

UDR, Inc.  
Form 10-K  
February 25, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009**

**or**

**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.**

*(Exact name of registrant as specified in its charter)*

**Maryland**

*(State or other jurisdiction of  
incorporation or organization)*

**54-0857512**

*(I.R.S. Employer  
Identification No.)*

**1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129**

*(Address of principal executive offices) (zip code)*

Registrant's telephone number, including area code: (720) 283-6120

Securities registered pursuant to Section 12(b) of the Act:

<b><u>Title of Each Class</u></b>	<b><u>Name of Each Exchange on Which Registered</u></b>
Common Stock, \$0.01 par value	New York Stock Exchange
6.75% Series G Cumulative Redeemable Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the shares of common stock held by non-affiliates on June 30, 2009 was approximately \$936.4 million. This calculation excludes shares of common stock held by the registrant's officers and directors and each person known by the registrant to beneficially own more than 5% of the registrant's outstanding shares, as such persons may be deemed to be affiliates. This determination of affiliate status should not be deemed conclusive for any other purpose. As of February 19, 2010 there were 156,058,930 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Report, to the extent not set forth herein, is incorporated by reference from the registrant's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 14, 2010.

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**Table of Contents****PART I****Item 1. BUSINESS****General**

UDR, Inc. is a self administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. At December 31, 2009, our consolidated apartment portfolio included 165 communities located in 23 markets, with a total of 45,913 completed apartment homes. In addition, we have an ownership interest in 3,992 apartment homes through our unconsolidated joint ventures.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to in this Report as the Code. To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gains) to our stockholders annually. As a qualified REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our stockholders annually. In 2009, we declared total distributions of \$0.845 per common share. Dividends paid in 2009 include a special dividend of \$0.96 per common share that was declared in the fourth quarter of 2008 and paid to our common stockholders in the first quarter of 2009. Beginning with the dividend declared in the second quarter of 2009, we reduced the regularly declared quarterly dividend on our common stock to \$0.18 per share in order to increase our retained capital.

	<b>Dividends Declared in 2009</b>	<b>Dividends Paid in 2009</b>
First Quarter	\$ 0.305	\$ 1.290
Second Quarter	0.180	0.305
Third Quarter	0.180	0.180
Fourth Quarter	0.180	0.180
Total	\$ 0.845	\$ 1.955

We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our corporate offices are located at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado. As of February 12, 2010, we had 1,280 full-time employees and 83 part-time employees.

Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty L.P., a Delaware limited partnership, and RE3, our subsidiary that focuses on development, land entitlement and short-term hold investments. Unless the context otherwise requires, all references in this Report to we, us, our, the Company, or UDR refer collectively to UDR, Inc. its subsidiaries, and its consolidated joint ventures.

**Business Objectives**

Our principal business objective is to maximize the economic returns of our apartment communities to provide our stockholders with the greatest possible total return and value. To achieve this objective, we intend to continue to pursue the following goals and strategies:

own and operate apartments in markets that have the best growth prospects based on favorable job formation and low home affordability, thus enhancing stability and predictability of returns to our stockholders;

manage real estate cycles by taking an opportunistic approach to buying, selling, renovating, and building apartment communities;

empower site associates to manage our communities efficiently and effectively;

measure and reward associates based on specific performance targets; and

manage our capital structure to help enhance predictability of earnings and dividends.

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**2009 Accomplishments**

Repaid \$159.6 million of secured debt and \$658.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The \$658.2 million of unsecured debt includes the prepayment of our \$240 million term loan, \$141.9 million for maturing medium-term notes and \$276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of \$37.5 million in aggregate principle amount of our 8.50%, debentures due September 15, 2024 for \$41.2 million of cash.

We repurchased unsecured debt with a notional amount of \$238.9 million for \$222.3 million, which is included in the \$658.2 million above, resulting in a gain on extinguishment of \$9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035.

We closed on a \$200 million secured credit facility. At December 31, 2009, \$106.9 million of the amount drawn under the facility matures October 2019 and carries a fixed rate of 5.38% and \$88.9 million of the amount drawn under the facility matures December 2019 and carries a fixed interest rate of 5.16%. The Company has one year from September 11, 2009 to draw on the remaining \$4.2 million of capacity.

Initiated an *At the Market* equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers' transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of December 31, 2009, the Company sold 4,460,032 shares of common stock under the program at an average price per share of \$15.48, for aggregate gross proceeds of approximately \$69.1 million. Aggregate net proceeds from such sales, after deducting commissions paid to the sales agents of approximately \$1.4 million and related issuance costs of approximately \$500,000, were approximately \$67.2 million.

We established a joint venture with Kuwait Finance House for the investment of up to \$450.0 million in multifamily properties located in key, high barrier to entry markets.

We acquired a newly constructed community with 289 units located in Dallas, Texas for approximately \$28.5 million.

We completed development on three wholly-owned communities with 831 apartment homes at a total cost of \$119.5 million.

**UDR's Strategies and Vision**

UDR previously announced its vision to be the innovative multifamily public real estate investment of choice. We identified the following strategies to guide decision-making and growth:

1. Strengthen our portfolio
2. Continually improve operations
3. Maintain access to low-cost capital

*Strengthen our Portfolio*

UDR is focused on increasing its presence in markets with favorable job formation, low single-family home affordability, and a favorable demand/supply ratio for multifamily housing. Portfolio decisions consider third-party research, taking into account job growth, multifamily permitting and housing affordability.

In 2008, UDR sold a portfolio of properties in 86 communities for total consideration of approximately \$1.7 billion. This portfolio sale dramatically accelerated our transformation to focus on markets that have the best growth prospects based on favorable job formation and low single-family home affordability. At



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December 31, 2009, approximately 56.8% of the Company's same store net operating income was provided by our communities located in California, Metropolitan Washington, D.C., Oregon and Washington State.

**Acquisitions and Dispositions**

During 2009, in conjunction with our strategy to strengthen our portfolio, UDR acquired a new constructed community with 289 apartment homes for approximately \$28.5 million. UDR targets apartment community acquisitions in markets where job growth expectations are favorable, single-family home affordability is low, and the demand/supply ratio for multi-family housing is favorable.

When evaluating potential acquisitions, we consider:

population growth, cost of alternative housing, overall potential for economic growth and the tax and regulatory environment of the community in which the property is located;

geographic location, including proximity to jobs, entertainment, transportation, and our existing communities which can deliver significant economies of scale;

construction quality, condition and design of the community;

current and projected cash flow of the property and the ability to increase cash flow;

potential for capital appreciation of the property;

ability to increase the value and profitability of the property through upgrades and repositioning;

terms of resident leases, including the potential for rent increases;

occupancy and demand by residents for properties of a similar type in the vicinity;

prospects for liquidity through sale, financing, or refinancing of the property; and

competition from existing multifamily communities and the potential for the construction of new multifamily properties in the area.

We regularly monitor our assets to increase the quality and performance of our portfolio. Factors we consider in deciding whether to dispose of a property include:

current market price for an asset compared to projected economics for that asset;

potential increases in new construction in the market area;

areas where the economy is not expected to grow substantially; and

markets where we do not intend to establish long-term concentration.

We did not have any dispositions of properties in 2009.

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Homes acquired	<b>289</b>	4,558	2,671	2,763	2,561
Homes disposed		25,684	7,125	7,653	6,352
Homes owned at December 31	<b>45,913</b>	44,388	65,867	70,339	74,875
Total real estate owned, at cost	<b>\$ 6,315,047</b>	\$ 5,831,753	\$ 5,956,481	\$ 5,820,122	\$ 5,512,424

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The following wholly owned projects were under development as of December 31, 2009:

	<b>Number of Apartment Homes</b>	<b>Completed Apartment Homes</b>	<b>Cost to Date (In thousands)</b>	<b>Budgeted Cost (In thousands)</b>	<b>Estimated Cost Per Home</b>	<b>Expected Completion Date</b>
Tribute Raleigh, NC	359		\$ 42,644	\$ 46,500	\$ 129,526	1Q10
Belmont Dallas, TX	465	176	62,516	62,900	135,269	2Q10
Vitruvian Park Addison, TX	392		59,432	66,500	169,643	3Q10
Signal Hill Woodbridge, VA	360		52,323	82,700	229,722	3Q10
	1,576	176	\$ 216,915	\$ 258,600	\$ 164,086	

**Redevelopment Activities**

During 2009, we continued to reposition properties in targeted markets where we concluded there was an opportunity to add value. During the year ended December 31, 2009, we incurred \$33.5 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings.

**Joint Venture Activities**

The Company has an interest in a consolidated joint venture, which has the following project under development as of December 31, 2009 (amounts are based on 100% ownership interest):

	<b>Number of Apartment Homes</b>	<b>Completed Apartment Homes</b>	<b>Cost to Date(a) (In thousands)</b>	<b>Budgeted Cost (In thousands)</b>	<b>Estimated Cost Per Home</b>	<b>Expected Completion Date</b>
Elements Too Bellevue, WA	274	259	\$ 120,057	\$ 123,000	\$ 369,343	1Q10

(a) This represents cost incurred to date and does not include fair value and other-than-temporary decline in value adjustments.

On October 16, 2009, our partner in the joint venture, noted in the table above, resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. As a result of UDR's control of the joint venture, the Company is required to consolidate the joint venture. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Elements Too for \$3.2 million (outstanding at December 31, 2009). Upon the closing of the agreement, the Company's equity interest in Elements Too will be 98%.

UDR is a partner with an unaffiliated third party in a joint venture ( 989 Elements ) which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was \$11.8 million. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in 989 Elements for \$7.8 million (outstanding at December 31, 2009). Concurrently, our partner resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company's equity interest in 989 Elements will increase to 98%.

UDR is a partner with an unaffiliated third party in a joint venture ( Bellevue Plaza ) which owns an operating retail site in Bellevue, Washington. The Company initially planned to develop a 430 home high rise

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apartment building with ground floor retail on an existing operating retail center. However, during the year ended December 31, 2009, the joint venture decided to continue to operate the retail property as opposed to developing a high rise apartment building on the site. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Bellevue Plaza for \$5.2 million (outstanding at December 31, 2009). In addition, our partner resigned as managing member and appointed UDR as managing member. Concurrent with its resignation, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company's equity interest in Bellevue Plaza will increase from 49% to 98%.

For additional information regarding these consolidated joint ventures, see Note 4 *Joint Ventures* to the Consolidated Financial Statements included in this Report.

During 2009, the Company established a joint venture with Kuwait Finance House for the investment of up to \$450.0 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180.0 million of which the Company's maximum equity contribution will be 30% or \$54.0 million when fully invested. At closing, we owned 30% of the joint venture. Our investment at December 31, 2009 was \$242,000. At December 31, 2009, the joint venture did not own any multi-family properties. The joint venture intends to be fully invested over a two year investment period, and the Company will receive asset and property management fees from the joint venture.

### *Continually Improve Operations*

The Company continues to make progress on automating its business as a way to drive operating efficiencies and to better meet the changing needs of our residents. Since its launch in January 2009, UDR residents have been utilizing the resident internet portal on our website. UDR's residents have access to conduct business with us 24 hours a day, 7 days a week to pay rent on line and to submit service requests. As a result of transforming operations through technology our residents get the convenience they want and our operating teams have become more efficient. These improvements in adopting the web as a way to conduct business with the Company have also resulted in a decline in marketing and advertising costs and improved cash management.

During 2009, UDR continually enhanced [www.udr.com](http://www.udr.com) and individual community websites through deploying an innovative customized room painter selection program, apartment floor selector application, and updating the websites source code to make the webpages load faster. In addition to improvements to UDR.com, we also added an augmented reality apartment search application, an iPhone apartment search application and soon to be released Android, BlackBerry and Palm Pre apartment search applications. These enhancements have increased overall web visitor traffic to over 1.9 million visitors and almost 1.2 million organic search engine visitors which contributed to a 78% year-over-year lead stream increase.

### *Maintaining Access to Low-Cost Capital*

We seek to maintain a capital structure that allows us to seek, and not just react to, opportunities available in the marketplace. We have structured our borrowings to stagger our debt maturities and to be able to opportunistically access both secured and unsecured debt.

### *Special Dividend*

On November 5, 2008, our Board of Directors declared a dividend on a pre-adjusted basis of \$1.29 per share (the Special Dividend). The Special Dividend was paid on January 29, 2009 to stockholders of record on December 9, 2008. The dividend represented the Company's fourth quarter recurring distribution of \$0.33 per share and an

additional special distribution of \$0.96 per share due to taxable income arising from our dispositions occurring during the year. Subject to the Company's right to pay the entire Special Dividend in cash, stockholders had the option to make an election to receive payment in cash or in shares, however, the aggregate amount of cash payable to stockholders, other than cash payable in lieu of fractional shares, would not be less than \$44.0 million.

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The Special Dividend, totaling \$177.1 million, was paid on 137,266,557 shares issued and outstanding on the record date. Approximately \$133.1 million of the Special Dividend was paid through the issuance of 11,358,042 shares of common stock, which was determined based on the volume weighted average closing sales price of our common stock of \$11.71 per share on the NYSE on January 21, 2009 and January 22, 2009. In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-01, *Accounting for Distributions to Shareholders with Components of Stock and Cash* (ASU 2010-01), which considers distributions that contain components of cash and stock and allows shareholders to select their preferred form of distribution as a stock dividend. Such a distribution is treated as a stock issuance on the date the dividend is paid. At December 31, 2008, the Company accrued \$133.1 million of distribution payable related to the Special Dividend. ASU 2010-01 is effective for the Company on December 15, 2009 and should be applied on a retrospective basis. As a result, the Company reversed the effect of the issuance of additional shares of common stock pursuant to the Special Dividend, which was retroactively reflected in each of the historical periods presented within the Company's Form 8-K filed with the Securities and Exchange Commission, or the SEC on May 22, 2009, and effectively issued these shares on January 29, 2009 (the payment date of the Special Dividend).

## **Financing Activities**

As part of our plan to strengthen our capital structure, we utilized proceeds from debt and equity offerings and refinancings to extend maturities, pay down existing debt, and acquire apartment communities. The following is a summary of our major financing activities in 2009:

Repaid \$159.6 million of secured debt and \$658.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The \$658.2 million of unsecured debt includes the prepayment of our \$240 million term loan, \$141.9 million for maturing medium-term notes and \$276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of \$37.5 million in aggregate principle amount of our 8.50% debentures due September 15, 2024 for \$41.2 million of cash.

Repurchased unsecured debt with a notional amount of \$238.9 million for \$222.3 million, which is included in the \$658.2 million above, resulting in a gain on extinguishment of \$9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035.

