Third Quarter 2026 Earnings Call

November 3, 2026 – 12:00 PM ET

Trent Trujillo - UDR, Inc. - Vice President - Investor Relations

Thank you, and welcome to UDR's quarterly financial results conference call. Our press release and supplemental disclosure package were distributed yesterday afternoon and posted to the Investor Relations section of our website at ir.udr.com. In the supplement, we have reconciled all non-GAAP financial measures to the most directly comparable GAAP measure in accordance with Reg G requirements.

Statements made during this call, which are not historical, may constitute forward-looking statements. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be met. A discussion of risks and risk factors are detailed in our press release and included in our filings with the SEC. We do not undertake a duty to update any forward-looking statements.

When we get to the question-and-answer portion, to be respectful of everyone's time and in an attempt to complete our call within one hour, we will limit questions to one per analyst. We kindly ask that you rejoin the queue if you have a follow-up question or additional items to discuss. Management will be available after the call to address any questions that did not get answered during the Q&A session today. I will now turn the call over to UDR's Chairman, President and CEO, Tom Toomey.

Tom Toomey - UDR, Inc. - Chairman, President, and Chief Executive Officer

Thank you, Trent, and welcome to UDR's Third Quarter 2026 Conference Call. Presenting on the call with me today are Chief Operating Officer, Mike Lacy; Chief Financial Officer, David Bragg; and Senior Officer, Chris Van Ens, who will be available during the Q&A portion of the call.

To begin, I'm pleased to announce that our previously announced $2 billion joint venture with Apollo has closed. To use a baseball term, with this strategic partnership, UDR hits for the cycle, a rare feat. With one transaction, we increased UDR's access to equity capital, reduced leverage, improved the asset quality of the wholly owned portfolio and drove earnings accretion. My sincere thanks go to the many UDR associates who made this a reality. Dave will provide more details in his prepared remarks.

Moving on to operations. UDR produced third quarter results that achieved the high end of our guidance expectations and led us to raise our full year same-store growth and FFOA per share guidance for the second time this year. This Fall, the apartment sector has enjoyed a traditional leasing curve, a distinct improvement versus recent years. Mike will elaborate on how our data-driven capabilities, continuous innovation and disciplined execution allow UDR to capitalize on the apartment operating landscape.

Next, I'd like to welcome Scott McCallum to UDR as Chief Investment Officer. Scott joins us later this week and brings a wealth of investment experience and strategic insight and will work with us to further enhance UDR's access to capital and capital allocation acumen.

Additionally, last night, we published our eighth annual Corporate Responsibility Report, detailing the efforts that led to UDR's recognition as a Top Workplace winner in the Real Estate industry for the third consecutive year. I'm proud of all we have accomplished, and I look forward to sharing more successes in the years to come.

In conclusion, we are pleased with our year-to-date results across all three value creators, those being operational excellence, data-driven capital allocation, and access to capital. As we look forward, we plan for more of the same, supported by our stronger balance sheet and team. And with that, let me turn it over to Mike.

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Thanks, Tom. Today, I'll cover our third quarter same-store results, our increased full year 2026 same-store growth guidance, including underlying assumptions, and recent operating trends as well as our strategic positioning. My prepared comments will focus on our same-store pool after the removal of the communities contributed to the Apollo joint venture.

With that, third quarter results reflected better late quarter leasing trends as compared to recent years. Specific to the quarter, year-over-year same-store revenue growth of 1.8% was driven by 2% blended lease rate growth, which was similar to the second quarter; robust year-over-year innovation income growth of approximately 7%; healthy occupancy in the mid-96% range; and delinquency of around 60 basis points, which is down 50 basis points year-over-year, reflective of our AI and data-enhanced approach to attract and retain creditworthy residents.

Additionally, resident retention of 52% represented an all-time third quarter high and was 370 basis points above the prior year period. Fewer move-outs supported blended lease growth and occupancy and kept same-store expense growth in check at only 2.2%.

Beyond these revenue drivers, our third quarter rent-to-income ratio of 21% for new residents compares to the historical average of 23% and is reflective of the appeal of our communities to high-quality residents.

With these results, we have raised our full year 2026 same-store growth guidance for the second time this year. Same-store revenue growth was raised by 22.5 basis points at the midpoint to a new range of positive 1.4% to 1.8%. Improved revenue growth guidance reflects both year-to-date outperformance as well as a higher quality portfolio after removing the apartment communities contributed to the Apollo partnership from our same-store pool.

Recall that a year ago, we actively shifted approximately 25% of our fourth quarter lease expirations into higher demand leasing months. This strategic shift is paying off. As compared to 2024 and 2025, we have experienced a stronger seasonal trend from the third quarter to the fourth quarter thus far this year, with renewal rate growth expected to be higher in the fourth quarter than the third quarter. Accordingly, we expect fourth quarter blended lease rate growth to be in the range of 1.5% to 2%, which is consistent with the range we have achieved each quarter this year.

Moving on to same-store expense growth. We reduced our full year guidance midpoint by 35 basis points to 2.9%, with a range of 2.7% to 3.1%. This was driven by constrained growth across repairs and maintenance, administrative and marketing, real estate taxes, and insurance. Combining our improved revenue and expense growth guidance, we increased our same-store NOI growth guidance by 37.5 basis points at the midpoint to a range of positive 0.8% to 1.2%.

