UDR, Inc.
Form 10-K
February 26, 2008

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-10524

UDR, INC.
(Exact name of registrant as specified in its charter)

Maryland	**54-0857512**
(State or other jurisdiction of incorporation or organization)	*(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:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange
6.75% Series G Cumulative Redeemable Preferred Stock	New York Stock Exchange
8.50% Monthly Income Notes Due 2008	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 þ No o

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 o No þ

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 þ No o

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 other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the shares of common stock held by non-affiliates on June 29, 2007 was approximately $2.2 billion. 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 15, 2008 there were 133,347,522 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 29, 2008.

TABLE OF CONTENTS

		PAGE
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	20
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	21
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	26
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	42
Item 8.	Financial Statements and Supplementary Data	42
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A.	Controls and Procedures	42
Item 9B.	Other Information	43
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	43
Item 11.	Executive Compensation	43
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
Item 13.	Certain Relationships and Related Transactions, and Director Independence	44
Item 14.	Principal Accountant Fees and Services	44
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	44

Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of United Dominion Realty, L.P.
Computation of Ratio of Earnings to Fixed Charges
Subsidiaries
Consent of Independent Registered Public Accounting Firm
Rule 13a-14(a) Certification of the CEO
Rule 13a-14(a) Certification of the CFO
Section 1350 Certification of the CEO
Section 1350 Certification of the CFO

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, 2007, our apartment portfolio included 234 communities located in 30 markets, with a total of 65,867 completed apartment homes.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or 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 gain) 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 2007, we declared total distributions of $1.32 per common share to our stockholders, which represents our 31st year of consecutive dividend increases to our stockholders.

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 15, 2008, we had 1,787 full-time employees and 132 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 RE^3, 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. and its subsidiaries.

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 single-family home affordability, thus enhancing stability and predictability of returns to our stockholders,
- manage real estate cycles by taking an opportunistic approach to buying, selling, 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 ensure predictability of earnings and dividends.

2007 Accomplishments

We increased our common stock dividend for the 31st consecutive year.

We completed over $1.7 billion of capital transactions in 2007.

We acquired 2,671 apartment homes in 13 communities for approximately $404.1 million, six parcels of land for $70.7 million, and invested $11.8 million in an operating joint venture.

We completed the disposition of 12 apartment communities with 3,435 apartment homes for an aggregate sales price of approximately $403.0 million, and one parcel of land for $4.5 million. In addition, we sold 61 condominiums within two communities for a total consideration of $10.4 million.

We established a $650 million joint venture with a large domestic institutional partner. The venture owns a portfolio of 3,690 stabilized homes located in nine multi-family communities in Austin, Dallas and Houston, Texas, and another 302 homes currently under development in Dallas, Texas. UDR realized proceeds of $326.2 million for the properties and has a 20% interest in the venture.

UDR s Strategies and Vision

In the first quarter of 2007, UDR announced its vision to be the innovative multifamily real estate investment of choice. We identified four strategies to guide decision-making and accelerated growth:

1. Strengthen our portfolio

2. Expand RE^3

3. Transform operations

4. Source low-cost capital

Strengthen our Portfolio

UDR is focused on increasing its presence in markets with strong job growth, low housing 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 January 2008, UDR announced that it has entered into a contract to sell 25,684 apartment homes in 86 communities for $1.7 billion. The transaction is expected to close on or about March 3, 2008, at which time UDR will receive $1.5 billion in cash and a note in the principal amount of $200 million. The note matures on the same date as the buyer s senior financing, may be prepaid 14 months from the date of the note, bears interest at a fixed rate of 7.5% per annum and is secured by a pledge and security agreement and a guarantee. Closing is subject to customary closing conditions. Upon completion of the transaction, UDR will own 40,183 homes in 148 communities.

This portfolio sale dramatically accelerates UDR s transformation to focus on markets that have the best growth prospects based on favorable job formation and low single-family home affordability. Upon completion of the sale, UDR expects that approximately 90% of its net operating income will be generated from homes located in markets on the Pacific Coast, the Virginia-Washington, D.C. corridor and Florida.

Acquisitions

During 2007, in conjunction with our strategy to strengthen our portfolio, UDR acquired 13 communities with 2,671 apartment homes at a total cost of approximately $404.1 million, including the assumption of secured debt. In addition, we purchased six parcels of land for $70.7 million and invested $11.8 million in an operating joint venture. UDR is targeting apartment community acquisitions in markets where job growth expectations are above the national average, 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 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.

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

	2007	2006	2005	2004	2003
Homes acquired	**2,671**	2,763	2,561	8,060	5,220
Homes owned at December 31	**65,867**	70,339	74,875	78,855	76,244
Total real estate owned, at cost	**$ 5,952,541**	$ 5,820,122	$ 5,512,424	$ 5,243,296	$ 4,351,551

Dispositions

We regularly monitor and adjust our assets to increase the quality and performance of our portfolio. During 2007, we sold over 7,000 of our slower growing, non-core apartment homes while exiting some markets, specifically Colorado and Georgia, in an effort to increase the quality and performance of our portfolio. Proceeds from the disposition program were used primarily to reduce debt and fund acquisitions.

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.

At December 31, 2007, we had 86 communities with a total of 25,684 apartment homes, two communities with a total of 579 condominiums, and one commercial unit classified as real estate held for disposition. In January 2008, UDR announced that it had entered into a contract in the fourth quarter of 2007 to sell 25,684 apartment homes in 86 communities for $1.7 billion.

Expanding RE^3

RE[3] is our subsidiary that focuses on development, land entitlement and short-term hold investments. We expanded its development and redevelopment pipelines through a variety of activities. At December 31, 2007, UDR s total development pipeline totaled over 16,600 homes with a budget over $2.7 billion.

Our wholly owned, under development pipeline stands at 6,386 homes with a budgeted cost of $1.0 billion, of which 3,234 homes in five communities are under construction and the remaining 3,152 homes will be built on 12 land sites. An additional 1,594 homes budgeted at $244 million are completed developments or developments in progress in a pre-sale, contract-to-purchase program. Our completed redevelopment and redevelopment pipeline stands at 2,956 homes with a budgeted cost of $150 million, our future development pipeline of owned properties provides for construction of an additional 4,419 homes budgeted at $848 million, and the remaining 1,304 homes with a budgeted cost of $395 million comprise our interest in one consolidated development joint venture and three unconsolidated joint ventures.

Table of Contents

Development Activities

The following wholly owned projects were under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date
Riachi at One21 Phase I Plano, TX	202	202	$ 18,197	$ 18,000	$ 89,109	4Q07
Tiburon Phase I Houston, TX	320	184	19,244	22,000	68,750	2Q08
Addison Assemblage Dallas, TX	2,712		60,842	352,000	129,794	
	3,234	386	$ 98,283	$ 392,000	$ 121,212	

The first phase of the Addison Assemblage will deliver 684 homes in the third quarter of 2010.

In addition, we owned 12 parcels of land held for future development aggregating $124.5 million at December 31, 2007.

Redevelopment Activities

During 2007, we continued to reposition properties in targeted markets where we concluded there was an opportunity to add value and achieve greater than inflationary increases in rents over the long term. In 2007, we spent $194.4 million or $2,829 per home on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated $44.4 million or $646 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $78.2 million or $1,138 per home, and major renovations totaled $71.8 million or $1,045 per home for the year ended December 31, 2007.

Joint Venture Activities

The following consolidated joint venture project was under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost Per Home	Expected Completion Date

Jefferson at Marina del Rey Marina del Rey, CA	298		$ 123,185	$ 138,000	$ 463,087	2Q08

The following unconsolidated joint venture projects were under development as of December 31, 2007:

	Number of Apartment Homes	**Completed Apartment Homes**	**Cost to Date (In thousands)**	**Budgeted Cost (In thousands)**	**Estimated Cost Per Home**	**Expected Completion Date**
Lincoln Towne Square Phase II Plano, TX	302		$ 13,476	$ 25,000	$ 82,781	3Q08
Ashwood Commons Bellevue, WA	274		47,171	97,000	354,015	4Q08
Bellevue Plaza Bellevue, WA	430		37,990	135,000	313,953	4Q10
	1,006		$ 98,637	$ 257,000	$ 255,467	

Table of Contents

UDR owns a 20% interest in a joint venture to which UDR sold nine operating properties, consisting of 3,690 homes, and contributed Lincoln Town Square II, as noted above. In addition, UDR owns a 49% interest in an operating joint venture which owns and operates a recently completed 23-story, 166 apartment home high rise community in Bellevue, WA.

Transforming Operations

During 2007, UDR has been committed to growing net operating income through automation and improving the ease of doing business with us. Since adopting our new Corporate Strategies, UDR selected and began to deploy YieldStar revenue management software, launched a newly redesigned, customer-oriented web site with better features, and improved the quality of our photos on the web. The new *www.udr.com* web site features side-by-side apartment and floor plan comparisons, enhanced mapping, additional pricing options, 360 degree virtual tours, a furniture arrangement feature, mobile web site access, and click-to-chat and click-to-call for online support. In the first month following the launch, UDR experienced the highest unique visitor traffic in its history.

UDR also launched a new Spanish-language site, marketing to Latinos, the nation s fastest-growing ethnic group. The site offers over 4,000 Spanish translated web pages and includes apartments for rent search resources. The website can be found at *http://es.udr.com* and can also be found on any web-enabled mobile device.

These enhancements have increased traffic and reduced administrative and marketing costs as we implemented internet initiatives and technology solutions to drive traffic from low cost or no cost sources. As a result, customer acquisition costs have been reduced significantly.

Sourcing Low-Cost Capital

During 2007, UDR established a $650 million joint venture with a large domestic institutional partner. The venture owns a portfolio of 3,690 stabilized homes located in nine multi-family communities in Austin, Dallas and Houston, Texas, and another 302 homes currently under development in Dallas, Texas. In addition to this $350 million initial pool of assets, the joint venture contains a $300 million expansion feature for future acquisitions. At closing, the venture secured a $232 million, seven year, interest only mortgage which is recourse only to the properties and bears interest at a rate of 5.61% per annum. The venture secured a commitment for a loan in the principal amount of $21.7 million to replace construction financing on an apartment community under development. The take-out loan provides for interest only, bears interest at 5.55% per annum and will have a term of 6 years. UDR realized proceeds of $326.2 million for the properties and we hold a 20% interest in the venture. In addition to the upfront proceeds, UDR has the opportunity for future proceeds after certain IRR hurdles are achieved.

Financing Activities

As part of our plan to strengthen our capital structure, we utilized proceeds from dispositions, 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 2007:

- Repaid $186.8 million of secured debt and $167.3 million of unsecured debt.

- Sold $150 million aggregate principal amount of 5.50% senior unsecured notes due April 2014 in March 2007 under our medium-term note program. The net proceeds of approximately $149 million were used for debt repayment.

Redeemed 5,416,009 shares of our 8.60% Series B Cumulative Redeemable Preferred Stock on May 29, 2007, the redemption date, for a cash redemption price of $25 per share plus accrued and unpaid dividends to the redemption date.

Sold $135 million, or 5,400,000 shares, of our 6.75% Series G Cumulative Redeemable Preferred Stock in May 2007. The shares have a liquidation preference of $25 per share and will be redeemable at par

at the option of UDR on or after May 31, 2012. The net proceeds from the offering were used to fund the redemption of all of the outstanding shares of our 8.60% Series B Cumulative Redeemable Preferred Stock.

Amended and restated our existing three-year $500 million unsecured revolving credit facility with a maturity date of May 31, 2008, to increase the facility to $600 million and to extend its maturity to July 26, 2012. Under certain circumstances, we may increase the facility to $750 million.

Repurchased 3,114,500 shares of our common stock at an average price per share of $25.02 under our 10 million share repurchase program during the twelve months ended December 31, 2007.

Markets and Competitive Conditions

Upon completion of the portfolio sale announced in January 2008, we expect that approximately 90% of our net operating income will be generated from homes located in markets on the Pacific Coast, the Virginia-Washington, D.C. corridor and Florida. We 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.