Closed on a \$200 million secured credit facility. At December 31, 2009, \$106.9 million of the amount drawn under the facility matures October 2019 and carries a fixed rate of 5.38% and \$88.9 million of the amount drawn under the facility matures December 2019 and carries a fixed interest rate of 5.16%. The Company has one year from September 11, 2009 to draw on the remaining \$4.2 million of capacity.

Repurchased 997,738 shares of our 6.75% Series G Cumulative Redeemable Preferred Stock for \$21.5 million, less than their liquidation value of \$24.9 million.

Initiated an At the Market equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers' transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of December 31, 2009, the Company sold 4,460,032 shares of common stock under the program at an average price per share of \$15.48, resulting in gross proceeds of approximately \$69.1 million. Aggregate net proceeds from such sales, after deducting commissions paid to the sales agents of approximately \$1.4 million and related issuance costs of approximately \$500,000, were approximately \$67.2 million.

## **Markets and Competitive Conditions**

At December 31, 2009, 56.8% of the Company's same store net operating income was generated from apartment homes located in California, Metropolitan Washington D.C., Oregon, and Washington State. We



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believe that this diversification increases investment opportunity and decreases the risk associated with cyclical local real estate markets and economies, thereby increasing the stability and predictability of our earnings.

Competition for new residents is generally intense across all of our markets. Some competing communities offer features that our communities do not have. Competing communities can use concessions or lower rents to obtain temporary competitive advantages. Also, some competing communities are larger or newer than our communities. The competitive position of each community is different depending upon many factors including sub-market supply and demand. In addition, other real estate investors compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, public and private real estate companies, investment companies and other public and private apartment REITs, some of which may have greater resources, or lower capital costs, than we do.

We believe that, in general, we are well-positioned to compete effectively for residents and investments. We believe our competitive advantages include:

- a fully integrated organization with property management, development, redevelopment, acquisition, marketing, sales and financing expertise;

- scalable operating and support systems, which include automated systems to meet the changing electronic needs of our residents and to effectively focus on our Internet marketing efforts;

- purchasing power;

- geographic diversification with a presence in 23 markets across the country; and

- significant presence in many of our major markets that allows us to be a local operating expert.

Moving forward, we will continue to emphasize aggressive lease management, improved expense control, increased resident retention efforts and the alignment of employee incentive plans tied to our bottom line performance. We believe this plan of operation, coupled with the portfolio's strengths in targeting renters across a geographically diverse platform, should position us for continued operational improvement in spite of the difficult economic environment.

## **Communities**

At December 31, 2009, our apartment portfolio included 165 consolidated communities having a total of 45,913 completed apartment homes and an additional 1,415 under development. The overall quality of our portfolio enables us to raise rents and to attract residents with higher levels of disposable income who are more likely to accept the transfer of expenses, such as water and sewer costs, from the landlord to the resident. In addition, it potentially reduces recurring capital expenditures per apartment home, and therefore should result in increased cash flow in the future.

## **Same Community Comparison**

We believe that one pertinent qualitative measurement of the performance of our portfolio is tracking the results of our same store community's net operating income (NOI), which is total rental revenue, less rental expenses excluding property management and other operating expenses. Our same store population are operating communities which we own and have stabilized occupancy, revenues and expenses as of the beginning of the prior year. For the year ended December 31, 2009, our same store NOI decreased by \$6.6 million or 2.2% compared to the prior year. The decrease in NOI for the 33,166 apartment homes which make up the same store population was driven by a decrease in revenue

rental rates which was partially offset by increased occupancy and a decrease in expenses.

Revenue growth in 2010 may be impacted by general adverse conditions affecting the economy, reduced occupancy rates, increased rental concessions, increased bad debt and other factors which may adversely impact our ability to increase rents.

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### **Tax Matters**

We have elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, we must continue to meet certain tests that, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than net capital gains) to our stockholders annually. Provided we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent such net income is distributed to our stockholders annually. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

We may utilize taxable REIT subsidiaries to engage in activities that REITs may be prohibited from performing, including the provision of management and other services to third parties and the conduct of certain nonqualifying real estate transactions. Taxable REIT subsidiaries generally are taxable as regular corporations and therefore are subject to federal, state and local income taxes.

### **Inflation**

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2009.

### **Environmental Matters**

Various environmental laws govern certain aspects of the ongoing operation of our communities. Such environmental laws include those regulating the existence of asbestos-containing materials in buildings, management of surfaces with lead-based paint (and notices to residents about the lead-based paint), use of active underground petroleum storage tanks, and waste-management activities. The failure to comply with such requirements could subject us to a government enforcement action and/or claims for damages by a private party.

To date, compliance with federal, state and local environmental protection regulations has not had a material effect on our capital expenditures, earnings or competitive position. We have a property management plan for hazardous materials. As part of the plan, Phase I environmental site investigations and reports have been completed for each property we acquire. In addition, all proposed acquisitions are inspected prior to acquisition. The inspections are conducted by qualified environmental consultants, and we review the issued report prior to the purchase or development of any property. Nevertheless, it is possible that our environmental assessments will not reveal all environmental liabilities, or that some material environmental liabilities exist of which we are unaware. In some cases, we have abandoned otherwise economically attractive acquisitions because the costs of removal or control of hazardous materials have been prohibitive or we have been unwilling to accept the potential risks involved. We do not believe we will be required to engage in any large-scale abatement at any of our properties. We believe that through professional environmental inspections and testing for asbestos, lead paint and other hazardous materials, coupled with a relatively conservative posture toward accepting known environmental risk, we can minimize our exposure to potential liability associated with environmental hazards.

Federal legislation requires owners and landlords of residential housing constructed prior to 1978 to disclose to potential residents or purchasers of the communities any known lead paint hazards and imposes treble damages for failure to provide such notification. In addition, lead based paint in any of the communities may result in lead

poisoning in children residing in that community if chips or particles of such lead based paint are ingested, and we may be held liable under state laws for any such injuries caused by ingestion of lead based paint by children living at the communities.

We are unaware of any environmental hazards at any of our properties that individually or in the aggregate may have a material adverse impact on our operations or financial position. We have not been

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notified by any governmental authority, and we are not otherwise aware, of any material non-compliance, liability, or claim relating to environmental liabilities in connection with any of our properties. We do not believe that the cost of continued compliance with applicable environmental laws and regulations will have a material adverse effect on us or our financial condition or results of operations. Future environmental laws, regulations, or ordinances, however, may require additional remediation of existing conditions that are not currently actionable. Also, if more stringent requirements are imposed on us in the future, the costs of compliance could have a material adverse effect on us and our financial condition.

**Insurance**

We carry comprehensive general liability coverage on our communities, with limits of liability customary within the industry to insure against liability claims and related defense costs. We are also insured, with limits of liability customary within the industry, against the risk of direct physical damage in amounts necessary to reimburse us on a replacement cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period.

**Executive Officers of the Company**

The following table sets forth information about our executive officers as of February 15, 2010. The executive officers listed below serve in their respective capacities at the discretion of our Board of Directors.

<b>Name</b>	<b>Age</b>	<b>Office</b>	<b>Since</b>
Thomas W. Toomey	49	Chief Executive Officer, President and Director	2001
Warren L. Troupe	56	Senior Executive Vice President	2008
W. Mark Wallis	59	Senior Executive Vice President	2001
Richard A Giannotti	54	Executive Vice President Redevelopment	1985
Matthew T. Akin	42	Senior Vice President Acquisitions & Dispositions	1994
Mark M. Culwell, Jr.	58	Senior Vice President Development	2006
Jerry A. Davis	47	Senior Vice President Property Operations	2008
David L. Messenger	39	Senior Vice President Chief Financial Officer	2008
Katie Miles-Ley	48	Senior Vice President Human Resources	2007
Thomas A. Spangler	49	Senior Vice President Business Development	1998
S. Douglas Walker	54	Senior Vice President Transactions	2006

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

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

Mr. Troupe oversees all financial, treasury, tax and legal functions of the Company. He joined us in March 2008 as Senior Executive Vice President. In May 2008, he was appointed the Company's Corporate Compliance Officer and in October 2008 he was named the Company's Corporate Secretary. Prior to joining us, Mr. Troupe was a partner with Morrison & Forester LLP from 1997 to 2008, where his practice focused on all aspects of corporate finance including, but not limited to, public and private equity offerings, traditional loan structures, debt placements to subordinated debt financings, workouts and recapitalizations. While at Morrison & Forester LLP he represented both public and private entities in connection with merger and

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acquisition transactions, including tender offers, hostile proxy contests and negotiated acquisitions. He currently serves as a member of NMHC and a member of PREA.

Mr. Wallis oversees the areas of acquisitions, dispositions, asset quality and development. He joined us in April 2001 as Senior Executive Vice President responsible for acquisitions, dispositions, development and redevelopment. Prior to joining us, Mr. Wallis was the President of Golden Living Communities, a company he established in 1995 to develop senior housing. From 1980 to 1995, Mr. Wallis was Executive Vice President of Finance and Administration at Lincoln Property Company where he handled interim and permanent financing for office, retail, multi-family and mixed-use developments. His responsibilities also included the negotiation of acquisitions, dispositions, and management contracts, and he oversaw the direction of the national accounting and computer services divisions. He currently serves as a member of the Board for NMHC and serves on the Board of Trustees for Harding University.

Mr. Giannotti oversees redevelopment projects and acquisition efforts and development projects in the mid-Atlantic region. He joined us in September 1985 as Director of Development and Construction. He was appointed Assistant Vice President in 1988, Vice President in 1989, and Senior Vice President in 1996. In 1998, he was assigned the additional responsibilities of Director of Development for the Eastern Region. In 2003, Mr. Giannotti was promoted to Executive Vice President.

Mr. Akin oversees the Company's acquisition and disposition efforts. He joined us in 1996 in connection with the merger with SouthWest Property Trust, where he had been a Financial Analyst since 1994.

Mr. Culwell oversees all aspects of in-house development, joint venture development and pre-sale opportunities. He joined us in June 2006 as Senior Vice President – Development. Prior to joining us, Mr. Culwell served as Regional Vice President of Development for Gables Residential, where he established a \$300 million pipeline of new development and redevelopment opportunities. Before joining Gables Residential, Mr. Culwell had over 30 years of real estate experience, including working for Elsinore Group, LLC, Lexford Residential Trust, Cornerstone Housing Corporation and Trammell Crow Residential Company, where his development and construction responsibilities included site selection and acquisition, construction oversight, asset management, as well as obtaining financing for acquisitions and rehabilitations.

Mr. Davis oversees property operations. He originally joined us in March 1989 as Controller and subsequently moved into Operations as an Area Director and in 2001, he accepted the position of Chief Operating Officer of JH Management Co., a California-based apartment company. He returned to the Company in March 2002 and in 2008, Mr. Davis was promoted to Senior Vice President – Property Operations. He began his career in 1984 as a Staff Accountant for Arthur Young & Co.

Mr. Messenger oversees the areas of accounting, risk management, financial planning and analysis, property tax administration and SEC reporting. He joined us in August 2002 as Vice President and Controller. In March 2006, Mr. Messenger was appointed Vice President and Chief Accounting Officer and in January 2007, while retaining the Chief Accounting Officer title, he was promoted to Senior Vice President. In June 2008 he was named Chief Financial Officer.

Ms. Miles-Ley oversees employee relations, organizational development, succession planning, staffing and recruitment, compensation, training and development, benefits administration, HRIS and payroll. She joined us in June 2007 as Senior Vice President – Human Resources. Prior to joining us, Ms. Miles-Ley was with Starz Entertainment Group LLC from 2001 to 2007 where she served as Vice President, Human Resources & Organizational Development. Ms. Miles-Ley had over twenty years of experience with both domestic and international work forces.

Mr. Spangler oversees utilities management, procurement and non-rental revenue programs. He joined us in August 1998 as Assistant Vice President, Operational Planning and Asset Management, and was promoted to Vice President, Director of Operational Planning and Asset Management that same year. He was promoted to Senior Vice President Business Development in February 2003. Prior to joining us, Mr. Spangler served for nine years as an Asset Manager for Summit Enterprises, Inc. of Virginia, a private investment management firm.



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Mr. Walker oversees the Company's Asset Quality, Kitchen & Bath and sustainability programs in addition to all non-residential owned and leased real estate. He joined us in May 2006 as Senior Vice President - Transactions. He has authored Green Building articles for industry publications and has been recognized by the EPA and the Department of Energy for his contributions to the commercial real estate industry. Prior to joining us, Mr. Walker served as a consultant to the multi-family industry.

## **Available Information**

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports on the day of filing with the SEC on our website at [www.udr.com](http://www.udr.com), or by sending an e-mail message to [ir@udr.com](mailto:ir@udr.com).

## **NYSE Certification**

On May 19, 2009 our Chief Executive Officer submitted to the New York Stock Exchange the annual certification required by Section 303A.12(a) of the NYSE Listed Company Manual regarding our compliance with NYSE corporate governance listing standards. In addition, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibits 31.1 and 31.2, respectively, to this Report.

## **Item 1A. RISK FACTORS**

There are many factors that affect our business and our results of operations, some of which are beyond our control. The following is a description of important factors that may cause our actual results of operations in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this report relating to our financial results, operations and business prospects. Except as required by law, we undertake no obligation to update any such forward-looking statements to reflect events or circumstances after the date on which it is made.

### **Risks Related to Our Real Estate Investments and Our Operations**

*Unfavorable Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels, Rental Revenues and the Value of Our Real Estate Assets.* Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions generally may significantly affect our occupancy levels, our rental rates and collections, the value of the properties and our ability to strategically acquire or dispose of apartment communities on economically favorable terms. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to pay our indebtedness and to distribute to our stockholders, which could adversely affect our financial condition and the market value of our securities. Factors that may affect our occupancy levels, our rental revenues, and/or the value of our properties include the following, among others:

downturns in the national, regional and local economic conditions, particularly increases in unemployment;

declines in mortgage interest rates, making alternative housing more affordable;

government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing options more attractive;

local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;

declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;

changes in market rental rates;

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the timing and costs associated with property improvements, repairs or renovations;

declines in household formation; and

rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

*We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility.* We have periodically disposed of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own, and purchasers may not be willing to pay prices acceptable to us. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a materially adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities:

a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Code, so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash flow generated from our property sales; and

federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

*Competition Could Limit Our Ability to Lease Apartment Homes or Increase or Maintain Rents.* Our apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities, condominiums and single-family rental homes, as well as owner occupied single- and multi-family homes. Competitive housing in a particular area could adversely affect our ability to lease apartment homes and increase or maintain rents.