Looking ahead, the building blocks for 2027 same-store growth are coming into focus. Based on our team's strong execution that drove our revised outlook and our expectations for fourth quarter blended lease rate growth, we expect a 2027 same-store revenue earn-in of 80 to 100 basis points, which compares favorably to our 2026 earn-in of 0 basis points. Actual earn-in will depend on our results through the rest of the year, and we will provide 2027 guidance in February.

Turning to regional performance. Third quarter results were again led by our coastal markets, which delivered blended lease rate growth of approximately 3% on average as compared to negative 1.5% in the Sunbelt. More specifically, on the West Coast, San Francisco remains a standout market with the strongest revenue growth across our portfolio at 9%, driven by blended lease rate growth of approximately 13% and occupancy above 97%. Orange County, where we have a unique overweight exposure, also delivered attractive results with blended lease rate growth and same-store revenue growth of 3%.

New York and Philadelphia continue to lead the East Coast with weighted average same-store revenue growth of approximately 5%, driven by blended lease rate growth of 4.5% and occupancy above 97%. Dallas remained our strongest Sunbelt market, exhibiting positive revenue growth during the quarter. Despite continued new lease rate growth weakness, Austin showed strong positive momentum and was our only Sunbelt market to deliver positive year-over-year NOI growth for the quarter.

To conclude, we delivered third quarter results that exceeded our expectations and drove our full year guidance raise. Our ability to leverage real-time data to tactically adjust operating strategies continues to drive resident satisfaction and cash flow growth. Our teams across the country have delivered strong results, and I'm confident we will continue to innovate, expand operating margin, and create memorable UDR resident experiences. I'll now turn over the call to Dave.

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Thank you, Mike. The topics I will cover today include our third quarter financial results and fourth quarter guidance, recent transactions and capital markets activity, and a balance sheet and liquidity update.

To begin, we produced third quarter FFO as adjusted per share of $0.65, which is at the high end of our previously provided guidance range. The $0.01 per share sequential increase was driven primarily by accretion from investment activity, including prior share repurchases, and lower G&A. As year-to-date results have exceeded our prior midpoint expectations, we have raised full year 2026 FFOA guidance by $0.02 per share at the midpoint to $2.55. Looking ahead to the fourth quarter, our FFOA per share guidance range is $0.63 to $0.65. The $0.64 midpoint contemplates the operating environment that Mike discussed. The Apollo transaction, while accretive to 2027 FFOA, is neutral to the fourth quarter due to the timing with which we will deploy the proceeds.

Next, capital allocation. This year has seen us take action on several fronts with the goals of derisking the enterprise, improving asset quality, and enhancing the earnings outlook. My thanks to the finance, investment, legal, and operations teams as we have executed on nearly $4 billion of year-to-date activity across acquisitions, dispositions, joint ventures, and share repurchases.

Most recently, we announced our $2 billion strategic partnership with Apollo. UDR contributed 19 apartment communities totaling more than 7,000 apartment homes to this new joint venture. The average age of the communities is 39 years, which compares to 26 for our wholly owned portfolio, and monthly revenue per home of $2,058 compares to $2,772 for the wholly owned portfolio. The Apollo portfolio is approximately 60% Sunbelt and 40% coastal, with top markets including Florida at 44%, California at 13%, and Massachusetts at 13%. The portfolio was valued at a 6% cap rate.

In exchange for a two-thirds share in this portfolio, UDR received $1.34 billion of equity capital and retained a one-third interest in the venture. This transaction received permanent equity treatment from S&P and Moody's. We will continue to operate and manage the portfolio for an asset management fee. There are two important features of the joint venture that provide UDR optionality over time. First, we can substitute assets in and out of the venture in an effort to maximize the performance of our wholly owned portfolio. The rent growth outlook from our proprietary predictive analytics tool, Orion, will play a role in those decisions. And second, we have an option, but not an obligation, to repurchase Apollo's two-thirds interest in the venture at a 7.0% capped IRR to Apollo starting in year 5.

Next, as it relates to the redeployment of proceeds, approximately one-third of the $1.3 billion has been directed towards debt reduction. With the Apollo partnership in sight, we chose not to refinance a $300 million unsecured note maturity in September that would price around 6% today. The remaining two-thirds of the Apollo proceeds will fund wholly owned acquisitions and share buybacks. Post-deployment of Apollo proceeds, debt-to-EBITDA will settle in the low 5x range, down from mid-5s at the end of the third quarter. We are equipped with a fortified balance sheet at a moment of capital markets volatility. The earnings accretion from this transaction is subject to our deployment execution, and we will provide details next quarter post-deployment in conjunction with 2027 guidance.

Outside of our Apollo-related activities, we completed various additional transactions and capital markets activities during the third quarter and into the fourth. First, we completed the sale of two apartment communities and are under contract to sell a third for total gross proceeds of approximately $250 million. This will result in 2026 wholly owned disposition activity of approximately $700 million at a mid-5% buyer cap rate. We selected these assets for sale based on the same criteria that we focus on when investing, with great attention to property level characteristics. These eight dispositions comprise a wide range of markets but share commonalities of elevated CapEx profiles, margins that were optimized on our operational platform, and relatively lower forecasted rent growth per Orion. These apartment communities on average are 35 years old and have average monthly rents nearly $900 below that of our wholly owned portfolio, and they're expected to produce annual rent growth 100 basis points below the national average, per Orion. Our operations team views them as maxed out in terms of margin potential. So their removal and the subsequent investment into our shares or acquisitions enhances the long-term cash flow growth prospects of the enterprise.

