UDR, Inc.
Form 10-K
February 27, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2012
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
	For the transition period from to

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

Maryland (UDR, Inc.)	54-0857512
Delaware (United Dominion Realty, L.P.)	54-1776887
(State or other jurisdiction of incorporation 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 (UDR, Inc.)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Indicate by check mark 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

UDR, Inc.:			
Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	
United Dominion Realty, L.P.:			
Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

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

The aggregate market value of the shares of common stock of UDR, Inc. held by non-affiliates on June 30, 2012 was approximately $4.4 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 19, 2013 there were 250,179,737 shares of UDR, Inc's common stock outstanding.

There is no public trading market for the partnership units of United Dominion Realty, L.P. As a result, an aggregate market value of the partnership units of United Dominion Realty, L.P. cannot be determined.

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 UDR, Inc.'s definitive proxy statement for the 2013 Annual Meeting of Stockholders.

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EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2012 of UDR, Inc. a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company”, “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including the Operating Partnership. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership are referred to as “OP Units” and the holders of the OP Units are referred to as “unitholders”. This combined Form 10-K is being filed separately by UDR and the Operating Partnership.

There are a number of differences between our company and our operating partnership, which are reflected in our disclosure in this report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiary (“TRS”), RE^3, whose activities include development of land and land entitlement. UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding securities of UDR.

As of December 31, 2012, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,775,152 units (or approximately 94.9%) of the limited partnership interests of the Operating Partnership (the “OP Units”). UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchasers of Equity Securities” and “Control and Procedures” are provided for each of UDR and the Operating Partnership. In addition, certain disclosures in “Business” are separated by entity to the extent that the discussion relates to UDR’s business outside of the Operating Partnership.

PART I

Forward-Looking Statements

This Annual 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,” “likely,” “will,” “believes,” “seeks,” “estimates,” and variations of such words and similar ex 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, unfavorable changes in the apartment market, changing economic conditions, the impact of inflation/deflation on rental rates and property operating expenses, expectations concerning availability of capital and the stabilization of the capital markets, the impact of competition and competitive pricing, acquisitions, developments and redevelopments not achieving anticipated results, delays in completing developments, redevelopments and lease-ups on schedule, expectations on job growth, home affordability and demand/supply ratio for multifamily housing, expectations concerning development and redevelopment activities, expectations on occupancy levels, expectations concerning the Vitruvian Park® development, expectations concerning the joint ventures with third parties, expectations that automation will help grow net operating income, and expectations on annualized net operating income. 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 Annual 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. For a further discussion of these and other factors that could impact future results, performance or transactions, see “Item 1A. Risk Factors” elsewhere in this Annual Report.

Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

Item 1. BUSINESS

General

UDR is a self administered real estate investment trust, or REIT, that owns, operates, acquires, renovates, develops, redevelops, and manages multifamily apartment communities generally located in high barrier-to-entry markets located throughout the United States. The high barrier-to-entry markets are characterized by limited land for new construction, difficult and lengthy entitlement processes, low single-family home affordability and strong employment growth potential. At December 31, 2012, our consolidated apartment portfolio included 145 communities located in 22 markets, with a total of 41,571 completed apartment homes, which are held through our subsidiaries, including the Operating Partnership, and consolidated joint ventures. In addition, we have an ownership interest in 39 communities containing 9,558 apartment homes through unconsolidated joint ventures. At December 31, 2012, the Company is developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.

At December 31, 2012, the Operating Partnership’s consolidated apartment portfolio included 72 communities located in 19 markets, with a total of 21,660 completed apartment homes. The Operating Partnership owns, operates, acquires, renovates, develops, redevelops, and manages multifamily apartment communities generally located in high barrier-to-entry markets located throughout the United States. During the year ended December 31, 2012, revenues of the Operating Partnership represented approximately 54% of our total rental revenues.

UDR elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, which we refer to in this Report as the “Code”. To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gains) to our stockholders annually. As a qualified REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our stockholders annually. In 2012, we declared total distributions of $0.88 per common share and paid dividends of $0.88 per common share.

	Dividends Declared in 2012	Dividends Paid in 2012
First Quarter	$0.220	$0.215
Second Quarter	0.220	0.220
Third Quarter	0.220	0.220
Fourth Quarter	0.220	0.220
Total	$0.880	$0.875

UDR was formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. The Operating Partnership is the successor-in-interest to United Dominion Realty, L.P., a limited partnership formed under the laws of Virginia, which commenced operations in 1995. The Operating Partnership was redomiciled in 2004 as a Delaware limited partnership. Our corporate offices are located at 1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado and our telephone number is (720) 283-6120. Our website is located at www.udr.com.

As of February 18, 2013, we had 1,551 full-time associates and 82 part-time associates, all of whom were employed by UDR.

Reporting Segments

We report in two segments: Same Communities and Non-Mature/Other Communities. Our Same Communities segment includes those communities acquired, developed, and stabilized prior to January 1, 2011, and held as of December 31, 2012. These communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, there is no plan to conduct substantial redevelopment activities, and the community is not classified as held for sale at year end. A community is considered to have stabilized occupancy once it achieves 90% occupancy for at least three consecutive months. Our Non-Mature/Other Communities segment includes those communities that were acquired or developed in 2011 or 2012, sold properties, redevelopment properties, properties classified as real estate held for sale, consolidated joint venture properties, properties managed by third parties, and the non-apartment components of mixed use properties. For additional information regarding our operating segments, see Note 14 to UDR's consolidated financial statements and Note 11 to the Operating Partnership's consolidated financial statements.

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 high barrier-to-entry markets, which are characterized by limited land for new construction, difficult and lengthy entitlement processes, low single-family home affordability and strong employment growth potential, thus enhancing stability and predictability of returns to our stockholders;
- manage real estate cycles by taking an opportunistic approach to buying, selling, renovating, and developing apartment communities;
- empower site associates to manage our communities efficiently and effectively;
- measure and reward associates based on specific performance targets; and
- manage our capital structure to help enhance predictability of earnings and dividends.

2012 Highlights

- In July 2012, the Company marked its 40th year as a REIT and paid its 160th consecutive quarterly dividend. The Company's full-year 2012 dividend of $0.88 represented a 10% increase over the previous year.
- We formed a new unconsolidated real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest. The initial 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. In addition, we exchanged our 12% ownership interest in four operating communities, and 3.1% ownership in two land parcels in our UDR/MetLife I joint venture, and paid $10

million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown

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Seattle, bringing UDR's ownership interest in The Olivian to 50%. The Olivian was contributed to the UDR/MetLife II joint venture. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina; and Chicago, Illinois. At December 31, 2012, there are 13 communities with 2,752 apartment homes and land parcels in the UDR/MetLife I joint venture. The Company serves as the general partner of both joint ventures with significant participating rights held by our partner. The Company earns property management, asset management and financing fees.

- We acquired the remaining 80% ownership interests in two apartment communities (633 homes) in Austin, Texas for $11.7 million from our Texas joint venture.
- We acquired two parcels of land for development in San Francisco, California and Boston, Massachusetts for a total purchase price of $77.2 million.
- We formed two consolidated joint ventures with unaffiliated third parties to acquire land for future development in Santa Monica, California. At closing, UDR owned a controlling interest of 95% in the joint ventures for an initial investment of $10.3 million and $7.0 million.
- We sold 21 communities with 6,507 apartment homes for $609.4 million, recognizing a gain (before tax) of $260.4 million.
- We issued $400 million aggregate principal amount of 4.625% Medium Term Notes due January 2022. Interest is payable semiannually beginning in July 2012. The notes were priced at 99.100% of the principal amount plus accrued interest from January 10, 2012 to yield 4.739% to maturity. The notes are fully and unconditionally guaranteed by the Operating Partnership.
- We repaid $491.9 million of secured debt. The $491.9 million of secured debt includes $157.2 million of construction loans, which were due at various dates ranging from November 2012 through October 2014 with variable interest rates ranging from 2.23% to 2.46% and with a fixed interest rate of 3.25%; repayment of $212.5 million of credit facilities, which were due at various dates ranging from April 2012 through May 2017 with variable interests rates ranging from 0.75% to 2.85% and with fixed interest rates ranging from 4.86% to 6.12%; and $122.2 million of mortgage payments, which were due at various dates ranging from August 2012 through June 2032 with fixed interest rates ranging from 3.43% to 6.76% and a variable interest rate of 1.84%.
- We repaid $445.0 million of unsecured debt, which includes $100 million of 5.00% Medium Term Notes due January 2012, and net payments of $345.0 million were applied toward borrowings under the Company's $900 million revolving credit facility.
- In September 2011, the Company entered into an equity distribution agreement in connection with filing a new registration statement on Form S-3. The equity distribution agreement replaced the prior equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents, and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes.
- We completed the redemption of all outstanding shares of our 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million.
- We closed on a public offering of 19,000,000 shares of our common stock, in addition to 2,850,000 shares sold as a result of the underwriters' exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and estimated offering expenses. Proceeds from the sale of shares through this offering

were used to repay approximately $363.9 million of the Company's 3.3% (weighted average interest rate) secured debt with various maturities from 2012 - 2014, to redeem all of our outstanding Series G Preferred Stock, to repay a portion of indebtedness outstanding under our unsecured credit facility, and the balance for working capital and general corporate purposes.

