This is **not** just a report about last year's 42% total return:

See how 4 growth strategies will drive value:

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It's about the Future

Our Growth Strategies

1 Strengthen Our Research-Driven Portfolio

Leverage our capacity and infrastructure with quality assets in selected markets.

Page 6

2 Expand RE³

Expand RE³, our subsidiary that focuses on development, redevelopment, land entitlement and short-term hold investments.

Page 8

3 Transform Operations

Grow net operating income through automation and efficiency, led by talented, innovative associates.

Page 10

4 Source Low Cost Capital

Leverage research capabilities and operating, financial and investment platforms to attract low cost capital alternatives.

Page 12

We have the right team, vision and strategies for value creation.

Message from the Chairman

UDR enjoyed stellar growth and achievement in 2006. We posted our strongest operating results in over eight years, more than doubled our development and redevelopment pipeline, increased our dividend for the 30th consecutive year, and far outperformed the major stock market indices.

In recent years, your Company has established an enviable reputation for creating shareholder value by bringing a rigorous, bottom-line oriented discipline to operations, property acquisitions, dispositions, development and redevelopment. However, the focus of this Annual Report, as the cover suggests, is not just about our past accomplishments. Rather, it also looks forward by sharing with you the key strategic initiatives, incorporated in an updated Strategic Plan developed by management and adopted by your Board in 2006, that we believe will generate enhanced growth and profitability in the years ahead.

1 The right team 2 The right strategies 3 Strong board governance

Of course, our ability to successfully execute these initiatives is dependent on our people. I am delighted to report that we have a committed and experienced management team and an extraordinary group of UDR associates, all of whom are dedicated to building a strong, sustainable business while continuing to deliver value to residents and shareholders alike.

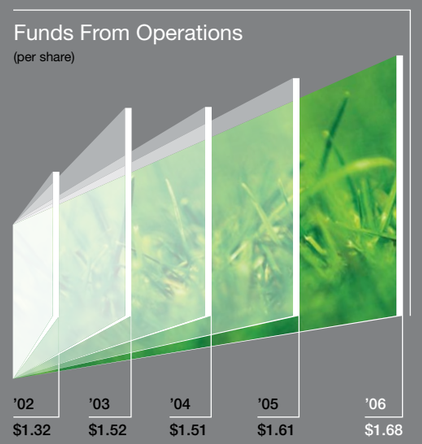
Your Board of Directors takes seriously its responsibility to participate actively with management in guiding and supporting our collective commitment to best practices in corporate governance and continuous improvement in the performance of the business. Accordingly, we welcome this opportunity to share with you both our 2006 results and our confidence that, for UDR, the best is yet to come.