Next, we continue to execute on the previously announced strategic decision to run off our debt and preferred equity book, or DPE. We utilized a portion of the disposition proceeds in a 1031 transaction to acquire a recently constructed lease-up property in the Inland Empire, California, that was formerly part of the DPE portfolio. As an indication of the operational opportunity we see, under UDR's watch,

the lease-up has accelerated to a rate of 30 homes per month. Additionally, we entered into an agreement with the same DPE partner to acquire a second lease-up apartment property, also in the Inland Empire, and we anticipate that this one will close in the first half of 2027.

With these two transactions, in addition to our previously reported acquisition of a former DPE investment in Portland, Oregon, at the beginning of the third quarter and a successful DPE repayment on an investment in Orlando, Florida, we are on track for our previously suggested DPE balance of approximately $250 million at the end of this year. The book will then decline to the low $200 million range in the first half of 2027. At that time, the DPE portfolio will consist only of stabilized assets, and property level cash flow will allow for more than two-thirds of our contractual return to be paid current in cash.

Next, share buybacks. Apartment REIT stocks continue to trade at an unusually wide discount to private market apartment pricing. Since quarter end, we have acted upon this by repurchasing approximately 5.2 million shares for $185 million at an average price of $35.48 per share. This brings total repurchase activity since September of last year to 16.7 million shares for approximately $603 million at an average price of $36.06 per share, equating to a mid-6% implied cap rate. Following this activity, we have approximately 20.3 million shares remaining on our repurchase program, which we expanded earlier this year.

Lastly, we grew our joint venture with LaSalle to approximately $958 million by contributing a 360-home apartment community in Nashville, Tennessee, to the venture while simultaneously placing debt on both the newly contributed community and an existing community in the venture. As a result, this transaction brought approximately $103 million in proceeds to UDR.

Considering our year-to-date activity, we have updated our full year capital sources and uses guidance, the details of which are provided in our supplemental financial information. It is important to note that we do not guide to share repurchases, which we evaluate and execute on an opportunistic basis.

In all, our capital allocation and balance sheet management strategies remain rooted in our data-driven and collaborative process that drives long-term cash flow per share accretion. This includes our Orion analytics platform, our perspective on operating upside potential and CapEx, and the ability to leverage our dynamic capital allocation heat maps to inform sources and uses of capital. And by expanding our access to capital, our investment-grade balance sheet remains highly liquid and fully capable of funding our capital needs.

With that, I will open up the call for Q&A. Operator?

Eric Wolfe - Citi

Could you just talk through the fourth quarter trends that you're seeing thus far in terms of rent growth and occupancy? And as you look out to next year, do you think we need to see materially better job growth for rent growth to accelerate from here? Or is the lower supply and the very high retention that you're seeing enough to see that acceleration into next year?

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Eric, it's Mike. First, we're really pleased with our third quarter results, and the strength has continued into the fourth quarter. Without getting into monthly ins and outs, as I mentioned in my prepared remarks, we do expect 1.5% to 2% blends in the fourth quarter. And I feel good about it, and I'll tell you why. There are a few stats that I'd like to point out.

First, it starts with our strategy to lower our exposure during the weaker demand months, and we're now right around 15% of our leases expiring in the fourth quarter. So, a strong backdrop as it relates to lease expirations.

Second, what I've noticed over the last 60 days is our market rent has actually increased by about 50 basis points, and that compares to being down about 300 basis points the prior year. So again, a much different backdrop as it relates to market rents today.

And then the third thing this has translated into is a loss to lease today of right around 2%, and that compares to a gain to lease last year of positive 2%. That's boding well for not negotiating on renewals. As I've mentioned previously, we did send out renewals higher into the fourth quarter. So we do expect that's going to allow us to drive our rents as well.

And ultimately, this is leading to that earn-in of about 80 to 100 basis points this year. That compares to 0 last year and is pretty significantly better than what we've experienced the last few years. So, a much different backdrop, a lot of good positive signs.

And the last thing I'd point out is, as we typically see going from the third quarter to the fourth quarter, blends usually drop approximately 200 basis points. Last year, they dropped nearly 300. If we hold in that 1.5% to 2% range as we expect, we're going to be in pretty good shape as we go into next year. And that's all while holding occupancy probably in that 96.5% to 96.7% range. So, healthy occupancy as well.

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

This is Dave, following up with a macro perspective on your 2027 question, and we'll follow up in February and provide guidance. What I'd leave you with for now is, no, we don't need material job growth improvement from here for rent growth to accelerate in 2027 based on how we see the landscape. As we look into 2027, we see an incrementally favorable supply outlook. We see sustained high homeownership costs, and we see residents continuing to stay in place, both for cyclical and structural reasons. So that will allow the rent growth outlook to skew disproportionately towards renewals and away from new move-ins, as has already been the case.