*We May Not Realize the Anticipated Benefits of Past or Future Acquisitions, and the Failure to Integrate Acquired Communities and New Personnel Successfully Could Create Inefficiencies.* We have selectively acquired in the past, and if presented with attractive opportunities we intend to selectively acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

we may be unable to obtain financing for acquisitions on favorable terms or at all;

even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;

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

when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability; and

we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will

result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

We do not expect to acquire apartment communities at the rate we have in prior years, which may limit our growth and have a material adverse effect on our business and the market value of our securities. In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other public and private apartment REITs, have competed with us to

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acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect growth.

*Development and Construction Risks Could Impact Our Profitability.* In the past we have selectively pursued the development and construction of apartment communities, and we intend to do so in the future as appropriate opportunities arise. Development activities have been, and in the future may be, conducted through wholly owned affiliated companies or through joint ventures with unaffiliated parties. Our development and construction activities are subject to the following risks:

we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all which could cause us to delay or even abandon potential developments;

we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;

yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than pro forma;

if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;

we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities;

we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;

occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; and

when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

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

*Some Potential Losses May Not Be Adequately Covered by Insurance.* We have a comprehensive insurance program covering our property and operating activities. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are, however, certain types of extraordinary losses which may not be adequately covered under our insurance program. In addition, we will sustain losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

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

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

These risks include, among others:

inability to accurately evaluate local apartment market conditions and local economies;

inability to hire and retain key personnel;

lack of familiarity with local governmental and permitting procedures; and

inability to achieve budgeted financial results.

*Risk of Inflation/Deflation.* Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. Although inflation has not materially impacted our operations in the recent past, increased inflation could have a more pronounced negative impact on our debt interest and general and administrative expenses, as these costs could increase at a rate higher than our rental rates.

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

*Property Ownership Through Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest.* We have in the past and may in the future develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. If we use such a structure, we could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, joint venture partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest.

*Compliance or Failure to Comply with the Americans with Disabilities Act of 1990 or Other Safety Regulations and Requirements Could Result in Substantial Costs.* The Americans with Disabilities Act generally requires that public buildings, including our properties, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. From time to time claims may be asserted against us with respect to some of our properties under this Act. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards.

We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

*Real Estate Tax and Other Laws.* Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the



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restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

*Risk of Damage from Catastrophic Weather Events.* Certain of our communities are located in the general vicinity of active earthquake faults, mudslides and fires, and others where there are hurricanes, tornadoes or risks of other inclement weather. The adverse weather events could cause damage or losses that may be greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business and our financial condition and results of operations.

*Actual or Threatened Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets.* Actual or threatened terrorist attacks and other acts of violence or war could have a material adverse effect on our business and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our ability to achieve our expected results. Further, our insurance coverage may not cover all losses caused by a terrorist attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations.

*Any Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on Our Stock Price.* Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on our stock price.

*Our Success Depends on Our Senior Management.* Our success depends upon the retention of our senior management, whose continued service is not guaranteed. We may not be able to find qualified replacements for the individuals who make up our senior management if their services should no longer be available to us. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations.

## **Risks Related to Our Indebtedness and Financing**

*Insufficient Cash Flow Could Affect Our Debt Financing and Create Refinancing Risk.* We are subject to the risks normally associated with debt financing, including the risk that our operating income and cash flow will be insufficient to make required payments of principal and interest, or could restrict our borrowing capacity under our line of credit due to debt covenant restraints. Sufficient cash flow may not be available to make all required principal payments and still satisfy our distribution requirements to maintain our status as a REIT for federal income tax purposes, and the full limits of our line of credit may not be available to us if our operating performance falls outside the constraints of our debt covenants. Additionally, we are likely to need to refinance substantially all of our outstanding debt as it matures. We may not be able to refinance existing debt, or the terms of any refinancing may not be as favorable as the terms of the existing debt, which could create pressures to sell assets or to issue additional equity when we would otherwise not choose to do so. In addition, our failure to comply with our debt covenants could result in a requirement to repay our indebtedness prior to its maturity, which could have an adverse effect on our cash flow and increase our financing costs.

*Failure to Generate Sufficient Revenue Could Impair Debt Service Payments and Distributions to Stockholders.* If our apartment communities do not generate sufficient net rental income to meet rental expenses, our ability to make required payments of interest and principal on our debt securities and to pay

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distributions to our stockholders will be adversely affected. The following factors, among others, may affect the net rental income generated by our apartment communities:

the national and local economies;

local real estate market conditions, such as an oversupply of apartment homes;

tenants' perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;

our ability to provide adequate management, maintenance and insurance;

rental expenses, including real estate taxes and utilities;

changes in interest rates and the availability of financing; and

changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multi-family housing.

Expenses associated with our investment in an apartment community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from that community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments, we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

*Debt Level May Be Increased.* Our current debt policy does not contain any limitations on the level of debt that we may incur, although our ability to incur debt is limited by covenants in our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

*Financing May Not Be Available and Could Be Dilutive.* Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. We and other companies in the real estate industry have experienced limited availability of financing from time to time. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

*Financing Could be Impacted by Negative Capital Market Conditions.* Recently, domestic financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the subprime mortgage lending sector of the credit market, liquidity has tightened in overall domestic financial markets, including the investment grade debt and equity capital markets. Consequently, there is greater risk that the financial institutions we do business with could experience disruptions that would negatively affect our ability to obtain financing.

*Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit, Impact Our Tenant Base, and Have other Adverse Effects on Us and the Market Price of Our Stock.* Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions,

which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might

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adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of our common or preferred stock. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of our common shares and other adverse effects on us and our business.

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

*The Soundness of Financial Institutions Could Adversely Affect Us.* We have relationships with many financial institutions, including lenders under our credit facilities, and, from time to time, we execute transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to complete transactions as intended, which could adversely affect our business and results of operations.

*Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities.* We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of December 31, 2009, we had approximately \$709.2 million of variable rate indebtedness outstanding, which constitutes approximately 20.7% of our total outstanding indebtedness as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of our common and preferred stock and debt securities.

*Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges.* From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges.

## **Risks Related to Tax Laws**

*We Would Incur Adverse Tax Consequences if We Fail to Qualify as a REIT.* We have elected to be taxed as a REIT under the Code. Our qualification as a REIT requires us to satisfy numerous requirements, some on an annual and quarterly basis, established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. We intend that our current organization and method of operation enable us to continue to qualify as a REIT, but we may not so qualify or we may not be able to remain so qualified in the future. In addition,

U.S. federal income tax laws governing REITs and other corporations and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. Future legislation, new regulations, administrative interpretations or court decisions could adversely affect our ability to qualify as a REIT or adversely affect our stockholders.

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If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to our stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the two taxable years following the year in which we first failed to qualify. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to our stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to our stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

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

*We May Conduct a Portion of Our Business Through Taxable REIT Subsidiaries, Which are Subject to Certain Tax Risks.* We have established several taxable REIT subsidiaries. Despite our qualification as a REIT, our taxable REIT subsidiaries must pay income tax on their taxable income. In addition, we must comply with various tests to continue to qualify as a REIT for federal income tax purposes, and our income from and investments in our taxable REIT subsidiaries generally do not constitute permissible income and investments for these tests. While we will attempt to ensure that our dealings with our taxable REIT subsidiaries will not adversely affect our REIT qualification, we cannot provide assurance that we will successfully achieve that result. Furthermore, we may be subject to a 100% penalty tax, we may jeopardize our ability to retain future gains on real property sales, or our taxable REIT subsidiaries may be denied deductions, to the extent our dealings with our taxable REIT subsidiaries are not deemed to be arm's length in nature or are otherwise not respected.

*REIT Distribution Requirements Limit Our Available Cash.* As a REIT, we are subject to annual distribution requirements, which limit the amount of cash we retain for other business purposes, including amounts to fund our growth. We generally must distribute annually at least 90% of our net REIT taxable income, excluding any net capital gain, in order for our distributed earnings not to be subject to corporate income tax. We intend to make distributions to our stockholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code.

*Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction.* From time to time, we may transfer or otherwise dispose of some of our properties.

Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction and subject to a 100% penalty tax. Since we acquire properties for investment purposes,



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we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property sales. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

*We Could Face Possible State and Local Tax Audits and Adverse Changes in State and Local Tax Laws.* As discussed in the risk factors above, because we are organized and qualify as a REIT we are generally not subject to federal income taxes, but we are subject to certain state and local taxes. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and municipalities in which we own apartment communities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional state and local taxes. These increased tax costs could adversely affect our financial condition and the amount of cash available for the payment of distributions to our stockholders. In the normal course of business, entities through which we own real estate may also become subject to tax audits. If such entities become subject to state or local tax audits, the ultimate result of such audits could have an adverse effect on our financial condition.

## **Risks Related to Our Organization and Our Shares**

*Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of Our Common Stock.* The stock markets, including the New York Stock Exchange, on which we list our common shares, have experienced significant price and volume fluctuations. As a result, the market price of our common stock could be similarly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects.

The market price per share of our common stock may decline or fluctuate significantly in response to many factors, including:

- general market and economic conditions,

- actual or anticipated variations in our quarterly operating results or dividends or our payment of dividends in shares of our stock,

- changes in our funds from operations or earnings estimates,

- difficulties or inability to access capital or extend or refinance existing debt,

- decreasing (or uncertainty in) real estate valuations,

- publication of research reports about us or the real estate industry,

- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies),

- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of our stock to demand a higher annual yield from future dividends,

a change in analyst ratings,

adverse market reaction to any additional debt we incur in the future,

speculation in the press or investment community,

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terrorist activity which may adversely affect the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending,

governmental regulatory action and changes in tax laws, and

the issuance of additional shares of our common stock, or the perception that such sales might occur, including under our at-the-market equity distribution program.

Many of the factors listed above are beyond our control. These factors may cause the market price of shares of our common stock to decline, regardless of our financial condition, results of operations, business or our prospects.

*We May Change the Dividend Policy for Our Common Stock in the Future.* The decision to declare and pay dividends on our common stock in the future, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of our Board of Directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our Board of Directors considers relevant. Any change in our dividend policy could have a material adverse effect on the market price of our common stock.

*Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in Our Stockholders' Best Interests.* Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our Company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of our stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3% of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

*Limitations on Share Ownership and Limitations on the Ability of Our Stockholders to Effect a Change in Control of Our Company May Prevent Takeovers That are Beneficial to Our Stockholders.* One of the requirements for maintenance of our qualification as a REIT for U.S. federal income tax purposes is that no more than 50% in value of our outstanding capital stock may be owned by five or fewer individuals, including entities specified in the Code, during the last half of any taxable year. Our charter contains ownership and transfer restrictions relating to our stock primarily to assist us in complying with this and other REIT ownership requirements; however, the restrictions may have the effect of preventing a change of control, which does not threaten REIT status. These restrictions include a provision that generally limits ownership by any person of more than 9.9% of the value of our outstanding equity stock, unless our board of directors exempts the person from such ownership limitation, provided that any such exemption shall not allow the person to exceed 13% of the value of our outstanding equity stock. These provisions may have the effect of delaying, deferring or preventing someone from taking control of us, even though a change of control might involve a premium price for our stockholders or might otherwise be in our stockholders' best interests.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

At December 31, 2009, our consolidated apartment portfolio included 165 communities located in 23 markets, with a total of 45,913 completed apartment homes.

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We lease approximately 39,000 square feet of office space in Highlands Ranch, Colorado, for our corporate headquarters and lease an additional 42,000 square feet for three of our regional offices throughout the country. The table below sets forth a summary of our real estate portfolio by geographic market at December 31, 2009.

**SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2009**

	Number of Communities	Number of Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Encumbrances (In thousands)	Cost per Home	Average Physical Occupancy	Average Home Size Square Feet
<b>WESTERN REGION</b>								
Orange County, CA	14	4,363	12.7%	\$ 801,467	\$ 327,274	\$ 183,696	95.2%	832
San Francisco, CA	11	2,339	8.4%	530,177	101,167	226,668	92.8%	805
Los Angeles, CA	8	1,678	6.8%	431,197	176,056	256,971	94.0%(a)	983
Seattle, WA	10	1,891	5.7%	357,192	72,132	188,891	95.4%	889
San Diego, CA	5	1,123	2.7%	173,417	40,352	154,423	95.3%	797
Monterey Peninsula, CA	7	1,565	2.4%	150,928		96,440	94.6%	724
Inland Empire, CA	3	1,074	2.4%	149,573	77,208	139,267	94.8%	886
Sacramento, CA	2	914	1.1%	67,384	48,563	73,724	93.4%	820
Portland, OR	3	716	1.1%	68,710	46,933	95,964	95.8%	918
<b>MID-ATLANTIC REGION</b>								
Metropolitan DC	12	3,983	11.2%	705,525	192,051	177,134	96.0%	957
Baltimore, MD	10	2,120	3.9%	248,887	93,501	117,400	96.4%	952
Richmond, VA	6	2,211	3.0%	188,152	73,831	85,098	96.1%	966
Norfolk, VA	6	1,438	1.3%	83,015	33,766	57,729	95.5%	1016
Other Mid-Atlantic	5	1,132	1.2%	77,370		68,348	96.3%	948
<b>SOUTHEASTERN REGION</b>								
Tampa, FL	11	3,804	5.2%	328,956	44,533	86,476	93.6%(a)	963
Orlando, FL	11	3,167	4.2%	268,282	87,565	84,712	94.3%	978
Nashville, TN	8	2,260	2.8%	177,600	63,013	78,584	95.6%	933
Jacksonville, FL	5	1,857	2.5%	154,858	15,656	83,391	94.4%	913
Other Florida	4	1,184	1.8%	111,040	40,133	93,784	94.4%	1035
<b>SOUTHWESTERN REGION</b>								
Dallas, TX	11	3,464	5.6%	350,999	144,914	101,328	92.8%(a)	882
Phoenix, AZ	6	1,744	2.7%	168,269	63,460	96,485	75.8%(a)	970
Austin, TX	2	640	1.3%	87,018	26,162	135,966	93.6%	888
Other Texas	3	811	0.9%	58,291	36,522	71,875	89.3%(a)	859
<b>Total Operating Communities</b>	<b>163</b>	<b>45,478</b>	<b>90.9%</b>	<b>\$ 5,738,307</b>	<b>\$ 1,804,792</b>	<b>\$ 126,178</b>	<b>93.6%</b>	<b>913</b>
<b>Real Estate Under Development(b)</b>	<b>2</b>	<b>435</b>	<b>5.0%</b>	<b>319,757</b>	<b>162,372</b>			
<b>Land</b>			<b>2.7%</b>	<b>171,040</b>				
<b>Other</b>			<b>1.4%</b>	<b>85,943</b>	<b>22,270</b>			

<b>Total Real Estate Owned</b>	165	45,913	100.0%	\$ 6,315,047	\$ 1,989,434
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- (a) Markets include properties in lease up during the year.
- (b) The Company is currently developing four wholly-owned communities and one community held by a consolidated joint venture with 1,415 apartment homes that have not yet been completed.