- We purchased mezzanine debt securing a mortgage on a class A community in West Los Angeles, California. The

$26.5 million loan was purchased at a yield of 7.25% and bears a coupon rate of 7.00%. Interest payments are due monthly and the note is due June 2022.

- We issued a $24.5 million unsecured note receivable to one of our unconsolidated joint ventures, which bears an interest rate of one month LIBOR plus 2.75% per annum. Interest payments are due monthly. The note is due October 2014, and may be extended for one year.

Other than the following, there were no significant changes to the Operating Partnership's business during 2012 (the above 2012 highlights relate to UDR or other subsidiaries of UDR):

- The Operating Partnership sold four communities with 1,314 apartment homes for a gain of $51.1 million.

Our Strategies and Vision

Our vision is to be the innovative multifamily public real estate investment trust of choice. Our strategic priorities are:

1. Strengthen the Quality of Our Portfolio
2. Increase Cash Flow to Support Dividend Growth
3. Flexible/Strong Balance Sheet
4. A Great Place to Work and Live

Capital Allocation

Acquisitions and Dispositions

During 2012, we acquired the remaining 80% ownership interests in two apartment communities (633 homes) in Austin, Texas for $11.7 million from our Texas joint venture partner.

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million, and UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the city, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between the fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture. The Company's total investment is $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a 98.0% interest in the joint venture. The Company's total investment is $26.6 million, which consists of its initial investment and the acquisition of its partner's 2.0% ownership interest in the joint venture.

In 2012, the Company formed two consolidated joint ventures with unaffiliated third parties to acquire land for future development in Santa Monica, California. At closing, UDR owned a controlling interest of 95% in the joint ventures for an initial investment of $10.3 million and $7.0 million.

The Operating Partnership did not have any acquisitions during the year ended December 31, 2012.

When evaluating potential acquisitions, we consider:

- population growth, cost of alternative housing, overall potential for economic growth and the tax and regulatory

environment of the community in which the property is located;
- geographic location, including proximity to jobs, entertainment, transportation, and our existing communities which can deliver significant economies of scale;
- construction quality, condition and design of the community;
- current and projected cash flow of the property and the ability to increase cash flow;
- potential for capital appreciation of the property;
- ability to increase the value and profitability of the property through operations and redevelopment;
- high barrier-to-entry markets which are characterized by low single-family affordability and strong employment growth potential;
- 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.

During 2012, we sold 21 communities (6,507 apartment homes) for $609.4 million, recognizing a gain (before tax) of $260.4 million. Four of these communities (1,314 apartment homes) were owned by the Operating Partnership, and were sold for a gain of $51.1 million.

We regularly monitor our assets to increase the quality and performance of our portfolio. Factors we consider in deciding whether to dispose of a property include:
- current market price for an asset compared to projected economics for that asset;
- potential increases in new construction in the market area;
- areas with low job growth prospects;
- markets where we do not intend to establish a long-term concentration; and
- operating efficiencies.

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

	2012	2011	2010	2009	2008
Homes acquired	633	3,161	1,374	289	4,558
Homes disposed	6,507	4,488	149	—	25,684
Homes owned at December 31	41,571	47,343	48,553	45,913	44,388
Total real estate owned, at cost	$8,055,828	$8,074,471	$6,881,347	$6,315,047	$5,831,753

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

	2012	2011	2010	2009	2008
Homes acquired	—	1,833	—	—	3,346
Homes disposed	1,314	2,024	—	—	16,960
Homes owned at December 31	21,660	23,160	23,351	23,351	23,351
Total real estate owned, at cost	$4,182,920	$4,205,298	$3,706,184	$3,640,888	$3,569,239

Development Activities

During 2012, we incurred $246.9 million for development costs.

The following wholly-owned projects were under development as of December 31, 2012 (dollars in thousands):

	Location	Number of Apartment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
Capitol View on Fourteenth	Washington, DC	255	76	$117,851	$126,100	$495	1Q13
Fiori on Vitruvian Park	Addison, TX	391	—	70,315	98,350	252	3Q13
The Residences at Bella Terra	Huntington Beach, CA	467	—	89,809	150,000	321	4Q13
Mission Bay	San Fransisco, CA	315	—	77,444	139,600	443	4Q13
Los Alisos (a)	Mission Viejo, CA	320	—	47,723	87,050	272	4Q13
The Calvert (a)	Alexandria, VA	332	—	39,670	132,000	398	2Q14
Beach Walk	Huntington Beach, CA	173	—	15,895	50,700	293	2Q14
Pier 4	Boston, MA	369	—	32,341	217,700	590	2Q15
		2,622	76	$491,048	$1,001,500	$382	

(a) These projects are held by the Operating Partnership.

Redevelopment Activities

During 2012, we continued to redevelop properties in targeted markets where we concluded there was an opportunity to add value. During the year ended December 31, 2012, we incurred $104.3 million in major renovations, which include major structural changes and/or architectural revisions to existing buildings.

At December 31, 2012, the following communities were in redevelopment (dollars in thousands):

	Location	Number of Apartment Homes	Completed Apartment Homes	Cost to Date	Budgeted Cost	Estimated Cost Per Home	Expected Completion Date
The Westerly on Lincoln	Marina del Rey, CA	583	357	$29,768	$36,100	$62	2Q13
Rivergate	New York, NY	706	124	16,830	60,000	85	3Q14
Pine Brook I & II	Costa Mesa, CA	496	22	6,065	38,700	78	2Q14
Villa Venetia	Costa Mesa, CA	468	99	22,355	36,600	78	2Q14
		2,253	602	$75,018	$171,400	$76	

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Joint Venture Activities

Consolidated joint ventures

In 2011, the Company invested in a joint venture with an unaffiliated third party to acquire and redevelop Beach Walk, an existing commercial property, into a 173 apartment home community in Huntington Beach, California. At closing, the Company contributed $9.0 million and UDR owned a 90% controlling interest in the investment. Under the terms of the operating agreement, our partner was required to achieve certain criteria as it relates to the entitlement process. If the criteria were met on or before 730 days after the site plan application was deemed complete by the City of Huntington Beach, the Company was obligated to contribute an additional $3.0 million to the joint venture for distribution to our partner. At the acquisition date, the Company accrued and capitalized $3.0 million related to the contingent consideration, which represented the difference between fair value of the property of $9.8 million on the formation date and the estimated fair value of the underlying property upon completion of the entitlement process of $12.8 million. The Company estimated the fair value based on Level 3 inputs utilized in a third party valuation. In 2012, the Company paid the joint venture partner a total of $4.1 million for its 10% non-controlling interest and settlement of the contingent consideration.

In January 2012, the Company formed a joint venture with an unaffiliated third party to acquire 399 Fremont (land for future development) in San Francisco, California. At closing, UDR owned a non-controlling interest of 92.5% in the joint venture. The Company's total investment is $55.5 million, which consists of its initial investment of $37.3 million and an option to exercise its right to acquire its partner's 7.5% ownership interest in the joint venture. In October 2012, the Company exercised its option and paid $13.5 million. In January 2013, the Company subsequently acquired its partner's 7.5% ownership interest for $4.7 million.

