UDR, Inc.
Form 10-Q
April 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from to
Commission file number
1-10524 (UDR, Inc.)
333-156002-01 (United Dominion Realty, L.P.)
UDR, Inc.
United Dominion Realty, L.P.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

UDR, Inc.:

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

United Dominion Realty, L.P.:

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

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

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

The number of shares of UDR, Inc.'s common stock, $0.01 par value, outstanding as of April 25, 2014 was 251,430,708.

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PART II — OTHER INFORMATION

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2014 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company”, “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as the “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, including its taxable REIT subsidiary (“TRS”), RE3, whose activities include development of land and land entitlement. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding debt of UDR.

As of March 31, 2014, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 173,848,891 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

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

	March 31, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS		
Real estate owned:		
Real estate held for investment	$8,075,799	$7,723,844
Less: accumulated depreciation	(2,273,360)	(2,200,815)
Real estate held for investment, net	5,802,439	5,523,029
Real estate under development (net of accumulated depreciation of $0 and $1,411, respectively)	222,601	466,002
Real estate sold or held for disposition (net of accumulated depreciation of $6,568 and $6,568, respectively)	10,152	10,152
Total real estate owned, net of accumulated depreciation	6,035,192	5,999,183
Cash and cash equivalents	15,891	30,249
Restricted cash	23,131	22,796
Deferred financing costs, net	25,516	26,924
Notes receivable, net	84,568	83,033
Investment in and advances to unconsolidated joint ventures, net	517,927	507,655
Other assets	131,798	137,882
Total assets	$6,834,023	$6,807,722
LIABILITIES AND EQUITY		
Liabilities:		
Secured debt	$1,442,873	$1,442,077
Unsecured debt	2,185,373	2,081,626
Real estate taxes payable	20,173	13,847
Accrued interest payable	27,747	32,279
Security deposits and prepaid rent	30,731	27,203
Distributions payable	68,542	61,907
Accounts payable, accrued expenses, and other liabilities	76,007	118,682
Total liabilities	3,851,446	3,777,621
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests in the Operating Partnership	240,708	217,597
Equity:		
Preferred stock, no par value; 50,000,000 shares authorized		
2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2013)	46,571	46,571
Common stock, $0.01 par value; 350,000,000 shares authorized 251,430,708 shares issued and outstanding (250,749,665 shares at December 31, 2013)	2,514	2,507
Additional paid-in capital	4,110,625	4,109,765
Distributions in excess of net income	(1,414,997)	(1,342,070)
Accumulated other comprehensive income/(loss), net	(3,704)	(5,125)
Total stockholders' equity	2,741,009	2,811,648

Noncontrolling interests	860	856
Total equity	2,741,869	2,812,504
Total liabilities and equity	$6,834,023	$6,807,722

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
REVENUES:		
Rental income	$194,352	$181,961
Joint venture management and other fees	3,687	2,923
Total revenues	198,039	184,884
OPERATING EXPENSES:		
Property operating and maintenance	36,720	34,821
Real estate taxes and insurance	25,431	23,292
Property management	5,345	5,004
Other operating expenses	1,926	1,636
Real estate depreciation and amortization	88,533	82,898
General and administrative	11,994	9,476
Casualty-related (recoveries)/charges, net	500	(3,021)
Other depreciation and amortization	1,080	1,146
Total operating expenses	171,529	155,252
Operating income	26,510	29,632
Income/(loss) from unconsolidated entities	(3,565)	(2,802)
Interest expense	(32,884)	(30,981)
Interest and other income/(expense), net	1,415	1,016
Income/(loss) before income taxes and discontinued operations	(8,524)	(3,135)
Tax benefit, net	3,329	1,973
Income/(loss) from continuing operations	(5,195)	(1,162)
Income/(loss) from discontinued operations, net of tax	(87)	853
Income/(loss) before gain/(loss) on sale of real estate owned	(5,282)	(309)
Gain/(loss) on sale of real estate owned, net of tax	24,294	—
Net income/(loss)	19,012	(309)
Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership	(647)	45
Net (income)/loss attributable to noncontrolling interests	(4)	(4)
Net income/(loss) attributable to UDR, Inc.	18,361	(268)
Distributions to preferred stockholders — Series E (Convertible)	(931)	(931)
Net income/(loss) attributable to common stockholders	$17,430	$(1,199)
Income/(loss) per weighted average common share — basic:		
Income/(loss) from continuing operations attributable to common stockholders	$0.07	$(0.01)
Income/(loss) from discontinued operations attributable to common stockholders	$0.00	$0.00
Net income/(loss) attributable to common stockholders	$0.07	$0.00
Income/(loss) per weighted average common share — diluted:		
Income/(loss) from continuing operations attributable to common stockholders	$0.07	$(0.01)
Income/(loss) from discontinued operations attributable to common stockholders	$0.00	$0.00
Net income/(loss) attributable to common stockholders	$0.07	$0.00

