UDR, Inc.
Form 10-Q
November 03, 2011

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

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

For the quarterly period ended September 30, 2011

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 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 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 þ No o
United Dominion Realty, L.P.	Yes þ 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 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 number of shares of UDR, Inc. s common stock, $0.01 par value, outstanding as of October 28, 2011, was 219,042,841.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2011 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-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 and operating partnerships, including its subsidiary RE^3, whose activities include development of land. UDR acts as the sole general partner of the Operating Partnership, holds interests in other operating partnerships, 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 September 30, 2011, UDR owned 110,883 units of the general partnership interests of the Operating Partnership and 174,741,015 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, are provided for each of UDR and the Operating Partnership. This combined Form 10-Q is being filed separately by UDR and the Operating Partnership.

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

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 7,988,133**	$ 6,398,630
Less: accumulated depreciation	**(1,794,150)**	(1,550,847)
Real estate held for investment, net	**6,193,983**	4,847,783
Real estate under development (net of accumlated depreciation of $115 and $0)	**192,815**	97,912
Real estate held for sale (net of accumulated depreciation of $9,835 and $87,479)	**36,366**	297,326
Total real estate owned, net of accumulated depreciation	**6,423,164**	5,243,021
Cash and cash equivalents	**13,482**	9,486
Marketable securities		3,866
Restricted cash	**19,641**	15,447
Deferred financing costs, net	**23,709**	27,267
Notes receivable	**7,800**	7,800
Investment in unconsolidated joint ventures	**187,176**	148,057
Other assets	**129,931**	74,596
Total assets	**$ 6,804,903**	$ 5,529,540
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	**$ 2,004,525**	$ 1,840,872
Secured debt real estate held for sale	**17,159**	122,798
Unsecured debt	**1,967,661**	1,603,834
Real estate taxes payable	**28,729**	14,585
Accrued interest payable	**23,924**	20,889
Security deposits and prepaid rent	**37,685**	26,046
Distributions payable	**47,489**	36,561
Deferred fees and gains on the sale of depreciable property	**29,106**	28,943
Accounts payable, accrued expenses, and other liabilities	**109,066**	105,925
Total liabilities	**4,265,344**	3,800,453
Redeemable non-controlling interests in operating partnership	**208,766**	119,057
Equity		
Preferred stock, no par value; 50,000,000 shares authorized	**46,571**	46,571

2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2010)		
3,264,362 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (3,405,562 shares at December 31, 2010)	**81,609**	85,139
Common stock, $0.01 par value; 250,000,000 shares authorized 219,038,779 shares issued and outstanding (182,496,330 shares at December 31, 2010)	**2,190**	1,825
Additional paid-in capital	**3,322,505**	2,450,141
Distributions in excess of net income	**(1,111,356)**	(973,864)
Accumulated other comprehensive income/(loss), net	**(15,427)**	(3,469)
Total stockholders equity	**2,326,092**	1,606,343
Non-controlling interest	**4,701**	3,687
Total equity	**2,330,793**	1,610,030
Total liabilities and equity	**$ 6,804,903**	$ 5,529,540

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 September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
REVENUES				
Rental income	**$ 187,320**	$ 150,139	**$ 521,679**	$ 435,152
Non-property income:				
Other income	**5,229**	2,192	**12,620**	5,719
Total revenues	**192,549**	152,331	**534,299**	440,871
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	**22,548**	17,832	**63,040**	53,933
Personnel	**14,575**	13,945	**44,131**	39,855
Utilities	**10,185**	8,537	**28,014**	24,268
Repair and maintenance	**10,575**	9,211	**28,807**	24,663
Administrative and marketing	**3,684**	3,904	**11,773**	11,182
Property management	**5,152**	4,129	**14,347**	11,967
Other operating expenses	**1,539**	1,403	**4,540**	4,342
Real estate depreciation and amortization	**95,436**	70,880	**265,184**	207,061
Interest				
Expense incurred	**39,617**	36,129	**112,281**	105,678
Amortization of convertible debt discount	**359**	859	**1,077**	2,754
Other debt charges	**(7)**	91	**4,052**	1,121
General and administrative	**11,919**	11,994	**35,512**	31,927
Other depreciation and amortization	**983**	1,224	**3,012**	3,755
Total expenses	**216,565**	180,138	**615,770**	522,506
Loss from operations	**(24,016)**	(27,807)	**(81,471)**	(81,635)
Loss from unconsolidated entities	**(1,580)**	(835)	**(4,260)**	(2,757)
Loss from continuing operations	**(25,596)**	(28,642)	**(85,731)**	(84,392)
Income from discontinued operations	**11,810**	4,037	**58,198**	7,121
Consolidated net loss	**(13,786)**	(24,605)	**(27,533)**	(77,271)
Net loss attributable to redeemable non-controlling interests in OP	**581**	870	**1,192**	2,939
Net income attributable to non-controlling interests	**(46)**	(31)	**(134)**	(111)
Net loss attributable to UDR, Inc.	**(13,251)**	(23,766)	**(26,475)**	(74,443)
Distributions to preferred stockholders Series E (Convertible)	**(931)**	(932)	**(2,793)**	(2,794)
Distributions to preferred stockholders Series G	**(1,377)**	(1,436)	**(4,210)**	(4,325)
			(175)	25

(Premium)/discount on preferred stock repurchases, net				
Net loss attributable to common stockholders	**$ (15,559)**	$ (26,134)	**$ (33,653)**	$ (81,537)
Earnings per weighted average common share basic and diluted:				
Loss from continuing operations attributable to common stockholders	**($0.13)**	($0.18)	**($0.47)**	($0.55)
Income from discontinued operations	**$ 0.06**	$ 0.02	**$ 0.30**	$ 0.04
Net loss attributable to common stockholders	**($0.07)**	($0.16)	**($0.17)**	($0.51)
Common distributions declared per share	**$ 0.200**	$ 0.185	**$ 0.585**	$ 0.545
Weighted average number of common shares outstanding basic and diluted	**213,816**	165,403	**195,723**	160,841

See accompanying notes to consolidated financial statements.

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UDR, INC.
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME/(LOSS)
(In thousands, except share and per share data)
(Unaudited)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of	Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Shares	Amount	Capital	Net Income	Income/(Loss)	interest	Total
Balance, December 31, 2010	**6,209,374**	**$ 131,710**	**182,496,330**	**$ 1,825**	**$ 2,450,141**	**$ (973,864)**	**$ (3,469)**	**$ 3,687**	**$ 1,610,030**
Comprehensive income/(loss)									
Net loss						(26,475)			(26,475)
Net income attributable to non-controlling interests								134	134
Other comprehensive income									
Unrealized gain on sale of marketable securities reclassified into earnings							(3,492)		(3,492)
Change in unrealized gain on derivative financial instruments							(8,895)		(8,895)
Allocation to redeemable non-controlling interests							429		429
Comprehensive income/(loss)							(11,958)		(38,299)
Issuance of common and restricted shares			642,057	6	8,646				8,652
Issuance of common shares through public offering			35,895,944	359	863,951				864,310

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			4,453	109				109
Acquisition of noncontrolling interest				(450)				(450)
Increase in non-controlling interest from business combination, net							880	880
Common stock distributions declared ($0.585 per share)					(118,364)			(118,364)
Preferred stock distributions declared-Series E ($0.6644 per share)					(2,793)			(2,793)
Preferred stock distributions declared-Series G ($0.843715 per share)					(4,210)			(4,210)
Adjustment to reflect redemption value of redeemable non-controlling interests					14,525			14,525
Balance, September 30, 2011	**6,068,174**	**$ 128,180**	**219,038,784**	**$ 2,190**	**$ 3,322,505**	**$ (1,111,356)**	**$ (15,427)**	**$ 4,701**	**$ 2,330,793**

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011 (unaudited)	**2010 (unaudited)**
Operating Activities		
Consolidated net loss	**$ (27,533)**	$ (77,271)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**276,008**	225,246
Net gain on sale of marketable securities	**(3,123)**	
Net gain on sale of cost investments	**(2,550)**	
Net gain on the sale of depreciable property	**(56,063)**	(4,034)
Loss on debt extinguishment	**4,052**	1,121
Write off of bad debt	**2,322**	2,036
Loss from unconsolidated entities	**4,260**	2,757
Amortization of deferred financing costs and other	**6,401**	5,861
Amortization of deferred compensation	**7,650**	9,079
Amortization of convertible debt discount	**1,077**	2,754
Changes in income tax accruals	**1,011**	(2,702)
Changes in operating assets and liabilities:		
Increase in operating assets	**(30,395)**	(10,364)
(Increase)/decrease in operating liabilities	**(196)**	3,006
Net cash provided by operating activities	**182,921**	157,489
Investing Activities		
Proceeds from sales of real estate investments, net	**77,130**	20,688
Proceeds from sale of marketable securities	**4,541**	
Payments related to the buyout of joint venture partner		(16,141)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(943,045)**	(342,697)
Cash paid in nonmonetary asset exchange	**(28,124)**	
Development of real estate assets	**(70,574)**	(79,718)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(68,125)**	(52,681)
Capital expenditures non-real estate assets	**(12,260)**	(3,332)
Investment in unconsolidated joint ventures	**(47,509)**	(5,697)
Distributions received from unconsolidated joint venture	**4,592**	730
Purchase deposits on pending real estate acquisitions	**(3,410)**	
Net cash used in investing activities	**(1,086,784)**	(478,848)
Financing Activities		
Payments on secured debt	**(222,767)**	(99,745)
Proceeds from the issuance of secured debt	**30,542**	62,833
Proceeds from the issuance of unsecured debt	**296,964**	149,190

Payments on unsecured debt		**(264,829)**		(79,488)
Net proceeds/(repayment) of revolving bank debt		**330,250**		(76,700)
Payment of financing costs		**(4,192)**		(5,040)
Issuance of common and restricted stock, net		**3,832**		4,680
Proceeds from the issuance of common shares through public offering, net		**864,310**		467,783
Payments for the repurchase of Series G preferred stock, net		**(3,597)**		(637)
Distributions paid to non-controlling interests		**(8,717)**		(3,069)
Distributions paid to preferred stockholders		**(7,003)**		(7,119)
Distributions paid to common stockholders		**(106,934)**		(87,207)
Net cash provided by financing activities		**907,859**		325,481
Net increase in cash and cash equivalents		**3,996**		4,122
Cash and cash equivalents, beginning of period		**9,486**		5,985
Cash and cash equivalents, end of period	**$**	**13,482**	$	10,107
Supplemental Information:				
Interest paid during the period, net of amounts capitalized	**$**	**128,021**	$	120,424
Non-cash transactions:				
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 assumed in the acquisitions of properties, including asset exchange		**247,805**		91,442
Secured debt transferred in asset exchange		**55,356**		
Fair market value of secured debt assumed in acquisitions of properties, including asset exchange		**26,880**		1,820
Fair market value of land contributed by non-controlling interest		**4,078**		
Non-cash consideration to acquire non-real estate asset		**6,864**		
Issuance of restricted stock awards		**6**		16
Conversion of operating partnership non-controlling interests to common stock (4,453 shares in 2011 and 445,560 shares in 2010)		**109**		8,320
Retirement of fully depreciated assets				8,680

See accompanying notes to consolidated financial statements.

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

1. CONSOLIDATION AND BASIS OF PRESENTATION

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (UDR , the Company , we , our , or us) is a self-adminis real estate investment trust, or REIT, that owns, 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). As of September 30, 2011, there were 184,281,254 units in the Operating Partnership outstanding, of which 174,851,898 units or 94.9% were owned by UDR and 9,429,356 units or 5.1% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2011, and results of operations for the three and nine months ended September 30, 2011 and 2010 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, 2010 appearing in UDR s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 5, 2011.

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. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

The Company evaluated subsequent events through the date its financial statements were issued. Except as disclosed in Note 16, *Subsequent Event*, no other recognized or non-recognized subsequent events were noted.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Revenue and real estate sales gain recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with FASB ASC 840, *Leases* and SEC Staff Accounting Bulletin No. 104, Revenue Recognition . 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 FASB ASC 360-20, *Real Estate Sales*. 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.

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2011

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.

Marketable Securities

Marketable securities represented common stock in a publicly held company. Marketable securities were classified as available-for-sale, and were carried at fair value with unrealized gains and losses reported as a component of stockholders equity. During the nine months ended September 30, 2011, the Company sold marketable securities for $3.5 million, resulting in a gross 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 nine months ended September 30, 2011.

The amortization of any discount and interest income on previously held debt securities are included in Other Income on the Consolidated Statements of Operations for the three and nine months ended September 30, 2010.

Preferred Share repurchases

When 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 offering as well as any premium or discount on the repurchase. The Company recognized a net decrease of $175,000 and a net increase of $25,000 to net loss attributable to common stockholders for nine months ended September 30, 2011 and 2010, respectively, and are reported in "(Premium)/discount on preferred stock repurchases, net in the Consolidated Statements of Operations.

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 income, excise and franchise taxes. UDR has elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries (TRS), primarily those engaged in development and property management 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 September 30, 2011, UDR recorded a net current liability of $301,000 and a deferred tax asset of $6.6 million (net of a valuation allowance of $49.6 million). For the three and nine months ended September 30, 2011, UDR recorded income tax expense of $368,000 and $1.1 million, respectively. For the three and nine months ended September 30, 2010, UDR recorded income tax benefit of $3.0 million and $2.5 million, respectively, from the write-off of income tax payable. These are classified in General and Administrative expenses.

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2011

FASB ASC 740, *Income Taxes* (Topic 740) 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. Topic 740 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. Then 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 unrecognized tax benefit, accrued interest or penalties at September 30, 2011. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2007 2010 remain open to examination by the major taxing jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

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 properties held for sale. As of September 30, 2011, the Company owned and consolidated 172 communities in 11 states plus the District of Columbia totaling 49,674 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2011 and December 31, 2010 *(dollar amounts in thousands):*

	September 30, 2011	**December 31, 2010**
Land	**$ 1,970,474**	$ 1,669,004
Depreciable property held and used:		
Building and improvements	**5,715,898**	4,444,310
Furniture, fixtures and equipment	**301,761**	285,316
Under development:		
Land	**91,051**	62,410
Construction in progress	**101,879**	35,502
Held for sale:		
Land	**13,572**	114,703
Building and improvements	**26,399**	252,104
Furniture, fixtures and equipment	**6,230**	17,998
Real estate owned	**8,227,264**	6,881,347
Accumulated depreciation	**(1,804,100)**	(1,638,326)
Real estate owned, net	**$ 6,423,164**	$ 5,243,021

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The following table summarizes UDR s real estate community acquisitions for the nine months ended September 30, 2011.

Property Name	Market	Acquisition Date	Units	Purchase Price (a)
10 Hanover Square	New York, NY	April 2011	493	$ 259,750
388 Beale	San Francisco, CA	April 2011	227	90,500
14 North	Boston, MA	April 2011	387	64,500
Inwood West	Boston, MA	April 2011	446	108,000
View 14	Metropolitan D.C.	June 2011	185	105,538
Rivergate	New York, NY	July 2011	706	443,403
21 Chelsea	New York, NY	August 2011	210	138,930
95 Wall	New York, NY	August 2011	507	328,914
			3,161	$ 1,539,535

(a) The purchase price is the contractual sales price between UDR and the third party and does not include any costs that the Company incurred in the pursuit of the property or the recorded difference between the agreed upon value and the fair value of the OP Units issued as part of the consideration paid.

In August 2011, the Company and the Operating Partnership closed on the acquisition of 95 Wall. The community was acquired for $328.9 million, which included the issuance of 1,802,239 operating partnership units (OP Units) of the Operating Partnership. The OP Units were deemed to have an agreed upon value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10 day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $26.71 at the settlement date.

In April 2011, the Company and the Operating Partnership closed on the acquisition of 10 Hanover Square. The community was acquired for $259.8 million, which included assumed debt with a fair value of $208.1 million, and the issuance of 2,569,606 OP Units of the Operating Partnership. The OP Units were deemed to have an agreed upon value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10 day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $24.47 at the settlement date.

In April 2011, the Company and the Operating Partnership completed a $500 million asset exchange whereby UDR acquired 388 Beale, and the Operating Partnership acquired 14 North, and Inwood West. The communities acquired were valued at $263.0 million representing their estimated fair value. The Company paid $28.1 million of cash and assumed debt with a fair value of $61.7 million. UDR sold two multifamily apartment communities (434 homes) and the Operating Partnership sold four multifamily apartment communities (984 homes) located in California as part of the transaction. (See Note 4, *Discontinued Operations*, for further discussion of real estate community dispositions.)

The Company allocates the purchase price to the tangible and identifiable intangible assets acquired based on their estimated fair value. When allocating cost to an acquired community, the Company first allocates costs 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.

Total acquisition cost of the communities, including the difference between the agreed upon value of the OP Units and the fair value of the OP Units issued at the acquisition date (if applicable), was allocated $301.7 million to land; $1.2 billion to buildings and improvements; $6.1 million to furniture, fixtures, and equipment; $39.6 million to intangible assets; $3.1 million to intangible below market lease liabilities; and $305.5 million to assumed debt.

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The Company s results of operations include operating revenues of $31.4 million and loss from continuing operations of $15.8 million of the acquired properties from the acquisition dates to September 30, 2011.

The unaudited pro forma information below summarizes the Company s combined results of operations for the three and nine months ended September 30, 2011 and 2010 as though the above acquisitions were completed on January 1, 2010. The information for the three and nine months ended September 30, 2011 includes pro forma results for the portion of the period prior to the acquisition date and actual results from the date of acquisition through the end of the period. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transaction had been completed as set forth above, nor does it purport to represent the Company s results of operations for future periods (*in thousands except for per share amounts*).

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Pro forma revenues	**$ 193,352**	$ 177,906	**$ 561,949**	$ 534,228
Pro forma loss attributable to common stockholders	**(16,053)**	(26,380)	**(45,764)**	(79,107)
Proforma loss attributable to common stockholders basic	**(0.08)**	(0.16)	**(0.23)**	(0.48)
Pro forma loss attributable to common stockholders diluted	**(0.08)**	(0.16)	**(0.23)**	(0.48)

During the three and nine months ended September 30, 2010, the Company acquired five operating communities with 1,374 apartment homes for a total purchase price of $412 million and a parcel of land for a total gross purchase price of $23.6 million.

