Hurricane-related charges, net	8,495	—	—
Amortization of convertible debt discount	—	1,077	3,530
Changes in income tax accruals	—	1,424	(865)
Changes in operating assets and liabilities:			
Increase/decrease in operating assets	(2,688)	(31,363)	39
Decrease in operating liabilities	(2,639)	(12,582)	(4,660)
Net cash provided by operating activities	317,341	244,236	214,180
Investing Activities			
Proceeds from sales of real estate investments, net	593,167	321,803	20,738
Proceeds from sale of marketable securities	—	9,799	39,488
Payments related to the buyout of joint venture partner	—	—	(16,141)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(106,673)	(989,029)	(347,582)
Cash paid in nonmonetary asset exchange	—	(28,124)	—
Development of real estate assets	(246,923)	(98,683)	(92,142)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(144,877)	(91,476)	(73,977)
Capital expenditures — non-real estate assets	(7,947)	(13,267)	(4,342)
Investment in unconsolidated joint ventures	(282,714)	(102,810)	(110,921)
Distributions received from unconsolidated joint ventures	50,580	11,202	1,125
(Purchase)/issuance of note receivable	(63,998)	7,800	—
Purchase deposits on pending real estate acquisitions	—	(80,397)	—
Net cash used in investing activities	(209,385)	(1,053,182)	(583,754)
Financing Activities			
Payments on secured debt	(491,885)	(336,004)	(187,308)
Proceeds from the issuance of secured debt	250	30,728	68,380
Proceeds from the issuance of unsecured debt	396,400	296,964	399,190
Payments on unsecured debt	(100,000)	(264,829)	(79,236)
Net (repayment)/borrowings of revolving bank debt	(345,000)	389,250	(157,550)

Payment of financing costs	(4,316)	(13,465)	(8,244)

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

	Years Ended December 31,		
	2012	2011	2010
(Forfeitures)/issuance of common and restricted stock, net	(9,861)	3,866	5,446
Proceeds from the issuance of common shares through public offering, net	756,138	879,754	467,565
Payments for the repurchase of Series G preferred stock, net	(81,609)	(3,597)	(637)
Payment for redemption of OP unitholder for cash	(133)	—	—
Distributions paid to redeemable non-controlling interests	(9,033)	(10,947)	(4,314)
Acquisition of nonredeemable non-controlling interests	(4,871)	—	—
Distributions paid to preferred stockholders	(6,954)	(9,311)	(9,488)
Distributions paid to common stockholders	(207,470)	(150,446)	(120,729)
Net cash (used in)/provided by financing activities	(108,344)	811,963	373,075
Net (decrease)/increase in cash and cash equivalents	(388)	3,017	3,501
Cash and cash equivalents, beginning of year	12,503	9,486	5,985
Cash and cash equivalents, end of year	$12,115	$12,503	$9,486
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	$159,501	$168,577	$154,843
Non-cash transactions:			
Secured debt assumed in the acquisitions of properties, including asset exchange	34,412	278,657	91,442
Development costs and capital expenditures incurred but not yet paid	24,551	2,009	1,152
Contribution of purchase deposit made in 2011 to unconsolidated joint venture	80,397	—	—
Fair market value adjustment of secured debt assumed in acquisitions of properties, including asset exchange	2,617	26,880	1,820
Conversion of operating partnership non-controlling interests to common stock (20,438 shares in 2012; 12,511 shares in 2011; and 923,944 shares in 2010)	529	287	18,429
Real estate acquired in asset exchange	—	268,853	—
Real estate disposed in asset exchange	—	192,576	—
Contingent consideration accrued in business combination	—	3,000	—
OP Units issued in partial consideration for property acquisition	—	111,034	—
Secured debt transferred in asset exchange	—	55,356	—
Fair market value of land contributed by non-controlling interest	—	4,078	—
Non-cash consideration to acquire non-real estate asset	—	6,864	—
Retirement of fully depreciated assets	—	—	8,680

See accompanying notes to consolidated financial statements.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. CONSOLIDATION AND BASIS OF PRESENTATION

Organization and formation

UDR, Inc. (“UDR”, the “Company” “we” or “our”) is a self-administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities generally in high barrier-to-entry markets located in the United States. The high barrier-to-entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. At December 31, 2012, our consolidated apartment portfolio consisted of 145 consolidated communities located in 22 markets consisting of 41,571 apartment homes. In addition, the Company has an ownership interest in 9,558 apartment homes through unconsolidated joint ventures.

Basis of presentation

The accompanying Consolidated Financial Statements of UDR includes its wholly-owned and/or controlled subsidiaries (see the “Consolidated Joint Ventures” section of Note 5, Joint Ventures, for further discussion). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the “Operating Partnership”). As of December 31, 2012 and 2011, there were 184,281,253 units in the Operating Partnership outstanding, of which 174,886,035 units or 94.9% and 174,859,951 or 94.9% were owned by UDR and 9,395,218 units or 5.1% and 9,421,302 or 5.1% were owned by limited partners, respectively. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-10, Disclosures about Offsetting Assets and Liabilities. The objective of this update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either 1) offset on the balance sheet in accordance with the “Offsetting Guidance” in ASC 210-20-45 or ASC 815-10-45 (collectively, the offsetting guidance) or 2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the “Offsetting Guidance”. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 (and interim period within those annual periods). These requirements are expected to impact disclosures related to our derivative activities. The Company does not expect a material impact on its consolidated financial position, results of operations, or cash flows as a result of this new guidance.

In December 2011, the FASB issued ASU No. 2011-11, Derecognition of in Substance Real Estate- a Scope Clarification. The objective of the amendments in this update is to resolve the diversity in practice about whether the guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, Consolidation—Overall) in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt. The amendments are effective for fiscal years (and interim periods within those years) beginning on or after June 15, 2012. The Company does not expect a material impact on its consolidated financial position, results of operations, or cash flows as a result of this new guidance.

In December 2011, the FASB issued ASU Update No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards

Update No. 2011-05. The amendments were being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income ("AOCI") on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 were not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The guidance in ASU 2011-12 and ASU 2011-05 was effective for fiscal years and interim periods beginning after December 15, 2011 for the Company. The accompanying consolidated financial statements include the required disclosures in the consolidated statement of comprehensive income/(loss) for each of the three years in the period ended December 31, 2012.

In February 2012, the FASB issued ASU No. 2013-02, Other Comprehensive Income (Topic 220) to require preparers to report, in one place, information about reclassifications out of accumulated other comprehensive income. The amendments also require companies to report changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting (either on the face of the statement where net income is presented or in the notes) is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under US GAAP is required in the notes. This information must be presented in one place (parenthetically on the face of the financial statements by income statement line item or in a note). Public companies must provide the information required by these amendments (e.g., changes in AOCI balances and reclassifications out of AOCI) in interim and annual periods. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2012, or the first quarter of 2013 for calendar-year companies. The amendments in this update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income/(loss) in ASU No. 2011-05 and ASU No. 2011-1, which were discussed in the previous paragraph. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income/(loss). The Company does not expect a material impact on its consolidated financial position, results of operations, or cash flows as a result of this new guidance.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (“GAAP”) and IFRS (ASC 820), which clarifies Topic 820, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Finance Reporting Standards (“IFRS”). This is effective for periods beginning after December 15, 2011 for the Company. There was no material impact on the Company’s consolidated financial position, results of operations, or cash flows as a result of implementing this guidance.

Real estate

Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and other costs incurred during their development, acquisition and redevelopment. Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

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

Quarterly or when changes in circumstances warrant, UDR will assess our real estate properties for indicators of impairment. In determining whether the Company has indicators of impairment in our real estate assets, we assess whether the long-lived asset's carrying value exceeds the community's undiscounted future cash flows, which is representative of projected net operating income ("NOI") plus the residual value of the community. Our future cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the carrying amount of the asset over its estimated fair value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates, capitalization rates, industry trends and reference to market rates and transactions.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which are 35 to 55 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets. As of December 31, 2012 and 2011, the amount of our net intangible assets which are reflected in "Other assets" was $11.9 million and $21.4 million, respectively. As of December 31, 2012 and 2011, the amount of our net intangible liabilities which are reflected in "Accounts payable, accrued expenses, and other liabilities" was $5.2 million and $5.9 million in our Consolidated Balance Sheets. The balances are being amortized over the remaining life of the respective intangible.

All development projects and related costs are capitalized and reported on the Consolidated Balance Sheets as "Real estate under development". The costs of development projects which include interest, real estate taxes, insurance, and allocated development overhead related to support costs for personnel working on the development project are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest, for the years ended December 31, 2012, and 2011 were $10.0 million, and $8.5 million for the year ended December 31, 2010. During the years ended December 31, 2012, 2011, and 2010, total interest capitalized was $26.4 million, $13.0 million, and $12.5 million, respectively. As each building in a project is completed and becomes available for lease-up, the Company ceases capitalization and the assets are depreciated over their estimated useful life.

Cash and cash equivalents

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

Restricted cash

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

Revenue and real estate sales gain recognition

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

The Company accounts for sales of real estate in accordance with GAAP. For sale transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property, we remove the related assets and liabilities from our Consolidated Balance Sheets and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting. Unless certain limited criteria are met, non-monetary transactions, including property exchanges, are accounted for at fair value.

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Notes Receivable

The following table summarizes our notes receivable, net as of December 31, 2012 (dollars in thousands):

	Interest rate		December 31, 2012
Note due October 2014 - related party	2.97	%	$ 24,481
Note due February 2017	10.00	%	13,200
Note due June 2022 (net of discount of $275)	7.00	%	26,225
Other	8.00	%	100
Total notes receivable, net			$ 64,006

The Company has a $24.5 million unsecured note receivable from one of its unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year. (See Note 5, Joint Ventures.)
The Company has a $13.2 million secured note receivable from an unaffiliated third party, which bears an interest rate of 10.00% per annum. 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) declaration of acceleration; or (d) the fifth anniversary of the date of the note (February 2017).
On June 21, 2012, the Company purchased mezzanine debt securing a mortgage on a class A community in West Los Angeles, California. The $26.5 million loan was purchased at a yield of 7.25% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022. The discount is amortized using the effective interest method.
During the year ended December 31, 2012, the Company recognized $2.7 million of interest income, net of accretion, from these notes receivable, of which $281,000 was related party interest income. During the years ended December 31, 2011 and 2010, the Company recognized $646,000 and $730,000, respectively, of interest income from notes receivable that were paid during the year ended December 31, 2011. Interest income is included in “Other income” on the Consolidated Statements of Operations.
Marketable Securities
During the year ended December 31, 2011, the Company sold marketable securities for $3.5 million, resulting in a realized gain of $3.1 million, which is included in “Other Income” on the Consolidated Statements of Operations. The cost of securities sold was based on the specific identification method. Unrealized gains of $3.5 million were reclassified out of accumulated other comprehensive income/(loss) into earnings during the year ended December 31, 2011. The marketable securities, which represented common stock in a publicly held company, were classified as “available-for-sale,” and were carried at fair value with unrealized gains and losses reported as a component of other comprehensive income/(loss).
During the year ended December 31, 2010, the Company sold previously held corporate debt securities, which were classified as “available-for-sale.” Proceeds from the sale of these securities were $39.5 million, resulting in gross realized gains of $4.7 million. These gains are included in “Other Income” in the Consolidated Statements of Operations. The amortization of any discount and interest income on these securities are also included in “Other Income” on the Consolidated Statements of Operations for the year ended December 31, 2010.
Investment in joint ventures
We use the equity method to account for investments that qualify as variable interest entities where we are not the primary beneficiary and entities that we do not control or where we do not own a majority of the economic interest but have the ability to exercise significant influence over the operating and financial policies of the investee. Throughout these financial statements we use the term “joint venture” when referring to investments in entities in which we do not have a 100% ownership interest. The Company also uses the equity method when we function as the managing member and our joint venture partner has substantive participating rights or where we can be replaced by our joint

venture partner as managing member without cause. For a joint venture accounted for under the equity method, our share of net earnings or losses is reflected as income/loss when earned/incurred and distributions are credited against our investment in the joint venture as received.

In determining whether a joint venture is a variable interest entity, the Company considers: the form of our ownership interest and legal structure; the size of our investment; the financing structure of the entity, including necessity of subordinated debt; estimates of future cash flows; ours and our partner's ability to participate in the decision making related to acquisitions, disposition, budgeting and financing of the entity; obligation to absorb losses and preferential returns; nature of our partner's primary operations; and the degree, if any, of disproportionally between the economic and voting interests of the entity. As of December 31, 2012, the Company did not assess any of our joint ventures as variable interest entities where UDR was the primary beneficiary.

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

Derivative financial instruments

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

Redeemable noncontrolling interests in the Operating Partnership

Interests in the Operating Partnership held by limited partners are represented by Operating Partnership units ("OP Units"). Income is allocated to holders of OP Units based upon net income available to common stockholders and the weighted average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to non-controlling interests in accordance with the terms of the partnership agreement.

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

Income Taxes

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

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of December 31, 2012, UDR recorded a net liability of $3.1 million and a deferred tax asset of $24.2 million (net of a valuation allowance of $1.4 million), which are classified in “Accounts payable, accrued expenses, and other liabilities" and "Other assets," respectively, on the Consolidated Balance Sheets.

Prior to 2012, the TRS had a history of losses and, as a result, has historically recognized a valuation allowance for net deferred tax assets. Each quarter, the Company evaluates the need to retain all or a portion of the valuation allowance on its net deferred tax assets. During the year ended December 31, 2012, the Company determined that it is more likely than not that the deferred tax assets, including any remaining net operating loss carry forward, will be realized. In making this determination, the Company analyzed, among other things, its recent history of earnings from the sale of depreciable property, forecasts of future earnings and its cumulative earnings for the last twelve quarters. The reversal of the valuation allowance resulted in an income tax benefit of $44.4 million during the year ended December 31, 2012, $21.5 million of which is reflected in continuing operations, and classified as "Tax benefit of taxable REIT subsidiary" and $22.9 million of which is classified within income from discontinued operations in the Consolidated Statements of Operations.

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, we determine 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. The Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

UDR had no material unrecognized tax benefit, accrued interest or penalties at December 31, 2012. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2008 through 2011 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 income tax expense.

Discontinued operations

Under GAAP, the results of operations for those properties sold during the year or classified as held-for-sale at the end of the current year are classified as discontinued operations in the current and prior periods. Further, to meet the discontinued operations criteria, the Company will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. Once a property is classified as held-for-sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria for held-for-sale, the Company will recapture any unrecorded depreciation on the property. The assets and liabilities, if any, of properties classified as held for sale are presented separately on the Consolidated Balance Sheets at the lower of their carrying amount or their estimated fair value less the costs to sell the assets. (See Note 4, Discontinued Operations for further discussion).

Earnings per share

Basic earnings per Common Share is computed based upon the weighted average number of Common Shares outstanding during the year. Diluted earnings per Common Share is computed based upon Common Shares outstanding plus the effect of dilutive stock options and other potentially dilutive Common Stock equivalents. The dilutive effect of OP units, stock options and other potentially dilutive Common Stock equivalents is determined using the treasury stock method based on UDR's average stock price.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following table sets forth the computation of basic and diluted earning per share (in thousands, except per share amounts):

	Year Ended December 31,		
	2012	2011	2010
Numerator for earnings per share — basic and diluted:			
Net income/(loss) attributable to common stockholders	$203,376	$10,537	$(112,362)
Denominator for earnings per share — basic and diluted:			
Weighted average common shares outstanding	239,482	202,573	167,365
Non-vested restricted stock awards	(631)	(1,279)	(1,508)
Denominator for basic and diluted earnings per share	238,851	201,294	165,857
Net income/(loss) attributable to common stockholders — basic and diluted	$0.85	$0.05	$(0.68)

The effect of the conversion of the OP Units, convertible Preferred Stock, convertible debt, stock options, and restricted stock is not dilutive and is therefore not included in the above calculations as the Company reported a loss from continuing operations for the years ended December 31, 2012, 2011, and 2010.

The following table sets forth the additional shares of Common Stock outstanding by equity instrument if converted to Common Stock for each of the years ended December 31, 2012, 2011, and 2010:

	Year Ended December 31,		
	2012	2011	2010
OP Units	9,411,415	7,601,693	5,711,275
Preferred Stock	3,035,548	3,035,548	3,035,548
Stock options and unvested restricted stock	1,360,398	2,154,739	2,296,097

Stock-based employee compensation plans

UDR accounts for its stock-based employee compensation plans in accordance with GAAP. This standard requires an entity to measure the cost of employee services received in exchange for an award of an equity instrument based on the award's fair value on the grant date and recognize the cost over the period during which the employee is required to provide service in exchange for the award, which is generally the vesting period. The fair value for stock options issued by the Company is calculated utilizing the Black-Scholes-Merton formula. For performance based awards, the Company remeasures the fair value each balance sheet date with adjustments made on a cumulative basis until the award is settled and the final compensation is known.

Advertising costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item "Administrative and marketing". During the years ended December 31, 2012, 2011, and 2010, total advertising expense was $6.2 million, $5.4 million, and $6.4 million, respectively.

Cost of raising capital

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

Preferred Share Redemption and Repurchases

During the year ended December 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million.

When redeeming or repurchasing preferred stock, the Company recognizes share issuance costs as a charge to the preferred stock on a pro rata basis to the total costs incurred for the preferred stock as well as any premium or discount on the redemption or repurchase. In connection with the redemption of the Series G Preferred Stock, the Company recognized a (decrease)/increase in net income/(loss) attributable to common stockholders of $(2.8) million, $(175,000), and $25,000 for the years ended December 31, 2012, 2011, and 2010, respectively, which is reported in “(Premium)/discount on preferred stock redemption and repurchases, net” in the Consolidated Statement of Operations.

Comprehensive income

Comprehensive income, which is defined as all changes in equity during each period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For each of the years ended December 31, 2012, 2011, and 2010 other comprehensive income/(loss) consisted of the change in fair value of marketable securities, the change in the fair value of effective cash flow hedges, and the allocation of other comprehensive income/(loss) to redeemable non-controlling interests.