Common distributions declared per share	$0.260	$0.235
Weighted average number of common shares outstanding — basic	250,177	249,917
Weighted average number of common shares outstanding — diluted	251,822	249,917

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income/(loss)	$19,012	$(309)
Other comprehensive income/(loss), including portion attributable to noncontrolling interests:		
Other comprehensive income/(loss) - derivative instruments:		
Unrealized holding gain/(loss)	(55)	(92)
(Gain)/loss reclassified into earnings from other comprehensive income/(loss)	1,532	1,937
Other comprehensive income/(loss), including portion attributable to noncontrolling interests	1,477	1,845
Comprehensive income/(loss)	20,489	1,536
Comprehensive (income)/loss attributable to noncontrolling interests	(707)	(46)
Comprehensive income/(loss) attributable to UDR, Inc.	$19,782	$1,490

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss), net	Noncontrolling Interests	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2013	2,803,812	$46,571	250,749,665	$2,507	$4,109,765	$(1,342,070)	$(5,125)	$856	$2,812,504
Net income/(loss) attributable to UDR, Inc.	—	—	—	—	—	18,361	—	—	18,361
Net income/(loss) attributable to noncontrolling interests	—	—	—	—	—	—	—	4	4
Other comprehensive income/(loss)	—	—	—	—	—	—	1,421	—	1,421
Issuance/(forfeiture) of common and restricted shares, net	—	—	681,043	7	860	—	—	—	867
Common stock distributions declared ($0.26 per share)	—	—	—	—	—	(65,400)	—	—	(65,400)
Preferred stock distributions declared-Series E ($0.3322 per share)	—	—	—	—	—	(931)	—	—	(931)
Adjustment to reflect redemption value of redeemable noncontrolling interests	—	—	—	—	—	(24,957)	—	—	(24,957)
Balance at March 31, 2014	2,803,812	$46,571	251,430,708	$2,514	$4,110,625	$(1,414,997)	$(3,704)	$860	$2,741,869

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2014	2013
Operating Activities		
Net income/(loss)	$19,012	$(309)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	89,613	84,588
Gain on sale of real estate owned, net of tax	(24,294)	—
Tax benefit, net	(3,329)	(1,973)
Loss from unconsolidated entities	3,565	2,802
Casualty-related (recoveries)/charges, net	500	(548)
Other	6,697	4,775
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets	8,422	(3,269)
Increase/(decrease) in operating liabilities	(17,665)	(19,406)
Net cash provided by operating activities	82,521	66,660
Investing Activities		
Acquisition of real estate assets	(77,793)	—
Proceeds from sale of real estate investments, net	47,922	—
Development of real estate assets	(56,147)	(85,181)
Capital expenditures and other major improvements — real estate assets, net of escrow reimbursement	(30,226)	(24,800)
Capital expenditures — non-real estate assets	(1,115)	(2,313)
Investment in unconsolidated joint ventures	(21,476)	(936)
Distributions received from unconsolidated joint ventures	7,661	14,393
Purchase deposits on pending acquisitions	(4,000)	—
Issuance of notes receivable	(1,535)	(2,180)
Net cash provided by/(used in) investing activities	(136,709)	(101,017)
Financing Activities		
Payments on secured debt	(2,486)	(3,199)
Proceeds from the issuance of secured debt	4,553	—
Payments on unsecured debt	(184,000)	—
Net proceeds/(repayment) of revolving bank debt	287,500	94,000
Distributions paid to redeemable noncontrolling interests	(2,360)	(2,263)
Distributions paid to preferred stockholders	(931)	(931)
Distributions paid to common stockholders	(58,952)	(55,035)
Other	(3,494)	(3,209)
Net cash provided by/(used in) financing activities	39,830	29,363
Net increase/(decrease) in cash and cash equivalents	(14,358)	(4,994)
Cash and cash equivalents, beginning of period	30,249	12,115
Cash and cash equivalents, end of period	$15,891	$7,121