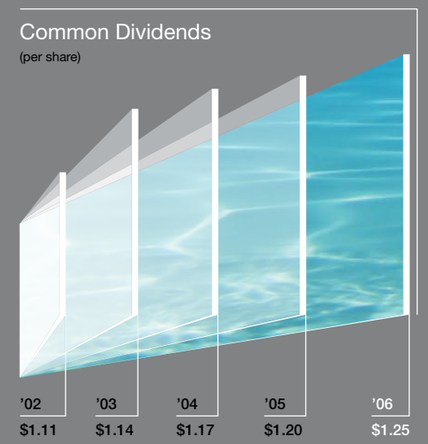
Robert C. Larson
Chairman of the Board

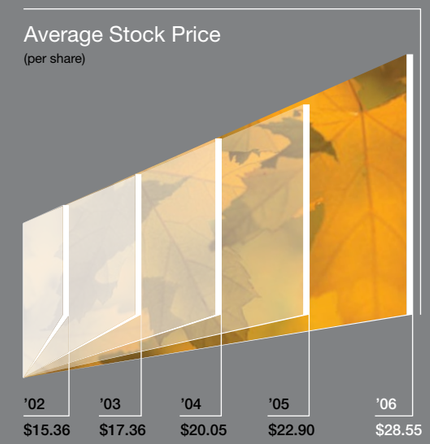
Message from the CEO

Our vision is to be the innovative multi-family real estate investment of choice. With innovation and execution as core capabilities, we continued to make great progress and delivered superior performance in 2006. Our same community monthly income per home grew to $884, a better than 15% increase over 2005. We delivered net operating income growth of 8.6% and boosted our operating margin by 200 basis points to 63.5%. We strengthened our balance sheet and improved our apartment portfolio by completing over $1 billion of asset acquisitions, dispositions, and capital improvements. We laid the foundation to continue to improve our portfolio by expanding our development and redevelopment pipeline to more than $2 billion, which will be completed over the next five years.

By almost any measure, 2006 was an exceptional year for UDR.







We are well on our way to realizing our vision as we implement four strategies to guide our actions and accelerate growth.

First, strengthen our research-driven portfolio, owning communities in markets with tremendous upside, where rigorous analysis of economic data, demographic trends, industry statistics and local policies support our investment, acquisition and disposition decisions. We believe this will produce predictable growth, supporting consistent future dividend increases.

Second, expand RE^3, our subsidiary that solves the puzzle of market cycles. Traditionally, REITs have bought and held property for many years. RE^3 provides us the flexibility to assemble a portfolio and harvest value through entitlement, zoning changes, new development, redevelopment, conversion to condominiums and owning property for short time periods. It gives us flexibility to act quickly when markets change.

Third, transform operations to grow income. Residents embrace the instant nature of the internet and want a "self-service" approach where they have control. We will enhance web applications for online leasing, electronic rent payment and online service orders as well as for internal processes. These initiatives meet customer needs and improve profitability. Our associates are a vital component of our success and we are focused on expanding training programs, reducing turnover, encouraging innovative thinking and being known as an employer of choice.

Fourth, source capital matched to opportunities. We will partner with third parties, pension funds and institutions for funding. Access to alternative sources of low cost capital is critical for the successful execution of our plan.

These initiatives, which are discussed on the following pages, complement each other and offer flexibility to create value through all real estate cycles. They set us apart from the competition and put us on the right path to accelerate growth.

We are executing our strategies and demonstrating innovation throughout the Company. I am proud of our 2,000 associates who put value creation at the heart of everything they do. From operating the most efficient multi-family housing enterprise, to developing and redeveloping attractive properties in identified markets, to harvesting value from selected assets, every action we take and decision we make is predicated on creating value.

UDR is a dynamic company with many opportunities for continued success and future growth. We invite you to join us as we open doors to a promising future.

Thomas W. Toomey
Chief Executive Officer and President

Strategy:

1 Strengthen Our Research-Driven Portfolio

Leverage our capacity and infrastructure with quality assets in selected markets.

Why now:

To increase our presence in the right markets to capture growth.

We will add homes in markets where job growth expectations are high, home affordability is low, and the demand/supply ratio for multi-family housing is favorable. We have an infrastructure that will support 90,000 homes without adding significant incremental costs. We will sell communities in slower growth markets based on research.

What is the objective:

To outperform the industry in net operating income (NOI) growth.

Our research and analysis will identify communities that meet defined criteria. Strong job growth combined with high home prices and limited housing alternatives support rent increases and occupancy gains. Revenue expansion plus cost control fuels growth in operating income.

How do we measure success:

Produce industry leading return on invested capital.

In addition to increasing our presence in selected markets, we will emphasize redevelopment activity and invest capital in kitchen and bath upgrades and full community renovations. These investments will generate superior returns to new development and can be completed in half the time.

Example:

Tripling our California presence to 27% of NOI from 9% in 2001.

California has high demand for apartment homes due to strong job growth and median home prices that are 135% above the national average. We grew our California presence and sold homes in other areas based on research that analyzed housing affordability and the demand/supply ratio of job growth and multi-family construction.