In May 2012, the Company formed a joint venture with an unaffiliated third party to acquire Pier 4 (land for future development) in Boston, Massachusetts. At closing, UDR owned a 98.0% interest in the joint venture. The Company's total investment of $26.6 million consists of its initial investment and the acquisition of its partner's 2.0% ownership interest in the joint venture.

In September 2012, the Company formed a joint venture with an unaffiliated third party to acquire 3032 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $10.3 million.

In October 2012, the Company formed a joint venture with an unaffiliated third party to acquire 2919 Wilshire (land for future development) in Santa Monica, California. At closing and at December 31, 2012, UDR owned a controlling interest of 95% in the joint venture for an initial investment of $7.0 million.

Unconsolidated joint ventures

In January 2012, the Company formed a new real estate joint venture, UDR/MetLife II, with MetLife wherein each party owns a 50% interest in a $1.3 billion portfolio of 12 operating communities containing 2,528 apartment homes. The 12 communities in the joint venture include seven from UDR/MetLife I while the remaining five operating communities were newly acquired by UDR/MetLife II. The newly acquired communities, collectively known as Columbus Square, are recently developed, high-rise apartment buildings located on the Upper West Side of Manhattan and were purchased for $637.5 million. The Company serves as the general partner with significant participating rights held by our partner. The Company earns property management, asset management and financing fees. Our initial investment was $327.1 million, which consisted of $293.5 million of cash paid and $33.6 million of our equity in the seven communities transferred from UDR/MetLife I. (Of the $293.5 million of cash paid for its investment, the Company paid $80.4 million of purchase deposits for the acquisition of Columbus Square in 2011.)

In November 2012, the Company exchanged its 12% ownership interest in four operating communities and 3.1% ownership in two land parcels in UDR/MetLife I, and paid MetLife $10.0 million in cash for an additional 41% ownership interest in The Olivian, a high-rise building located in downtown Seattle, bringing UDR's ownership interest in The Olivian to 50%. The community was contributed to UDR/MetLife II. The properties and land parcels in which UDR exchanged its ownership interest are located in Houston, Texas; Tampa, Florida; Charlotte, North Carolina; and Chicago, Illinois. UDR will continue to fee manage the four operating communities.

For additional information regarding these and our other joint ventures, see Note 5, Joint Ventures to the Consolidated Financial Statements of UDR, Inc. in this Report.
The Operating Partnership is not a party to any of the joint venture activities described above.

Balance Sheet Management

We maintain a capital structure that we believe allows us to proactively source potential investment opportunities in the marketplace. We have structured our debt maturity schedule to be able to opportunistically access both secured and unsecured debt markets when appropriate.

Financing Activities

As part of our plan to consistently strengthen our capital structure, we utilized proceeds from debt and equity offerings and refinancings to extend maturities, pay down existing debt and acquire apartment communities during 2012. The following is a summary of our major financing activities in 2012.

- We repaid $491.9 million of secured debt. The $491.9 million of secured debt includes $157.2 million of construction loans, which were due at various dates ranging from November 2012 through October 2014 with variable interest rates ranging from 2.23% to 2.46% and with a fixed interest rate of 3.25%; repayment of $212.5 million of credit facilities, which were due at various dates ranging from April 2012 through May 2017 with variable interests rates ranging from 0.75% to 2.85% and with fixed interest rates ranging from 4.86% to 6.12%; and $122.2 million of mortgage payments, which were due at various dates ranging from August 2012 through June 2032 with fixed interest rates ranging from 3.43% to 6.76% and a variable interest rate of 1.84%;

- We repaid $445.0 million of unsecured debt, which includes $100 million of 5.00% Medium Term Notes due January 2012, and net payments of $345.0 million were applied toward borrowings under the Company’s $900 million revolving credit facility;

- We issued $400 million in 4.625% Medium Term Notes due January 2022 with a discount of $3.6 million;

- In September 2011, the Company entered into an equity distribution agreement in connection with filing a new registration statement on Form S-3. The equity distribution agreement replaced the prior equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock over time to or through its sales agents and no material changes were made to the equity distribution agreement. On April 4, 2012, the Company entered into a new equity distribution agreement, under which the Company could offer and sell up to 20 million shares of its common stock, from time to time, to or through its sales agents. During the year ended December 31, 2012, we sold 8,640,969 shares of common stock through these programs for aggregate gross proceeds of approximately $222.1 million at a weighted average price per share of $25.18. Aggregate net proceeds from such sales, after deducting related expenses, including commissions paid to the sales agents of approximately $4.5 million, were approximately $217.6 million, and were used to fund development and redevelopment activities, for working capital and for general corporate purposes; and

- In June 2012, we closed a public offering of 19,000,000 shares of our common stock, in addition to 2,850,000 shares sold as a result of the underwriters’ exercise of their overallotment option in full at the closing, at a price of $25.70 per share, for gross proceeds of approximately $561.5 million and net proceeds of approximately $538.8 million after underwriting discounts and commissions and offering expenses.

Operational Excellence, Cash Flow and Dividend Growth

Investment in new technologies continue to drive operating efficiencies in our business and help us to better meet the changing needs of our residents. Since its launch in January 2009, our residents have been utilizing our web-based resident internet portal on our website. Our residents have the ability to conduct business with us 24 hours a day, 7 days a week. In July 2010, we completed the roll out of online leasing renewals throughout our portfolio. As a result of transforming our operations through technology, resident’s satisfaction improved, and our operating teams have become more efficient. Web-based technologies have also resulted in declining marketing and advertising costs, improved cash management, and better pricing management of our available apartment homes.

In 2012, UDR.com features and functionality were enhanced to increase a user’s engagement and search capability. Improvements included a new responsive website, new photography, enhancements to the online web forms and improved layout of the individual UDR community homepages. We also overhauled our mobile applications. These overall enhancements have increased our web visitor traffic year-over-year to almost 3.6 million visitors in 2012, up 16%, with mobile traffic at 1.1 million visitors, up 121%.

Portfolio Improvement

We are focused on increasing our presence in markets with favorable job formation, high propensity to rent, low single-family home affordability, and a favorable demand/supply ratio for multifamily housing. Portfolio investment decisions consider internal analyses and third-party research.

For the year ended December 31, 2012, approximately 63.3% of our same store net operating income ("NOI") was generated by communities located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Boston, Massachusetts; Baltimore, Maryland; and Washington, D.C.

Operating Partnership Strategies and Vision

The Operating Partnership's long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets and enhance resident and associate service through technology. As a result, the Operating Partnership has sought to expand its interests in communities located in New York, New York; San Francisco Bay Area, California; Boston, Massachusetts; and Washington D.C. markets over the past years. Prospectively, we plan to continue to channel new investments into those markets we believe will continue to provide the best investment returns. Markets will be targeted based upon defined criteria including above average job growth, low single-family home affordability and limited new supply for multifamily housing, which are three key drivers to strong rental growth.

Markets and Competitive Conditions

During the year ended December 31, 2012, 63.3% of our consolidated same store net operating income was generated from apartment homes located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Boston, Massachusetts; Baltimore, Maryland; and Washington, D.C. At December 31, 2012, the Company held 71.4% of its carrying value of its real estate portfolio in our core markets. During the year ended December 31, 2012, 66.3% of the Operating Partnership's same store net operating income was generated from apartment homes located in our core markets of: Seattle, Washington; San Francisco Bay Area, California; Los Angeles, California; Orange County, California; San Diego, California; Austin, Texas; Dallas, Texas; Baltimore, Maryland; and Washington, D.C. At December 31, 2012, the Operating Partnership held 81.0% of its carrying value of its real estate portfolio in its core markets. 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.

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

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

- a fully integrated organization with property management, development, redevelopment, acquisition, marketing, sales and financing expertise;
- scalable operating and support systems, which include automated systems to meet the changing electronic needs of our residents and to effectively focus on our Internet marketing efforts;
- access to sources of capital;
- geographic diversification with a presence in 23 markets across the country; and
- significant presence in many of our major markets that allows us to be a local operating expert.

Moving forward, we will continue to optimize lease management, improve expense control, increase resident retention efforts and align employee incentive plans with 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 upside in spite of a weak economic environment.