The Company incurred $2.0 million and $4.7 million of acquisition related costs during the three and nine months ended September 30, 2011, respectively, and $2.7 million of acquisition related costs during the three and nine months ended September 30, 2010. These expenses are classified on the Consolidated Statements of Operations in the line item entitled General and administrative, and have been excluded from the pro forma results as the costs do not have a continuing impact on the results of operations.

All development projects and related carrying 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 site are capitalized during the construction period. During the three and nine months ended September 30, 2011 and 2010, total interest capitalized was $3.4 million and $9.5 million and $2.6 million and $9.9 million, respectively.

4. DISCONTINUED OPERATIONS

Discontinued operations represent properties that UDR has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property s operations and cash flows have been or will be divested to a third party by the Company whereby UDR will not have any continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Company. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria of held for sale, the Company will recapture any unrecorded depreciation for the property. The assets and liabilities 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.

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As discussed in Note 3, *Real Estate Owned*, in conjunction with the asset exchange that closed in April 2011, UDR sold six multifamily apartment communities (1,418 homes). In May 2011, UDR sold an apartment community with 289 homes located in Dallas, Texas. In September 2011, the Company sold two communities with 450 homes located in Dallas, Texas. The Company had two communities with 644 apartment homes that met the criteria to be classified as held for sale and included in discontinued operations at September 30, 2011. During the three and nine months ended September 30, 2011, UDR recognized gains on the sale of communities for financial reporting purposes of $11.4 million and $56.1 million, respectively, which are included in discontinued operations. The results of operations for the following properties are classified on the Consolidated Statements of Operations in the line item entitled Income from discontinued operations.

Discontinued operations for the three and nine months ended September 30, 2010 also includes operating activities related to one 149 unit community sold during the third quarter of 2010.

The following is a summary of income from discontinued operations for the three and nine months ended September 30, 2011 and 2010 (*dollars in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Rental income	**$ 3,127**	$ 10,186	**$ 16,488**	$ 30,723
Non-property income		10		1,856
	3,127	10,196	**16,488**	32,579
Rental expenses	**1,367**	3,868	**6,022**	10,669
Property management fee	**86**	280	**453**	845
Real estate depreciation	**1,118**	4,711	**6,646**	14,463
Interest	**110**	1,178	**1,232**	3,515
	2,681	10,037	**14,353**	29,492
Income before net gain on the sale of depreciable property	**446**	159	**2,135**	3,087
Net gain on the sale of depreciable property	**11,364**	3,878	**56,063**	4,034
Income from discontinued operations	**$ 11,810**	$ 4,037	**$ 58,198**	$ 7,121

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.

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Consolidated Joint Ventures

In August 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop an existing commercial property into a 173 apartment home community in Orange County, California. At closing the Company contributed $9 million and at September 30, 2011, UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner is required to achieve certain criteria as it relates to the entitlement process. If the criteria is met on or before 730 days after the site plan application is deemed complete by the city, the Company is obligated to contribute an additional $3 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3 million related to the contingent consideration, which represents 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. During the three and nine months ended September 30, 2011, the Company paid $450,000 to acquire from our partner its remaining 2% noncontrolling interests in the 989 Elements, Elements Too, and Bellevue joint ventures. The consideration paid was in excess of the book value of the noncontrolling interest, and is reflected as a reduction of the Company s equity.

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 September 30, 2011, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

In November 2010, the Company acquired The Hanover Company s (Hanover) partnership interests in the Hanover/MetLife Master Limited Partnership (the UDR/MetLife Partnership) at a cost of $100.8 million. The UDR/MetLife Partnership owns a portfolio of 26 operating communities containing 5,748 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of the UDR/MetLife Partnership, UDR acts as the general partner and earns fees for property and asset management and financing transactions.

UDR has a weighted average ownership interest of 12.27% in the operating communities and 4.11% in the land parcels. The initial investment of $100.8 million consisted of $71.8 million in cash, which included associated transaction costs, and a $30 million payable (includes present value discount of $1 million) to Hanover. UDR agreed to pay the $30 million balance to Hanover in two interest free installments in the amounts of $20 million and $10 million 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 September 30, 2011 and December 31, 2010, the net carrying value of the payable was $29.7 million and $29.1 million, respectively. Interest expense of $197,000 and $588,000 was recorded during the three and nine months ended September 30, 2011, respectively. At September 30, 2011 and December 31, 2010, the Company s investment was $128.1 million and $122.2 million, respectively.

UDR s total cost of its equity investment of $100.8 million differed from the proportionate share in the underlying net assets of the UDR/MetLife Partnership 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 the UDR/MetLife Partnership 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 amortized and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets is 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 three and nine months ended September 30, 2011, the Company recorded $396,000 and $1.2 million of amortization, respectively.

In connection with the purchase of Hanover s interests in the UDR/MetLife Partnership, UDR agreed to indemnify Hanover from liabilities arising from Hanover s guaranty of $506 million in loans ($156 million outstanding at September 30, 2011) which are secured by a security interest in the operating communities subject to the respective loans. The loans are to the sub-tier partnerships which own the 26 operating communities. The Company anticipates that the balance of these loans will be refinanced by the UDR/MetLife Partnership over the next twelve months.

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In October 2010, the Company entered into a joint venture with an affiliate of Hanover to develop a 240-home community in Stoughton, Massachusetts. At September 30, 2011 and December 31, 2010, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $10 million. Our investment at September 30, 2011 and December 31, 2010 was $17.3 million and $10.3 million, respectively.

In May 2011, the Company entered into a joint venture with an affiliate of Hanover to develop a 263-home community in San Diego, California. At September 30, 2011 and at closing, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $9.9 million and our investment at September 30, 2011 was $11.1 million.

In June 2011, the UDR/MetLife Partnership sold a parcel of land to a joint venture, which the Company entered into with an affiliate of Hanover, to develop a 256-home community in College Park, Maryland. At September 30, 2011 and at closing, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $7.1 million and our investment at September 30, 2011 was $7.6 million.

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. In 2010, the joint venture acquired its first property (151 homes) and in August 2011, it acquired its second property (217 homes) in Metropolitan Washington D.C. At September 30, 2011 and December 31, 2010, the Company owned a 30% interest in the joint venture. Our investment at September 30, 2011 and December 31, 2010 was $15.3 million and $5.2 million, respectively.

UDR is a partner with an unaffiliated third party which owns and operates 10 operating properties located in Texas (3,992 homes). UDR contributed cash and a property equal to 20% of the fair value of the properties. The unaffiliated member contributed cash equal to 80% of the fair value of the properties comprising the joint venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at September 30, 2011 and December 31, 2010 was $7.8 million and $10.3 million, respectively.

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 three and nine months ended September 30, 2011 and 2010.

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Combined summary financial information relating to all of the unconsolidated joint ventures operations (not just our proportionate share), is presented below for the three and nine months ended September 30, (*dollars in thousands):*

	2011	2010
For the three months ended September 30,		
Revenues	**$ 51,290**	$ 11,015
Real estate depreciation and amortization	**17,327**	5,753
Net loss	**(4,507)**	(3,945)
UDR recorded loss from unconsolidated entities	**(1,580)**	(835)
For the nine months ended September 30,		
Revenues	**$ 146,295**	$ 31,647
Real estate depreciation and amortization	**50,665**	16,322
Net loss	**(13,238)**	(12,610)
UDR recorded loss from unconsolidated entities	**(4,260)**	(2,757)

Combined summary balance sheets relating to all of the unconsolidated joint ventures (not just our proportionate share) are presented below as of September 30, 2011 and December 31, 2010 (*dollars in thousands*):

	September 30, 2011	December 31, 2010
Real estate, net	**$ 2,761,212**	$ 2,692,167
Total assets	**2,916,812**	2,807,886
Amount due to UDR	**3,974**	672
Third party debt	**1,515,470**	1,524,872
Total liabilities	**1,574,625**	1,580,733
Non-controlling interest	**14,598**	14,537
Equity	**1,327,589**	1,212,616

As of September 30, 2011, the Company had deferred fees and deferred profit from the sale of properties to a joint venture of $29.1 million, the majority of which the Company will not recognize until the underlying property is sold to a third party. The Company recognized $2.5 million and $6.4 million and $453,000 and $1.5 million of management fees during the three and nine months ended September 30, 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.

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6. SECURED 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 of 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 Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt, including debt related to real estate held for sale, which encumbers $3.2 billion or 39.0% of UDR s total real estate owned based upon gross book value ($5.0 billion or 61.0% of UDR s real estate owned based on gross book value is unencumbered) consists of the following as of September 30, 2011 (*dollars in thousands*):

	Principal Outstanding		Nine Months Ended September 30, 2011		
	September 30, 2011	**December 31, 2010**	**Weighted Average Interest Rate**	**Weighted Average Years to Maturity**	**Number of Communities Encumbered**
Fixed Rate Debt					
Mortgage notes payable	**$ 616,430**	$ 292,236	4.91%	4.7	10
Tax-exempt secured notes payable		13,325	N/A		
Fannie Mae credit facilities	**895,233**	897,318	5.32%	5.6	14
Total fixed rate secured debt	**1,511,663**	1,202,879	5.15%	5.3	24
Variable Rate Debt					
Mortgage notes payable	**154,870**	405,641	1.70%	2.0	7
Tax-exempt secured note payable	**94,700**	94,700	0.83%	10.9	2
Fannie Mae credit facilities	**260,451**	260,450	1.61%	4.4	32
Total variable rate secured debt	**510,021**	760,791	1.49%	4.9	41
Total secured debt	**$ 2,021,684**	$ 1,963,670	4.23%	5.2	65

UDR has five secured credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion at September 30, 2011. The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have $895.2 million of the outstanding balance fixed at a weighted average interest rate of 5.32% and the remaining balance on these facilities is currently at a weighted average variable interest rate of 1.61%. Further information related to these credit facilities is as follows:

	September 30, 2011	**December 31, 2010**
	(dollar amounts in thousands)	
Borrowings outstanding	**$ 1,155,684**	$ 1,157,768

Weighted average borrowings during the period ended	**1,156,606**	1,198,771
Maximum daily borrowings during the period ended	**1,157,557**	1,209,739
Weighted average interest rate during the period ended	**4.5%**	4.6%
Weighted average interest rate at the end of the period	**4.5%**	4.5%

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. The unamortized fair market adjustment was a net premium of $25.3 million and $694,000 at September 30, 2011 and December 31, 2010, respectively.

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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 November 2011 through June 2032 and carry interest rates ranging from 1.93% to 6.76%. Mortgage notes payable includes debt associated with development activities.

Secured credit facilities. At September 30, 2011, the Company had $895.2 million outstanding of fixed rate secured credit facilities with Fannie Mae with a weighted average fixed interest rate of 5.32%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from November 2011 through December 2015. The mortgage notes payable are based on LIBOR plus some basis points, which translate into interest rates ranging from 0.93% to 2.87% at September 30, 2011.

Tax-exempt secured notes payable. The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature at various dates between August 2019 and March 2030. Interest on these notes is payable in monthly installments. The variable mortgage notes have interest rates ranging from 0.70% to 0.89% as of September 30, 2011.

Secured credit facilities. At September 30, 2011, the Company had $260.5 million outstanding of variable rate secured credit facilities with Fannie Mae with a weighted average floating interest rate of 1.61%.

The aggregate maturities, including amortizing principal payments, of our secured debt due during each of the next five calendar years and thereafter are as follows *(dollars in thousands):*

	Fixed		Variable			
Year	Mortgage Notes	Credit Facilities	Mortgage Notes	Tax-Exempt Notes Payable	Credit Facilities	Total Secured
2011	$ 26,255	$ 724	$ 18,241	$	$ 39,513	$ 84,733
2012	65,468	177,944	22,693		59,529	325,634
2013	23,392	38,632	62,738			124,762
2014	81,097	3,328	35,443			119,868
2015	201,687	3,522	15,755			220,964
Thereafter	218,531	671,083		94,700	161,409	1,145,723
Total	$ 616,430	$ 895,233	$ 154,870	$ 94,700	$ 260,451	$ 2,021,684

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7. UNSECURED DEBT

A summary of unsecured debt as of September 30, 2011 and December 31, 2010 is as follows *(dollars in thousands):*

	September 30, 2011	December 31, 2010
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due July 2012 (a)	**362,000**	$ 31,750
Senior Unsecured Notes		
3.625% Convertible Senior Notes due September 2011 (net of Subtopic 470-20 discount of $1,138 at December 31, 2010) (b), (g)		95,961
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
2.97% Term Notes due December 2013	**100,000**	100,000
6.05% Medium-Term Notes due June 2013	**122,500**	122,500
5.13% Medium-Term Notes due January 2014	**184,000**	184,000
5.50% Medium-Term Notes due April 2014 (net of discount of $174 and $226)	**128,326**	128,274
5.25% Medium-Term Notes due January 2015 (includes discount of $422 and $519) (c)	**324,753**	324,656
5.25% Medium-Term Notes due January 2016	**83,260**	83,260
2.27% Term Notes due January 2016 (e)		150,000
3.48% Term Notes due January 2016 (e)	**250,000**	100,000
8.50% Debentures due September 2024	**15,644**	15,644
4.00% Convertible Senior Notes due December 2035 (f), (g)		167,750
4.25% Medium-Term Notes due June 2018 (net of discount of $2,858) (d)	**297,142**	
Other	**36**	39
	1,605,661	1,572,084
	$ 1,967,661	$ 1,603,834

(a) Our unsecured credit facility provides us with an aggregate borrowing capacity of $600 million, which at our election we can increase to $750 million under certain circumstances. Our unsecured credit facility with a consortium of financial institutions carries an interest rate equal to LIBOR plus a spread of 47.5 basis points (0.7% and 0.9% interest rate at September 30, 2011 and December 31, 2010, respectively) and matures in July 2012. In addition, the unsecured credit facility contains a provision that allows us to bid up to 50% of the commitment and we can bid out the entire unsecured credit facility once per quarter so long as we maintain an investment grade rating. See Note 16, Subsequent Events.

(b) During the three months ended September 30, 2011, the Company paid $97.1 million at maturity.

(c) On December 7, 2009, the Company entered into an Amended and Restated Distribution Agreement with respect to the issue and sale by the Company from time to time of its Medium-Term Notes, Series A Due Nine Months or

More From Date of Issue. During the three months ended March 31, 2010, the Company issued $150 million of 5.25% senior unsecured medium-term notes under the Amended and Restated Distribution Agreement. These notes were priced at 99.46% of the principal amount at issuance and had a discount of $422,000 at September 30, 2011.

(d) On May 3, 2011, the Company entered into a Second Amended and Restated Distribution Agreement with respect to the issue and sale by the Company from time to time of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue. During the three months ended June 30, 2011, the Company issued $300 million of 4.25% senior unsecured medium-term notes under the Amended and Restated Distribution Agreement. These notes were priced at 98.988% of the principal amount at issuance and had a discount of $2.9 million at September 30, 2011.

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(e) During the three months ended March 31, 2011, the Company entered into a new interest rate swap agreement for the remaining $150 million balance. As a result, the $250 million term notes carry a fixed interest rate of 3.48% at September 30, 2011.

(f) During the three months ended March 31, 2011, holders of the 4.00% Convertible Senior Notes due 2035 tendered $10.8 million of Notes. As a result, the Company retired debt with a notional value of $10.8 million and wrote off unamortized financing costs of $207,000.

On March 2, 2011, the Company called all of its outstanding 4.00% Convertible Senior Notes due 2035. The redemption date for the Notes was April 4, 2011, and the redemption price was 100% of the principal amount of the outstanding Notes, plus accrued and unpaid interest on the Notes to, but not including, the date of redemption. Subject to and in accordance with the terms and conditions set forth in the Indenture governing the Notes dated as of December 19, 2005, holders of Notes had the right to convert their Notes at any time until March 31, 2011, at a conversion rate of 38.8650 shares of our common stock per $1,000 principal amount of Notes (equivalent to a conversion price of approximately $25.73 per share). The Company accelerated the amortization of the remaining financing costs of $3.0 million to the April 4, 2011 redemption date during the three months ended March 31, 2011.

(g) ASC Subtopic 470-20 applies to all convertible debt instruments that have a net settlement feature , which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. This guidance requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers nonconvertible debt borrowing rate. The guidance impacted the historical accounting for the 3.625% convertible senior notes due September 2011 and the 4.00% convertible senior notes due December 2035, and resulted in increased interest expense of $359,000 and $1.1 million and $859,000 and $2.8 million for the three and nine months ended September 30, 2011 and 2010, respectively.

The following is a summary of short-term bank borrowings under UDR s bank credit facility at September 30, 2011 and December 31, 2010 *(dollars in thousands):*

	September 30, 2011	**December 31, 2010**
Total revolving credit facility	**$ 600,000**	$ 600,000
Borrowings outstanding at end of period (1)	**362,000**	31,750
Weighted average daily borrowings during the period ended	**169,023**	161,260
Maximum daily borrowings during the period ended	**433,000**	337,600
Weighted average interest rate during the period ended	**0.7%**	0.8%
Interest rate at end of the period	**0.7%**	0.9%

(1) Excludes $2.6 million of letters of credit at September 30, 2011.

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The convertible notes are convertible at the option of the holder, and as such are presented as if the holder will convert the debt instrument at the earliest available date. The aggregate maturities of unsecured debt for the five years subsequent to September 30, 2011 are as follows *(dollars in thousands):*

Year	Bank Lines	Unsecured Debt	Total Unsecured
2011	$	$	$
2012 (a)	362,000	99,386	461,386
2013		221,885	221,885
2014		311,930	311,930
2015		324,744	324,744
Thereafter		647,716	647,716
Total	$ 362,000	$ 1,605,661	$ 1,967,661

(a) See Note 16, Subsequent Events.

