UDR, Inc.
Form 10-Q
April 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from to

Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)

UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

UDR, Inc.:

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	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 x	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 x
United Dominion Realty, L.P.	Yes o No x

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of April 25, 2016 was 267,137,288.

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EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2016 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), a Delaware limited partnership of which UDR is the sole general partner. The DownREIT Partnership was formed in conjunction with certain acquisitions from Home Properties, L.P., a New York limited partnership, by UDR in October 2015. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as the “OP Units” and “DownREIT Units,” and the holders of the OP Units and DownREIT Units are referred to as “unitholders.” This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

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

As of March 31, 2016, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,114,516 units (approximately 95.1%) of the limited partnership interests of the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

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

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$9,000,652	$9,053,599
Less: accumulated depreciation	(2,743,461)	(2,646,044)
Real estate held for investment, net	6,257,191	6,407,555
Real estate under development (net of accumulated depreciation of $0 and $0, respectively)	196,402	124,072
Real estate held for disposition (net of accumulated depreciation of $802 and $830, respectively)	31,744	11,775
Total real estate owned, net of accumulated depreciation	6,485,337	6,543,402
Cash and cash equivalents	3,668	6,742
Restricted cash	21,030	20,798
Notes receivable, net	16,694	16,694
Investment in and advances to unconsolidated joint ventures, net	944,864	938,906
Other assets	129,975	137,302
Total assets	$7,601,568	$7,663,844
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt, net	$1,374,670	$1,376,945
Unsecured debt, net	2,037,155	2,193,850
Real estate taxes payable	16,147	18,786
Accrued interest payable	28,589	29,162
Security deposits and prepaid rent	35,995	36,330
Distributions payable	86,963	80,368
Accounts payable, accrued expenses, and other liabilities	77,676	81,356
Total liabilities	3,657,195	3,816,797
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	970,620	946,436
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized:		
8.00% Series E Cumulative Convertible; 2,796,903 shares issued and outstanding at March 31, 2016 and December 31, 2015	46,457	46,457
Series F; 16,452,496 shares issued and outstanding at March 31, 2016 and December 31, 2015	1	1
Common stock, $0.01 par value; 350,000,000 shares authorized:		
267,137,288 and 261,844,521 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	2,671	2,618
Additional paid-in capital	4,620,946	4,447,816
Distributions in excess of net income	(1,685,173)	(1,584,459)

Accumulated other comprehensive income/(loss), net	(12,035)	(12,678)
Total stockholders' equity	2,972,867	2,899,755
Noncontrolling interests	886	856
Total equity	2,973,753	2,900,611
Total liabilities and equity	$7,601,568	$7,663,844

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2016	2015
REVENUES:		
Rental income	$231,957	$207,047
Joint venture management and other fees	2,858	12,706
Total revenues	234,815	219,753
OPERATING EXPENSES:		
Property operating and maintenance	39,446	37,250
Real estate taxes and insurance	28,377	26,222
Property management	6,379	5,694
Other operating expenses	1,752	1,766
Real estate depreciation and amortization	105,339	88,777
General and administrative	13,844	12,152
Casualty-related charges/(recoveries), net	—	996
Other depreciation and amortization	1,553	1,623
Total operating expenses	196,690	174,480
Operating income	38,125	45,273
Income/(loss) from unconsolidated entities	679	59,159
Interest expense	(31,104)	(28,800)
Interest income and other income/(expense), net	431	360
Income/(loss) before income taxes and gain/(loss) on sale of real estate owned	8,131	75,992
Tax benefit/(provision), net	403	425
Income/(loss) from continuing operations	8,534	76,417
Gain/(loss) on sale of real estate owned, net of tax	3,070	—
Net income/(loss)	11,604	76,417
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(905)	(2,588)
Net (income)/loss attributable to noncontrolling interests	(306)	(7)
Net income/(loss) attributable to UDR, Inc.	10,393	73,822
Distributions to preferred stockholders — Series E (Convertible)	(929)	(931)
Net income/(loss) attributable to common stockholders	$9,464	$72,891
Income/(loss) per weighted average common share — basic:	$0.04	$0.28
Income/(loss) per weighted average common share — diluted:	$0.04	$0.28
Common distributions declared per share	$0.2950	$0.2775
Weighted average number of common shares outstanding — basic	262,456	256,834
Weighted average number of common shares outstanding — diluted	264,285	258,662