In many of our markets, competition for new residents is intense. 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, developer partnerships, investment companies and other apartment REITs. This competition could increase prices for properties of the type that we would likely pursue, and our competitors 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, acquisition, marketing and financing expertise,

scalable operating and support systems,

purchasing power,

geographic diversification with a presence in 30 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 realignment 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.

Communities

At December 31, 2007, our apartment portfolio included 234 communities having a total of 65,867 completed apartment homes. The overall quality of our portfolio has significantly improved with the disposition of non-core apartment homes and our upgrade and rehabilitation program. The upgrading of the portfolio provides several key benefits related to portfolio profitability. It enables us to raise rents more significantly 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.

Same Community Comparison

Same community property net operating income increased 7.0% or $17.7 million compared to 2006. The increase in property net operating income was primarily attributable to a 5.0% or $18.8 million increase in

revenues from rental and other income and a 0.9% or $1.1 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.2% or $16.2 million increase in rental rates, an 11.4% or $3.0 million increase in reimbursement income and fee income, and a 16.2% or $1.0 million decrease in rental concessions. These increases were partially offset by a 6.8% or $1.3 million increase in vacancy loss. Physical occupancy decreased 0.2% to 94.6%.

The increase in property operating expenses was primarily driven by a 5.2% or $1.8 million increase in real estate taxes that was partially offset by a 7.6% or $0.8 million decrease in administrative and marketing costs.

Customers

Our upgrade and rehabilitation programs enable us to raise rents and 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. We believe this segment provides the highest profit potential in terms of rent growth, stability of occupancy and investment opportunities.

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

Substantially all of our leases are for a term of one year or less, which may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Such short-term leases generally minimize the risk to us of the adverse effects of inflation, although as a general rule these leases permit residents to leave at the end of the lease term without penalty. Short-term leases and relatively consistent demand allow rents to provide an attractive hedge against inflation.

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 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, in all material respects, 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, 2008. The executive officers listed below serve in their respective capacities at the discretion of our board of directors.

Name	Age	Office	Since
Thomas W. Toomey	47	Chief Executive Officer President and Director	2001
W. Mark Wallis	57	Senior Executive Vice President	2001
Michael A. Ernst	47	Executive Vice President and Chief Financial Officer	2006
Richard A. Giannotti	52	Executive Vice President Asset Quality	1985
Matthew T. Akin	40	Senior Vice President Acquisitions & Dispositions	1994
Mark M. Culwell, Jr.	56	Senior Vice President Development	2006
Jerry A. Davis	45	Senior Vice President Property Operations	2007
David L. Messenger	37	Senior Vice President & Chief Accounting Officer	2002
Katie Miles-Ley	46	Senior Vice President Human Resources	2007
Stacy M. Riffe	42	Senior Vice President, Chief Financial Officer R[3]E	2007

Dhrubo K. Sircar	55	Senior Vice President, Chief Information Officer	2007
Thomas A. Spangler	47	Senior Vice President Business Development	1998

Table of Contents

Name	Age	Office	Since
S. Douglas Walker	52	Senior Vice President Transactions	2006
Mary Ellen Norwood	53	Vice President Legal Administration & Secretary	2001
Thomas P. Simon	47	Vice President & Treasurer	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) from January 1995 until February 2001, 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, from 1990 to 1995, as a Senior Vice President and Treasurer at Lincoln Property Company, a national real estate development, property management and real estate consulting company. Mr. Toomey began his career at Arthur Andersen & Co. serving real estate and banking clients as an Audit Manager. He currently serves as a member of the boards of the National Association of Real Estate Investment Trusts (NAREIT) and the National Multi Housing Council (NMHC). Additionally, Mr. Toomey serves as Chairman of the Real Estate Roundtable Task Force on Avian Flu Pandemic Preparedness and is an Oregon State University Foundation Trustee.

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, condominium conversions, legal and certain administrative matters. Since that time, his focus has shifted to acquisitions, dispositions, asset quality and development. Prior to joining us, Mr. Wallis was the President of Golden Living Communities, a company he established in 1995 to develop senior housing. During his tenure at Golden Living, Mr. Wallis was involved in the development of eight communities containing over 1,200 assisted and independent living apartments. 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. Prior to joining Lincoln, Mr. Wallis served as Vice President of Finance for Folsom Investments, Inc., a large diversified real estate developer. Mr. Wallis began his career as an auditor at Alford, Meroney and Company, a Dallas CPA firm.

Mr. Ernst oversees the areas of corporate accounting, financial planning and analysis, investor relations, treasury operations and SEC reporting. He joined us in July 2006 as Executive Vice President and Chief Financial Officer. Prior to joining us, Mr. Ernst was with Prentiss Properties Trust (Prentiss), where he most recently served as Executive Vice President and Chief Financial Officer. He joined Prentiss in 1997 in the role of Vice President and Treasurer, and was promoted to Senior Vice President and Chief Financial Officer in 1999, and then to Executive Vice President and Chief Financial Officer in 2001. During his tenure at Prentiss, Mr. Ernst was involved in the development of corporate strategy, was active in corporate mergers and acquisitions activity and structured in excess of $3.5 billion in capital transactions. He was a member of Prentiss s investment committee and was responsible for corporate and property accounting, capital markets, investor relations and financial planning and analysis. Prior to that, Mr. Ernst worked for Nations Bank, now Bank of America, where he was a Senior Vice President in their real estate finance group.

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 elected 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 Asset Quality to manage the company s Asset Quality program and to be responsible for the direction of recurring capital expenditures for asset preservation, initial capital expenditures relating to acquisitions and redevelopment projects. In 2006, Mr. Giannotti s responsibilities shifted to focus on acquisition efforts and development projects in the mid-Atlantic region as well as redevelopment projects.

Table of Contents

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. He was promoted to Due Diligence Analyst in April 1998 and to Asset Manager for the Western Region in 1999. Mr. Akin was promoted to Vice President, Senior Business Analyst in September 2000 and his focus shifted to acquisitions for the Western Region. In May 2004, he was promoted to Vice President Acquisitions, and in August 2006, he was promoted to Senior Vice President Acquisitions and Dispositions. Prior to joining SouthWest Property Trust, Mr. Akin was with Lexford Properties from 1989 to 1994, where he began as Staff Accountant and was promoted to Assistant Controller.

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. Culwell began his career, in Houston, as a broker with Vallone and Associates Real Estate Brokerage.

Mr. Davis oversees property operations. He originally joined us in March 1989 as Controller and subsequently moved into Operations as an Area Director. In 2001, Mr. Davis accepted the position of Chief Operating Officer of JH Management Co., a California-based apartment company. He returned to UDR in March 2002 and was promoted to Vice President, Area Director in September 2004, where he oversaw operations in California, Washington, Oregon and Arizona. In November 2007, he was promoted to Senior Vice President Property Operations, responsible for company-wide property operations. Prior to joining us in 1989, Mr. Davis was with Crestar Bank as a Financial Analyst from 1986 to 1989. He began his career in 1984 as a Staff Accountant for Arthur Young & Co.

Mr. Messenger oversees all aspects of the company s accounting functions. He joined us in August 2002 as Vice President and Controller. In that role, Mr. Messenger was responsible for SEC reporting, Sarbanes-Oxley compliance and supervision of all accounting functions. 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. Prior to joining us, Mr. Messenger was owner and President of TRC Management Company, a restaurant management company in Chicago. He has worked as a Controller at HMS Resource, Inc. Mr. Messenger began his career with Ernst & Young LLP, as a manager in their Chicago real estate division.

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 (SEG) from 2001 to 2007 where she served as Vice President, Human Resources & Organizational Development. In this role, Ms. Miles-Ley was primarily responsible for the strategic planning and implementation of human resource functions in alignment with SEG s business plan. Prior to her time at SEG, Ms. Miles-Ley had over twenty years of experience with both domestic and international work forces, including her tenure from 1994 to 1997 as Corporate Director of Employee Relations and Development with Tele-Communications, Incorporated. From 1993 to 1994, she held the position of HR Generalist with Sprint International, where she was responsible for the execution of HR policies across numerous worldwide business units. Ms. Miles-Ley was with Close Up Foundation in Alexandria, VA, as an HR Generalist from 1992 to 1993. She began her career at the American Red Cross as an Employee Relations Case Manager in Wildflecken, West Germany.

Ms. Riffe oversees all accounting and tax planning in our RE^3 subsidiary, manages enterprise-wide forecasting, oversees Corporate Tax, Risk Management, Legal Administration, and is the company s Corporate Compliance

Officer. She joined us in February 2007 as Senior Vice President, Chief Financial Officer RE, the company s subsidiary that focuses on development, redevelopment, land entitlement and short term hold

investments. In June 2007, she assumed the added responsibilities of Corporate Compliance Officer and oversight of the Corporate Tax, Risk Management and Legal Administration departments. Prior to joining us, Ms. Riffe was with Sunset Financial Resources, Inc. (SFO), where she most recently served as Interim Chief Executive Officer. She joined SFO in 2005, as Chief Financial Officer and Secretary, and was appointed in 2006 to serve as Interim Chief Executive Officer through the completion of SFO s merger with Alesco Financial. From 2002 to 2005, Ms. Riffe held the position of Chief Financial Officer and Secretary for U.S. Restaurant Properties Inc. (USRP), where she was responsible for capital markets, corporate governance, SEC reporting, tax compliance and was the USRP point person for the merger between USRP and CNL Restaurant Properties, Inc., now Trustreet Properties, Inc. From 1999 to 2002, she held the position of Vice President and Chief Financial Officer with The Mail Box, a privately held print and mail company in Dallas. She was with Pinnacle Restaurant Group LLC from 1998 to 1999 in the role of Vice President and Chief Financial Officer. Prior to that, Ms. Riffe was employed by Casa Olé Restaurants, Inc. from 1996 to 1997 as Senior Vice President, Chief Financial Officer, Secretary and Treasurer. From 1991 to 1996, Ms. Riffe was employed by Spaghetti Warehouse, Inc., where she began as Assistant Controller, was promoted to Director of Budgeting and Financial Planning in July 1992, and to Controller and Treasurer in May 1993. Ms. Riffe began her career in the audit department of KPMG Peat Marwick s Dallas office.

Mr. Sircar oversees all aspects of the company s Technology Management. He joined us in July 2007 as Senior Vice President, Chief Information Officer. Prior to joining the company, Mr. Sircar was with Wachovia Corporation from 1995 to 2007, where he began as a Systems Manager. In 1997 he was promoted to Strategic Technology Partner and to Vice President, Division Information Officer in 1999. Mr. Sircar was promoted to Senior Vice President, Division Information Officer of Finance Technology in 2003, where he oversaw the technology aspects of numerous business transformations and optimization initiatives. Prior to Mr. Sircar s tenure with Wachovia, he was with Royal Insurance Company as Applications Manager from 1985 to 1995. He began his career as Project Leader, Professional Services, for Burroughs Corporation.

Mr. Spangler oversees internal audit, 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, and served in the additional role of Chief Risk Officer from 2003 to December 2006. 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, where he oversaw a portfolio consisting of agricultural, commercial, mixed-use commercial, industrial and residential properties.

Mr. Walker oversees the company s Asset Quality, Kitchen & Bath and Green Building programs in addition to all non-residential owned and leased real estate. He joined us in May 2006 as Senior Vice President Transactions. Mr. Walker is responsible for the direction of recurring capital expenditures for asset preservation, initial capital expenditures relating to acquisitions, insurance claims, the kitchen & bath program, all of UDR owned and leased real estate, and the company s Green Building program. 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. He served as President of Harwood Pacific, a Dallas-based developer of mixed-use high-rise office projects. He was also President of Harwood Management, a division of Harwood International, from 1994 to 2002, where he was responsible for operations of an $800 million portfolio of properties in Europe and the U.S.

Ms. Norwood oversees the company s legal department, coordinates outside legal services and is the company s Corporate Secretary. She joined us in August 2001 as Vice President Legal Administration and Corporate Secretary. Prior to joining us, Ms. Norwood was employed by Centex Corporation in various legal capacities for 15 years, the most recent of which was as its Legal Administrator. Centex is a New York Stock Exchange listed company that operates in the home building, financial services, construction products, construction services and investment real

estate business segments.