Communities

At December 31, 2012, our apartment portfolio included 145 consolidated communities having a total of 41,571 completed apartment homes and an additional 2,622 apartment homes under development, which included the Operating Partnership’s apartment portfolio of 72 consolidated communities having a total of 21,660 completed apartment homes. The overall quality of our portfolio enables us to raise rents and to attract residents with higher levels of disposable income who are more likely to absorb such rents.

At December 31, 2012, the Company is developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed. Of these eight development communities, the Operating Partnership is developing two wholly-owned communities totaling 652 homes, none of which have been completed at December 31, 2012.

At December 31, 2012, the Company is redeveloping four wholly-owned communities with 2,253 apartment homes, 602 of which have been completed. Of these four redevelopment communities, the Operating Partnership is redeveloping two wholly-owned communities with 964 apartment homes, of which 121 have been completed at December 31, 2012.

Same Store Community Comparison

We believe that one pertinent quantitative measurement of the performance of our portfolio is tracking the results of our same store communities’ net operating income (“NOI”), which is total rental revenue, less rental expenses excluding property management and other operating expenses. Our same store community population are operating communities which we own and have stabilized occupancy, revenues and expenses as of the beginning of the prior year.

For the year ended December 31, 2012, our same store NOI increased by $21.6 million or 6.6% compared to the prior year. The increase in NOI for the 33,823 apartment homes, or 70% of our portfolio, which make up the same store population was driven by an increase in rental rates, fee and reimbursement income, and increased occupancy, partially offset by an increase in operating expenses.

For the year ended December 31, 2012, the Operating Partnership’s same store NOI increased by $12.4 million or 6.5% compared to the prior year. The increase in NOI for the 17,880 apartment homes, or 72% of the Operating Partnerships portfolio, which make up the same store population was driven by an increase in rental rates, and fee and reimbursement income, partially offset by an increase in operating expenses.

Revenue growth in 2013 may be impacted by general adverse conditions affecting the economy, reduced occupancy rates, increased rental concessions, increased bad debt and other factors which may adversely impact our ability to increase rents.

Tax Matters

UDR has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, UDR 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 our TRS 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. Our TRS generally is taxable as a regular corporation, and therefore, subject to federal, state and local income taxes.

The Operating Partnership intends to qualify as a partnership for federal income tax purposes. As a partnership, the Operating Partnership generally is not a taxable entity and does not incur federal income tax liability. However, any state or local revenue, excise or franchise taxes that result from the operating activities of the Operating Partnership are incurred at the entity level.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While the impact of inflation primarily impacts our results through wage pressures, property taxes, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for any inflationary effects by increasing rents on our apartment homes. Although an escalation in energy and food costs could have a negative impact on our residents and their ability to absorb rent increases, we do not believe this has had a material impact on our results for the year ended December 31, 2012.

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

Executive Officers of the Company

UDR is the sole general partner of the Operating Partnership. The following table sets forth information about our executive officers as of February 19, 2013. 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	52	President, Chief Executive Officer, and Director	2001
Warren L. Troupe	59	Senior Executive Vice President	2008
Harry G. Alcock	50	Senior Vice President — Asset Management	2010
Jerry A. Davis	50	Senior Vice President — Chief Operating Officer	2013
Thomas M. Herzog	50	Senior Vice President — Chief Financial Officer	2013
Mark A. Schumacher	54	Senior Vice President — Chief Accounting Officer	2012
R. Scott Wesson	50	Senior Vice President — Chief Information Officer	2011

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

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

Mr. Troupe oversees all financial, treasury, tax and legal functions of the Company. He joined us in March 2008 as Senior Executive Vice President. In May 2008, he was appointed the Company’s Corporate Compliance Officer and in October 2008 he was named the Company’s Corporate Secretary. Prior to joining us, Mr. Troupe was a partner with Morrison & Forester LLP from 1997 to 2008, where his practice focused on all aspects of corporate finance including, but not limited to, public and private equity offerings, traditional loan structures, debt placements to subordinated debt financings, workouts and recapitalizations. He currently is a member of the National Multi Housing Council (NMHC), the Pension Real Estate Association (PREA) and the Urban Land Institute.

Mr. Alcock oversees the Company’s acquisitions, dispositions, development, redevelopment and asset management. He joined us in December 2010 as Senior Vice President — Asset Management. Prior to joining the company, Mr. Alcock was with AIMCO for over 16 years, serving most recently as Executive Vice President, co-Head of Transactions and Asset Management. He was appointed Executive Vice President and Chief Investment officer in 1999, a position he held through 2007. Mr. Alcock established and chaired the company’s Investment Committee, established the portfolio management function and at various times ran the property debt and redevelopment departments. Prior to the formation of AIMCO, from 1992 to 1994, Mr. Alcock was with Heron Financial and PDI, predecessor companies to AIMCO. From 1988 to 1992 he worked for Larwin Company, a national homebuilder.

Mr. Davis oversees property operations, human resources and technology. He originally joined us in March 1989 as Controller and subsequently moved into Operations as an Area Director and in 2001, he accepted the position of Chief Operating Officer of JH Management Co., a California-based apartment company. He returned to the Company in March 2002 and in 2007, Mr. Davis was promoted to Senior Vice President — Property Operations. Mr. Davis was promoted to Chief Operating Officer in 2013. He began his career in 1984 as a Staff Accountant for Arthur Young & Co.

Mr. Herzog oversees the areas of accounting, tax, financial planning and analysis, investor relations and SEC reporting. He joined us in January 2013 as Senior Vice President — Chief Financial Officer. Prior to joining the Company, Mr. Herzog served as Chief Financial Officer for Amstar, a Denver-based real estate investment company. From 2009 to 2011 Mr. Herzog served as Chief Financial Officer of HCP, Inc., an S&P 500 health care REIT. From 2004 to 2009 Mr. Herzog was with AIMCO where he began in the role of Senior Vice President and Chief Accounting Officer and then was promoted in 2005 to Executive Vice President and Chief Financial Officer. From

2000 to 2004 he served in the roles of Chief Accounting Officer & Global

Controller and Finance Technical Advisor for GE Real Estate. Prior to joining GE Real Estate, Mr. Herzog was with Deloitte & Touche LLP for ten years, where he served in positions of increasing responsibility, including a two-year national office assignment in the real estate group.

Mr. Schumacher oversees all accounting and tax functions of the Company. He joined us in April 2012 as Senior Vice President — Chief Accounting Officer. Prior to joining the Company, Mr. Schumacher was with Houghton Mifflin Harcourt, a textbook and trade publisher, from 2008 to 2011, where he initially served as Senior Vice President, Finance & Chief Accounting Officer and was promoted to Executive Vice President, Chief Financial Officer for the K-12 division. From 2002 to 2007 he was with Archstone Smith as Senior Vice President, Chief Accounting Officer. Prior to this time Mr. Schumacher was with US West for over 17 years where he held positions of increasing responsibility in accounting, budgeting and financial analysis. The company merged with Qwest Communications in 2000, where he served as Vice President, Controller from January 2001 through December 2001. Qwest and Mr. Schumacher were the subject of civil and administrative actions brought by the Securities and Exchange Commission in 2004 and 2005 related to accounting, internal control and reporting violations at Qwest. Mr. Schumacher began his career as an accountant with Coopers & Lybrand in Denver, Colorado.

Mr. Wesson oversees all aspects of the company's information technology infrastructure and strategy. He joined us in May 2011 as Senior Vice President — Chief Information Officer. Prior to joining the Company, Mr. Wesson was with RealFoundations, a global real estate management consultancy, where he served as Managing Director from 2008 to 2011. From 1997 to 2008 he was with AIMCO where he served as Senior Vice President, Chief Investment Officer. He took on the additional role of Chief Strategy Officer for AIMCO in 2006. From 1991 to 1997 Mr. Wesson was with Lincoln Property Company in the role of Vice President of Information Systems. Prior to that time he worked for five years as a District Manager for ADP. Mr. Wesson began his career in Dallas, Texas working as an Analyst for Federated Department Stores.

Available Information

Both UDR and the Operating Partnership file electronically with the Securities and Exchange Commission their respective 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.

Item 1A. RISK FACTORS

There are many factors that affect the business and the results of operations of the Company and the Operating Partnership, some of which are beyond the control of the Company and the Operating Partnership. The following is a description of important factors that may cause the actual results of operations of the Company and the Operating Partnership in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this Report relating to our financial results, operations and business prospects. Forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Report, and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based, except to the extent otherwise required by law.