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Net income/(loss)	$11,604	$76,417
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:		
Other comprehensive income/(loss) - derivative instruments:		
Unrealized holding gain/(loss)	(811)	(7,552)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	935	737
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	124	(6,815)
Comprehensive income/(loss)	11,728	69,602
Comprehensive (income)/loss attributable to noncontrolling interests	(692)	(2,371)
Comprehensive income/(loss) attributable to UDR, Inc.	$11,036	$67,231

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
Balance at December 31, 2015	$46,458	$2,618	$4,447,816	$(1,584,459)	$(12,678)	$856	$2,900,611
Net income/(loss) attributable to UDR, Inc.	—	—	—	10,393	—	—	10,393
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	306	306
Disposition of noncontrolling interests in consolidated real estate	—	—	—	—	—	(1,159)	(1,159)
Contribution of noncontrolling interests in consolidated real estate	—	—	—	—	—	220	220
Long-Term Incentive Plan Unit grants	—	—	—	—	—	663	663
Other comprehensive income/(loss)	—	—	—	—	643	—	643
Issuance/(forfeiture) of common and restricted shares, net	—	3	(120)	—	—	—	(117)
Issuance of common shares through public offering	—	50	173,250	—	—	—	173,300
Common stock distributions declared ($0.2950 per share)	—	—	—	(78,848)	—	—	(78,848)
Preferred stock distributions declared-Series E ($0.3322 per share)	—	—	—	(929)	—	—	(929)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	(31,330)	—	—	(31,330)
Balance at March 31, 2016	$46,458	$2,671	$4,620,946	$(1,685,173)	$(12,035)	$886	$2,973,753

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income/(loss)	$11,604	$76,417
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	106,892	90,400
(Gain)/loss on sale of real estate owned, net of tax	(3,070)	—
Tax (benefit)/provision, net	(403)	(425)
(Income)/loss from unconsolidated entities	(679)	(59,159)
Amortization of share-based compensation	3,879	4,260
Other	2,497	3,060
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	(1,853)	4,794
Increase/(decrease) in operating liabilities	(6,378)	(23,329)
Net cash provided by/(used in) operating activities	112,489	96,018
Investing Activities		
Proceeds from sale of real estate investments, net	21,951	—
Development of real estate assets	(36,045)	(43,563)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(24,917)	(20,431)
Capital expenditures — non-real estate assets	(664)	(437)
Investment in unconsolidated joint ventures	(13,262)	(25,463)
Distributions received from unconsolidated joint ventures	7,983	41,481
(Issuance)/repayment of notes receivable	—	(1,125)
Net cash provided by/(used in) investing activities	(44,954)	(49,538)
Financing Activities		
Payments on secured debt	(2,205)	(2,266)
Payments on unsecured debt	(83,373)	(325,211)
Net proceeds/(repayment) of revolving bank debt	(73,652)	236,500
Proceeds from the issuance of common shares through public offering, net	173,300	108,790
Distributions paid to redeemable noncontrolling interests	(7,085)	(2,509)
Distributions paid to preferred stockholders	(924)	(931)
Distributions paid to common stockholders	(72,704)	(66,692)
Other	(3,966)	(3,111)
Net cash provided by/(used in) financing activities	(70,609)	(55,430)
Net increase/(decrease) in cash and cash equivalents	(3,074)	(8,950)
Cash and cash equivalents, beginning of period	6,742	15,224
Cash and cash equivalents, end of period	3,668	6,274

Three Months Ended March 31,

	2016	2015
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$31,918	$40,282
Non-cash transactions:		
Acquisition of real estate	$—	$24,067
Fair value adjustment of debt acquired as part of acquisition of real estate	—	1,363
Development costs and capital expenditures incurred but not yet paid	21,220	19,372
Conversion of Operating Partnership noncontrolling interest to common stock (0 shares in 2016 and 534 shares in 2015)	—	17

