Opening doors to the future[SM]

Dear Shareholder,

2011 was a year of opportunities realized by UDR. We entered the year with the “Great Recession” in the rear-view mirror, and although its economic realities still clouded the macroeconomic picture, apartment fundamentals remained in our favor. Given this supportive backdrop, we made further progress on numerous long-term strategic initiatives, including: our ongoing portfolio repositioning into higher-quality communities in high-barrier-to-entry core markets, strengthening our balance sheet and credit metrics, and increasing cash flow to support dividend growth. In 2011 we progressed by:

- organically growing our enterprise, as evidenced by robust 5.6 percent same-store net operating income growth;
- strategically expanding the growth potential of our enterprise with $1.8 billion[1] of value-accretive acquisitions and a $1.2 billion pipeline of development and redevelopment projects; and
- strengthening our balance sheet and enhancing our credit metrics with nearly $1 billion of equity issued and approximately $600 million of non-core asset sales.

Combined, these activities drove 2011 cash flow per share[2] growth of 13 percent over 2010 and provided our shareholders with an annual dividend increase of 10 percent to $0.80 per share. We remain confident that our strategic plan for UDR will drive strong shareholder returns over the coming years. In 2011, the Company generated a 10 percent total shareholder return[3], near the multifamily REIT sector average.

As 2012 unfolds, multifamily supply and demand fundamentals are expected to remain in our favor and employment growth, a key driver of sustainable apartment demand, is gaining speed. With this tailwind behind us and the right team in place to execute on our strategic plan, we are excited about the years ahead.

Portfolio Update

Our 2011 same-store growth improved upon 2010’s results and has set the stage for an even better 2012. During the year, same-store revenues increased by 4.1 percent. This, when combined with solid expense management, contributed to strong same-store annual net operating income growth of 5.6 percent.

1 Includes JVs at 100%.
2 Defined as Core-FFO per share which excludes non-recurring gains and losses. For a description of how we calculate FFO (funds from operations), see the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report.
3 The Company’s 2011 total return outperformed those of the FTSE NAREIT Equity REIT Index by nearly 200 basis points and the S&P 500 by over 800 basis points.

During 2011, we meaningfully transformed our portfolio. We urbanized and improved the quality of our portfolio by repositioning into higher-growth, higher-return core markets. At year-end:

- our total portfolio[4] monthly income per occupied home was approximately $1,370, a 15 percent increase over 2010;
- our core markets generated 69 percent[5] of our net operating income versus 61 percent the year prior;
- A-quality[6] communities made up approximately 50 percent of our total portfolio versus just 33 percent in our same-store pool; and
- we owned or had an ownership interest in 60,465 apartment homes.

At the onset of 2011, our research indicated that it was a good time to be acquiring, developing and redeveloping apartment communities with an eye toward further improving the physical quality and geographic characteristics of our portfolio. During the year we acquired $1.8 billion[4] of new communities, sold approximately $600 million of non-core communities and, as of year-end, grew our development and redevelopment pipeline to $1.2 billion[4].

Acquisitions – In 2011, we entered New York City, specifically Manhattan, with four off-market acquisitions representing a $1.2 billion investment. In addition, we completed a $500 million asset swap, wherein we increased our exposure to Boston and the San Francisco Bay Area. In total, UDR acquired eight wholly-owned communities for a total cost of $1.5 billion. At the time of acquisition, the average monthly income per occupied home was $2,674.

Development – We commenced the development of nearly $520 million of new communities, the majority of which are located in supply-constrained, coastal markets that offer superior long-term rental fundamentals and the potential for significant value creation for shareholders in the years ahead. At year-end 2011, our development pipeline included 11 communities comprising 3,040 apartment homes[4] at an estimated cost to complete of $901 million, $300 million of which has already been funded.

Redevelopment – At year-end, our redevelopment pipeline included seven communities comprising 3,123 homes at an estimated cost to complete of $319 million, $53 million of which has already been funded. The majority of our redevelopments were started in 2011. Improving the physical quality of our portfolio through redevelopment remains a top priority as the return is twofold to UDR: an increase in rents while also raising the physical quality and, therefore, the value of a community.