Jana Galan - Bank of America

Congrats on the quarter. With about $900 million earmarked for acquisitions or share buybacks, could you talk about the opportunities in the transaction market and any variance in cap rates across your geographies?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Sure. Thank you for that question. We are really intrigued by the opportunity to have capital to deploy here. The Apollo transaction closed last week. That leaves us with ample capital to work with. You alluded to a $900 million number for acquisitions and buybacks. I think that you're accurately capturing the first thing that we're doing, which is paying down debt. So think about that as about one-third of the uses of capital. And from there, we'll follow our heat maps and see what the opportunities bring us. You saw in our press release that even since we announced the Apollo transaction, we've bought back $185 million of shares. That has been consistent with the playbook we've been operating with since last September in terms of selling assets and buying back stock. That said, we're intrigued by the transaction market as well and might pick our spots.

What we're seeing over the last 60 days is that volume has declined. There's a wider bid-ask spread as buyers and sellers adjust to what is perceived as a new regime in terms of higher interest rates. As a result, where we have observed trades, cap rates are up and pricing is down. Every trade that's on the market, more or less, right now is receiving an ask for a retrade. Some sellers do capitulate. And when they do, we're seeing pricing off in the 3% to 5% range, and that varies a bit by market and asset quality. And in other cases, sellers are pulling back and hoping for a better day.

Steve Sakwa - Evercore Inc

I know you've got Scott joining soon as CIO. But given the large discount to NAV, how should we think about capital allocation moving forward? Should it be more of the same, these large joint ventures? Or do you think it's more one-off asset sales into next year with additional share buybacks?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Steve, it's Dave. We're really excited for Scott to join. He'll be with us starting this week. He brings with him a wealth of experience as it relates to multifamily transactions. And so the marriage of that experience with our data-driven capabilities around investing is exciting for the team here. So, no change as it relates to the focus on capital deployment. We'll continue to follow the heat map. And to the extent that we just get better in terms of asset selection and finding opportunities out there on the market, that will be terrific.

Jamie Feldman - Wells Fargo

I appreciate some of the color you gave before on specific markets, including Austin's pickup. As you think about the Sunbelt markets, can you talk us through which you think have bottomed and which you think have a ways to go?

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Yes, Jamie, I'll give you a little bit of color on how we're seeing it today. First, it's important just to size the Sunbelt for us, and then I can take a step back and give you a little bit more detail. We're right around 20% of our NOI coming out of the Sunbelt. And what we saw during the quarter was negative 1.5% blends compared to negative 2% in the second quarter. So, starting to see a little momentum. I've been talking about that for the past couple of months now. We still have a ways to go. And for us, specifically around Dallas, we've said that it's been an outperformer all year long. That's nearly 10% of our NOI, so a lot of our Sunbelt exposure comes from Dallas. And we've experienced right around negative 1% blends for the last two quarters now, and we continue to see some positive momentum.

Specific to Austin, I think it's good to remind everybody that it's only 2% of our NOI. We're really in that Cedar Park area. We're still dealing with a little bit of supply, but we have seen the most momentum coming from Austin in terms of blends on a quarter-over-quarter basis, going from negative 5% back in the second quarter to close to around negative 1% to negative 2% today. So you can see that rate of change is starting to pick up. We think that there's opportunity as we go into next year, just given what we're seeing with supply coming down in Texas.

And then Florida for us is less than 10% of our NOI at this point, mainly in Tampa compared to Orlando, given some of the properties we just put into the Apollo joint venture are in Orlando. And I'm seeing right around negative 1% blends in Florida today. That's far better than what we saw at the beginning of the year. And specific to occupancy in the Sunbelt, we're right around 97% today. So we feel like we have a good position in terms of occupancy and lower lease expirations in the fourth quarter. We're going to try to lean in and see if we can't push rents a little bit as we go into next year. So we'll see when that inflection happens, but we do feel better today about the Sunbelt than we have in a while.

Derrick Metzler - Morgan Stanley

I believe you said in your opening remarks that you would give an update on the Apollo transaction accretion next quarter after the remaining proceeds are deployed. So I just want to confirm the timing that you expect to deploy the remaining proceeds in 4Q. And can you share the contractual asset management fee percentage on Apollo's invested capital? And how should we account for the incremental fee economics in FFOA?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Great questions. I'll go a little out of order here. The asset management fee, you can think about that as about 1.3% on Apollo's equity contributed of $1.34 billion. As it relates to use of proceeds, we can tell you what we've done so far and provide some broad strokes in terms of what to expect going forward. First of all, we paid down the line to $0. Typically, it's around $400 million. We're sitting on cash of about $400 million. We did not do a debt deal in September when we had a maturity of about $300 million. And then we've done buybacks of about $185 million. So that adds up to approximately $1.3 billion in terms of the cash that came in the door last week.

As it relates to some math around the accretion that you could keep in mind, you have a $2 billion portfolio contributed at a 6% cap rate. So that's about $120 million of NOI. Two-thirds of that goes to Apollo, that's $80 million. You have the management fee that I just mentioned. The reinvestment plan will be determined as we execute over the coming months. If you want to simplistically think about it in terms of one-third, one-third, one-third, you could. You could think about debt paydown of about 6% on the $300 million unsecured deal that we did not do, and 4% on the payoff of a bit of the line. Then you have the acquisition market, where pricing is moving in our direction, and we'll see what that brings. And then you have the share buyback.