Risks Related to Our Real Estate Investments and Our Operations

Unfavorable Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels, Rental Revenues and the Value of Our Real Estate Assets. Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions generally may significantly affect our occupancy levels, our rental rates and collections, the value of the properties and our ability to strategically acquire or dispose of apartment communities on economically favorable terms. Our ability to lease our properties at favorable rates is adversely affected by the increase in supply in the multifamily market and is dependent upon the overall level in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, the downturn in the housing market, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to pay our indebtedness and to distribute to UDR’s stockholders, which could adversely affect our financial condition and the market value of our securities. Factors that may affect our occupancy levels, our rental revenues, and/or the value of our properties include the following, among others:

- downturns in the national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates, making alternative housing more affordable;
- government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing options more attractive;
- local real estate market conditions, including oversupply of, or reduced demand for, apartment homes;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- changes in market rental rates;
- our ability to renew leases or re-lease space on favorable terms;
- the timing and costs associated with property improvements, repairs or renovations;
- declines in household formation; and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

Continued Economic Weakness Following the Economic Recession that the U.S. Economy Recently Experienced May Materially and Adversely Affect our Financial Condition and Results of Operations. The U.S. economy continues to experience some weakness following a severe recession, including relatively high levels of unemployment and weak consumer spending. If the economic recovery slows or stalls, or if the economy experiences another recession, we may experience adverse effects on our occupancy levels, our rental revenues and the value of our properties, any of which could adversely affect our cash flow, financial condition and results of operations. We are also exposed to risks relating to the housing market recovery that has accompanied the economic recovery, to the extent that when demand for single family homes increases, demand for apartments may decline, which could adversely affect our cash flow, financial condition and results of operations.

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Substantial International, National and Local Government Spending and Increasing Deficits May Adversely Impact Our Business, Financial Condition and Results of Operations. The values of, and the cash flows from, the properties we own are affected by developments in global, national and local economies. As a result of the most recent recession and the significant government interventions, federal, state and local governments have incurred record deficits and assumed or guaranteed liabilities of private financial institutions or other private entities. These increased budget deficits and the weakened financial condition of federal, state and local governments may lead to reduced governmental spending, tax increases, public sector job losses, increased interest rates, currency devaluations or other adverse economic events, which may directly or indirectly adversely affect our business, financial condition and results of operations.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses. The general risk of inflation is that our debt interest and general and administrative expenses increase at a rate higher than our rental rates. The predominant effects of deflation include high unemployment and credit contraction. Restricted lending practices could impact our ability to obtain financing or refinancing for our properties. High unemployment may have a negative effect on our occupancy levels and our rental revenues.

We Are Subject to Certain Risks Associated with Selling Apartment Communities, Which Could Limit Our Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities:

- a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended, or the "Code," so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales; and
- federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

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

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

- we may be unable to obtain financing for acquisitions on favorable terms or at all;
- even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the acquisition;
- even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;
- we may incur significant costs and divert management attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;
- when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing profitability, and these additional investments may not produce the anticipated improvements in profitability; and

- we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

Competition Could Adversely Affect Our Ability to Acquire Properties. In the past, other real estate investors, including insurance companies, pension and investment funds, developer partnerships, investment companies and other public and private apartment REITs, have competed with us to acquire existing properties and to develop new properties, and such competition in the future may make it more difficult for us to pursue attractive investment opportunities on favorable terms, which could adversely affect our ability to grow.

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

- we may be unable to obtain construction financing for development activities under favorable terms, including but not limited to interest rates, maturity dates and/or loan to value ratios, or at all which could cause us to delay or even abandon potential developments;
- we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations;
- yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than expected;
- if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited;
- we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities;
- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;
- occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community; and
- when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

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

Bankruptcy or Defaults of Our Counterparties Could Adversely Affect Our Performance. We have relationships with and, from time to time, we execute transactions with or receive services from many counterparties, such as general contractors engaged in connection with our development activities. As a result, bankruptcies or defaults by these counterparties could result in services not being provided, or volatility in the financial markets and economic weakness could affect the counterparties' ability to complete transactions with us as intended, both of which could result in disruptions to our operations that may adversely affect our business and results of operations.

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/or 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. Also, our joint venture partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. Frequently, we and our partners may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of

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our interest in the joint venture (if we are the seller) or of the other partner's interest in the joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process.

We also are also subject to risk in cases where an institutional owner is our joint venture partner, including (i) a deadlock if we and our joint venture partner are unable to agree upon certain major and other decisions, (ii) the limitation of our ability to liquidate our position in the joint venture without the consent of the other joint venture partner, and (iii) the requirement to provide guarantees in favor of lenders with respect to the indebtedness of the joint venture.

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

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

As a result of our substantial real estate holdings, the cost of insuring our apartment communities is a significant component of expense. Insurance premiums are subject to significant increases and fluctuations, which can be widely outside of our control. We insure our properties with insurance companies that we believe have a good rating at the time our policies are put into effect. The financial condition of one or more of our insurance companies that we hold policies with may be negatively impacted resulting in their inability to pay on future insurance claims. Their inability to pay future claims may have a negative impact on our financial results. In addition, the failure of one or more insurance companies may increase the costs to renew our insurance policies or increase the cost of insuring additional properties and recently developed or redeveloped properties.

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

- inability to accurately evaluate local apartment market conditions and local economies;
- inability to hire and retain key personnel;
- lack of familiarity with local governmental and permitting procedures; and
- inability to achieve budgeted financial results.

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

In addition, our properties are subject to various federal, state and local environmental, health and safety laws, including laws governing the management of wastes and underground and aboveground storage tanks. Noncompliance with these environmental, health and safety laws could subject us to liability. Changes in laws could increase the potential costs of compliance with environmental laws, health and safety laws or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material, or ACM. Environmental, health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements.

These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our shareholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations.

Our Properties May Contain or Develop Harmful Mold or Suffer from Other Indoor Air Quality Issues, Which Could Lead to Liability for Adverse Health Effects or Property Damage or Cost for Remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

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

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Real Estate Tax and Other Laws. Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect net operating income and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

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

Risk of Earthquake Damage. Some of our communities are located in the general vicinity of active earthquake faults. We cannot assure you that an earthquake would not 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 earthquakes can be costly 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 or the cost of insurance makes it, in management's view, economically impractical.

Risk of Accidental Death Due to Fire, Natural Disasters or Other Hazards. The accidental death of persons living in our communities due to fire, natural disasters or other hazards could have a material adverse effect on our business and results of operations. Our insurance coverage may not cover all losses associated with such events, and we may experience difficulty marketing communities where such any such events have occurred, which could have a material adverse effect on our business and results of operations.

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

Mezzanine Loan Assets Involve Greater Risks of Loss than Senior Loans Secured by Income-producing Properties. We may acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Mezzanine loans may involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some of or all our initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

We May Experience a Decline in the Fair Value of Our Assets and Be Forced to Recognize Impairment Charges, Which Could Materially and Adversely Impact Our Financial Condition, Liquidity and Results of Operations and the Market Price of UDR's Common Stock. A decline in the fair value of our assets may require us to recognize an impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we are required to recognize asset impairment charges in the future, these charges could materially and adversely affect our financial condition, liquidity, results of operations and the per share trading price of UDR's common stock.

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

Our Business and Operations Would Suffer in the Event of System Failures. Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war, and telecommunication failures. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and keeping of records, which may include personal identifying information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Although we take steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information, such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

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

We May be Adversely Affected by New Federal Laws and Regulations. The United States Administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate change, executive compensation and others. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us.

Federal rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the recent economic downturn. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area culminated in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

Changing laws, regulations and standards relating to corporate governance and public disclosure in particular, including certain provisions of the Dodd-Frank Act and the rules and regulations promulgated thereunder, have created uncertainty for public companies like ours and could significantly increase the costs and risks associated with accessing the U.S. public markets. Because we are committed to maintaining high standards of internal control over financial reporting, corporate governance and public disclosure, our management team will need to devote significant time and financial resources to comply with these evolving standards for public companies. We intend to continue to invest appropriate resources to comply with both existing and evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

We May be Adversely Affected by New State and Local Laws and Regulations. We are subject to state and local laws, regulations and ordinances at locations where we operate and to the rules and regulations of various local authorities regarding a wide variety of matters that could affect, directly or indirectly, our operations. We cannot predict what matters might be considered in the future by these state and local authorities, nor can we judge what impact, if any, the implementation of new legislation might have on our business.