Supplemental Information:		
Interest paid during the period, net of amounts capitalized	$38,180	$41,573

	Three Months Ended March 31,	
	2014	2013
Non-cash transactions:		
Conversion of OP Units into common shares (69,237 shares in 2013)	—	1,649

See accompanying notes to consolidated financial statements.

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UDR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014

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-administere real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages apartment communities. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the "Operating Partnership" or the "OP"). As of March 31, 2014, there were 183,278,698 units in the Operating Partnership outstanding, of which 173,959,774 units or 94.9% were owned by UDR and 9,318,924 units or 5.1% were owned by limited partners. The consolidated financial statements of UDR include the noncontrolling 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 March 31, 2014, and results of operations for the three months ended March 31, 2014 and 2013 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, 2013 appearing in UDR's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 25, 2014.

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

The Company evaluated subsequent events through the date its financial statements were issued. No significant recognized or non-recognized subsequent events were noted other than those mentioned in Note 5, Joint Ventures and Partnerships, and Note 6, Secured and Unsecured Debt.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which incorporates a requirement that a disposition represent a strategic shift in an entity's operations into the definition of a discontinued operation. In accordance with the ASU, a discontinued operation represents (1) a component of an entity or group of components that has been disposed of or is classified as held for sale in a single transaction and represents a strategic shift that has or will have a major effect on an entity's financial results, or (2) an acquired business that is classified as held for sale on the date of acquisition. A strategic shift could include a disposal of (1) a separate major line of business, (2) a separate major geographic area of operations, (3) a major equity method investment, or (4) other major parts of an entity. The standard requires prospective application and will be effective for interim and annual periods beginning on or after December 15, 2014 with early adoption permitted. The early adoption provision excludes components of an entity that were sold or classified as held for sale prior to the adoption of the standard.

The Company elected to early adopt this standard effective January 1, 2014, which had a significant impact on the Company’s consolidated financial statements as further discussed in Note 4, Discontinued Operations and Assets Held for Sale. Subsequent to the Company’s adoption of ASU 2014-08, the sale of real estate that does not meet the definition of a discontinued operation under the standard is included in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations.

As of March 31, 2014 and December 31, 2013, the Company had one operating property that was classified as held for sale and was not subject to early adoption of the ASU. Therefore, as of March 31, 2014, this property was included in Real estate sold or held for disposition on the Consolidated Balance Sheets and Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations. Upon the sale of this property, a gain/(loss) will be reported as discontinued operations.

Revenue and Real Estate Sales Gain Recognition

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

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

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

Notes Receivable

The following table summarizes our notes receivable, net as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	Balance outstanding			
	March 31, 2014	December 31, 2013	Interest rate	
Note due June 2014 (a)	$40,800	$40,800	3.91	%
Note due February 2017 (b)	15,008	14,580	10.00	%
Note due July 2017 (c)	2,500	1,400	8.00	%
Note due June 2022 (net of discount of $240 and $247, respectively) (d)	26,260	26,253	7.00	%
Total notes receivable, net	$84,568	$83,033		

(a) In the fourth quarter of 2013, in conjunction with the sale of its 95% interest in the Lodge at Stoughton, one of its unconsolidated joint ventures, the Company provided the buyer with a $40.8 million loan secured by the property at LIBOR plus a spread of 350 basis points with two three-month extension options at increased rates and a financing fee. In the first quarter of 2014, the buyer exercised its first option to extend the maturity date to June 15, 2014.