Key Statistics:

1.5 Million
new U.S. households per year.

40%
job growth in UDR's top 10 markets is 40% greater than the U.S. average.

35% – 50%
of "Echo Boomers" will be renters.

Employment growth, household formation, immigration and housing affordability will boost demand for apartment homes.

Mark Wallis, Senior Executive Vice President

*At December 31, 2006, UDR owned 70,339 apartment homes in 16 states and the District of Columbia. We expect that 69% of our 2007 net operating income (NOI) will be generated in the states of California, Florida and Texas and the Washington D.C. Corridor.

Strategy: 2

Expand RE³

Expand development, redevelopment, land entitlement and short-term hold investments.

Why now:

To capture value from demand for quality housing.

REITs have traditionally bought, held and operated properties. To compete for talent, capital and investors, we need to evolve and explore new opportunities. Market conditions dictate that the time is right to expand our expertise in this area.

What is the objective:

To accelerate growth in funds from operations (FFO) and outperform the industry.

Participating in new ventures and using innovative approaches to create value diversifies our income base and supplements profits from traditional operations. RE³ enables us to earn more income to support our dividend.

How do we measure success:

Generate 20% of FFO from RE³.

We are establishing a performance history of capturing value. During 2006, RE³'s FFO contribution increased by 41% over 2005 and represented 11% of total company FFO. We expect continued growth in 2007.

Example:

Las Colinas, Texas.

In 2006, we completed development of a 367 home community in Las Colinas, Texas at a budgeted cost of $32 million. At the end of the year, we sold it for $45 million, generating an unleveraged internal rate of return of 15%.

Key Statistics:

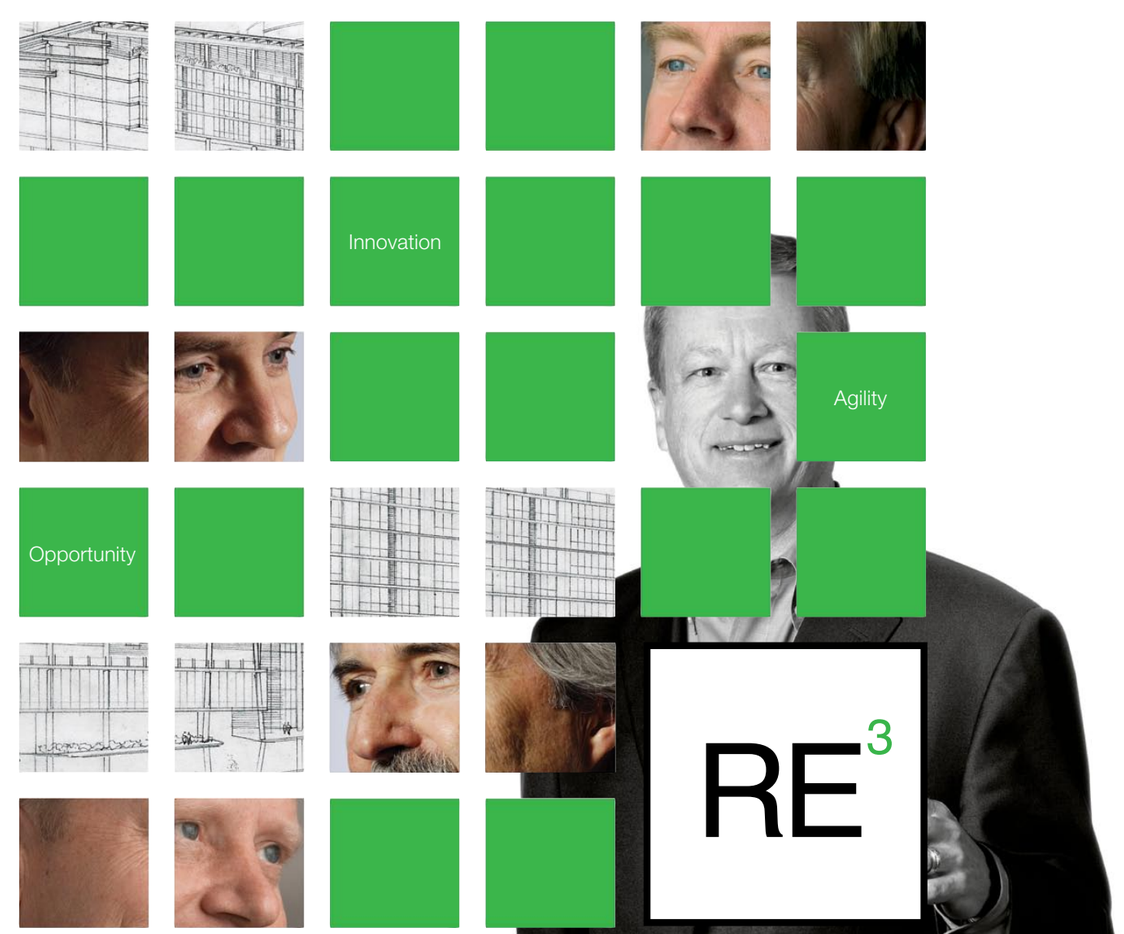
Over $2 billion
budgeted cost of development / redevelopment pipeline.