The Adoption of Derivatives Legislation by Congress Could Have an Adverse Impact on our Ability to Hedge Risks Associated with our Business. The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk and REITs meeting certain criteria. While we may ultimately be eligible for such exceptions, we cannot ensure we will qualify for them. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available hedge counterparties to us.

Changes in the System for Establishing U.S. Accounting Standards May Materially and Adversely Affect Our Reported Results of Operations. Accounting for public companies in the United States has historically been conducted in accordance with generally accepted accounting principles as in effect in the United States ("GAAP"). GAAP is established by the Financial

Accounting Standards Board (the "FASB"), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The International Accounting Standards Board (the "IASB") is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards ("IFRS"). IFRS generally reflects accounting practices that prevail in Europe and in developed nations around the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on "fair value" models of accounting for assets and liabilities than GAAP. "Fair value" models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

We are monitoring the SEC's activity with respect to the proposed adoption of IFRS by United States public companies. It is unclear at this time how the SEC will propose that GAAP and IFRS be harmonized if the proposed change is adopted. In addition, switching to a new method of accounting and adopting IFRS would be a complex undertaking. We would potentially need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately to be adopted are not now known, the magnitude of costs associated with this conversion are uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial position and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific IFRS standards that would potentially be adopted. Until there is more certainty with respect to the IFRS standards that could be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

Risks Related to Our Indebtedness and Financings

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

Failure to Generate Sufficient Revenue Could Impair Debt Service Payments and Distributions to Stockholders. If our apartment communities do not generate sufficient net rental income to meet rental expenses, our ability to make required payments of interest and principal on our debt securities and to pay distributions to UDR's stockholders will be adversely affected. The following factors, among others, may affect the net rental income generated by our apartment communities:

- the national and local economies;
- local real estate market conditions, such as an oversupply of apartment homes;
- tenants' perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located;
- our ability to provide adequate management, maintenance and insurance;
- rental expenses, including real estate taxes and utilities;
- competition from other apartment communities;
- changes in interest rates and the availability of financing;
- changes in governmental regulations and the related costs of compliance; and
- changes in tax and housing laws, including the enactment of rent control laws or other laws regulating multi-family housing.

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

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

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

Failure To Maintain Our Current Credit Ratings Could Adversely Affect Our Cost of Funds, Related Margins, Liquidity, and Access to Capital Markets. Moody’s and Standard & Poor’s, the major debt rating agencies, routinely evaluate our debt and have given us ratings on our senior unsecured debt and preferred stock. These ratings are based on a number of factors, which included their assessment of our financial strength, liquidity, capital structure, asset quality, and sustainability of cash flow and earnings. Due to changes in market conditions, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity, and access to capital markets.

Disruptions in Financial Markets May Adversely Impact Availability and Cost of Credit and Have Other Adverse Effects on Us and the Market Price of UDR’s Stock. Our ability to make scheduled payments or to refinance debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business and other factors beyond our control. During the past few years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. The potential downgrade of the U.S.’s credit rating and the European debt crisis have contributed to instability in global credit markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for acquisitions, development of our properties and other purposes at reasonable terms, which may negatively affect our business. Additionally, due to this uncertainty, we may be unable to refinance our existing indebtedness or the terms of any refinancing may not be as favorable as the terms of our existing indebtedness. If we are not successful in refinancing this debt when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of UDR’s common or preferred stock. The disruptions in the financial markets have had and may continue to have a material adverse effect on the market value of UDR’s common shares and other adverse effects on us and our business.

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

A Change in U.S. Government Policy Regarding Fannie Mae or Freddie Mac Could Have a Material Adverse Impact on Our Business. Fannie Mae and Freddie Mac are a major source of financing for secured multifamily rental real estate. We and other multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guaranteeing apartment loans. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. The Administration has proposed potential options for the future of mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, it would significantly reduce our access to debt capital and adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. Uncertainty in the future activity and involvement of Fannie Mae and Freddie Mac as a source of financing could negatively impact our ability to make acquisitions and make it more difficult or not possible for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

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

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of December 31, 2012, UDR had approximately $454.5 million of variable rate indebtedness outstanding, which constitutes approximately 13.3% of total outstanding indebtedness as of such date. As of December 31, 2012, the Operating Partnership had approximately $201.6 million of variable rate indebtedness outstanding, which constitutes approximately 20.8% of total outstanding indebtedness to third parties as of such date. An increase in interest rates would increase our interest expenses and increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. The effect of prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of UDR’s common and preferred stock and debt securities.

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have desired beneficial impact on our results of operations or financial condition. Termination of these hedging agreements typically involves costs, such as transaction fees or breakage costs.

Risks Related to Tax Laws

We Would Incur Adverse Tax Consequences if UDR Failed to Qualify as a REIT. UDR has elected to be taxed as a REIT under the Code. Our qualification as a REIT requires us to satisfy numerous requirements, some on an annual and quarterly basis, established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. We intend that our current organization and method of operation enable us to continue to qualify as a REIT, but we may not so qualify or we may not be able to remain so qualified in the future. In addition, U.S. federal income tax laws governing REITs and other corporations and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. Future legislation, new regulations, administrative interpretations or court decisions could adversely affect our ability to qualify as a REIT or adversely affect UDR’s 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 UDR’s stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we could not re-elect REIT status until the fifth calendar year after the year in which we first failed to qualify as a REIT. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to UDR’s 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 UDR’s 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.

Dividends Paid By REITs Generally Do Not Qualify for Reduced Tax Rates. In general, the maximum U.S. federal income tax rate for dividends paid to individual U.S. shareholders is 20%. Unlike dividends received from a corporation that is not a REIT, our distributions to individual shareholders generally are not eligible for the reduced rates.

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

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

Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction. From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction and subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property sales. In addition, income from a prohibited transaction might adversely affect UDR's ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

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

The Operating Partnership Intends to Qualify as a Partnership, But Cannot Guarantee That It Will Qualify. The Operating Partnership intends to qualify as a partnership for federal income tax purposes at any such time that the Operating Partnership admits additional limited partners other than UDR. If classified as a partnership, the Operating Partnership generally will not be a taxable entity and will not incur federal income tax liability. However, the Operating Partnership would be treated as a corporation for federal income tax purposes if it were a "publicly traded partnership," unless at least 90% of the Operating Partnership's income was qualifying income as defined in the Code. A "publicly traded partnership" is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although the Operating Partnership's partnership units are not traded on an established securities market, because of the redemption right, the Operating Partnership's units held by limited partners could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and the Operating Partnership may not qualify for one of the "safe harbors" under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. The Operating Partnership may not meet this qualifying income test. If the Operating Partnership were to be taxed as a corporation, it would incur substantial tax liabilities, and UDR would then fail to qualify as a REIT for tax purposes, unless it qualified for relief under certain statutory savings provisions, and our ability to raise additional capital would be impaired.

Qualifying as a REIT Involves Highly Technical and Complex Provisions of the Code. Our qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the REIT income and asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination and for which we will not obtain independent appraisals, and upon our ability to successfully manage the composition of our income and assets on an ongoing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Risks Related to Our Organization and Ownership of UDR’s Stock

Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of UDR’s Common Stock. The stock markets, including the New York Stock Exchange (“NYSE”), on which we list UDR’s common stock, have experienced significant price and volume fluctuations. As a result, the market price of UDR’s common stock could be similarly volatile, and investors in UDR’s common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. In addition to the risks listed in this “Risk Factors” section, a number of factors could negatively affect the price per share of UDR’s common stock, including:

- general market and economic conditions;
- actual or anticipated variations in UDR’s quarterly operating results or dividends or UDR’s payment of dividends in shares of UDR’s stock;
- changes in our funds from operations or earnings estimates;
- difficulties or inability to access capital or extend or refinance existing debt;
- decreasing (or uncertainty in) real estate valuations;
- changes in market valuations of similar companies;
- publication of research reports about us or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of UDR’s stock to demand a higher annual yield from future dividends;
- a change in analyst ratings;
- additions or departures of key management personnel;
- adverse market reaction to any additional debt we incur in the future;
- speculation in the press or investment community;
- terrorist activity which may adversely affect the markets in which UDR’s securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;
- failure to qualify as a REIT;
- strategic decisions by us or by our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- failure to satisfy listing requirements of the NYSE;

- governmental regulatory action and changes in tax laws; and
- the issuance of additional shares of UDR's common stock, or the perception that such sales might occur, including under UDR's at-the-market equity distribution program.