(b) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $15.0 million, which bears an interest rate of 10.00% per annum. During the three months ended March 31, 2014, the

Company loaned an additional $428,000 under the note. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (February 2017).

(c) The Company has a secured note receivable with an unaffiliated third party with an aggregate commitment of $2.5 million, which bears an interest rate of 8.00% per annum. During the three months ended March 31, 2014, the Company loaned an additional $1.1 million. Interest payments are due monthly. The note matures at the earliest of the following: (a) the closing of any private or public capital raising in the amount of $5.0 million or greater; (b) an acquisition; (c) acceleration in the event of default; or (d) the fifth anniversary of the date of the note (July 2017).
(d) In 2012, the Company purchased a "B" Note secured by a first mortgage on a class A community in West Los Angeles. The $26.5 million loan was purchased at a yield of 7.25% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022. The discount is amortized using the effective interest method.

During the three months ended March 31, 2014 and 2013, the Company recognized $1.2 million and $1.0 million of interest income, net of accretion, from these notes receivable, of which $0 and $181,000 was related party interest income, respectively. Interest income is included in Interest and other income/(expense), net on the Consolidated Statements of Operations.

Comprehensive Income/(Loss)

Comprehensive income/(loss), which is defined as the change in equity during each period from transactions and other events and circumstances from nonowner sources, including all changes in equity during a period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Consolidated Statements of Comprehensive Income/(Loss). For the three months ended March 31, 2014 and 2013, the Company’s other comprehensive income/(loss) consisted of the gain/(loss) (effective portion) on derivative instruments that are designated as and qualify as cash flow hedges, (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) into earnings, and the allocation of other comprehensive income/(loss) to redeemable noncontrolling interests. The (gain)/loss on derivative instruments reclassified from other comprehensive income/(loss) is included in Interest expense on the Consolidated Statements of Operations. See Note 10, Derivatives and Hedging Activity, for further discussion. The allocation of other comprehensive income/(loss) to redeemable noncontrolling interests during the three months ended March 31, 2014 and 2013 was $56,000 and $87,000, respectively.

Income Taxes

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

Income taxes for our TRS, RE^3, are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company’s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of March 31, 2014, UDR recorded a net income tax receivable of $991,000 and a net deferred tax asset of $35.9 million (net of a valuation allowance of $1.3 million), which are included in Other assets on the Consolidated Balance Sheets.

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

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

UDR had no material unrecognized tax benefit, accrued interest or penalties at March 31, 2014. UDR and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The tax years 2010 through 2013 remain open to examination by tax jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in Tax benefit, net on the Consolidated Statements of Operations.

3. REAL ESTATE OWNED

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development, and sold or held for disposition properties. As of March 31, 2014, the Company owned and consolidated 143 communities in 10 states plus the District of Columbia totaling 41,455 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014	December 31, 2013
Land and land improvements	$1,966,204	$1,847,127
Depreciable property — held and used:		
Building, improvements, and furniture, fixtures and equipment	6,109,595	5,876,717
Under development:		
Land and land improvements	47,038	110,769
Construction in progress	175,563	356,644
Real estate sold or held for disposition:		
Land and land improvements	10,751	10,751
Building, improvements, and furniture, fixtures and equipment	5,969	5,969
Real estate owned	8,315,120	8,207,977
Accumulated depreciation	(2,279,928)	(2,208,794)
Real estate owned, net	$6,035,192	$5,999,183

Predevelopment, development, and redevelopment projects and related costs are capitalized and reported on the Consolidated Balance Sheets as Total real estate owned, net of accumulated depreciation. The Company capitalizes costs directly related to the predevelopment, development, and redevelopment of a capital project, which include, but are not limited to, interest, real estate taxes, insurance, and allocated development and redevelopment overhead related to support costs for personnel working on the capital projects. We use our professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. These costs, excluding the direct costs of development and redevelopment and capitalized interest, for the three months ended March 31, 2014 and 2013, were $3.4 million and $3.0 million, respectively. During the three months ended March 31, 2014 and 2013, total interest capitalized was $5.3 million and $8.4 million, respectively. As each home in a capital project is completed and becomes available for lease-up, the Company ceases capitalization on the related portion and depreciation commences over the estimated useful life.