15,000 homes
in our development / redevelopment pipeline.

$5 to $7 per share
in estimated value creation from development / redevelopment.

RE³, our subsidiary that focuses on development, redevelopment, land entitlement and short-term hold investments, is poised to capture superior returns through all market cycles.

Mark Wallis, Senior Executive Vice President



The RE³ senior team: Les Boeckel, Richard Giannotti, Mark Culwell, Matt Akin & Mark Wallis

Strategy:

3 Transform Operations

Grow net operating income through automation and efficiency, led by talented, innovative associates.

Why now:

Increase efficiency and drive profitability.

In our sales and service operation, customer satisfaction is a priority. We must anticipate trends and deliver new initiatives before customers know they want them. We have an obligation to utilize technology to delight customers, conserve natural resources and improve financial returns.

What is the objective:

To develop an automated, systematic approach to customer service and internal operations.

In five years, we expect to generate 90% of our leases online and process 100% of our rent payments electronically. In 2007, we will implement an automated systematic approach to pricing. Technology will enable consistent customer experiences, streamline processes and improve margins.

How do we measure success:

Grow funds from operations at top-quartile industry rate.

Market research drives smart decision making for pricing, service expectations, customer interaction and amenities. We must stay ahead of the competition to attract and retain residents, generate revenue and control costs. Transforming internal processes to improve efficiency further improves financial performance.

Example:

Online leasing; online service requests.

Today, customers can take a virtual tour of an apartment, be screened for credit, complete an application and reserve an apartment online. We are expanding online payment options and are implementing a resident portal for online service requests.

Key Statistics:

1.1 million
unique visitors went to our website in 2006.

34%
of 2006 leases were initiated via the internet.

$100
cost to attract a new resident online vs. $800 using print ads and brokers.

Automated operating technologies will provide next generation services and convenience for residents and expand our profitability.

Martha Carlin, Executive Vice President

Strategy:

4

Source Low Cost Capital

Leverage research capabilities and operating, financial and investment platforms to attract a variety of low cost capital.

Why now:

To match our strengths with capital and create opportunities that accelerate growth and improve returns.

UDR has a unique platform for value creation. We know our markets well and are able to create value through operations and through our investment platform in a variety of ways. Our skills benefit shareholders and investment partners who team with us.

What is the objective:

To achieve industry-leading returns on invested capital.

We will match opportunities to capital, leveraging our talents by providing services to generate additional return on capital. Our analytical approach identifies value creation opportunities which will be financed with an appropriate blend of capital and expertise from financial and operating partners.

How do we measure success:

Grow return on invested capital.