So ultimately, this will be a consolidated joint venture. You will deduct Apollo's noncontrolling interest on an HLBV basis to arrive at our results, and that management fee will be eliminated in consolidation and show up as a lower noncontrolling interest deduction. And then lastly, we'd add back the proportionate share of depreciation to FFO.

So hopefully, that's helpful in terms of the management fee, use of proceeds and potential FFO impact, and we'll circle up with you in February after we've made progress on deployment.

Ami Probandt - UBS

You maintained your blended spread guide despite removing the Apollo assets and that having a positive impact on blends in the third quarter. Does that suggest that you're now expecting a softer 4Q than you were previously expecting? Or does that give you cushion given some macro uncertainty?

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

No, originally, we had 1.5% to 2% blends for the back half of the year. We did come in at 2% during the third quarter. We're still sticking to that 1.5% to 2% in the fourth quarter. We'll see how it transpires over the next, call it, 45 to 60 days. But like I mentioned in one of the previous questions, we feel really good about the backdrop just in terms of loss to lease, market rents, and what we're sending out on renewals. We just want to see how it shakes out over the next month or two.

Brad Heffern - RBC

Mike, you talked about all those really positive and counter-seasonal trends that you've been seeing over the past few months. What do you think is driving that? And is it broad-based? Or is it just driven by a few strong markets?

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

I think it's a few things. Obviously, you go around the horn, market by market, and there are different dynamics. But overall, supply coming down is definitely helping out. That's more of a macro piece of it that's helping us. But specific to what we're doing here at UDR, it comes down to a couple of things. First and foremost, it's pushing our rents in a period of time where we have less exposure. I think that's a difference maker for us versus others. It allows us to get a little bit more aggressive. And I think you've been able to see that with some of the third-party data just in terms of market rents. We've changed that trajectory over the last four to six weeks, and that allows us to limit how much we're negotiating on renewals. So, we send out higher renewals and ideally don't have to negotiate on much of it. That's stickier. That's allowing us to drive our blends into a weaker period of demand, if you will.

And then aside from that, it's the things that we're doing with the customer experience. You can see this quarter we were down another 300 to 350 basis points in turnover on a year-over-year basis. So we're doing something different than everybody else. It's allowing us to need fewer leases, if you will, and drive our rents, all while maintaining high occupancy in that 96.5% to 96.7% range. So, some of it is market, some of it is region, but I think a lot of it has to do with what UDR is doing specifically.

Julien Blouin - Goldman Sachs

On the Apollo JV, I was wondering, if you don't exercise your option to repurchase the properties in year 5, does Apollo retain the option to force a sale and realize their 7% IRR?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Julien, thanks for the question. That's a topic that I'm going to get to, but I want to go back to Tom's opening comments. They captured the benefits of the Apollo partnership so well, and your question pertains to just one piece of it. First, we're able to access equity capital. It's an attractive valuation for the assets that we contributed. We received equity treatment from Moody's and S&P. We've already strengthened the balance sheet at an opportune moment in the debt capital markets, and we're out there looking to play offense at a moment when asset pricing is attractive, both in the private market

and as it relates to our shares. All of this can, very importantly, be done in a tax-efficient manner, which is particularly appealing about this transaction. And then we can add value during the life of the JV in a couple of ways.

One is through the substitution opportunity. We can look at an asset in the JV and have a perspective, perhaps from Orion, about potential outperformance, and we can pull that back on to the wholly owned book. And then during the year 5 to 10 window, there's a call option. And we were pleased to announce last night that the IRR has been set at 7.0%. That includes step-ups of 30 basis points at year 7 and another 30 basis points at year 9. So that gets you to a capped IRR for Apollo of a maximum of 7.6%. Buyers today of multifamily tend to underwrite 8% to 9% unlevered IRRs. We will enjoy all of the upside in terms of the value creation above Apollo's capped IRR. And all of this, including the asset management fee, allows it to be accretive to earnings.

So I talked about the call window that we have. Beyond the call window, you get to year 10. After the call option expires, either party can choose to sell their interest with ROFO rights for the other party, or the partners can agree to liquidate the JV. Either way, the return that both parties receive is based on the market value of the assets at that time on a pro rata basis.

Rich Hightower - Barclays

Just a follow-up on the last question. In the hypothetical scenario where performance of the assets in the always-moving bucket of potential assets to go in it falters, what obligation does UDR have to make Apollo whole in terms of its IRR? And what's the range of possible downside from a capital perspective, or something else maybe we should be thinking of there?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Yes. This is Dave. I'll start, and other team members might want to contribute. Apollo has no put rights. They have no right to convert into UDR equity. The 7.0% return is a target. It's not a guarantee. It's not a floor. They do have risk. That's part of the reason that this received equity treatment. And Apollo cannot compel UDR to provide a specific return. So if UDR does elect to exercise its call option and the conditions are favorable, Apollo may achieve the targeted return, but it's not assured. Then I would just add that there are no forced redemption scenarios that are outside of UDR's control.