In January 2014, the Company acquired a fully-entitled land parcel for future development located in Huntington Beach, California for approximately $78.0 million.

During the three months ended March 31, 2014, the Company sold one operating property and an adjacent parcel of land in San Diego, CA for gross proceeds of $48.7 million, resulting in net proceeds of $47.9 million. The Company recognized a $24.4 million gain, which is included in Gain/(loss) on sale of real estate owned, net of tax on the

Consolidated Statements of Operations. There was no real estate sold during the three months ended March 31, 2013.

In October 2012, Hurricane Sandy hit the East Coast, affecting three of the Company's operating communities located in New York City. The properties suffered some physical damage, and were closed to residents for a period following the hurricane. The Company had insurance policies that provided coverage for property damage and business interruption, subject to applicable retentions.

During the three months ended March 31, 2013, the Company recorded $3.0 million of insurance recovery related to the business interruption losses associated with Hurricane Sandy. This recovery was included in Casualty-related (recoveries)/charges, net on the Consolidated Statements of Operations for the three months ended March 31, 2013.

During the three months ended March 31, 2014, we recorded a $500,000 casualty-related loss for one property damaged during an earthquake in California.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Effective January 1, 2014, UDR prospectively adopted ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, for all communities not previously sold or classified as held for sale. The standard had a material impact on the Company's consolidated financial statements. As a result of adopting the ASU, a $23.3 million gain from disposition of real estate, excluding a $1.1 million gain related to the sale of land, during the three months ended March 31, 2014 was included in Gain/(loss) on sale of real estate owned, net of tax on the Consolidated Statements of Operations rather than in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

Prior to the prospective adoption of ASU 2014-08, FASB ASC Subtopic 205.20, required, among other things, that the primary assets and liabilities and the results of operations of UDR's real properties that have been sold or are held for disposition, be classified as discontinued operations and segregated in UDR's Consolidated Statements of Operations and Consolidated Balance Sheets. Consequently, the primary assets and liabilities and the net operating results of those properties sold or classified as held for disposition prior to January 1, 2014 are accounted for as discontinued operations for all periods presented. This presentation does not have an impact on net income available to common stockholders, it only results in the reclassification of the operating results within the Consolidated Statements of Operations for the periods ended March 31, 2014 and 2013, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013.

As of March 31, 2014 and December 31, 2013, the Company had one operating property that was classified as held for sale and was not subject to early adoption. Therefore, as of March 31, 2014, this property was included in Real estate sold or held for disposition on the Consolidated Balance Sheets, and its operating results for the three months ended March 31, 2014 and 2013 are included in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations. Upon the sale of this property, a gain/(loss) will be reported as discontinued operations.

In December 2013, the Company sold two communities with 914 apartments in the Sacramento market. The operating results related to these communities for the three months ended March 31, 2013 are included in Income/(loss) from discontinued operations, net of tax on the Consolidated Statements of Operations.

The following is a summary of income/(loss) from discontinued operations, net of tax for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31,	
	2014	2013
Rental income	$48	$2,340
Rental expenses	125	872
Property management	1	64
Real estate depreciation	—	544
Other operating expenses	9	7
Income/(loss) from discontinued operations, net of tax	$(87)	$853
Income/(loss) from discontinued operations attributable to UDR, Inc.	$(84)	$823