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION

Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (“UDR,” the “Company,” “we,” “our,” or “us”), is a self-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the “Operating Partnership” or the “OP”) and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”). As of March 31, 2016, there were 183,278,698 units in the Operating Partnership outstanding, of which 174,225,399 units, or 95.1%, were owned by UDR and 9,053,299 units, or 4.9%, were owned by limited partners. As of March 31, 2016, there were 32,367,380 units in the DownREIT Partnership (“DownREIT Units”) outstanding, of which 16,229,407, or 50.1%, were owned by UDR (of which, 13,470,651, or 41.6%, were held by the Operating Partnership) and 16,137,973, or 49.9%, were owned by outside limited partners. The consolidated financial statements of UDR include the noncontrolling interests of the unitholders in the Operating Partnership and DownREIT Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of March 31, 2016, and results of operations for the three months ended March 31, 2016 and 2015 have been included. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2015 appearing in UDR’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2016.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

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

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model of consolidation. Under ASU 2015-02, companies will need to re-evaluate whether an entity meets the criteria to be considered a variable interest entity ("VIE") or whether the consolidation of an entity should be assessed under the voting model. The new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. The new standard was effective for the Company beginning on January 1, 2016. The adoption of the new standard did not result in the consolidation of entities not previously consolidated or the deconsolidation of any entities previously consolidated. Upon adopting the new standard, the Operating Partnership and DownREIT Partnership became VIEs as the limited partners of these entities lack substantive kick-out rights and substantive participating rights. The Company is the primary beneficiary of, and continues to consolidate, the entities determined to be VIEs.

Principles of Consolidation

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

Discontinued Operations

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

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

Revenue and Real Estate Sales Gain Recognition

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

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

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

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2016

Notes Receivable

The following table summarizes our notes receivable, net as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	Interest rate at March 31, 2016		Balance outstanding March 31, 2016	December 31, 2015
Note due February 2020 (a)	10.00	%	$12,994	$ 12,994
Note due July 2017 (b)	8.00	%	2,500	2,500
Note due October 2020 (c)	8.00	%	1,200	1,200
Total notes receivable, net			$16,694	$ 16,694

(a) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $13.0 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the eighth anniversary of the date of the note (February 2020).
In March 2016, the terms of this secured note receivable were amended to extend the maturity from the fifth anniversary of the date of the note (February 2017) to the eighth anniversary of the date of the note (February 2020).
(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.5 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).
(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.0 million. Interest payments are due when the loan matures. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $10.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (October 2020).

The Company recognized $0.4 million and $0.4 million during the three months ended March 31, 2016 and 2015, respectively, of interest income from notes receivable, none of which was related party interest income. Interest income is included in Interest income and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three months ended March 31, 2016 and 2015, the Company's other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion.

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 March 31, 2016, UDR’s net deferred tax asset was $12.3 million (net of a valuation allowance of less than $0.1 million), which is included in Other assets on the Consolidated Balance Sheets.

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

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

UDR had no material unrecognized tax benefit, accrued interest or penalties at March 31, 2016. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2011 through 2014 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax benefit/(provision), net on the Consolidated Statements of Operations.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of March 31, 2016, the Company owned and consolidated 132 communities in 10 states plus the District of Columbia totaling 40,728 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016	December 31, 2015
Land	$1,763,519	$1,833,156
Depreciable property — held and used:		
Land Improvements	175,222	173,821
Building, improvements, and furniture, fixtures and equipment	7,061,911	7,046,622
Under development:		
Land and land improvements	111,028	78,085
Building, improvements, and furniture, fixtures and equipment	85,374	45,987
Real estate held for disposition:		
Land	29,920	9,963
Building, improvements, and furniture, fixtures and equipment	2,626	2,642
Real estate owned	9,229,600	9,190,276
Accumulated depreciation	(2,744,263)	(2,646,874)
Real estate owned, net	$6,485,337	$6,543,402

During the three months ended March 31, 2016, the Company sold its 95% ownership interest in two parcels of land in Santa Monica, California for total gross proceeds of $24.0 million, resulting in total net proceeds of $22.0 million and a total gain, net of tax, of $3.1 million.

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, were $2.0 million and $2.2 million for the three months ended March 31, 2016 and 2015, respectively. Total interest capitalized was $4.2 million and $4.8 million for the three months ended March 31, 2016 and 2015, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

4. VARIABLE INTEREST ENTITIES

As of January 1, 2016, the Company adopted ASU 2015-02. See discussion in Note 2, Significant Accounting Policies for further details. As a result of the adoption, the Operating Partnership and DownREIT Partnership were determined to be VIEs. As the Company was determined to be the primary beneficiary, we will continue to consolidate these entities.