We were in compliance with the covenants of our debt instruments at September 30, 2011.

In 2010, the Operating Partnership guaranteed certain outstanding debt securities of UDR, Inc. These guarantees provide that the Operating Partnership, as primary obligor and not merely as surety, irrevocably and unconditionally guarantees to each holder of the applicable securities and to the trustee and their successors and assigns under the respective indenture (a) the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Company under the respective indenture whether for principal or interest on the securities (and premium, if any), and all other monetary obligations of the Company under the respective indenture and the terms of the applicable securities and (b) the full and punctual performance within the applicable grace periods of all other obligations of the Company under the respective indenture and the terms of applicable securities.

8. EARNINGS/(LOSS) PER SHARE

Basic and diluted loss per common share are computed based upon the weighted average number of common shares outstanding during the periods as the effect of adding stock options and other common stock equivalents such as the non-vested restricted stock awards is anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Numerator for earnings per share basic and diluted:				
Net loss attributable to common stockholders	**$ (15,559)**	$ (26,134)	**$ (33,653)**	$ (81,537)
Denominator for earnings per share basic and diluted:				
Weighted average common shares outstanding	**215,066**	167,056	**197,010**	162,294
Non-vested restricted stock awards	**(1,250)**	(1,653)	**(1,287)**	(1,453)
Denominator for basic and diluted earnings per share	**213,816**	165,403	**195,723**	160,841
Net loss attributable to common stockholders- basic and diluted	**$ (0.07)**	$ (0.16)	**$ (0.17)**	$ (0.51)

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.

If the OP Units were converted to common stock, the additional weighted average common shares outstanding for the three and nine months ended September 30, 2011 and 2010 would be 8,235,068 and 6,987,415, and 5,615,619 and 5,850,432, respectively.

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding for the three and nine months ended September 30, 2011 and 2010 would be 3,035,548 weighted average common shares.

If the stock options and unvested restricted stock were converted to Common Stock, the additional weighted average Common Shares outstanding using the treasury stock method would be a 2,156,175 and 2,107,783 and 2,425,654 and 2,209,025 weighted average common shares for the three and nine months ended September 30, 2011 and 2010, respectively.

9. NONCONTROLLING INTERESTS

Redeemable noncontrolling interests in operating partnerships

Interests in operating partnerships 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 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 using the Company s stock price at each balance sheet date.

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

Redeemable noncontrolling interests in the OP, December 31, 2010	**$ 119,057**
Mark to market adjustment to redeemable noncontrolling interests in the OP	**(14,525)**
Conversion of OP Units to Common Stock	**(109)**
Net loss attributable to redeemable noncontrolling interests in the OP	**(1,192)**
OP units issued for partial consideration in community acquisition	**111,034**
Distributions to redeemable noncontrolling interests in the OP	**(5,070)**
Allocation of other comprehensive (loss)/income	**(429)**
Redeemable noncontrolling interests in the OP, September 30, 2011	**$ 208,766**

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	2011	**2010**	**2011**	**2010**
Net loss attributable to common stockholders	**$ (15,559)**	$ (26,134)	**$ (33,653)**	$ (81,537)
Conversion of OP units to UDR Common Stock	**61**	7,769	**109**	8,320
Change in equity from net loss attributable to common stockholders and conversion of OP units to UDR Common Stock	**$ (15,498)**	$ (18,365)	**$ (33,544)**	$ (73,217)

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 three and nine months ended September 30, 2011 and 2010, net income attributable to non-controlling interests was $46,000 and $134,000 and $31,000 and $111,000, respectively.

10. FAIR VALUE OF DERIVATIVES AND FINANCIAL INSTRUMENTS

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

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

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

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

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The estimated fair values of the Company s financial instruments either recorded or disclosed on a recurring basis as of September 30, 2011 and December 31, 2010 are summarized as follows *(dollars in thousands)*:

		Fair Value at September 30, 2011 Using		
	September 30, 2011	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 (c)	**$ 50**	**$**	**$ 50**	**$**
Total assets	**$ 50**	**$**	**$ 50**	**$**
Derivatives- Interest rate contracts (c)	**$ 15,305**	**$**	**$ 15,305**	**$**
Contingent purchase consideration (d)	**8,402**			**8,402**
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	**661,031**			**661,031**
Fannie Mae credit facilities	**949,687**			**949,687**
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	**154,870**			**154,870**
Tax-exempt secured notes payable	**94,700**			**94,700**
Fannie Mae credit facilities	**260,451**			**260,451**
Unsecured debt instruments: (b)				
Commercial bank	**362,000**			**362,000**
Senior Unsecured Notes	**1,674,563**			**1,674,563**
Total liabilities	**$ 4,181,009**	**$**	**$ 15,305**	**$ 4,165,704**

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		Fair Value at December 31, 2010 Using		
	December 31, 2010	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description:				
Available-for-sale equity securities	$ 3,866	$ 3,866	$	$
Derivatives- Interest rate contracts (c)	514		514	
Total assets	$ 4,380	$ 3,866	$ 514	$
Derivatives- Interest rate contracts (c)	$ 6,597	$	$ 6,597	$
Contingent purchase consideration (d)	5,402			5,402
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	306,515			306,515
Tax-exempt secured notes payable	13,885			13,885
Fannie Mae credit facilities	927,413			927,413
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	405,641			405,641
Tax-exempt secured notes payable	94,700			94,700
Fannie Mae credit facilities	260,450			260,450
Unsecured debt instruments: (b)				
Commercial bank	31,750			31,750
Senior Unsecured Notes	1,625,492	264,849		1,360,643
Total liabilities	$ 3,677,845	$ 264,849	$ 6,597	$ 3,406,399

(a) See Note 6, Secured Debt

(b) See Note 7, Unsecured Debt

(c) See Note 11, Derivatives and Hedging Activity

(d) In the first quarter of 2010, the Company accrued a liability of $6 million related to a contingent purchase consideration on one of its properties. The contingent consideration was determined based on the fair market value of the related asset which is estimated using Level 3 inputs utilized in a third party appraisal. During the

year ended December 31, 2010, the Company paid approximately $635,000 of the liability, and the outstanding balance is due January 2012. The fair value of the contingent purchase consideration is also inclusive of $3 million accrued in relation to our acquisition of a development property in a consolidated joint venture during the three months ended September 30, 2011. (See Note 5, Joint Ventures.)

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.

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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 September 30, 2011 and 2010, 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.

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 September 30, 2011, the fair values of cash and cash equivalents, restricted cash, notes receivable, 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 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).

We estimated the fair value of our Convertible Senior Unsecured Notes based on Level 1 inputs which utilize quoted prices in active markets where we had the ability to access value for identical liabilities.

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 three and nine months ended September 30, 2011 and 2010, respectively.

After determining an other-than-temporary decrease in the value of an equity method investment has occurred, we estimate the fair value of our investment by estimating the proceeds we would receive upon a hypothetical liquidation of the investment at the date of measurement. Inputs reflect management s best estimate of what market participants would use in pricing the investment giving consideration to the terms of the joint venture agreement and the estimated discounted future cash flows to be generated from the underlying joint venture assets. The inputs and assumptions

utilized to estimate the future cash flows of the underlying assets are based upon the Company s evaluation of the economy, market trends, operating results, and other factors, including judgments regarding costs to complete any construction activities, lease up and occupancy rates, rental rates, inflation rates, capitalization rates utilized to estimate the projected cash flows at the disposition, and discount rates.

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11. DERIVATIVES AND HEDGING ACTIVITY

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income/(Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 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 three and nine months ended September 30, 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.

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 September 30, 2012, the Company estimates that an additional $7.0 million will be reclassified as an increase to interest expense.

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As of September 30, 2011, 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	16	$ 633,787
Interest rate caps	2	119,504

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 FASB ASC 815, *Derivatives and Hedging*. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in losses of $52,000 and $16,000 and $468,000 and $1.1 million for the three and nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the Company 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	6	$ 327,484

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 September 30, 2011 and December 31, 2010 (*amounts in thousands*):

	Asset Derivatives			Liability Derivatives		
		Fair Value at:			Fair Value at:	
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:						
Interest Rate Products	Other Assets	**$ 25**	$ 243	Other Liabilities	**$ 15,305**	$ 6,597
Total		**$ 25**	$ 243		**$ 15,305**	$ 6,597
Derivatives **not** designated as hedging instruments:						
Interest Rate Products	Other Assets	**$ 25**	$ 271	Other Liabilities	**$**	$

Total	**$ 25**	$ 271	**$**	$	

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UDR, INC.
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Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations

The tables below present the effect of the Company s derivative financial instruments on the Consolidated Statements of Operations for the three months and nine months ended September 30, 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) 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) 2011	2010	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) 2011	2010
For the three months ended September 30,								
Interest Rate Products	**$ (7,845)**	$ (4,751)	Interest expense	**$ (2,503)**	$ (1,559)	Other expense	**$**	$
Total	**$ (7,845)**	$ (4,751)		**$ (2,503)**	$ (1,559)		**$**	$
For the nine months ended September 30,								
Interest Rate Products	**$ (15,748)**	$ (11,220)	Interest expense	**$ (6,853)**	$ (5,191)	Other expense	**$**	$ (1)
Total	**$ (15,748)**	$ (11,220)		**$ (6,853)**	$ (5,191)		**$**	$ (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 2011	2010

For the three months ended September 30,

Interest rate products	Other income/(expense)	**$**	**(52)**	$	(468)
Total		**$**	**(52)**	$	(468)

For the nine months ended September 30,

Interest rate products	Other income/(expense)	**$**	**(16)**	$	(1,115)
Total		**$**	**(16)**	$	(1,115)

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.

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As of September 30, 2011, 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 $16.2 million. As of September 30, 2011, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2011, it would have been required to settle its obligations under the agreements at their termination value of $16.2 million.

12. OTHER COMPREHENSIVE LOSS

Components of other comprehensive loss during the three and nine months September 30, 2011 and 2010 are as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Other comprehensive loss:				
Net loss attributable to UDR, Inc.	**$ (13,251)**	$ (23,766)	**$ (26,475)**	$ (74,443)
Change in equity due to non-controlling interests	**46**	31	**134**	111
Gain on marketable securities reclassified to earnings			**(3,492)**	
Change in marketable securities		3,055		2,151
unrealized loss on derivative financial instruments	**(5,342)**	(3,192)	**(8,895)**	(6,030)
Allocation to redeemable non-controlling interests	**200**	1	**429**	136
Comprehensive loss	**$ (18,347)**	$ (23,871)	**$ (38,299)**	$ (78,075)

13. STOCK BASED COMPENSATION

During the three and nine months ended September 30, 2011 and 2010, we recognized $2.6 million and $7.7 million and $3.1 million and $9.1 million, respectively, as stock based compensation expense, which is inclusive of awards granted to our outside directors.

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14. COMMITMENTS AND CONTINGENCIES

Commitments

Real Estate Under Development

The following summarizes the Company s real estate commitments at September 30, 2011 (*dollars in thousands*):

	Number of Properties	Costs Incurred to Date	Expected Costs to Complete	Ownership Stake
Wholly owned under development	6	$ 192,930	$ 331,345	100%
Joint ventures:				
Consolidated Joint Ventures	1	$ 12,878	$ 33,122	90%
Unconsolidated Joint Ventures	3	35,991	144,909	95%
		$ 241,799	$ 509,376	

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.

15. REPORTABLE SEGMENTS

GAAP guidance requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments performance. UDR s chief operating decision maker is comprised of several members of its executive management team who use several generally accepted industry financial measures to assess the performance of the business for our reportable operating segments. UDR owns and operates multifamily apartment communities that generate rental and other property related income through the leasing of apartment homes to a diverse base of tenants. The primary financial measures for UDR s apartment communities are rental income and net operating income (NOI). Rental income represents gross market rent less adjustments for concessions, vacancy loss and bad debt. NOI is defined as total revenues less direct property operating expenses. UDR s chief operating decision maker utilizes NOI as the key measure of segment profit or loss.

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SEPTEMBER 30, 2011

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

Same communities represent those communities acquired, developed, and stabilized prior to July 1, 2010 and held as of September 30, 2011. 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 2009, 2010 and 2011, sold properties, redevelopment properties, properties classified as real estate held for disposition, condominium conversion properties, joint venture properties, properties managed by third parties 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 three and nine months ended September 30, 2011 and 2010.

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 for UDR s reportable segments for the three and nine months ended September 30, 2011 and 2010, and reconciles NOI to loss from continuing operations per the Consolidated Statements of Operations *(dollars in thousands)*:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	2010	**2011**	2010
Reportable apartment home segment rental income				
Same Communities				
Western Region	**$ 50,905**	$ 48,299	**$ 149,472**	$ 143,942
Mid-Atlantic Region	**39,656**	38,027	**117,205**	112,662
Southeastern Region	**33,227**	31,672	**97,893**	94,663
Southwestern Region	**12,468**	11,830	**36,613**	35,325
Non-Mature communities/Other	**54,191**	30,497	**136,984**	79,283
Total segment and consolidated rental income	**$ 190,447**	$ 160,325	**$ 538,167**	$ 465,875
Reportable apartment home segment NOI				
Same Communities				
Western Region	**$ 35,674**	$ 32,719	**$ 103,633**	$ 98,374
Mid-Atlantic Region	**27,206**	25,630	**80,259**	76,298
Southeastern Region	**20,430**	19,431	**60,712**	58,460
Southwestern Region	**7,402**	6,978	**21,836**	20,740

Non-Mature communities/Other	**36,801**	18,270	**89,940**	47,433
Total segment and consolidated NOI	**127,513**	103,028	**356,380**	301,305
Reconciling items:				
Non-property income	**5,229**	2,202	**12,620**	7,575
Property management	**(5,238)**	(4,409)	**(14,800)**	(12,812)
Other operating expenses	**(1,539)**	(1,403)	**(4,540)**	(4,342)
Depreciation and amortization	**(96,554)**	(75,591)	**(271,830)**	(221,524)
Interest	**(40,079)**	(38,257)	**(118,642)**	(113,068)
General and administrative	**(11,919)**	(11,994)	**(35,512)**	(31,927)
Other depreciation and amortization	**(983)**	(1,224)	**(3,012)**	(3,755)
Loss from unconsolidated entities	**(1,580)**	(835)	**(4,260)**	(2,757)
Redeemable non-controlling interests in OP	**581**	870	**1,192**	2,939
Non-controlling interests	**(46)**	(31)	**(134)**	(111)
Net gain on sale of depreciable property	**11,364**	3,878	**56,063**	4,034
Net loss attributable to UDR	**$ (13,251)**	$ (23,766)	**$ (26,475)**	$ (74,443)

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (Continued)
SEPTEMBER 30, 2011

The following table details the assets of UDR s reportable segments as of September 30, 2011 and December 31, 2010 *(dollars in thousands)*:

	September 30, 2011	December 31, 2010
Reportable apartment home segment assets:		
Same communities:		
Western Region	**$ 2,102,161**	$ 2,088,128
Mid-Atlantic Region	**1,272,802**	1,264,314
Southeastern Region	**1,061,706**	1,054,130
Southwestern Region	**464,615**	461,014
Non-mature communities/Other	**3,325,980**	2,013,761
Total segment assets	**8,227,264**	6,881,347
Accumulated depreciation	**(1,804,100)**	(1,638,326)
Total segment assets net book value	**6,423,164**	5,243,021
Reconciling items:		
Cash and cash equivalents	**13,482**	9,486
Marketable securities		3,866
Restricted cash	**19,641**	15,447
Deferred financing costs, net	**23,709**	27,267
Notes receivable	**7,800**	7,800
Investment in unconsolidated joint ventures	**187,176**	148,057
Other assets	**129,931**	74,596
Total consolidated assets	**$ 6,804,903**	$ 5,529,540

Capital expenditures related to our same communities totaled $14.8 million and $35.0 million and $11.4 million and $33.2 million for the three and nine months ended September 30, 2011 and 2010, respectively. Capital expenditures related to our non-mature/other communities totaled $3.3 million and $5.7 million and $1.1 million and $2.9 million for the three and nine months ended September 30, 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 New York, Boston, Metropolitan DC, Richmond, Baltimore, Norfolk, and Other Mid-Atlantic

iii. Southeastern Tampa, Orlando, Nashville, Jacksonville, and Other Florida

iv. Southwestern Dallas, Phoenix, Austin, and Houston

16. SUBSEQUENT EVENT

On October 25, 2011, the Company entered into a new $900 million unsecured revolving credit facility, replacing the Company s $600 million facility. The new facility has an initial term of four years and includes a one-year extension option, and contains an accordion feature that allows the Company 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.