Mr. Simon oversees capital markets and treasury management. He joined us in October 2006 as Vice President and Treasurer. Prior to joining us, Mr. Simon was with Prentiss Properties Trust (Prentiss) where he most recently served as Senior Vice President and Treasurer. Mr. Simon s tenure at Prentiss began in 1985 when he joined Cadillac Fairview US, a publicly-held precursor to Prentiss, in the role of tax analyst. In 1987 he was promoted to Corporate Controller, to Vice President Accounting in 1992, and to Senior Vice President and Chief Accounting Officer in 1999. In May 2004, Mr. Simon took over the role of Senior Vice President and Treasurer. During his tenure at Prentiss, Mr. Simon was responsible for the design and implementation of new accounting systems; served as project leader for the implementation of Sarbanes Oxley; and the negotiation of construction financing, property level financing, corporate financings and interest rate hedge transactions. He was integrally involved in the merger of Prentiss with Brandywine Realty Trust, including the transfer, pay-off, or defeasance of the Prentiss debt portfolio. Mr. Simon began his career at Fox & Company, now Grant Thornton, as a tax accountant.

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*, or by sending an e-mail message to *ir@udr.com.*

NYSE Certification

On May 31, 2007, 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.

Unfavorable Changes in Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels and Rental Rates. Market and economic conditions in the metropolitan areas in which we operate may significantly affect our occupancy levels and rental rates and, therefore, our profitability. Factors that may adversely affect these conditions include the following:

- a reduction in jobs and other local economic downturns,
- 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 decisions easier to make,

oversupply of, or reduced demand for, apartment homes,

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.

The strength of the United States economy has become increasingly susceptible to global events and threats of terrorism. At the same time, productivity enhancements and the increased exportation of labor have resulted in limited job growth despite an improving economy. Continued weakness in job creation, or any worsening of current economic conditions, generally and in our principal market areas, could have a material adverse effect on our occupancy levels, our rental rates and our ability to strategically acquire and dispose of apartment communities. This may impair our ability to satisfy our financial obligations and pay distributions to our stockholders.

New Acquisitions, Developments and Condominium Projects May Not Achieve Anticipated Results. We intend to continue to selectively acquire apartment communities that meet our investment criteria and to develop apartment communities for rental operations, to convert properties into condominiums and to develop condominium projects. Our acquisition, development and condominium activities and their success are subject to the following risks:

- 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 often invest additional amounts in it with the intention of increasing profitability. These additional investments may not produce the anticipated improvements in profitability,

- new developments may not achieve pro forma rents or occupancy levels, or problems with construction or local building codes may delay initial occupancy dates for all or a portion of a development community, and

- an over supply of condominiums in a given market may cause a decrease in the prices at which we expect to sell condominium properties or cause us to be unable to sell condominium properties.

Possible Difficulty of Selling Apartment Communities Could Limit Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but market conditions could change and purchasers may not be willing to pay prices acceptable to us. A weak market may limit our ability to change our portfolio promptly in response to changing economic conditions. Furthermore, a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code, 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. In addition, federal tax laws limit our ability to profit on the sale of communities that we have owned for fewer than four years, and this limitation may prevent us from selling communities when market conditions are favorable.

Increased 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 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.

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

Table of Contents

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 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, and
- rental expenses, including real estate taxes and utilities.

Expenses associated with our investment in a 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. Debt or equity financing may not be available in sufficient amounts, or on favorable terms or at all. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

Development and Construction Risks Could Impact Our Profitability. We intend to continue to develop and construct apartment communities. Development activities may be conducted through wholly owned affiliated companies or through joint ventures with unaffiliated parties. Our development and construction activities may be exposed to the following risks:

- 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 and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations,

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 homes 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.

Construction costs have been increasing in our existing markets, and the costs of upgrading acquired communities have, in some cases, 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 Are Not 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 for which we may not have insurance. Accordingly, we may sustain uninsured losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

We may not be able to renew insurance coverage in an adequate amount or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive. 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 stockholders.

Failure to Succeed in New Markets May Limit Our Growth. We may from time to time make acquisitions outside of our existing market areas if appropriate opportunities arise. We may be exposed to a variety of risks if we choose to enter new markets, 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 obtain land for development or to identify appropriate acquisition opportunities,

inability to hire and retain key personnel, and

lack of familiarity with local governmental and permitting procedures.

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, 2007, we had approximately $522.1 million of variable rate indebtedness outstanding, which constitutes approximately 15% 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. 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.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Limited Investment Opportunities Could Adversely Affect Our Growth. We expect that other real estate investors will compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, developer partnerships, investment companies and other apartment REITs. This competition could increase prices for properties of the type that we would likely

pursue, and our competitors may have greater resources than we do. As a result, we may not be able to make attractive investments on favorable terms, which could adversely affect our growth.

Failure to Integrate Acquired Communities and New Personnel Could Create Inefficiencies. To grow successfully, we must be able to apply our experience in managing our existing portfolio of apartment communities to a larger number of properties. In addition, we must be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

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.

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.

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 Internal Revenue 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 Internal Revenue 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.

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 four 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.

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

Table of Contents

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.

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

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.

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.

Table of Contents

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

Risk of Damage from Catastrophic Weather Events. Certain of our communities are located in the general vicinity of active earthquake faults, mudslides and fires, and others where there are hurricanes, tornadoes or risks of other inclement weather. The adverse weather events could cause damage or losses 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.

Insurance coverage for such catastrophic events is expensive due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available.

Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. 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 report 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.

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 662/3% 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 Internal Revenue 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, 2007, our apartment portfolio included 234 communities located in 30 markets, with a total of 65,867 completed apartment homes. We own approximately 50,300 square feet of office space in Richmond, Virginia, and we lease approximately 15,500 square feet of office space in Highlands Ranch, Colorado, for our corporate headquarters. The table below sets forth a summary of our real estate portfolio by geographic market at December 31, 2007.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2007

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Encumbrances (In thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (Square Feet)
WESTERN REGION								
Orange Co., CA	13	4,067	11.7%	$ 696,332	$ 146,319	$ 171,215	94.9%	821
San Francisco, CA	9	1,896	5.7%	339,664		179,148	96.3%	791
Los Angeles, CA	7	1,380	4.7%	278,375	89,574	201,721	92.9%	940
San Diego, CA	5	1,123	2.8%	166,900	39,847	148,620	94.1%	797
Inland Empire, CA	3	1,074	2.5%	147,351		137,198	92.2%	886
Seattle, WA	7	1,270	2.5%	147,268	68,920	115,959	95.7%	871
Monterey Peninsula, CA	7	1,565	2.5%	146,325		93,498	93.5%	724
Portland, OR	5	1,365	1.5%	91,537	20,891	67,060	95.2%	887
Sacramento, CA	2	914	1.1%	65,466	48,167	71,626	92.1%	820
MID-ATLANTIC REGION								
Metropolitan DC	10	3,138	7.3%	432,905	90,563	137,956	89.1%	928
Raleigh, NC	11	3,663	3.9%	234,849	56,862	64,114	93.8%	957
Richmond, VA	9	2,636	3.3%	195,943	40,715	74,333	90.5%	968
Baltimore, MD	10	2,119	3.2%	188,347		88,885	93.2%	924
Wilmington, NC	6	1,868	1.8%	107,439		57,516	94.0%	952
Charlotte, NC	6	1,226	1.5%	91,768		74,852	94.5%	990
Norfolk, VA	6	1,438	1.3%	77,089	28,388	53,608	94.5%	1,016
Other Mid-Atlantic	13	2,817	2.6%	152,308		54,067	94.2%	922

SOUTHEASTERN REGION								
Tampa, FL	12	4,106	5.0%	294,845	51,994	71,808	88.4%	977
Orlando, FL	12	3,476	4.1%	244,373	84,098	70,303	90.0%	955
Nashville, TN	10	2,966	3.4%	204,382	78,814	68,908	93.2%	918
Jacksonville, FL	5	1,857	2.5%	149,131	16,011	80,307	93.0%	913
Other Florida	8	2,400	2.8%	169,006		70,419	89.4%	917
Other Southeastern	7	1,752	1.4%	82,046		46,830	94.7%	819

Table of Contents

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Encumbrances (In thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (Square Feet)
SOUTHWESTERN REGION								
Dallas, TX	13	3,729	4.4%	264,749	60,639	70,997	90.6%	834
Houston, TX	13	4,263	3.4%	201,233	22,955	47,205	93.9%	801
Phoenix, AZ	4	1,205	1.6%	94,730	30,257	78,614	86.3%	1,008
Arlington, TX	5	1,428	1.2%	73,125	19,186	51,208	94.8%	808
Austin, TX	3	792	0.9%	50,843	6,630	64,196	96.6%	767
MIDWESTERN REGION								
Columbus, OH	6	2,530	2.8%	169,237	39,987	66,892	95.0%	904
Other Midwestern	3	444	0.4%	25,342		57,077	91.6%	955
Real Estate Under Development	4	1,360	1.7%	98,283		n/a	n/a	n/a
Land	n/a	n/a	4.2%	247,717	86,608	n/a	n/a	n/a
Total Apartments(a)	234	65,867	99.7%	$ 5,928,908	$ 1,127,425	$ 90,013	92.6%	895
Commercial Property	n/a	n/a	0.3%	21,390	10,511	n/a	n/a	n/a
Richmond Corporate	n/a	n/a	0.0%	2,243		n/a	n/a	n/a
Total Real Estate Owned	234	65,867	100.0%	$ 5,952,541	$ 1,137,936	$ 90,013	92.6%	895

(a) Includes real estate held for disposition, real estate under development, and land, but excludes commercial property.

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.

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, 2007.

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.

	High	Low	Distributions Declared
2007			
1st Quarter	$ 34.10	$ 30.01	$ .3300
2nd Quarter	31.24	25.76	.3300
3rd Quarter	27.68	21.03	.3300
4th Quarter	26.12	19.51	.3300
2006			
1st Quarter	$ 29.05	$ 23.41	$ .3125
2nd Quarter	28.82	25.50	.3125
3rd Quarter	30.81	26.97	.3125
4th Quarter	33.75	29.95	.3125

On February 15, 2008, the closing sale price of our common stock was $22.51 per share on the NYSE and there were 5,521 holders of record of the 133,347,522 outstanding shares of our common stock.

We have determined that, for federal income tax purposes, approximately 16% of the distributions for each of the four quarters of 2007 represented ordinary income, 64% represented long-term capital gain, and 20% represented unrecaptured section 1250 gain.

We pay regular quarterly distributions to holders of shares 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 Internal Revenue Code, and other factors. The annual distribution payment for calendar year 2007 necessary for us to maintain our status as a REIT was approximately $0.18 per share of common stock. We declared total distributions of $1.32 per share of common stock for 2007.

Series E Preferred Stock

The Series E Cumulative Convertible Preferred Stock 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. 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.

Distributions declared on the Series E in 2007 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2007, a total of 2,803,812 shares of the Series E were outstanding.

Table of Contents

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, 2007, a total of 666,293 shares of the Series F Preferred Stock were outstanding at a value of $66.63. 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.

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 15, 2008, there were 3,183 participants in the plan.

Operating Partnership Units

From time to time we issue shares of our common stock in exchange for 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. At December 31, 2007, there were 8,653,560 OP Units and 316,452 OP Units in United Dominion Realty, L.P. and Heritage Communities L.P., respectively, that were owned by limited partners. 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. 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. In December 2007, the Series A limited liability company was dissolved, the Series A OPPS were distributed to the members of the Series A limited liability company and, as a result, the members of Series A limited liability company became limited partners in United Dominion Realty, L.P. These OP Units are convertible into common stock, once the holders elected to convert, at an exchange ratio of 1.5091 shares for each OP Unit. During 2007, we issued a total of 1,031,627 shares of common stock in exchange for OP Units.