**Item 3. LEGAL PROCEEDINGS**

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

**Table of Contents****Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the fourth quarter of the year ended December 31, 2009.

**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER****MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock**

Our common stock is traded on the New York Stock Exchange under the symbol UDR. The following tables set forth the quarterly high and low sale prices per common share reported on the NYSE for each quarter of the last two fiscal years. Distribution information for common stock reflects distributions declared per share for each calendar quarter and paid at the end of the following month.

	2009			2008		
	High	Low	Distributions Declared	High	Low	Distributions Declared
Quarter ended March 31,	\$ 14.27	\$ 6.73	\$ 0.31	\$ 25.91	\$ 18.29	\$ 0.33
Quarter ended June 30,	\$ 11.92	\$ 7.93	\$ 0.18	\$ 25.95	\$ 22.11	\$ 0.33
Quarter ended September 30,	\$ 16.23	\$ 9.06	\$ 0.18	\$ 28.50	\$ 21.42	\$ 0.33
Quarter ended December 31,	\$ 17.26	\$ 13.93	\$ 0.18	\$ 25.50	\$ 10.00	\$ 1.29

We declared a Special Dividend on our common stock on November 5, 2008 of \$0.96 per share in addition to our quarterly dividend of \$0.33 per share, which represented an aggregate dividend of approximately \$1.29 per share or \$177.1 million. The aggregate amount of cash that the Company paid to stockholders related to the 2008 fourth quarter distribution was \$44.0 million. In connection with the Special Dividend the Company issued 11,358,042 shares (\$133.1 million) of our common stock to our stockholders on January 29, 2009.

On February 19, 2010, the closing sale price of our common stock was \$16.31 per share on the NYSE and there were 5,060 holders of record of the 156,058,930 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 12% of the distributions for 2009 represented ordinary income, 80% represented long-term capital gain, and 8% represented unrecaptured section 1250 gain.

We pay regular quarterly distributions to holders of our common stock. Future distributions will be at the discretion of our Board of Directors and will depend on our actual funds from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, and other factors. The annual distribution payment for calendar year 2009 necessary for us to maintain our status as a REIT was approximately \$0.04 per share of common stock. We declared total distributions of \$0.85 per share of common stock for 2009.

**Series E Preferred Stock**

The Series E Cumulative Convertible Preferred Stock ( Series E ) has no stated par value and a liquidation preference of \$16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder's option into one share of our common stock prior to the Special Dividend. The holders of the Series E are entitled to vote on an as-converted basis as a single class in combination with the holders of common stock at any meeting of our stockholders for the election of directors or for any other purpose on which the holders of common stock are entitled to vote. The Series E has no stated maturity and is not subject to any sinking fund or any mandatory redemption. In connection with the Special Dividend, the Company reserved for issuance upon conversion of the Series E



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additional shares of common stock to which a holder of the Series E would have received if the holder had converted the Series E immediately prior to the record date for the Special Dividend.

Distributions declared on the Series E in 2009 were \$1.33 per share or \$0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2009, a total of 2,803,812 shares of the Series E were outstanding.

### **Series F Preferred Stock**

We are authorized to issue up to 20,000,000 shares of our Series F Preferred Stock. Our Series F Preferred Stock may be purchased by holders of our operating partnership units, or OP Units, described below under Operating Partnership Units, at a purchase price of \$0.0001 per share. OP Unitholders are entitled to subscribe for and purchase one share of our Series F Preferred Stock for each OP Unit held. At December 31, 2009, a total of 2,959,428 shares of the Series F Preferred Stock were outstanding at a value of \$296. Holders of the Series F Preferred Stock are entitled to one vote for each share of the Series F Preferred Stock they hold, voting together with the holders of our common stock, on each matter submitted to a vote of securityholders at a meeting of our stockholders. The Series F Preferred Stock does not entitle its holders to any other rights, privileges or preferences.

### **Series G Preferred Stock**

In May 2007, UDR issued 5,400,000 shares of our 6.75% Series G Cumulative Redeemable Preferred Stock (Series G). The Series G has no stated par value and a liquidation preference of \$25 per share. The Series G generally has no voting rights except under certain limited circumstances and as required by law. The Series G has no stated maturity and is not subject to any sinking fund or mandatory redemption and is not convertible into any of our other securities. The Series G is not redeemable prior to May 31, 2012. On or after this date, the Series G may be redeemed for cash at our option, in whole or in part, at a redemption price of \$25 per share plus accrued and unpaid dividends. During the year ended December 31, 2009, the Company repurchased 997,738 shares of Series G, for less than the liquidation preference of \$25 per share resulting in a \$2.6 million benefit to our net loss attributable to common stockholders. Distributions declared on the Series G for the year ended December 31, 2009 was \$1.69 per share. The Series G is listed on the NYSE under the symbol UDRPrG. At December 31, 2009, a total of 3,432,962 shares of the Series G were outstanding.

### **Dividend Reinvestment and Stock Purchase Plan**

We have a Dividend Reinvestment and Stock Purchase Plan under which holders of our common stock may elect to automatically reinvest their distributions and make additional cash payments to acquire additional shares of our common stock. Stockholders who do not participate in the plan continue to receive dividends as declared. As of February 12, 2010, there were approximately 2,900 participants in the plan.

### **Operating Partnership Units**

From time to time we issue shares of our common stock in exchange for operating partnership units ( OP Units ) tendered to our operating partnerships, United Dominion Realty, L.P. and Heritage Communities L.P., for redemption in accordance with the provisions of their respective partnership agreements.

The holder of the OP Units has the right to require United Dominion Realty, L.P. to redeem all or a portion of the OP Units held by the holder in exchange for a cash payment based on the market value of our common stock at the time of redemption. However, United Dominion Realty, L.P.'s obligation to pay the cash amount is subject to the prior right of the Company to acquire such OP Units in exchange for either the cash amount or shares of our common stock. During 2009, we issued a total of 1,837,792 shares of common stock upon redemption of OP Units. At December 31,

2009 there were 5,986,588 OP Units in United Dominion Realty, L.P. that were owned by limited partners.

Heritage Communities L.P. OP Units are convertible into common stock in lieu of cash, at our option, once the holder elects to convert, at an exchange ratio of 1.575 shares for each OP Unit. During 2009, we

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issued a total of 292,660 shares of common stock upon redemption of OP Units. At December 31, 2009, there were no OP Units in Heritage Communities L.P. that were owned by limited partners.

**Purchases of Equity Securities**

In February 2006, our Board of Directors authorized a 10 million share repurchase program. In January 2008, our Board of Directors authorized a new 15 million share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended December 31, 2009. For the year ended December 31, 2009, the Company repurchased 100,000 shares of our common stock under these programs.

The following tables set forth certain information regarding our common stock repurchases during the quarter ended December 31, 2009.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b>
Beginning Balance	9,967,490	\$ 22.00	9,967,490	15,032,510
October 1, 2009 through October 31, 2009				15,032,510
November 1, 2009 through November 30, 2009				15,032,510
December 1, 2009 through December 31, 2009				15,032,510
Balance as of December 31, 2009	9,967,490	\$ 22.00	9,967,490	15,032,510

(1) This number reflects the number of shares that were available for purchase under our 10 million share repurchase program in effect on December 31, 2007 and our 15 million share repurchase program announced on January 31, 2008.

**Recent Sales of Unregistered Securities**

On March 23, 2009, March 27, 2009 and May 13, 2009, the Company issued and sold 2,237,282; 25,126; and 30,727 shares, respectively, of its Series F Preferred Stock, without par value, at a purchase price of \$0.0001 per share, for an aggregate purchase price of \$223.73, \$2.52 and \$3.07, respectively. The shares of the Series F Preferred Stock were sold to certain accredited investors who hold limited partnership interests, or OP Units, in United Dominion

Realty, L.P. Because the shares of Series F Preferred Stock described above were sold to accredited investors in transactions not involving a public offering, the transactions are exempt from registration under the Securities Act of 1933 in accordance with Section 4(2) of the Securities Act.

**Table of Contents****Comparison of One-, Three- and Five- year Cumulative Total Returns**

The following graphs compare the one-, three- and five-year cumulative total returns for UDR common stock with the comparable cumulative return of the NAREIT Equity REIT Index, Standard & Poor's 500 Stock Index, the NAREIT Equity Apartment Index and the MSCI US REIT Index. Each graph assumes that \$100 was invested on December 31 (of the initial year shown in the graph), in each of our common stock and the indices presented. Historical stock price performance is not necessarily indicative of future stock price performance. The comparisons assume that all dividends are reinvested.

**One-year****Total Return Performance****One-year**

	<b>Period Ending</b>									
	<b>01/31/09</b>	<b>02/28/09</b>	<b>03/31/09</b>	<b>04/30/09</b>	<b>05/31/09</b>	<b>06/30/09</b>	<b>07/31/09</b>	<b>08/31/09</b>	<b>09/30/09</b>	<b>10/31/09</b>
	85.06	57.36	62.44	75.77	82.77	77.73	80.13	98.08	120.70	111.55
	84.16	63.34	69.38	85.44	91.53	86.23	91.09	105.43	118.77	110.66
	82.21	64.87	67.27	88.45	90.49	87.57	96.89	110.48	117.86	112.41
	91.57	81.82	88.99	97.51	102.96	103.16	110.97	114.97	119.26	117.05
	82.69	65.47	68.13	89.27	91.19	87.79	96.98	109.97	117.00	111.73

**Three-year**

	<b>Period Ending</b>						
<b>Index</b>	<b>12/31/06</b>	<b>06/30/07</b>	<b>12/31/07</b>	<b>06/30/08</b>	<b>12/31/08</b>	<b>06/30/09</b>	<b>12/31/09</b>
UDR, Inc.	100.00	84.47	65.38	76.00	53.63	41.68	68.39
NAREIT Equity Apartment Index	100.00	94.72	74.57	77.82	55.83	48.15	72.81
US MSCI REITS	100.00	93.55	83.18	80.32	51.60	45.19	66.36

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S&P 500	100.00	106.96	105.49	92.93	66.46	68.57	84.05
NAREIT Equity REIT Index	100.00	94.11	84.31	81.28	52.50	46.09	67.20

**Table of Contents****Five-year****Total Return Performance****Five-year**

<b>Index</b>	<b>Period Ending</b>					
	<b>12/31/04</b>	<b>12/31/05</b>	<b>12/31/06</b>	<b>12/31/07</b>	<b>12/31/08</b>	<b>12/31/09</b>
UDR, Inc.	100.00	99.70	141.37	92.43	75.81	96.68
NAREIT Equity Apartment Index	100.00	114.65	160.45	120.24	90.03	117.40
US MSCI REITS	100.00	112.13	152.41	126.78	78.64	101.14
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11
NAREIT Equity REIT Index	100.00	112.16	151.49	127.72	79.53	101.79

*The foregoing graphs and charts shall not be deemed incorporated by reference by any general statement incorporating by reference this Report into any filing under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this information by reference*

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial and other information as of and for each of the years in the five-year period ended December 31, 2009. The table should be read in conjunction with our consolidated financial statements and the notes thereto, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Report.

	<b>Years Ended December 31,</b> <b>(In thousands, except per share data and</b> <b>apartment homes owned)</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>OPERATING DATA:</b>					
Rental income	\$ 602,899	\$ 563,408	\$ 501,618	\$ 467,511	\$ 410,120
(Loss)/income from continuing operations	(94,047)	(62,306)	44,660	(77,772)	(54,068)
Income from discontinued operations	2,424	806,173	182,070	210,117	205,250
Consolidated net (loss)/income	(91,623)	743,867	226,730	132,345	155,166
Distributions to preferred stockholders	10,912	12,138	13,910	15,370	15,370
Net (loss)/income attributable to common stockholders	(95,858)	688,708	198,958	109,738	139,796
Common distributions declared	127,066	308,313	177,540	168,408	163,690
Special Dividend declared		177,074			
<b>Earnings per share basic and diluted:</b>					
(Loss)/income from continuing operations available to stockholders	\$ (0.66)	\$ (0.90)	\$ 0.13	\$ (0.75)	\$ (0.48)
Income from discontinued operations(a)	0.02	6.19	1.35	1.57	1.51
Net (loss)/income attributable to common stockholders	(0.64)	5.29	1.48	0.82	1.03
Weighted average number of common share outstanding basic and diluted	149,090	130,219	134,016	133,732	136,143
Weighted average number of common share outstanding, OP Units and common stock equivalents outstanding diluted(b)	159,561	142,904	147,199	147,981	150,141
Common distributions declared	\$ 0.85	\$ 2.29	\$ 1.22	\$ 1.25	\$ 1.20
<b>Balance Sheet Data:</b>					
Real estate owned, at cost	6,315,047	5,831,753	5,956,481	5,820,122	5,512,424
Accumulated depreciation	1,351,293	1,078,689	1,371,759	1,253,727	1,123,829
Total real estate owned, net of accumulated depreciation	4,963,754	4,753,064	4,584,722	4,566,395	4,388,595
Total assets	5,132,617	5,143,805	4,800,454	4,675,875	4,541,593
Secured debt	1,989,434	1,462,471	1,137,936	1,182,919	1,116,259



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Unsecured debt	<b>1,437,155</b>	1,798,662	2,341,895	2,155,866	2,043,518
Total debt	<b>3,426,589</b>	3,261,133	3,479,831	3,338,785	3,159,777
Stockholders' equity	<b>1,395,441</b>	1,415,989	941,205	942,467	1,107,724
Number of common shares outstanding	<b>155,465</b>	137,423	133,318	135,029	134,012
<b>Other Data:</b>					
Total apartments owned (at end of period)	<b>45,913</b>	44,388	65,867	70,339	74,875
Weighted average number of apartment homes owned during the year	<b>45,113</b>	46,149	69,662	73,731	76,069
<b>Cash Flow Data</b>					
Cash provided by operating activities	\$ <b>229,383</b>	\$ 179,754	\$ 269,281	\$ 237,881	\$ 248,186
Cash (used in)/provided by investing activities	<b>(158,045)</b>	302,304	(90,100)	(158,241)	(219,017)
Cash used in financing activities	<b>(78,093)</b>	(472,537)	(178,105)	(93,040)	(21,530)
<b>Funds from Operations(b)</b>					
Funds from operations - basic	\$ <b>178,272</b>	\$ 201,157	\$ 240,983	\$ 240,851	\$ 238,254
Funds from operations - diluted	<b>181,996</b>	204,881	244,707	244,577	241,980

- (a) Reclassified to conform to current year presentation in accordance with Topic 360, *Property, Plant and Equipment* (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, ) as described in Note 3, *Discontinued Operations*, to the Consolidated Financial Statements included in this Report.