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

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 4,322,461**	$ 3,516,918
Less: accumulated depreciation	**(965,980)**	(835,892)
	3,356,481	2,681,026
Real estate sold or held for sale (net of accumulated depreciation of $0 and $48,191)		141,075
Total real estate owned, net of accumulated depreciation	**3,356,481**	2,822,101
Cash and cash equivalents	**4,080**	920
Restricted cash	**10,782**	8,022
Deferred financing costs, net	**9,000**	7,465
Other assets	**45,894**	22,887
Total assets	**$ 3,426,237**	$ 2,861,395
LIABILITIES AND CAPITAL		
Secured debt	**$ 1,260,891**	$ 1,014,459
Secured debt real estate held for sale		55,602
Note payable due to General Partner	**83,771**	78,271
Real estate taxes payable	**12,943**	5,245
Accrued interest payable	**878**	518
Security deposits and prepaid rent	**18,735**	13,158
Distributions payable	**37,104**	33,559
Deferred gains on the sale of depreciable property	**63,838**	63,838
Accounts payable, accrued expenses, and other liabilities	**37,754**	35,122
Total liabilities	**1,515,914**	1,299,772
Capital:		
Partners capital:		
Operating partnership units: 184,281,254 OP units outstanding at September 30, 2011 and 179,909,408 at December 31, 2010		
General partner: 110,883 OP units outstanding at September 30, 2011 and December 31, 2010	**1,298**	1,363
Limited partners: 184,170,371 OP units outstanding at September 30, 2011 and 179,798,525 OP units outstanding at December 31, 2010	**2,048,887**	2,046,380
Accumulated other comprehensive loss	**(7,541)**	(5,502)

Total partners capital	**2,042,644**	2,042,241
Receivable due from General Partner	**(144,503)**	(492,709)
Non-controlling interest	**12,182**	12,091
Total capital	**1,910,323**	1,561,623
Total liabilities and capital	**$ 3,426,237**	$ 2,861,395

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
REVENUES				
Rental income	**$ 99,833**	$ 84,131	**$ 281,461**	$ 249,175
Total revenues	**99,833**	84,131	**281,461**	249,175
EXPENSES				
Rental expenses:				
Real estate taxes and insurance	**10,845**	10,216	**31,996**	30,840
Personnel	**7,451**	7,183	**22,828**	20,544
Utilities	**5,367**	4,564	**14,750**	13,091
Repair and maintenance	**5,370**	4,879	**14,597**	13,080
Administrative and marketing	**2,026**	1,785	**5,961**	5,117
Property management	**2,745**	2,314	**7,740**	6,853
Other operating expenses	**1,398**	1,179	**4,203**	3,940
Real estate depreciation and amortization	**51,906**	39,637	**141,725**	118,661
Interest expense:				
Interest on secured debt	**13,700**	12,360	**38,233**	36,653
Interest on note payable due to General Partner	**248**	106	**694**	318
General and administrative	**5,394**	6,629	**16,268**	14,123
Total expenses	**106,450**	90,852	**298,995**	263,220
Loss from continuing operations	**(6,617)**	(6,721)	**(17,534)**	(14,045)
Income/(loss) from discontinued operations	**17**	(115)	**16,438**	1,724
Consolidated net loss	**(6,600)**	(6,836)	**(1,096)**	(12,321)
Net income attributable to non-controlling interests	**(32)**	(9)	**(91)**	(44)
Net loss attributable to OP unitholders	**$ (6,632)**	$ (6,845)	**$ (1,187)**	$ (12,365)
Loss per OP unit- basic and diluted:				
Loss from continuing operations attributable to OP unitholders	**$ (0.04)**	$ (0.04)	**$ (0.10)**	$ (0.08)
Income from discontinued operations	**$ (0.00)**	$ (0.00)	**$ 0.09**	$ 0.01
Net loss attributable to OP unitholders	**$ (0.04)**	$ (0.04)	**$ (0.01)**	$ (0.07)

Weighted average OP units outstanding	**183,086**	179,909	**181,837**	179,909

See accompanying notes to the consolidated financial statements.

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

	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, January 1, 2011	**$ 41,199**	**$ 77,858**	**$ 1,927,323**	**$ 1,363**	**$ (5,502)**	**$ 2,042,241**	**$ (492,709)**	**$ 12,091**	**$ 1,561,623**
Distributions	(1,746)	(3,324)	(102,271)	(64)		(107,405)			(107,405)
OP Unit Redemptions for common shares of UDR		(109)	109						
OP Units issued for real estate		111,034				111,034			111,034
Adjustment to reflect limited partners capital at redemption value	(660)	(15,425)	16,085						
Other comprehensive income/(loss):									
Change in unrealized loss on derivative financial instruments					(2,039)	(2,039)			(2,039)
Net loss	(11)	(50)	(1,125)	(1)		(1,187)		91	(1,096)
Total comprehensive income/(loss)					(2,039)				(3,135)

Net change in receivable due from General Partner						348,206		348,206
Balance, September 30, 2011	**$ 38,782**	**$ 169,984**	**$ 1,840,121**	**$ 1,298**	**$ (7,541)**	**$ 2,042,644**	**$ (144,503)**	**$ 12,182**	**$ 1,910,323**

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	**2010**
Operating Activities		
Consolidated net loss	**$ (1,096)**	$ (12,321)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**143,290**	124,797
Net gain on the sale of depreciable property	**(16,055)**	(124)
Write off of bad debt	**1,349**	1,220
Amortization of deferred financing costs and other	**1,593**	1,181
Changes in operating assets and liabilities:		
Increase in operating assets	**(9,555)**	(1,019)
Increase in operating liabilities	**7,957**	13,034
Net cash provided by operating activities	**127,483**	126,768
Investing Activities		
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(283,731)**	
Cash paid in nonmonetary asset exchange	**(15,407)**	
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(48,325)**	(43,809)
Net cash used in investing activities	**(347,463)**	(43,809)
Financing Activities		
Advances from/(payments to) General Partner	**254,919**	(87,380)
Proceeds from the issuance of secured debt	**2,074**	11,326
Payments on secured debt	**(25,655)**	(1,910)
Payment of financing costs	**(3,128)**	(140)
OP unit redemption		(327)
Distributions paid to partnership unitholders	**(5,070)**	(4,046)
Net cash provided by/(used in) financing activities	**223,140**	(82,477)
Net increase in cash and cash equivalents	**3,160**	482
Cash and cash equivalents, beginning of period	**920**	442
Cash and cash equivalents, end of period	**$ 4,080**	$ 924
Supplemental Information:		
Interest paid during the period, net of amounts capitalized	**44,151**	$ 39,115
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**
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.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

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 three and nine months ended September 30, 2011, revenues of the Operating Partnership represented 52% and 53% of the General Partner s consolidated revenues, respectively. During the three and nine months ended September 30, 2010, revenues of the Operating Partnership represented 55% and 57% of the General Partner s consolidated revenues. At September 30, 2011, the Operating Partnership s apartment portfolio consisted of 81 communities located in 21 markets consisting of 24,200 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 September 30, 2011, there were 184,281,254 OP Units outstanding, of which, 174,851,898 or 94.9% were owned by UDR and affiliated entities and 9,429,356 or 5.1% were owned by non-affiliated limited partners. See Note 9, *Capital Structure*.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of September 30, 2011, and results of operations for the three and nine months ended September 30, 2011 and 2010 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, 2010 included in the Current Report on Form 8-K filed by UDR and the Operating Partnership with the SEC on August 5, 2011.

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

The Operating Partnership evaluated subsequent events through the date its financial statements were issued. Except as disclosed in Note 13, *Subsequent Event*, no other recognized or non-recognized subsequent events were noted.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)
SEPTEMBER 30, 2011
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Revenue and real estate sales gain recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with FASB ASC 840, *Leases* and SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. 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 FASB ASC 360-20, *Real Estate Sales*. 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. Non-monetary transactions are accounted for at fair value.

Sales to entities in which we or our General Partner retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer and will defer the gain on the interest we or our General Partner retain. The Operating Partnership will recognize any deferred gain when the property is then 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.

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 adopted certain accounting guidance within ASC Topic 740, *Income Taxes*, 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 General Partner has reviewed all open tax years (2007-2010) and major jurisdictions and concluded the adoption of the new accounting guidance resulted in no impact to the Operating Partnership s financial position or results of operations. 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.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)
SEPTEMBER 30, 2011
(Unaudited)

Earnings per OP unit

Basic earnings per OP Unit is computed by dividing net income/(loss) attributable to general and limited partner units 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 that shared in the earnings of the Operating Partnership. For the three and nine months ended September 30, 2011 and 2010, there were no dilutive instruments outstanding, and therefore, diluted earnings per OP Unit and basic earnings per OP Unit are the same.

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 September 30, 2011, the Operating Partnership owned and consolidated 81 communities in 8 states plus the District of Columbia totaling 24,200 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of September 30, 2011 and December 31, 2010 *(dollar amounts in thousands):*

	September 30, 2011	**December 31, 2010**
Land	**$ 1,063,276**	$ 925,326
Depreciable property held and used		
Buildings and improvements	**3,109,501**	2,452,746
Furniture, fixtures and equipment	**121,804**	112,831
Sold or held for sale:		
Land		64,598
Buildings and improvements		121,175
Furniture, fixtures and equipment		3,493
Under development		
Land	**16,385**	
Construction in progress	**9,050**	
Land held for future development	**2,445**	26,015
Real estate owned	**4,322,461**	3,706,184
Accumulated depreciation	**(965,980)**	(884,083)
Real estate owned, net	**$ 3,356,481**	$ 2,822,101

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)
SEPTEMBER 30, 2011
(Unaudited)

The following table summarizes the Operating Partnership s real estate community acquisitions for the three and nine months ended September 30, 2011.

Property Name	Market	Acquisition Date	Units	Purchase Price (a)
10 Hanover Square	New York, NY	April 2011	493	$ 259,750
14 North	Boston, MA	April 2011	387	64,500
Inwood West	Boston, MA	April 2011	446	108,000
95 Wall	New York, NY	August 2011	507	328,914
			1,833	$ 761,164

(a) The purchase price is the contractual sales price by the Operating Partnership and the third party and does not include any costs that the Operating Partnership incurred in the pursuit of the property or the recorded difference between the agreed upon value and the fair value of the OP Units issued as part of the consideration paid.

In August 2011, UDR, through the Operating Partnership closed on the acquisition of 95 Wall. The community was acquired for $328.9 million, which included the issuance of 1,802,239 OP Units of the Operating Partnership. The OP Units were deemed to have an agreed upon value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10 day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $26.71 at the settlement date.

On April 1, 2011, UDR, through the Operating Partnership closed on the acquisition of 10 Hanover Square. The community was acquired for $259.8 million, which included assumed debt with a fair value of $208.1 million, and the issuance of 2,569,606 OP Units of the Operating Partnership. The OP Units were deemed to have an agreed upon value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10 day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $24.47 at the settlement date.

On April 5, 2011, UDR and the Operating Partnership completed a $500 million asset exchange with an unaffiliated third party whereby UDR acquired 388 Beale, and the Operating Partnership acquired 14 North, and Inwood West. The communities acquired were valued at $263.0 million representing their estimated fair value. The Company and the Operating Partnership paid $28.1 million of cash and assumed debt with a fair value of $61.7 million. UDR sold two multifamily apartment communities (434 homes) and the Operating Partnership sold four multifamily apartment communities (984 homes) located in California as part of the transaction. (See Note 4, *Discontinued Operations*, for further discussion of real estate community dispositions.)

The Operating Partnership allocates the purchase price to the tangible and identifiable intangible assets acquired based on their estimated fair value. When allocating cost to an acquired community, the Operating Partnership first allocates costs 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 Operating Partnership estimates the intangible value of the lease agreements by determining the lost revenue associated with a hypothetical lease-up.

Total acquisition cost of the communities, including of the difference between the agreed upon value of the OP Units and the fair value of the OP Units issued at the acquisition date (if applicable), was allocated $130.8 million to land; $621.2 million to buildings and improvements; $3.5 million to furniture, fixtures, and equipment; $30.5 million to intangible assets; $1.3 million to intangible below market lease liabilities; and $269.7 million of assumed debt.

Operating revenues and loss from operations of the acquired properties included in the Operating Partnership s results of operations from the acquisition dates to September 30, 2011 were $19.0 million and $13.8 million, respectively.

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UNITED DOMINION REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (continued)
SEPTEMBER 30, 2011
(Unaudited)

The unaudited pro forma information below summarizes the Operating Partnership s combined results of operations for the three and nine months ended September 30, 2011 and 2010 as though the above acquisitions were completed on January 1, 2010. The information for the three and nine months ended September 30, 2011 includes pro forma results for the portion of the period prior to the acquisition date and actual results from the date of acquisition through the end of the period. The supplemental pro forma operating data is not necessarily indicative of what the actual results of operations would have been assuming the transaction had been completed as set forth above, nor do they purport to represent the Operating Partnership s results of operations for future periods (*in thousands except for per share amounts*).

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Pro forma revenues	**$ 103,214**	$ 96,750	**$ 304,285**	$ 290,588
Pro forma loss attributable to OP unitholders	**(6,529)**	(6,851)	**(7,801)**	(20,544)
Pro forma earnings per OP unit- basic:				
Net loss attributable to OP unitholders	**$ (0.04)**	$ (0.04)	**$ (0.04)**	$ (0.11)
Earnings per common share- diluted:				
Net loss attributable to OP unitholders	**$ (0.04)**	$ (0.04)	**$ (0.04)**	$ (0.11)

The Operating Partnership did not have any acquisitions during the nine months ended September 30, 2010.

The Operating Partnership incurred $194,000 and $2.3 million of acquisition related costs during the three and nine months ended September 30, 2011, respectively. The Operating Partnership did not incur any acquisition costs during the three and nine months ended September 30, 2010. These expenses are classified on the Consolidated Statements of Operations line item entitled General and administrative.

4. DISCONTINUED OPERATIONS

Discontinued operations represent properties that the Operating Partnership has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property s operations and cash flows have or will be divested to a third party by the Operating Partnership whereby the Operating Partnership will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Operating Partnership. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Operating Partnership determines that the property no longer meets the criteria of held for sale, the Operating Partnership will recapture any unrecorded depreciation for the property. The assets and liabilities of properties deemed as held for sale are presented separately on the Consolidated Balance Sheets. Properties deemed as held for sale are reported at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

As discussed in Note 3, *Real Estate Owned*, in conjunction with the asset exchange that closed on April 5, 2011, the Operating Partnership sold four multifamily apartment communities (984 homes). During the three and nine months ended September 30, 2011, the Operating Partnership recognized gains for financial reporting purposes of $17,000 and $16.1 million on these transactions, which are included in discontinued operations. The results of operations for the following properties are classified on the Consolidated Statements of Operations in the line item entitled Income from discontinued operations.

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The Operating Partnership had no apartment homes classified as held for sale at September 30, 2011. The Operating Partnership did not dispose of any communities during the three and nine months ended September 30, 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Rental income	**$**	$ 4,091	**$ 4,334**	$ 12,342
Non-Property income				1,849
		4,091	**4,334**	14,191
Rental expenses		1,310	**1,453**	3,806
Property management fee		112	**119**	339
Real estate depreciation		2,037	**1,564**	6,136
Interest		774	**815**	2,310
		4,233	**3,951**	12,591
Income before net gain on the sale of property		(142)	**383**	1,600
Net gain on the sale of property	**17**	27	**16,055**	124
Income/(loss) from discontinued operations	**$ 17**	$ (115)	**$ 16,438**	$ 1,724

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 September 30, 2011 (*dollars in thousands*):

	Principal Outstanding		Weighted	2011 Weighted	Number of
	September 30, 2011	**December 31 2010**	**Average Interest Rate**	**Average Years to Maturity**	**Communities Encumbered**
Fixed Rate Debt					
Mortgage notes payable	**$ 459,535**	$ 192,205	5.27%	4.2	7
Tax-exempt secured notes payable		13,325	N/A		**-**
Fannie Mae credit facilities	**560,993**	560,993	5.21%	5.6	9

Total fixed rate secured debt	**1,020,528**	766,523	5.24%	5.0	16
Variable Rate Debt					
Mortgage notes payable	**37,415**	100,590	1.04%	1.8	2
Tax-exempt secured note payable	**27,000**	27,000	0.70%	18.5	1
Fannie Mae credit facilities	**175,948**	175,948	1.86%	3.9	17
Total variable rate secured debt	**240,363**	303,538	1.60%	5.2	20
Total secured debt	**$ 1,260,891**	$ 1,070,061	4.54%	5.0	36

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As of September 30, 2011, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion with $1.2 billion outstanding. The Fannie Mae credit facilities are for an initial term of 10 years, 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 September 30, 2011, $895.2 million of the outstanding balance was fixed at a weighted average interest rate of 5.32% and the remaining balance of $260.5 million on these facilities had a weighted average variable interest rate of 1.61%. $736.9 million of these credit facilities were allocated to the Operating Partnership at September 30, 2011 based on the ownership of the assets securing the debt. Following is information related to the credit facilities allocated to the Operating Partnership:

	September 30, 2011	**December 31, 2010**
	(dollar amounts in thousands)	
Borrowings outstanding	**$ 736,941**	$ 736,941
Weighted average borrowings during the period ended	**737,529**	763,040
Maximum daily borrowings during the period	**738,135**	770,021
Weighted average interest rate during the period ended	**4.5%**	4.5%
Interest rate at the end of the period	**4.5%**	4.4%

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/(discount) of $18.8 million and ($1.1 million) at September 30, 2011 and December 31, 2010, respectively.

Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from December 2012 through May 2019 and carry interest rates ranging from 3.43% to 5.94%.

Secured credit facilities. At September 30, 2011, the General Partner had borrowings against its fixed rate facilities of $895.2 million of which $561.0 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2011, the fixed rate Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average fixed interest rate of 5.21%.

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 some basis points, which translated into interest rate of 1.04% at September 30, 2011.

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 0.70% as of September 30, 2011.

Secured credit facilities. At September 30, 2011, the General Partner had borrowings against its variable rate facilities of $260.5 million of which $175.9 million was allocated to the Operating Partnership based on the ownership of the assets securing the debt. As of September 30, 2011, the variable rate borrowings under the Fannie Mae credit facilities allocated to the Operating Partnership had a weighted average floating interest rate of 1.86%.

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The aggregate maturities of the Operating Partnership s secured debt due during each of the next five calendar years and thereafter are as follows *(dollars in thousands):*

	Fixed		Variable			
	Mortgage Notes	Credit Facilities	Mortgage Notes	Tax Exempt Notes Payable	Credit Facilities	Total
2011	$ 1,838	$	$	$	$ 30,886	$ 32,724
2012	54,472	136,792			59,529	250,793
2013	16,551	27,739	37,415			81,705
2014	8,342					8,342
2015	193,205					193,205
Thereafter	185,127	396,462		27,000	85,533	694,122
Total	**$ 459,535**	**$ 560,993**	**$ 37,415**	**$ 27,000**	**$ 175,948**	**$ 1,260,891**

Guarantor on Unsecured Debt

The Operating Partnership is a guarantor on the General Partner s unsecured credit facility, with an aggregate borrowing capacity of $600 million, a $250 million term loan due January 2016, a $100 million term loan due December 2013, and $300 million of medium-term notes due June 2018. At September 30, 2011 and December 31, 2010, the outstanding balance under the unsecured credit facility was $362.0 million and $31.8 million, respectively. See Note 13, Subsequent Event.