We will use our capital strength to access investments that have high return potential. Our goal is to achieve an industry-leading return on invested capital.

Example:

Joint ventures with local partners.

In 2006, we closed three joint ventures with local developers: a $138 million project with JPI in Marina del Rey, California, and two projects totaling $232 million with Su Development in Bellevue, Washington. In both cases we combined low cost capital with our partners' unique investment opportunities and proven execution talent.

Key Statistics:

$8.2 billion
market capitalization.

41%
debt to market capital ratio. BBB rating from S&P; Baa2 from Moody's.

30 years
of consecutive annual dividend increases.

We will maximize our returns by focusing skills and capital on assets with high levels of value creation potential.

Mike Ernst, Chief Financial Officer

$84M valuation – $26M prior valuation – $21M redevelopment cost

= $37M value created

The senior finance team:
Stacy Riffe, David Messenger & Mike Ernst

Q&A

1

What are the key demographic trends that will affect your business?

Demographers project that the "echo boom" generation will grow by four million by 2011 and that 35% to 50% of them will be renters. In addition, immigration is expected to grow by as much as one million people each year during this same time period with one third expected to rent. These are incremental to the current renter population of 40 million, so we anticipate a future of increasing demand.

2

How are you using technology to transform your business?

Technology drives efficiencies and simplifies leasing for residents. Along with computers, we will utilize mobile devices for lead generation, customer service and resident communications. Blogging and social networking capture search engine traffic and increase brand recognition. Streamlining administrative workflows improves productivity by reducing manual processes, accelerating decision-making, revenue growth and profitability.

3

What are you doing to conserve energy?

In the last two years, we have spent $36 million on new central air conditioners and heat pumps, installing efficient, energy friendly systems. We use a total lifecycle cost analysis approach for purchasing appliances, which analyzes lifetime expectancy, energy costs, repair frequency and initial cost to determine the best purchase. Landscaping decisions consider irrigation needs and water conservation.

4

How does UDR attract new talent to the team?

We have a solid reputation in the industry, and are recognized as having a high performance culture. Our core values of integrity, respect, teamwork, ownership and growth define the way we work together. We encourage innovative thinking and reward success, and we continually focus on ways that make UDR a great place to work.

5

Is your portfolio repositioning complete?

We are essentially finished repositioning our portfolio. In the past five years, we have sold over 40% of our portfolio, representing nearly 30,000 homes, and repositioned another 20% through redevelopment. We purchased over 22,000 homes in locations having strong job growth, low housing affordability and a favorable demand/supply ratio for multi-family housing.

6

How are you demonstrating innovation?

We use internet marketing programs and creative methods to maximize search engine leads. Redevelopment and renovation programs are leading edge and improve the value of our communities. We have an environmentally friendly lifecycle cost purchasing program. We champion mixed-use development, including live/work/retail in the same community. Innovative deal structures with partners expand our portfolio.

7

What is involved in your kitchen and bath improvement program?

We install upgraded kitchen appliances, cabinets, countertops, lighting, flooring and new bathroom fixtures. Each community selects from several standardized packages and installation can be complete in as little as three days. In some homes, we change floor plans to open the space and improve the flow. We typically invest between $8,000 and $12,000 per upgrade and target an 8% to 10% initial cash return on the investment.

8

What is the financial impact from your redevelopment program?

Our redevelopment program includes full exterior renovation of communities in addition to complete interior remodeling. In many instances, we expect cash flow from redeveloped communities to increase by 50% to 100% and market value to increase by 20% to 50%. During renovation, we collect lower revenue from homes out of service but the long-term value creation far exceeds the short-term dilution.