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

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

5. JOINT VENTURES AND PARTNERSHIPS

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

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

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

The following table summarizes the Company’s investment in and advances to unconsolidated joint ventures and partnerships, net, which are accounted for under the equity method of accounting as of March 31, 2016 and December 31, 2015 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR’s Ownership Interest	
		March 31, 2016	March 31, 2016	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Operating and development:							
UDR/MetLife I	Various	4 land parcels	—	$18,014	$ 15,894	18.5 %	17.2 %
UDR/MetLife II (a)	Various	21 operating communities	4,642	421,139	425,230	50.0 %	50.0 %
Other UDR/MetLife Development Joint Ventures	Various	1 operating community; 4 development communities (b); 1 land parcel	1,437	177,323	171,659	50.6 %	50.6 %
UDR/MetLife Vitruvian Park®	Addison, TX	3 operating communities; 6 land parcels	1,130	72,569	73,469	50.0 %	50.0 %
UDR/KFH	Washington, D.C.	3 operating communities	660	16,147	17,211	30.0 %	30.0 %
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment and preferred equity investment			695,980,000	705,192	703,463		

	Location	Rate	Years To Maturity	Investment at		Income from Investment Three Months Ended March 31,	
				March 31, 2016	December 31, 2015	2016	2015
Participating loan investment:							
Steele Creek	Denver, CO	6.5%	1.3	93,463	90,747	$ 1,519	$ 1,154
Preferred equity investment:							
West Coast Development Joint Venture	Various	6.5%	N/A	146,209	144,696	$ 1,427	$ —
Total investment in and advances to unconsolidated joint ventures, net				$944,864	$ 938,906		

(a) In September 2015, the 717 Olympic community, which is owned by the UDR/MetLife II joint venture, experienced extensive water damage due to a ruptured water pipe. For the three months ended March 31, 2016, the Company recorded losses of $1.1 million, its proportionate share of the total losses incurred.

(b) The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes. As of March 31, 2016, 251 apartment homes had been completed in Other

UDR/MetLife Development Joint Ventures.

As of March 31, 2016 and December 31, 2015, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of $7.7 million and $6.8 million, respectively, which will be recognized through income over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized management fees for our management of the joint ventures and partnerships of $2.8 million and $2.6 million for the three months ended March 31, 2016 and 2015, respectively. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three months ended March 31, 2016 and 2015.

Combined summary balance sheets relating to the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016	December 31, 2015
Total real estate, net	$3,175,927	$ 3,135,757
Cash and cash equivalents	20,173	36,480
Amount due from UDR	693	—
Other assets	25,391	29,891
Total assets	$3,222,184	$ 3,202,128
Amount due to UDR	$—	$ 7,266
Third party debt	1,678,146	1,614,463
Accounts payable and accrued liabilities	65,600	95,523
Total liabilities	1,743,746	1,717,252
Total equity	1,478,438	1,484,876
Total liabilities and equity	$3,222,184	$ 3,202,128
Investment in and advances to unconsolidated joint ventures, net	$944,864	$ 938,906

Combined summary financial information relating to the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the three months ended March 31, 2016 and 2015 (dollars in thousands):

	Three Months Ended March 31, 2016	2015
Total revenues	$55,037	$54,546
Property operating expenses	(23,413)	(20,168)
Real estate depreciation and amortization	(18,943)	(19,351)
Operating income/(loss)	12,681	15,027
Interest expense	(16,179)	(16,061)
Income/(loss) from discontinued operations	(2)	182,488
Net income/(loss)	$(3,500)	$181,454
UDR income/(loss) from unconsolidated entities	$679	$59,159

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2016

6. SECURED AND UNSECURED DEBT, NET

The following is a summary of our secured and unsecured debt at March 31, 2016 and December 31, 2015 (dollars in thousands):