Use of estimates

The preparation of these financial statements in accordance with 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 financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Market concentration risk

The Company is subject to increased exposure from economic and other competitive factors specific to markets where the Company holds a significant percentage of the carrying value of its real estate portfolio. At December 31, 2012, the Company held greater than 10% of the carrying value of its real estate portfolio in the Orange County, California; Washington, D.C.; and New York, New York markets.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

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 sale properties. As of December 31, 2012, the Company owned and consolidated 145 communities in 10 states plus the District of Columbia totaling 41,571 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2012 and 2011 (dollar amounts in thousands):

	December 31, 2012	December 31, 2011
Land	$1,907,169	$1,821,762
Depreciable property — held and used:		
Building and improvements	5,384,971	5,203,484
Furniture, fixtures and equipment	272,640	244,101
Under development:		
Land	151,154	115,198
Construction in progress	339,894	131,601
Sold or held for sale:		
Land	—	98,340
Building and improvements	—	410,123
Furniture, fixtures and equipment	—	49,862
Real estate owned	8,055,828	8,074,471
Accumulated depreciation	(1,924,682)	(1,831,727)
Real estate owned, net	$6,131,146	$6,242,744

On April 27, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for $11.7 million from one of our joint ventures. (See Note 5, Joint Ventures.)

During the year ended December 31, 2012, the Company also acquired our partners' interests in two development joint ventures and two joint ventures, which owned parcels of land for future development. (See Note 5, Joint Ventures-Consolidated Joint Ventures for further discussion.)

Total acquisition value of these communities and land parcels at the acquisition date was recorded $102.1 million to land; $37.3 million to buildings and improvements; $1.5 million to furniture, fixtures, and equipment; $1.5 million to intangible assets; and $38.1 million to assumed debt and liabilities.

The Company records the fair value of the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair value. When recording the acquisition of a community, the Company first assigns fair value to the estimated intangible value of the existing lease agreements and then to the estimated value of the land, building and fixtures assuming the community is vacant. The primary, although not only, identifiable intangible asset associated with our portfolio is the value of existing lease agreements. The Company estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up.

During the year ended December 31, 2011, the Company acquired eight operating communities with 3,161 apartment homes for a total purchase price of $1.5 billion and three land parcels for a total gross purchase price of $34.3 million. During the year ended December 31, 2010, the Company acquired five operating communities with 1,374 apartment homes for a total purchase price of $412.0 million and one land parcel for a total gross purchase price of $23.6 million.

The Company incurred $2.3 million, $4.8 million and $2.9 million of acquisition-related costs during the years ended December 31, 2012, 2011, and 2010, respectively. These expenses are classified on the Consolidated Statements of Operations in the line item entitled “General and administrative”.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage and based on management's estimates the Company recorded an impairment charge of $9.0 million related to the damaged assets. See Note 15, Hurricane Related Charges for additional information.

4. DISCONTINUED OPERATIONS

The results of operations for properties sold during the year or designated as held-for-sale at the end of the year are classified as discontinued operations for all periods presented. Properties classified as real estate held for sale generally represent properties that are actively marketed or contracted for sale with the closing expected to occur within the next twelve months. The presentation of discontinued operations does not have an impact on net income attributable to common stockholders, and results in the reclassification of the operating results of all properties sold or classified as held for sale through December 31, 2012, within the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets as of December 31, 2012 and 2011, if applicable. The gain on sale and the results of operations from these properties are classified on the Consolidated Statements of Operations in the line item entitled "Income from discontinued operations."

During the year ended December 31, 2012, the Company sold 21 communities with 6,507 apartment homes. During the year ended December 31, 2011, the Company sold 18 communities with 4,488 apartment homes, which included six communities (1,418 apartment homes) sold in conjunction with an asset exchange. During the year ended December 31, 2010, the Company sold one apartment home community (149 apartment homes). The Company had no communities that met the criteria to be classified as held for sale and included in discontinued operations at December 31, 2012. During the years ended December 31, 2012, 2011 and 2010, UDR recognized gains (before tax) on the sale of communities for financial reporting purposes of $260.4 million, $138.5 million, and $4.1 million, respectively, which are included in discontinued operations.

The following is a summary of income from discontinued operations for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Years Ended December 31,		
	2012	2011	2010
Rental income	$30,316	$107,963	$121,318
Non-property income	—	—	1,845
	30,316	107,963	123,163
Rental expenses	10,566	40,724	47,296
Property management fee	834	2,970	3,337
Real estate depreciation	6,340	43,555	57,858
Interest	—	1,967	7,338
Other expense, including tax	791	227	75
	18,531	89,443	115,904
Income before net gain on the sale of depreciable property	11,785	18,520	7,259
Net gain on the sale of depreciable property	260,404	138,508	4,083
Income tax expense	(8,850)	(13,218)	—
Income from discontinued operations	$263,339	$143,810	$11,342

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

5. JOINT VENTURES

UDR has entered into joint ventures with unrelated third parties to acquire real estate assets that are either consolidated and included in real estate owned on our Consolidated Balance Sheets or are accounted for under the equity method of accounting, and are included in investment in unconsolidated joint ventures on our Consolidated Balance Sheets. The Company consolidates an entity in which we own less than 100% but control the joint venture as well as any variable interest entity where we are the primary beneficiary. In addition, the Company would consolidate any joint venture in which we are the general partner or managing member and the third party does not have the ability to substantively participate in the decision-making process nor do they have the ability to remove us as general partner or managing member without cause.

UDR's joint ventures 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 venture portfolio.

Unconsolidated Joint Ventures

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

The following table summarizes the Company's investment in unconsolidated joint ventures which are accounted for under the equity method of accounting as of December 31, 2012 and 2011 (dollar amounts in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at December 31, 2012	Investment at December 31, 2011	UDR's Ownership Interest	
Operating:							
UDR/MetLife I (a)	Various	14 communities	2,547	$ 75,129	$ 133,843	13.3	%
		8 land parcels	N/A			4.3	%
UDR/MetLife II (b)	Various	13 communities	2,752	327,001	—	50.0	%
Lodge at Stoughton (c)	Stoughton, MA	1 community	240	16,311	17,213	95.0	%
KFH (d)	Washington D.C.	3 communities	660	29,663	34,146	30.0	%
Texas JV (e)	Texas	8 communities	3,359	3,457	7,138	20.0	%
Development:							
13th & Market	San Diego, CA	1 community	264	29,930	12,115	95.0	%
Domain College Park	College Park, MD	1 community	256	25,546	8,585	95.0	%
Total Investment in Unconsolidated Joint Ventures				$ 507,037	$ 213,040		

(a) Under the terms of UDR/MetLife I, UDR acts as the general partner with significant participating rights held by our partner, and earns fees for property management, asset management, and financing transactions.

In 2010, the Company acquired from the Hanover Company ("Hanover") its ownership interest in the joint venture for $100.8 million consisting of $71.8 million in cash, which included associated transaction costs, and a $30 million payable to Hanover. UDR agreed to pay the $30 million balance to Hanover in two interest free installments in the amounts of $20 million (paid in 2011) and $10 million (paid in 2012) on the first and second anniversaries of the closing, respectively. The $30 million payable was recorded at its present value of $29 million using an effective interest rate of 2.67%. At December 31, 2012 and 2011, the net carrying value of the payable was $0 and $9.8 million, respectively. Interest expense of $207,000, $697,000, and

$129,000 was recorded during the years ended December 31, 2012, 2011, and 2010, respectively.

UDR's inital cost of its equity investment of $100.8 million differed from its proportionate share in the underlying net assets of UDR/MetLife I of $111.4 million. The difference of $10.6 million was attributable to certain assets and adjustments that were allocated to UDR's proportionate share in UDR/MetLife I's buildings of $8.4 million, land of $3.9 million, and $(1.6) million of lease intangible assets. With the exception of land, the difference related to buildings is accreted and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets was amortized and recorded as a component of loss from unconsolidated entities over 11 months with the offset to the Company's carrying value of its equity investment. During the year ended December 31, 2012, the Company recorded $184,000 of net accretion. During the years ended December 31, 2011 and 2010, the Company recorded $1.1 million and $264,000 of amortization, respectively.

In November 2012, the Company exchanged with MetLife its approximate overall 12% ownership interest in four operating communities and 3.1% ownership in two land parcels in UDR/MetLife I, and paid MetLife $10 million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown Seattle, bringing UDR's ownership interest in another property owned by the joint venture, The Olivian to 50%. The Olivian was subsequently contributed to UDR/MetLife II. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina and Chicago, Illinois. UDR will continue to fee manage the four operating communities.

(b) In January 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest. The 12 communities in the joint venture include seven communities transferred from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was $327.1 million, which consisted of $293.5 million of cash paid and $33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the $293.5 million of cash paid for its investment, the Company paid $80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.)
(c) During the year ended December 31, 2012, the Company loaned the joint venture $24.5 million to repay a secured loan with an unaffiliated third party. The loan with the Company has terms similar to the original loan. (See Note 2, Significant Accounting Policies for further discussion on terms of the related party note.)
(d) UDR is a partner with an unaffiliated third party, which formed a joint venture for the investment of up to $450 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of $180 million of which the Company's maximum equity will be 30% or $54 million when fully invested.
(e) UDR is a partner with an unaffiliated third party which owns and operates apartment communities located in Texas. UDR initially contributed cash and a property equal to 20% of the fair value of ten properties (3,992 homes). The unaffiliated member contributed cash equal to 80% of the fair value of the properties, which was then used to purchase nine operating properties from UDR. During year ended December 31, 2012, the Company acquired the remaining 80% ownership interests in two apartment communities (633 homes) for $11.7 million from the joint venture.
We 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. The Company did not recognize any other-than-temporary decrease in the value of its other investments in unconsolidated joint ventures during the years ended December 31, 2012, 2011

and 2010.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Combined summary financial information relating to all of the unconsolidated joint ventures operations (not just our proportionate share), is presented below for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Revenues	$274,236	$201,368	$60,234
Real estate depreciation and amortization	100,952	69,290	28,744
Net loss (a)	4,393	21,724	29,737
UDR recorded loss from unconsolidated entities	8,579	6,352	4,204

(a) Net loss for the year ended December 31, 2012 is net of a gain of $6.8 million recognized by MetLife I related to transactions discussed in (a) above. UDR's share of the gain has been deferred due to its continued involvement with the joint venture properties exchanged.

Combined summary balance sheets relating to all of the unconsolidated joint ventures (not just our proportionate share) are presented below as of December 31, 2012 and 2011 (dollars in thousands):

	December 31, 2012	December 31, 2011
Real estate, net	$3,189,814	$2,908,623
Total assets	3,266,518	2,998,866
Amount due to UDR	34,843	6,251
Third party debt	1,663,427	1,499,419
Total liabilities	1,747,855	1,561,396
Total equity, inclusive of non-controlling interest	1,518,663	1,437,470
Equity held by non-controlling interest	12,755	14,641
UDR's investment in unconsolidated joint ventures	507,037	213,040

As of December 31, 2012 and 2011, the Company had deferred fees and deferred profit from the sale of properties to a joint venture of $29.4 million and $29.1 million, respectively, the majority of which the Company will not recognize until the underlying property is sold to a third party. The Company recognized $11.8 million, $9.6 million, and $3.2 million of management fees during the years ended December 31, 2012, 2011 and 2010, respectively, for our management of the joint ventures. The management fees are classified in "Other Income" in the Consolidated Statements of Operations.

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

Consolidated Joint Ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million and owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the City of Huntington Beach, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture.The Company’s total investment was $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner’s 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million, resulting in the consolidation of the joint venture at fair value. In January 2013, the Company subsequently acquired its partners 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a non-controlling interest of 98.0% in the joint venture. The Company’s total investment of $26.6 million, consists of its initial investment of $26.0 million and the acquisition of its partner’s 2.0% ownership interest for $613,000, resulting in the consolidation of the joint venture at fair value.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire 3032 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $10.3 million.

In October 2012, the Company formed a joint venture with an unaffiliated third party to acquire 2919 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $7.0 million.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

6. SECURED AND UNSECURED DEBT

The following is a summary of our secured and unsecured debt at December 31, 2012 and 2011 (amounts in thousands):

	Principal Outstanding		For the Year Ended December 31, 2012			
	December 31,		Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
	2012	2011				
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	$455,533	$590,208	5.32	%	3.4	8
Fannie Mae credit facilities (c)	631,078	744,509	5.11	%	5.8	23
Total fixed rate secured debt	1,086,611	1,334,717	5.20	%	4.8	31
Variable Rate Debt						
Mortgage notes payable (b)	37,415	151,685	1.08	%	0.5	2
Tax-exempt secured notes payable (d)	94,700	94,700	0.94	%	9.6	2
Fannie Mae credit facilities (c)	211,409	310,451	2.07	%	5.6	7
Total variable rate secured debt	343,524	556,836	1.65	%	6.1	11
Total Secured Debt	1,430,135	1,891,553	4.35	%	5.1	42
Unsecured Debt:						
Commercial Banks						
Borrowings outstanding under an unsecured credit facility due October 2015 (e), (f)	76,000	421,000	1.44	%	2.8	
Senior Unsecured Notes						
4.63% Medium-Term Notes due January 2022 (net of discount of $3,241) (f)	396,759	—	4.63	%	9.0	
1.65% Term Notes due January 2016 (f)	35,000	100,000	1.65	%	3.1	
2.68% Term Notes due January 2016 (f)	65,000	—	2.68	%	3.1	
6.05% Medium-Term Notes due June 2013	122,500	122,500	6.05	%	0.4	
5.13% Medium-Term Notes due January 2014	184,000	184,000	5.13	%	1.0	
5.50% Medium-Term Notes due April 2014 (net of discount of $89 and $157)	128,411	128,343	5.50	%	1.3	
5.25% Medium-Term Notes due January 2015 (net of discount of $262 and $390)	324,913	324,785	5.25	%	2.0	
5.25% Medium-Term Notes due January 2016	83,260	83,260	5.25	%	3.0	
2.90% Term Notes due January 2016 (f)	250,000	250,000	2.90	%	3.1	
8.50% Debentures due September 2024	15,644	15,644	8.50	%	11.7	
4.25% Medium-Term Notes due June 2018 (net of discount of $2,322 and $2,751) (f)	297,678	297,249	4.25	%	5.4	
5.00% Medium-Term Notes due January 2012	—	100,000	5.00	%	N/A	
Other	33	36	N/A		N/A	

Total Unsecured Debt	1,979,198	2,026,817	4.48 %	4.1
Total Debt	$3,409,333	$3,918,370	4.42 %	4.5

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the above table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt encumbers $2.3 billion or 28.8% of UDR's total real estate owned based upon gross book value ($5.7 billion or 71.2% of UDR's real estate owned based on gross book value is unencumbered) as of December 31, 2012.

(a) At December 31, 2012, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2014 through May 2019 and carry interest rates ranging from 3.43% to 5.94%. Fixed rate mortgage notes payable includes debt associated with development activities.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. During the years ended December 31, 2012, 2011 and 2010, the Company had $4.9 million, $3.5 million, and $102,000 of amortization expense on the fair market adjustment of debt assumed in acquisition of properties, respectively. The unamortized fair market adjustment was a net premium of $16.9 million and $24.1 million at December 31, 2012 and 2011, respectively.

(b) Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature July 2013. The mortgage notes payable are based on LIBOR plus specified basis points, which translate into an interest rate of 1.08% at December 31, 2012.

(c) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $931.3 million at December 31, 2012. The Fannie Mae credit facilities are for an initial term of 10 years (maturing at various dates from May 2017 through December 2019) and bear interest at floating and fixed rates. At December 31, 2012, we have $631.1 million of the outstanding balance fixed at a weighted average interest rate of 5.11% and the remaining balance of $211.4 million on these facilities is currently at a weighted average variable interest rate of 2.07%. At December 31, 2011, UDR had five secured credit facilities with Fannie Mae with aggregate commitments of $1.3 billion. During the year ended December 31, 2012, the Company repaid two of the secured credit facilities.

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

	December 31, 2012		December 31, 2011	
Borrowings outstanding	$842,487		$1,054,960	
Weighted average borrowings during the period ended	903,817		1,139,588	
Maximum daily borrowings during the period ended	1,054,735		1,157,557	
Weighted average interest rate during the period ended	4.3	%	4.4	%
Weighted average interest rate at the end of the period	4.4	%	4.1	%

(d) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature on August 2019 and March 2030. Interest on these notes is payable in monthly installments. The variable mortgage notes have interest rates of 0.88% and 1.10% as of December 31, 2012.

(e) The Company has a $900 million unsecured revolving credit facility. The unsecured credit facility has an initial term of four years and includes a one-year extension option. It contains an accordion feature that allows the Company to increase the facility to $1.35 billion. The credit facility carries an interest rate equal to LIBOR plus a spread of 122.5 basis points and a facility fee of 22.5 basis points.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following is a summary of short-term bank borrowings under UDR's bank credit facility at December 31, 2012 and 2011 (dollars in thousands):

	December 31, 2012	December 31, 2011
Total revolving credit facility	$900,000	$900,000
Borrowings outstanding at end of period (1)	76,000	421,000
Weighted average daily borrowings during the period ended	167,038	227,498
Maximum daily borrowings during the period ended	788,000	450,000
Weighted average interest rate during the period ended	1.5 %	1.0 %
Interest rate at end of the period	1.4 %	1.5 %

(1) Excludes $3.9 million and $3.6 million of letters of credit at December 31, 2012 and 2011, respectively.

(f) The Operating Partnership is a guarantor at December 31, 2012 and 2011.

The aggregate maturities, including amortizing principal payments of secured debt, of total debt for the next five years subsequent to December 31, 2012 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt (a)	Total Debt
2013	$12,948	$37,415	$50,363	$121,532	$171,895
2014	47,706	—	47,706	311,576	359,282
2015	197,423	—	197,423	400,388	597,811
2016	136,355	—	136,355	432,484	568,839
2017	179,883	65,000	244,883	—	244,883
Thereafter	512,296	241,109	753,405	713,218	1,466,623
Total	$1,086,611	$343,524	$1,430,135	$1,979,198	$3,409,333

(a) With the exception of the 1.65% Term Notes due January 2016 and revolving credit facility which carry a variable interest rate, all unsecured debt carry fixed interest rates.
We were in compliance with the covenants of our debt instruments at December 31, 2012.