On September 30, 2010, the Operating Partnership guaranteed certain outstanding debt securities of the General Partner. These guarantees provide that the Operating Partnership, as primary obligor and not merely as surety, irrevocably and unconditionally guarantees to each holder of the applicable securities and to the trustee and their successors and assigns under the respective indenture (a) the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the General Partner under the respective indenture whether for principal or interest on the securities (and premium, if any), and all other monetary obligations of the General Partner under the respective indenture and the terms of the applicable securities and (b) the full and punctual performance within the applicable grace periods of all other obligations of the General Partner under the respective indenture and the terms of applicable securities.

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 $144.5 million and $492.7 million at September 30, 2011 and December 31, 2010, 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 three and nine months ended September 30, 2011 and

2010, the general and administrative expenses allocated to the Operating Partnership by UDR were $11.6 million and $25.2 million and $10.7 million and $25.8 million, respectively, and are included in General and Administrative and Property Management 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.

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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 1.14% at September 30, 2011 and 0.593% at December 31, 2010. Interest payments are made monthly and the note is due December 31, 2011. At September 30, 2011 and December 31, 2010, the note payable due to the General Partner was $78.3 million.

During the quarter ended September 30, 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 issuance and at September 30, 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:

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

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

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

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The estimated fair values of the Operating Partnership s financial instruments either recorded or disclosed on a recurring basis as of September 30, 2011 and December 31, 2010 are summarized as follows *(dollars in thousands)*:

		Fair Value at September 30, 2011 Using		
	September 30, 2011	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 (b)	**$ 34**	**$**	**$ 34**	**$**
Total assets	**$ 34**	**$**	**$ 34**	**$**
Derivatives- Interest rate contracts (b)	**$ 6,994**	**$**	**$ 6,994**	**$**
Contingent purchase consideration (c)	**5,402**			**5,402**
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	**496,581**			**496,581**
Fannie Mae credit facilities	**585,292**			**585,292**
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	**37,415**			**37,415**
Tax-exempt secured notes payable	**27,000**			**27,000**
Fannie Mae credit facilities	**175,948**			**175,948**
Total liabilities	**$ 1,334,632**	**$**	**$ 6,994**	**$ 1,327,638**

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		Fair Value at December 31, 2010 Using		
	December 31, 2010	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 (b)	$ 376	$	$ 376	$
Total assets	$ 376	$	$ 376	$
Derivatives- Interest rate contracts (b)	$ 5,111	$	$ 5,111	$
Contingent purchase consideration (c)	5,402			5,402
Secured debt instruments- fixed rate: (a)				
Mortgage notes payable	205,750			205,750
Tax-exempt secured notes payable	13,885			13,885
Fannie Mae credit facilities	576,069			576,069
Secured debt instruments- variable rate: (a)				
Mortgage notes payable	100,590			100,590
Tax-exempt secured notes payable	27,000			27,000
Fannie Mae credit facilities	175,948			175,948
Total liabilities	$ 1,109,755	$	$ 5,111	$ 1,104,644

(a) See Note 5, *Debt*

(b) See Note 8, *Derivatives and Hedging Activity*

(c) During the first quarter of 2010, the Operating Partnership accrued a liability of $6.0 million related to a contingent purchase consideration on one of its properties. The contingent consideration was determined based on the fair market value of the related asset which is estimated using Level 3 inputs utilized in a third party appraisal. During the year ended December 31, 2010, the Company paid approximately $635,000 of the liability, and the outstanding balance is due January 2012.

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.

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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 September 30, 2011 and December 31, 2010, 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.

Financial Instruments Not Carried at Fair Value

At September 30, 2011, 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 risk 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 receipts and its known or expected cash payments principally related to the General Partner s investments and borrowings.

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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 three and nine months ended September 30, 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 three and nine months ended September 30, 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 September 30, 2012, we estimate that an additional $3.3 million will be reclassified as an increase to interest expense.

As of September 30, 2011, 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	6	$ 261,532
Interest rate caps	2	$ 108,628

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 FASB ASC 815, *Derivatives and Hedging*. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in losses of $33,000 and $149,000 and $87,000 and $762,000 for the three and nine months ended September 30, 2011 and 2010, respectively.

As of September 30, 2011, 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	4	$ 217,173

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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 September 30, 2011 and December 31, 2010.

	Asset Derivatives Fair Value at:			Liability Derivatives Fair Value at:		
	Balance Sheet Location	September 30, 2011	December 31, 2010	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:						
Interest Rate Products	Other Assets	**$ 24**	$ 217	Other Liabilities	**$ 6,994**	$ 5,111
Total derivatives designated as hedging instruments		**$ 24**	$ 217		**$ 6,994**	$ 5,111
Derivatives **not** designated as hedging instruments:						
Interest Rate Products	Other Assets	**$ 10**	$ 159	Other Liabilities	**$**	$
Total derivatives **not** designated as hedging instruments		**$ 10**	$ 159		**$**	$

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

The tables below present the effect of the derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 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) 2011	2010	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2011	2010
For the three months ended September 30,					

Interest Rate Products	**$ (2,821)**	$ (1,210)	Interest expense	**$ (1,239)**	$ (4,113)
Total	**$ (2,821)**	$ (1,210)		**$ (1,239)**	$ (4,113)
For the nine months ended September 30,							
Interest Rate Products	**$ (5,659)**	$ (3,061)	Interest expense	**$ (3,620)**	$ (8,863)
Total	**$ (5,659)**	$ (3,061)		**$ (3,620)**	$ (8,863)

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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 2011	2010
For the three months ended September 30,			
Interest Rate Products	Other income / (expense)	**$ (33)**	$ (87)
Total		**$ (33)**	$ (87)
For the nine months ended September 30,			
Interest Rate Products	Other income / (expense)	**$ (149)**	$ (762)
Total		**$ (149)**	$ (762)

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 September 30, 2011, 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 $7.4 million. As of September 30, 2011, the General Partner has not posted any collateral related to these agreements. If the General Partner had breached any of these provisions at September 30, 2011, it would have been required to settle its obligations under the agreements at their termination value of $7.4 million.

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 holder of Class A Partnership Units. There were 110,883 General Partnership units outstanding at September 30, 2011 and December 31, 2010, all of which were held by UDR.

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Limited Partnership Units

At September 30, 2011 and December 31, 2010, there were 184,170,371 and 179,798,525 limited partnership units outstanding, of which 1,751,671 were Class A Limited Partnership units. UDR owned 174,741,015 or 94.9% at September 30, 2011 and 174,736,557 or 97.2% at December 31, 2010, respectively. The remaining 9,429,356 or 5.1% and 5,061,968 or 2.8% OP Units outstanding were held by non-affiliated partners at September 30, 2011 and December 31, 2010, respectively, of which 1,751,671 were Class A Limited Partnership units.

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 $208.8 million and $119.1 million as of September 30, 2011 and December 31, 2010, 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.

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.

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(Unaudited)

10. OTHER COMPREHENSIVE LOSS

Components of other comprehensive income/(loss) during the three and nine months September 30, 2011 and 2010 are as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Other comprehensive loss:				
Net loss attributable to OP unitholders	**$ (6,632)**	$ (6,845)	**$ (1,187)**	$ (12,365)
Net income attributable to non-controlling interests	**32**	9	**91**	44
Change in unrealized loss on derivative financial instruments	**(1,582)**	(2,903)	**(2,039)**	(5,802)
Comprehensive loss	**$ (8,182)**	$ (9,739)	**$ (3,135)**	$ (18,123)

11. COMMITMENTS AND CONTINGENCIES

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.

12. REPORTABLE SEGMENTS

FASB ASC Topic 280, *Segment Reporting*, requires that segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments performance. 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 is defined as total revenues less direct property operating expenses. The chief operating decision maker of the General Partner utilizes NOI as the key measure of segment profit or loss.

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(Unaudited)

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 July 1, 2011 and held as of September 30, 2011. 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 2009, 2010, or 2011 sold properties, redevelopment properties, properties classified as real estate held for sale, condominium conversion properties, joint venture properties, properties managed by third parties, 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 three and nine months ended September 30, 2011 and 2010.

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UNITED DOMINION REALTY, L.P.
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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 for the Operating Partnership s reportable segments for the three and nine months ended September 30, 2011 and 2010, and reconciles NOI to income from continuing and discontinued operations per the consolidated statement of operations *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Reportable apartment home segment rental income				
Same Communities				
Western Region	**$ 43,226**	$ 40,938	**$ 126,712**	$ 121,896
Mid-Atlantic Region	**16,186**	15,464	**47,806**	45,694
Southeastern Region	**10,817**	10,231	**31,858**	30,611
Southwestern Region	**6,986**	6,624	**20,539**	19,788
Non-Mature communities/Other	**22,618**	14,965	**58,880**	43,528
Total segment and consolidated rental income	**$ 99,833**	$ 88,222	**$ 285,795**	$ 261,517
Reportable apartment home segment NOI				
Same Communities				
Western Region	**$ 30,337**	$ 27,824	**$ 88,181**	$ 83,549
Mid-Atlantic Region	**11,078**	10,495	**32,838**	30,994
Southeastern Region	**6,649**	6,233	**19,792**	19,061
Southwestern Region	**4,394**	3,917	**12,896**	12,106
Non-Mature communities/Other	**16,316**	9,816	**40,503**	29,329
Total segment and consolidated NOI	**68,774**	58,285	**194,210**	175,039
Reconciling items:				
Non-property income				1,849
Property management	**(2,745)**	(2,426)	**(7,859)**	(7,192)
Other operating expenses	**(1,398)**	(1,179)	**(4,203)**	(3,940)
Depreciation and amortization	**(51,906)**	(41,674)	**(143,289)**	(124,797)
Interest	**(13,948)**	(13,240)	**(39,742)**	(39,281)
General and administrative	**(5,394)**	(6,629)	**(16,268)**	(14,123)
Net gain on the sale of real estate	**17**	27	**16,055**	124
Non-controlling interests	**(32)**	(9)	**(91)**	(44)

Net loss attributable to OP unit holders	**$ (6,632)**	$ (6,845)	**$ (1,187)**	$ (12,365)

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The following table details the assets of the Operating Partnership s reportable segments as of September 30, 2011 and December 31, 2010 *(dollars in thousands)*:

	September 30, 2011	December 31, 2010
Reportable apartment home segment assets		
Same Store Communities		
Western Region	**$ 1,717,260**	$ 1,704,338
Mid-Atlantic Region	**696,016**	693,564
Southeastern Region	**358,109**	354,861
Southwestern Region	**256,400**	254,485
Non-Mature communities/Other	**1,294,676**	698,936
Total segment assets	**4,322,461**	3,706,184
Accumulated depreciation	**(965,980)**	(884,083)
Total segment assets - net book value	**3,356,481**	2,822,101
Reconciling items:		
Cash and cash equivalents	**4,080**	920
Restricted cash	**10,782**	8,022
Deferred financing costs, net	**9,000**	7,465
Other assets	**45,894**	22,887
Total consolidated assets	**$ 3,426,237**	$ 2,861,395

Capital expenditures related to the Operating Partnership s same communities totaled $7.7 million and $19.8 and $5.4 million and $17.8 million for the three months and nine ended September 30, 2011 and 2010, respectively. Capital expenditures related to the Operating Partnership s non-mature/other communities totaled $683,000 and $1.4 million and $405,000 and $1.4 million for the three and nine months ended September 30, 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 New York, Boston, Metropolitan DC and Baltimore

iii. Southeastern Nashville, Tampa, Jacksonville, and Other Florida

iv. Southwestern Dallas and Phoenix

13. SUBSEQUENT EVENT

On October 25, 2011, the Operating Partnership issued a guarantee in conjunction with a new $900 million unsecured revolving credit facility entered into by our General Partner. The new facility replaces the General Partner s $600 million facility.

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Item 2. 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, 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, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions.

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;

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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.

UDR, INC.:

Business Overview

UDR, Inc. is 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 September 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 ventures.

At September 30, 2011, our consolidated real estate portfolio included 172 communities with 49,674 apartment homes and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 38 communities with 10,108 apartment homes.

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The following table summarizes our market information by major geographic markets as of September 30, 2011.

	As of September 30, 2011				Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011 (a)	
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 (b)	Average Physical Occupancy	Total Income per Occupied Home (b)
Western Region								
Orange Co, CA	9	3,025	6.4%	$ 522,478	94.8%	$ 1,520	95.0%	$ 1,489
San Francisco, CA	8	1,607	4.6%	382,122	96.7%	2,120	96.9%	2,042
Monterey Peninsula, CA	7	1,565	1.9%	153,625	95.4%	1,136	93.9%	1,103
Los Angeles, CA	5	919	3.6%	292,835	95.0%	1,941	95.5%	1,922
San Diego, CA	3	689	1.2%	100,184	95.4%	1,315	95.5%	1,294
Seattle, WA	10	1,891	4.4%	360,465	95.1%	1,292	95.8%	1,231
Inland Empire, CA	3	1,074	1.8%	151,381	94.1%	1,269	94.4%	1,254
Sacramento, CA	2	914	0.8%	68,807	94.0%	890	93.4%	884
Portland, OR	3	716	0.9%	70,264	95.3%	1,011	95.8%	990
Mid-Atlantic Region								
Metropolitan DC	10	3,516	8.1%	664,542	96.8%	1,690	97.1%	1,656
Richmond, VA	6	2,211	2.3%	188,792	95.4%	1,077	95.9%	1,045
Baltimore, MD	10	2,121	3.1%	254,002	96.2%	1,328	96.5%	1,310
Norfolk VA	6	1,438	1.0%	85,458	94.1%	977	95.1%	978
Other Mid-Atlantic	5	1,132	1.0%	80,008	95.9%	1,069	96.1%	1,043
Southeastern Region								
Tampa, FL	11	3,804	4.1%	334,793	95.6%	991	95.5%	978
Orlando, FL	11	3,167	3.3%	273,678	95.7%	935	95.1%	914
Nashville, TN	8	2,260	2.2%	181,976	96.6%	911	96.5%	887
Jacksonville, FL	5	1,857	1.9%	158,183	95.0%	856	94.6%	843
Other Florida	4	1,184	1.4%	113,076	93.9%	1,026	93.9%	1,013
Southwestern Region								
Dallas, TX	8	2,725	3.4%	282,274	96.4%	964	96.3%	942
Phoenix, AZ	5	1,362	1.5%	121,963	94.7%	903	95.1%	894
Austin, TX	1	390	0.7%	60,378	96.2%	1,227	95.9%	1,174
Total/Average Same Communities	140	39,567	59.6%	4,901,284	95.6%	$ 1,201	95.6%	$ 1,178

Non Matures, Commercial Properties & Other	31	9,962	38.1%	3,133,050
Total Real Estate Held for Investment	171	49,529	97.7%	8,034,334
Real Estate Under Development (c)	1	145	2.3%	192,930
Total Real Estate Owned	172	49,674	100.0%	8,227,264
Total Accumulated Depreciation				(1,804,100)
Total Real Estate Owned, Net of Accumulated Depreciation				$ 6,423,164

(a) The same community population for the nine months ended September 30, 2011 includes 39,030 homes.

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

(c) The Company is currently developing six wholly-owned communities with 1,641 apartment homes, 145 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 July 1, 2010 and held as of September 30, 2011. 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 2010 or 2011, sold properties, redevelopment properties, properties classified as real estate held for sale, condominium conversion properties, joint venture properties, properties managed by third parties, and the non-apartment components of mixed use properties.

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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. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. 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. Historically, 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, and the issuance of debt or equity securities, and dispositions 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.

In September 2009, the Company entered into an equity distribution agreement under which the Company may offer and sell up to 15 million shares of its common stock over time to or through its sales agents. During the nine months ended September 30, 2011, we sold 4,395,601 shares of common stock through this program for aggregate gross proceeds of approximately $104.5 million at a weighted average price per share of $23.78. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $2.1 million, were approximately $102.4 million.

In March 2011, the Company entered into a new equity distribution agreement under which the Company may offer and sell up to 20 million shares of its common stock over time to or through its sales agents. During the three months ended September 30, 2011, we sold 1,720,999 shares of common stock through this program for aggregate gross proceeds of approximately $43.7 million at a weighted average price per share of $25.41. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $875,000, were approximately $42.9 million. During the nine months ended September 30, 2011, we sold 10,800,343 shares of common stock through this program for aggregate gross proceeds of approximately $271.3 million at a weighted average price per share of $25.12. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $5.5 million, were approximately $265.8 million. 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.

In July 2011, the Company closed on a public offering of 20,700,000 shares of its common stock, including 2,700,000 shares sold as a result of the underwriters exercise of their overallotment option in full at the closing, at a price of $25.00 per share, for net proceeds of approximately $496.3 million after underwriting discounts and commissions and estimated offering expenses.

Proceeds from the sale of shares through these programs are expected to fund potential and recent acquisitions, for working capital, and for general corporate purposes.

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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, with cash flows provided by operating activities. Acquisition activity in strategic markets may be funded through joint ventures, by the reinvestment of proceeds from the sale of properties, through the issuance of equity or debt securities, the issuance of operating partnership units, and the assumption or placement of secured and/or unsecured debt.

During the remainder of 2011, we have approximately $3.1 million of secured debt maturing, inclusive of principal amortization and net of extension rights of $81.6 million and $0 of unsecured debt maturing. We anticipate repaying that debt with cash flow from our operations, proceeds from debt and equity offerings, proceeds from the sale of properties, and by exercising extension rights with respect to the secured debt.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our other critical accounting policies are described in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in UDR s Current Report on Form 8-K for the year ended December 31, 2010, filed with the SEC on August 5, 2011. There have been no significant changes in our critical accounting policies from those reported in our Form 8-K filed with the SEC on August 5, 2011. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

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 provided by financing activities that are presented in our Consolidated Statements of Cash Flows.

