Opening doors to the future℠

Dear Shareholder,

2012 was highlighted by the progress we made on a number of our long-term strategic initiatives including the completion of the transformational phase of our portfolio and balance sheet repositioning. Our improved portfolio of communities and strengthened capital structure position us well for future growth and stability.

Our share price performance and total shareholder return in 2012 were disappointing and not reflective of the strong cash flow growth that we believe the Company is primed to deliver in the coming years or the significant progress we made on many of our strategic initiatives. Moving forward, we believe that our improved portfolio market mix, better asset quality, lower-leveraged capital structure, best-in-class operating platform and development and redevelopment program will allow us to take full advantage of the continued favorable environment for multifamily fundamentals. We expect that successful execution of these drivers will create significant value for our shareholders.

2012 Highlights – A Year in Review:

1) Completed the strategic aspect of our long-term portfolio repositioning.
    a. Sold 21 communities in non-core markets for gross proceeds of $610 million.
    b. Realized a gain of $260 million on the sales.
2) Continued to deleverage our balance sheet and de-risk the Company.
    a. Retired $445 million of debt and preferred equity through a mid-year secondary equity offering.
    b. Reiterated our commitment to a lower leverage model.
3) Delivered strong operating results.
    a. Same-store revenue growth of 5.3 percent and net operating income ("NOI") growth of 6.6 percent.
    b. Operating NOI margin expanded to 68 percent.
4) Successfully navigated the aftermath of Hurricane Sandy.
    a. Four affected communities were fully functional within four weeks.
    b. No long-term value impairment to our downtown Manhattan communities.
5) Hired Tom Herzog as our new Chief Financial Officer.
    a. Well-respected CFO with significant experience in the public REIT and multifamily businesses.
6) Grew our development and redevelopment pipeline to $1.3 billion.
    a. Focused primarily in urban locations in coastal markets.
    b. Expected to generate significant Net Asset Value ("NAV") by year-end 2015.

7) Expanded our relationship with MetLife by forming a second joint venture.
   a. 50 percent ownership in the new venture with real estate valued at $1.4 billion at creation and comprised of 13 high-quality communities in coastal markets.
8) Raised $1.2 billion in the capital markets at long-term attractive pricing.
   a. $400 million of 4.625 percent 10-year notes.
   b. $756 million of new equity issued near parity with NAV per share.
9) Grew our consensus NAV per share by four percent year-over-year to $26.50.

These activities have resulted in a 2013 annualized dividend per share of $0.94 which represents an 18 percent increase since 2011 and a current yield of approximately four percent.

Three-Year Strategic Plan

In February 2013 we set forth a Three-Year Strategic Plan which can be viewed under the Investor Relations section of the Company's website www.udr.com. The Plan provides a roadmap of our capital allocation strategy which further reduces financial leverage over time, grows cash flows to support dividend growth and improves the quality and market mix of our portfolio. Executing on these strategic priorities will drive growth in the Company's cash flow, dividend and NAV per share, which we believe will result in strong total shareholder returns.

Let's begin with capital allocation. We will continue to invest in growth opportunities that are accretive to NAV and cash flow per share. As is the case with all potential investments, opportunities will be weighed against the cost and availability of our capital in the context of maintaining a lower leveraged balance sheet. We have the ability to create value through many different types of transactions including acquisitions, dispositions, joint ventures, development and redevelopment.

Currently, development and redevelopment are our preferred methods of external growth given the historically wide spreads between cost of development and current market values. Under Harry Alcock's capable leadership, we grew our development and redevelopment pipeline to $1.3 billion in 2012. These activities represent a core competency and will continue to be a key component of our growth strategy assuming the macro economic backdrop remains supportive. Funding $400 to $500 million of new activity annually on average will continue to create value for UDR.

Moving on to balance sheet management which is under the capable stewardship of Warren Troupe. We focus on three primary metrics: leverage, net debt-to-EBITDA, and fixed charge coverage. As noted earlier, we significantly improved and de-risked our balance sheet in 2012, primarily through a mid-year secondary equity offering. We are comfortable with our current metrics, but will continue to look for opportunistic, non-dilutive ways to further deleverage in the years ahead.

Finally, operational excellence. Jerry Davis was recently promoted to Chief Operating Officer after many years of leading a team that continues to post strong operating results. We continue to invest in new technologies such as on-line leasing and social media initiatives to ensure that our operating platform remains best-in-class.

2013 and Beyond

2013 is shaping up to be another strong operating year for UDR and the apartment business. Fundamentals continue to screen favorably driven by steady, but improving job growth expectations set against manageable new multifamily supply in most of our markets.

Over the past ten years, our annual total shareholder return averaged 10 percent; a return realized while meaningfully transforming our portfolio and improving our balance sheet. We remain intently focused on executing our Strategic Plan and believe we have the right team in place to do so. Our future prospects are bright, and we look forward to sharing our continued successes with you.

Thomas W. Toomey
President and Chief Executive Officer