7. STOCKHOLDERS' EQUITY

UDR has an effective registration statement that allows the Company to sell an undetermined number of debt and equity securities as defined in the prospectus. The Company has the ability to issue 350,000,000 shares of common stock and 50,000,000 shares of preferred shares as of December 31, 2012.
During the year ended December 31, 2012, the Company entered into the following equity transactions for our common stock:

- Issued 8,640,969 shares of common stock in connection with two "at the market" equity distribution programs where we received net proceeds of approximately $217.6 million;
- Issued 21,850,000 shares of common stock in connection with an underwritten public offering where we received net proceeds of approximately $538.8 million;
- Issued 182,204 shares of common stock in connection with stock options exercised;
- Issued 253,362 shares of common stock through the Company's 1999 Long-Term Incentive Plan (the "LTIP"), net of forfeitures of 32,216; and
- Converted 20,438 OP Units into Company common stock.

Distributions are subject to the approval of the Board of Directors and are dependent upon our strategy, financial condition and operating results. UDR common distributions for the years ended December 31, 2012, 2011 and 2010 totaled $0.88, $0.80, and $0.73 per share, respectively. For taxable years ending on or before December 31, 2012, the IRS allowed REITS to distribute up to 90% of total distributions in common shares with the residual distributed in cash as a means of enhancing liquidity.

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 one share of our common stock prior to a "Special Dividend" declared in 2008 ($1.083 shares after the Special Dividend). 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.

Distributions declared on the Series E for the years ended December 31, 2012, 2011 and 2010 were $1.33 per share. The Series E is not listed on any exchange. At December 31, 2012 and 2011, a total of 2,803,812 shares of the Series E were outstanding.

UDR is authorized to issue up to 20,000,000 shares of the Series F Preferred Stock ("Series F"). The Series F may be purchased by holders of UDR's operating partnership units, or OP Units, at a purchase price of $0.0001 per share. OP Unitholders are entitled to subscribe for and purchase one share of UDR's Series F for each OP Unit held. At December 31, 2012 and 2011, a total of 2,529,194 and 2,534,846 shares, respectively, of the Series F were outstanding with an aggregate purchase value of $253. 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.

In May 2007, UDR issued 5,400,000 shares of the 6.75% Series G Cumulative Redeemable Preferred Stock ("Series G"). On May 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million. As a result of this redemption, the write off of additional paid in capital of $2.8 million related to the issuance of Series G is recognized as a decrease to our net income/(loss) attributable to common stockholders. During the years ended December 31, 2011 and 2010, the Company repurchased 141,200 and 27,400 shares of Series G, respectively, for more or less than the liquidation preference of $25 per share, resulting in a loss of $175,000 and a $25,000 benefit to our net income/(loss) attributable to common stockholders, respectively.

Distributions declared on the Series G for the years ended December 31, 2012, 2011 and 2010 were $0.57, $1.69, and $1.69 per share, respectively. At December 31, 2012 and 2011, a total of 0 and 3,264,362 shares of the Series G were outstanding, respectively.

Distribution Reinvestment and Stock Purchase Plan

UDR's Distribution Reinvestment and Stock Purchase Plan (the "Stock Purchase Plan") allows common and preferred stockholders the opportunity to purchase, through the reinvestment of cash dividends, additional shares of UDR's common stock. From inception through December 31, 2008, shareholders have elected to utilize the Stock Purchase Plan to reinvest their distribution for the equivalent of 9,957,233 shares of Company common stock. Shares in the amount of 11,541,046 were reserved for issuance under the Stock Purchase Plan as of December 31, 2012. During the year ended December 31, 2012, UDR acquired all shares issued through the open market.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

8. EMPLOYEE BENEFIT PLANS

In May 2001, the stockholders of UDR approved the long term incentive plan ("LTIP"), which supersedes the 1985 Stock Option Plan. The LTIP authorizes the granting of awards which may take the form of options to purchase shares of common stock, stock appreciation rights, restricted stock, dividend equivalents, other stock-based awards, and any other right or interest relating to common stock or cash incentive awards to Company directors, employees and outside trustees to promote the success of the Company by linking individual's compensation via grants of share based payment. During the year ended December 31, 2009, the stockholders of UDR voted to amend and restate the LTIP to increase the number of shares reserved from 4,000,000 shares to 16,000,000 shares on an unadjusted basis for issuance upon the grant or exercise of awards under the LTIP, which all can be for incentive stock option grants. The LTIP generally provides, among other things, that options are granted at exercise prices not lower than the market value of the shares on the date of grant and that options granted must be exercised within 10 years. As of December 31, 2012, there were 8,505,498 common shares available for issuance under the LTIP.

The LTIP contains change of control provisions allowing for the immediate vesting of an award upon certain events such as a merger where UDR is not the surviving entity. Upon the death or disability of an award recipient all outstanding instruments will vest and all restrictions will lapse. Unless otherwise specified in the agreement, upon the retirement of an award recipient, all outstanding instruments will vest and all restrictions will lapse. The LTIP specifies that in the event of a capital transaction, which includes but is not limited to stock dividends, stock splits, extraordinary cash dividends and spin-offs, the number of shares available for grant in totality or to a single individual is to be adjusted proportionately. The LTIP specifies that when a capital transaction occurs that would dilute the holder of the stock award, prior grants are to be adjusted such that the recipient is no worse as a result of the capital transaction.

A summary of UDR's stock option and restricted stock activities during the year ended December 31, 2012 is as follows:

	Option Outstanding		Option Exercisable		Restricted Stock	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number Of shares	Weighted Average Fair Value Per Restricted Stock
Balance, December 31, 2011	2,690,802	$12.61	1,905,015	$13.25	1,207,766	$16.24
Granted	—	—			253,362	24.66
Exercised	(260,675)	12.37			—	—
Vested	—	—			(1,100,689)	16.52
Forfeited	—	—			(32,216)	23.29
Balance, December 31, 2012	2,430,127	$12.63	2,430,127	$12.63	328,223	$23.35

Stock Option Plan

UDR has granted stock options to our employees, subject to certain conditions. Each stock option is exercisable into one common share.

There is no remaining compensation cost related to unvested stock options as of December 31, 2012.

The weighted average remaining contractual life on all options outstanding as of December 31, 2012 is 5.4 years. 1,994,957 of share options had exercise prices at $10.06; 404,291 of share options had exercise prices at $24.38; 30,879 of share options had exercise prices between $25.09 and $25.10.

During the years ended December 31, 2012, 2011, and 2010, respectively, we recognized $95,000, $1.1 million, and $1.3 million of net compensation expense related to outstanding stock options.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Restricted Stock Awards

Restricted stock is granted to Company employees, officers, and directors. The restricted stock is valued on the grant date based upon the market price of UDR common stock on the date of grant. Compensation expense is recorded over the vesting period, which is generally three to four years. Restricted stock earn dividends payable in cash until the earlier of the date of the underlying restricted stock is exercised or the expiration of the underlying restricted stock award. Some of the restricted stock is performance based and is adjusted based on the Company's performance. For the years ended December 31, 2012, 2011, and 2010, we recognized $8.6 million, $8.7 million, and $10.9 million of compensation expense related to the amortization of restricted stock, respectively. As of December 31, 2012, the Company had issued 3,054,989 shares of restricted stock under the LTIP. The total remaining compensation cost on unvested restricted stock awards was $4.0 million and has a weighted average remaining contractual life of one year as of December 31, 2012.

Profit Sharing Plan

Our profit sharing plan (the "Plan") is a defined contribution plan covering all eligible full-time employees. Under the Plan, UDR makes discretionary profit sharing and matching contributions to the Plan as determined by the Compensation Committee of the Board of Directors. Aggregate provisions for contributions, both matching and discretionary, which are included in UDR's Consolidated Statements of Operations for the years ended December 31, 2012, 2011, and 2010 was $631,000, $700,000, and $700,000, respectively.

9. INCOME TAXES

For 2012, 2011, and 2010, UDR believes that we have complied with the REIT requirements specified in the Code. As such the REIT would generally not be subject to federal income taxes.

For income tax purposes, distributions paid to common stockholders may consist of ordinary income, qualified dividends, capital gains, unrecaptured section 1250 gains, return of capital, or a combination thereof. Distributions that exceed our current and accumulated earnings and profits constitute a return of capital rather than taxable income and reduce the stockholder's basis in their common shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the stockholder's basis in the common shares, it generally will be treated as a gain from the sale or exchange of that stockholder's common shares. Taxable distributions paid per common share were taxable as follows for the years ended December 31, 2012, 2011, and 2010:

	December 31,		
	2012	2011	2010
Ordinary income	$0.17	$0.49	$0.69
Long-term capital gain	0.19	0.07	0.03
Unrecaptured section 1250 gain	0.51	0.21	0.01
	$0.87	$0.77	$0.73

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

We have Taxable REIT Subsidiaries ("TRS") that are subject to state and federal income taxes. A TRS is a C-corporation which has not elected REIT status and as such is subject to United States federal and state income tax. The components of the provision for income taxes are as follows for the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	December 31,		
	2012	2011	2010
Income tax expense/(benefit)			
Current			
Federal	$1,961	$463	$(3,510)
State	1,463	552	977
Total current	3,424	1,015	(2,533)
Deferred			
Federal	(21,479)	6,646	119
State	(3,021)	(90)	(119)
Total deferred	(24,500)	6,556	—
Total income tax (benefit)/expense	$(21,076)	$7,571	$(2,533)
Classification of income tax (benefit)/expense			
Continuing operations	$(30,717)	$(5,647)	$(2,533)
Discontinued operations	9,641	13,218	—

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting purposes and income tax reporting purposes. The expected future tax rates are based upon enacted tax laws. The components of our TRS deferred tax assets and liabilities are as follows for the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	December 31,		
	2012	2011	2010
Deferred tax assets:			
Federal and state tax attributes	$1,464	$24,524	$33,053
Book/tax depreciation	12,345	10,045	9,708
Construction capitalization differences	6,635	5,948	5,235
Investment in partnerships	3,112	3,618	3,346
Debt and interest deductions	—	—	10,784
Other	2,009	999	586
Total deferred tax assets	25,565	45,134	62,712
Valuation allowance	(1,390)	(45,134)	(55,516)
Net deferred tax assets	24,175	—	7,196
Deferred tax liabilities:			
Other	—	—	(640)
Total deferred tax liabilities	—	—	(640)
Net deferred tax asset	$24,175	$—	$6,556

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Income tax expense/(benefit) differed from the amounts computed by applying the U.S. statutory rate of 35% to pretax income or (loss) for the years ended December 31, 2012, 2011, and 2010 as follows (dollars in thousands):

	December 31,		
	2012	2011	2010
Income tax expense/(benefit)			
U.S. federal income tax expense/(benefit)	$21,853	$11,715	$(16,006)
State income tax provision	2,497	2,099	19
Other items	(1,682)	1,227	(5,100)
Valuation allowance	(43,744)	(7,470)	18,554
Total income tax expense/(benefit)	$(21,076)	$7,571	$(2,533)

As of December 31, 2012, the Company, through our TRS, had no federal net loss carryovers (“NOL”). As of December 31, 2012, the TRS had state NOLs of approximately $53.4 million expiring in 2020 through 2030. As of December 31, 2012, the Company had a valuation allowance of $1.4 million against all of its state net operating losses. During the year ended December 31, 2012, the Company had a net change of $43.7 million in the valuation allowance.

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. The financial statements reflect expected future tax consequences of income tax positions presuming the taxing authorities’ full knowledge of the tax position and all relevant facts, but without considering time values. GAAP also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

The Company evaluates our tax position using a two-step process. First, we determine 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. The Company will then determine the amount of benefit to recognize and record the amount of the benefit that is more likely than not to be realized upon ultimate settlement. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of December 31, 2012 and 2011, UDR has no material unrecognized tax benefits.

The Company files income tax returns in federal and various state and local jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local income tax examination by tax authorities for years prior to 2008. The tax years 2008 through 2011 remain open to examination by the major taxing jurisdictions to which the Company is subject.

10. NONCONTROLLING INTERESTS

Redeemable non-controlling interests in operating partnership

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

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following table sets forth redeemable non-controlling interests in the Operating Partnership for the years ended December 31, 2012 and 2011 (dollars in thousands):

	Years Ended December 31,	
	2012	2011
Beginning redeemable non-controlling interests in the Operating Partnership	$236,475	$119,057
Mark to market adjustment to redeemable non-controlling interests in the Operating Partnership	(11,392)	13,978
Conversion of OP Units to Common Stock	(529)	(287)
Net income attributable to redeemable non-controlling interests in the Operating Partnership	7,986	395
OP units issued for partial consideration in community acquisition	—	111,034
Distributions to redeemable non-controlling interests in the Operating Partnership	(9,202)	(7,298)
Allocation of other comprehensive income	80	(404)
Ending redeemable non-controlling interests in the Operating Partnership	$223,418	$236,475

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

	Years Ended December 31,		
	2012	2011	2010
Net income/(loss) attributable to common stockholders	$203,376	$10,537	$(112,362)
Conversion of OP units to UDR Common Stock	529	287	18,429
Change in equity from net income/(loss) attributable to common stockholders and conversion of OP units to UDR Common Stock	$203,905	10,824	$(93,933)

Non-controlling interests
Non-controlling interests represent interests of unrelated partners in certain consolidated affiliates, and is presented as part of equity in the Consolidated Balance Sheets since these interests are not redeemable. During the years ended December 31, 2012, 2011, and 2010, net income attributable to non-controlling interests was $140,000, $167,000, and $146,000, respectively.

During the year ended December 31, 2012, the Company acquired all of the noncontrolling interests in two consolidated affiliates for $4.9 million, one of which owns a 434- apartment home community for $4.0 million and the other is a development project for $900,000. (See the “Consolidated Joint Ventures” section of Note 5, Joint Ventures - Consolidated Joint Ventures for additional information on the consolidated development joint venture.)

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
-

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

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

The estimated fair values of the Company's financial instruments either recorded or disclosed on a recurring basis as of December 31, 2012 and 2011 are summarized as follows (dollars in thousands):

	Total Carrying Amount in Financial Position at a December 31, 2012	Fair Value Estimate at December 31, 2012	Fair Value at December 31, 2012, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Notes receivable	$64,006	$64,930	$—	$—	$64,930
Derivatives- Interest rate contracts (a)	2	2	—	2	—
Total assets	$64,008	$64,932	$—	$2	$64,930
Derivatives- Interest rate contracts (a)	$11,022	$11,022	$—	$11,022	$—
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	455,533	494,728	—	—	494,728
Fannie Mae credit facilities	631,078	689,295	—	—	689,295
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	211,409	211,409	—	—	211,409
Unsecured debt instruments: (b)					
Commercial bank	76,000	76,000	—	—	76,000
Senior unsecured notes	1,903,198	2,039,736	—	—	2,039,736
Total liabilities	$3,420,355	$3,654,305	$—	$11,022	$3,643,283
Redeemable non-controlling interests (c)	$223,418	$223,418	$—	$223,418	$—

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

	Total Carrying Amount in Financial Position at December 31, 2011	Fair Value Estimate at December 31, 2011	Fair Value at December 31, 2011, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives- Interest rate contracts (a)	$89	$89	$—	$89	$—
Total assets	$89	$89	$—	$89	$—
Derivatives- Interest rate contracts (a)	$13,660	$13,660	$—	$13,660	$—
Contingent purchase consideration (d)	3,000	3,000	—	—	3,000
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	590,208	635,531	—	—	635,531
Fannie Mae credit facilities	744,509	799,584	—	—	799,584
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	151,685	151,685	—	—	151,685
Tax-exempt secured notes payable	94,700	94,700	—	—	94,700
Fannie Mae credit facilities	310,451	310,451	—	—	310,451
Unsecured debt instruments: (b)					
Commercial bank	421,000	421,000	—	—	421,000
Senior unsecured notes	1,605,817	1,675,189	—	—	1,675,189
Total liabilities	$3,935,030	$4,104,800	$—	$13,660	$4,091,140
Redeemable non-controlling interests (c)	$236,475	$236,475	$—	$236,475	$—

(a) See Note 12, Derivatives and Hedging Activity
(b) See Note 6, Secured Debt and Unsecured Debt
(c) See Note 10, Non-controlling Interests
(d) The fair value of the contingent purchase consideration was related to our acquisition of a development property in a consolidated joint venture in 2011. (See Note 5, Joint Ventures)

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

Financial Instruments Carried at Fair Value

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012 and 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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

Financial Instruments Not Carried at Fair Value

At December 31, 2012, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

We consider various factors to determine if a decrease in the value of our investments in an unconsolidated joint venture is other-than-temporary. These factors include, but are not limited to, age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, and the relationships with the other joint venture partners and its lenders. Based on the significance of the unobservable inputs, we classify these fair value measurements within Level 3 of the valuation hierarchy. The Company did not incur any other-than-temporary decrease in the value of its investments in unconsolidated joint ventures during the years ended December 31, 2012 and 2011.

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

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

12. DERIVATIVES AND HEDGING ACTIVITY
Risk Management Objective of Using Derivatives
The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and through the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's borrowings.
Cash Flow Hedges of Interest Rate Risk
The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.
The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in "Accumulated Other Comprehensive Income/(Loss)" and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2012, 2011 and 2010, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2012, 2011 and 2010, the Company recorded less than a $1,000 loss from ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item, and the fair value of interest rate swaps that were not zero at inception of the hedging relationship. During the year ended December 31, 2011, the Company reclassified $58,000 loss from Other Comprehensive Income/(Loss) to earnings due to forecasted transactions that were no longer probable of occurring, which was the result of the sale of an operating apartment community.
Amounts reported in "Accumulated Other Comprehensive Income/(Loss)" related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Through December 31, 2013, the Company estimates that an additional $6.7 million will be reclassified as an increase to interest expense.
As of December 31, 2012, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	13	$509,787
Interest rate caps	5	274,291

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a gain/(loss) of $290,000, $(23,000), and $(991,000) for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Notional

	Number of Instruments	
Interest rate caps	2	$155,197

F - 37

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

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

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2012 and 2011 (amounts in thousands):

	Asset Derivatives			Liability Derivatives		
		Fair Value at:			Fair Value at:	
	Balance Sheet Location	December 31, 2012	December 31, 2011	Balance Sheet Location	December 31, 2012	December 31, 2011
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$2	$71	Other liabilities	$11,022	$13,660
Total		$2	$71		$11,022	$13,660
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$—	$18	Other liabilities	$—	$—
Total		$—	$18		$—	$—

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations
The tables below present the effect of the Company’s derivative financial instruments on the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010 (dollar amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)			Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	2012	2011	2010		2012	2011	2010		2012	2011	2010
Interest rate products	$(4,924)	(16,477)	$(9,273)	Interest expense	$(7,649)	$(9,132)	$(6,777)	Interest expense	$—	$(58)	$(1)
Total	$(4,924)	$(16,477)	$(9,273)		$(7,649)	$(9,132)	$(6,777)		$—	$(58)	$(1)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative		
		2012	2011	2010
Interest rate products	Other income/(expense)	$290	$(23)	$(991)
Total		$290	$(23)	$(991)

Credit-risk-related Contingent Features
The Company has agreements with some of its derivative counterparties that contain a provision where (1) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations; or (2) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company’s default on the indebtedness.
Certain of the Company’s agreements with its derivative counterparties contain provisions where if there is a change in the Company’s financial condition that materially changes the Company’s creditworthiness in an adverse manner, the Company may be required to fully collateralize its obligations under the derivative instrument.
The Company also has an agreement with a derivative counterparty that incorporates the loan and financial covenant provisions of the Company’s indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with these covenant provisions would result in the Company being in default on any derivative instrument obligations

covered by the agreement.