Wesley Golladay - Baird

Looking at your acquisition platform, are there any markets really standing out? Or are the deals more likely to screen as a good deal at the asset level or submarket level?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

This is Dave. It's really a bottom-up process, and it might be different than how others view investing across apartments. But for each investment opportunity, first of all, we look at the heat map and see what the risk-adjusted return is on the use of capital. But then we look at three top criteria that are very much asset level based, not market level based. You have the predictive analytics outlook for rent growth. What's this asset going to do in terms of rent growth relative to the national average over the course of the next six years? Second, what's the operating upside potential? And we have story after story of an asset that we bought or brought on to the platform where Mike and team have been able to drive margins significantly higher. And then lastly, we're mindful of CapEx and directionally look for assets that require less CapEx than those that we have sold.

So as we think about investing, we approach it with that criteria in mind more so than as a market level decision. The same thing applies to dispositions. We've sold seven assets so far this year with one more under contract. I'm pleased to report that the timing was very fortuitous. All seven of those sales occurred before interest rates moved up. And those follow the same playbook. What we've sold tends to have a lower outlook for rent growth per Orion, the predictive analytics tool, requires more CapEx, and the operating team feels as though we've squeezed the juice out of them from a margin perspective.

Tom Toomey - UDR, Inc. - Chairman, President, and Chief Executive Officer

Wes, this is Toomey. I'd just add, we're all entering this window with AI enabling our enterprises. And this is where I would congratulate the team. We started on Orion, which we called a lot of different things, about six years ago, compiling data and back testing it over 25 years to really find the formula to identify assets. And that's the power of AI, our past data and our experiences: to create predictive models towards the future. It's not 100% certain, but it sure narrows the risk bandwidth and creates that opportunity. I think businesses in the future that are able to demonstrate large data sets that are accurate, processing them to achieve higher cash flows, are going to be winning formulas. And we're not market-oriented. We're asset-oriented in our decision-making. And I think that will lead to long-term outperformance.

Peter Abramowitz - Deutsche Bank

You covered a lot today, but I just wanted to ask about Seattle. I'm curious how things feel on the ground there. I know there's been a lot of conversation about AI job formation down in the Bay Area and when it makes its way up the coast. Just curious if you could comment on your latest thoughts on Seattle and just how demand feels on the ground.

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Yes. I appreciate the question. I'll tell you how I'm looking at Seattle right now. It's really broken down in a couple of ways. You look at the Eastside, we definitely do have some AI jobs that are helping with demand. And then more specific to the Pacific Northwest, aerospace hiring has anchored demand. So that's helped us to some degree as well. And then in addition to the demand side, relatively low supply across Seattle has helped out quite a bit for us. All that being said, blends are not what we're seeing down in San Francisco. We're seeing close to, call it, 12% to 13% blends in San Francisco. I'd tell you, Seattle is probably closer to 1% to 2%, but occupancy is still in the mid-96s. And I'm seeing more strength coming out of places like the U District, Renton, and Bellevue. But overall, Seattle is hanging in there.

Haendel St. Juste - Mizuho

My question was a bit of a follow-up to the last question from Peter there. Mike, the West Coast has been stronger in the last couple of years. San Francisco obviously has come roaring back. Seattle showed some improvement. But I'm curious if the pendulum could be shifting back to the East Coast as we think about 2027. So I'm curious if you could share some color on the setup for your East Coast markets, New York City, Philly, D.C. and Boston, and how that compares to San Francisco, Seattle and SoCal?

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Yes, it's a really good question, Haendel. I'd tell you, there's a few ways to look at it. And maybe just sticking with the West Coast, because I gave a little color on Seattle, I think it's important to really look at a place like San Francisco. I mentioned 13% blends over the last couple of quarters. What I look at more right now is the continuation of low rent-to-income ratios. So we're still in that low 20% range and still have some room to grow there. There's still low supply coming for the foreseeable future. And given that we've been capped on some of our renewals there, we think we have another kiss at it as we go into next year, just given what we see for loss to lease.

So I think San Francisco is obviously going to have the highest earn-in for next year, a really strong building block. But I still think it has a lot of room to grow, all else being equal, given what we're seeing with supply, demand and just people returning to the office. And so I think San Francisco will still be the anchor for us out west.

And then when you jump over to the East Coast, New York has been the anchor all year long. I think it's going to continue to do well as we go into next year. And to frame it, I look at it in terms of earn-in. They're going to have the second strongest earn-in across our portfolio as we go into next year. We're still seeing blends of plus or minus 4% to 5%, even in a lower demand period of time. We do have a little bit of supply with conversions in Manhattan, but it really hasn't impacted us to date, and we think that we're going to continue to drive rents out there.

So I think there are some pretty big anchors, both on the West Coast and East Coast. It all comes back to that earn-in and that starting point, if you will. We're going through our budget process right now. We'll assess what we think we can get for rents, and that will be the other building block. And then I think what you've seen from us for years now is continued growth on the other income line. Quite frankly, you look at last year, we were growing other income by 9%. This year, it's growing, this quarter alone, by 7%. You're probably looking at mid-single digits as we go into next year again. So, another strong building block, just based on us driving initiatives, getting the teams engaged and really producing that outsized revenue growth at the end of the day.