Operating Activities

For the nine months ended September 30, 2011, our net cash flow provided by operating activities was $182.9 million compared to $157.5 million for the comparable period in 2010. The increase in cash flow from operating activities is primarily due to an increase in property net operating income.

Investing Activities

For the nine months ended September 30, 2011, net cash used in investing activities was $1.1 billion compared to $478.8 million for the comparable period in 2010. The change in cash used for investing activities was due to changes in the level of investment activities, which reflect our strategy as it relates to acquisitions, dispositions, capital expenditures, and development activities, all of which are discussed in further detail throughout this Report.

Acquisitions and Dispositions

In April 2011, the Company, through the Operating Partnership, closed on an acquisition of a 493-home multifamily apartment community referred to as 10 Hanover Square, located in New York City, New York. The community was acquired for $259.8 million, which included assumed debt with a fair value of $208.1 million and the issuance of 2,569,606 OP Units. The OP Units were deemed to have a value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10-day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $24.47 at the settlement date.

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In April 2011, the Company and the Operating Partnership completed a $500 million asset exchange whereby UDR acquired one multifamily apartment community (227 homes), and the Operating Partnership acquired two multifamily apartment communities (833 homes). The acquired assets are: 388 Beale in San Francisco, CA (227 homes); 14 North in Peabody, MA (387 homes); and Inwood West in Woburn, MA (446 homes). The communities acquired were valued at $263.0 million representing their estimated fair value. The Company paid $28.1 million of cash and assumed debt of $55.8 million (with a fair value of $61.7 million). UDR sold two multifamily apartment communities (434 homes) and the Operating Partnership sold four multifamily apartment communities (984 homes) located in California as part of the transaction. The communities are: Crest at Phillips Ranch, Villas at San Dimas, Villas at Bonita, The Arboretum, Rancho Vallecitos and Milazzo.

In August 2011, the Company and the Operating Partnership closed on the acquisition of 95 Wall. The community was acquired for $328.9 million, which included the issuance of 1,802,239 OP Units of the Operating Partnership. The OP Units were deemed to have a value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10-day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $26.71 at the settlement date.

During the nine months ended September 30, 2011, the Company also acquired with cash and/or assumed debt the following multifamily apartment communities:

View 14, a 185- home community located in Metropolitan, D.C. for $105.5 million;

Rivergate, a 706- home community located in New York, New York for $443.4 million; and

21 Chelsea, a 210- home community located in New York, New York for $138.9 million.

In May 2011, the Company sold an apartment community with 289 homes, and in September 2011, the Company sold two communities with 450 homes located in Dallas, Texas.

During the three and nine months ended September 30, 2010, the Company acquired five apartment communities located in Orange County, CA; Baltimore, MD; Los Angeles, CA; and Boston, MA for a purchase price of $412.0 million. During the same periods, the Company also acquired land located in San Francisco, CA for a gross purchase price of $23.6 million.

During the nine months ended September 30, 2010, the Company sold an apartment community with 149 homes located in Orange County, California.

Our long-term strategic plan is to continue achieving greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been seeking to expand our interests in communities located in the Boston, California, Metropolitan D.C., New York, and Washington state markets over the past years. Prospectively, we plan to channel new investments into those markets we believe will 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- three key drivers to strong rental growth.

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 nine months ended September 30, 2011, $35.8 million or $746 per stabilized home was spent on recurring capital expenditures. These include revenue enhancing capital expenditures, exterior/interior upgrades, turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as exterior paint, roofs, siding, parking lots, and asset preservation capital expenditures. In addition, major renovations totaled $23.6 million for the nine months ended September 30, 2011. Total capital expenditures, which in aggregate include recurring capital expenditures and major renovations, of $59.4 million or $1,236 per stabilized home was spent on all of our communities, excluding development and commercial properties, for the nine months ended September 30, 2011.

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The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties, for the nine months ended September 30, 2011 and 2010:

	Total Nine Months Ended September 30, (dollars in thousands)			Per Home Nine Months Ended September 30,		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
Revenue enhancing improvements	**$ 4,987**	$ 12,536	-60.2%	**$ 104**	$ 281	-63.0%
Turnover capital expenditures	**9,315**	6,902	35.0%	**194**	155	25.2%
Asset preservation expenditures	**21,519**	16,151	33.2%	**448**	362	23.8%
Total recurring capital expenditures	**35,821**	35,589	0.7%	**746**	798	-6.5%
Major renovations	**23,562**	21,248	10.9%	**491**	476	3.2%
Total capital expenditures	**$ 59,383**	$ 56,837	4.5%	**$ 1,237**	$ 1,274	-3.0%
Repair and maintenance expense	**$ 28,411**	$ 24,521	15.9%	**$ 592**	$ 550	7.6%
Average stabilized home count	**48,028**	44,619				

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. Recurring capital expenditures during 2011 are currently expected to be approximately $1,050 per home.

Development

At September 30, 2011, our development pipeline for wholly-owned communities totaled 1,641 homes with a budget of $524.3 million in which we have a carrying value of $192.9 million. We anticipate the completion of these communities through the fourth quarter of 2013.

Consolidated Joint Ventures

In August 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop an existing commercial property into a 173 apartment home community in Orange County, California. At closing the Company contributed $9 million and at September 30, 2011, UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner is required to achieve certain criteria as it relates to the entitlement process. If the criteria is met on or before 730 days after the site plan application is deemed complete by the city, the Company is obligated to contribute an additional $3 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3 million related to the contingent consideration, which represents 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. During the three and nine months ended September 30, 2011, the Company paid $450,000 to acquire from our partner its remaining 2% noncontrolling interests in the 989 Elements, Elements Too, and Bellevue joint ventures. The

consideration paid was in excess of the book value of the noncontrolling interest, and is reflected as a reduction of the Company s equity.

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 venture. In addition, we may earn fees for providing management services to the unconsolidated joint ventures. As of September 30, 2011, UDR had investments in the following unconsolidated joint ventures which are accounted for under the equity method of accounting.

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In November 2010, the Company acquired The Hanover Company s (Hanover) partnership interests in the Hanover/MetLife Master Limited Partnership (the UDR/MetLife Partnership). The UDR/MetLife Partnership owns a portfolio of 26 operating communities containing 5,748 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of the UDR/MetLife Partnership, UDR acts as the general partner and earns fees for property and asset management and financing transactions.

UDR acquired a weighted average ownership interest of 12.27% in the operating communities and 4.11% in the land parcels for $100.8 million. The initial investment of $100.8 million consisted of $71.8 million in cash, which included associated transaction costs, and a $30 million payable (includes discount of $1 million) to Hanover. UDR agreed to pay the $30 million balance to Hanover in two interest free installments in the amounts of $20 million and $10 million 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 September 30, 2011 and December 31, 2010, the net carrying value of the payable was $29.7 million and $29.1 million, respectively. Interest expense of $197,000 and $588,000 was recorded during the three and nine months ended September 30, 2011. At September 30, 2011 and December 31, 2010, the Company s investment was $128.1 million and $122.2 million, respectively.

UDR s total cost of its equity investment of $100.8 million differed from its proportionate share in the underlying net assets of the UDR/MetLife Partnership of $111.4 million. The difference of $10.6 million was attributable to certain assets and adjustments were allocated to UDR s proportionate share in the UDR/MetLife Partnership 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 amortized and recorded as a component of loss from unconsolidated entities over 45 years and the difference related to lease intangible assets is 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 three and nine months ended September 30, 2011, the Company recorded $396,000 and $1.2 million of amortization, respectively.

In connection with the purchase of Hanover s interests in the UDR/MetLife Partnership, UDR agreed to indemnify Hanover from liabilities from Hanover s guaranty of $506 million in loans ($156 million outstanding at September 30, 2011) which are secured by a security interest in the operating communities subject to the loans. The loans are to the sub-tier partnerships which own the 26 operating communities. The Company anticipates that the balance of these loans will be refinanced by the UDR/MetLife Partnership over the next twelve months.

In October 2010, the Company entered into a joint venture with an affiliate of Hanover to develop a 240-home community in Stoughton, Massachusetts. At September 30, 2011 and December 31, 2010, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $10 million. Our investment at September 30, 2011 and December 31, 2010 was $17.3 million and $10.3 million, respectively.

In May 2011, the Company entered into a joint venture with an affiliate of Hanover to develop a 263-home community in San Diego, California. At September 30, 2011 and at closing, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $9.9 million. Our investment at September 30, 2011 was $11.1 million.

In June 2011, the UDR/MetLife Partnership sold a parcel of land to a joint venture, which the Company entered into with an affiliate of Hanover to develop a 256-home community in College Park, Maryland. At September 30, 2011 and at closing, UDR owned a noncontrolling interest of 95% in the joint venture. Our initial investment was $7.1 million. Our investment at September 30, 2011 was $7.6 million.

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. In 2010, the joint venture acquired its first property (151 homes), and in August 2011, it acquired its second property (217 homes) in Metropolitan Washington, D. C. At September 30, 2011 and December 31, 2010, the Company owned a 30% interest in the joint venture. Our investment at September 30, 2011 and December 31, 2010 was $15.3 million and $5.2 million, respectively.

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UDR is a partner with an unaffiliated third party which owns and operates 10 operating properties located in Texas (3,992 homes). UDR contributed cash and a property equal to 20% of the fair value of the properties. The unaffiliated member contributed cash equal to 80% of the fair value of the properties comprising the joint venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at September 30, 2011 and December 31, 2010 was $7.8 million and $10.3 million, respectively.

For additional information regarding these joint ventures, see Note 5, *Joint Ventures*, in the Consolidated Financial Statements of UDR, Inc. included in this Report.

Financing Activities

For the nine months ended September 30, 2011, our net cash provided by financing activities was $907.9 million compared to $325.5 million for the comparable period of 2010.

The following significant financing activities occurred during the nine months ended September 30, 2011:

repaid $222.8 million of secured debt. The $222.8 million of secured debt includes $187.4 million of construction loans, repayment of $13.3 million in tax exempt bonds, repayment of $2.0 million of credit facilities and $20.1 million of mortgage payments;

received proceeds of $30.5 million from secured debt financings. The $30.5 million includes $25.5 million in variable rate mortgages and $5.0 million in fixed rate mortgages;

net borrowings of $330.3 million were applied toward the Company s $600 million revolving credit facility;

certain holders submitted their outstanding 4.00% Convertible Senior Notes due 2035 to the Company for redemption. As a result, we repurchased notes with a notional value of $10.8 million, representing approximately 6.44% of the $167.8 million in aggregate principal amount outstanding, and expensed $207,000 of unamortized financing costs during the three months ended March 31, 2011. On March 2, 2011 the Company called the remaining outstanding notes with a notional value of $156.9 million. The notes were redeemed on April 4, 2011 and unamortized financing costs of $3.0 million were written off;

repaid $97.1 million on our 3.625% Convertible Senior Notes due September 2011.

issued $300 million in 4.25% Medium Term Notes due 2018;

in September 2009, the Company initiated an At the Market equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. During the nine months ended September 30, 2011, we sold 4,395,601 shares of common stock through this program for aggregate gross proceeds of approximately $104.5 million at a weighted average price per share of $23.78. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $2.1 million, were approximately $102.4 million;

in March 2011, the Company entered into a new equity distribution agreement pursuant to which the Company may offer and sell up to 20 million shares of its common stock over time to or through its sales agents by means of ordinary brokers transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. During the three months ended September 30, 2011, we sold 1,720,999 shares of common stock through this program for aggregate gross proceeds of approximately $43.7 million at a weighted average price per share of $25.41. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $875,000, were approximately $42.9 million. During the nine months ended September 30, 2011, we sold 10,800,343 shares of common stock through this program for aggregate gross proceeds of approximately $271.3 million at a weighted average price per share of $25.12. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $5.5 million, were approximately $265.8 million.

in July 2011, the Company closed on a public offering of 20,700,000 shares of its common stock, including 2,700,000 shares sold as a result of the underwriters exercise of their overallotment option in full at the closing, at a price of $25.00 per share, for net proceeds of approximately $496.3 million after underwriting discounts and commissions and estimated offering expenses.

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Credit Facilities

As of September 30, 2011, we have secured credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion with $1.2 billion outstanding. The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have $895.2 million of the funded balance fixed at a weighted average interest rate of 5.32% and the remaining balance on these facilities is currently at a weighted average variable rate of 1.61%.

As of September 30, 2011, we had a $600 million unsecured revolving credit facility. On October 25, 2011, the Company entered into a new $900 million unsecured revolving credit facility, replacing our $600 million facility. The new facility has an initial term of four years and includes 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.

The Fannie Mae credit facilities and the bank revolving credit facility are subject to customary financial covenants and limitations.

Derivative Instruments

As part of UDR s overall interest rate risk management strategy, we use derivatives as a means to fix the interest rates of variable rate debt obligations or to hedge anticipated financing transactions. UDR s derivative transactions used for interest rate risk management include interest rate swaps with indexes that relate to the pricing of specific financial instruments of UDR. We believe that we have appropriately controlled our interest rate risk through the use of derivative instruments to minimize any unintended effect on consolidated earnings. Derivative contracts did not have a material impact on the results of operations during the three months ended September 30, 2011 (see Note 11, *Derivatives and Hedging Activity* in the Consolidated Financial Statements of UDR, Inc. included in this Report).

Funds from Operations

Funds from operations, or FFO, is defined as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO for all periods presented in accordance with the recommendations set forth by the National Association of Real Estate Investment Trust s (NAREIT) April 1, 2002 White Paper. We consider 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. 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.

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The following table outlines our FFO calculation and reconciliation to GAAP for the three and nine months ended September 30, 2011 and 2010 (*dollars in thousands):*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income/(loss) attributable to UDR, Inc.	**$ (13,251)**	$ (23,766)	**$ (26,475)**	$ (74,443)
Distributions to preferred stockholders	**(2,308)**	(2,368)	**(7,003)**	(7,119)
Real estate depreciation and amortization, including discontinued operations	**96,554**	75,591	**271,830**	221,524
Non-controlling interest	**(535)**	(839)	**(1,058)**	(2,828)
Real estate depreciation and amortization on unconsolidated joint ventures	**2,956**	1,215	**8,648**	3,375
Net gain on the sale of depreciable property in discontinued operations, excluding RE3	**(11,364)**	(3,878)	**(55,172)**	(3,999)
(Premium)/discount on preferred stock repurchases, net			**(175)**	25
Funds from operations (FFO) basic	**$ 72,052**	$ 45,955	**$ 190,595**	$ 136,535
Distribution to preferred stockholders Series E (Convertible)	**931**	932	**2,793**	2,794
Funds from operations diluted	**$ 72,983**	$ 46,887	**$ 193,388**	$ 139,329
FFO per common share basic	**$ 0.32**	$ 0.27	**$ 0.94**	$ 0.82
FFO per common share diluted	**$ 0.32**	$ 0.27	**$ 0.93**	$ 0.81
Weighted average number of common shares and OP Units outstanding basic	**222,051**	171,019	**202,711**	166,691
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**227,243**	176,480	**207,854**	171,936

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.

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, 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.

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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 three and nine months ended September 30, 2011 and 2010 *(shares in thousands):*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Weighted average number of common shares and OP units outstanding basic	**222,051**	171,019	**202,711**	166,691
Weighted average number of OP units outstanding	**(8,235)**	(5,616)	**(6,988)**	(5,850)
Weighted average number of common shares outstanding - basic per the Consolidated Statements of Operations	**213,816**	165,403	**195,723**	160,841
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**227,243**	176,480	**207,854**	171,936
Weighted average number of OP units outstanding	**(8,235)**	(5,616)	**(6,988)**	(5,850)
Weighted average incremental shares from assumed conversion of stock options	**(1,347)**	(1,733)	**(1,310)**	(1,591)
Weighted average incremental shares from unvested restricted stock	**(809)**	(692)	**(797)**	(618)
Weighted average number of Series E preferred shares outstanding	**(3,036)**	(3,036)	**(3,036)**	(3,036)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**213,816**	165,403	**195,723**	160,841

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 generally accepted accounting principles, 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*):

	Nine Months Ended September 30,	
	2011	**2010**
Net cash provided by operating activities	**$ 182,921**	$ 157,489
Net cash used in investing activities	**(1,086,784)**	(478,848)
Net cash used provided by financing activities	**907,859**	325,481

Results of Operations

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

Net Loss Attributable to Common Stockholders

Net loss attributable to common stockholders was $15.6 million ($.07 per diluted share) for the three months ended September 30, 2011 as compared to $26.1 million ($0.16 per diluted share) for the comparable period in the prior year. The decrease in net loss attributable to common stockholders for the three months ended September 30, 2011 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in our net operating income primarily due to community acquisitions; and
- an increase in net gain on the sale of depreciable property primarily related to the disposition of two communities in September 2011.

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These were partially offset by:

- an increase in depreciation expense primarily due to the Company s acquisition of three operating communities in the third quarter of 2011, five operating communities in the second quarter of 2011 and five operating communities in the third quarter of 2010, and the completion of redevelopment and development communities during 2010.

Net loss attributable to common stockholders was $33.7 million ($0.17 per diluted share) for the nine months ended September 30, 2011 as compared to $81.5 million ($0.51 per diluted share) for the comparable period in the prior year. The decrease in net loss attributable to common stockholders for the nine months ended September 30, 2011 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- an increase in our net operating income primarily due to community acquisitions; and
- an increase in net gain on the sale of depreciable property primarily related to the disposition of nine communities during the nine months ended September 30, 2011.

These were partially offset by:

- an increase in depreciation expense primarily due to the Company s acquisition of three operating communities in the third quarter of 2011, five operating communities in the second quarter of 2011 and five operating communities in the third quarter of 2010, and the completion of redevelopment and development communities during 2010.