Purchases of Equity Securities

In February 2006, our Board of Directors authorized a 10 million share repurchase program. This program authorizes the repurchase of our common stock in open market purchases, in block purchases, privately negotiated transactions, or otherwise. As reflected in the table below, 1,232,300 shares of common stock were repurchased under this program or otherwise during the quarter ended December 31, 2007.

Table of Contents

The following table sets forth certain information regarding our common stock repurchases during the quarter ended December 31, 2007:

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance	1,882,200	$ 27.18	1,882,200	8,117,800
October 1, 2007 through October 31, 2007	150,000	24.42	150,000	7,967,800
November 1, 2007 through November 30, 2007	536,000	21.17	536,000	7,431,800
December 1, 2007 through December 31, 2007	546,300	21.53	546,300	6,885,500
Total	3,114,500	25.02	3,114,500	6,885,500*

* This number reflects the number of shares that were available for purchase under our 10 million share repurchase program on December 31, 2007. 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 purchase, block purchases, privately negotiated transactions or otherwise.

Table of Contents

Comparison of Cumulative Total Returns

The following graph provides a comparison from December 31, 2002 through December 31, 2007 of the cumulative total stockholder return (assuming reinvestment of any dividends) among UDR, the NAREIT Equity REIT Index, Standard & Poor s 500 Stock Index, the NAREIT Equity Apartment Index and the MSCI US REIT Index. The graph assumes that $100 was invested on December 31, 2002, in each of our common stock and the indices presented. Historical stock price performance is not necessarily indicative of future stock price performance.

Performance Graph

	December 31					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
UDR	$ 100	$ 125.34	$ 172.17	$ 171.66	$ 243.40	$ 159.13
NAREIT Equity REIT Index	$ 100	$ 137.13	$ 180.44	$ 202.38	$ 273.34	$ 230.45
S&P 500 Index	$ 100	$ 128.68	$ 142.69	$ 149.70	$ 173.34	$ 182.86
NAREIT Equity Apartment Index	$ 100	$ 125.49	$ 169.06	$ 193.83	$ 271.25	$ 203.28
MSCI US REIT Index	$ 100	$ 136.74	$ 179.80	$ 201.61	$ 274.03	$ 227.95

The foregoing graph and chart 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, 2007. 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.

	Years Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2007	**2006**	**2005**	**2004**	**2003**
Operating Data(a)					
Rental income	**$ 497,474**	$ 463,719	$ 407,038	$ 306,691	$ 244,758
Loss before minority interests and discontinued operations	**(100,596)**	(91,870)	(63,499)	(58,003)	(59,187)
Income from discontinued operations, net of minority interests	**208,130**	214,102	214,126	150,073	123,453
Net income	**221,349**	128,605	155,166	97,152	70,404
Distributions to preferred stockholders	**13,911**	15,370	15,370	19,531	26,326
Net income available to common stockholders	**205,177**	113,235	139,796	71,892	24,807
Common distributions declared	**177,540**	168,408	163,690	152,203	134,876
Weighted average number of common shares outstanding basic	**134,016**	133,732	136,143	128,097	114,672
Weighted average number of common shares outstanding diluted	**134,016**	133,732	136,143	128,097	114,672
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**146,936**	147,981	150,141	145,842	136,975
Per share basic and diluted:					
Loss from continuing operations available to common stockholders, net of minority interests	**$ (0.02)**	$ (0.75)	$ (0.54)	$ (0.61)	$ (0.86)
Income from discontinued operations, net of minority interests	**1.55**	1.60	1.57	1.17	1.08
Net income available to common stockholders	**1.53**	0.85	1.03	0.56	0.22
Common distributions declared	**1.32**	1.25	1.20	1.17	1.14
Balance Sheet Data					
Real estate owned, at cost	**$ 5,952,541**	$ 5,820,122	$ 5,512,424	$ 5,243,296	$ 4,351,551
Accumulated depreciation	**1,371,759**	1,253,727	1,123,829	1,007,887	896,630
Total real estate owned, net of accumulated depreciation	**4,580,782**	4,566,395	4,388,595	4,235,409	3,454,921
Total assets	**4,801,121**	4,675,875	4,541,593	4,332,001	3,543,643
Secured debt	**1,137,936**	1,182,919	1,116,259	1,197,924	1,018,028

Unsecured debt	**2,364,740**	2,155,866	2,043,518	1,682,058	1,114,009
Total debt	**3,502,676**	3,338,785	3,159,777	2,879,982	2,132,037
Stockholders equity	**1,019,393**	1,055,255	1,107,724	1,195,451	1,163,436
Number of common shares outstanding	**133,318**	135,029	134,012	136,430	127,295
Other Data					
Cash Flow Data					
Cash provided by operating activities	**$ 250,578**	$ 229,613	$ 248,186	$ 251,747	$ 234,945
Cash used in investing activities	**(71,397)**	(149,973)	(219,017)	(595,966)	(304,217)
Cash (used in)/provided by financing activities	**(178,105)**	(93,040)	(21,530)	347,299	70,944
Funds from Operations(b)					
Funds from operations basic	**$ 247,210**	$ 244,471	$ 238,254	$ 211,670	$ 193,750
Funds from operations diluted	**250,936**	248,197	241,980	219,557	208,431
Apartment Homes Owned					
Total apartment homes owned at December 31	**65,867**	70,339	74,875	78,855	76,244
Weighted average number of apartment homes owned during the year	**69,662**	73,731	76,069	76,873	74,550

(a) Reclassified to conform to current year presentation in accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as described in Note 3 to the consolidated financial statements.

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

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, 2004 and 2003, distributions to preferred stockholders exclude $2.6 million, $5.7 million and $19.3 million, respectively, related to premiums on preferred stock repurchases.

Table of Contents

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.

Table of Contents

At December 31, 2007, our portfolio included 234 communities with 65,867 apartment homes nationwide. The following table summarizes our market information by major geographic markets (includes real estate held for disposition, real estate under development, and land, but excludes commercial properties):

	As of December 31, 2007			Year Ended December 31, 2007	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Average Physical Occupancy
WESTERN REGION					
Orange Co., CA	13	4,067	11.7%	$ 696,332	94.9%
San Francisco, CA	9	1,896	5.7%	339,664	96.3%
Los Angeles, CA	7	1,380	4.7%	278,375	92.9%
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Monterey Peninsula, CA	7	1,565	2.5%	146,325	93.5%
Portland, OR	5	1,365	1.5%	91,537	95.2%
Sacramento, CA	2	914	1.1%	65,466	92.1%
MID-ATLANTIC REGION					
Metropolitan DC	10	3,138	7.3%	432,905	89.1%
Raleigh, NC	11	3,663	4.0%	234,849	93.8%
Richmond, VA	9	2,636	3.3%	195,943	90.5%
Baltimore, MD	10	2,119	3.2%	188,347	93.2%
Wilmington, NC	6	1,868	1.8%	107,439	94.0%
Charlotte, NC	6	1,226	1.5%	91,768	94.5%
Norfolk, VA	6	1,438	1.3%	77,089	94.5%
Other Mid-Atlantic	13	2,817	2.6%	152,308	94.2%
SOUTHEASTERN REGION					
Tampa, FL	12	4,106	5.0%	294,845	88.4%
Orlando, FL	12	3,476	4.1%	244,373	90.0%
Nashville, TN	10	2,966	3.4%	204,382	93.2%
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Other Florida	8	2,400	2.8%	169,006	89.4%
Other Southeastern	7	1,752	1.4%	82,046	94.7%
SOUTHWESTERN REGION					
Dallas, TX	13	3,729	4.5%	264,749	90.6%
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Phoenix, AZ	4	1,205	1.6%	94,730	86.3%
Arlington, TX	5	1,428	1.2%	73,125	94.8%
Austin, TX	3	792	0.9%	50,843	96.6%
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Columbus, OH	6	2,530	2.9%	169,237	95.0%
Other Midwestern	3	444	0.4%	25,342	91.6%
Real Estate Under Development	4	1,360	1.7%	98,283	

Land			4.2%	247,717	
Total	234	65,867	100.0%	$ 5,928,908	92.6%

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale or maturity of existing assets, or by the acquisition of additional funds through capital

management. 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. We routinely use our unsecured bank credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit arrangements. 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 long-term secured and unsecured borrowings, the disposition of properties, and the issuance of additional debt or equity securities. We believe that our net cash provided by operations will continue to be adequate to meet both operating requirements and the payment of dividends by the company in accordance with REIT requirements in both the short- and long-term. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations.

We have a shelf registration statement filed with the Securities and Exchange Commission which provides for the issuance of an indeterminate amount of common stock, preferred stock, debt securities, warrants, 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.

Future Capital Needs

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

During 2008, we have approximately $11.7 million of secured debt and $275.9 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 new unsecured debt securities or equity or from disposition proceeds.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, and (3) real estate investment properties. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Capital Expenditures

In conformity with accounting principles generally accepted in the United States, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

During 2007, $194.4 million or $2,829 per home was spent on capital expenditures for all of our communities, excluding development, condominium conversions and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and asset preservation capital expenditures, which aggregated $44.4 million or $646 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $78.2 million or

$1,138 per home, and major renovations totaled $71.8 million or $1,045 per home for the year ended December 31, 2007.

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, (dollars in thousands)			Year Ended December 31, (per home)		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Turnover capital expenditures	**$ 13,362**	$ 14,214	(6.0)%	**$ 194**	$ 197	(1.5)%
Asset preservation expenditures	**31,071**	20,409	52.2%	**452**	283	59.7%
Total recurring capital expenditures	**44,433**	34,623	28.3%	**646**	480	34.6%
Revenue enhancing improvements	**78,209**	144,102	(45.7)%	**1,138**	2,002	(43.2)%
Major renovations	**71,785**	36,996	94.0%	**1,045**	514	103.3%
Total capital expenditures	**$ 194,427**	$ 215,721	(9.9)%	**$ 2,829**	$ 2,996	(5.6)%
Repair and maintenance expense	**$ 42,518**	$ 43,498	(2.3)%	**$ 619**	$ 604	2.5%

Total capital expenditures for our communities decreased $21.3 million or $167 per home for the year ended December 31, 2007 compared to the same period in 2006. This decrease was attributable to a $65.9 million decrease in revenue enhancing improvements at certain of our properties that was offset by an additional $9.8 million being invested in recurring capital expenditures and an additional $34.8 million being invested in major renovations as compared to the same period in 2006. 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 2008 are currently expected to be approximately $650 per home.

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 Statement No. 141, 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.

Statements of Cash Flow

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

Operating Activities

For the year ended December 31, 2007, our net cash flow provided by operating activities was $250.6 million compared to $229.6 million for 2006. During 2007, the increase in cash flow from operating activities resulted primarily from the increase in property operating income from our apartment community portfolio (see discussion under Apartment Community Operations).

Investing Activities

For the year ended December 31, 2007, net cash used in investing activities was $71.4 million compared to $150.0 million for 2006. Changes in the level of investing activities from period to period reflects our strategy as it relates to our acquisition, capital expenditure, development, and disposition programs, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail below.

Acquisitions

For the year ended December 31, 2007, we acquired 13 apartment communities with 2,671 apartment homes, six parcels of land, and one operating joint venture for an aggregate consideration of $486.5 million. In 2006, we acquired eight apartment communities with 2,763 apartment homes for an aggregate consideration of $327.5 million and two parcels of land for $19.9 million. 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 the fast growing Southern California, Florida, and Metropolitan Washington DC markets over the past years. During 2008, 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 and low single-family home affordability.

Real Estate Under Development

Development activity is focused in core markets in which we have strong operations in place. For the year ended December 31, 2007, we invested approximately $101.3 million in development projects, a decrease of $0.5 million from our 2006 level of $101.8 million.

The following wholly owned projects were under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Riachi at One21 Phase I Plano, TX	202	202	$ 18,197	$ 18,000	$ 89,109	4Q07
Tiburon Phase I Houston, TX	320	184	19,244	22,000	68,750	2Q08

Addison Assemblage Dallas, TX	2,712			60,842		352,000		129,794
	3,234	386	$	98,283	$	392,000	$	121,212

The first phase of the Addison Assemblage will deliver 684 homes in the third quarter of 2010.