John Pawlowski - Green Street

My first question is a follow-up on the Apollo JV. Dave, can you give us a sense for what percentage of the property cash flow actually flows to Apollo versus UDR in the first few years of the agreement, and then how it might step up in subsequent years?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

John, thanks for the question. We appreciate the continued dialogue. The return is targeted to Apollo. It's not guaranteed, and they bear the risk that growth or exit values could fall short, and they can earn up to that capped return. So that's 7%, and then it steps up to 7.3% and 7.6%, respectively, at year 7 and year 9 in the call window, but only if the portfolio performs. If it underperforms, Apollo could earn less. There's no coupon, no minimum distribution, no UDR guarantee.

As it relates to distributable cash flow, it's pro rata. It tracks the headline 67-33 ownership, so there's no coupon or minimum distribution. As it relates to partners' economics, I can say that vehicles like this can have mechanisms allowing for incremental cash flows to Apollo. They are variable. They're based on performance. They're not guaranteed. And as that occurs, Apollo can get close to its return along the way, allowing UDR to enjoy the value creation opportunity on the back end.

John Kim - Bank of Montreal

For the DPE assets that you acquired this quarter or are about to acquire next year, can you just comment on the expected yields that you think you'll get, either year 1 or on a stabilized basis? And would you characterize these investments as long-term holds, given they are new assets? Or are you really just looking to optimize your initial investment, and they're not representative of your portfolio?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

John, it's Dave. These are two development projects with one partner to whom UDR provided mezz back in 2022. We have an extensive history with these assets. We know them very well. We underwrote them, financed them and now manage them. Once we made the strategic decision to exit the DPE business and run off the book, which we announced last quarter, we saw mutually beneficial resolutions with this partner on these assets because we are interested in owning them long term. Taking control allows us to own high-quality newly built communities. It allows us to reduce the DPE book, which is a strategic objective. You can see that the balance is now around $250 million. That's what we told you last quarter we would finish the year at. So we are at the year-end level already.

We're also able to convert what was a fixed return on that investment into owned NOI with upside on our operating platform. And Mike can speak to that now that he has them in his hands. Together, these assets screen well on a couple of things that are very important to us, operating upside potential and CapEx. There's a lease-up nature to these assets. So we're looking for them to stabilize around a 5% yield.

Mike Lacy - UDR, Inc. - Senior Vice President, Chief Operating Officer

Yes, Dave, if I could just add a couple of things, just since we've been able to get our hands on these. I think it's good to look at the four deals we've taken over the last few months. When you look at that portfolio as a whole, we are exceeding our underwriting by about $1 million. And a lot of that comes from beats and controllable expense savings. Dave mentioned it, but with the fact that we now have more scale and efficiency in places like Portland as well as the Inland Empire, we're able to drive our cost down. That's paying dividends today. And I'd say, in addition to that, we've been able to drive our occupancy up rather quickly, and we're getting penetration up on some of these initiatives that are driving our other income. So that's led to that $1 million beat just over the last few months.

Specific to the deal out in the Inland Empire, what we're excited about is that the controllable operating margin is expected to be right around 85% when we get stabilized. And that's about 200 basis points better than our current existing same-store deals in that market. So there's room to drive some efficiencies there, and obviously, getting that higher rent growth helps out. And I'd say, in addition to that, with the Portland deals, we were able to quickly get in there, get SmartRent established and do our self-guided tours. It's really helped with the funnel and getting demand through the door has allowed us to keep concessions down and occupancy high, and we feel good about that market today.

Alexander Kim - Zelman & Associates

This one maybe is for you, Dave, but you guys have emphasized reducing exposure to assets with higher capital requirements. And following the dispositions and Apollo transaction, how should we think about the normalized run rate for recurring CapEx on the retained portfolio? And after accounting for UDR's ongoing capital obligations in the JV and the newly consolidated DPE assets, how much improvement should we expect in that conversion from FFOA to AFFO?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

It's a great topic, something that is a focus here. And to answer your question, I really would focus on the dispositions that we've done this year because I think they're emblematic of not just the focus on CapEx, but the focus on operating upside potential and the signal from Orion. But let's dig in on CapEx.

So for these assets, I'm counting eight here, including the one that's under contract. Average vintage is 1981, so that's 45 years old. CapEx as a share of revenue for these communities is 18%. And that compares to about 11%, which is a decent estimate for the remaining portfolio. CapEx can be lumpy and variable. We have a redevelopment team that is able to find opportunities and create a lot of value. So in any given quarter or year, you're going to see up and down movement in CapEx. But I would tell you that directionally, we're very focused on enhancing the quality of the portfolio in various ways. One of them is through dispositions. And as we do that, and then with those proceeds, primarily, we bought back the stock, or with any selective acquisitions, such as the ones that we have done this year, you're enhancing the long-term cash flow prospects for the enterprise.

Alexander Goldfarb - Piper Sandler

David, a question on the Apollo, sort of a two-parter. One, are there any restrictions on you guys doing joint ventures with other private equity firms? And then two, on the fee income side, on one hand, it seems like a nice additive to earnings. On the other hand, it could be short term, whereas NOI usually receives a higher multiple. So I'm curious how you guys think about increasing fee income versus NOI. And then the first part of the question was if there's any exclusivity of Apollo for PE or if you can do other PE JVs?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Great questions. Thank you. The first one is easy. No, no restrictions on our ability to partner with others. As it relates to fee income, we're grateful for the opportunity to drive earnings growth in various ways. So you're right that over the near term, via this vehicle, there's an opportunity for fee income.