5. JOINT VENTURES AND PARTNERSHIPS

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

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

Consolidated Joint Ventures

In December 2013, the Company consolidated its 95%/5% development joint ventures 13th and Market JV in San Diego, CA and Domain College Park JV in Metropolitan, D.C. The consolidation was due to the Company becoming the managing member of each of the joint ventures pursuant to amendments to the limited liability company agreement for each joint venture. In connection with the amendments, our partner received equity distributions reducing its capital account balances to zero, the Company replaced our partner as the managing member, and our partner no longer has the ability to substantively participate in the decision-making process, with only protective rights remaining. We accounted for the consolidations as asset acquisitions since the joint ventures were under development and not complete at the time of consolidation resulting in no gain or loss upon consolidation and increasing our real estate owned by $129.4 million and our debt by $63.6 million. In addition pursuant to the amendments, the Company paid a non-refundable deposit to our partner in January 2014 of $2.0 million for each joint venture, or $4.0 million in total, for the right to exercise options in 2014 to acquire our partner's upside participation in the joint ventures. The non-refundable deposits will be applied towards the future purchase price, which will be equivalent to our partner's right to receive certain upside participation from the developments.

Unconsolidated Joint Ventures and Partnerships

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

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The following table summarizes the Company's investment in and advances to unconsolidated joint ventures and partnerships, net which are accounted for under the equity method of accounting as of March 31, 2014 and December 31, 2013 (dollars in thousands):

Joint Venture	Location of Properties	Number of Properties	Number of Apartment Homes	Investment at		UDR's Ownership Interest	
		2014	2014	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Operating and development:							
UDR/MetLife I (a)	Various	6 operating communities	1,523	$41,866	$47,497	13.9%	13.2%
		7 land parcels	N/A			4.0%	4.0%
UDR/MetLife II (a)	Various	15 operating communities	3,119	325,025	327,926	50.0%	50.0%
UDR/MetLife Vitruvian Park®	Addison, TX	2 operating communities	739	80,338	79,318	50.0%	50.0%
		1 non-stabilized community	391				
		6 land parcels	N/A				
UDR/MetLife 399 Fremont	San Francisco, CA	1 development community (*)	447	46,862	36,313	51.0%	51.0%
UDR/KFH	Washington, D.C.	3 operating communities	660	24,854	25,919	30.0%	30.0%
Texas	Texas	8 operating communities	3,359	(24,217)	(23,591)	20.0%	20.0%
Investment in and advances to unconsolidated joint ventures, net, before participating loan investment				494,728	493,382		

	Location	Interest Rate	Years To Maturity	Investment at		Income From Participating Loan Investment For The Three Months Ended March 31,	
				March 31, 2014	December 31, 2013	2014	2013
Participating loan investment:							
Steele Creek	Denver, CO	6.5%	3.6	23,199	14,273	$321	$—
Participating loan investment				23,199	14,273		
Total investment in and advances to unconsolidated joint ventures, net (*)				$517,927	$507,655		

The number of apartment homes for the communities under development presented in the table above is based on the projected number of total homes. As of March 31, 2014, no apartment homes had been completed at UDR/MetLife 399 Fremont.

(a) On March 31, 2014, the Company sold its minority ownership interests in two small operating communities located in Los Angeles, CA to MetLife for cash proceeds of approximately $3 million. An immaterial gain upon the sale of the two operating communities was recognized in connection with the transaction. On April 21, 2014, the Company increased its ownership interest in the remaining six operating communities in the UDR/MetLife I Joint Venture from 12 percent to 50 percent and MetLife and the Company contributed the communities to the UDR/MetLife II Joint Venture. The Company paid MetLife approximately $82 million for the additional ownership interests. The remaining assets in the UDR/MetLife I Joint Venture are comprised of seven potential development land sites in which the Company owns approximately four percent. The Company will continue to manage the operating communities that were contributed to the UDR/MetLife II Joint Venture as well as the two operating communities in which it sold its minority ownership interests.

As of March 31, 2014 and December 31, 2013, the Company had deferred fees and deferred profit from the sale of properties to joint ventures or partnerships of $25.6 million and $25.4 million, respectively, which will be recognized through earnings over the weighted average life of the related properties, upon the disposition of the properties to a third party, or upon completion of certain development obligations.

The Company recognized $3.3 million and $2.7 million of management fees during the three months ended March 31, 2014 and 2013, respectively, for our management of the joint ventures and partnerships. The management fees are included in Joint venture management and other fees on the Consolidated Statements of Operations.