As of December 31, 2012, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $11.6 million. As of December 31, 2012, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at December 31, 2012, it would have been required to settle its obligations under the agreements at their termination value of $11.6 million.

13. COMMITMENTS AND CONTINGENCIES
Commitments
Real Estate Under Development
The following summarizes the Company's real estate commitments at December 31, 2012 (dollars in thousands):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete (unaudited)		Average Ownership Stake	
Wholly-owned — under development	8	$491,048	$510,452		100	%
Wholly-owned — redevelopment	4	75,018	96,382		100	%
Joint ventures:						
Unconsolidated joint ventures	2	66,978	—	(a)	95	%
		$633,044	$606,834			

(a) Represents UDR's remaining equity commitment of unconsolidated joint ventures.
Ground and Other Leases
UDR owns six communities which are subject to ground leases expiring between 2019 and 2103. In addition, UDR is party to various operating leases related to office space rented by the Company with expiration dates through 2016. The leases are accounted for in accordance with GAAP. Future minimum lease payments as of December 31, 2012 are as follows (dollars in thousands):

	Ground Leases (a)	Office Space
2013	$5,158	$581
2014	5,158	606
2015	5,158	545
2016	5,158	40
2017	5,158	—
Thereafter	315,152	—
	$340,942	$1,772

(a) 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.

UDR incurred $5.1 million, $4.9 million, $4.8 million of ground rent expense for the years ended December 31, 2012, 2011, and 2010, respectively. These costs are classified in "Other Operating Expenses" in the Consolidated Statements of Operations. The Company incurred $1.1 million, $1.2 million, $1.1 million of rent expense related to office space for the years ended December 31, 2012, 2011, and 2010, respectively. These costs are classified in "General and Administrative" expenses in the Consolidated Statement of Operations.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Contingencies

Litigation and Legal Matters

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

14. REPORTABLE SEGMENTS

Segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. UDR's chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.

UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR's apartment communities are rental income and net operating income ("NOI"). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI, which is a non-GAAP financial measure, is defined as rental income less direct property rental expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations and land rent. UDR's chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

UDR's two reportable segments are same communities and non-mature/other communities:

- Same communities represent those communities acquired, developed, and stabilized prior to January 1, 2011 and held as of December 31, 2012. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

- Non-mature/other communities represent those communities that were acquired or developed in 2011 and 2012, sold properties, redevelopment properties, consolidated joint venture properties, and the non-apartment components of mixed use properties.

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

All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of UDR's total revenues during the years ended December 31, 2012, 2011 and 2010.

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The accounting policies applicable to the operating segments described above are the same as those described in Note 2, Significant Accounting Policies. The following table details rental income and NOI from continuing and discontinued operations for UDR's reportable segments for the years ended December 31, 2012, 2011 and 2010, and reconciles NOI to net income/(loss) attributable to UDR, Inc. in the Consolidated Statements of Operations (dollars in thousands):

	Years Ended December 31,		
	2012	2011	2010
Reportable apartment home segment rental income			
Same Communities			
Western Region	$211,494	$199,782	$187,094
Mid-Atlantic Region	145,694	140,352	132,196
Southeastern Region	110,461	105,005	101,098
Southwestern Region	38,099	35,264	33,727
Northeast Region	11,080	10,271	3,007
Non-Mature communities/Other	227,416	240,284	176,746
Total segment and consolidated rental income	$744,244	$730,958	$633,868
Reportable apartment home segment NOI			
Same Communities			
Western Region	$147,840	$138,302	$127,262
Mid-Atlantic Region	101,245	96,920	90,194
Southeastern Region	71,218	66,203	63,654
Southwestern Region	22,817	20,319	19,205
Northeast Region	7,621	7,361	2,152
Non-Mature communities/Other	153,459	155,655	108,597
Total segment and consolidated NOI	504,200	484,760	411,064
Reconciling items:			
Non-property income	15,435	17,422	14,347
Property management	(20,466)	(20,101)	(17,432)
Other operating expenses	(5,748)	(6,217)	(5,848)
Real estate depreciation and amortization	(350,400)	(370,343)	(303,446)
Interest	(138,792)	(158,333)	(150,796)
Hurricane-related charges, net	(8,495)	—	—
General and administrative	(43,494)	(45,915)	(45,243)
Severance costs and other restructuring charges	(733)	(1,342)	(6,803)
Other depreciation and amortization	(4,105)	(3,931)	(4,843)
Loss from unconsolidated entities	(8,579)	(6,352)	(4,204)
Tax benefit/(expense) of taxable REIT subsidiary, net	21,076	(7,571)	2,533
Redeemable non-controlling interests in OP	(7,986)	(395)	3,835
Non-controlling interests	(140)	(167)	(146)
Net gain on sale of depreciable property	260,404	138,508	4,083
Net income/(loss) attributable to UDR, Inc.	$212,177	$20,023	$(102,899)

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following table details the assets of UDR's reportable segments as of December 31, 2012 and 2011 (dollars in thousands):

	December 31, 2012	December 31, 2011
Reportable apartment home segment assets:		
Same communities:		
Western Region	$2,194,384	$2,169,552
Mid-Atlantic Region	1,210,678	1,200,106
Southeastern Region	870,207	852,572
Southwestern Region	346,583	343,457
Northeast Region	142,597	140,573
Non-mature communities/Other	3,291,379	3,368,211
Total segment assets	8,055,828	8,074,471
Accumulated depreciation	(1,924,682)	(1,831,727)
Total segment assets — net book value	6,131,146	6,242,744
Reconciling items:		
Cash and cash equivalents	12,115	12,503
Restricted cash	23,561	24,634
Deferred financing costs, net	24,990	30,068
Notes receivable	64,006	—
Investment in unconsolidated joint ventures	507,037	213,040
Other assets	125,654	198,365
Total consolidated assets	$6,888,509	$6,721,354

Capital expenditures related to our same communities totaled $47.2 million, $42.5 million, and $36.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. Capital expenditures related to our non-mature/other communities totaled $7.9 million, $15.3 million, and $10.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Markets included in the above geographic segments are as follows:

i. Western — Orange County, San Francisco, Seattle, Monterey Peninsula, Los Angeles, San Diego, Inland Empire, Sacramento, and Portland
ii. Mid-Atlantic — Washington, D.C., Richmond, Baltimore, Norfolk, and Other Mid-Atlantic
iii. Southeastern — Tampa, Orlando, Nashville, and Other Florida
iv. Southwestern — Dallas and Austin
v. Northeast — New York and Boston

15. HURRICANE-RELATED CHARGES

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities (1,706 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to tenants for a period following the hurricane. The Company has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates, the Company recognized a $9.0 million impairment charge for the damaged assets' net book value during the year ended December 31, 2012. In addition, the Company incurred $10.4 million of repair and cleanup costs for the year ended December 31, 2012. With the exception of one of the properties that is under redevelopment at December 31, 2012, the rehabilitation of the remaining two properties is expected to be completed in the third quarter of 2013.

Based on the claims filed and management's estimates, the Company recognized $4.4 million of business interruption losses for the year ended December 31, 2012. $3.6 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable was classified in "Hurricane-related charges, net," and $767,000 of business interruption losses were related to rent that was not contractually receivable was classified as a reduction to "Rental income" on the Consolidated Statements of Operations.

The impairment charge and the repair and cleanup costs incurred during the year ended December 31, 2012 have been reduced by the estimated insurance recovery of $14.5 million, and are classified in "Hurricane-related charges, net" on the Consolidated Statements of Operations. Of the estimated insurance recovery, $4.8 million was received during the year ended December 31, 2012. Since the Company determined that it was probable of receipt, the remaining $9.7 million of the estimated insurance recovery was recorded as a receivable at December 31, 2012.

To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as income in the period those amounts are received or when receipt is deemed probable to occur.

16. SEVERANCE COSTS AND RESTRUCTURING CHARGES

For the years ended December 31, 2012 and 2011, the Company recognized $733,000 and $1.3 million of severance charges, respectively.

In 2010, UDR decided to consolidate corporate operations and centralize job functions to its Highlands Ranch, Colorado headquarters from its Richmond, Virginia office. During the fourth quarter of 2010, the Company recorded a severance charge of $6.8 million, which includes costs related to these activities in addition to severance related to the retirement of an executive officer of the Company. These costs are reported in the Consolidated Statements of Operations within the line item "Severance costs and other restructuring charges."

UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

17. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY FINANCIAL DATA

Selected consolidated quarterly financial data for the years ended December 31, 2012 and 2011 is summarized in the table below (dollars in thousands, except per share amounts):

	Three months ended			
	March 31,	June 30,	September 30,	December 31,
2012				
Rental income (a)	$172,242	$177,475	$181,766	$182,445
Income/(loss) from continuing operations	1,741	(23,123)	(8,543)	(13,111)
Income/(loss) from discontinued operations	84,887	179,429	(1,133)	156
Net income/(loss) attributable to common stockholders	80,848	145,721	(9,962)	(13,231)
Income/(loss) per share (b):				
Basic and diluted	$0.37	$0.62	$(0.04)	$(0.05)
2011				
Rental income (a)	$137,812	$150,636	$163,859	$170,688
Loss from continuing operations	(32,847)	(34,130)	(30,026)	(26,222)
Income from discontinued operations	4,191	49,039	16,240	74,340
Net (loss)/income attributable to common stockholders	(30,243)	12,149	(15,559)	44,190
(Loss)/income per share (b):				
Basic and diluted	$(0.17)	$0.06	$(0.07)	$0.20

(a) Represents rental income from continuing operations, excluding amounts classified as discontinued operations.
(b) Quarterly earnings per common share amounts may not total to the annual amounts due to rounding.

[This page is intentionally left blank.]

Report of Independent Registered Public Accounting Firm
The Partners
United Dominion Realty, L.P.

We have audited the accompanying consolidated balance sheets of United Dominion Realty, L.P. (the “Partnership”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income/(loss), changes in capital, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Dominion Realty, L.P. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U. S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Real estate owned:		
Real estate held for investment	$4,095,528	$4,062,894
Less: accumulated depreciation	(1,096,001)	(923,471)
Real estate held for investment, net	2,999,527	3,139,423
Real estate under development (net of accumulated depreciation $1,132 and $0)	86,260	26,793
Real estate sold or held for sale (net of accumulated depreciation of $0 and $52,887)	—	62,724
Total real estate owned, net of accumulated depreciation	3,085,787	3,228,940
Cash and cash equivalents	2,804	704
Restricted cash	12,926	12,568
Deferred financing costs, net	6,072	8,184
Other assets	28,665	41,771
Total assets	$3,136,254	$3,292,167
LIABILITIES AND CAPITAL		
Secured debt	$967,239	$1,189,645
Notes payable due to General Partner	88,696	88,771
Real estate taxes payable	5,783	5,280
Accrued interest payable	3,604	1,886
Security deposits and prepaid rent	18,190	16,498
Distributions payable	40,752	39,840
Deferred gains on the sale of depreciable property	63,838	63,838
Accounts payable, accrued expenses, and other liabilities	29,396	33,040
Total liabilities	1,217,498	1,438,798
Commitments and contingencies (Note 10)		
Capital:		
Partners’ capital:		
General partner: 110,883 OP units outstanding at December 31, 2012 and 2011	1,223	1,293
Limited partners: 184,170,370 OP units outstanding at December 31, 2012 and 2011	1,921,445	2,040,401
Accumulated other comprehensive loss	(5,369)	(6,902)
Total partners’ capital	1,917,299	2,034,792
Receivable due from General Partner	(11,056)	(193,584)
Non-controlling interest	12,513	12,161
Total capital	1,918,756	1,853,369
Total liabilities and capital	$3,136,254	$3,292,167

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31, 2012	2011	2010
REVENUES			
Rental income	$393,941	$353,947	$306,272
EXPENSES			
Rental expenses:			
Real estate taxes and insurance	41,670	39,913	37,903
Personnel	28,600	26,954	24,925
Utilities	20,294	18,691	15,908
Repair and maintenance	18,645	17,352	15,843
Administrative and marketing	7,697	7,191	6,406
Property management	10,833	9,733	8,423
Other operating expenses	5,272	5,317	4,949
Real estate depreciation and amortization	193,846	186,597	147,273
Interest expense:			
Interest on secured debt	43,277	51,827	48,716
Interest on note payable due to General Partner	1,957	990	424
Hurricane-related charges, net	5,518	—	—
General and administrative	26,204	26,370	23,291
Total expenses	403,813	390,935	334,061
Loss from continuing operations	(9,872)	(36,988)	(27,789)
Income from discontinued operations	54,206	67,217	7,095
Net income/(loss)	44,334	30,229	(20,694)
Net income attributable to non-controlling interests	(352)	(70)	(41)
Net income/(loss) attributable to OP unitholders	$43,982	$30,159	$(20,735)
Income/(loss) per OP unit- basic and diluted:			
Loss from continuing operations attributable to OP unitholders	$(0.06)	$(0.20)	$(0.15)
Income from discontinued operations	$0.29	$0.37	$0.04
Net income/(loss) attributable to OP unitholders	$0.24	$0.17	$(0.12)
Weighted average OP units outstanding	184,281	182,448	179,909

See accompanying notes to the consolidated financial statements.

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

	Three Years Ended December 31,		
	2012	2011	2010
Net income/(loss)	$44,334	$30,229	$(20,694)
Other comprehensive income/(loss):			
Other comprehensive income/(loss)- derivative instruments:			
Unrealized holding loss	(1,898)	(6,119)	(6,631)
Loss reclassified into earnings from other comprehensive income	3,431	4,719	4,282
Other comprehensive income/(loss)	1,533	(1,400)	(2,349)
Comprehensive income/(loss)	45,867	28,829	(23,043)
Comprehensive income attributable to non-controlling interests	352	70	41
Comprehensive income/(loss) attributable to OP unitholders	$45,515	$28,759	(23,084)

See accompanying notes to consolidated financial statements.

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

	Class A Limited Partner	Limited Partners	UDR, Inc. Limited Partner	General Partner	Accumulated Other Comprehensive Income/(Loss)	Total Partners' Capital	Receivable due from General Partner	Non-Controlling Interest	Total
Balance at December 31, 2009	$28,797	$69,622	$2,101,031	$1,456	$(3,153)	$2,197,753	$(588,185)	$12,180	$1,621,748
Distributions	(2,328)	(2,819)	(127,201)	(80)	—	(132,428)	—	—	(132,428)
OP Unit redemptions for common shares of UDR	—	(18,214)	18,214	—	—	—	—	—	—
OP Units issued for cash	—	(327)	327	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	14,932	30,019	(44,951)	—	—	—	—	—	—
Change in UDR, L.P. non-controlling interests	—	—	—	—	—	—	—	(130)	(130)
Net loss	(202)	(423)	(20,097)	(13)	—	(20,735)	—	41	(20,694)
Other comprehensive income	—	—	—	—	(2,349)	(2,349)	—	—	(2,349)
Net change in receivable due from General Partner	—	—	—	—	—	—	95,476	—	95,476
Balance at December 31, 2010	41,199	77,858	1,927,323	1,363	(5,502)	2,042,241	(492,709)	12,091	1,561,623
Distributions	(2,328)	(4,973)	(139,853)	(88)	—	(147,242)	—	—	(147,242)
OP Unit redemptions for common shares of UDR	—	(287)	287	—	—	—	—	—	—
OP Units issued for real estate	—	111,034	—	—	—	111,034	—	—	111,034
Adjustment to reflect limited partners' capital at redemption	4,809	7,621	(12,430)	—	—	—	—	—	—

value									
Net income	287	1,255	28,599	18	—	30,159	—	70	30,229
Other comprehensive income	—	—	—	—	(1,400)	(1,400)	—	—	(1,400)
Net change in receivable due from General Partner	—	—	—	—	—	—	299,125	—	299,125
Balance at December 31, 2011	43,967	192,508	1,803,926	1,293	(6,902)	2,034,792	(193,584)	12,161	1,853,369
Distributions	(2,328)	(6,738)	(153,846)	(96)	—	(163,008)	—	—	(163,008)
OP Unit redemptions for common shares of UDR	—	(529)	529	—	—	—	—	—	—
OP Unit redemption for cash	—	(133)	133	—	—	—	—	—	—
Adjustment to reflect limited partners' capital at redemption value	(596)	(5,166)	5,762	—	—	—	—	—	—
Net income	613	1,820	41,523	26	—	43,982	—	352	44,334
Other comprehensive income	—	—	—	—	1,533	1,533	—	—	1,533
Net change in receivable due from General Partner	—	—	—	—	—	—	182,528	—	182,528
Balance at December 31, 2012	$41,656	$181,762	$1,698,027	$1,223	$(5,369)	$1,917,299	$(11,056)	$12,513	$1,918,756

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2012	2011	2010
Operating Activities			
Net income/(loss)	$44,334	$30,229	$(20,694)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	195,051	197,964	166,480
Net gain on the sale of depreciable property	(51,094)	(60,065)	(152)
Hurricane-related costs	5,518	—	—
Loss on debt extinguishment	1,221	2,040	1,760
Amortization of deferred financing costs and other	2,403	2,425	1,652
Changes in operating assets and liabilities:			
Increase in operating assets	(1,543)	(11,516)	(3,705)
Increase/(decrease) in operating liabilities	5,205	(5,006)	1,263
Net cash provided by operating activities	201,095	156,071	146,604
Investing Activities			
Development of real estate assets	(36,804)	—	—
Proceeds from sales of real estate investments, net	113,175	138,693	—
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(72,098)	(63,191)	(59,458)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	—	(287,075)	—
Cash paid in nonmonetary asset exchange	—	(15,407)	—
Net cash provided by/(used in) investing activities	4,273	(226,980)	(59,458)
Financing Activities			
Advances from General Partner, net	29,391	175,964	(31,359)
Proceeds from the issuance of secured debt	26,054	2,074	11,326
Payments on secured debt	(249,680)	(96,902)	(60,686)
Distributions paid to partnership unitholders	(9,033)	(7,300)	(5,231)
Payment of financing costs	—	(3,143)	(391)
OP unit redemption	—	—	(327)
Net cash (used in)/provided by financing activities	(203,268)	70,693	(86,668)
Net increase in cash and cash equivalents	2,100	(216)	478
Cash and cash equivalents, beginning of period	704	920	442
Cash and cash equivalents, end of period	$2,804	$704	$920
Supplemental Information:			
Interest paid during the period, net of amounts capitalized	$52,224	$58,623	$51,584
Non-cash transactions:			
Properties acquired, including intangibles in asset exchange	—	178,353	—
Properties disposed in asset exchange, net of accumulated depreciation	—	139,725	—
OP Units issued in partial consideration for property acquisition	—	111,034	—
Secured debt assumed in the acquisitions of properties, including asset exchange	—	247,805	—

UNITED DOMINION REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Supplemental Information (Continued):			
Development costs and capital expenditures incurred but not yet paid	7,440	721	710
Secured debt transferred in asset exchange	—	55,356	—
Fair market value adjustment of secured debt assumed in acquisitions of properties, including asset exchange	—	21,915	—

See accompanying notes to the consolidated financial statements.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. CONSOLIDATION AND BASIS OF PRESENTATION

United Dominion Realty, L.P. ("UDR, L.P.", the "Operating Partnership", "we" or "our") is a Delaware limited partnership, that owns, acquires, renovates, redevelops, manages, and disposes of multifamily apartment communities generally located in high barrier to entry markets located in the United States. The high barrier to entry markets are characterized by limited land for new construction, difficult and lengthy entitlement process, expensive single-family home prices and significant employment growth potential. UDR, L.P. is a subsidiary of UDR, Inc. ("UDR" or the "General Partner"), a self-administered real estate investment trust, or REIT, through which UDR conducts a significant portion of its business. During the years ended December 31, 2012, 2011 and 2010, rental revenues of the Operating Partnership represented 54%, 53%, 55% respectively, of the General Partner's consolidated rental revenues (including those classified within discontinued operations). At December 31, 2012, the Operating Partnership's apartment portfolio consisted of 72 communities located in 19 markets consisting of 21,660 apartment homes.