9

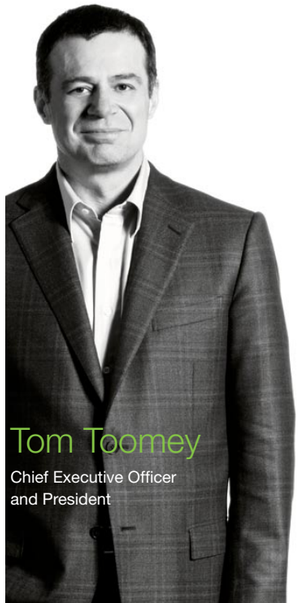
Can you provide more details on your investment pipeline?

Developments/redevelopments in process total $900 million. This includes new construction of 896 homes that we own, 860 homes under contract for purchase and are being developed by others and 969 homes in joint ventures with local partners. We have 4,060 homes in our full scope redevelopment program. In addition to this, our future investment pipeline totals nearly 8,400 homes with an expected investment of over $1.3 billion.

10

How can you generate more monthly revenue per home?

The primary method is rent increases where demand for housing is supported by strong job growth and high cost of alternative housing. Secondary methods include reimbursement programs where residents pay for utilities and trash removal, and for pets, late payments, and damages. For 2006, our total monthly income per home was $884, up over 15% from 2005. We are exploring additional strategies to grow revenues including implementing yield management software.



Tom Toomey
Chief Executive Officer
and President

Mark Wallis
Senior Executive Vice President
Acquisitions, Dispositions,
Asset Quality and Development

Martha Carlin
Executive Vice President
Operations

Mike Ernst
Executive Vice President
and Chief Financial Officer

Key Financial Highlights for 2006

Same Community Results:

Revenue growth up	Net operating income up	Operating margin reached	Average physical occupancy reached
6%	8.6%	63.5%	94.7%

(In millions, except per share data and apartment homes owned)	2006	2005	2004
For the Year			
Rental income from continuing property operations	$ 694	$ 622	$ 513
Income from continuing property operations excluding depreciation (NOI)	419	370	295
(Loss)/income before minority interests and discontinued operations	(30)	-	6
Income from discontinued operations, net of minority interests	156	154	90
Net income	129	155	97
Distributions to preferred stockholders	15	15	20
Net income available to common stockholders	113	140	72
Funds from operations - diluted (a)	248	242	220
Common distributions declared	168	164	152
Per Share			
Earnings per common share - diluted	$ 0.85	$ 1.03	$ 0.56
Funds from operations - diluted (a)	1.68	1.61	1.51
Common distributions declared	1.25	1.20	1.17
At Year End			
Real estate owned, at carrying value (b)	$ 5,820	$ 5,512	$ 5,243
Secured debt	1,183	1,116	1,198
Unsecured debt	2,156	2,044	1,682
Stockholders' equity	1,055	1,108	1,195
Number of common shares outstanding	135	134	136
Number of completed apartment homes owned	70,339	74,875	78,855

(a) Funds from operations (FFO) is defined as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition conforms with the National Association of Real Estate Investment Trust's definition issued in April 2002. For 2004, FFO and FFO per share include a charge of $5.5 million to cover hurricane related expenses. For 2005, FFO and FFO per share include $2.5 million of hurricane related insurance recoveries.

Net incremental gains on the sale of condominium homes and the net incremental gain on the disposition of real estate investments developed for sale are defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with gains/losses on the sale of condominium homes and gains/losses on the disposition of real estate investments developed for sale to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

(b) Includes real estate held for investment, real estate held for disposition, and real estate under development, before depreciation.

Corporate Information

left to right:
Katherine A. Cattanach
Eric J. Foss
Robert P. Freeman
Jon A. Grove
James D. Klingbeil

left to right:
Robert C. Larson
Thomas R. Oliver
Lynne B. Sagalyn
Mark J. Sandler
Thomas W. Toomey
Thomas C. Wajnert

Board of Directors

Katherine A. Cattanach [2,4]
Private Investor
Formerly General Partner
INVESCO Private Capital, Inc.

Eric J. Foss [2,4]
President & Chief Executive Officer
The Pepsi Bottling Group, Inc.