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- (b) Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property, premiums or original issuance costs associated with preferred stock redemptions, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trusts' definition issued in April 2002. We consider FFO in evaluating property acquisitions and our operating performance and believe that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

RE<sup>3</sup> is our subsidiary that focuses on development, land entitlement and short-term hold investments. RE<sup>3</sup> tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with RE<sup>3</sup> tax benefits and gain on sales, net of taxes, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

For 2009, FFO includes a gain of \$9.8 million due to the extinguishment of unsecured debt, partially offset by a charge of \$1.0 million prepayment penalty on debt restructure, \$1.6 million on the write-off of a fair market adjustment for debt paid on a consolidated joint venture, \$3.8 million of expenses related to a tender offer, and \$127,000 incurred on hurricane related expenses. FFO excludes \$2.6 million related to the premium on preferred stock repurchases.

For 2008, FFO includes a gain of \$26.3 million due to the extinguishment of unsecured debt and \$1.6 million of net hurricane related recoveries, partially offset by a charge of \$1.7 million incurred for exiting the condominium business, \$1.7 million for cancelling a pre-sale contract, \$4.7 million related to penalties and the write off of the associated deferred financing costs for debt refinancing and \$0.7 million for severance. FFO excludes \$3.1 million related to the premium on preferred stock repurchases.

For 2005, FFO includes \$2.5 million of hurricane related insurance recoveries. For 2004, FFO includes a charge of \$5.5 million to cover hurricane related expenses. For the years ended December 31, 2007 and 2004, distributions to preferred stockholders exclude \$2.3 million and \$5.7 million, respectively, related to premiums on preferred stock repurchases.

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets

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

## **Business Overview**

We are a real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this Report to we, us, our, the Company, or UDR refer collectively to UDR, Inc. and its subsidiaries.

At December 31, 2009, our consolidated real estate portfolio included 165 communities with 45,913 apartment homes and our total real estate portfolio, inclusive of our unconsolidated communities, included an additional 10 communities with 3,992 apartment homes.

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The following table summarizes our market information by major geographic markets as of December 31, 2009.

	<b>Number of Apartment Communities</b>	<b>Number of Apartment Homes</b>	<b>Percentage of Total Carrying Value</b>	<b>Total Carrying Value (In thousands)</b>	<b>Average Physical Occupancy</b>	<b>Total Income per Occupied Home (a)</b>	<b>Net Operating Income (In thousands)</b>
<b>SAME COMMUNITIES</b>							
<b>WESTERN REGION</b>							
Orange Co, CA	13	4,067	11.3%	\$ 713,543	95.1%	\$ 1,513	\$ 50,052
San Francisco, CA	7	1,548	4.4%	278,529	95.7%	1,814	23,762
Monterey Peninsula, CA	7	1,565	2.4%	150,928	94.6%	1,091	13,721
Los Angeles, CA	5	1,052	2.9%	186,102	95.1%	1,470	12,054
San Diego, CA	5	1,123	2.7%	173,417	95.3%	1,371	12,237
Seattle, WA	7	1,270	2.4%	151,186	95.9%	1,155	11,939
Inland Empire, CA	3	1,074	2.4%	149,573	94.8%	1,238	10,041
Sacramento, CA	2	914	1.1%	67,384	93.4%	897	6,365
Portland, OR	3	716	1.1%	68,711	95.8%	978	5,551
<b>MID-ATLANTIC REGION</b>							
Metropolitan DC	7	2,050	4.1%	261,206	97.0%	1,428	22,570
Richmond, VA	5	1,958	2.4%	153,767	96.1%	1,002	15,946
Baltimore, MD	8	1,556	2.5%	155,063	97.0%	1,180	15,101
Norfolk VA	6	1,438	1.3%	83,015	95.5%	955	10,521
Other Mid-Atlantic	5	1,132	1.2%	77,370	96.3%	1,016	9,360
<b>SOUTHEASTERN REGION</b>							
Tampa, FL	9	3,069	3.6%	229,919	95.1%	922	19,935
Orlando, FL	9	2,500	3.0%	187,489	94.9%	912	16,633
Nashville, TN	7	1,874	2.2%	142,064	95.8%	867	12,211
Jacksonville, FL	5	1,857	2.5%	154,858	94.4%	829	10,657
Other Florida	4	1,184	1.8%	111,040	94.4%	1,000	8,079
<b>SOUTHWESTERN REGION</b>							
Phoenix, AZ	3	914	1.1%	70,507	94.9%	886	6,101
Dallas, TX	1	305	1.0%	61,873	96.3%	1,607	3,577
<b>Total/Average Same Communities</b>	<b>121</b>	<b>33,166</b>	<b>57.4%</b>	<b>3,627,544</b>	<b>95.4%</b>	<b>\$ 1,149</b>	<b>\$ 296,413</b>
<b>Non Matures, Commercial Properties &amp; Other</b>	42	12,312	37.5%	2,367,746			
<b>Total Real Estate Held for Investment</b>	<b>163</b>	<b>45,478</b>	<b>94.9%</b>	<b>5,995,290</b>			
<b>Real Estate Under Development(b)</b>	2	435	5.1%	319,757			

<b>Total</b>	<b>165</b>	<b>45,913</b>	<b>100.0%</b>	<b>\$ 6,315,047</b>
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- (a) Total Income per Occupied Home represents total monthly revenues per weighted average number of apartment homes occupied.
- (b) The Company is currently developing four wholly-owned communities and one community held by a consolidated joint venture with an additional 1,415 apartment homes that have not yet been completed.

### **Liquidity and Capital Resources**

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale of properties, and the issuance of debt and equity. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes and borrowings under credit agreements. We routinely use our unsecured credit facility to temporarily fund certain investing and financing activities prior to

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arranging for longer-term financing or the issuance of equity or debt securities. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities as we repositioned our portfolio.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit agreements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, the repayment of financing on development activities, and potential property acquisitions, through secured and unsecured borrowings, the issuance of debt or equity securities, and the disposition of properties. We believe that our net cash provided by operations and borrowings under credit agreements will continue to be adequate to meet both operating requirements and the payment of dividends by the Company in accordance with REIT requirements. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations, borrowings under credit agreements, and the issuance of debt or equity securities.

We have a shelf registration statement filed with the SEC which provides for the issuance of an indeterminate amount of common stock, preferred stock, guarantees of debt securities, warrants, subscription rights, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

On September 15, 2009, the Company entered into an equity distribution agreement under which the Company may offer and sell up to 15.0 million shares of its common stock over time to or through its sales agents. During the year ended December 31, 2009, we sold 4,460,032 shares of common stock through this program for aggregate gross proceeds of approximately \$69.1 million at a weighted average price per share of \$15.48. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately \$1.4 million and related issuance costs of approximately \$500,000, were approximately \$67.2 million.

On December 7, 2009, the Company entered into an amended and restated distribution agreement with respect to the issue and sale by the Company from time to time of its Medium-Term Notes, Series A Due Nine Months or More From Date of Issue. As of December 31, 2009, the Company had not issued any medium-term notes under the amended and restated distribution agreement dated December 7, 2009.

## **Future Capital Needs**

Future development expenditures are expected to be funded with proceeds from construction loans, through joint ventures, unsecured or secured credit facilities, proceeds from the issuance of equity or debt securities, the sale of properties and to a lesser extent, with cash flows provided by operating activities. Acquisition activity in strategic markets is expected to be largely financed by the reinvestment of proceeds from the sale of properties, through the issuance of equity or debt securities, the issuance of operating partnership units, and the assumption or placement of secured and/or unsecured debt.

During 2010, we have approximately \$237.4 million of secured debt and \$50.0 million of unsecured debt maturing and we anticipate repaying that debt with proceeds from borrowings under our secured or unsecured credit facilities, the issuance of equity or debt securities, and by exercising extension rights of \$151.5 million with respect to secured debt.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. A critical accounting policy is one that is both important to our financial condition and results of operations as well as involves some degree of

uncertainty. Estimates are prepared based on management's assessment after considering all evidence available. Changes in estimates could affect our financial position or results of operations. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required.

**Table of Contents****Capital Expenditures**

In conformity with GAAP, we capitalize those expenditures that materially enhance the value of an existing asset or substantially extend the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

During 2009, \$86.4 million or \$1,986 per home was spent on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties compared to \$131.0 million or \$2,838 per home spent in 2008. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as exterior paint, roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated \$29.3 million or \$674 per home for the year ended December 31, 2009. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, and other extensive exterior/interior upgrades totaled \$23.6 million or \$543 per home, and major renovations totaled \$33.5 million for the year ended December 31, 2009.

The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties, for the periods presented:

	Year Ended December 31,			Per Apartment Home		
	2009	2008	% Change	2009	2008	% Change
Turnover capital expenditures	\$ 9,401	\$ 9,342	0.6%	\$ 216	\$ 202	6.9%
Asset preservation expenditures	19,912	19,737	0.9%	458	428	7.0%
Total recurring capital expenditures	29,313	29,079	0.8%	674	630	7.0%
Revenue enhancing improvements	23,626	50,059	52.8%	543	1,085	50.0%
Major renovations	33,466	51,823	35.4%	769	1,123	31.5%
Total capital expenditures	\$ 86,405	\$ 130,961	34.0%	\$ 1,986	\$ 2,838	30.0%
Repair and maintenance expense	\$ 30,450	\$ 32,679	6.8%	\$ 700	\$ 708	1.1%
Average Stabilized Home Count	43,505	46,149				

We will continue to selectively add revenue enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital. Recurring capital expenditures during 2010 are currently expected to be approximately \$1,000 per home.

**Investment in Unconsolidated Joint Ventures**

In accordance with FASB Accounting Standards Codification ( ASC ) 323-10, *Investments- Equity Method and Joint Ventures* (formerly APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock* ) ( Subtopic 323-10 ), we continually evaluate our investments in unconsolidated joint ventures when events or changes in



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

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***Impairment of Long-Lived Assets***

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

***Real Estate Investment Properties***

We purchase real estate investment properties from time to time and allocate the purchase price to various components, such as land, buildings, and intangibles related to in-place leases in accordance with FASB ASC 805, *Business Combinations* (formerly SFAS 141R, *Business Combinations* ). The purchase price is allocated based on the relative fair value of each component. The fair value of buildings is determined as if the buildings were vacant upon acquisition and subsequently leased at market rental rates. As such, the determination of fair value considers the present value of all cash flows expected to be generated from the property including an initial lease-up period. We determine the fair value of in-place leases by assessing the net effective rent and remaining term of the lease relative to market terms for similar leases at acquisition. In addition, we consider the cost of acquiring similar leases, the foregone rents associated with the lease-up period, and the carrying costs associated with the lease-up period. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining contractual lease period.

***REIT Status***

We are a Maryland corporation that has elected to be treated for federal income tax purposes as a REIT. A REIT is a legal entity that holds interests in real estate and is required by the Code to meet a number of organizational and operational requirements, including a requirement that a REIT must distribute at least 90% of our REIT taxable income (other than our net capital gain) to our stockholders. If we were to fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at the regular corporate rates and may not be able to qualify as a REIT for four years. Based on the net earnings reported for the year ended December 31, 2009 in our Consolidated Statements of Operations we would have incurred immaterial federal and state GAAP income taxes if we had failed to qualify as a REIT.

**Statements of Cash Flow**

The following discussion explains the changes in net cash provided by operating activities and net cash provided by/(used in) investing and financing activities that are presented in our Consolidated Statements of Cash Flows.

***Operating Activities***

For the year ended December 31, 2009, our net cash flow provided by operating activities was \$229.4 million compared to \$179.8 million for 2008. The increase in cash flow from operating activities is primarily due to changes in operating liabilities and is partially offset by a reduction in property operating income.

For the year ended December 31, 2008, our net cash flow provided by operating activities was \$179.8 million compared to \$269.3 million for 2007. During 2008, the decrease in cash flow from operating activities resulted primarily from a reduction in property operating income from our apartment community portfolio and a significant reduction in operating liabilities. The reduction in property operating income was driven by the Company completing

the sale of a significant component of our portfolio in the first quarter of 2008. A portion of the proceeds from the disposition were reinvested in subsequent quarters which diluted the net cash provided by operations for the period in which the Company held restricted 1031 cash funds in lieu of revenue generating operating communities.

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### ***Investing Activities***

For the year ended December 31, 2009, net cash used in investing activities was \$158.0 million compared to net cash provided by investing activities of \$302.3 million for 2008. The change is primarily driven by a reduction in the disposition of real estate investments partially offset by a reduction in the acquisition of real estate assets and capital expenditures, all of which are discussed in further detail throughout this Report.

For the year ended December 31, 2008, net cash provided by investing activities was \$302.3 million compared to net cash used in investing activities of \$90.1 million for 2007. Changes in the level of investing activities from period to period reflects our strategy as it relates to acquisitions, capital expenditures, development and disposition activities, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail throughout this Report.

### ***Acquisitions***

For the year ended December 31, 2009, we acquired one community in Dallas, Texas with 289 units for \$28.5 million. For the year ended December 31, 2008, we acquired 13 apartment communities with 4,558 apartment homes, two parcels of land, and one retail property for aggregate consideration of \$1.0 billion. Our long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been expanding our interests in communities located in California, Florida, Metropolitan D.C. and the Washington State markets over the past years. Prospectively, we plan to continue to channel new investments into those markets we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including favorable job formation, low single-family home affordability and favorable demand/supply ratio for multifamily housing.

### ***Real Estate Under Development***

At December 31, 2009, our development pipeline for wholly-owned communities totaled 1,576 homes with a budget of \$258.6 million in which we have a carrying value of \$216.9 million. We anticipate the completion of these communities during 2010.

For the year ended December 31, 2009, we invested approximately \$183.2 million in development projects, an increase of \$23.1 million from our 2008 level of \$160.1 million. As a result of our investment in developments, we completed development on three wholly-owned communities with 831 apartment homes that have a carrying value of \$119.5 million.

### ***Consolidated Joint Ventures***

UDR is a partner with an unaffiliated third party in a joint venture ( Elements Too ) which is developing a 274 home apartment community in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled to be completed in the first quarter of 2010. At closing and at December 31, 2008, we owned 49% of the joint venture. Our initial investment was \$10.0 million. On October 16, 2009, our partner in the joint venture resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. As a result of UDR's appointment as managing member, the Company is required to consolidate the joint venture. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Elements Too for \$3.2 million (outstanding at December 31, 2009). Upon closing of the agreement, the Company's equity interest in Elements Too will be 98%.

UDR is a partner with an unaffiliated third party in a joint venture ( 989 Elements ) which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was \$11.8 million. On December 30, 2009, UDR entered into an agreement with our partner to purchase 49% of its interest in 989 Elements in consideration for \$7.8 million (outstanding at December 31, 2009). Concurrently, our partner resigned as managing member and appointed UDR as managing member. In addition, our partner relinquished

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its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company's interest will increase to 98%.