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

We evaluate our investments in unconsolidated joint ventures and partnerships when events or changes in circumstances indicate that there may be an other-than-temporary decline in value. We consider various factors to determine if a decrease in the value of the investment is other-than-temporary. The Company did not recognize any other-than-temporary decreases in the value of its investments in unconsolidated joint ventures or partnerships during the three months ended March 31, 2014 and 2013.

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Combined summary balance sheets relating to all of the unconsolidated joint ventures and partnerships (not just our proportionate share) are presented below as of March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014	December 31, 2013
Total real estate, net	$3,009,685	$3,124,178
Cash and cash equivalents	36,783	41,792
Other assets	31,902	32,234
Total assets	3,078,370	3,198,204
Amount due to UDR	6,756	12,187
Third party debt	1,667,821	1,722,960
Accounts payable and accrued liabilities	34,614	41,562
Total liabilities	1,709,191	1,776,709
Total equity	$1,369,179	$1,421,495
UDR's investment in unconsolidated joint ventures	$517,927	$507,655

Combined summary financial information relating to all of the unconsolidated joint ventures' and partnerships' operations (not just our proportionate share), is presented below for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31, 2014	2013
Total revenues	$62,098	$52,127
Property operating expenses	(25,137)	(20,737)
Real estate depreciation and amortization	(24,604)	(18,981)
Operating income/(loss)	12,357	12,409
Interest expense	(19,029)	(16,738)
Other income/(expense)	(190)	—
Gain/(loss) on sale of real estate	$(25,379)	$—
Income/(loss) from discontinued operations	—	661
Net income/(loss)	$(32,241)	$(3,668)
UDR income/(loss) from unconsolidated entities	$(3,565)	$(2,802)

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6. SECURED AND UNSECURED DEBT
The following is a summary of our secured and unsecured debt at March 31, 2014 and December 31, 2013 (dollars in thousands):

	Principal Outstanding		For the Three Months Ended March 31, 2014			
	March 31, 2014	December 31, 2013	Weighted Average Interest Rate		Weighted Average Years to Maturity	Number of Communities Encumbered
Secured Debt:						
Fixed Rate Debt						
Mortgage notes payable (a)	$443,187	$445,706	5.45	%	2.3	8
Fannie Mae credit facilities (b)	625,428	626,667	4.99	%	4.8	22
Total fixed rate secured debt	1,068,615	1,072,373	5.18	%	3.7	30
Variable Rate Debt						
Mortgage notes payable	68,149	63,595	2.34	%	1.9	2
Tax-exempt secured notes payable (c)	94,700	94,700	0.79	%	8.9	2
Fannie Mae credit facilities (b)	211,409	211,409	1.59	%	6.3	7
Total variable rate secured debt	374,258	369,704	1.52	%	6.1	11
Total Secured Debt	1,442,873	1,442,077	4.23	%	4.4	41
Unsecured Debt:						
Commercial Banks						
Borrowings outstanding under an unsecured credit facility due December 2017 (d), (e)	287,500	—	1.10	%	3.7	
Senior Unsecured Notes						
3.70% Medium-Term Notes due October 2020 (net of discount of $52 and $54) (e)	299,948	299,946	3.70	%	6.5	
4.63% Medium-Term Notes due January 2022 (net of discount of $2,792 and $2,882) (e)	397,208	397,118	4.63	%	7.8	
1.41% Term Notes due June 2018 (e)	35,000	35,000	1.41	%	4.2	
1.63% Term Notes due June 2018 (e)	100,000	65,000	1.63	%	4.2	
5.13% Medium-Term Notes due January 2014	—	184,000	—	%	—	
5.50% Medium-Term Notes due April 2014 (net of discount of $3 and $20) (f)	128,497	128,480	5.50	%	—	
5.25% Medium-Term Notes due January 2015 (net of discount of $102 and $134)	325,073	325,041	5.25	%	0.8	
5.25% Medium-Term Notes due January 2016	83,260	83,260	5.25	%	1.8	
2.27% Term Notes due June 2018 (e)	215,000	250,000	2.27	%	4.2	
8.50% Debentures due September 2024	15,644	15,644	8.50	%	10.5	
4.25% Medium-Term Notes due June 2018 (net of discount of $1786 and $1,893) (e)	298,214	298,107	4.25	%	4.2	
Other	29	30	N/A		N/A	
Total Unsecured Debt	2,185,373	2,081,626	3.77	%	4.3	