Dispositions – We disposed of 18 non-core communities that comprised nearly 4,500 apartment homes for gross proceeds of approximately $600 million, inclusive of our $500 million asset swap. These communities generated average income per occupied home of $1,160 per month at the time of sale.

Balance Sheet Update

With liquidity having returned to the public capital markets in 2011, we deleveraged our balance sheet and improved our credit metrics through a combination of low-cost debt refinancing, approximately $600 million of non-core communities, and nearly $1 billion of equity issuances. The full impact of these substantial improvements is most obvious when examining our balance sheet transformation over the past two years.

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[4] Includes JVs at 100%.
[5] Includes UDR's pro-rata share of net operating income from its joint ventures.
[6] A-quality communities are those that generate rents in excess of 125 percent of their respective market average.

At the end of 2009:

- our leverage, as measured by debt plus preferred equity to gross asset value, was 55 percent;
- our debt-to-EBITDA was 10.0x;
- our fixed charge coverage ratio was 2.0x; and
- our unencumbered asset pool totaled $3.2 billion.

Fast forward to year-end 2011:

- our leverage, as measured by debt plus preferred equity to gross asset value, was 47 percent, a reduction of 800 basis points;
- our debt-to-EBITDA was 8.3x, a 17 percent improvement;
- our fixed charge coverage ratio was 2.6x, a 30 percent improvement; and
- our unencumbered asset pool increased to nearly $5.0 billion, a 54 percent increase.

We are excited with the balance sheet progress made since 2009. However, further increasing balance sheet flexibility while also deleveraging the enterprise remains a priority for the years ahead.

Platform Update

UDR consistently strives to upgrade its operating platform to deliver to our residents a best-in-class experience, while also focusing on reducing operating expense growth and increasing our operating margin. Over the past several years, technological advancements and information analysis have played a key role in achieving and expanding on these performance goals. We are pleased with the progress that we have made. As of December 2011:

- 77 percent of our residents pay their rent on-line;
- 79 percent of all service requests are submitted on-line; and
- 86 percent of resident lease renewals are completed on-line.

Technology initiatives have enhanced the resident experience in our communities. At the same time, these advances have helped us to limit annual expense growth to less than 1.0 percent, on average, over the past five years. Continuing to enrich our residents' experience will remain a high priority, but our future technology initiatives will increasingly focus on further rationalizing our cost structure. We are working on numerous cost reduction and resident service initiatives and as we move forward, we will provide updates.

2012 Outlook[7]

We expect that 2012 will be another strong year for UDR and the apartment business. With relatively low new multifamily supply entering the market, an improving employment outlook and an ongoing aversion to homeownership, we are projecting accelerating revenue growth. We anticipate that net operating income will grow meaningfully in 2012, despite expectations for higher expense growth. When combined with the investment activity completed during 2011, we anticipate another year of strong cash flow and dividend per share growth in 2012 – a 10 percent annual dividend increase to $0.88 per share was announced in February – both of which we view as key to enhancing shareholder value.

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[7] Forward-looking statements in this letter are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. For more information, see the sections entitled "Forward-Looking Statements" and "Risk Factors" in our Annual Report.

We will continue to look for growth opportunities in 2012 that offer long-term value creation for our shareholders. One such example is our $1.3 billion joint venture with MetLife formed on January 12, 2012. The venture includes 12 communities located in our core markets and comprises 2,528 homes that generated average monthly income per occupied home of $3,027 at the time of acquisition. Seven of the 12 communities were contributed from our first joint venture with MetLife formed in November 2010 and UDR's ownership interest in these communities increased to 50% from an average of 11% previously.

Strengthening our balance sheet and improving our credit metrics as we grow the asset base will continue to be a key strategic priority.

Finally, I would like to thank UDR's 1,650 dedicated associates and our Board of Directors for their hard work during 2011. UDR's future prospects are bright, and I look forward to the years ahead.

Thomas W. Toomey
President and Chief Executive Officer