Apartment Community Operations

Our net operating income is primarily generated from the operation of our apartment communities. The following table summarizes the operating performance of our total apartment portfolio which includes discontinued operations and excludes commercial operating income and expense for each of the periods presented *(dollars in thousands):*

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
Property rental income	**$ 187,137**	$ 157,630	18.7%	**$ 529,774**	$ 459,915	15.2%
Property operating expense (a)	**(63,730)**	(56,688)	12.4%	**(180,421)**	(162,762)	10.8%
Property net operating income (NOI)	**$ 123,407**	$ 100,942	22.3%	**$ 349,353**	$ 297,153	17.6%

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Property net operating income	**$ 123,407**	$ 100,942	**$ 349,353**	$ 297,153
Other income	**4,106**	2,086	**7,027**	4,152
Non-property income	**5,229**	2,202	**12,620**	7,575
Real estate depreciation and amortization	**(96,554)**	(75,591)	**(271,830)**	(221,524)
Interest expense	**(40,079)**	(38,257)	**(118,642)**	(113,068)
General and administrative and property management	**(17,157)**	(16,403)	**(50,312)**	(44,739)
Other depreciation and amortization	**(983)**	(1,224)	**(3,012)**	(3,755)
Other operating expenses	**(1,539)**	(1,403)	**(4,540)**	(4,342)
Loss from unconsolidated entities	**(1,580)**	(835)	**(4,260)**	(2,757)
Redeemable non-controlling interests in OP	**581**	870	**1,192**	2,939
Non-controlling interests	**(46)**	(31)	**(134)**	(111)
Net gain on sale of properties	**11,364**	3,878	**56,063**	4,034
Net loss attributable to UDR, Inc.	**$ (13,251)**	$ (23,766)	**$ (26,475)**	$ (74,443)

Same Communities

Our same community properties (those acquired, developed, and stabilized prior to July 1, 2010 and held on September 30, 2011) consisted of 39,567 apartment homes and provided 74% of our total property NOI for the three months ended September 30, 2011.

NOI for our same community properties increased 7.0% or $6.0 million for the three months ended September 30, 2011 compared to the same period in 2010. The increase in property NOI was attributable to a 5.0% or $6.4 million increase in property rental income, which was partially offset by a 1.1% or $474,000 increase in operating expenses. The increase in revenues was primarily driven by a 4.7% or $5.9 million increase in rental rates and a 19.2% or $1.2 million increase in reimbursement and fee income, partially offset by an 8.8% or $433,000 increase in vacancy loss. Physical occupancy increased 0.1% to 95.6% and total monthly income per occupied home increased 4.9% to $1,201.

The increase in property operating expenses was primarily driven by a 6.2% or $470,000 increase in utilities and a 4.7% or $597,000 increase in real estate taxes. These increases were partially offset by a decrease of 4.9% or $562,000 in personnel costs.

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 66.6% for the three months ended September 30, 2011 as compared to 65.3% for the comparable period in 2010.

Our same community properties (those acquired, developed, and stabilized prior to January 1, 2010 and held on September 30, 2011) consisted of 39,030 apartment homes and provided 75% of our total property NOI for the nine months ended September 30, 2011.

NOI for our same community properties increased 4.8% or $12.1 million for the nine months ended September 30, 2011 compared to the same period in 2010. The increase in property NOI was attributable to a 3.7% or $14.2 million increase in property rental income, which was partially offset by a 1.6% or $2.1 million increase in operating expenses. The increase in revenues was primarily driven by a 3.6% or $13.3 million increase in rental rates and a 9.1% or $2.6 million increase in reimbursement and fee income. This increase was partially offset by a 10.1% or $1.4 million increase in vacancy loss and a 19.4% or $308,000 increase of bad debt write offs. Physical occupancy

decreased 0.1% to 95.6% and total monthly income per occupied home increased 3.8% to $1,178.

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The increase in property operating expenses was primarily driven by a 4.9% or $1.0 million increase in utilities expense, a 6.7% or $457,000 increase in insurance costs, a 1.8% or $386,000 increase in repair and maintenance, and a 2.4% or $191,000 increase in administrative and marketing expenses.

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 66.5% for the nine months ended September 30, 2011 as compared to 65.8% for the comparable period in 2010.

Non-Mature/Other Communities

The remaining $32.7 million or 26% and $86.4 million and 25% of our total NOI during the three and nine months ended September 30, 2011 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, non-apartment components of mixed use properties, properties classified as real estate held for disposition and condominium properties. For the three and nine months ended September 30, 2011, we recognized NOI from our developments of $4.5 million and $12.9 million, NOI from our sold or held for sale communities of $1.8 million and $10.5 million, NOI from acquired communities of $13.6 million and $31.4 million, and NOI from redeveloped properties of $11.1 million and $26.6 million.

Other Income

During the nine months ended September 30, 2011, the Company sold marketable securities for $3.5 million, resulting in a gain of $3.1 million, which is included in other income. The Company also sold its cost investment in a privately held company for $3.6 million resulting in a gain of $2.6 million, which is included in other income. For the three months and nine months ended September 30, 2011 and 2010, other income on continuing operations includes fees earned from the Company s joint ventures of $2.5 million and $6.4 million and $453,000 and $1.5 million, respectively. Other income on continuing operations for the three and nine months ended September 30, 2010 also includes interest income and discount amortization from an interest in a convertible debt security of $957,000 and $2.9 million. The nine months ended September 30, 2010 also includes $2.1 million, of which $1.8 million is included in discontinued operations, for a recovery from real estate tax accruals.

Real Estate Depreciation and Amortization

For the three and nine months ended September 30, 2011, real estate depreciation and amortization on both continuing and discontinued operations increased 27.7% or $21.0 million and 22.7% and $50.3 million, respectively, as compared to the comparable periods in 2010. The increases in depreciation and amortization for the three and nine months ended September 30, 2011 are primarily the result of acquisitions of three apartment communities during the third quarter of 2011, five apartment communities during the second quarter of 2011, acquisitions of five apartment communities during the third quarter of 2010, development and redevelopment activity during 2011 and 2010, and additional capital expenditures. As part of the Company 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.

Interest Expense

For the three months ended September 30, 2011, interest expense on both continuing and discontinued operations increased 4.8% or $1.8 million and 4.9% or $5.6 million as compared to the comparable period in 2010. This increase in interest expense was primarily due to slightly higher debt balances. The increase during the nine months ended September 30, 2011 compared to the comparable period in 2010 was also attributable to the write off of $4.0 million of deferred financing costs related to the prepayment of debt.

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General and Administrative

For the three months ended September 30, 2011, general and administrative expense did not significantly change as compared to the comparable period in 2010. For the nine months ended September 30, 2011, general and administrative expenses increased 11.2% or $3.6 million as compared to the same period in 2010. The increase was primarily due to an increase in acquisition costs related to the Company s acquisitions of eight operating communities during the nine months ended September 30, 2011.

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, 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 three months and nine months ended September 30, 2011.

Off-Balance Sheet Arrangements

In November 2010, the Company acquired The Hanover Company s (Hanover) partnership interests in the Hanover/MetLife Master Limited Partnership (the UDR/MetLife Partnership). The UDR/MetLife Partnership owns a portfolio of 26 operating communities containing 5,748 apartment homes and 10 land parcels with the potential to develop approximately 2,000 additional apartment homes. Under the terms of the UDR/MetLife Partnership, UDR acts as the general partner and earn fees for property and asset management and financing transactions.

In connection with the purchase of Hanover s interests in the UDR/MetLife Partnership, UDR agreed to indemnify Hanover from liabilities from Hanover s guaranty of $506 million in loans ($156 million outstanding at September 30, 2011) which are secured by a security interest in the operating communities subject to the loan. The loans are to the sub-tier partnerships which own the 26 operating communities. The Company anticipates that the balance of these loans will be refinanced by the UDR/MetLife Partnership over the next twelve months.

We do not have any other 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.

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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 September 30, 2011, the Operating Partnership s real estate portfolio included 81 communities located in 9 states plus the District of Columbia, with a total of 24,200 apartment homes.

As of September 30, 2011, UDR owned 110,883 units of our general limited partnership interests and 174,741,015 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 September 30, 2011, the General Partner s consolidated real estate portfolio included 172 communities located in 11 states and the District of Columbia with a total of 49,674 apartment homes. In addition, the General Partner has an ownership interest in 38 communities with 10,108 completed apartment homes through unconsolidated joint ventures.

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The following table summarizes our market information by major geographic markets as of September 30, 2011.

	As of September 30, 2011				Three Months Ended September 30, 2011 (a)		Nine Months Ended September 30, 2011 (a)	
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 (b)	Average Physical Occupancy	Total Income per Occupied Home (b)
Western Region								
Orange Co, CA	8	2,935	11.6%	$ 502,107	94.7%	$ 1,514	95.0%	$ 1,482
San Francisco, CA	7	1,583	8.6%	369,630	96.7%	2,116	96.9%	2,038
Monterey Peninsula, CA	7	1,565	3.6%	153,625	95.4%	1,135	93.9%	1,103
Los Angeles, CA	3	463	2.9%	124,865	94.7%	1,775	95.4%	1,761
San Diego, CA	3	689	2.3%	100,184	95.4%	1,315	95.5%	1,294
Seattle, WA	5	932	4.8%	207,749	95.3%	1,306	96.3%	1,262
Inland Empire, CA	2	834	2.8%	120,030	93.8%	1,289	94.3%	1,279
Sacramento, CA	2	914	1.6%	68,807	94.0%	891	93.4%	884
Portland, OR	3	716	1.6%	70,263	95.3%	1,012	95.8%	990
Mid-Atlantic Region								
Metropolitan DC	7	2,378	12.7%	549,186	96.2%	1,795	96.5%	1,757
Baltimore, MD	5	994	3.4%	146,830	95.6%	1,357	96.0%	1,341
Southeastern Region								
Tampa, FL	3	1,154	2.5%	110,290	95.8%	1,045	96.3%	1,033
Nashville, TN	6	1,612	3.0%	128,266	96.6%	886	96.5%	862
Jacksonville, FL	1	400	1.0%	42,532	94.9%	891	94.1%	880
Other Florida	1	636	1.7%	77,021	93.4%	1,232	93.3%	1,213
Southwestern Region								
Dallas, TX	2	1,348	4.2%	183,815	96.0%	1,200	96.1%	1,168
Phoenix, AZ	3	914	1.7%	72,585	94.8%	896	95.2%	884
Total/Average Same Communities	68	20,067	70.0%	3,027,785	95.4%	$ 1,344	95.5%	$ 1,316
Non Matures, Commercial Properties & Other	13	4,133	30.0%	1,294,676				

Total Real Estate Held for Investment	81	24,200	100.0%	4,322,461
Total Accumulated Depreciation				(965,980)
Total Real Estate Owned, Net of Accumulated Depreciation				$ 3,356,481

(a) The same community population for the nine months ended September 30, 2011 includes 20,067 homes.

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

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 July 1, 2010, and held as of September 30, 2011. 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 2010 or 2011, sold properties, redevelopment properties, properties classified as real estate held for sale, condominium conversion properties, joint venture properties, properties managed by third parties, 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. Historically, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

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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, borrowings allocated to us under the General Partner s credit agreements the Operating Partnership is a party to, loans from the General Partner, and proceeds from sales of properties.

Future Capital Needs

Future capital expenditures are expected to be funded with proceeds from the issuance of secured debt, the sale of properties, the borrowings allocated to us under our General Partner s credit agreements, and to a lesser extent, with cash flows provided by operating activities, loans from the General Partner and proceeds from sales of properties. Acquisition activity in strategic markets is expected to be largely financed by the reinvestment of proceeds from the sale of properties, the issuance of OP units and the assumption or placement of secured debt.

During the remainder of 2011, the Operating Partnership has approximately $1.8 million of secured debt maturing, inclusive of principal amortization and net of extension rights of $30.9 million. We anticipate that we will repay that debt with operating cash flows, proceeds from borrowings allocated to us under our General Partner s credit agreements, borrowings from the General Partner, proceeds from sales of properties, or by exercising extension rights on such secured debt, as applicable. The repayment of debt will be recorded as an offset to the Receivable due from General Partner .

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, (3) real estate investment properties, and (4) revenue recognition. Our other critical accounting policies are described in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in UDR s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 23, 2011. There have been no significant changes in our critical accounting policies from those reported in our Form 10-K filed with the SEC on February 23, 2011. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows for the Nine Months Ended September 30, 2011

The following discussion explains the changes in net cash provided by operating activities, and net cash used in investing activities, and provided by/(used in) financing activities that are presented in our Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010.

Operating Activities

For the nine months ended September 30, 2011, net cash flow provided by operating activities was $127.5 million compared to $126.8 million for the comparable period in 2010. The decrease in net cash flow from operating activities was primarily due to changes in operating assets and operating liabilities due to property acquisitions partially offset by an increase in property operating income.

Investing Activities

For the nine months ended September 30, 2011, net cash used in investing activities was $347.5 million compared to $43.8 million for the comparable period in 2010. Changes in the level of investment activities from period to period reflect our strategy as it relates to acquisitions and capital expenditures.

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Acquisitions and Dispositions

The Operating Partnership did not acquire or dispose of any communities during the three and nine months ended September 30, 2010.

In April 2011, UDR and the Operating Partnership closed on an acquisition of a 493- home multifamily apartment community referred to as 10 Hanover Square, located in New York, New York. The community was acquired for $259.8 million, which included assumed debt with a fair value of $208.1 million and the issuance of 2,569,606 OP Units of the Operating Partnership. The OP Units were deemed to have a value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10 day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $24.47 at settlement date.

In April 2011, the Operating Partnership and its General Partner completed a $500 million asset exchange whereby the Operating Partnership acquired two multifamily apartment communities (833 homes) and a parcel of land, and UDR acquired one multifamily apartment community (227 homes). The acquired assets are: 388 Beale in San Francisco, CA (227 homes)-acquired by UDR; 14 North in Peabody, MA (387 homes); and Inwood West in Woburn, MA (446 homes). The communities acquired were valued at $263.0 million representing their estimated fair value. The Company and the Operating Partnership paid $28.1 million of cash and assumed debt with a fair value of $61.7 million. The Operating Partnership sold four multifamily apartment communities (984 homes) and UDR sold two multifamily apartment communities (434 homes) located in California as part of the transaction. The communities are: Crest at Phillips Ranch, Villas at San Dimas, Villas at Bonita, The Arboretum, Rancho Vallecitos and Milazzo.

In August 2011, UDR and the Operating Partnership closed on the acquisition of a 507- home multifamily apartment community referred to as 95 Wall located in New York, New York. The community was acquired for $328.9 million, which included the issuance of 1,802,239 OP Units of the Operating Partnership. The OP Units were deemed to have a value equal to the greater of $25.00 or the volume weighted average closing price per share of the Company s common stock for the 10-day period ended on (and including) the date one business day prior to the settlement date. For purchase price accounting purposes, the fair value of these OP units was $26.71 at settlement date.

The Operating Partnership s long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been seeking to expand our interests in communities located in Boston, California, Metropolitan Washington D.C., New York, and the Washington state 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- three key drivers to strong rental growth.

Financing Activities

For the nine months ended September 30, 2011, our net cash provided by/(used in) financing activities was $223.1 million compared to ($82.5) million for the comparable period of 2010. The increase in cash provided by financing activities was primarily due to advances from the General Partner, which was partially offset by a decrease in the proceeds from the issuance of secured debt and an increase in payments on secured debt.

Credit Facilities

As of September 30, 2011, the General Partner had secured credit facilities with Fannie Mae with an aggregate commitment of $1.4 billion with $1.2 billion outstanding. The Fannie Mae credit facilities are for an initial term of 10 years, 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 September 30, 2011, $895.2 million of the funded balance was fixed at a weighted average interest rate of 5.32% and the remaining balance on these facilities was at a weighted average variable rate of 1.61%. At September 30, 2011, $736.9 million of these credit facilities are allocated to the Operating Partnership based on the ownership of the assets securing the debt.

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The Operating Partnership is a guarantor on the General Partner s $250 million term loan due January 2016, $100 million term loan due December 2013, and $300 million of medium-term notes due June 2018. At September 30, 2011 and December 31, 2010, the Operating Partnership guaranteed the General Partner s unsecured credit facility, with an aggregate borrowing capacity of $600 million. The outstanding balance under the unsecured credit facility was $362.0 million and $31.8 million at September 30, 2011 and December 31, 2010, respectively. On October 25, 2011, the Operating Partnership issued a guarantee in conjunction with a new $900 million unsecured revolving credit facility entered into by our General Partner. The new facility replaces the General Partner s $600 million facility. The credit facilities are subject to customary financial covenants and limitations.

Other Guarantees

At September 30, 2011, the Operating Partnership guaranteed certain outstanding securities of UDR, such that the Operating Partnership, as primary obligor and not merely as surety, irrevocably and unconditionally guarantees to each holder of the applicable securities and to the trustee and their successors and assigns under the respective indenture (a) the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of UDR under the respective indenture whether for principal of or interest on the securities (and premium, if any), and all other monetary obligations of UDR under the respective indenture and the terms of the applicable securities and (b) the full and punctual performance within the applicable grace periods of all other obligations of UDR under the respective indenture and the terms of the applicable securities.

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 $240.4 million in variable rate debt that is not subject to interest rate swap contracts as of September 30, 2011. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by $2.4 million based on the balance at September 30, 2011.

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.

Results of Operations for the Three and Nine Months Ended September 30, 2011

The following discussion explains the changes in results of operations that are presented in our Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010, and includes the results of both continuing and discontinued operations for the periods presented.

Net Loss Attributable to OP Unitholders

Net loss attributable to OP unitholders was $6.6 million ($0.04 per OP unit) for the three months ended September 30, 2011 as compared to $6.8 million ($0.04 per OP unit) for the comparable period in the prior year. The decrease in net loss 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 community acquisitions; and
- a decrease in general and administrative expenses.

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These changes were partially offset by:

- an increase in depreciation expense primarily due to the Operating Partnership s acquisitions of three operating communities in April 2011 and one operating community in August 2011; and
- an increase in interest expense related to debt assumed on certain acquisitions in April 2011.

Net loss attributable to OP unitholders was $1.2 million ($0.01 per OP unit) for the nine months ended September 30, 2011 as compared to $12.4 million ($0.07 per OP unit), for the comparable period in the prior year. The decrease in net loss 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 community acquisitions; and
- an increase in net gain on the sale of depreciable property primarily related to the disposition of four communities in April 2011.