Total Debt	$3,628,246	$3,523,703	3.95 %	4.3

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the above table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established a fixed interest rate for the underlying debt instrument. Secured debt encumbers $2.3 billion or 27.7% of UDR’s total real estate owned based upon gross book value ($6.0 billion or 72.3% of UDR’s real estate owned based on gross book value is unencumbered) as of March 31, 2014.

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

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, the Company records the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. During the three months ended March 31, 2014 and 2013, the Company had $1.3 million of a reduction to interest expense based on the amortization of the fair market adjustment of debt assumed in the acquisition of properties, respectively. The unamortized fair market adjustment was a net premium of $10.6 million and $11.8 million at March 31, 2014 and December 31, 2013, respectively.

(b) UDR has three secured credit facilities with Fannie Mae with an aggregate commitment of $836.8 million at March 31, 2014. The Fannie Mae credit facilities are for terms of seven to ten years (maturing at various dates from May 2017 through July 2023) and bear interest at floating and fixed rates. At March 31, 2014, we have $625.4 million of the outstanding balance fixed at a weighted average interest rate of 4.99% and the remaining balance of $211.4 million on these facilities is currently at a weighted average variable interest rate of 1.59%.

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

	March 31, 2014		December 31, 2013	
Borrowings outstanding	$836,837		$838,076	
Weighted average borrowings during the period ended	837,194		839,597	
Maximum daily borrowings during the period ended	837,564		841,494	
Weighted average interest rate during the period ended	4.1	%	4.2	%
Weighted average interest rate at the end of the period	4.1	%	4.1	%

(c) The variable rate mortgage notes payable that secure tax-exempt housing bond issues mature on August 2019 and March 2032, respectively. Interest on these notes is payable in monthly installments. The variable rate mortgage notes have interest rates of 0.78% and 0.82%, respectively, as of March 31, 2014.

(d) As of March 31, 2014, the Company has a $900 million unsecured revolving credit facility that matures in December 2017. The credit facility has a six month extension option and contains an accordion feature that allows us to increase the facility to $1.45 billion. Based on the Company's current credit rating, the credit facility carries an interest rate equal to LIBOR plus a spread of 110 basis points and a facility fee of 20 basis points.

The following is a summary of short-term bank borrowings under UDR's bank credit facility at March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014		December 31, 2013	
Total revolving credit facility	$900,000		$900,000	
Borrowings outstanding at end of period (1)	287,500		—	
Weighted average daily borrowings during the period ended	232,750		169,844	
Maximum daily borrowings during the period ended	303,000		372,000	
Weighted average interest rate during the period ended	1.2	%	1.2	%
Interest rate at end of the period	1.1	%	1.3	%

(1) Excludes $2.2 million and $2.2 million of letters of credit at March 31, 2014 and December 31, 2013, respectively.

(e) The Operating Partnership is a guarantor at March 31, 2014 and December 31, 2013.

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(f) In April 2014, we paid off $128.5 million of 5.50% medium-term notes due April 2014 with borrowings under the Company's $900 million unsecured revolving credit facility.

The aggregate maturities, including amortizing principal payments of unsecured and secured debt, of total debt for the next five calendar years subsequent to March 31, 2014 are as follows (dollars in thousands):

Year	Total Fixed Secured Debt	Total Variable Secured Debt	Total Secured Debt	Total Unsecured Debt (a)	Total Debt
2014	$43,147	$—	$43,147	$127,820	$170,967
2015	196,539	—	196,539	324,383	520,922
2016	138,222	68,149	206,371	82,478	288,849
2017	177,941	65,000	242,941	287,500	530,441
2018	176,382	50,000	226,382	648,646	875,028
Thereafter	336,384	191,109	527,493	714,546	1,242,039
Total	$1,068,615	$374,258	$1,442,873	$2,185,373	