In addition, we owned 12 parcels of land held for future development aggregating $124.5 million at December 31, 2007.

Table of Contents

Consolidated Development Joint Venture

In June 2006, we completed the formation of a development joint venture that will invest approximately $138 million to develop one apartment community with 298 apartment homes in Marina del Rey, California. UDR is the financial partner and is responsible for funding the costs of development and receives a preferred return from 7% to 8.5% before our partner receives a 50% participation. Our initial investment was $27.5 million. Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, this venture has been consolidated into UDR s financial statements. Our joint venture partner is the managing partner as well as the developer, general contractor, and property manager.

The following consolidated joint venture project was under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Jefferson at Marina del Rey Marina del Rey, CA	298		$ 123,185	$ 138,000	$ 463,087	2Q08

Unconsolidated Joint Ventures

UDR is a partner in a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the project that involves building a 430 home high rise apartment building with ground floor retail. Our investment at December 31, 2007 was $8.1 million.

UDR is a partner in a joint venture which will develop 274 apartment homes in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in 2008. At closing, we owned 49% of the project. Our investment at December 31, 2007 and 2006 was $8.9 million and $5.9 million, respectively.

In January 2007, we entered into a joint venture which owns and operates a recently completed 23-story, 166 apartment home high rise community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the project (subject to a $34 million mortgage). Our initial investment was $11.8 million. Our investment at December 31, 2007 was $11.2 million.

In November 2007, UDR and an institutional unaffiliated partner formed a joint venture which owns and operates various properties located in Texas. On the closing date, UDR sold nine operating properties, consisting of 3,690 units, and contributed one property under development to the joint venture. The property under development will have 302 units and is expected to be completed in the third quarter of 2008. UDR contributed cash and property equal to 20% of the fair value of the properties. The unaffiliated partner contributed cash equal to 80% of the fair value of the properties comprising the venture, which was then used to purchase the nine operating properties from UDR. Our investment at December 31, 2007 was $20.1 million.

The following unconsolidated joint venture projects were under development as of December 31, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Lincoln Town Square Phase II Plano, TX	302		$ 13,476	$ 25,000	$ 82,781	3Q08
Ashwood Commons Bellevue, WA	274		47,171	97,000	354,015	4Q08
Bellevue Plaza Bellevue, WA	430		37,990	135,000	313,953	4Q10
	1,006		$ 98,637	$ 257,000	$ 255,467	

Table of Contents

Disposition of Investments

For the year ended December 31, 2007, UDR sold 21 communities with a total of 7,125 apartment homes for a 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 a gross consideration of $10.4 million. We recognized after-tax gains for financial reporting purposes of $256.2 million on these sales. Proceeds from the sales were used primarily to reduce debt.

For the year ended December 31, 2006, UDR sold 24 communities with 7,653 apartment homes for a gross consideration of $444.9 million. In addition, we sold 384 condominiums from four communities with a total of 612 condominiums for a gross consideration of $72.1 million. We recognized after-tax gains for financial reporting purposes of $148.6 million on these sales. Proceeds from the sales were used primarily to reduce debt.

Financing Activities

Net cash used in financing activities during 2007 was $178.1 million compared to $93.0 million in 2006. As part of the plan to improve our balance sheet, we utilized proceeds from dispositions, equity and debt offerings, and refinancings to extend maturities, pay down existing debt, and purchase new properties.

The following is a summary of our financing activities for the year ended December 31, 2007:

Repaid $186.8 million of secured debt and $167.3 million of unsecured debt.

Sold $150 million aggregate principal amount of 5.50% senior unsecured notes due April 2014 in March 2007 under our medium-term note program. The net proceeds of approximately $149 million were used for debt repayment.

Redeemed 5,416,009 shares of our 8.60% Series B Cumulative Redeemable Preferred Stock on May 29, 2007, the redemption date, for a cash redemption price of $25 per share plus accrued and unpaid dividends to the redemption date.

Sold $135 million, or 5,400,000 shares, of our 6.75% Series G Cumulative Redeemable Preferred Stock in May 2007. The shares have a liquidation preference of $25 per share and will be redeemable at par at the option of UDR on or after May 31, 2012. The net proceeds from the offering were used to fund the redemption of all of the outstanding shares of our 8.60% Series B Cumulative Redeemable Preferred Stock.

Amended and restated our existing three-year $500 million unsecured revolving credit facility with a maturity date of May 31, 2008, to increase the facility to $600 million and to extend its maturity to July 26, 2012. Under certain circumstances, we may increase the facility to $750 million.

Repurchased 3,114,500 shares of UDR common stock at an average price per share of $25.02 under our 10 million share repurchase program during the twelve months ended December 31, 2007.

Credit Facilities

We have four secured revolving credit facilities with Fannie Mae with an aggregate commitment of $748.9 million. As of December 31, 2007, $663.9 million was outstanding under the Fannie Mae credit facilities leaving $85.0 million of unused capacity. The Fannie Mae credit facilities are for an initial term of ten 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

$583.1 million of the funded balance fixed at a weighted average interest rate of 5.9% and the remaining balance on these facilities is currently at a weighted average variable rate of 5.1%.

On July 27, 2007, we amended and restated our existing three-year $500 million senior unsecured 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 certain circumstances, we may increase the new $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 credit facility.

Under a competitive bid feature and for so long as we maintain an Investment Grade Rating, we have the right under the new $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, 2007, $309.5 million was outstanding under the credit facility leaving $290.5 million of unused capacity.

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. A large portion of our market risk is exposure to short-term interest rates from variable rate borrowings outstanding under our Fannie Mae credit facility and our bank revolving credit facility, which totaled $80.8 million and $309.5 million, respectively, at December 31, 2007. The impact on our financial statements of refinancing fixed rate debt that matured during 2007 was immaterial.

If market interest rates for variable rate debt average 100 basis points more in 2008 than they did during 2007, our interest expense would increase, and income before taxes would decrease by $5.2 million. Comparatively, if market interest rates for variable rate debt had averaged 100 basis points more in 2007 than in 2006, our interest expense would have increased, and net income would have decreased by $4.9 million. If market rates for fixed rate debt were 100 basis points higher at December 31, 2007, the fair value of fixed rate debt would have decreased from $2.9 billion to $2.8 billion. If market interest rates for fixed rate debt were 100 basis points lower at December 31, 2007, the fair value of fixed rate debt would have increased from $2.9 billion to $3.1 billion.

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

Historical cost accounting for real estate assets in accordance with generally accepted accounting principles 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 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 generally accepted accounting principles for the three years ended December 31, 2007 *(dollars in thousands):*

	2007	2006	2005
Net income	**$ 221,349**	$ 128,605	$ 155,166
Adjustments:			
Distributions to preferred stockholders	**(13,911)**	(15,370)	(15,370)
Real estate depreciation and amortization	**191,342**	165,125	135,168
Minority interests of unitholders in operating partnership	**(167)**	(6,476)	(4,647)
Contribution of unconsolidated joint ventures	**1,784**		
Real estate depreciation related to unconsolidated entities			311
Net gains on the sale of depreciable property	**(113,799)**		
Discontinued Operations:			
Real estate depreciation	**66,108**	78,764	77,256
Minority interests	**11,974**	13,836	13,377
Net gain on the sale of land and depreciable property	**(142,383)**	(148,614)	(139,724)
RE^3 tax benefits and gain on sales, net of tax	**24,913**	28,601	16,717
Funds from operations basic	**$ 247,210**	$ 244,471	$ 238,254
Distributions to preferred stockholders Series E (Convertible)	**3,726**	3,726	3,726
Funds from operations diluted	**$ 250,936**	$ 248,197	$ 241,980
Weighted average number of common shares and OP Units outstanding basic	**141,778**	142,426	144,689
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**146,936**	147,981	150,141

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

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

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

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, 2007 *(shares in thousands):*

	2007	2006	2005
Weighted average number of common shares and OP units outstanding basic	**141,778**	142,426	144,689
Weighted average number of OP units outstanding	**(7,762)**	(8,694)	(8,546)
Weighted average number of common shares outstanding basic per the Consolidated Statements of Operations	**134,016**	133,732	136,143
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**146,936**	147,981	150,141
Weighted average number of OP units outstanding	**(7,762)**	(8,694)	(8,546)
Weighted average number of incremental shares from assumed conversion of stock options	**(775)**	(966)	(870)
Weighted average number of incremental shares from assumed conversion of $250 million convertible debt		(68)	
Weighted average number of Series A OPPSs outstanding	**(1,579)**	(1,717)	(1,778)
Weighted average number of Series E preferred stock outstanding	**(2,804)**	(2,804)	(2,804)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**134,016**	133,732	136,143

FFO also does not represent cash generated from operating activities in accordance with generally accepted accounting principles, 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 generally accepted accounting principles is as follows *(dollars in thousands):*

	2007	2006	2005
Net cash provided by operating activities	**$ 250,578**	$ 229,613	$ 248,186
Net cash used in investing activities	**(71,397)**	(149,973)	(219,017)
Net cash used in financing activities	**(178,105)**	(93,040)	(21,530)

Results of Operations

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

Net Income Available to Common Stockholders

2007-vs.-2006

Net income available to common stockholders was $205.2 million ($1.53 per diluted share) for the year ended December 31, 2007, compared to $113.2 million ($0.85 per diluted share) for the year ended December 31, 2006. The increase for the year ended December 31, 2007, when compared to the same period in 2006, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

- $107.6 million more in gains recognized from the sale of depreciable property in 2007,
- $11.4 million more in apartment community operating results in 2007,
- $3.2 million less in interest expense in 2007, and
- $1.5 million less in distributions on preferred shares in 2007.

These increases in income were partially offset by a $13.6 million increase in real estate depreciation and amortization expense, an $8.4 million increase in general and administrative expense, $4.3 million in severance costs and other restructuring charges in 2007, $2.3 million in premiums on preferred stock repurchases in 2007, and a $0.9 million decrease in non-property income during 2007 when compared to 2006.

2006-vs.-2005

Net income available to common stockholders was $113.2 million ($0.85 per diluted share) for the year ended December 31, 2006, compared to $139.8 million ($1.03 per diluted share) for the year ended December 31, 2005, representing a decrease of $26.6 million ($0.18 per diluted share). The decrease for the year ended December 31, 2006, when compared to the same period in 2005, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

$31.7 million more in depreciation and amortization expense in 2006,

$18.5 million more in interest expense in 2006,

$17.1 million less in non-property income in 2006, and

$6.4 million more in general and administrative expense in 2006.

These decreases in net income were partially offset by $5.1 million more in gains recognized from the sale of depreciable property and an unconsolidated joint venture, an $8.5 million decrease in losses on early debt retirement, and a $34.2 million increase in apartment community operating results in 2006 when compared to 2005.

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 for each of the periods presented *(dollars in thousands):*

	Year Ended December 31,			Year Ended December 31,		
	2007	**2006**	**% Change**	**2006**	**2005**	**% Change**
Property rental income	**$ 735,293**	$ 736,329	(0.1)%	$ 736,329	$ 700,344	5.1%
Property operating expense*	**(258,895)**	(271,297)	(4.6)%	(271,297)	(269,486)	0.7%
Property net operating income	**$ 476,398**	$ 465,032	2.4%	$ 465,032	$ 430,858	7.9%
Weighted average number of homes	**69,662**	73,731	(5.5)%	73,731	76,069	(3.1)%
Physical occupancy**	**92.6%**	94.3%	(1.7)%	94.3%	94.1%	0.2%

*

Excludes depreciation, amortization, and property management expenses. Also excludes $5.5 million of hurricane related insurance recoveries in 2005.