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

As of December 31, 2012, there were 184,281,253 OP Units outstanding, of which, 174,886,035 or 94.9% were owned by UDR and affiliated entities and 9,395,218 or 5.1% were owned by non-affiliated limited partners. There were 184,281,253 OP units in the Operating Partnership outstanding as of December 31, 2011 of which, 174,859,951 or 94.9% were owned by UDR and affiliated entities and 9,421,302 or 5.1%, which were owned by non-affiliated limited partners.

As sole general partner of the Operating Partnership, UDR owned 110,883 general partnership interest units or 0.06% of the total OP Units outstanding as of December 31, 2012 and 2011. At December 31, 2012 and 2011, there were 184,170,370 OP units outstanding of limited partnership interest, of which 1,751,671 were Class A Limited Partnership OP units. UDR owned 174,775,152 or 94.9% and 174,749,068 or 94.9% at December 31, 2012 and 2011, respectively. The remaining 9,395,218 or 5.1% and 9,421,302 or 5.1% OP units outstanding of limited partnership interest were held by non- affiliated partners at December 31, 2012 and 2011, respectively, of which 1,751,671 were Class A Limited Partnership units. See Note 9, Capital Structure.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-10, Disclosures about Offsetting Assets and Liabilities. The objective of this update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either 1) offset on the balance sheet in accordance with the "Offsetting Guidance" in ASC 210-20-45 or ASC 815-10-45 (collectively, the offsetting guidance) or 2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the "Offsetting Guidance". The amendments are effective for annual reporting periods beginning on or after January 1, 2013 (and interim period within those annual periods). These requirements are expected to impact disclosures related to our derivative activities. The Operating Partnership does not expect a material impact on its consolidated financial position, results of operations, or cash

flows as a result of this new guidance.
In December 2011, the FASB issued ASU No. 2011-11, Derecognition of in Substance Real Estate- a Scope Clarification. The objective of the amendments in this update is to resolve the diversity in practice about whether the guidance in Subtopic

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

360-20, Property, Plant, and Equipment—Real Estate Sales, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, Consolidation—Overall) in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. The amendments are effective for fiscal years (and interim periods within those years) beginning on or after June 15, 2012. The Operating Partnership does not expect a material impact on its consolidated financial position, results of operations, or cash flows as a result of this new guidance.
In December 2011, the FASB issued ASU Update No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments were being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income ("AOCI") on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 were not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The guidance in ASU 2011-12 and ASU 2011-05 was effective for fiscal years and interim periods beginning after December 15, 2011 for the Operating Partnership. The accompanying consolidated financial statements include the required disclosures in the consolidated statement of comprehensive income/(loss) for each of the three years in the period ended December 31, 2012.

In February 2012, the FASB issued ASU No. 2013-02, Other Comprehensive Income (Topic 220) to require preparers to report, in one place, information about reclassifications out of accumulated other comprehensive income (AOCI). The amendments also require companies to report changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period, reporting (either on the face of the statement where net income is presented or in the notes) is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under US GAAP is required in the notes. This information must be presented in one place (parenthetically on the face of the financial statements by income statement line item or in a note). Public companies must provide the information required by these amendments (e.g., changes in AOCI balances and reclassifications out of AOCI) in interim and annual periods. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2012, or the first quarter of 2013 for calendar-year companies. The amendments in this update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income/(loss) in ASU No. 2011-05 and ASU No. 2011-1, which were discussed in the previous paragraph. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income/(loss). The Operating Partnership does not expect a material impact on its consolidated financial position, results of operations, or cash flows as a result of this new guidance.
In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles("GAAP") and IFRS (ASC 820), which clarifies Topic 820, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Finance Reporting Standards ("IFRS"). This is effective for periods beginning after December 15, 2011 for the Operating Partnership. There was no material impact on the Operating Partnership's consolidated financial position, results of operations, or cash flows as a result of implementing this guidance.
Real estate
Real estate assets held for investment are carried at historical cost and consist of land, buildings and improvements, furniture, fixtures and equipment and other costs incurred during their development, acquisition and redevelopment. Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are

capitalized and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

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

Quarterly or when changes in circumstances warrant, the Operating Partnership will assess our real estate properties for indicators of impairment. In determining whether the Operating Partnership has indicators of impairment in our real estate assets, we assess whether the long-lived asset's carrying value exceeds the community's undiscounted future cash flows, which is representative of projected net operating income ("NOI") plus the residual value of the community. Our future cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. If such indicators of impairment are present and the carrying value exceeds the undiscounted cash flows of the community, an impairment loss is recognized equal to the excess of the carrying amount of the asset over its estimated fair value. Our estimates of fair market value represent our best estimate based primarily upon unobservable inputs related to rental rates, operating costs, growth rates, discount rates and capitalization rates, industry trends and reference to market rates and transactions.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which are 35 to 55 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets. As of December 31, 2012 and 2011, the amount of our net intangible assets which are reflected in "Other assets" was $9.3 million and $15.7 million, respectively. As of December 31, 2012 and 2011, the amount of our net intangible liabilities which are reflected in "Accounts payable, accrued expenses, and other liabilities" was $3.9 million and $4.3 million in our Consolidated Balance Sheets. The balances are being amortized over the remaining life of the respective intangible.

All development projects and related costs are capitalized and reported on the Consolidated Balance Sheets as "Real estate under development". The costs of development projects which include interest, real estate taxes, insurance, and allocated development overhead related to support costs for personnel working directly on the development project are capitalized during the construction period. These costs, excluding the direct costs of development and capitalized interest for the years ended December 31, 2012, 2011, and 2010 were $2.1 million, $2.2 million, and $1.2 million, respectively. During the years ended December 31, 2012, 2011 and 2010, total capitalized interest was $3.7 million, $1.8 million, $1.3 million, respectively.

Cash, cash equivalents and restricted cash

Cash and cash equivalents consist of cash on hand and demand deposits with financial institutions. Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

Derivative financial instruments

The General Partner utilizes derivative financial instruments to manage interest rate risk and generally designates these financial instruments as cash flow hedges. Derivative financial instruments associated with the Operating Partnership's allocation of the General Partner's debt are recorded on our Consolidated Balance Sheets as either an asset or liability and measured quarterly at their fair value. The changes in fair value for the General Partner's cash flow hedges allocated to the Operating Partnership that are deemed effective are reflected in other comprehensive income and for non-designated derivative financial instruments in earnings. The ineffective component of cash flow hedges, if any, is recorded in earnings.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Non-controlling interests

The noncontrolling interests represent the General Partner’s interests in certain consolidated subsidiaries and are presented in the capital section of the consolidated balance sheets since these interests are not convertible or redeemable into any other ownership interests of the Operating Partnership.

Revenue and real estate sales gain recognition

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

The Operating Partnership accounts for sales of real estate in accordance with GAAP. For sale transactions meeting the requirements for full accrual profit recognition, such as the Operating Partnership no longer having continuing involvement in the property, we remove the related assets and liabilities from our Consolidated Balance Sheets and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting.

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

Discontinued operations

Under GAAP, the results of operations for those properties sold during the year or classified as held-for-sale at the end of the current year are classified as discontinued operations in the current and prior periods. Further, to meet the discontinued operations criteria, the Operating Partnership or related parties will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. Once a property is classified as held-for-sale, depreciation is no longer recorded. However, if the Operating Partnership determines that the property no longer meets the criteria for held-for-sale, the Operating Partnership will recapture any unrecorded depreciation on the property. The assets and liabilities, if any, of properties classified as held for sale are presented separately on the Consolidated Balance Sheets at lower of their carrying amount or their estimated fair value less the costs to sell the assets. (See Note 4, Discontinued Operations for further discussion).

Earnings per Operating Partnership Unit

Basic earnings per OP Unit is computed by dividing net (loss)/income attributable to general and limited partner unitholders by the weighted average number of general and limited partner units (including redeemable OP Units) outstanding during the year. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units or resulted in the issuance of OP Units and then shared in the earnings of the Operating Partnership. For the years ended December 31, 2012, 2011, and 2010, there were no dilutive instruments, and therefore, diluted earnings per OP Unit and basic earnings per OP Unit are the same. See Note 9, Capital Structure, for further discussion on redemption rights of OP Units.

Allocation of General and Administrative Expenses

The Operating Partnership is charged directly for general and administrative expenses it incurs. The Operating Partnership is also charged with other general and administrative expenses that have been allocated by the General Partner to each of its subsidiaries, including the Operating Partnership, based on each subsidiary’s pro-rata portion of UDR’s total apartment homes. (See Note 6, Related Party Transactions.)

Income taxes

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

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

Management of the Operating Partnership has reviewed all open tax years (2008 through 2011) and major jurisdictions, and concluded there is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

Advertising costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item "Administrative and marketing". During the years ended December 31, 2012, 2011, and 2010, total advertising expense from continuing and discontinued operations was $2.4 million, $2.5 million, and $2.3 million, respectively.

Comprehensive income

Comprehensive income, which is defined as all changes in capital during each period except for those resulting from investments by or distributions to partners, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the years ended December 31, 2012, 2011, and 2010, other comprehensive income/(loss) consisted of the change in the fair value of the General Partner's effective cash flow hedges that are allocated to the Operating Partnership.

Use of estimates

The preparation of these financial statements in accordance with 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 financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Market concentration risk

The Operating Partnership is subject to increased exposure from economic and other competitive factors specific to those markets where it holds a significant percentage of the carrying value of its real estate portfolio at December 31, 2012, the Operating Partnership held greater than 10% of the carrying value of its real estate portfolio in the Orange County, California; San Francisco, California; Washington, D.C.; and New York, New York markets.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

3. REAL ESTATE OWNED

Real estate assets owned by the Operating Partnership consists of income producing operating properties, properties held for sale, properties under development, and land held for future development. At December 31, 2012, the Operating Partnership owned and consolidated 72 communities in nine states plus the District of Columbia totaling 21,660 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of December 31, 2012 and 2011 (dollar amounts in thousands):

	December 31, 2012	December 31, 2011
Land	$1,005,424	$1,008,077
Depreciable property — held and used:		
Buildings and improvements	2,970,510	2,942,125
Furniture, fixtures and equipment	118,294	111,392
Real estate sold or held for sale:		
Land	—	13,449
Buildings and improvements	—	93,127
Furniture, fixtures and equipment	—	9,035
Under development:		
Land	25,833	16,385
Construction in progress	61,559	10,408
Land held for future development	1,300	1,300
Real estate owned	4,182,920	4,205,298
Accumulated depreciation	(1,097,133)	(976,358)
Real estate owned, net	$3,085,787	$3,228,940

The Operating Partnership had no acquisitions during the year ended December 31, 2012. During the year ended December 31, 2011, the Operating Partnership acquired four communities with 1,833 apartment homes for $761.2 million.

In October 2012, Hurricane Sandy hit the East Coast, affecting two of the Operating Partnership's communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage and based on management's estimates the Operating Partnership recorded an impairment charge of $7.1 million related to the damaged assets. See Note 12, Hurricane Related Charges for additional information.

4. DISCONTINUED OPERATIONS

The results of operations for properties sold during the year or designated as held-for-sale at the end of the year are classified as discontinued operations for all periods presented. Properties classified as real estate held for sale generally represent properties that are actively marketed or contracted for sale with the closing expected to occur within the next twelve months. This does not have an impact on net income/loss attributable to unitholders and the application of GAAP results in the reclassification of the operating results of all properties sold or classified as held for sale through December 31, 2012 within the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets as of December 31, 2012 and 2011, if applicable. The gain on sale and the results of operations from these properties are classified in "Income from discontinued operations" on the Consolidated Statements of Operations.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

During the year ended December 31, 2012, the Operating Partnership sold four communities with 1,314 apartment homes. During the year ended December 31, 2011, the Operating Partnership sold eight communities with 2,024 apartment homes which included four apartment home communities (984 homes) sold in conjunction with an asset exchange. At December 31, 2012, the Operating Partnership had no communities that met the criteria to be classified as held for sale and included in discontinued operations. For the year ended December 31, 2010 the Operating Partnership did not dispose of any communities.

During the years ended December 31, 2012, 2011 and 2010, the Operating Partnership recognized a (loss)/gain on the sale of communities for financial reporting purposes of $51.1 million, $60.1 million, and $152,000, respectively, which is included in discontinued operations.

The following is a summary of income from discontinued operations for the years ended December 31, 2012, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,		
	2012	2011	2010
Rental income	$6,750	$33,110	$44,122
Non-property income	—	—	1,695
	6,750	33,110	45,817
Rental expenses	2,247	12,698	15,293
Property management fee	186	911	1,213
Other operating expenses	—	167	79
Real estate depreciation	1,205	11,367	19,207
Interest	—	815	3,082
	3,638	25,958	38,874
Income before net gain on the sale of property	3,112	7,152	6,943
Net gain on the sale of property	51,094	60,065	152
Income from discontinued operations	$54,206	$67,217	$7,095

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

5. DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification in the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Operating Partnership having effectively established the fixed interest rate for the underlying debt instrument. Secured debt consists of the following as of December 31, 2012 and 2011 (dollars in thousands):

	Principal Outstanding		Year Ended December 31,		
	December 31, 2012	December 31, 2011	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Fixed Rate Debt					
Mortgage notes payable	$394,999	$457,723	5.33 %	3.5	5
Fannie Mae credit facilities	370,638	444,899	4.90 %	6.2	10
Total fixed rate secured debt	765,637	902,622	5.12 %	4.8	15
Variable Rate Debt					
Mortgage notes payable	37,415	37,415	1.08 %	0.5	2
Tax-exempt secured note payable	27,000	27,000	1.10 %	17.2	1
Fannie Mae credit facilities	137,187	222,608	2.53 %	6.1	5
Total variable rate secured debt	201,602	287,023	2.07 %	6.5	8
Total secured debt	$967,239	$1,189,645	4.49 %	5.2	23

As of December 31, 2012, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of $931.3 million with $842.5 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years (maturing on various dates from May 2017 through December 2019) and bear interest at floating and fixed rates. At December 31, 2012, $631.1 million of the outstanding balance was fixed at a weighted average interest rate of 5.11% and the remaining balance of $211.4 million on these facilities had a weighted average variable interest rate of 2.07%. There was a total of $507.8 million of these credit facilities allocated to the Operating Partnership at December 31, 2012 based on the ownership of the assets securing the debt. The following is information related to the credit facilities allocated to the Operating Partnership:

	December 31, 2012	December 31, 2011
	(dollar amounts in thousands)	
Borrowings outstanding	$507,825	$667,507
Weighted average borrowings during the period ended	544,793	721,054
Maximum daily borrowings during the period	635,762	732,423
Weighted average interest rate during the period ended	4.3 %	4.4 %
Interest rate at the end of the period	4.4 %	4.1 %

The Operating Partnership may from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair value adjustment of the fixed rate debt instruments on the Operating Partnership’s properties was a net premium of $13.8 million and $17.8 million at December 31, 2012 and 2011, respectively.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Fixed Rate Debt

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

Secured credit facilities. At December 31, 2012, the General Partner had borrowings against its fixed rate facilities of $631.1 million of which $370.6 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of December 31, 2012, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 4.90%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature on July 2013. Interest on the variable rate mortgage notes is based on LIBOR plus specified basis points, which translated into interest rate of 1.08% at December 31, 2012.

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures in March 2030. Interest on this note is payable in monthly installments. The mortgage note payable has an interest rate of 1.10% as of December 31, 2012.

Secured credit facilities. At December 31, 2012, the General Partner had borrowings against its variable rate facilities of $211.4 million of which $137.2 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of December 31, 2012, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 2.53%.