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

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

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in UDR's 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 UDR's 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 UDR's stock representing 10% or more of the voting power without our board of directors' prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 66 2/3 % of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

At December 31, 2012, our consolidated apartment portfolio included 145 communities located in 22 markets, with a total of 41,571 completed apartment homes.

We lease approximately 40,000 square feet of office space in Highlands Ranch, Colorado for our corporate headquarters. We also lease two additional regional offices with 3,000 and 9,000 square feet in Richmond, Virginia and Alexandria, Virginia, respectively.

The tables below set forth a summary of real estate portfolio by geographic market of the Company and of the Operating Partnership at December 31, 2012.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2012

UDR, INC.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Gross Amount (in thousands)	Encumbrances (in thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (In Square Feet)
WESTERN REGION								
Orange County, CA	13	4,254	10.6 %	$853,576	$165,621	$200,653	93.4 %	839
San Francisco, CA	11	2,436	8.1 %	655,835	103,249	269,226	95.8 %	852
Seattle, WA	11	2,165	5.9 %	472,485	71,387	218,237	96.0 %	823
Monterey Peninsula, CA	7	1,565	2.0 %	157,245	—	100,477	93.5 %	679
Los Angeles, CA	6	1,502	5.9 %	477,004	105,874	317,579	90.6 %	939
Sacramento, CA	2	914	0.9 %	69,936	—	76,515	92.7 %	820
Portland, OR	3	716	0.9 %	71,419	31,505	99,747	95.0 %	918
Inland Empire, CA	2	654	1.3 %	101,497	51,915	155,194	94.3 %	955
San Diego, CA	2	366	0.7 %	56,516	—	154,415	95.0 %	865
MID-ATLANTIC REGION								
Washington DC	13	4,313	10.9 %	880,431	150,734	204,134	97.0 %	883
Baltimore, MD	11	2,301	3.7 %	303,088	110,757	131,720	96.5 %	957
Norfolk, VA	6	1,438	1.1 %	87,397	—	60,777	94.5 %	1,016
Richmond, VA	4	1,358	1.7 %	136,785	41,507	100,726	95.4 %	985
Other Mid-Atlantic	1	168	0.2 %	12,173	—	72,458	95.7 %	1,002
NORTHEAST REGION								
New York, NY	4	1,914	14.7 %	1,187,078	202,145	620,208	95.6 %	754
Boston, MA	4	1,179	3.9 %	317,140	83,524	268,991	96.1 %	1,097
SOUTHEASTERN REGION								
Tampa, FL	10	3,452	4.1 %	326,379	19,195	94,549	96.0 %	962
Orlando, FL	11	3,167	3.5 %	279,686	81,322	88,313	95.7 %	978
Nashville, TN	8	2,260	2.3 %	185,266	22,957	81,977	96.9 %	933
Other Florida	1	636	1.0 %	78,876	40,133	124,020	95.0 %	1,130
SOUTHWESTERN REGION								
Dallas, TX	10	3,464	5.2 %	419,289	87,961	121,042	93.4 %	849
Austin, TX	4	1,273	1.8 %	147,700	60,349	116,025	96.9 %	913
	144	41,495	90.4 %	7,276,801	1,430,135	$175,366	95.1 %	899

Total Operating Communities						
Real Estate Under Development (a)	1	76	6.1	%	491,048	—
Land	—	—	2.4	%	196,072	—
Other	—	—	1.1	%	91,907	—
Total Real Estate Owned	145	41,571	100.0	%	$8,055,828	$1,430,135

(a) The Company is currently developing eight wholly-owned communities with 2,622 apartment homes, 76 of which have been completed.

SUMMARY OF REAL ESTATE PORTFOLIO BY GEOGRAPHIC MARKET AT DECEMBER 31, 2012
UNITED DOMINION REALTY, L.P.

	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Gross Amount (In thousands)	Encumbrances (In thousands)	Cost per Home	Average Physical Occupancy	Average Home Size (In Square Feet)
WESTERN REGION								
Orange County, CA	11	3,899	18.3 %	$764,344	$ 165,621	$196,036	93.1 %	811
San Francisco, CA	9	2,185	13.2 %	552,898	103,249	253,043	95.8 %	830
Monterey Peninsula, CA	7	1,565	3.8 %	157,245	—	100,477	93.5 %	679
Seattle, WA	5	932	5.0 %	209,742	23,786	225,046	96.4 %	865
Sacramento, CA	2	914	1.7 %	69,936	—	76,515	92.7 %	820
Portland, OR	3	716	1.7 %	71,419	31,505	99,747	95.0 %	918
Los Angeles, CA	3	463	3.0 %	126,064	38,174	272,276	95.2 %	960
Inland Empire, CA	1	414	1.7 %	69,918	51,915	168,884	94.5 %	989
San Diego, CA	2	366	1.4 %	56,516	—	154,415	95.0 %	865
MID-ATLANTIC REGION								
Washington DC	7	2,378	13.2 %	553,472	98,730	232,747	96.3 %	926
Baltimore, MD	5	994	3.5 %	148,267	64,655	149,162	88.0 %	972
NORTHEAST REGION								
New York, NY	2	1,001	13.9 %	582,910	202,145	582,328	96.4 %	686
Boston, MA	2	833	4.2 %	174,542	59,365	209,534	96.0 %	1,120
SOUTHEASTERN REGION								
Nashville, TN	6	1,612	3.1 %	130,492	—	80,950	97.0 %	925
Tampa, FL	3	1,154	2.7 %	113,513	—	98,366	96.3 %	1,003
Other Florida	1	636	1.9 %	78,877	40,133	124,020	95.0 %	1,130
SOUTHWESTERN REGION								
Dallas, TX	2	1,348	4.4 %	185,501	87,961	137,613	95.6 %	910
Austin, TX	1	250	0.9 %	38,928	—	155,712	96.9 %	883
Total Operating Communities	72	21,660	97.6 %	4,084,584	967,239	$188,577	94.7 %	878
Real Estate Under Development (a)	—	—	2.0 %	87,392	—			
Land	—	—	0.1 %	2,445	—			
Other	—	—	0.3 %	8,499	—			
Total Real Estate Owned	72	21,660	100.0 %	$4,182,920	$ 967,239			

(a) The Operating Partnership is currently developing two wholly-owned communities with 652 apartment homes, none of which have been completed.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

UDR, Inc.:
Common Stock
UDR, Inc.'s common stock has been listed on the New York Stock Exchange, or "NYSE", under the symbol "UDR" since May 7, 1990. 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.

	2012			2011		
	High	Low	Distributions Declared	High	Low	Distributions Declared
Quarter ended March 31,	$26.80	$23.57	$0.220	$24.42	$22.19	$0.185
Quarter ended June 30,	$27.20	$24.62	$0.220	$26.46	$23.42	$0.200
Quarter ended September 30,	$27.75	$24.76	$0.220	$27.26	$21.18	$0.200
Quarter ended December 31,	$25.09	$22.31	$0.220	$25.67	$20.04	$0.215

On February 19, 2013, the closing sale price of our common stock was $24.88 per share on the NYSE, and there were 5,351 holders of record of the 250,179,737 outstanding shares of our common stock.
We have determined that, for federal income tax purposes, approximately 20% of the distributions for 2012 represented ordinary income, 21% represented long-term capital gain, and 59% represented unrecaptured section 1250 gain.
UDR pays regular quarterly distributions to holders of its common stock. Future distributions will be at the discretion of our Board of Directors and will depend on our actual funds from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, and other factors.
Series E Preferred Stock
The Series E Cumulative Convertible Preferred Stock ("Series E") has no stated par value and a liquidation preference of $16.61 per share. Subject to certain adjustments and conditions, each share of the Series E is convertible at any time and from time to time at the holder's option into 1.083 shares 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. In connection with a special dividend (declared on November 5, 2008), the Company reserved for issuance upon conversion of the Series E additional shares of common stock to which a holder of the Series E would have received if the holder had converted the Series E immediately prior to the record date for this special dividend. Distributions declared on the Series E for the year ended December 31, 2012 were $1.33 per share or $0.3322 per quarter. The Series E is not listed on any exchange. At December 31, 2012, a total of 2,803,812 shares of the Series E were outstanding.
Series F Preferred Stock
We are authorized to issue up to 20,000,000 shares of our Series F ("Series F") Preferred Stock. The 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 the Series F for each OP Unit held. At December 31, 2012, a total of 2,529,194 shares of the Series F were outstanding with an aggregate purchase value of $253. Holders of the Series F are entitled to one vote for each share of the Series F they hold, voting together with the holders of our common stock, on each matter submitted to a vote of security holders at a meeting of our stockholders. The Series F does not entitle its holders to any other rights, privileges or preferences.