** Based upon weighted average stabilized units.

Table of Contents

The following table is our reconciliation of property operating income to net income as reflected on the Consolidated Statements of Operations for the periods presented *(dollars in thousands):*

	2007	2006	2005
Property operating income	**$ 476,398**	$ 465,032	$ 430,858
Commercial operating income/(loss)	**2,721**	(350)	1,997
Non-property income	**2,721**	3,590	20,672
Depreciation and amortization	**(261,037)**	(246,934)	(215,192)
Interest	**(178,020)**	(181,183)	(162,723)
General and administrative and property management	**(59,883)**	(51,463)	(44,128)
Severance costs and other restructuring charges	**(4,333)**		
Other operating expenses	**(1,442)**	(1,238)	(1,178)
Net gain on the sale of land and depreciable property	**256,182**	148,614	139,724
Loss on early debt retirement			(8,483)
Hurricane related insurance recoveries			2,457
Minority interests	**(11,958)**	(7,463)	(8,838)
Net income per the Consolidated Statements of Operations	**$ 221,349**	$ 128,605	$ 155,166

2007-vs.-2006
Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to December 31, 2006 and held on December 31, 2007, which consisted of 30,686 apartment homes) provided 57% of our property net operating income for the year ended December 31, 2007.

Same community property net operating income increased 7.0% or $17.7 million compared to 2006. The increase in property operating income was primarily attributable to a 5.0% or $18.8 million increase in revenues from rental and other income and a 0.9% or $1.1 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.2% or $16.2 million increase in rental rates, an 11.4% or $3.0 million increase in reimbursement income and fee income, and a 16.2% or $1.0 million decrease in rental concessions. These increases were partially offset by a 6.8% or $1.3 million increase in vacancy loss. Physical occupancy decreased 0.2% to 94.6%.

The increase in property operating expenses was primarily driven by a 5.2% or $1.8 million increase in real estate taxes that was partially offset by a 7.6% or $0.8 million 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 operating income divided by property rental income) increased 1.3% to 68.2%.

Non-Mature Communities

The remaining 43% or $206.2 million of our property net operating income during the year ended December 31, 2007, was generated from communities that we classify as non-mature communities. UDR s non-mature communities consist primarily of communities acquired or developed in 2006 and 2007, sold properties, redevelopment properties, properties classified as real estate held for disposition and condominium properties.

The largest component our non-mature portfolio are those properties that are classified as real estate held for disposition. At December 31, 2007, UDR had 86 apartment communities, two condominium projects and one commercial unit included in real estate held held for disposition. For the year ended December 31, 2007, these communities provided $136.5 million of property net operating income.

Table of Contents

2006-vs.-2005
Same Communities

Our same communities (those communities acquired, developed, and stabilized prior to December 31, 2005 and held on December 31, 2006, which consisted of 60,062 apartment homes) provided 82% of our property operating income for the year ended December 31, 2006.

For the year ended December 31, 2006, same community property operating income increased 8.6% or $30.4 million compared to 2005. The increase in property operating income was primarily attributable to a 6.0% or $34.2 million increase in revenues from rental and other income that was offset by a 1.8% or $3.9 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.9% or $28.4 million increase in rental rates, a 17.6% or $2.2 million decrease in rental concessions, and a 12.5% or $5.0 million increase in utility reimbursement income and fee income. Physical occupancy increased 0.1% to 94.7%.

The increase in property operating expenses was primarily driven by a 15.8% or $1.6 million increase in insurance costs, a 4.4% or $1.5 million increase in utility costs, a 2.8% or $1.5 million increase in personnel costs, a 1.1% or $0.4 million increase in repair and maintenance expenses, and a 0.5% or $0.3 million increase in real estate taxes. These increases in operating expenses were partially offset by a 6.0% or $1.2 million decrease in administrative and marketing expenses.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin increased 1.5% to 63.5%.

Non-Mature Communities

The remaining 18% of our property operating income during 2006 was generated from communities that we classify as non-mature communities, UDR s non-mature communities consist primarily of communities acquired or developed in 2005 and 2006, sold properties, redevelopment properties, properties classified as real estate held for disposition and condominium properties.

Real Estate Depreciation and Amortization

For the year ended December 31, 2007, real estate depreciation and amortization on both continuing and discontinued operations increased $13.6 million or 5.6% compared to 2006, primarily due to the significant increase in per home acquisition cost compared to the existing portfolio and other capital expenditures.

For the year ended December 31, 2006, real estate depreciation and amortization on both continuing and discontinued operations increased $31.7 million or 14.8% compared to 2005, primarily due to the significant increase in per home acquisition cost compared to the existing portfolio and other capital expenditures.

Interest Expense

For the year ended December 31, 2007, interest expense on both continuing and discontinued operations decreased 1.7% or $3.2 million compared to 2006. For the year ended December 31, 2007, the weighted average amount of debt outstanding increased 5.9% or $193.8 million compared to 2006 and the weighted average interest rate decreased from 5.4% in 2006 to 5.3% in 2007. The weighted average amount of debt outstanding during 2007 is slightly higher than 2006 as acquisition costs in 2007 have been funded primarily by the issuance of debt. The decrease in the weighted average interest rate during 2007 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2007 when compared to the same period in 2006.

For the year ended December 31, 2006, interest expense on both continuing and discontinued operations increased $18.5 million or 11.3% from 2005 primarily due to the issuance of debt and higher interest rates. For the year ended December 31, 2006, the weighted average amount of debt outstanding increased 11.7% or $350.4 million compared to 2005 and the weighted average interest rate increased from 5.3% to 5.4% during 2006. The weighted average amount of debt outstanding during 2006 is higher than 2005 as acquisition costs

in 2005 and in 2006 have been funded primarily by the issuance of debt. The increase in the weighted average interest rate during 2006 reflects short-term bank borrowings and variable rate debt that had higher interest rates when compared to the prior year that were partially offset by the retirement of higher coupon debt with lower coupon debt.

General and Administrative

For the year ended December 31, 2007, general and administrative expenses increased $8.4 million or 26.8% compared to 2006. The increase was due to a number of factors, including increases in personnel costs, incentive compensation, and legal and professional fees.

For the year ended December 31, 2006, general and administrative expenses increased $6.4 million or 25.7% over 2005 due to a number of factors, including increases in personnel expense, incentive compensation, professional fees, dead deal costs, and an operating lease on an airplane.

Severance Costs and Other Restructuring Charges

For the year ended December 31, 2007, UDR recognized $4.3 million in severance costs and other restructuring charges. UDR is establishing Highlands Ranch, Colorado, as its corporate headquarters and is realigning resources to improve efficiencies and centralize job functions in fewer locations. 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, and all of the $3.6 million charge will be paid during 2008.

Premium on Preferred Stock Repurchases

In May 2007, we exercised our right to redeem all of our shares of our 8.60% Series B Cumulative Redeemable Preferred Stock for a cash redemption price of $25 per share plus accrued and unpaid dividends to the redemption date. The premium amount recognized to repurchase these shares represents the cumulative accretion to date between the repurchase value of the preferred stock and the value at which it was recorded at the time of issuance.

Hurricane Related Insurance Recoveries

In 2005, $2.5 million of hurricane related insurance recoveries were recorded related to damages in Florida caused by hurricanes Charley, Frances, and Jeanne in 2004. UDR reported that 25 of our 34 Florida communities were affected by the hurricanes.

Gains on the Sale of Land and Depreciable Property

For the years ended December 31, 2007, 2006 and 2005, we recognized after-tax gains for financial reporting purposes of $256.2 million, $148.6 million and $143.5 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. Substantially all of our leases are for a term of one year or less which generally minimizes our risk from the adverse effects of inflation.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2007 *(dollars in thousands):*

	Payments Due by Period				
Contractual Obligations	**Total**	**2008**	**2009-2010**	**2011-2012**	**Thereafter**
Long-Term Debt Obligations	$ 3,502,676	$ 597,132	$ 672,441	$ 712,765	$ 1,520,338
Capital Lease Obligations					
Operating Lease Obligations	273,655	5,271	10,114	7,785	250,485
Purchase Obligations	155,000	78,000	77,000		
Other Long-Term Liabilities Reflected on the Balance Sheet Under GAAP					

During 2007, we incurred interest costs of $178.0 million, of which $13.2 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:

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,

the timing and closing of planned dispositions under agreement,

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

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

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

development and construction risks that may impact our profitability,

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

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

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

delays in completing developments and lease-ups on schedule,

our failure to succeed in new markets,

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

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

the imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue 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.

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 46 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, 2007, 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, UDR s 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, 2007.

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, 2007. The report of Ernst & Young LLP, which expresses an unqualified opinion on UDR s internal control over financial reporting as of December 31, 2007, 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, 2007, 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-Aud 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 29, 2008.

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*, 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 29, 2008. 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 29, 2008.

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 29, 2008.

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 29, 2008.

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 29, 2008.

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 46 of this Report.

2. *Financial Statement Schedule.* See Index to Consolidated Financial Statements and Schedule on page 46 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.

Table of Contents

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 26, 2008

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 26, 2008 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/ Michael A. Ernst

Michael A. Ernst
Executive Vice President and Chief Financial Officer

/s/ David L. Messenger

David L. Messenger
Senior Vice President and Chief Accounting Officer

/s/ Robert C. Larson

Robert C. Larson
Chairman of the Board

/s/ James D. Klingbeil

James D. Klingbeil
Vice Chairman of the Board

/s/ Katherine A. Cattanach

Katherine A. Cattanach
Director

/s/ Eric J. Foss

/s/ Robert P. Freeman

Robert P. Freeman
Director

/s/ Jon A. Grove

Jon A. Grove
Director

/s/ Thomas R. Oliver

Thomas R. Oliver
Director

/s/ Lynne B. Sagalyn

Lynne B. Sagalyn
Director

/s/ Mark J. Sandler

Mark J. Sandler
Director

/s/ Thomas C. Wajnert

Thomas C. Wajnert
Director

Eric J. Foss
Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

UDR, INC.

	Page
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	47
FINANCIAL STATEMENTS FILED AS PART OF THIS REPORT	
Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets at December 31, 2007 and 2006	49
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2007	50
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2007	51
Consolidated Statements of Stockholders Equity for each of the three years in the period ended December 31, 2007	53
Notes to Consolidated Financial Statements	55
SCHEDULE FILED AS PART OF THIS REPORT	
Schedule III Summary of Real Estate Owned	83

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 financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders
UDR, Inc.

We have audited UDR Inc. s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company 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 at Item 9A. Our responsibility is to express an opinion on 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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 as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007 of UDR, Inc. and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia
February 25, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
UDR, Inc.

We have audited the accompanying consolidated balance sheets of UDR, Inc. (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, 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, 2008 expressed an unqualified opinion thereon.