The aggregate maturities of the Operating Partnership's secured debt due during each of the next five calendar years subsequent to December 31, 2012 are as follows (dollars in thousands):

	Fixed Mortgage Notes	Credit Facilities	Variable Mortgage Notes	Tax Exempt Notes Payable	Credit Facilities	Total
2013	$8,141	$318	$37,415	$—	$—	$45,874
2014	8,369	336	—	—	—	8,705
2015	193,222	356	—	—	—	193,578
2016	131,955	374	—	—	—	132,329
2017	1,639	15,836	—	—	6,566	24,041
Thereafter	51,673	353,418	—	27,000	130,621	562,712
Total	$394,999	$370,638	$37,415	$27,000	$137,187	$967,239

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner's unsecured revolving credit facility, with an aggregate borrowing capacity of $900 million, a $250 million term loan due January 2016, a $100 million term loan due January 2016, $300 million of medium-term notes due June 2018, and $400 million of medium-term notes due January 2022. As of December 31, 2012, there were $76.0 million outstanding borrowings under the unsecured credit facility. As of December 31, 2011, the outstanding balance under the unsecured credit facility was $421.0 million.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

6. RELATED PARTY TRANSACTIONS

Receivable due from the General Partner

The Operating Partnership participates in the General Partner's central cash management program, wherein all the Operating Partnership's cash receipts are remitted to the General Partner and all cash disbursements are funded by the General Partner. In addition, other miscellaneous costs such as administrative expenses are incurred by the General Partner on behalf of the Operating Partnership. As a result of these various transactions between the Operating Partnership and the General Partner, the Operating Partnership had net receivable balances of $11.1 million and $193.6 million at December 31, 2012 and 2011, respectively, which is reflected as a reduction of capital on the Consolidated Balance Sheets.

Allocation of General and Administrative Expenses

The General Partner provides various general and administrative and other overhead services for the Operating Partnership including legal assistance, acquisitions analysis, marketing and advertising, and allocates these expenses to the Operating Partnership first on the basis of direct usage when identifiable, with the remainder allocated based on its pro-rata portion of UDR's total apartment homes. During the years ended December 31, 2012, 2011 and 2010, the general and administrative expenses allocated to the Operating Partnership by UDR were $25.2 million, $32.6 million, and $32.4 million respectively, and are included in "General and Administrative" expenses on the consolidated statements of operations. In the opinion of management, this method of allocation reflects the level of services received by the Operating Partnership from the General Partner.

During the years ended December 31, 2012 and 2011, the Operating Partnership incurred $11.9 million and $3.7 million of related party management fees related to a management agreement entered into in 2011. (See further discussion in paragraph below.) These related party fees are initially recorded to "General and Administrative" expense, and a portion related to management fees charged by the Taxable REIT Subsidiary ("TRS") of the General Partner is reclassified to "Property Management" expense on the Consolidated Statements of Operations. (See further discussion below.)

Management Fee

In 2011, the Operating Partnership entered into a management agreement with the TRS of the General Partner. The TRS charges the Operating Partnership 2.75% of gross rental revenues, and is classified in "Property Management" expense on the Consolidated Statements of Operations for the years ended December 31, 2012 and 2011.

Guaranties by the General Partner

The Operating Partnership provided a "bottom dollar" guaranty to certain limited partners as part of their original contribution to the Operating Partnership. The guaranty protects the tax basis of the underlying contribution and is reflected on the OP unitholder's Schedule K-1 tax form. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 0.932% at December 31, 2012 and 1.14% at December 31, 2011. Interest payments are made monthly and the note is due December 31, 2013. At December 31, 2012 and 2011, the note payable due to the General Partner was $83.2 million and $83.3 million, respectively.

In 2011, the Operating Partnership also provided a guaranty in conjunction with 1,802,239 OP Units issued in partial consideration to the seller for the acquisition of an operating community. The guaranty was made in the form of a note payable issued by the Operating Partnership to the General Partner at an annual interest rate of 5.337%. Interest payments are due monthly and the note matures on August 31, 2021. At December 31, 2012 and 2011, the note payable due to the General Partner was $5.5 million.

7. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

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

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

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

The estimated fair values of the Operating Partnership's financial instruments either recorded or disclosed on a recurring basis as of December 31, 2012 and 2011 are summarized as follows (dollars in thousands):

			Fair Value at December 31, 2012, Using		
	Total Carrying Amount in Statement of Financial Position at December 31, 2012	Fair Value Estimate at December 31, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives- Interest rate contracts (a)	$2	$2	$—	$2	$—
Total assets	$2	$2	$—	$2	$—
Derivatives- Interest rate contracts (a)	$4,750	$4,750	$—	$4,750	$—
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	394,999	429,973	—	—	429,973
Fannie Mae credit facilities	370,638	399,389	—	—	399,389
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	137,187	137,187	—	—	137,187
Total liabilities	$971,989	$1,035,714	$—	$4,750	$1,030,964

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

	Total Carrying Amount in Statement of Financial Position at December 31, 2011	Fair Value Estimate at December 31, 2011	Fair Value at December 31, 2011, Using Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:					
Derivatives- Interest rate contracts (a)	$71	$71	$—	$71	$—
Total assets	$71	$71	$—	$71	$—
Derivatives- Interest rate contracts (a)	$6,207	$6,207	$—	$6,207	$—
Secured debt instruments- fixed rate: (b)					
Mortgage notes payable	457,723	495,412	—	—	495,412
Fannie Mae credit facilities	444,899	462,621	—	—	462,621
Secured debt instruments- variable rate: (b)					
Mortgage notes payable	37,415	37,415	—	—	37,415
Tax-exempt secured notes payable	27,000	27,000	—	—	27,000
Fannie Mae credit facilities	222,608	222,608	—	—	222,608
Total liabilities	$1,195,852	$1,251,263	$—	$6,207	$1,245,056

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

There were no transfers into or out of each of the levels of the fair value hierarchy.
Financial Instruments Carried at Fair Value
The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities.
The Operating Partnership incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Operating Partnership has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.
Although the Operating Partnership has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012 and December 31, 2011, the Operating Partnership has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives.

As a result, the Operating Partnership has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. In conjunction with the FASB's fair value measurement guidance, the Operating Partnership made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Financial Instruments Not Carried at Fair Value

At December 31, 2012, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaids, real estate taxes payable, accrued interest payable, security deposits and prepaid rent, distributions payable and accounts payable approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Operating Partnership using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Operating Partnership would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

8. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

A portion of the General Partner’s interest rate derivatives have been allocated to the Operating Partnership based on the General Partner’s underlying debt instruments allocated to the Operating Partnership. (See Note 5, Debt.)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in “Accumulated Other Comprehensive Income/(Loss)” and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2012, 2011 and

2010, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the

F - 66

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2012, 2011 and 2010, the Operating Partnership recorded less than $1,000 of ineffectiveness in earnings attributable to reset date and index mismatches between the derivative and the hedged item.

Amounts reported in “Accumulated Other Comprehensive Income/(Loss)” related to derivatives will be reclassified to interest expense as interest payments are made on the General Partner’s variable-rate debt that is allocated to the Operating Partnership. During the next twelve months through December 31, 2013, we estimate that an additional $2.6 million will be reclassified as an increase to interest expense.

As of December 31, 2012, the Operating Partnership had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	4	$173,781
Interest rate caps	5	$247,202

Derivatives not designated as hedges are not speculative and are used to manage the Company’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of GAAP. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in losses of $9,000, $204,000 and $684,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

As of December 31, 2012, we had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollar amounts in thousands):

Product	Number of Instruments	Notional
Interest rate caps	1	$80,294

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

The table below presents the fair value of the Operating Partnership’s derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2012 and 2011 (dollar amounts in thousands):

	Asset Derivatives			Liability Derivatives		
		Fair Value at:			Fair Value at:	
	Balance Sheet Location	December 31, 2012	December 31, 2011	Balance Sheet Location	December 31, 2012	December 31, 2011
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$2	$64	Other liabilities	$4,750	$6,207
Total		$2	$64		$4,750	$6,207
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$—	$7	Other liabilities	$—	$—
Total		$—	$7		$—	$—

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations
The tables below present the effect of the derivative financial instruments on the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010 (dollar amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2012	2011	2010	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2012	2011	2010
Interest rate products	$(1,898)	$(6,119)	$(6,631)	Interest expense	$(3,431)	$(4,719)	$(4,282)
Total	$(1,898)	$(6,119)	$(6,631)		$(3,431)	$(4,719)	$(4,282)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative 2012	2011	2010
Interest rate products	Other income/(expense)	$(9)	$(204)	$(684)
Total		$(9)	$(204)	$(684)

Credit-risk-related Contingent Features
The General Partner has agreements with some of its derivative counterparties that contain a provision where (1) if the General Partner defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the General Partner could also be declared in default on its derivative obligations; or (2) the General Partner could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the General Partner’s default on the indebtedness.
Certain of the General Partner’s agreements with its derivative counterparties contain provisions where if there is a change in the General Partner’s financial condition that materially changes the General Partner’s creditworthiness in an adverse manner, the General Partner may be required to fully collateralize its obligations under the derivative instrument.
The General Partner also has an agreement with a derivative counterparty that incorporates the loan and financial covenant provisions of the General Partner’s indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with these covenant provisions would result in the General Partner being in default on any derivative instrument obligations covered by the agreement.
As of December 31, 2012, the fair value of derivatives in a net liability position that were allocated to the Operating Partnership, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $5.0 million. As of December 31, 2012, the General Partner has not posted any collateral related to these agreements. If the General Partner had breached any of these provisions at December 31, 2012, it would have been required to settle its obligations under the agreements at their termination value of $5.0 million.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

9. CAPITAL STRUCTURE

General Partnership Units

The General Partner has complete discretion to manage and control the operations and business of the Operating Partnership, which includes but is not limited to the acquisition and disposition of real property, construction of buildings and making capital improvements, and the borrowing of funds from outside lenders or UDR and its subsidiaries to finance such activities. The General Partner can generally authorize, issue, sell, redeem or purchase any OP Unit or securities of the Operating Partnership without the approval of the limited partners. The General Partner can also approve, with regard to the issuances of OP units, the class or one or more series of classes, with designations, preferences, participating, optional or other special rights, powers and duties including rights, powers and duties senior to limited partnership interests without approval of any limited partners except holders of Class A Partnership Units. There were 110,883 General Partnership units outstanding at December 31, 2012 and 2011, all of which were held by UDR.

Limited Partnership Units

At December 31, 2012 and 2011, there were 184,170,370 limited partnership units outstanding, of which 1,751,671 were Class A Limited Partnership units. UDR owned 174,775,152 or 94.9% and 174,749,068 or 94.9% at December 31, 2012 and 2011, respectively. The remaining 9,395,218 or 5.1% and 9,421,302 or 5.1% OP Units outstanding were held by non-affiliated partners at December 31, 2012 and 2011, respectively, of which 1,751,671 were Class A Limited Partnership units.

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

The non-affiliated limited partners' capital is adjusted to redemption value at the end of each reporting period with the corresponding offset against UDR's limited partner capital account based on the redemption rights noted above. The aggregate value upon redemption of the then-outstanding OP Units held by limited partners was $223.4 million and $236.5 million as of December 31, 2012 and December 31, 2011, respectively, based on the value of UDR's common stock at each period end. A limited partner has no right to receive any distributions from the Operating Partnership on or after the date of redemption of its OP Units.

Class A Limited Partnership Units

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

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

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following table shows OP Units outstanding and OP Unit activity as of and for the years ended December 31, 2012, 2011 and 2010:

	Class A Limited Partner	Limited Partners	UDR, Inc. Limited Partner	UDR, Inc. General Partner	Total
Ending balance at December 31, 2009	1,751,671	4,234,921	173,811,933	110,883	179,909,408
OP redemptions for cash	—	(19,076)	19,076	—	—
OP redemptions for UDR stock	—	(905,548)	905,548	—	—
Ending balance at December 31, 2010	1,751,671	3,310,297	174,736,557	110,883	179,909,408
OP Units issued for acquisitions of real estate	—	4,371,845	—	—	4,371,845
OP redemptions for UDR stock	—	(12,511)	12,511	—	—
Ending balance at December 31, 2011	1,751,671	7,669,631	174,749,068	110,883	184,281,253
OP redemptions for cash	—	(5,646)	5,646	—	—
OP redemptions for UDR stock	—	(20,438)	20,438	—	—
Ending balance at December 31, 2012	1,751,671	7,643,547	174,775,152	110,883	184,281,253

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

10. COMMITMENTS AND CONTINGENCIES
Commitments
Real Estate Under Development
The following summarizes the Operating Partnership's real estate commitments at December 31, 2012 (dollars in thousands):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete (unaudited)
Real estate communities — under development	2	$87,393	$131,657
Real estate communities — redevelopment	2	28,420	46,880
		$115,813	$178,537

Ground Leases
The Operating Partnership owns five communities which are subject to ground leases expiring between 2019 and 2103. Future minimum lease payments as of December 31, 2012 are $5.1 million for each of the years ending December 31, 2013 to 2017, and a total of $314.9 million for years thereafter. For purposes of our ground lease contracts, the Operating Partnership uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a reset provision based on the communities appraised value or consumer price index but does not included a specified minimum lease payment, the Operating Partnership uses the current rent over the remainder of the lease term.

The Operating Partnership incurred $5.0 million, $4.9 million, and $4.7 million of ground rent expense for the years ended December 31, 2012, 2011, and 2010, respectively.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

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

11. REPORTABLE SEGMENTS
Segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance. The Operating Partnership has the same chief operating decision maker as that of its parent, the General Partner. The chief operating decision maker consists of several members of UDR's executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments.
The Operating Partnership owns and operates multifamily apartment communities throughout the United States that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures of the Operating Partnership's apartment communities are rental income and net operating income ("NOI"), and are included in the chief operating decision maker's assessment of UDR's performance on a consolidated basis. Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI, which is a non-GAAP financial measure, is defined as total revenues less direct property operating expenses. Rental expenses include real estate taxes, insurance, personnel, utilities, repairs and maintenance, administrative and marketing. Excluded from NOI is property management expense, which is calculated as 2.75% of property revenue to cover the regional supervision and accounting costs related to consolidated property operations and land rent. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.
The Operating Partnership's two reportable segments are same communities and non-mature/other communities:

- Same communities represent those communities acquired, developed, and stabilized prior to January 1, 2011 and held as of December 31, 2012. A comparison of operating results from the prior year is meaningful as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not held for disposition within the current year. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months.

- Non-mature/other communities represent those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, and the non-apartment components of mixed use properties.

Management evaluates the performance of each of our apartment communities on a same community and non-mature/other basis, as well as individually and geographically. This is consistent with the aggregation criteria of Topic 280 as each of our apartment communities generally has similar economic characteristics, facilities, services, and tenants. Therefore, the Operating Partnership's reportable segments have been aggregated by geography in a manner identical to that which is provided to the chief operating decision maker.
All revenues are from external customers and no single tenant or related group of tenants contributed 10% or more of the Operating Partnership's total revenues during the years ended December 31, 2012, 2011 and 2010.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The accounting policies applicable to the operating segments described above are the same as those described in Note 2, "Significant Accounting Policies." The following table details rental income and NOI from continuing and discontinued operations for the Operating Partnership's reportable segments for the years ended December 31, 2012, 2011 and 2010, and reconciles NOI to net income/(loss) attributable to OP unit holders per the consolidated statement of operations (dollars in thousands):

	Years Ended December 31,		
	2012	2011	2010
Reportable apartment home segment rental income			
Same Communities			
Western Region	$167,406	$158,280	$151,244
Mid-Atlantic Region	66,487	64,020	61,262
Southeastern Region	40,771	38,606	36,963
Southwestern Region	19,858	18,286	17,492
Non-Mature communities/Other	106,169	107,865	83,433
Total segment and consolidated rental income	$400,691	$387,057	$350,394
Reportable apartment home segment NOI			
Same Communities			
Western Region	$118,142	$110,631	$103,600
Mid-Atlantic Region	45,801	44,400	41,908
Southeastern Region	26,510	24,211	23,280
Southwestern Region	12,225	10,994	10,554
Non-Mature communities/Other	78,860	74,022	54,774
Total segment and consolidated NOI	281,538	264,258	234,116
Reconciling items:			
Non-property income	—	—	1,695
Property management	(11,019)	(10,644)	(9,636)
Other operating expenses	(5,272)	(5,484)	(5,028)
Real estate depreciation and amortization	(195,051)	(197,964)	(166,480)
Interest	(45,234)	(53,632)	(52,222)
Hurricane-related charges, net	(5,518)	—	—
General and administrative	(26,204)	(26,370)	(23,291)
Net gain on the sale of real estate	51,094	60,065	152
Non-controlling interests	(352)	(70)	(41)
Net income/(loss) attributable to OP unit holders	$43,982	$30,159	$(20,735)

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

The following table details the assets of the Operating Partnership's reportable segments as of December 31, 2012 and 2011 (dollars in thousands):

	December 31, 2012	December 31, 2011
Reportable apartment home segment assets		
Same Store Communities		
Western Region	$1,629,613	$1,608,006
Mid-Atlantic Region	701,740	697,217
Southeastern Region	322,882	317,353
Southwestern Region	185,501	184,158
Non-Mature communities/Other	1,343,184	1,398,564
Total segment assets	4,182,920	4,205,298
Accumulated depreciation	(1,097,133)	(976,358)
Total segment assets - net book value	3,085,787	3,228,940
Reconciling items:		
Cash and cash equivalents	2,804	704
Restricted cash	12,926	12,568
Deferred financing costs, net	6,072	8,184
Other assets	28,665	41,771
Total consolidated assets	$3,136,254	$3,292,167

Capital expenditures related to the Operating Partnership's same communities totaled $26.8 million, $24.9 million, and $21.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Capital expenditures related to the Operating Partnership's non-mature/other communities totaled $3.1 million, $4.8 million, and $3.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Markets included in the above geographic segments are as follows:

i. Western — Orange County, San Francisco, Monterey Peninsula, Los Angeles, Seattle, Sacramento, Inland Empire, Portland, and San Diego
ii. Mid-Atlantic — Washington, D.C. and Baltimore
iii. Southeastern — Nashville, Tampa, and Other Florida
iv. Southwestern — Dallas

12. HURRICANE-RELATED CHARGES

In October 2012, Hurricane Sandy hit the East Coast, affecting two of the Operating Partnership's operating communities (1,001 apartment homes) located in New York City. The properties suffered some physical damage, and were closed to tenants for a period following the hurricane. The Operating Partnership has insurance policies that provide coverage for property damage and business interruption.