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Series G Preferred Stock

In May 2007, UDR issued 5,400,000 shares of the 6.75% Series G Cumulative Redeemable Preferred Stock ("Series G"). On May 31, 2012, the Company completed the redemption of all outstanding shares of its 6.75% Series G Cumulative Redeemable Preferred Stock. A total of 3,264,362 shares of the Series G Preferred Stock was redeemed at a redemption price of $25 per share in cash, plus accrued and unpaid dividends to the redemption date for a total cost of $82.1 million. As a result of this redemption, the write off of additional paid in capital of $2.8 million related to the issuance of Series G was recognized as a decrease to our net income/(loss) attributable to common stockholders.

During the year ended December 31, 2011, the Company repurchased 141,200 shares of Series G for more than the liquidation preference of $25 per share, resulting in a loss of $175,000 to our net income/(loss) attributable to common stockholders.

Distributions declared on the Series G for the years ended December 31, 2012 and 2011 were $0.57 and $1.69, respectively.

Distribution Reinvestment and Stock Purchase Plan

We have a Distribution 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 distributions as and when declared. As of February 14, 2013, there were approximately 2,111 participants in the plan.

United Dominion Realty, L.P.:

Operating Partnership Units

There is no established public trading market for United Dominion Realty, L.P.'s Operating Partnership Units. From time to time we issue shares of our common stock in exchange for OP Units tendered to the Operating Partnership, for redemption in accordance with the provisions of the Operating Partnership's limited partnership agreement. At December 31, 2012, there were 184,281,253 OP Units outstanding in the Operating Partnership, of which 174,886,035 OP Units or 94.9% were owned by UDR and 9,395,218 OP Units or 5.1% were owned by limited partners. Under the terms of the Operating Partnership's limited partnership agreement, the holders of OP Units have the right to require the Operating Partnership 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, the Operating Partnership's obligation to pay the cash amount is subject to the prior right of the Company to acquire such OP Units in exchange for either the cash amount or the number of shares of our common stock equal to the number of OP Units being redeemed. During 2012, we issued a total of 20,438 shares of common stock upon redemption of OP Units.

On December 14, 2012 we issued 1,998 shares of our common stock upon redemption of OP Units. Because these shares of common stock were issued to accredited investors in transactions not involving a public offering, the transaction is exempt from registration under the Securities Act of 1933 in accordance with Section 4(2) of the Securities Act.

We did not issue any other shares of our common stock upon redemption of OP Units during the three months ended December 31, 2012.

Purchases of Equity Securities

In February 2006, UDR's Board of Directors authorized a 10,000,000 share repurchase program. In January 2008, UDR's Board of Directors authorized a new 15,000,000 share repurchase program. Under the two share repurchase programs, UDR may repurchase shares of our common stock in open market purchases, block purchases, privately negotiated transactions or otherwise. As reflected in the table below, no shares of common stock were repurchased under these programs during the quarter ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Beginning Balance	9,967,490	$22.00	9,967,490	15,032,510
October 1, 2012 through October 31, 2012	—	—	—	15,032,510
November 1, 2012 through November 30, 2012	—	—	—	15,032,510
December 1, 2012 through December 31, 2012	—	—	—	15,032,510
Balance as of December 31, 2012	9,967,490	$22.00	9,967,490	15,032,510

(1) This number reflects the amount of shares that were available for purchase under our 10,000,000 share repurchase program authorized in February 2006 and our 15,000,000 share repurchase program authorized in January 2008.

Comparison of Five-year Cumulative Total Returns

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

	Period Ending					
Index	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
UDR, Inc.	100.00	80.64	102.84	152.93	168.58	165.32
NAREIT Equity Apartment Index	100.00	74.87	97.63	143.56	165.23	176.69
US MSCI REITS	100.00	62.03	79.78	102.50	111.41	131.20
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59
NAREIT Equity REIT Index	100.00	62.27	79.70	101.99	110.45	130.39

The performance graph and the related chart and text, are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of ours, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and other information of UDR, Inc. and of the Operating Partnership as of and for each of the years in the five-year period ended December 31, 2012. The table should be read in conjunction with each of UDR, Inc.'s and the Operating Partnership's respective 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.

	UDR, Inc. Years Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2012	2011	2010	2009	2008
OPERATING DATA:					
Rental income (a)	$713,928	$622,995	$512,550	$491,655	$456,848
Loss from continuing operations (a)	(43,036)	(123,225)	(117,930)	(104,913)	(75,707)
Income from discontinued operations, net of tax (a)	263,339	143,810	11,342	13,290	819,574
Consolidated net income/(loss)	220,303	20,585	(106,588)	(91,623)	743,867
Distributions to preferred stockholders	6,010	9,311	9,488	10,912	12,138
Net income/(loss) attributable to common stockholders	203,376	10,537	(112,362)	(95,858)	688,708
Common distributions declared	215,654	165,590	126,086	127,066	308,313
Special Dividend declared	—	—	—	—	177,074
Earnings per share — basic and diluted:					
Loss from continuing operations attributable to common stockholders	$(0.25)	$(0.66)	$(0.75)	$(0.73)	$(1.00)
Income from discontinued operations (a)	1.10	0.71	0.07	0.09	6.29
Net income/(loss) attributable to common stockholders	0.85	0.05	(0.68)	(0.64)	5.29
Weighted average number of Common Shares outstanding — basic and diluted	238,851	201,294	165,857	149,090	130,219
Weighted average number of Common Shares outstanding, OP Units and Common Stock equivalents outstanding — diluted (b)	252,659	214,086	176,900	159,561	142,904
Common distributions declared	$0.88	$0.80	$0.73	$0.85	$2.29
Balance Sheet Data:					
Real estate owned, at cost (c)	$8,055,828	$8,074,471	$6,881,347	$6,315,047	$5,831,753
Accumulated depreciation (c)	1,924,682	1,831,727	1,638,326	1,351,293	1,078,689
Total real estate owned, net of accumulated depreciation (c)	6,131,146	6,242,744	5,243,021	4,963,754	4,753,064
Total assets	6,888,509	6,721,354	5,529,540	5,132,617	5,143,805
Secured debt (c)	1,430,135	1,891,553	1,963,670	1,989,434	1,462,471
Unsecured debt	1,979,198	2,026,817	1,603,834	1,437,155	1,798,662
Total debt	3,409,333	3,918,370	3,567,504	3,426,589	3,261,133
Stockholders' equity	2,992,916	2,314,050	1,606,343	1,395,441	1,415,989
Number of Common Shares outstanding	250,139	219,650	182,496	155,465	137,423

	UDR, Inc. Years Ended December 31, (In thousands, except per share data and apartment homes owned)				
	2012	2011	2010	2009	2008
OPERATING DATA (continued):					
Other Data (c)					
Total consolidated apartments owned (at end of year)	41,571	47,343	48,553	45,913	44,388
Weighted average number of apartment homes owned during the year	42,747	48,531	47,571	45,113	46,149
Cash Flow Data:					
Cash provided by operating activities	$317,341	$244,236	$214,180	$229,383	$179,754
Cash (used in)/provided by investing activities	(209,385)	(1,053,182)	(583,754)	(158,045)	302,304
Cash (used in)/provided by financing activities	(108,344)				