These changes were partially offset by an increase in depreciation expense primarily due to the Operating Partnership s acquisitions of three operating communities in April 2011 and one operating community in August 2011.

Apartment Community Operations

Our net income is primarily generated from the operation of our apartment communities.

The following table summarizes the operating performance of our total portfolio for the three and nine months ended September 30, 2011 and 2010 *(dollars in thousands)*:

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
Property rental income	**$ 99,833**	$ 88,222	13.2%	**$ 285,795**	$ 261,517	9.3%
Property operating expense (a)	**(31,059)**	(29,937)	3.7%	**(91,585)**	(86,478)	5.9%
Property net operating income (NOI)	**$ 68,774**	$ 58,285	18.0%	**$ 194,210**	$ 175,039	11.0%

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

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The following table is our reconciliation of property NOI to net loss attributable to OP unit holders as reflected, for both continuing and discontinued operations, for the three and nine months ended September 30, 2011 and 2010 *(dollars in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Property net operating income	**$ 68,774**	$ 58,285	**$ 194,210**	$ 175,039
Non-property income				1,849
Real estate depreciation and amortization	**(51,906)**	(41,674)	**(143,289)**	(124,797)
Interest	**(13,948)**	(13,240)	**(39,742)**	(39,281)
General and administrative and property management	**(8,139)**	(9,055)	**(24,127)**	(21,315)
Other operating expenses	**(1,398)**	(1,179)	**(4,203)**	(3,940)
Net gain on sale of real estate	**17**	27	**16,055**	124
Non-controlling interests	**(32)**	(9)	**(91)**	(44)
Net loss attributable to OP unitholders	**$ (6,632)**	$ (6,845)	**$ (1,187)**	$ (12,365)

Same Store Communities

Three Months Ended September 30, 2011 vs. Three Months Ended September 30, 2010

Our same store communities (those acquired, developed, and stabilized prior to July 1, 2010 and held on September 30, 2011) consisted of 20,067 apartment homes and provided 76.3% of our total NOI for the three months ended September 30, 2011.

NOI for our same store community properties increased 8.2% or $4.0 million for the three months ended September 30, 2011 compared to the same period in 2010. The increase in property NOI was primarily attributable to a 5.4% or $4.0 million increase in property rental income. The increase in revenues was primarily driven by a 5.0% or $3.6 million increase in rental rates, and a 14.9% or $808,000 increase in reimbursement and fee income. These increases were partially offset by a 8.4% or $246,000 increase in vacancy loss and a 45.6% or $166,000 increase in bad debt write offs. Physical occupancy decreased 0.1% to 95.4% and total income per occupied home increased $70 to $1,344 for the three months ended September 30, 2011 compared to the same period in 2010.

Property operating expenses decreased by 0.1% or $30,000 for the nine months September 30, 2011.

As a result of the percentage changes in property rental income, the operating margin (property net operating income divided by property rental income) was 67.9% for the three months ended September 30, 2011 as compared to 66.2% for the comparable period in 2010.

Nine Months Ended September 30, 2011 vs. Nine Months Ended September 30, 2010

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2010 and held on September 30, 2011) consisted of 20,067 apartment homes and provided 79.1% of our total NOI for the nine months ended September 30, 2011.

NOI for our same store community properties increased 5.5% or $8.0 million for the nine months ended September 30, 2011 compared to the same period in 2010. The increase in property NOI was primarily attributable to a 4.1% or $8.9 million increase in property rental income which was partially offset by a 1.3% or $929,000 increase in operating expenses. The increase in revenues was primarily driven by a 3.9% or $8.3 million increase in rental rates, and a 9.7% or $1.5 million increase in reimbursement and fee income. These increases were partially offset by a 11.4% or $939,000 increase in vacancy loss. Physical occupancy decreased 0.2% to 95.5% and total income per occupied home increased $55 to $1,316 for the nine months ended September 30, 2011 compared to the same period in 2010.

The increase in property operating expenses was primarily driven by a 5.2% or $600,000 increase in utilities, a 2.0% or $225,000 increase in repairs and maintenance, a 7.9% or $251,000 increase in insurance costs and a 3.6% or

$160,000 increase in administrative and marketing costs. These increases were partially offset by a 1.9% and $453,000 decrease in real estate taxes.

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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 67.7% for the nine months ended September 30, 2011 as compared to 66.8% for the comparable period in 2010.

Non-Mature/Other Communities

Three and nine months Ended September 30, 2011

The remaining $16.3 million or 23.7% and $40.5 million or 20.9% of our total NOI during the three and nine months ended September 30, 2011, respectively, 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 properties, non-apartment components of mixed use properties, properties classified as real estate held for disposition and condominium properties. For the three months ended September 30, 2011, we recognized NOI from our acquired communities of $7.1 million and NOI from our redevelopment properties of $6.1 million. For the nine months ended September 30, 2011, we recognized NOI from our acquired communities of $13.3 million, NOI from our redevelopment properties of $17.7 million, and NOI from our sold properties of $2.9 million.

Real Estate Depreciation and Amortization

For the three and nine months ended September 30, 2011 and 2010, real estate depreciation and amortization from continuing and discontinued operations increased by 24.6% or $10.2 million and 14.8% or $18.5 million, respectively. The increase in depreciation and amortization for the three and nine months ended September 30, 2011 is primarily the result of the acquisitions of three apartment communities during the second quarter of 2011 and one apartment community during the third quarter of 2011. As part of the Company 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.

Interest Expense

For the three and nine months ended September 30, 2011, interest expense from continuing and discontinued operations increased by 5.3% or $708,000 and 1.2% or $461,000, respectively. This increase is primarily due to an increase in secured debt due to acquisitions and an increase in interest rates on secured debt.

General and Administrative and Property Management

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.

General and administrative expenses decreased 18.6% or $1.2 million during the three months ended September 30, 2011, and increased 15.2% or $2.1 million during the nine months ended September 30, 2011 as compared to the comparable period in 2010. During the three and nine months ended September 30, 2011, general and administrative expenses include acquisition-related costs of $194,000 and $2.3 million, respectively. The increases, net of these acquisition-related costs, were consistent with the changes in UDR s general and administrative expenses for the three and nine months ended September 30, 2011.

Income from Discontinued Operations

For the three months ended September 30, 2011, income from discontinued operations did not significantly change. For the nine months ended September 30, 2011 and 2010, we recognized income from discontinued operations for financial reporting purposes of $16.4 million and $1.7 million, respectively. The increase in income from discontinued operations primarily relates to the sale of four apartment communities during the second quarter of 2011.

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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 three and nine month period ended September 30, 2011 and 2010.

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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company and the Operating Partnership are exposed to interest rate changes associated with our unsecured credit facility and other variable rate debt as well as refinancing risk on our fixed rate debt. The Company s and the Operating Partnership s involvement with derivative financial instruments is limited and we do not expect to use them for trading or other speculative purposes. The Company and the Operating Partnership use derivative instruments solely to manage their exposure to interest rates.

See our Annual Report on Form 10-K for the year ended December 31, 2010 under the heading Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a more complete discussion of our interest rate sensitive assets and liabilities. As of September 30, 2011, our market risk has not changed materially from the amounts reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. 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 September 30, 2011, we carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, 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.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is a party to various claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims and litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

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 our 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;
- 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.

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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 weakness following a severe recession, which has resulted in increased unemployment, decreased consumer spending and a decline in residential and commercial property values. Although it is not clear whether the U.S. economy has fully emerged from the recession, high levels of unemployment have continued to persist. If the economic recovery continues to slow or stalls, 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.

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 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. Neither inflation nor deflation has materially impacted our operations in the recent past. 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.

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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;
- an acquired apartment community may fail to perform as we expected in analyzing our investment, or a significant exposure related to the acquired property may go undetected during our due diligence procedures;
- 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.

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 growth.

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;

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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 pro forma;

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 of Developers in Our Development Joint Ventures Could Impose Delays and Costs on Us With Respect to the Development of Our Communities and May Adversely Affect Our Financial Condition and Results of Operations. The bankruptcy of one of the developers in any of our development joint ventures could materially and adversely affect the relevant property or properties. If the relevant joint venture through which we have invested in a property has incurred recourse obligations, the discharge in bankruptcy of the developer may require us to honor a completion guarantee and therefore might result in our ultimate liability for a greater portion of those obligations than we would otherwise bear.

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 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.

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 our stockholders.

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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.

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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 active earthquake faults, 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.

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.

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.

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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 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 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 control, 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.

Certain 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.

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.

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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 will be a complex undertaking. We may 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 will be adopted. Until there is more certainty with respect to the IFRS standards to 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 our 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.

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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.

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.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of Our 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 recent downgrade of the U.S. credit rating and the ongoing European debt crisis have contributed to the 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 sale 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.

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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 September 30, 2011, UDR had approximately $510.0 million of variable rate indebtedness outstanding, which constitutes approximately 13% of total outstanding indebtedness as of such date. As of September 30, 2011, the Operating Partnership had approximately $240.4 million of variable rate indebtedness outstanding, which constitutes approximately 19% 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 our stockholders.

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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 our 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 our 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 our 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.

REITs May Pay a Portion of Dividends in Common Stock. In December 2009, the Internal Revenue Service issued Revenue Procedure 2010-12, which expanded previously issued temporary guidance relating to certain stock distributions made by publicly traded REITs to satisfy their tax-related distribution requirements. This expanded temporary guidance is intended to permit REITs to limit cash distributions in order to maintain liquidity during the current downturn in economic conditions. Under this expanded guidance, for stock dividends declared on or after January 1, 2008 and before December 31, 2012, with respect to a taxable year ending on or before December 31, 2011, the Internal Revenue Service will treat a distribution of stock by a publicly traded REIT, pursuant to certain stockholder elections to receive either stock or cash, as a taxable distribution of property, provided that, among other conditions, (i) the total amount of cash available for distribution is not less than 10% of the aggregate declared distribution, and (ii) if too many stockholders elect to receive cash, each stockholder electing to receive cash will receive a pro rata amount of cash corresponding to its respective entitlement under the declaration, but in no event will any such electing stockholder receive less than 10% of the stockholder s entire entitlement in money. The amount of such stock distribution will generally be treated as equal to the amount of cash that could have been received instead. If we pay a portion of our dividends in shares of UDR s common stock pursuant to this temporary guidance, our stockholders may receive less cash than they received in distributions in prior years and the market value of our securities may decline.

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 our 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.

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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 our 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.

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 continued to experience 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;

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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 Our 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 our 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 our

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.

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Limitations on Share Ownership and Limitations on the Ability of Our Stockholders to Effect a Change in Control of Our Company Restricts the Transferability of Our Stock and May Prevent Takeovers That are Beneficial to Our 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 our 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 our 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 our stockholders or might otherwise be in our stockholders best interests.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

From time to time the Company issues shares of the Company s common stock in exchange for operating partnership units (OP Units) tendered to the Operating Partnership, for redemption in accordance with the provisions of the Operating Partnership s limited partnership agreement. The holders of limited partnership OP Units have the right to require the Operating Partnership to redeem all or a portion of their limited partnership OP units 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 the Company s common stock equal to the number of OP Units being redeemed.

On July 13, 2011, the Company issued 1,998 shares of our common stock upon redemption of OP Units. On September 7, 2011, the Company issued 561 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. The Company did not issue any other shares of UDR common stock upon redemption of OP Units during the three months ended September 30, 2011.

On August 31, 2011, the Company and the Operating Partnership closed on the acquisition of a multifamily apartment community referred to as 95 Wall. The community was acquired for $328.9 million, which included the issuance of 1,802,239 OP Units for the contribution of the 95 Wall to the Operating Partnership. The OP Units were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The issuance of the OP Units was not effected using any form of general advertising or general solicitation and the issuance was made to only a qualified investor.

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Repurchase of Equity Securities

In February 2006, UDR s Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million 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 September 30, 2011.

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
July 1, 2011 through July 31, 2011				15,032,510
August 1, 2011 through August 31, 2011				15,032,510
September 1, 2011 through September 30 , 2011				15,032,510
Balance as of September 30, 2011	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.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

There is no other information required to be disclosed in a report on Form 8-K during the quarter ended September 30, 2011, that was not previously disclosed in a Form 8-K.

Item 6. EXHIBITS

The exhibits filed or furnished with this Report are set forth in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	UDR, Inc. (registrant)
Date: November 3, 2011	/s/ David L. Messenger David L. Messenger Chief Financial Officer and Senior Vice President *(duly authorized officer, principal financial officer and chief accounting officer)*
	United Dominion Realty, L.P. (registrant)
	By: UDR, Inc., its general partner
Date: November 3, 2011	/s/ David L. Messenger David L. Messenger Chief Financial Officer and Senior Vice President *(duly authorized officer, principal financial officer and chief accounting officer)*

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Restatement of UDR, Inc. (incorporated by reference to Exhibit 3.09 to UDR, Inc. s Current Report on Form 8-K dated July 27, 2005 and filed with the SEC on August 1, 2005).
3.2	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007 (incorporated by reference to Exhibit 3.2 to UDR, Inc. s Current Report on Form 8-K dated March 14, 2007 and filed with the SEC on March 15, 2007).
3.3	Articles Supplementary relating to UDR, Inc. s 6.75% Series G Cumulative Redeemable Preferred Stock dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 30, 2007 (incorporated by reference to Exhibit 3.4 to UDR, Inc. s Form 8-A Registration Statement dated and filed with the SEC on May 30, 2007).
3.4	Articles of Amendment to the Articles of Restatement of UDR, Inc. dated and filed with the State Department of Assessments and Taxation of the State of Maryland on August 30, 2011 (incorporated by reference to Exhibit 3.1 to UDR, Inc. s Current Report on Form 8-K dated and filed with the SEC on September 1, 2011.
3.5	Certificate of Limited Partnership of United Dominion Realty, L.P. dated February 19, 2004 (incorporated by reference to Exhibit 3.4 to United Dominion Realty, L.P. s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 dated and filed with the SEC on October 15, 2010).
3.6	Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated as of February 23, 2004 (incorporated by reference to Exhibit 10.23 to UDR, Inc. s Annual Report on Form 10-K for the year ended December 31, 2003).
3.7	First Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated June 24, 2005 (incorporated by reference to Exhibit 10.06 to UDR, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
3.8	Second Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 23, 2006 (incorporated by reference to Exhibit 10.6 to UDR, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
3.9	Third Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated February 2, 2007 (incorporated by reference to Exhibit 99.1 to UDR, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).
3.10	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated December 27, 2007 (incorporated by reference to Exhibit 10.25 to UDR, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007).
3.11	

	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. dated March 7, 2008 (incorporated by reference to Exhibit 10.53 to UDR, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008).
3.12	Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P. (incorporated by reference to Exhibit 10.1 to UDR, Inc. s Current Report on Form 8-K dated December 9, 2008 and filed with the SEC on December 10, 2008).

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Exhibit No.	Description
3.13	Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of March 13, 2009 (incorporated by reference to Exhibit 10.1 to UDR, Inc. s Current Report on Form 8-K dated March 18, 2009 and filed with the SEC on March 19, 2009).
3.14	Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P., dated as of November 17, 2010 (incorporated by reference to Exhibit 10.1 to UDR, Inc. s Current Report on Form 8-K dated November 18, 2010 and filed with the SEC on November 18, 2010).
3.15	Amended and Restated Bylaws of UDR, Inc. (as amended through May 12, 2011) (incorporated by reference to Exhibit 3.1 to UDR, Inc. s Current Report on Form 8-K filed with the SEC on May 13, 2011).
10.1	Underwriting Agreement among UDR, Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Wells Fargo Securities, LLC, as Representatives of the several underwriters, dated July 13, 2011 (incorporated by reference to Exhibit 1.1 to UDR, Inc. s Current Report on Form 8-K dated and filed with the SEC on July 13, 2011).
10.2	ATM Equity Offering[SM] Sales Agreement among UDR, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC, dated September 1, 2011 (incorporated by reference to Exhibit 1.1 to UDR, Inc. s Current Report on Form 8-K dated and filed with the SEC on September 1, 2011).
10.3	Third Amended and Restated Distribution Agreement among UDR, Inc., United Dominion Realty, L.P., as Guarantor, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Wells Fargo Securities, LLC, as Agents, dated September 1, 2011, with respect to the issue and sale by UDR, Inc. of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue (incorporated by reference to Exhibit 1.2 to UDR, Inc. s Current Report on Form 8-K dated and filed with the SEC on September 1, 2011).
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends of UDR, Inc.
12.2	Computation of Ratio of Earnings to Fixed Charges of United Dominion Realty, L.P.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of UDR, Inc.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer of UDR, Inc.
31.3	Rule 13a-14(a) Certification of the Chief Executive Officer of United Dominion Realty, L.P.
31.4	Rule 13a-14(a) Certification of the Chief Financial Officer of United Dominion Realty, L.P.

32.1	Section 1350 Certification of the Chief Executive Officer of UDR, Inc.
32.2	Section 1350 Certification of the Chief Financial Officer of UDR, Inc.
32.3	Section 1350 Certification of the Chief Executive Officer of United Dominion Realty, L.P.
32.4	Section 1350 Certification of the Chief Financial Officer of United Dominion Realty, L.P.
101	XBRL (Extensible Business Reporting Language). The following materials from this Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in XBRL: (i) consolidated balance sheets of UDR, Inc., (ii) consolidated statements of operations of UDR, Inc., (iii) consolidated statements of cash flows of UDR, Inc., (iv) consolidated statements of equity and comprehensive income/(loss) of UDR, Inc., (v) notes to consolidated financial statements of UDR, Inc, (vi) consolidated balance sheets of United Dominion Realty, L.P., (vii) consolidated statements of operations of United Dominion Realty, L.P., (viii) consolidated statements of cash flows of United Dominion Realty, L.P., (ix) consolidated statements of capital and comprehensive income/(loss) of United Dominion Realty, L.P., and (x) notes to consolidated financial statements of United Dominion Realty, L.P.