	Principal Outstanding		Three Months Ended March 31, 2016		
	March 31, 2016	December 31, 2015	Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:					
Fixed Rate Debt					
Mortgage notes payable (a)	$440,714	$ 442,617	4.57%	4.3	8
Fannie Mae credit facilities (b)	513,518	514,462	5.23%	2.8	18
Deferred financing costs	(3,798)	(4,278)			
Total fixed rate secured debt, net	950,434	952,801	4.93%	3.5	26
Variable Rate Debt					
Mortgage notes payable	31,337	31,337	2.25%	0.8	1
Tax-exempt secured notes payable (c)	94,700	94,700	0.88%	6.9	2
Fannie Mae credit facilities (b)	299,378	299,378	1.90%	3.8	8
Deferred financing costs	(1,179)	(1,271)			
Total variable rate secured debt, net	424,236	424,144	1.70%	4.3	11
Total Secured Debt, net	1,374,670	1,376,945	3.92%	3.7	37
Unsecured Debt:					
Variable Rate Debt					
Borrowings outstanding under an unsecured credit facility due January 2020 (d) (h)	70,000	150,000	1.31%	3.8	
Borrowings outstanding under an unsecured working capital credit facility due January 2019 (e)	6,348	—	1.34%	2.8	
1.38% Term Loan Facility due January 2021 (d) (h)	35,000	35,000	1.38%	4.8	
Fixed Rate Debt					
5.25% Medium-Term Notes due January 2016 (f)	—	83,260	— %	—	
6.21% Term Notes due July 2016	11,828	12,091	6.21%	0.3	
4.25% Medium-Term Notes due June 2018 (net of discounts of $929 and $1,037, respectively) (h)	299,071	298,963	4.25%	2.2	
3.70% Medium-Term Notes due October 2020 (net of discounts of $36 and $38, respectively) (h)	299,964	299,962	3.70%	4.5	
2.23% Term Loan Facility due January 2021 (d) (h)	315,000	315,000	2.23%	4.8	
4.63% Medium-Term Notes due January 2022 (net of discounts of $2,074 and $2,164, respectively) (h)	397,926	397,836	4.63%	5.8	
3.75% Medium-Term Notes due July 2024 (net of discounts of $860 and $886, respectively) (h)	299,140	299,114	3.75%	8.3	
8.50% Debentures due September 2024	15,644	15,644	8.50%	8.5	

4.00% Medium-Term Notes due October 2025 (net of discounts of $654 and $671, respectively) (g) (h)	299,346	299,329	4.00%	9.5

Other	24	24	N/A	N/A
Deferred financing costs	(12,136)	(12,373)	N/A	N/A
Total Unsecured Debt, net	2,037,155	2,193,850	3.79%	5.7
Total Debt, net	$3,411,825	$3,570,795	3.95%	4.9

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.

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. As of March 31, 2016, secured debt encumbered $2.3 billion or 25.2% of UDR's total real estate owned based upon gross book value ($6.9 billion or 74.8% of UDR's real estate owned based on gross book value is unencumbered).

(a) At March 31, 2016, fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from June 2016 through November 2025 and carry interest rates ranging from 3.43% to 6.16%.

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the debt at its estimated fair value and amortizes any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The Company had a reduction to interest expense based on the amortization of the fair market adjustment of debt assumed in the acquisition of properties of $0.8 million and $1.1 million during the three months ended March 31, 2016 and 2015, respectively. The unamortized fair market adjustment was a net premium of $9.2 million and $10.0 million at March 31, 2016 and December 31, 2015, respectively.

(b) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $812.9 million at March 31, 2016. The Fannie Mae credit facilities mature at various dates from May 2017 through July 2023 and bear interest at floating and fixed rates. At March 31, 2016, $513.5 million of the outstanding balance was fixed and had a weighted average interest rate of 5.23% and the remaining balance of $299.4 million had a weighted average variable interest rate of 1.90%.

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

	March 31, 2016	December 31, 2015
Borrowings outstanding	$812,896	$ 813,840
Weighted average borrowings during the period ended	813,228	822,521
Maximum daily borrowings during the period ended	813,544	834,003
Weighted average interest rate during the period ended	4.0 %	4.0 %
Weighted average interest rate at the end of the period	4.0 %	3.9 %

(c) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature in August 2019 and March 2032. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates of 0.78% and 0.91% as of March 31, 2016.