UDR is a partner with an unaffiliated third party in a joint venture ( Bellevue Plaza ) which owns an operating retail site in Bellevue, Washington. The Company initially planned to develop a 430 home high rise apartment building with ground floor retail on an existing operating retail center. However, during the year ended December 31, 2009, the joint venture decided to continue to operate the retail property as opposed to developing the site. On December 30, 2009, UDR entered into an agreement with our partner to purchase its 49% interest in Bellevue Plaza for \$5.2 million (outstanding at December 31, 2009). In addition, our partner resigned as managing member and appointed UDR as managing member. Concurrent with its resignation, our partner relinquished its voting rights and approval rights and its ability to substantively participate in the decision-making process of the joint venture. At closing, the Company will increase its interest in Bellevue Plaza from 49% to 98%.

For additional information regarding these joint ventures, see Note 4, Joint Ventures, in the Consolidated Financial Statements included in this Report.

During 2009, the Company established a joint venture with Kuwait Finance House for the investment of up to \$450.0 million in multifamily properties located in key, high barrier to entry markets. The partners will contribute equity of \$180.0 million of which the Company's maximum equity contribution will be 30% or \$54.0 million when fully invested. At closing, we owned 30% of the joint venture. Our investment at December 31, 2009 was \$242,000. At December 31, 2009, the joint venture did not hold any property.

### *Disposition of Investments*

During the year ended December 31, 2009, we did not dispose of any communities. During the year ended December 31, 2008, UDR sold 86 communities with a total of 25,684 apartment homes, for gross consideration of \$1.7 billion, 53 condominiums from two communities with a total of 640 condominiums for gross consideration of \$6.9 million, one parcel of land for gross proceeds of \$1.6 million and one commercial property for gross proceeds of \$6.5 million. We recognized after-tax gains for financial reporting purposes of \$786.4 million on these sales. Proceeds from the sales were used primarily to acquire new communities and reduce debt. During 2008, we decided to discontinue sales of units with the two communities identified for condominium conversion until such time that the market conditions turn favorable and it is economically beneficial to sell those units versus operate the residual 525 units of those communities. As a result of our decision to revert the remaining units to operations the Company recorded a charge to earnings of \$1.7 million, excluding the catch up for depreciation on the units when they were returned to operations.

As a result of our disposition activities in 2008, the Company declared a Special Dividend payable to holders of our common stock for \$0.96 per share included with our recurring distribution for the Company's fourth quarter of 2008 for a total of \$1.29 per share payable on January 29, 2009 to stockholders of record on December 9, 2008. Additional information regarding the Special Dividend is set forth in Item 1. Business in Part 1 of this Report.

In conjunction with the transaction in which we sold 86 communities for \$1.7 billion, we received a note in the amount of \$200.0 million. The note was paid in full during the year ended December 31, 2009.

For the year ended December 31, 2007, UDR sold 21 communities with a total of 7,125 apartment homes for gross consideration of \$729.2 million, one parcel of land for \$4.5 million, and contributed one property under development, at cost, to a joint venture arrangement in Texas. In addition, we sold 61 condominiums from two communities with a total of 640 condominiums for gross consideration of \$10.4 million. We recognized after-tax gains for financial reporting purposes of \$239.1 million on these sales. Proceeds from the sales were used primarily to reduce debt.

***Financing Activities***

For the year ended December 31, 2009, our net cash used in financing activities was \$78.1 million compared to \$472.5 million for the comparable period of 2008.

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The following significant financing activity occurred during the year ended December 31, 2009:

Repaid \$159.6 million of secured debt and \$658.2 million of unsecured debt (represents the notional amount of debt repaid and excludes the gain on extinguishment). The \$658.2 million of unsecured debt includes the prepayment of our \$240 million term loan, \$141.9 million for maturing medium-term notes and \$276.3 million for the repurchase of unsecured debt. The unsecured debt repurchases includes the tender offer of \$37.5 million in aggregate principle amount of our 8.50% debentures due September 15, 2024 for \$41.2 million of cash.

Repurchased unsecured debt with a notional amount of \$238.9 million for \$222.3 million, which is included in the \$658.2 million above, resulting in a gain on extinguishment of \$9.8 million, net of deferred finance charges. The unsecured debt repurchased by the Company matured in 2009, 2011, 2013, 2024 and 2035.

Closed on a \$200 million secured credit facility. At December 31, 2009, \$106.9 million of the amount drawn under the facility matures October 2019 and carries a fixed rate of 5.38% and \$88.9 million of the amount drawn under the facility matures December 2019 and carries a fixed interest rate of 5.16%. The Company has one year from September 11, 2009 to draw on the remaining \$4.2 million of capacity.

Repurchased 997,738 shares of our 6.75% Series G Cumulative Redeemable Preferred Stock for \$21.5 million, less than their liquidation value of \$24.9 million.

Initiated an *At the Market* equity distribution program pursuant to which we may sell up to 15 million shares of common stock from time to time to or through sales agents, by means of ordinary brokers' transactions on the New York Stock Exchange at prevailing market prices at the time of sale, or as otherwise agreed with the applicable agent. As of December 31, 2009, the Company sold 4,460,032 shares of common stock under the program at an average price per share of \$15.48, for aggregate gross proceeds of approximately \$69.1 million. Aggregate net proceeds from such sales, after deducting commissions paid to the sales agents of approximately \$1.4 million and related issuance costs of approximately \$500,000, were approximately \$67.2 million.

For the year ended December 31, 2008, our net cash used in financing activities was \$472.5 million compared to \$178.1 million for the comparable period of 2007. The increase in financing activities was due to increased net payments, including debt buybacks on secured and unsecured debt; the repurchase of shares of our 6.75% Series G Cumulative Redeemable Preferred Stock; and the repurchase of shares of our common stock. These cash outflows were offset by the issuance of common equity through a public offering.

### *Credit Facilities*

As of December 31, 2009, we have secured revolving credit facilities with Fannie Mae with an aggregate commitment of \$1.4 billion with \$1.2 billion outstanding. The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have \$950.0 million of the funded balance fixed at a weighted average interest rate of 5.4% and the remaining balance on these facilities is currently at a weighted average variable rate of 1.7%.

As of December 31, 2008, we had secured revolving credit facilities with Fannie Mae with an aggregate commitment of \$1.0 billion with \$831.2 million outstanding. The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We had \$666.6 million of the funded balance fixed at a weighted average interest rate of 5.5% and the remaining balance on these facilities is currently at a weighted average variable rate of 3.1%.



On July 27, 2007, we amended and restated our existing three-year \$500 million unsecured bank revolving credit facility with a maturity date of May 31, 2008 (which could be extended for an additional year at our option), to increase the facility to \$600 million and to extend its maturity to July 26, 2012. Under

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certain circumstances, we may increase the \$600 million credit facility to \$750 million. Based on our current credit ratings, the \$600 million credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points, which represents a 10 basis point reduction to the previous \$500 million revolving credit facility. Under a competitive bid feature and for so long as we maintain an investment grade rating, we have the right under the \$600 million credit facility to bid out 50% of the commitment amount and we can bid out 100% of the commitment amount once per quarter. As of December 31, 2009 and 2008, there was \$189.3 million and \$0, respectively, outstanding on the unsecured revolving credit facility.

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

### *Interest Rate Risk*

We are exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. We do not hold financial instruments for trading or other speculative purposes, but rather issue these financial instruments to finance our portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. Our earnings are affected as changes in short-term interest rates impact our cost of variable rate debt and maturing fixed rate debt. We had \$709.2 million in variable rate debt that is not subject to interest rate swap contracts as of December 31, 2009. If market interest rates for variable rate debt increased by 100 basis points, our interest expense would increase by \$6.0 million based on the average balance outstanding during the year.

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

### **Funds from Operations**

Funds from operations, or FFO, is defined as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO for all periods presented in accordance with the recommendations set forth by the National Association of Real Estate Investment Trusts ( NAREIT ) April 1, 2002 White Paper. We consider FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, premiums or original issuance costs associated with preferred stock redemptions, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results

of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO

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should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a Company's real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

The following table outlines our FFO calculation and reconciliation to GAAP for the three years ended December 31, 2009 (*dollars in thousands*):

	<b>For the Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net (loss)/income attributable to UDR, Inc.	\$ (87,532)	\$ 697,790	\$ 215,129
Adjustments:			
Distributions to preferred stockholders	(10,912)	(12,138)	(13,910)
Real estate depreciation and amortization, including discontinued operations	278,391	251,984	257,450
Non-controlling interest	(4,091)	46,077	11,601
Real estate depreciation and amortization on unconsolidated joint ventures	4,759	4,502	1,980
Net gains on the sale of depreciable property to a joint venture			(113,799)
Net gains on the sale of depreciable property in discontinued operations, excluding RE3	(2,343)	(787,058)	(117,468)
<b>Funds from operations basic</b>	<b>\$ 178,272</b>	<b>\$ 201,157</b>	<b>\$ 240,983</b>
Distributions to preferred stockholders Series E (Convertible)	3,724	3,724	3,724
<b>Funds from operations diluted</b>	<b>\$ 181,996</b>	<b>\$ 204,881</b>	<b>\$ 244,707</b>
Write-off of convertible debt premium for repurchases	3,365	3,333	
Amortization of convertible debt premium	4,283	6,598	6,680
<b>Funds from operations as adjusted diluted</b>	<b>\$ 189,644</b>	<b>\$ 214,812</b>	<b>\$ 251,387</b>
Weighted average number of common shares and OP Units outstanding basic	155,796	138,971	141,778
Weighted average number of common shares and OP Units outstanding diluted	159,561	142,904	147,199

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

RE<sup>3</sup> is our subsidiary that focuses on development, land entitlement and short-term hold investments. RE<sup>3</sup> tax benefits and gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with RE<sup>3</sup> tax benefits and gain on sales, net of taxes, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that

differs from the traditional long-term investment in real estate for REITs.

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The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three years ended December 31, 2009 (*shares in thousands*):

	<b>For the Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Weighted average number of common shares and OP units outstanding basic	<b>155,796</b>	138,971	141,778
Weighted average number of OP units outstanding	<b>(6,706)</b>	(8,752)	(7,762)
Weighted average number of common shares outstanding basic per the Consolidated Statement of Operations	<b>149,090</b>	130,219	134,016
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	<b>159,561</b>	142,904	147,199
Weighted average number of OP units outstanding	<b>(6,706)</b>	(8,752)	(7,762)
Weighted average incremental shares from assumed conversion of stock options	<b>(567)</b>	(412)	(630)
Weighted average incremental shares from unvested restricted stock	<b>(162)</b>	(717)	(408)
Weighted average number of Series A OPPSs outstanding			(1,579)
Weighted average number of Series E preferred shares outstanding	<b>(3,036)</b>	(2,804)	(2,804)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	<b>149,090</b>	130,219	134,016

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

	<b>For the Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net cash provided by operating activities	<b>\$ 229,383</b>	\$ 179,754	\$ 269,281
Net cash (used in)/provided by investing activities	<b>(158,045)</b>	302,304	(90,100)
Net cash used in financing activities	<b>(78,093)</b>	(472,537)	(178,105)

**Results of Operations**

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

**Net (Loss)/ Income Attributable to Common Stockholders**

*2009 -vs-2008*

Net loss attributable to common stockholders was (\$95.9 million) (\$0.64 per diluted share) for the year ended December 31, 2009 as compared to net income attributable to common stockholders of \$688.7 million (\$5.29 per diluted share) for the comparable period in the prior year. The decrease in net income available to common stockholders for the year ended December 31, 2009 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

a reduction in disposition gains in 2009 as compared to 2008. The Company recognized net gains of \$2.4 million and \$786.4 million for the years ended December 31, 2009 and 2008, respectively;

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an increase in our loss from unconsolidated entities, primarily due to the recognition of a \$16.0 million non-cash charge representing an other-than-temporary decline in the fair value of equity investments in two of our unconsolidated joint ventures during the quarter ended September 30, 2009;

the recognition of an income tax benefit from the Company's Taxable REIT Subsidiaries, or TRS during 2008;

an increase in depreciation expense primarily due to the Company's acquisition of operating properties and the completion of redevelopment and development communities in 2008 and 2009;

a decrease in other income primarily due to a reduction in fees earned for both recurring and non-recurring items related to the Company's joint ventures and a decrease in interest income;

change in net income/(loss) attributable to non-controlling interest of \$50.2 million.

The decreases to our net income available to common stockholders were partially offset by a decrease in general and administrative expense of \$7.4 million when compared to 2008.

*2008 -vs-2007*

Net income attributable to common stockholders was \$688.7 million (\$5.29 per diluted share) for the year ended December 31, 2008 as compared to \$199.0 million (\$1.48 per diluted share) for the comparable period in the prior year. The increase in net income attributable to common stockholders for the year ended December 31, 2008 resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report.

an increase of \$547.3 million in the gains on the disposition of our property inclusive of gains on sale to a joint venture;

a decrease of \$39.0 million in total interest expense due in part to the Company recognizing gains of \$26.3 on the extinguishment of certain unsecured debt instruments;

an increase of \$16.9 million related to interest income generated by the Company; and

a gain of \$3.1 million related to the repurchase of shares of our 6.75% Series G Cumulative Redeemable Preferred Stock at less than their liquidation value

The increases to our net income attributable to common stockholders were offset by: a reduction in property NOI of \$82.1 million due to our dispositions; an increase in net income attributable to non-controlling interest of \$34.5 million; and an increase in general and administrative expense of \$7.6 million when compared to 2007.

**Apartment Community Operations**

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

<b>Year Ended December 31,</b>		<b>Year Ended December 31,</b>	
<b>2009</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>



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			%			%
			Change			Change
Property rental income	\$ <b>594,359</b>	\$ 599,343	0.8%	\$ 599,343	\$ 735,293	18.5%
Property operating expense(a)	<b>(202,773)</b>	(207,563)	2.3%	(207,563)	(258,895)	19.8%
Property net operating income	\$ <b>391,586</b>	\$ 391,780	0.0%	\$ 391,780	\$ 476,398	17.8%

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

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

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Property net operating income	\$ <b>391,586</b>	\$ 391,780	\$ 476,398
Other net operating income	<b>6,874</b>	5,206	2,713
Non-property income	<b>12,362</b>	27,190	4,321
Hurricane related expenses	<b>(127)</b>	(1,310)	
Real estate depreciation and amortization	<b>(278,391)</b>	(251,985)	(257,450)
Interest, net	<b>(142,152)</b>	(145,630)	(184,597)
General and administrative and property management	<b>(56,393)</b>	(63,762)	(59,881)
Severance costs and other restructuring charges		(653)	(4,333)
Other depreciation and amortization	<b>(5,161)</b>	(4,866)	(3,077)
Other operating expenses	<b>(5,581)</b>	(4,569)	(1,953)
Loss from unconsolidated entities	<b>(18,665)</b>	(3,612)	(1,589)
Tax (expense)/benefit for the TRS	<b>(311)</b>	9,713	17,110
Net gain on sale of real estate	<b>2,424</b>	786,365	239,068
Gain on consolidation of joint ventures	<b>1,912</b>		
Non-controlling interests	<b>4,091</b>	(46,077)	(11,601)
Net (loss)/income attributable to UDR, Inc.	<b>\$ (87,532)</b>	\$ 697,790	\$ 215,129

*Same Communities**2009-vs.-2008*

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2008 and held on December 31, 2009) consisted of 33,166 apartment homes and provided 76% of our total NOI for the year ended December 31, 2009.