Based on the claims filed and management's estimates, the Operating Partnership recognized a $7.1 million impairment charge for the damaged assets' net book value. In addition, the Operating Partnership incurred $7.0 million of repair and cleanup costs for the year ended December 31, 2012. The rehabilitation of these properties is expected to be completed in the third quarter of 2013.

UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
DECEMBER 31, 2012

Based on the claims filed and management's estimates, the Operating Partnership recognized $2.2 million of business interruption losses for the year ended December 31, 2012. $1.8 million of business interruption losses were related to rent concession rebates provided to tenants during the period the properties were uninhabitable was classified in "Hurricane-related charges, net," and $400,000 of business interruption losses were related to rent that was not contractually receivable was classified as a reduction to "Rental income" on the Consolidated Statements of Operations. The impairment charge and the repair and cleanup costs incurred during the year ended December 31, 2012 have been reduced by the estimated insurance recovery of $10.8 million, and are classified in "Hurricane-related charges, net" on the Consolidated Statements of Operations. Of the estimated insurance recovery, $4.0 million was received during the year ended December 31, 2012. Since the Operating Partnership determined that it was probable of receipt, the remaining $6.8 million of the estimated insurance recovery was recorded as a receivable at December 31, 2012.
To the extent that insurance proceeds ultimately exceed the difference between replacement cost and net book value of the impaired assets, the post-hurricane costs incurred, and/or business interruption losses recognized, the excess will be reflected as income in the period those amounts are received or when receipt is deemed probable to occur.
13. UNAUDITED SUMMARIZED CONSOLIDATED QUARTERLY FINANCIAL DATA
Selected consolidated quarterly financial data for the years ended December 31, 2012 and 2011 is summarized in the table blow (dollars in thousands, except per share amounts):

	Three months ended			
	March 31,	June 30,	September 30,	December 31,
2012				
Rental income (a)	$95,895	$98,031	$100,235	$99,780
(Loss)/income from continuing operations	(7,814)	(1,969)	256	(345)
Income/(loss) from discontinued operations	922	53,372	(132)	44
(Loss)/income attributable to OP unitholders	(6,926)	51,172	85	(349)
(Loss)/income per OP unit- basic and diluted (b)	$(0.04)	$0.28	$0.00	$0.00
2011				
Rental income (a)	$78,131	$88,383	$92,179	$95,254
Loss from continuing operations	(4,012)	(10,245)	(8,392)	(14,339)
Income from discontinued operations	2,008	17,753	1,792	45,664
(Loss)/income attributable to OP unitholders	(2,031)	7,476	(6,632)	31,346
(Loss)/income per OP unit — basic and diluted	$(0.01)	$0.04	$(0.04)	$0.17

(a) Represents rental income from continuing operations, excluding amounts classified as discontinued operations.
(b) Quarterly earnings per OP Unit amounts may not total to the annual amounts due to rounding

[This page is intentionally left blank.]

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period					
	Encumbrances	Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction(a)	Date Acquire
WESTERN REGION											
Harbor at Mesa Verde	$45,016	$20,476	$28,538	$49,014	$11,861	$20,860	$40,015	$60,875	$22,935	2003	Jun-03
Pine Brook Village	18,270	2,582	25,504	28,086	6,720	3,886	30,920	34,806	15,706	1979	Jun-03
Pacific Shores	19,145	7,345	22,624	29,969	8,487	7,706	30,750	38,456	17,000	2003	Jun-03
Huntington Vista	29,896	8,055	22,486	30,541	6,612	8,289	28,864	37,153	16,261	1970	Jun-03
Missions at Back Bay	—	229	14,129	14,358	1,974	10,770	5,562	16,332	3,391	1969	Dec-03
Coronado at Newport — North	—	62,516	46,082	108,598	22,361	66,666	64,293	130,959	33,729	2000	Oct-04
Huntington Villas	53,294	61,535	18,017	79,552	5,916	62,029	23,439	85,468	12,733	1972	Sep-04
Villa Venetia	—	70,825	24,179	95,004	27,965	71,380	51,589	122,969	15,382	1972	Oct-04
Vista Del Rey	—	10,670	7,080	17,750	1,785	10,810	8,725	19,535	4,706	1969	Sep-04
Foxborough	—	12,071	6,187	18,258	2,476	12,242	8,492	20,734	4,086	1969	Sep-04
Coronado South	—	58,785	50,067	108,852	16,280	59,162	65,970	125,132	32,871	2000	Mar-05
Pine Brook Village II	—	25,922	60,961	86,883	5,776	26,028	66,631	92,659	16,912	1975	May-08
1818 Platinum Triangle	—	16,663	51,905	68,568	(70)	16,693	51,805	68,498	7,347	2009	Aug-10
ORANGE COUNTY, CA	165,621	357,674	377,759	735,433	118,143	376,521	477,055	853,576	203,059		
2000 Post Street	—	9,861	44,578	54,439	6,976	10,185	51,230	61,415	21,311	1987	Dec-98
Birch Creek	—	4,365	16,696	21,061	5,538	5,023	21,576	26,599	11,279	1968	Dec-98
Highlands Of Marin	—	5,996	24,868	30,864	25,853	7,031	49,686	56,717	20,655	1991	Dec-98
Marina Playa	—	6,224	23,916	30,140	8,259	6,806	31,593	38,399	15,967	1971	Dec-98
River Terrace	33,130	22,161	40,137	62,298	2,591	22,307	42,582	64,889	18,618	2005	Aug-05

CitySouth	—	14,031	30,537	44,568	34,711	16,205	63,074	79,279	19,350	1972	Nov-05
Bay Terrace	—	8,545	14,458	23,003	4,114	11,425	15,692	27,117	6,775	1962	Oct-05
Highlands of Marin Phase II	—	5,353	18,559	23,912	11,010	5,753	29,169	34,922	9,062	1968	Oct-07
Edgewater	43,119	30,657	83,872	114,529	2,382	30,675	86,236	116,911	23,935	2007	Mar-08
Almaden Lake Village	27,000	594	42,515	43,109	3,541	698	45,952	46,650	12,331	1999	Jul-08
388 Beale	—	14,253	74,104	88,357	2,080	14,258	76,179	90,437	7,278	1999	Apr-11
2000 Post III	—	1,756	7,753	9,509	2,991	3,291	9,209	12,500	4,394	2006	Dec-98
SAN FRANCISCO, CA	103,249	123,796	421,993	545,789	110,046	133,657	522,178	655,835	170,955		
Rosebeach	—	8,414	17,449	25,863	2,150	8,471	19,542	28,013	9,744	1970	Sep-04
Ocean Villas	—	5,135	12,789	17,924	1,511	5,224	14,211	19,435	6,775	1965	Oct-04
Tierra Del Rey	38,174	39,586	36,679	76,265	2,351	39,626	38,990	78,616	11,832	1999	Dec-07
The Westerly	67,700	48,182	102,364	150,546	31,678	49,664	132,560	182,224	14,159	1993	Sep-10
Pine@Sixth	—	5,805	6,305	12,110	12,550	6,251	18,409	24,660	13,391	2008	Dec-98
Jefferson at Marina del Rey	—	55,651	—	55,651	88,405	61,171	82,885	144,056	18,798	2008	Sep-07
LOS ANGELES, CA	105,874	162,773	175,586	338,359	138,645	170,407	306,597	477,004	74,699		
Arbor Terrace	—	1,453	11,995	13,448	3,056	1,792	14,712	16,504	7,904	1996	Mar-98
Aspen Creek	10,819	1,178	9,116	10,294	2,409	1,444	11,259	12,703	5,419	1996	Dec-98
Crowne Pointe	—	2,486	6,437	8,923	4,514	2,811	10,626	13,437	6,069	1987	Dec-98
Hilltop	—	2,174	7,408	9,582	3,319	2,651	10,250	12,901	5,553	1985	Dec-98
The Hawthorne	36,782	6,474	30,226	36,700	2,295	6,559	32,436	38,995	14,460	2003	Jul-05
The Kennedy	—	6,179	22,307	28,486	1,444	6,231	23,699	29,930	9,851	2005	Nov-05
Hearthstone at Merrill Creek	23,786	6,848	30,922	37,770	1,978	6,861	32,887	39,748	9,210	2000	May-08
Island Square	—	21,284	89,389	110,673	3,054	21,400	92,327	113,728	23,791	2007	Jul-08
Borgata	—	6,379	24,569	30,948	342	6,388	24,902	31,290	8,105	2001	May-07
elements too	—	27,468	72,036	99,504	8,871	30,093	78,282	108,375	19,688	2010	Feb-10
989elements	—	8,541	45,990	54,531	343	8,509	46,365	54,874	8,012	2006	Dec-09
SEATTLE, WA	71,387	90,464	350,395	440,859	31,625	94,739	377,745	472,485	118,062		
Presidio at Rancho Del Oro	—	9,164	22,694	31,858	5,584	9,665	27,777	37,442	14,988	1987	Jun-04
Villas at Carlsbad	—	6,517	10,718	17,235	1,839	6,720	12,354	19,074	5,832	1966	Oct-04
SAN DIEGO, CA	—	15,681	33,412	49,093	7,423	16,385	40,131	56,516	20,820		
Boronda Manor	—	1,946	8,982	10,928	8,888	3,144	16,672	19,816	7,297	1979	Dec-98

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period					
	Encumbrances	Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction(a)	Date Acquired
Garden Court	—	888	4,188	5,076	4,925	1,484	8,517	10,001	3,784	1973	Dec-98
Cambridge Court	—	3,039	12,883	15,922	13,495	5,187	24,230	29,417	11,198	1974	Dec-98
Laurel Tree	—	1,304	5,115	6,419	5,471	2,120	9,770	11,890	4,517	1977	Dec-98
The Pointe At Harden Ranch	—	6,388	23,854	30,242	24,236	9,802	44,676	54,477	19,942	1986	Dec-98
The Pointe At Northridge	—	2,044	8,028	10,072	9,311	3,237	16,146	19,383	7,646	1979	Dec-98
The Pointe At Westlake	—	1,329	5,334	6,663	5,598	2,129	10,132	12,261	4,416	1975	Dec-98
MONTEREY PENINSULA, CA	—	16,938	68,384	85,322	71,924	27,103	130,143	157,245	58,800		
Verano at Rancho Cucamonga Town Square	51,915	13,557	3,645	17,202	52,716	22,977	46,941	69,918	25,113	2006	Oct-02
Windemere at Sycamore Highland	—	5,810	23,450	29,260	2,319	6,021	25,558	31,579	15,198	2001	Nov-02
INLAND EMPIRE, CA	51,915	19,367	27,095	46,462	55,035	28,998	72,499	101,497	40,311		
Foothills Tennis Village	—	3,618	14,542	18,160	6,103	4,032	20,231	24,263	11,163	1988	Dec-98
Woodlake Village	—	6,772	26,967	33,739	11,933	7,983	37,689	45,673	21,682	1979	Dec-98
SACRAMENTO, CA	—	10,390	41,509	51,899	18,036	12,015	57,920	69,936	32,845		
Tualatin Heights	—	3,273	9,134	12,407	5,893	3,711	14,589	18,300	8,464	1989	Dec-98
Andover Park	15,235	2,916	16,995	19,911	7,278	3,135	24,054	27,189	13,197	1989	Sep-04
Hunt Club	16,270	6,014	14,870	20,884	5,046	6,329	19,601	25,930	11,209	1985	Sep-04
PORTLAND, OR	31,505	12,203	40,999	53,202	18,217	13,175	58,244	71,419	32,870		
TOTAL WESTERN	529,551	809,286	1,537,132	2,346,418	569,094	873,001	2,042,512	2,915,513	752,421		

REGION											
MID-ATLANTIC REGION											
Dominion Middle Ridge	30,896	3,311	13,283	16,594	6,047	3,692	18,949	22,641	12,243	1990	Jun-96
Dominion Lake Ridge	21,108	2,366	8,387	10,753	5,398	2,799	13,352	16,151	8,794	1987	Feb-96
Presidential Greens	—	11,238	18,790	30,028	7,778	11,519	26,287	37,806	17,002	1938	May-02
The Whitmore	—	6,418	13,411	19,829	19,742	7,431	32,140	39,571	18,455	2008	Apr-02
Ridgewood	—	5,612	20,086	25,698	7,623	5,964	27,357	33,321	17,677	1988	Aug-02
Commons at Town Square	—	136	7,724	7,860	1,121	6,874	2,107	8,981	1,256	1971	Dec-03
Waterside Towers	—	874	38,209	39,083	11,164	26,384	23,863	50,247	13,847	1971	Dec-03
Waterside Townhomes	—	129	3,724	3,853	660	2,725	1,788	4,513	964	1971	Dec-03
Wellington Place at Olde Town	28,681	13,753	36,059	49,812	16,550	14,558	51,804	66,362	26,310	2008	Sep-05
Andover House	—	14,357	51,577	65,934	2,565	14,370	54,129	68,499	18,343	2004	Mar-07
Sullivan Place	—	1,137	103,676	104,813	3,699	1,211	107,301	108,512	22,109	2007	Dec-07
Circle Towers	70,049	33,011	107,051	140,062	7,646	32,968	114,740	147,708	30,575	1972	Mar-08
Delancey at Shirlington	—	21,606	66,765	88,371	1,193	21,616	67,948	89,564	18,694	2006/07	Mar-08
View 14	—	5,710	97,941	103,651	522	5,721	98,452	104,173	3,352	2009	Jun-11
Signal Hill	—	13,290	—	13,290	69,092	25,347	57,035	82,382	11,121	2010	Nov-10
Washington, D.C.	150,734	132,948	586,683	719,631	160,800	183,179	697,252	880,431	235,742		
Dominion Kings Place	15,050	1,565	7,007	8,572	4,011	1,804	10,779	12,583	7,228	1983	Dec-92
Dominion At Eden Brook	20,369	2,361	9,384	11,745	6,082	2,924	14,903	17,827	10,655	1984	Dec-92
Ellicott Grove	—	2,920	9,099	12,019	22,409	5,243	29,185	34,428	19,912	2008	Jul-94
Dominion Constant Freindship	10,683	903	4,669	5,572	3,531	1,195	7,908	9,103	5,278	1990	May-95
Lakeside Mill	15,242	2,666	10,109	12,775	3,844	2,868	13,751	16,619	9,745	1989	Dec-99
Tamar Meadow	—	4,145	17,150	21,295	4,493	4,530	21,258	25,788	13,452	1990	Nov-02
Calvert's Walk	17,247	4,408	24,692	29,100	6,116	4,567	30,649	35,216	16,530	1988	Mar-04
Arborview Apartments	—	4,653	23,952	28,605	6,632	5,111	30,126	35,237	17,021	1992	Mar-04
Liriope Apartments	—	1,620	6,791	8,411	989	1,629	7,771	9,400	4,276	1997	Mar-04
20 Lambourne	32,166	11,750	45,590	57,340	3,904	11,871	49,373	61,244	14,896	2003	Mar-08
Domain Brewers Hill	—	4,669	40,630	45,299	344	4,675	40,968	45,643	5,575	2009	Aug-10
BALTIMORE, MD	110,757	41,660	199,073	240,733	62,355	46,417	256,671	303,088	124,568		
Dominion English Hills	—	1,979	11,524	13,503	8,224	2,873	18,854	21,727	11,134	1969/76	Dec-91

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period					
	Encumbrances	Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction(a)	Date Acquired
Gayton Pointe Townhomes	—	826	5,148	5,974	28,919	3,362	31,531	34,893	23,513	2007	Sep-95
Waterside At Ironbridge	—	1,844	13,239	15,083	6,726	2,255	19,554	21,809	11,430	1987	Sep-97
Carriage Homes at Wyndham	—	474	30,997	31,471	7,255	3,774	34,952	38,725	20,000	1998	Nov-03
Legacy at Mayland	41,507	—	—	—	19,631	1,861	17,770	19,631	14,394	2007	Dec-91
RICHMOND, VA	41,507	5,123	60,908	66,031	70,755	14,125	122,661	136,786	80,471		
Forest Lake At Oyster Point	—	780	8,862	9,642	8,455	1,349	16,748	18,097	11,613	1986	Aug-95
Woodscape	—	798	7,209	8,007	9,159	2,033	15,133	17,166	12,511	1974/76	Dec-87
Eastwind Dominion	—	155	5,317	5,472	5,983	620	10,835	11,455	8,344	1970	Apr-88
Waterside At Lynnhaven	—	1,824	4,107	5,931	5,767	2,212	9,486	11,698	6,826	1966	Aug-96
Heather Lake	—	617	3,400	4,017	9,732	1,194	12,555	13,749	11,243	1972/74	Mar-80
Dominion Yorkshire Downs	—	1,089	8,582	9,671	5,561	1,501	13,731	15,232	8,269	1987	Dec-97
NORFOLK, VA	—	5,263	37,477	42,740	44,657	8,909	78,488	87,397	58,806		
Greens At Schumaker Pond	—	710	6,118	6,828	5,345	960	11,213	12,173	7,622	1988	May-95
OTHER MID-ATLANTIC	—	710	6,118	6,828	5,345	960	11,213	12,173	7,622		
TOTAL MID-ATLANTIC REGION	302,998	185,704	890,259	1,075,963	343,912	253,590	1,166,285	1,419,875	507,209		
SOUTHEASTERN REGION											
Summit West	—	2,176	4,710	6,886	7,840	3,176	11,550	14,726	9,301	1972	Dec-92
The Breyley	—	1,780	2,458	4,238	16,706	3,271	17,673	20,944	14,718	2007	Sep-93
Lakewood Place	19,195	1,395	10,647	12,042	8,112	2,193	17,961	20,154	12,306	1986	Mar-94
Bay Meadow	—	2,893	9,254	12,147	9,348	4,153	17,342	21,495	11,995	2004	Dec-96
Cambridge Woods	—	1,791	7,166	8,957	7,653	2,538	14,072	16,610	9,468	1985	Jun-97