/s/
Ernst & Young LLP

Richmond, Virginia
February 25, 2008

Table of Contents

UDR INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)

	December 31, 2007	December 31, 2006
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 4,131,881**	$ 3,853,599
Less: accumulated depreciation	**(822,831)**	(708,233)
	3,309,050	3,145,366
Real estate under development (net of accumulated depreciation of $963 and $527)	**345,037**	203,786
Real estate held for disposition (net of accumulated depreciation of $547,965 and $544,967)	**926,695**	1,217,243
Total real estate owned, net of accumulated depreciation	**4,580,782**	4,566,395
Cash and cash equivalents	**3,219**	2,143
Restricted cash	**6,295**	5,602
Deferred financing costs, net	**34,136**	34,656
Notes receivable	**12,655**	10,500
Investment in unconsolidated joint ventures	**48,264**	5,850
Funds held in escrow from IRC 1031 exchanges pending the acquisition of real estate	**56,217**	
Other assets	**45,428**	33,060
Other assets real estate held for disposition	**14,125**	17,669
Total assets	**$ 4,801,121**	$ 4,675,875
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	**$ 910,611**	$ 892,287
Secured debt real estate held for disposition	**227,325**	290,632
Unsecured debt	**2,364,740**	2,155,866
Real estate taxes payable	**8,808**	12,212
Accrued interest payable	**27,999**	34,178
Security deposits and prepaid rent	**21,897**	16,849
Distributions payable	**49,152**	46,936
Deferred gains on the sale of depreciable property	**28,690**	
Accounts payable, accrued expenses, and other liabilities	**51,512**	52,892
Other liabilities real estate held for disposition	**28,945**	29,935
Total liabilities	**3,719,679**	3,531,787

Minority interests	**62,049**	88,833
Stockholders equity:		
Preferred stock, no par value; 50,000,000 shares authorized		
0 shares 8.60% Series B Cumulative Redeemable issued and outstanding (5,416,009 in 2006)		135,400
2,803,812 shares 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 in 2006)	**46,571**	46,571
5,400,000 shares 6.75% Series G Cumulative Redeemable issued and outstanding (0 in 2006)	**135,000**	
Common stock, $0.01 par value; 250,000,000 shares authorized 133,317,706 shares issued and outstanding (135,029,126 in 2006)	**1,333**	1,350
Additional paid-in capital	**1,620,541**	1,682,809
Distributions in excess of net income	**(783,238)**	(810,875)
Accumulated other comprehensive loss	**(814)**	
Total stockholders equity	**1,019,393**	1,055,255
Total liabilities and stockholders equity	**$ 4,801,121**	$ 4,675,875

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2007	**2006**	**2005**
REVENUES			
Rental income	**$ 497,474**	$ 463,719	$ 407,038
Non-property income:			
Gain on sale of technology investment		796	12,306
Gain on sale of unconsolidated joint venture			3,823
Other income	**2,720**	2,789	4,535
Total non-property income	**2,720**	3,585	20,664
Total revenues	**500,194**	467,304	427,702
EXPENSES			
Rental expenses:			
Real estate taxes and insurance	**57,875**	55,152	48,645
Personnel	**42,462**	41,222	37,046
Utilities	**25,765**	24,556	21,897
Repair and maintenance	**27,041**	25,852	21,966
Administrative and marketing	**12,894**	12,979	12,847
Property management	**20,317**	20,265	19,309
Other operating expenses	**1,442**	1,238	1,178
Real estate depreciation and amortization	**191,342**	165,125	135,168
Interest	**174,677**	179,074	159,433
General and administrative	**39,566**	31,198	24,819
Severance costs and other restructuring charges	**4,333**		
Other depreciation and amortization	**3,076**	2,513	2,231
Loss on early debt retirement			6,662
Total expenses	**600,790**	559,174	491,201
Loss before minority interests and discontinued operations	**(100,596)**	(91,870)	(63,499)
Minority interests of outside partnerships	**(151)**	(103)	(108)
Minority interests of unitholders in operating partnerships	**167**	6,476	4,647
Net gain on the sale of depreciable property to a joint venture	**113,799**		
Income/(loss) before discontinued operations, net of minority interests	**13,219**	(85,497)	(58,960)
Income from discontinued operations, net of minority interests	**208,130**	214,102	214,126

Net income	**221,349**	128,605	155,166
Distributions to preferred stockholders Series B	**(4,819)**	(11,644)	(11,644)
Distributions to preferred stockholders Series E (Convertible)	**(3,726)**	(3,726)	(3,726)
Distributions to preferred stockholders Series G	**(5,366)**		
Premium on preferred stock repurchases	**(2,261)**		
Net income available to common stockholders	**$ 205,177**	$ 113,235	$ 139,796
Earnings per common share basic and diluted:			
Loss from continuing operations available to common stockholders, net of minority interests	**$ (0.02)**	$ (0.75)	$ (0.54)
Income from discontinued operations, net of minority interests	**$ 1.55**	$ 1.60	$ 1.57
Net income available to common stockholders	**$ 1.53**	$ 0.85	$ 1.03
Common distributions declared per share	**$ 1.32**	$ 1.25	$ 1.20
Weighted average number of common shares outstanding basic	**134,016**	133,732	136,143
Weighted average number of common shares outstanding diluted	**134,016**	133,732	136,143

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2007	**2006**	**2005**
Operating Activities			
Net income	**$ 221,349**	$ 128,605	$ 155,166
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**261,037**	246,934	215,192
Net gains on the sale of land and depreciable property	**(142,383)**	(148,614)	(139,724)
Net gain on the sale of depreciable property to a joint venture	**(113,799)**		
Cancellation of operating partnership units in connection with the sale of equity investment			(1,000)
Gain on the sale of technology investment		(796)	(12,306)
Gain on the sale of unconsolidated joint venture			(3,823)
Distribution of earnings from unconsolidated joint venture			124
Minority interests	**11,958**	7,463	8,838
Amortization of deferred financing costs and other	**7,482**	6,063	5,287
Amortization of deferred compensation	**6,356**		2,939
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets	**(3,453)**	(2,713)	8,695
(Decrease)/increase in operating liabilities	**(4,253)**	(1,041)	8,798
Refunds/(prepayments) on income taxes	**6,284**	(6,288)	
Net cash provided by operating activities	**250,578**	229,613	248,186
Investing Activities			
Proceeds from the sale of real estate investments, net	**754,315**	492,744	308,753
Collection of notes receivable	**4,000**	59,805	64,845
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures	**(435,997)**	(365,606)	(413,744)
Development of real estate assets	**(101,460)**	(101,849)	(49,343)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(194,427)**	(215,721)	(156,122)
Capital expenditures non-real estate assets	**(4,547)**	(3,465)	(3,209)
Investment in unconsolidated joint ventures	**(23,365)**		
Distributions to consolidated joint venture partners		(6,823)	
Proceeds from the sale of technology investment		796	12,306
Purchase deposits on pending real estate acquisitions	**(7,544)**	(4,354)	
Issuance of notes receivable	**(6,155)**	(5,500)	
Distribution of capital from unconsolidated joint venture			458
	(56,217)		17,039

(Increase)/decrease in funds held in escrow from IRC 1031 exchanges pending the acquisition of real estate			
Net cash used in investing activities	**(71,397)**	(149,973)	(219,017)
Financing Activities			
Proceeds from the issuance of secured debt	**91,804**	78,860	25,342
Payments on secured debt	**(186,831)**	(70,339)	(133,832)
Proceeds from the issuance of unsecured debt	**150,000**	375,000	499,983
Payments on unsecured debt	**(167,255)**	(138,849)	(70,860)
Net proceeds/(repayment) of revolving bank debt	**222,300**	(123,600)	(67,300)
Purchase of capped call equity instrument		(12,588)	
Payment of financing costs	**(6,775)**	(10,284)	(14,455)
Proceeds from the issuance of common stock	**2,524**	5,303	4,334
Proceeds from the issuance of Series G preferred stock	**135,000**		
Payment of preferred stock issuance costs	**(4,252)**		
Proceeds from the investment of performance based programs	**50**	400	343
Purchase of minority interests owned by Series A LLC		(2,059)	
Purchase of minority interest from outside partners			(522)
Conversion of operating partnership units to cash			(50)
Distributions paid to minority interests	**(12,099)**	(12,729)	(12,900)
Distributions paid to preferred stockholders	**(13,312)**	(15,370)	(15,370)
Distributions paid to common stockholders	**(175,923)**	(166,785)	(163,001)
Repurchases of common and preferred stock	**(77,936)**		(73,242)
Redemption of Series B preferred stock	**(135,400)**		
Net cash used in financing activities	**(178,105)**	(93,040)	(21,530)
Net increase/(decrease) in cash and cash equivalents	**1,076**	(13,400)	7,639
Cash and cash equivalents, beginning of year	**2,143**	15,543	7,904
Cash and cash equivalents, end of year	**$ 3,219**	$ 2,143	$ 15,543

51

Table of Contents

UDR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands)

	Years Ended December 31,		
	2007	**2006**	**2005**
Supplemental Information:			
Interest paid during the period	**$ 197,722**	$ 174,871	$ 160,367
Non-cash transactions:			
Conversion of operating partnership minority interests to common stock (935,471 shares in 2007, 381,001 shares in 2006, 99,573 shares in 2005)	**8,790**	7,988	1,444
Conversion of minority interests in Series B, LLC			690
Issuance of restricted stock awards	**1**	3	350
Issuance of operating partnership units in connection with acquisitions			7,653
Secured debt assumed with the acquisition of properties	**72,680**	24,512	26,825
Receipt of a note receivable in connection with sales of real estate investments			124,650
Deferred gain in connection with the sale of real estate investments			6,410
Real estate asset contributed	**10,350**		
Non-cash transactions associated with consolidated joint venture:			
Real estate assets acquired		62,059	
Secured debt assumed		33,627	
Operating liabilities assumed		3,840	

See accompanying notes to consolidated financial statements.

52

Table of Contents

UDR, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net Income	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital		Loss	Total
lance, December 31, 04	8,219,821	$ 181,971	136,429,592	$ 136,430	$ 1,608,858	$ (731,808)	$	$ 1,195,45
mprehensive Income								
t income						155,166		155,16
mprehensive income						155,166		155,16
uance of common d restricted shares			663,238	680	6,595			7,27
mmon shares purchased			(3,180,350)	(32)	(73,210)			(73,24
justment for change par value from $1.00 $0.01				(135,822)	135,822			
justment for nversion of minority erests of unitholders operating partnerships			99,573	84	1,360			1,44
justment for nversion of minority erests in Series B C					690			69
mmon stock tributions declared .20 per share)						(163,690)		(163,69
eferred stock tributions clared-Series B ($2.15 r share)						(11,644)		(11,64
eferred stock tributions clared-Series E ($1.33 r share)						(3,726)		(3,72

lance, December 31, 05	8,219,821	181,971	134,012,053	1,340	1,680,115	(755,702)	1,107,72
mprehensive Income t income						128,605	128,60
mprehensive income						128,605	128,60
uance of common d restricted shares and ner			636,072	6	9,357		9,36
justment for nversion of minority erests of unitholders operating partnerships			381,001	4	7,984		7,98
justment for nversion of minority erests owned by ries A LLC					(2,059)		(2,05
rchase of capped call uity instrument					(12,588)		(12,58
mmon stock tributions declared .25 per share)						(168,408)	(168,40
eferred stock tributions clared-Series B ($2.15 r share)						(11,644)	(11,64
eferred stock tributions clared-Series E ($1.33 r share)						(3,726)	(3,72

Table of Contents

UDR, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)
(In thousands, except share data)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Income	Loss	Total
ance, December 31, 6	8,219,821	$ 181,971	135,029,126	$ 1,350	$ 1,682,809	$ (810,875)	$	$ 1,055,2
nprehensive Income income						221,349		221,3
er comprehensive me:								
ealized loss on vative financial uments							(814)	(8
nprehensive income						221,349	(814)	220,5
ance of common restricted shares			371,453	4	8,848			8,8
hase of common es			(3,114,500)	(31)	(77,905)			(77,9
emption of 8.60% es B Cumulative eemable shares	(5,416,009)	(135,400)			2,261	(2,261)		(135,4
ance of 6.75% es G Cumulative eemable shares	5,400,000	135,000			(4,252)			130,7
ustment for version of minority rests of unitholders perating partnerships			1,031,627	10	8,780			8,7
nmon stock ibutions declared 32 per share)						(177,540)		(177,5
erred stock ibutions ared-Series B ($1.07 share)						(4,819)		(4,8
erred stock ibutions						(3,726)		(3,7

ared-Series E ($1.33 share)									
erred stock ibutions declared ies G ($1.13 per e)							(5,366)		(5,3
ance, December 31, 7	**8,203,812**	**$ 181,571**	**133,317,706**	**$ 1,333**	**$ 1,620,541**		**$ (783,238)**	**$ (814)**	**$ 1,019,3**

See accompanying notes to consolidated financial statements.

54

UDR, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and formation

UDR, Inc., a Maryland corporation, was formed in 1972. We have activities related to the ownership, management, development, acquisition, renovation, and disposition of multifamily apartment communities nationwide. At December 31, 2007, we owned 234 communities.

Basis of presentation

The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P., (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP), (collectively, UDR). As of December 31, 2007, there were 166,130,747 units in the Operating Partnership outstanding, of which 157,477,187 units or 95% were owned by UDR and 8,653,560 units or 5% were owned by limited partners. As of December 31, 2007, there were 5,542,200 units in the Heritage OP outstanding, of which 5,225,748 units or 94% were owned by UDR and 316,452 units or 6% were owned by limited partners. The consolidated financial statements of UDR include the minority interests of the unitholders in the Operating Partnership and the Heritage OP. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

Real estate

Real estate assets held for investment are carried at historical cost less accumulated depreciation and any recorded impairment losses.