NOI for our same community properties decreased 2.2% or \$6.6 million for the year ended December 31, 2009 compared to the same period in 2008. The decrease in property NOI was primarily attributable to a 2.0% or \$8.8 million decrease in property rental income, which was partially offset by a 1.6% or \$2.3 million decrease in operating expenses. The decrease in revenues was primarily driven by a 2.9% or \$12.9 million decrease in rental rates which was offset by an 18.9% or \$4.0 million decrease in vacancy loss and an 8.6% or \$1.4 million increase in reimbursement income. Physical occupancy slightly increased 0.6% to 95.4% and total income per occupied home decreased \$30 to \$1,149.

The decrease in property operating expenses was primarily driven by a 1.3% or \$568,000 decrease in real estate taxes due to favorable tax appeals, a 3.3% or \$764,000 decrease in repairs and maintenance, and a 9.7% or \$970,000 decrease in administrative and marketing costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) decreased to 68.0% as compared to 68.1% in the

comparable period in the prior year.

*2008-vs.-2007*

Our same store communities (those acquired, developed, and stabilized prior to January 1, 2007 and held on December 31, 2008) consisted of 32,124 apartment homes and provided 74% of our property NOI for the year ended December 31, 2008.

NOI for our same community properties increased 3.8% or \$10.8 million for the year ended December 31, 2008 compared to the same period in 2007. The increase in property NOI was primarily attributable to a 3.6%

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or \$14.8 million increase in rental revenues and other income partially offset by a 3.1% or \$4.1 million increase in operating expenses. The increase in revenues was primarily driven by a 1.4% or \$6.0 million increase in rental rates, a 13.9% or \$2.0 million increase in reimbursement income, and a 76.9% or \$4.3 million decrease in rental concessions. Physical occupancy increased 0.3% to 94.8% and total income per occupied home increased \$37 to \$1,176.

The increase in property operating expenses was primarily driven by a 5.9% or \$2.3 million increase in real estate taxes due to higher assessed values on our communities and favorable tax appeals in 2007 and a 5.4% or \$1.7 million increase in personnel costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property net operating income divided by property rental income) increased to 68.3% as compared to 68.1% in the comparable period in the prior year.

### *Non-Mature Communities*

#### *2009-vs.-2008*

The remaining \$95.2 million and \$88.8 million of our NOI during the year ended December 31, 2009 and 2008, respectively, was generated from communities that we classify as non-mature communities. UDR's non-mature communities consist of communities that do not meet the criteria to be included in same communities, which includes communities developed or acquired, redevelopment properties, sold properties, properties classified as real estate held for disposition and condominium properties. For the year ended December 31, 2009, we recognized NOI for our developments of \$10.5 million, acquired communities of \$54.3 million, and redeveloped properties of \$24.8 million. For the year ended December 31, 2008, we recognized NOI for our developments of \$2.4 million, acquired communities of \$38.2 million, redeveloped properties of \$22.1 million and sold properties of \$23.5 million.

#### *2008-vs.-2007*

The remaining \$103.6 million and \$196.5 million of our NOI during the year ended December 31, 2008 and 2007, respectively, was generated from communities that we classify as non-mature communities. For the year ended December 31, 2008, we recognized NOI for our developments of \$7.5 million, acquired communities of \$46.0 million, redeveloped properties of \$19.2 million and sold properties of \$25.0 million. For the year ended December 31, 2007, we recognized net operating income for our developments of \$4.0 million, acquired communities of \$6.6 million, redeveloped properties of \$14.9 million and sold properties of \$146.1 million. In addition, in 2007 the Company sold a portfolio of properties into a joint venture that we continue to manage after the transaction and as such is not deemed discontinued operations. The NOI from those communities was \$18.3 million.

### **Other Income**

For the year ended December 31, 2009, significant amounts reflected in other income include: interest income and discount amortization from an interest in a convertible debt security, and fees earned for both recurring and non-recurring items related to the Company's joint ventures. For the years ended December 31, 2009 and 2008, other income also included interest income from a note for \$200 million that the Company received related to the disposition of 86 properties during 2008. In May 2009, the \$200 million note was paid in full. For the year ended December 31, 2008, interest income also included interest from uninvested 1031 proceeds. The Company had redeployed all 1031 proceeds by December 31, 2008.

### **Tax Benefit for TRS**

UDR elected for certain consolidated subsidiaries to be treated as TRS. Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using

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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. For the year ended December 31, 2009, we recognized tax expense to the extent of cash taxes paid. For the years ended December 31, 2008 and 2007, we recognized a benefit due to the results of operations and temporary differences associated with the TRS.

**Other Operating Expenses**

For the year ended December 31, 2009, the increases in other operating expenses are primarily due to additional costs incurred by the Company related to long-term ground leases associated with properties acquired in December 2007 and July 2008. A schedule of future obligations related to ground leases is set forth under Contractual Obligations below.

**Real Estate Depreciation and Amortization**

For the year ended December 31, 2009, real estate depreciation and amortization on both continuing and discontinued operations increased 10.5% or \$26.4 million as compared to the comparable period in 2008. The increase in depreciation and amortization for the year ended December 31, 2009 is primarily the result of the Company's acquisition of 13 communities with 4,558 apartment homes during 2008, development completions during 2009 and 2008, and additional capital expenditures. As part of the Company's acquisition activity a portion of the purchase price is allocated to intangible assets and are typically amortized over a period of less than one year.

For the year ended December 31, 2008, real estate depreciation and amortization on both continuing and discontinued operations decreased 2.1% or \$5.5 million as compared to the comparable period in 2007. The decrease in depreciation and amortization for the year ended December 31, 2008 is a result of the Company's repositioning efforts that included the sale of 86 operating communities. As the properties sold in 2008 did not meet the criteria to be deemed as held-for-sale the communities until late in the fourth quarter of 2007, we did not cease depreciation until that time. With the proceeds from the sale, the Company purchased \$1.0 billion of properties. As part of our allocation of fair value associated with the purchase price, we attributed \$14.0 million to in-place leases for our multi-family communities, which are generally amortized over an 11 month period. During the year ended December 31, 2008, the Company recorded \$3.7 million of depreciation related to two properties that we had previously been marketing as condominiums and classified as held-for-sale when we determined it prudent to operate these as rental properties.

**Interest Expense**

For the year ended December 31, 2009, interest expense on both continuing and discontinued operations decreased 2.4% or \$3.5 million as compared to 2008. This decrease is primarily due to the Company's debt repurchase activity during 2008 and 2009. During 2009, we recognized a gain of \$9.8 million as a result of repurchasing unsecured debt securities with a notional amount of \$238.9 million in the open market throughout the year. The gains were partially offset by \$3.8 million of expenses related to the tender of \$37.5 million of unsecured debt and \$2.6 million for prepayment penalties and the write-off of the fair market value adjustment for consolidated joint venture debt. In addition, the weighted average interest rate decreased from 4.9% in 2008 to 4.5% in 2009, which further reduced our interest expense. The decrease in the weighted average interest rate during 2009 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2009 when compared to the same period in 2008.

For the year ended December 31, 2008, interest expense on both continuing and discontinued operations decreased 21.1% or \$39.0 million as compared to 2007. This decrease is primarily due to the Company recognizing a gain of \$26.3 million on debt extinguishment that was partially offset by a \$4.2 million prepayment penalty incurred by the Company in refinancing a secured debt instrument in 2008. The gain on debt extinguishment was a result of the

Company repurchasing unsecured debt securities with a notional amount of \$207.7 million in the open market throughout the year. In addition, the weighted average interest rate decreased from 5.3% in 2007 to 4.9% in 2008, which further reduced our interest expense. The decrease

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in the weighted average interest rate during 2008 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2008 when compared to the same period in 2007.

### **General and Administrative**

For the year ended December 31, 2009, general and administrative expenses decreased 15.6% or \$7.4 million as compared to 2008. The decrease was primarily due to the one-time charges during 2008 listed below.

For the year ended December 31, 2008, general and administrative expenses increased 19.2% or \$7.6 million as compared to 2007. The increase was due to a number of factors, including the Company writing off acquisition-related costs, the Company no longer pursuing a condominium strategy resulted in writing off \$1.7 million in deferred sales charges, the renegotiation and/or cancellation of certain operating leases and/or vendor contracts of \$0.8 million, the Company cancelling a contract to acquire a pre-sale property resulting in a charge of \$1.7 million and the Company acquiring certain contractual rights related to a joint venture resulted in the Company incurring a charge of \$305,000 for the profit component of the contracts.

### **Severance Costs and Other Restructuring Charges**

For the year ended December 31, 2008, the Company recognized \$653,000 of severance and restructuring charges as the Company continued to consolidate our operations in Highlands Ranch, Colorado. In addition, we announced reductions to certain positions related to both operations and corporate staff.

For the year ended December 31, 2007, UDR recognized \$4.3 million in severance costs and other restructuring charges partly as a result of our disposition of 86 communities consisting of 25,684 apartment homes. As a result of a comprehensive review of the organizational structure of UDR and its operations, UDR recorded a charge of \$3.6 million during the fourth quarter of 2007 related to workforce reductions, relocation costs, and other related costs. These charges are included in the Consolidated Statements of Operations within the line item Severance costs and other restructuring charges. All charges were approved by management and our Board of Directors in October 2007. The Company had a zero balance related to the 2007 charges as of December 31, 2008.

### **Gains on the Sale of Land and Depreciable Property**

For the years ended December 31, 2009, 2008 and 2007, we recognized after-tax gains for financial reporting purposes of \$2.4 million, \$786.4 million, and \$239.1 million, respectively. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period as well as the extent of gains related to specific properties sold.

### **Inflation**

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an extreme escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2009.

### **Off-Balance Sheet Arrangements**



We do not have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

**Table of Contents****Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2009 (*dollars in thousands*):

Contractual Obligations	Payments Due by Period				Total
	2010	2011-2012	2013-2014	Thereafter	
Long-term debt obligations	\$ 287,392	\$ 1,264,050	\$ 578,151	\$ 1,296,996	\$ 3,426,589
Interest on debt obligations	145,683	239,517	148,299	191,682	725,181
Unfunded commitments on development projects(a)	44,628				44,628
Operating lease obligations:					
Operating space	997	919			1,916
Ground leases(b)	4,545	9,090	9,090	295,686	318,411
	\$ 483,245	\$ 1,513,576	\$ 735,540	\$ 1,784,364	\$ 4,516,725

- (a) Any unfunded costs at December 31, 2009 are shown in the year of estimated completion. The Company has project debt on many of our development projects.
- (b) For purposes of our ground lease contracts, the Company uses the minimum lease payment, if stated in the agreement. For ground lease agreements where there is a reset provision based on the communities appraised value or consumer price index but does not included a specified minimum lease payment, the Company uses the current rent over the remainder of the lease term.

During 2009, we incurred gross interest costs of \$159.3 million, of which \$16.9 million was capitalized.

**Factors Affecting Our Business and Prospects**

There are many factors that affect our business and the results of our operations, some of which are beyond our control. These factors include:

general economic factors;

unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates;

the failure of acquisitions to achieve anticipated results;

possible difficulty in selling apartment communities;

competitive factors that may limit our ability to lease apartment homes or increase or maintain rents;

insufficient cash flow that could affect our debt financing and create refinancing risk;

failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders;

development and construction risks that may impact our profitability;

potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us;

risks from extraordinary losses for which we may not have insurance or adequate reserves;

uninsured losses due to insurance deductibles, self-insurance retention, uninsured claims or casualties, or losses in excess of applicable coverage;

delays in completing developments and lease-ups on schedule;

our failure to succeed in new markets;

changing interest rates, which could increase interest costs and affect the market price of our securities;

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potential liability for environmental contamination, which could result in substantial costs to us;

the imposition of federal taxes if we fail to qualify as a REIT under the Code in any taxable year;

our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price; and

changes in real estate laws, tax laws and other laws affecting our business.

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

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and related financial information required to be filed are attached to this Report. Reference is made to page 50 of this Report for the Index to Consolidated Financial Statements and Schedule.

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

None.

**Item 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of December 31, 2009, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective under circumstances where our disclosure controls and procedures should reasonably be expected to operate effectively.

**Management's Report on Internal Control over Financial Reporting**

UDR's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO).

Based on UDR's evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

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Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Report, has audited UDR's internal control over financial reporting as of December 31, 2009. The report of Ernst & Young LLP, which expresses an unqualified opinion on UDR's internal control over financial reporting as of December 31, 2009, is included under the heading "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" contained in this Report.

## **Changes in Internal Control Over Financial Reporting**

Our Chief Executive Officer and our Chief Financial Officer concluded that during the quarter ended December 31, 2009, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. OTHER INFORMATION**

None.

## **PART III**

## **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated by reference to the information set forth under the headings "Election of Directors," "Corporate Governance Matters," "Audit Committee Report," "Corporate Governance Matters-Audit Committee Financial Expert," "Corporate Governance Matters-Identification and Selection of Nominees for Directors," "Corporate Governance Matters-Board of Directors and Committee Meetings" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010.

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

We have a code of ethics for senior financial officers that applies to our principal executive officer, all members of our finance staff, including the principal financial officer, the principal accounting officer, the treasurer and the controller, our director of investor relations, our corporate secretary, and all other Company officers. We also have a code of business conduct and ethics that applies to all of our employees. Information regarding our codes is available on our website, [www.udr.com](http://www.udr.com), and is incorporated by reference to the information set forth under the heading "Corporate Governance Matters" in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010. We intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or a waiver from, a provision of our codes by posting such amendment or waiver on our website.

## **Item 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to the information set forth under the headings "Security Ownership of Certain Beneficial Owners and Management," "Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation," "Executive Compensation," "Compensation of Directors" and "Compensation Committee Report" in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010.

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

The information required by this item is incorporated by reference to the information set forth under the headings Security Ownership of Certain Beneficial Owners and Management, Executive Compensation and Equity Compensation Plan Information in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010.