(d) As of March 31, 2016, the Company has a $1.1 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") and a $350.0 million senior unsecured term loan facility (the "Term Loan Facility"). The credit agreement for these facilities (the "Credit Agreement") allows the total commitments under the Revolving Credit Facility and the total borrowings under the Term Loan Facility to be increased to an aggregate maximum amount of up to $2.0 billion, subject to certain conditions, including obtaining commitments from any one or more lenders. The Revolving Credit Facility has a scheduled maturity date of January 31, 2020, with two six-month extension options, subject to certain conditions. The Term Loan Facility has a scheduled maturity date of January 29, 2021.

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

The Credit Agreement contains customary representations and warranties and financial and other affirmative and negative covenants. The Credit Agreement also includes customary events of default, in certain cases subject to customary periods to cure. The occurrence of an event of default, following the applicable cure period, would permit the lenders to, among other things, declare the unpaid principal, accrued and unpaid interest and all other amounts payable under the Credit Agreement to be immediately due and payable.

The following is a summary of short-term bank borrowings under the Revolving Credit Facility at March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016	December 31, 2015
Total revolving credit facility	$1,100,000	$1,100,000
Borrowings outstanding at end of period (1)	70,000	150,000
Weighted average daily borrowings during the period ended	193,846	353,647
Maximum daily borrowings during the period ended	305,000	541,500
Weighted average interest rate during the period ended	1.3 %	1.1 %
Interest rate at end of the period	1.3 %	1.2 %

(1) Excludes $2.3 million and $2.3 million of letters of credit at March 31, 2016 and December 31, 2015, respectively.

(e) As of March 31, 2016, the Company has a working capital credit facility, which provides for a $30 million unsecured revolving credit facility (the “Working Capital Credit Facility”) with a scheduled maturity date of January 1, 2019. Based on the Company’s current credit rating, the Working Capital Credit Facility has an interest rate equal to LIBOR plus a margin of 90 basis points. Depending on the Company’s credit rating, the margin ranges from 85 to 155 basis points.

The following is a summary of short-term bank borrowings under UDR’s working capital credit facility at March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016	December 31, 2015
Total revolving working capital credit facility	$30,000	$ 30,000
Borrowings outstanding at end of period	6,348	—
Weighted average daily borrowings during the period ended	7,392	—
Maximum daily borrowings during the period ended	28,514	—
Weighted average interest rate during the period ended	1.3 %	— %
Interest rate at end of the period	1.3 %	— %

(f) Paid off at maturity with borrowings under the Company's $1.1 billion unsecured revolving credit facility.

(g) The Company previously entered into forward starting interest rate swaps to hedge against interest rate risk on $200 million of this debt. The all-in weighted average interest rate, inclusive of the impact of these interest rate swaps, was 4.55%.

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

The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next ten calendar years subsequent to March 31, 2016 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt	Total Debt
2016	$146,853	$—	$146,853	$11,680	$158,533
2017	179,189	96,337	275,526	—	275,526
2018	73,096	137,969	211,065	300,000	511,065
2019	247,796	67,700	315,496	6,349	321,845
2020	170,664	—	170,664	370,000	540,664
2021	—	—	—	350,000	350,000
2022	—	—	—	400,000	400,000
2023	—	96,409	96,409	—	96,409
2024	—	—	—	315,644	315,644
2025	127,600	—	127,600	300,000	427,600
Thereafter	—	27,000	27,000	—	27,000
Subtotal	945,198	425,415	1,370,613	2,053,673	3,424,286
Non-cash (a)	5,236	(1,179)	4,057	(16,518)	(12,461)
Total	$950,434	$424,236	$1,374,670	$2,037,155	$3,411,825

(a) Includes the unamortized balance of fair market value adjustments, premiums/discounts, deferred hedge gains, and deferred financing costs. For the three months ended March 31, 2016 and 2015, the Company amortized $1.3 million and $1.5 million, respectively, of deferred financing costs into Interest expense.

We were in compliance with the covenants of our debt instruments at March 31, 2016.

7. INCOME/(LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2016	2015
Numerator for income/(loss) per share:		
Income/(loss) from continuing operations	$8,534	$76,417
Gain/(loss) on sale of real estate owned, net of tax	3,070	—
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership	(905)	(2,588)
Net (income)/loss attributable to noncontrolling interests	(306)	(7)
Net income/(loss) attributable to UDR, Inc.	10,393	73,822