Expenditures for ordinary repair and maintenance costs are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to the acquisition and/or improvement of real estate assets are capitalized at cost and depreciated over their estimated useful lives if the expenditures qualify as a betterment or the life of the related asset will be substantially extended beyond the original life expectancy.

UDR recognizes impairment losses on long-lived assets used in operations when there is an event or change in circumstance that indicates an impairment in the value of an asset and the undiscounted future cash flows are not sufficient to recover the asset s carrying value. 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. If such indicators of impairment are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. Our estimates of fair market value represent our best estimate based upon industry trends and reference to market rates and transactions.

UDR purchases real estate investment properties from time to time and allocates the purchase price to various components, such as land, buildings, and intangibles related to in-place leases in accordance with FASB Statement No. 141, 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

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the present value of all cash flows expected to be generated from the property including an initial lease up period. UDR determines 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. The fair value of in-place leases is recorded and amortized as amortization expense over the remaining contractual lease period. UDR determines the fair value of in-place leases by considering 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.

For long-lived assets to be disposed of, impairment losses are recognized when the fair value of the asset less estimated cost to sell is less than the carrying value of the asset. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale which are expected to close within the next twelve months. Real estate held for disposition is carried at the lower of cost, net of accumulated depreciation, or fair value, less the cost to dispose, determined on an asset-by-asset basis. Expenditures for ordinary repair and maintenance costs on held for disposition properties are charged to expense as incurred. Expenditures for improvements, renovations, and replacements related to held for disposition properties are capitalized at cost. Depreciation is not recorded on real estate held for disposition.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets which is 35 years for buildings, 10 to 35 years for major improvements, and 3 to 10 years for furniture, fixtures, equipment, and other assets. The value of acquired in-place leases is amortized over the remaining term of each acquired in-place lease.

All development projects and related carrying costs are capitalized and reported on the Consolidated Balance Sheet as Real estate under development. As each building in a project is completed and becomes available for lease-up, the total cost of the building is transferred to real estate held for investment and the assets are depreciated over their estimated useful lives. The cost of development projects includes interest, real estate taxes, insurance, and allocated development overhead during the construction period.

Interest, real estate taxes, and incremental labor and support costs for personnel working directly on the development site are capitalized as part of the real estate under development to the extent that such charges do not cause the carrying value of the asset to exceed its net realizable value. During 2007, 2006, and 2005, total interest capitalized was $13.2 million, $5.2 million, and $2.8 million, respectively.

Cash equivalents

Cash equivalents include all cash and liquid investments with maturities of three months or less when purchased.

Restricted cash

Restricted cash consists of escrow deposits held by lenders for real estate taxes, insurance and replacement reserves, and security deposits.

Deferred financing costs

Deferred financing costs include fees and other external costs incurred to obtain debt financings and are generally amortized on a straight-line basis, which approximates the effective interest method, over a period not to exceed the

term of the related debt. Unamortized financing costs are written-off when debt is retired before its maturity date. During 2007, 2006, and 2005, amortization expense was $7.3 million, $6.1 million, and $6.5 million, respectively.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidation of joint venture partnerships

FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities, requires the Company to consolidate the assets, liabilities and results of operations of the activities of a variable interest entity if the Company is the primary beneficiary of the variable interest entity. The primary beneficiary is the partner that is entitled to receive a majority of the entity s residual returns and/or is subject to a majority of the risk of loss from such entity s activities. As of December 31, 2007, UDR has one development joint venture partnership in Marina del Rey, California, that is consolidated under FIN 46.

Investments in unconsolidated joint ventures

Investments in unconsolidated joint ventures are accounted for using the equity method when major business decisions require approval by the other partners and UDR does not have control of the assets or if the venture is a variable interest entity, but the Company is not the primary beneficiary. Investments are recorded at cost and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. UDR eliminates intercompany profits on sales of services that are provided to joint ventures. Differences between the carrying value of investments and the underlying equity in net assets of the investee are due to capitalized interest on the investment balance and capitalized development and leasing costs that are recovered by UDR through fees earned during construction. At December 31, 2007, UDR has three unconsolidated development joint ventures and one unconsolidated operating joint ventures that are accounted for under the equity method.

Revenue recognition

UDR s apartment homes are leased under operating leases with terms generally of one year or less. Rental income is recognized as it is earned.

Advertising costs

All advertising costs are expensed as incurred and reported on the Consolidated Statements of Operations within the line item Administrative and marketing. During 2007, 2006, and 2005, total advertising expense was $7.8 million, $9.3 million, and $11.2 million, respectively.

Comprehensive income

Comprehensive income, which is defined as all changes in equity during each period except for those resulting from investments by or distributions to stockholders, is displayed in the accompanying Statements of Stockholders Equity. For the year ended December 31, 2007, other comprehensive income consists of an unrealized loss from derivative financial instruments on an unconsolidated development joint venture in which UDR has a 49% interest.

Stock-based employee compensation plans

UDR adopted the fair-value-based method of accounting for share-based payments effective January 1, 2004 using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. UDR adopted FASB Statement No. 123(R), Share-Based Payments, (FAS 123(R)) on January 1, 2006

and has continued to use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees, which have not been granted since 2002. FAS 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date (as of January 1, 2006, there were no unvested stock options). UDR adopted FAS 123(R) using the modified prospective transition method (which applied only to awards granted, modified or settled after the adoption date). The adoption of the provisions of FAS 123(R) did not have a material impact on our financial position, results of operations, or cash flows.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minority interests of unitholders in operating partnerships

Interests in operating partnerships held by limited partners are represented by operating partnership units (OP Units). The operating partnerships income is allocated to holders of OP Units based upon net income available to common stockholders and the weighted average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to minority interests in accordance with the terms of the individual partnership agreements. OP Units can be exchanged for cash or shares of UDR s common stock on a one-for-one basis, at the option of UDR. OP Units, as a percentage of total OP Units and shares outstanding, were 5.4% at December 31, 2007, 6.1% at December 31, 2006, and 5.9% at December 31, 2005.

Minority interests of outside partnerships

UDR has limited partners in certain real estate partnerships acquired in certain merger transactions. Net income for these partnerships is allocated based upon the percentage interest owned by these limited partners in each respective real estate partnership.

Earnings per share

Basic earnings per common share is computed based upon the weighted average number of common shares outstanding during the year. Diluted earnings per common share is computed based upon common shares outstanding plus the effect of dilutive stock options and other potentially dilutive common stock equivalents. The dilutive effect of stock options and other potentially dilutive common stock equivalents is determined using the treasury stock method based on UDR s average stock price.

The following table sets forth the computation of basic and diluted earning per share *(dollars in thousands, except per share amounts):*

	2007	**2006**	**2005**
Numerator for basic and diluted earnings per share			
Net income available to common stockholders	**$ 205,177**	$ 113,235	$ 139,796
Denominator:			
Denominator for basic earnings per share			
Weighted average common shares outstanding	**134,888**	134,533	136,920
Non-vested restricted stock awards	**(872)**	(801)	(777)
	134,016	133,732	136,143
Effect of dilutive securities:			
Employee stock options, non-vested restricted stock awards, and convertible debt			

Denominator for dilutive earnings per share	**134,016**	133,732	136,143
Basic earnings per share	**$ 1.53**	$ 0.85	$ 1.03
Diluted earnings per share	**$ 1.53**	$ 0.85	$ 1.03

The effect of the conversion of the operating partnership units, Series A Out-Performance Partnership Units, convertible preferred stock, and convertible debt, is not dilutive and is therefore not included in the above calculations.

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If the operating partnership units were converted to common stock, the additional shares of common stock outstanding for the three years ended December 31, 2007, would be 7,762,070, 8,693,981 and 8,545,786 weighted average common shares, respectively.

If the Series A Out-Performance Partnership Shares were converted to common stock, the additional shares of common stock outstanding for the three years ended December 31, 2007, would be 0, 1,716,659 and 1,778,251 weighted average common shares, respectively. The Series A limited liability company was dissolved as of December 21, 2007.

At December 31, 2007, if the measurement periods had ended on that date, no Series C, D or E Out-Performance Partnership Shares would have been issued had each Program terminated on that date. Accordingly, no additional operating partnership units would have been issued at that date.

At December 31, 2006, if the measurement periods had ended on that date, Series C and D Out-Performance Partnership Shares would have been issued if each Program terminated on that date. Accordingly, 713,790 and 799,459 operating partnership units, respectively, would have been issued had the measurement periods ended on that date; however, those units have been excluded in the calculation of diluted earnings per share because their effect would be anti-dilutive.

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding for the years ended December 31, 2007 and 2006, would be 2,803,812 weighted average common shares.

Income taxes

UDR is operated as, and elects to be taxed as, a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). Generally, a REIT complies with the provisions of the Code if it meets certain requirements concerning its income and assets, as well as if it distributes at least 90% of its REIT taxable income to its stockholders and will not be subject to U.S. federal income taxes if it distributes at least 100% of its income. Accordingly, no provision has been made for federal income taxes of the REIT. UDR is subject to certain state and local excise or franchise taxes, for which provision has been made. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to United States Federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes and to United States Federal income tax. We also will be required to pay a 100% tax on non-arms length transactions between us and a taxable REIT subsidiary and on any net income from sales of property that the IRS successfully asserts was property held for sale to customers in the ordinary course.

The differences between net income available to common stockholders for financial reporting purposes and taxable income before dividend deductions relate primarily to temporary differences, principally real estate depreciation and the tax deferral of certain gains on property sales. The differences in depreciation result from differences in the book and tax basis of certain real estate assets and the differences in the methods of depreciation and lives of the real estate assets.

Impact of recently issued accounting pronouncements

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, (FAS 157) and in February 2007, Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (FAS 159). FAS 157 increases the consistency and comparability in fair value measurements and expands disclosures about fair value measurements. FAS 159 allows an entity to make a one-time election to measure many financial assets and financial liabilities at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, this statement specifies that all subsequent changes in fair value for that instrument are reported in earnings. Both

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statements are effective for fiscal years beginning after November 15, 2007. UDR does not believe the provisions of FAS 157 related to financial assets and liabilities will have a material impact on its consolidated financial statements. UDR is still assessing the impact of the provisions of FAS 157 related to non-financial assets and liabilities on its consolidated financial statements. UDR does not believe the provisions of FAS 159 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Business Combinations, (FAS 141R). FAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination, recognizing assets acquired and liabilities assumed arising from contingencies, and determining what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. FAS 141R is effective for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued Non-controlling Interests in Consolidated Financial Statements (FAS 160). FAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the non-controlling interest with disclosure of both amounts on the consolidated statement of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. FAS 160 is effective for fiscal years beginning after December 15, 2008.

2. REAL ESTATE OWNED

UDR operates in 30 markets dispersed throughout 14 states. At December 31, 2007, our largest apartment market was Orange County, California, where we owned 12% of our apartment homes, based upon carrying value. Excluding Orange County, California, UDR did not own more than 8% of its apartment homes in any one market, based upon carrying value.

The following table summarizes real estate held for investment at December 31, *(dollars in thousands):*

	2007	**2006**
Land and land improvements	**$ 1,130,016**	$ 1,062,480
Buildings and improvements	**2,832,547**	2,627,669
Furniture, fixtures, and equipment	**169,318**	163,450
Real estate held for investment	**4,131,881**	3,853,599
Accumulated depreciation	**(822,831)**	(708,233)
Real estate held for investment, net	**$ 3,309,050**	$ 3,145,366

Table of Contents

UDR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of real estate held for investment by major geographic markets (in order of carrying value, excluding real estate held for disposition and real estate under development) at December 31, 2007 (*dollars in thousands*):

	Number of Apartment Communities	Initial Acquisition Cost	Carrying Value	Accumulated Depreciation	Encumbrances
WESTERN REGION					
Orange County, CA	13	$ 642,350	$ 696,332	$ 72,650	$ 146,319
San Francisco, CA					