Robert P. Freeman [2]
President
Landfall Capital LLC

Jon A. Grove [3]
Private Investor
Formerly Chairman, President
& Chief Executive Officer
ASR Investment Corporation

James D. Klingbeil [1,3]
Vice Chairman of the Board
Chairman & Chief Executive Officer
Klingbeil Multi-family Funds IV , V & VI

Robert C. Larson [1]
Chairman of the Board
Managing Director Lazard Alternative
Investments LLC & Chairman of
Lazard Real Estate Partners, LLC

Thomas R. Oliver [4]
Private Investor
Formerly Chairman &
Chief Executive Officer
InterContinental Hotels, Inc.

Lynne B. Sagalyn [3,4]
Professor of Real Estate
Development & Planning
University of Pennsylvania

Mark J. Sandler [2,4]
Private Investor
Formerly Senior Managing Director
Bear, Stearns & Co., Inc.

Thomas W. Toomey [1]
Chief Executive Officer
& President

Thomas C. Wajnert [2,3]
Private Investor
Senior Advisor, Bear Stearns
Merchant Banking
& formerly Chairman &
Chief Executive Officer
AT&T Capital Corporation

committees:
1 – executive
2 – audit
3 – compensation
4 – corporate governance/
nominating

Senior Officers

EXECUTIVE OFFICERS

Thomas W. Toomey
Chief Executive Officer & President

W. Mark Wallis
Senior Executive Vice President
Acquisitions, Dispositions, Asset
Quality & Development

Michael A. Ernst
Executive Vice President
& Chief Financial Officer

Martha R. Carlin
Executive Vice President
Operations

Richard A. Giannotti
Executive Vice President
Redevelopment

SENIOR VICE PRESIDENTS

Matthew T. Akin
Acquisitions & Dispositions

Lester C. Boeckel
Condominiums

Mark M. Culwell
Development

Patrick S. Gregory
Chief Information Officer

Senior Vice Presidents cont.

David L. Messenger
Chief Accounting Officer

Erin Ditto O'Brien
Property Operations

Stacy M. Riffe
Chief Financial Officer – RE³

Thomas A. Spangler
Business Development

S. Douglas Walker
Transactions / Asset Quality

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Texas / Colorado

Jerry A. Davis
West

Louis N. Kovalsky
Mid-Atlantic

Dennis E. Sandidge
Southeast

Kristin L. Stanton
Midwest / North Carolina

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Asset Quality

R. Bruce Blanton
Information Systems

Richard A. Crane
Asset Quality - Construction

Gregory M. Duggan
Redevelopment

Denise L. Fansler
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Douglas F. Fee
Asset Quality

Nellcine Ford
Human Resources

Terry D. Fulbright
Business Development

David F. Houghton
Purchasing

L. Devon Kistler
IT Operations

Thomas E. Lamberth
Development

Joseph A. Milan
Risk Management

Susan K. Northcutt
Recruiting / Associate Development

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Mary Ellen Norwood
Legal Administration
Corporate Secretary

Thomas M. Pritzkau
Asset Quality

Cheryl F. Pucci
Business Development /
Regulatory

Michael B. Rogers
Property Tax Administration

R. L. Ross III
Development

Milton A. Scott, Jr.
Redevelopment

Thomas P. Simon
Treasurer

L. Scott St. Clair
Asset Quality –
Kitchen & Bath Program

Steven H. Taraborelli
Internet Marketing

Larry D. Thede
Investor Relations

James M. Wallace
Corporate Tax

Opening doors to the future℠

We changed our name and identity to UDR to reflect our focus on the future and not the past. Even though we have a proven track record of delivering superior shareholder returns, the fact is, markets are quickly changing and we must change with them. Today, we're the fourth largest multi-family real estate investment trust in the nation, and an S&P 400 company. Our four strategies (pages 6-13) will drive our future performance and create value for investors, residents, associates and partners.
Learn more at UDR.com, *formerly UDRT.com*