Sugar Mill Creek	—	2,242	7,553	9,795	5,893	2,650	13,038	15,688	7,819	1988	Dec-98
Inlet Bay	—	7,702	23,150	30,852	12,959	8,940	34,871	43,811	22,328	1988/89	Jun-03
MacAlpine Place	—	10,869	36,858	47,727	6,288	11,135	42,880	54,015	21,467	2001	Dec-04
The Vintage Lofts at West End	—	6,611	37,663	44,274	11,473	15,100	40,647	55,744	12,135	2009	Jul-09
Gallery at Bayport II	—	5,775	17,236	23,011	2,526	8,551	16,986	25,537	6,836	2008	Oct-06
Island Walk	—	7,231	19,897	27,128	10,527	4,995	32,660	37,655	19,243	1985/87	Jul-06
TAMPA, FL	19,195	50,465	176,592	227,057	99,325	66,702	259,680	326,379	147,616		
Seabrook	—	1,846	4,155	6,001	7,382	2,616	10,767	13,383	8,103	2004	Feb-96
The Canopy Apartment Villas	—	2,895	6,456	9,351	21,966	5,364	25,953	31,317	20,600	2008	Mar-93
Altamira Place	15,640	1,533	11,076	12,609	18,938	3,258	28,289	31,547	21,971	2007	Apr-94
Regatta Shore	—	757	6,608	7,365	14,284	1,956	19,693	21,649	14,726	2007	Jun-94
Alafaya Woods	18,716	1,653	9,042	10,695	8,275	2,482	16,488	18,970	11,250	2006	Oct-94
Los Altos	22,734	2,804	12,349	15,153	8,446	3,839	19,760	23,599	12,477	2004	Oct-96
Lotus Landing	—	2,185	8,639	10,824	8,277	2,767	16,334	19,101	9,649	2006	Jul-97
Seville On The Green	—	1,282	6,498	7,780	6,190	1,669	12,301	13,970	7,567	2004	Oct-97
Ashton @ Waterford	24,232	3,872	17,538	21,410	2,754	4,161	20,003	24,164	11,428	2000	May-98
Arbors at Lee Vista	—	6,692	12,860	19,552	11,280	7,081	23,751	30,832	15,779	2007	Aug-06
The Place on Millenia Blvd	—	12,172	37,143	49,315	1,839	12,214	38,940	51,154	13,868	2007	Jan-08
ORLANDO, FL	81,322	37,691	132,364	170,055	109,631	47,407	232,279	279,686	147,418		
Legacy Hill	—	1,148	5,867	7,015	8,280	1,703	13,592	15,295	9,883	1977	Nov-95
Hickory Run	—	1,469	11,584	13,053	8,807	2,070	19,790	21,860	11,879	1989	Dec-95
Carrington Hills	—	2,117	—	2,117	32,491	4,328	30,280	34,608	17,630	1999	Dec-95
Brookridge	—	708	5,461	6,169	4,064	1,080	9,153	10,233	5,941	1986	Mar-96
Breckenridge	—	766	7,714	8,480	3,848	1,203	11,125	12,328	6,794	1986	Mar-97
Colonnade	—	1,460	16,015	17,475	4,023	1,859	19,639	21,498	9,938	1998	Jan-99
The Preserve at Brentwood	22,957	3,182	24,674	27,856	5,421	3,469	29,808	33,277	16,648	1998	Jun-04
Polo Park	—	4,583	16,293	20,876	15,292	5,531	30,637	36,167	16,607	2008	May-06
NASHVILLE, TN	22,957	15,433	87,608	103,041	82,226	21,243	164,024	185,266	95,320		

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period					
	Encumbrances	Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction(a)	Date Acquired
The Reserve and Park at Riverbridge	40,133	15,968	56,401	72,369	6,508	16,318	62,558	78,876	30,246	1999/2001	Dec-04
OTHER FLORIDA TOTAL	40,133	15,968	56,401	72,369	6,508	16,318	62,558	78,876	30,246		
SOUTHEASTERN REGION	163,607	119,557	452,965	572,522	297,690	151,666	718,541	870,207	420,600		
NORTHEAST REGION											
Garrison Square	—	5,591	91,027	96,618	4,572	5,599	95,591	101,190	12,419	1887/1990	Sep-10
Ridge at Blue Hills	24,159	6,039	34,869	40,908	500	6,047	35,361	41,408	4,746	2007	Sep-10
Inwood West	59,365	20,778	88,096	108,874	1,550	20,800	89,624	110,424	9,094	2006	Apr-11
14 North	—	10,961	51,175	62,136	1,982	10,974	53,144	64,118	5,668	2005	Apr-11
BOSTON, MA	83,524	43,369	265,167	308,536	8,604	43,420	273,720	317,140	31,927		
10 Hanover Square	202,145	41,432	218,983	260,415	(819)	41,440	218,156	259,596	19,623	2005	Apr-11
21 Chelsea	—	36,399	107,154	143,553	3,149	36,399	110,303	146,702	7,760	2001	Aug-11
Rivergate	—	114,410	324,920	439,330	18,136	114,720	342,746	457,466	24,917	1985	Jul-11
95 Wall Street	—	57,637	266,255	323,892	(578)	57,652	265,662	323,314	21,805	2008	Aug-11
NEW YORK, NY TOTAL	202,145	249,878	917,312	1,167,190	19,888	250,211	936,867	1,187,078	74,105		
NORTHEAST REGION	285,669	293,247	1,182,479	1,475,726	28,492	293,631	1,210,587	1,504,218	106,032		
SOUTHWESTERN REGION											
THIRTY377	31,274	24,036	32,951	56,987	6,680	24,309	39,358	63,667	16,632	2007	Aug-06
Legacy Village	56,687	16,882	100,102	116,984	4,851	17,061	104,774	121,835	31,158	6/7/2005	Mar-08
Garden Oaks	—	2,132	5,367	7,499	1,235	6,912	1,822	8,734	1,438	1979	Mar-07
Glenwood	—	7,903	554	8,457	1,417	8,135	1,739	9,874	941	1970	May-07
Talisker of Addison	—	10,440	634	11,074	1,620	10,835	1,859	12,694	1,350	1975	May-07
Springhaven	—	6,688	3,354	10,042	937	8,309	2,670	10,979	1,793	1977	Apr-07
Clipper Pointe	—	13,221	2,507	15,728	1,849	14,884	2,693	17,577	2,090	1978	May-07
Highlands of Preston	—	2,151	8,168	10,319	29,984	5,975	34,328	40,303	19,615	2008	Mar-98
Savoye	—	7,374	3,367	10,741	55,761	14,663	51,839	66,502	11,322	2010	Aug-10

Savoye2	—	6,510	3,774	10,284	56,840	17,110	50,014	67,124	4,590	2010	Mar-12
DALLAS, TX	87,961	97,337	160,778	258,115	161,174	128,193	291,096	419,289	90,929		
Barton Creek Landing	—	3,151	14,269	17,420	21,508	4,576	34,352	38,928	14,853	1986	Mar-02
Residences at the Domain	23,974	4,034	55,256	59,290	1,629	4,113	56,806	60,919	14,986	2007	Aug-08
Red Stone Ranch	20,515	5,718	19,770	25,488	215	5,746	19,957	25,703	945	2000	Apr-12
Lakeline Villas	15,860	4,365	17,683	22,048	102	4,373	17,777	22,150	841	2004	Apr-12
AUSTIN, TX	60,349	17,268	106,978	124,246	23,454	18,808	128,892	147,700	31,625		
TOTAL SOUTHWESTERN REGION	148,310	114,605	267,756	382,361	184,628	147,001	419,988	566,989	122,554		
REAL ESTATE UNDER DEVELOPMENT											
Los Alisos	—	17,298	—	17,298	30,425	16,386	31,337	47,723	—		
Mission Bay	—	23,625	—	23,625	53,818	23,653	53,790	77,443	—		
The Calvert	—	297	12,786	13,083	26,587	9,447	30,223	39,670	1,132		
Capitol View on Fourteenth	—	31,747	—	31,747	86,105	31,403	86,448	117,851	121		
Pier 4	—	24,584	—	24,584	7,757	24,584	7,757	32,341	—		
Beach Walk	—	12,878	—	12,878	3,017	13,007	2,888	15,895	—		
The Residences at Bella Terra	—	25,000	—	25,000	64,808	25,014	64,794	89,808	—		
Fiori on Vitruvian Park	—	7,659	3,601	11,260	59,055	7,659	62,656	70,315	—		
TOTAL REAL ESTATE UNDER DEVELOPMENT	—	143,088	16,387	159,475	331,572	151,153	339,893	491,046	1,253		
LAND											
2919 Wilshire	—	6,773	527	7,300	156	6,773	683	7,456	53		
3032 Wilshire	—	9,963	788	10,751	175	9,963	963	10,926	102		
3033 Wilshire	—	11,055	—	11,055	5,904	11,049	5,910	16,959	—		
399 Fremont	—	50,706	—	50,706	4,617	50,706	4,617	55,323	—		
7 Harcourt	—	884	—	884	3,876	884	3,876	4,760	212		
Burger House	—	770	—	770	12	770	12	782	—		
Parkers Landing II	—	1,710	—	1,710	762	1,511	961	2,472	—		
Presidio	—	1,524	—	1,524	921	1,300	1,145	2,445	—		

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period			
	Encumbrances	Land and Land Improvements	Buildings and Improvements	Total Initial Acquisition Costs	Costs of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value	Accum Deprec
Spring Valley Road	—	2,875	—	2,875	1,856	2,875	1,856	4,731	947
Waterside	—	11,862	93	11,955	129	11,862	222	12,084	226
Vitruvian	—	8,005	16,006	24,011	54,123	39,556	38,578	78,134	59
TOTAL LAND	—	106,127	17,414	123,541	72,531	137,249	58,823	196,072	1,599
TOTAL REAL ESTATE UNDER DEVELOPMENT	—	249,215	33,801	283,016	404,103	288,403	398,716	687,120	2,852
COMMERCIAL HELD FOR DEVELOPMENT									
Hanover Village	—	1,624	—	1,624	—	1,104	520	1,624	548
Circle Towers Office Bldg	—	1,407	4,498	5,905	1,418	1,380	5,943	7,323	1,363
Brookhaven Shopping Center	—	4,138	7,093	11,231	10,260	7,793	13,698	21,491	3,344
Bellevue Plaza retail	—	24,377	7,517	31,894	165	29,920	2,139	32,059	362
Grandview	—	7,266	9,702	16,968	2,105	10,750	8,323	19,073	6,545
TOTAL COMMERCIAL	—	38,812	28,810	67,622	13,948	50,947	30,623	81,570	12,162
Other (b)	—	—	—	—	10,333	80	10,253	10,337	852
TOTAL CORPORATE	—	—	—	—	10,333	80	10,253	10,337	852
TOTAL COMMERCIAL & CORPORATE	—	38,812	28,810	67,622	24,281	51,027	40,876	91,907	13,014
TOTAL REAL ESTATE OWNED	$1,430,135	$1,810,426	$4,393,202	$6,203,628	$1,852,200	$2,058,323	$5,997,505	$8,055,828	$1,924

(a) Date of construction or date of last major renovation.
(b) Includes unallocated accruals and capital expenditures.

The aggregate cost for federal income tax purposes was approximately $7.1 billion at December 31, 2012.

The estimated depreciable lives for all buildings in the latest Consolidated Statements of Operations are 35 to 55 years.

S - 5

UDR, INC.
SCHEDULE III — REAL ESTATE OWNED - (Continued)
DECEMBER 31, 2012
(In thousands)

3-YEAR ROLLFORWARD OF REAL ESTATE OWNED AND ACCUMULATED DEPRECIATION

The following is a reconciliation of the carrying amount of total real estate owned at December 31, (in thousands):

	2012	2011	2010
Balance at beginning of the year	$8,074,471	$6,881,347	$6,315,047
Real estate acquired	141,648	1,590,514	425,825
Capital expenditures and development	422,480	189,711	167,986
Real estate sold	(559,154)	(587,101)	(20,328)
Retirement of fully depreciated assets	(13,945)	—	(7,183)
Hurricane-related impairment of assets	(9,672)	—	—
Balance at end of the year	$8,055,828	$8,074,471	$6,881,347

The following is a reconciliation of total accumulated depreciation for real estate owned at December 31:

	2012	2011	2010
Balance at beginning of the year	$1,831,727	$1,638,326	$1,351,293
Depreciation expense for the year	340,800	341,925	297,889
Accumulated depreciation on sales	(233,207)	(148,524)	(3,673)
Accumulated depreciation on retirements of fully depreciated assets	(13,945)	—	(7,183)
Write off of accumulated depreciation on hurricane-related impaired assets	(693)	—	—
Balance at end of year	$1,924,682	$1,831,727	$1,638,326

UNITED DOMINION REALTY, L.P.
SCHEDULE III — REAL ESTATE OWNED
DECEMBER 31, 2012
(In thousands)

		Initial Costs				Gross Amount at Which Carried at Close of Period					
	Encumbrances	Land and Land Improvements	Building and Improvements	Total Initial Acquisition Costs	Cost of Improvements Capitalized Subsequent to Acquisition Costs	Land and Land Improvements	Buildings & Buildings Improvements	Total Carrying Value	Accumulated Depreciation	Date of Construction (a)	Date Acquired
WESTERN REGION											
Harbor at Mesa Verde	$45,016	$20,476	$28,538	$49,014	$11,861	$20,860	$40,015	$60,875	$22,935	2003	Jun-03
Pine Brook Village	18,270	2,582	25,504	28,086	6,720	3,886	30,920	34,806	15,706	1979	Jun-03
Pacific Shores	19,145	7,345	22,624	29,969	8,487	7,706	30,750	38,456	17,000	2003	Jun-03
Huntington Vista	29,896	8,055	22,486	30,541	6,612	8,289	28,864	37,153	16,261	1970	Jun-03
Missions at Back Bay	—	229	14,129	14,358	1,974	10,770	5,562	16,332	3,391	1969	Dec-03
Coronado at Newport — North	—	62,516	46,082	108,598	22,361	66,666	64,293	130,959	33,729	2000	Oct-04
Huntington Villas	53,294	61,535	18,017	79,552	5,916	62,029	23,439	85,468	12,733	1972	Sep-04
Villa Venetia	—	70,825	24,179	95,004	27,965	71,380	51,589	122,969	15,382	1972	Oct-04
Vista Del Rey	—	10,670	7,080	17,750	1,785	10,810	8,725	19,535	4,706	1969	Sep-04
Coronado South	—	58,785	50,067	108,852	16,280	59,162	65,970	125,132	32,871	2000	Mar-05
Pine Brook Village II	—	25,922	60,961	86,883	5,776	26,028	66,631	92,659	16,912	1975	May-08
ORANGE COUNTY, CA	165,621	328,940	319,667	648,607	115,737	347,586	416,758	764,344	191,626		
2000 Post Street	—	9,861	44,578	54,439	6,976	10,185	51,230	61,415	21,311	1987	Dec-98
Birch Creek	—	4,365	16,696	21,061	5,538	5,023	21,576	26,599	11,279	1968	Dec-98
Highlands Of Marin	—	5,996	24,868	30,864	25,853	7,031	49,686	56,717	20,655	1991	Dec-98
The Westerly	—	6,224	23,916	30,140	8,259	6,806	31,593	38,399	15,967	1971	Dec-98
River Terrace	33,130	22,161	40,137	62,298	2,591	22,307	42,582	64,889	18,618	2005	Aug-05
CitySouth	—	14,031	30,537	44,568	34,711	16,205	63,074	79,279	19,350	1972	Nov-05
Bay Terrace	—	8,545	14,458	23,003	4,114	11,425	15,692	27,117	6,775	1962	Oct-05
Highlands of Marin Phase II	—	5,353	18,559	23,912	11,010	5,753	29,169	34,922	9,062	1968	Oct-07

Edgewater	43,119	30,657	83,872	114,529	2,382	30,675	86,236	116,911	23,935	2007	Mar-08
Almaden Lake Village	27,000	594	42,515	43,109	3,541	698	45,952	46,650	12,331	1999	Jul-08
SAN FRANCISCO, CA	103,249	107,787	340,136	447,923	104,975	116,108	436,790	552,898	159,283		
Rosebeach	—	8,414	17,449	25,863	2,150	8,471	19,542	28,013	9,744	1970	Sep-04
Ocean Villas	—	5,135	12,789	17,924	1,511	5,224	14,211	19,435	6,775	1965	Oct-04
Tierra Del Rey	38,174	39,586	36,679	76,265	2,351	39,626	38,990	78,616	11,832	1999	Dec-07
LOS ANGELES, CA	38,174	53,135	66,917	120,052	6,012	53,321	72,743	126,064	28,351		
Crowne Pointe	—	2,486	6,437	8,923	4,514	2,811	10,626	13,437	6,069	1987	Dec-98
Hilltop	—	2,174	7,408	9,582	3,319	2,651	10,250	12,901	5,553	1985	Dec-98
The Kennedy	—	6,179	22,307	28,486	1,444	6,231	23,699	29,930	9,851	2005	Nov-05
Hearthstone at Merrill Creek	23,786	6,848	30,922	37,770	1,978	6,861	32,887	39,748	9,210	2000	May-08
Island Square	—	21,284	89,389	110,673	3,054	21,400	92,327	113,726	23,791	2007	Jul-08
SEATTLE, WA	23,786	38,971	156,463	195,434	14,309	39,954	169,789	209,742	54,474		
Presidio at Rancho Del Oro	—	9,164	22,694	31,858	5,584	9,665	27,777	37,442	14,988	1987	Jun-04
Villas at Carlsbad	—	6,517	10,718	17,235	1,839	6,720	12,354	19,074	5,832	1966	Oct-04
SAN DIEGO, CA	—	15,681	33,412	49,093	7,423	16,385	40,131	56,516	20,820		
Boronda Manor	—	1,946	8,982	10,928	8,888	3,144	16,672	19,816	7,297	1979	Dec-98
Garden Court	—	888	4,188	5,076	4,925	1,484	8,517	10,001	3,784	1973	Dec-98
Cambridge Court	—	3,039	12,883	15,922	13,495	5,187	24,230	29,417	11,198	1974	Dec-98
Laurel Tree	—	1,304	5,115	6,419	5,471	2,120	9,770	11,890	4,517	1977	Dec-98
The Pointe At Harden Ranch	—	6,388	23,854	30,242	24,236	9,802	44,676	54,477	19,942	1986	Dec-98
The Pointe At Northridge	—	2,044	8,028	10,072	9,311	3,237	16,146	19,383	7,646	1979	Dec-98
The Pointe At Westlake	—	1,329	5,334	6,663	5,598	2,129	10,132	12,261	4,416	1975	Dec-98
MONTEREY PENINSULA, CA											