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

The information required by this item is incorporated by reference to the information set forth under the heading Security Ownership of Certain Beneficial Owners and Management, Corporate Governance Matters-Corporate Governance Overview, Corporate Governance Matters-Director Independence, Corporate Governance Matters-Independence of Audit, Compensation and Governance Committees, and Executive Compensation in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to the information set forth under the headings Audit Fees and Pre-Approval Policies and Procedures in our definitive proxy statement for our Annual Meeting of Stockholders to be held on May 14, 2010.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

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

1. *Financial Statements*. See Index to Consolidated Financial Statements and Schedule on page 50 of this Report.
2. *Financial Statement Schedule*. See Index to Consolidated Financial Statements and Schedule on page 50 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.
3. *Exhibits*. The exhibits filed with this Report are set forth in the Exhibit Index.



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**SIGNATURES**

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

UDR, INC.

Date: February 25, 2010

By: /s/ Thomas W. Toomey

Thomas W. Toomey  
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 25, 2010 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Thomas W. Toomey

Thomas W. Toomey  
Chief Executive Officer, President, and Director

/s/ Robert P. Freeman

Robert P. Freeman  
Director

/s/ David L. Messenger

David L. Messenger  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

/s/ Jon A. Grove

Jon A. Grove  
Director

/s/ Robert C. Larson

Robert C. Larson  
Chairman of the Board

/s/ Thomas R. Oliver

Thomas R. Oliver  
Director

/s/ James D. Klingbeil

James D. Klingbeil  
Vice Chairman of the Board

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn  
Director

/s/ Katherine A. Cattnach

Katherine A. Cattnach  
Director

/s/ Mark J. Sandler

Mark J. Sandler  
Director

/s/ Eric J. Foss

Eric J. Foss  
Director

/s/ Thomas C. Wajnert

Thomas C. Wajnert  
Director



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UDR, INC.**

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

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
UDR, Inc.

We have audited UDR, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). UDR, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, UDR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UDR, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009 of UDR, Inc. and our report dated February 25, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
February 25, 2010

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
UDR, Inc.

We have audited the accompanying consolidated balance sheets of UDR, Inc. (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UDR, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) (codified in FASB ASC Topic 470, Debt with Conversions and Other Options); SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (SFAS 160) (codified in FASB ASC Topic 810, Consolidation); and EITF 09-E, *Accounting for Distributions to Shareholders with Components of Stock and Cash* (EITF 09-E) (codified in ASU 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash) and retrospectively adjusted its accounting for its consolidated financial statements for all periods presented herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UDR, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
February 25, 2010

**Table of Contents****UDR, Inc.****CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except for share data)**

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Real estate owned:		
Real estate held for investment	\$ 5,995,290	\$ 5,644,930
Less: accumulated depreciation	(1,350,067)	(1,078,637)
	<b>4,645,223</b>	4,566,293
Real estate under development (net of accumulated depreciation of \$1,226 and \$52)	<b>318,531</b>	186,771
Total real estate owned, net of accumulated depreciation	<b>4,963,754</b>	4,753,064
Cash and cash equivalents	<b>5,985</b>	12,740
Marketable securities	<b>37,650</b>	
Restricted cash	<b>8,879</b>	7,726
Deferred financing costs, net	<b>26,601</b>	29,168
Notes receivable	<b>7,800</b>	207,450
Investment in unconsolidated joint ventures	<b>14,126</b>	47,048
Other assets	<b>67,822</b>	85,842
Other assets real estate held for disposition		767
Total assets	<b>\$ 5,132,617</b>	\$ 5,143,805
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Secured debt	<b>\$ 1,989,434</b>	\$ 1,462,471
Unsecured debt	<b>1,437,155</b>	1,798,662
Real estate taxes payable	<b>16,976</b>	14,035
Accrued interest payable	<b>19,146</b>	20,744
Security deposits and prepaid rent	<b>31,798</b>	28,829
Distributions payable	<b>30,857</b>	190,189
Deferred gains on the sale of depreciable property	<b>28,826</b>	28,845
Accounts payable, accrued expenses, and other liabilities	<b>80,685</b>	71,395
Other liabilities real estate held for disposition		1,204
Total liabilities	<b>3,634,877</b>	3,616,374
Redeemable non-controlling interests in operating partnership	<b>98,758</b>	108,092

Stockholders' 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, 2008)	<b>46,571</b>	46,571
3,432,962 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (4,430,700 shares at December 31, 2008)	<b>85,824</b>	110,768
Common stock, \$0.01 par value; 250,000,000 shares authorized, 155,465,482 shares issued and outstanding (137,423,074 shares at December 31, 2008)	<b>1,555</b>	1,374
Additional paid-in capital	<b>1,948,669</b>	1,717,940
Distributions in excess of net income	<b>(687,180)</b>	(448,737)
Accumulated other comprehensive income/(loss), net	<b>2</b>	(11,927)
Total UDR, Inc. stockholders' equity	<b>1,395,441</b>	1,415,989
Non-controlling interest	<b>3,541</b>	3,350
Total equity	<b>1,398,982</b>	1,419,339
Total liabilities and stockholders' equity	<b>\$ 5,132,617</b>	\$ 5,143,805

*See accompanying notes to consolidated financial statements.*



**Table of Contents****UDR, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands, except per share data)**

	<b>Years Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES</b>			
Rental income	\$ 602,899	\$ 563,408	\$ 501,618
Non-property income:			
Other income	12,362	27,190	4,320
Gain on consolidation of joint ventures	1,912		
Total Revenues	<b>617,173</b>	590,598	505,938
<b>EXPENSES</b>			
Rental expenses:			
Real estate taxes and insurance	74,617	66,992	59,036
Personnel	51,808	48,672	43,038
Utilities	31,718	29,301	26,147
Repair and maintenance	31,697	30,333	27,342
Administrative and marketing	14,599	14,640	13,009
Property management	16,581	15,494	13,792
Other operating expenses	5,581	4,563	1,442
Real estate depreciation and amortization	278,391	251,984	191,478
Interest			
Expense incurred	141,380	158,525	161,658
Net gain on debt extinguishment	(9,849)	(26,306)	
Amortization of convertible debt discount	4,283	6,598	6,680
Prepayment penalty on debt restructure	1,022	4,201	
Write-off of FMV adjustment for debt paid off on consolidated joint venture	1,552		
Expenses related to tender offer	3,764		
General and administrative	39,812	47,179	39,566
Severance costs and other restructuring charges		653	4,333
Hurricane related expenses	127	1,310	
Other depreciation and amortization	5,161	4,866	3,077
Total Expenses	<b>692,244</b>	659,005	590,598
Loss from operations	<b>(75,071)</b>	(68,407)	(84,660)
Loss from unconsolidated entities	<b>(18,665)</b>	(3,612)	(1,589)
Tax (expense)/benefit for taxable REIT subsidiary	<b>(311)</b>	9,713	17,110
Net gain on the sale of depreciable property to a joint venture			113,799
(Loss)/income from continuing operations	<b>(94,047)</b>	(62,306)	44,660

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Income from discontinued operations	<b>2,424</b>	806,173	182,070
Consolidated net (loss)/income	<b>(91,623)</b>	743,867	226,730
Net loss/(income) attributable to non-controlling interests	<b>4,091</b>	(46,077)	(11,601)
Net (loss)/income attributable to UDR, Inc.	<b>(87,532)</b>	697,790	215,129
Distributions to preferred stockholders Series B			(4,819)
Distributions to preferred stockholders Series E (Convertible)	<b>(3,724)</b>	(3,724)	(3,724)
Distributions to preferred stockholders Series G	<b>(7,188)</b>	(8,414)	(5,367)
Discount/(premium) on preferred stock repurchases, net	<b>2,586</b>	3,056	(2,261)
Net (loss)/income attributable to common stockholders	<b>\$ (95,858)</b>	\$ 688,708	\$ 198,958
Earnings per weighted average common share basic and diluted: (Loss)/income from continuing operations attributable to common stockholders	<b>\$ (0.66)</b>	\$ (0.90)	\$ 0.13
Income from discontinued operations	<b>\$ 0.02</b>	\$ 6.19	\$ 1.35
Net (loss)/income attributable to common stockholders	<b>\$ (0.64)</b>	\$ 5.29	\$ 1.48
Common distributions declared per share	<b>\$ 0.85</b>	\$ 2.29	\$ 1.22
Weighted average number of common shares outstanding basic	<b>149,090</b>	130,219	134,016
Weighted average number of common shares outstanding diluted	<b>149,090</b>	130,219	134,016

*See accompanying notes to consolidated financial statements.*

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

	<b>Years Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>			
Consolidated net (loss)/income	\$ (91,623)	\$ 743,867	\$ 226,730
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:			
Depreciation and amortization	283,552	256,850	261,038
Net gains on the sale of depreciable property	(2,424)	(786,181)	(125,269)
Net gains on the sale of land		(183)	
Net gains on the sale of depreciable property to a joint venture			(113,799)
Gain on consolidation of joint ventures	(1,912)		
Write off of the fair market adjustment for debt paid off on consolidated joint venture	1,552		
Gains on debt extinguishment	(9,849)	(26,306)	
Write off of bad debt	3,570	2,411	4,042
Write off of note receivable and other assets	1,354		
Loss from unconsolidated entities	18,665	3,612	1,589
Amortization of deferred financing costs and other	7,953	7,585	7,378
Amortization of deferred compensation	7,605	7,024	6,356
Amortization of convertible debt discount	4,283	6,598	6,680
Prepayments/(refunds) on income taxes	2,854	(6,846)	6,284
Changes in operating assets and liabilities:			
Increase in operating assets	3,512	(1,532)	(7,495)
Increase/(decrease) in operating liabilities	291	(27,145)	(4,253)
Net cash provided by operating activities	\$ 229,383	\$ 179,754	\$ 269,281
<b>Investing Activities</b>			
Proceeds from sales of real estate investments, net	\$	\$ 1,487,067	\$ 737,201
Proceeds from note receivable	200,000	18,774	4,000
Disbursements related to notes receivable	(500)	(13,569)	(6,155)
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	(28,528)	(936,538)	(435,997)
Development of real estate assets	(183,157)	(160,074)	(101,460)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	(85,403)	(123,234)	(194,427)
Capital expenditures non-real estate assets	(6,269)	(23,249)	(4,547)
Investment in unconsolidated joint venture	(24,988)	(2,396)	(24,954)
Distributions received from unconsolidated joint venture	1,741		
Purchase of marketable securities	(30,941)		
Purchase deposits on pending real estate acquisitions		(694)	(7,544)

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Change in funds held in escrow from IRC Section 1031 exchanges		56,217	(56,217)
Net cash (used in)/provided by investing activities	<b>\$ (158,045)</b>	<b>\$ 302,304</b>	<b>\$ (90,100)</b>

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**Table of Contents****UDR, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands, except for share data) (Continued)**

	<b>Years Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Financing Activities</b>			
Payments on secured debt	\$ (159,612)	\$ (216,354)	\$ (186,831)
Proceeds from the issuance of secured debt	560,436	445,162	91,804
Proceeds from the issuance of unsecured debt	100,000	240,000	150,000
Payments on unsecured debt	(641,759)	(452,156)	(167,255)
Net proceeds/(repayment) of revolving bank debt	189,300	(309,500)	222,300
Payment of financing costs	(8,650)	(6,702)	(6,772)
Issuance of common and restricted stock, net	398	2,588	2,524
Proceeds from the issuance of common shares through public offering, net	67,151	184,327	
(Payments)/proceeds from the (repurchase)/issuance of Series G preferred stock, net	(21,505)	(20,347)	135,000
Payment of preferred stock issuance costs			(4,252)
(Repayment)/proceeds from the investment of performance based programs, net		(944)	50
Distributions paid to non-controlling interests	(7,275)	(18,666)	(12,099)
Distributions paid to preferred stockholders	(11,203)	(12,429)	(13,312)
Distributions paid to common stockholders	(144,576)	(166,983)	(175,923)
Repurchase of common stock	(798)	(140,533)	(77,939)
Redemption of Series B preferred stock			(135,400)
Net cash used in financing activities	(78,093)	(472,537)	(178,105)
Net (decrease)/increase in cash and cash equivalents	(6,755)	9,521	1,076
Cash and cash equivalents, beginning of year	12,740	3,219	2,143
Cash and cash equivalents, end of year	\$ 5,985	\$ 12,740	\$ 3,219
<b>Supplemental Information:</b>			
Interest paid during the year, net of amounts capitalized	\$ 164,357	\$ 176,087	\$ 197,722
Non-cash transactions:			
Conversion of operating partnership non-controlling interests to common stock (2,130,452 in 2009, 1,474,532 in 2008, and 1,031,627 shares in 2007)	21,117	12,176	8,794
Payment of Special Dividend through the issuance of 11,358,042 shares of common stock	132,787		
Issuance of restricted stock awards	2	6	1
Issuance of note receivable upon the disposition of real estate		200,000	
		95,728	72,680

Secured debt assumed with the acquisition of properties, net of fair value adjustment

Real estate assets contributed

10,350

*See accompanying notes to consolidated financial statements.*



share)								
stock								
as								
Series B (\$1.07						(4,819)		
stock								
as								
Series E (\$1.33						(3,726)		
stock								
as								
Series G								
share)						(5,366)		
t to reflect								
e								
lling OP units								
value						40,776		
<b>December 31,</b>								
	8,203,812	181,571	133,317,706	1,333	1,653,143	(894,072)	(770)	3,148
nsive Income								
e						697,791		202
prehensive								
loss on								
financial							(11,901)	
s								
to								
e								
llable							744	
nsive income						697,791	(11,157)	202
f common								
ed shares			630,536	6	9,191			
f common								
ugh public			8,000,000	80	183,085			
n of								
ares of 6.75%								
umulative								
e Shares	(969,300)	(24,232)			829	3,056		
f common								
			(5,999,700)	(60)	(140,468)			
t for								
of								
lling interests			1,474,532	15	12,160			



ers in  
partnerships  
stock  
as declared  
er share)

(308,313)

57

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## UDR, Inc.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(In thousands, except per share data) (Continued)

	<b>Preferred Stock</b>		<b>Common Stock</b>		<b>Paid-in Capital</b>	<b>Accumulated Distributions</b>		
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>		<b>in Excess of Net Income</b>	<b>Other Comprehensive Income/ (Loss)</b>	<b>Non- controlling interest</b>
Stock distributions Series E (\$1.3288 per						(3,724)		
Stock distributions Series G (\$1.6875						(8,414)		
t to reflect e non-controlling								
value						64,939		
<b>December 31, 2008</b>	7,234,512	157,339	137,423,074	1,374	1,717,940	(448,737)	(11,927)	3,350
nsive (loss)/income						(87,532)		191
prehensive income								
fair value of securities								