But we're also utilizing the proceeds in a manner that allows us to enhance the long-term growth rate of the enterprise well beyond any presumable life of the joint venture because we are paying down debt. We are repurchasing shares, which are generally of higher quality than what we've sold this year, and then we'll be out looking for opportunities to acquire assets that check the boxes that I walked through earlier in terms of the signal from Orion, operating upside, and relatively low CapEx.

So this is a transaction that is accretive on day one, but also allows us to accomplish a number of strategic objectives, which both de-risk the enterprise and enhance the long-term earnings outlook.

Richard Anderson - Cantor Fitzgerald

So I understand and appreciate all the flexibility and the uniqueness of the Apollo deal, so no debate there. But UDR in the past, and the more distant past, was unwinding joint ventures in the name of simplifying the story. So I'm curious how you balanced all of what we're talking about here, which is taking up a disproportionate amount of this conference call, with the added complexity that it brings to the table. And there is value in simplicity. I think we can all agree with that. I'm just curious how you thought about that broader thought as it relates to getting involved in this $2 billion deal.

Tom Toomey - UDR, Inc. - Chairman, President, and Chief Executive Officer

Rich, I'll have some comments, this is Toomey, and also ask Dave to weigh in on it. Yes, a lot of time on Apollo. I congratulate the team on a very long, thoughtful process and a very good partner who thinks about real estate much like we do. And when I think through the past, and mine is a long one, you're always trying to find the right capital partner who has the same philosophy you do. So I take, for example, Met, which has been an enterprise-level relationship for 16 years and thinks about real estate very much like we do. And we have gone from a $3 billion joint venture to build up to $8 billion together, and it now sits right around $2.5 billion. So I think always finding capital that matches your philosophical approach and skill set, and where we can get an outsized return for our shareholders, is part of our job, okay? The capital markets in the public space come and go, but we also have to be able to play in the private capital world with a variety of skill sets that yield returns for our shareholders that are outsized.

So I think Apollo is that next step. They think about it in a long-term view and are trying to achieve a very straightforward objective, and they've given a lot of control and options to us to help them achieve that goal. And we are rewarded for 100% of the returns above 7%. That's a pretty big incentive in this world to drive not just their return, but our performance, and they're aligned. So our shareholders benefit immensely if we're able to achieve that. And we look forward to that type of relationship. And boy, you do this long enough, I will tell you, I think I'm excited about what Apollo can achieve for us. And I don't think we're done talking to them. Dave, anything else you'd add?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Sure. Yes, Tom, I agree. The top objective is creating value for existing shareholders, and we believe that we've done that here by driving earnings growth and reducing leverage, which reduces risk. At the same time, our cost of capital in the public market is subject to the whims of the public markets. And there are days, and there will be days in the future, in which that cost of capital allows us to go out and grow on balance sheet and create value for shareholders, but that's not every day. But what we do find every day is that there's private capital that is attracted to what UDR has to offer. We have a top operating platform and a data-driven focus on investments. And so that's what we've heard out in the marketplace for many years, going back to the JVs that you've alluded to, and especially most recently. So we'll continue to look at various opportunities with that same overarching goal of maximizing value for shareholders.

Ami Probandt - UBS

I was just wondering, how does it work for UDR to substitute assets into and out of the Apollo JV? Is there a minimum amount of time for an asset to remain in the JV? I'm thinking about how that could impact comparability of different periods when we're looking at same-store trends. And then in terms of proceeds redeployment timing, you already did $185 million of share repurchases in about the past two weeks. So how quickly could you complete share repurchases to the extent that you wanted to allocate capital there? Could you do, say, $400 million or $500 million by the end of the year?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Thanks, Ami. As it relates to substitutions, that opportunity is solely up to UDR, and we view it as an opportunity to play offense. Let's say, for example, that our data-driven process suggests that an asset will significantly outperform over the coming years. We have the ability to go in and get that asset based on replacing the cash flow, and replace it with another asset that should meet the base case plan for the joint venture. As we do that, we'll be sure to report on that with transparency. And that's something that we'll keep an eye on and have a dialogue with you on. As it relates to share buybacks, we simply don't provide guidance as it relates to share buybacks. We're pleased to report the activity that we've had so far, and we'll follow up with you probably at the Nareit conference and other opportunities to comment on buyback activity.

John Pawlowski - Green Street

I have a clarifying question on the distribution of cash flows in the Apollo JV. So, Dave, you said it will be in line. So 65% of the property level cash flow goes to Apollo, roughly 35% to UDR. Where does that percentage go beyond year 10 if the JV stays outstanding?

Dave Bragg - UDR, Inc. - Senior Vice President, Chief Financial Officer

Beyond year 10, there is a slight adjustment to the cash flows in Apollo's favor.

Chris Van Ens - UDR Inc - Senior Vice President – Investment Strategy

Yes, John, it's basically the 67-33 split right now. I believe it goes up to about 70% in year 10 to support those IRR step-ups that they get in year 7 and year 9 if the call option is not exercised.

Tom Toomey - UDR, Inc. - Chairman, President, and Chief Executive Officer

First, thank you for all your time, interest and support of UDR. We'll see many of you at the upcoming Nareit conference in a couple of weeks. And always reach out if we can answer any questions and help you understand our business and the progress the team is making. With that, take care.

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